



Henderson

UK & Europe Funds

Annual report
For the year ended 30 June 2011

Who are **Henderson Global Investors?**

Established in 1934 to administer the estates of Alexander Henderson, the first Lord Faringdon, Henderson Global Investors (Henderson) is a leading independent global asset management firm. The company provides its institutional, retail and high net-worth clients with access to skilled investment professionals representing a broad range of asset classes, including equities, fixed income, property and private equity. With its principal place of business in London, Henderson is one of Europe's largest investment managers, with £74.4[†] billion assets under management (as at 30 June 2011) and employs around 1,100 people worldwide.

In Europe, Henderson has offices in Amsterdam, Frankfurt, Luxembourg, Madrid, Milan, Paris, Vienna, Zurich and London. Henderson has had a presence in North America since 1999, when it acquired US real estate investment manager Phoenix Realty Advisers, and has offices in Chicago and Hartford. In Asia, Henderson has offices in New Delhi, Singapore (Asia headquarters), Hong Kong, Tokyo and Sydney. In April 2009 New Star Asset Management Group PLC was acquired by Henderson Group plc. In April 2011 Gartmore Group Limited was also acquired by Henderson Group plc.

With investment expertise across every asset class, Henderson's skillful investment managers invest in every major market around the globe. They are supported by a global team of researchers and economists who have a keen understanding of the economic forces driving the security markets and who undertake rigorous sector and theme analysis. Underpinning this process is a comprehensive risk-control framework to ensure that investment views are translated into portfolios managed in line with investors risk and return requirements.

What do we do?

At Henderson Global Investors we do one thing and we do it really well - investment management. As a company, we are totally focused on this core activity and it underpins everything we do.

We do this by providing a range of investment products and services including:

- Open ended funds - offshore funds, unit trusts, OEICs
- Investment trusts
- Individual Savings Accounts
- Pension fund management
- Management of portfolios for UK and international institutional clients

[†] Source: Henderson Global Investors as at 30 June 2011.

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Authorised Corporate Director's report

We are pleased to present the Final Report and Financial Statements for Henderson UK & Europe Funds for the year ended 30 June 2011.

Authorised status

The Henderson UK & Europe Funds ("the company") is an open ended investment company (OEIC) with variable capital under regulation 12 (Authorisation) of the OEIC regulations, and was authorised by the Financial Services Authority on 21 June 2000. It is an umbrella company, comprising various Sub Funds, that was launched on 31 August 2000. Each Sub Fund is operated as a distinct Fund with its own portfolio of investments. Each Sub Fund has its own clear investment objective. The investment objective for each Sub Fund and the policy for achieving that objective is given in the 'Investment Objective' section of each Sub Fund's report. The investment activities of each Sub Fund is given in the 'Activity' section of each Sub Fund's report. Shareholders are not liable for the debts of the company. All Sub Funds belong to the category of securities scheme.

Sub Fund liabilities

As a Sub Fund is not a legal entity, if the assets attributable to any Sub Fund were insufficient to meet the liabilities attributable to that Sub Fund, the shortfall might have to be met out of the assets attributable to one or more other Sub Funds of the Henderson UK & Europe Funds.

Advisers

	Name	Address	Regulator
Authorised Corporate Director and Dealing	Henderson Investment Funds Limited which is the sole Director Member of IMA The ultimate controlling party is Henderson Group Plc.	Registered Office: 201 Bishopsgate, London EC2M 3AE. Registered in England No 2678531. Telephone - 020 7818 1818 Dealing - 08459 46 46 46 Enquiries - 0800 832 832	Authorised and regulated by the Financial Services Authority.
Investment Adviser	Henderson Global Investors Limited The ultimate controlling party is Henderson Group Plc.	201 Bishopsgate, London EC2M 3AE	Authorised and regulated by the Financial Services Authority.
Registrar	International Financial Data Services (UK) Limited	IFDS House St Nicholas Lane Basildon Essex SS15 5FS	Authorised and regulated by the Financial Services Authority.
Depository	Royal Bank of Scotland	The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9UZ	Authorised and regulated by the Financial Services Authority.
Independent Auditors	PricewaterhouseCoopers LLP	141 Bothwell Street Glasgow G2 7EQ	Institute of Chartered Accountants in England and Wales.
Legal Adviser	Eversheds LLP	One Wood Street London EC2V 7WS	The Law Society.

Market review to 30 June 2011

All returns are Sterling returns unless otherwise stated

Overview

Global equities advanced over the period, despite encountering significant headwinds. These included continuing concerns over sovereign debt in the eurozone peripheral countries, and building inflationary pressures across the globe, which precipitated monetary tightening in a number of countries. Surging oil prices, ignited by the political turbulence that swept across the Middle East and North Africa, as well as the Japanese earthquake and tsunami provided further market shocks. Nevertheless, the decision by the US Federal Reserve in November to provide further stimulus through a second round of quantitative easing (QE2) had provided liquidity to the markets and positive momentum was further driven by a series of largely buoyant corporate earnings results. Most equity markets followed the template of hitting a high in April but struggling to make further headway in the latter months of the period as fresh fears surrounding Greece and the strength of the global economy resurfaced. The MSCI World Index gained 22.3% in sterling terms over the period. The strong risk appetite for much of the period meant that government bonds provided weak returns as yields rose and prices declined, with the bonds of peripheral eurozone countries faring the worst given concerns about Greece's funding position. In contrast, corporate bonds, particularly high yield bonds, performed well as improving corporate balance sheets and generally strong earnings led investors to favour credit sensitive positions. Among commodities, the oil price soared, with Brent Crude oil reaching a peak above US\$120 a barrel in April as demand from the recovering global economy ran up against supply constraints aggravated by dwindling Libyan oil flows. Meanwhile gold broke through the US\$1,500/oz barrier as investors viewed it as a 'safe-haven' amidst uncertainties surrounding the direction of inflation, currencies and the global economy.

US

US equity markets started the period strongly as investors focused on robust earnings results but fell sharply in August on weak economic figures. US stocks subsequently enjoyed their best September since 1939 as economic data improved and the Federal Reserve (Fed) sparked speculation of a second round of quantitative easing (stimulating the economy by increasing the supply of money). This was confirmed in November when the Fed announced it would purchase \$US600 billion in US Treasuries. The upward momentum continued into the year end, buoyed by President Obama's decision to extend his predecessor's tax cuts. Concerns over the US's significant budget deficit were heightened, however, when Moody's, the credit rating agency, placed the nation's AAA credit rating on negative watch. In spring, US markets were affected by global events but initially improving job numbers – 216,000 jobs were created in March – together with a decent start to the earnings results season lifted investor sentiment. The mood soon reversed, however, following weakness in key purchasing manager surveys and the failure of the labour market to maintain the buoyancy it had exhibited in March and April, causing equities to retreat for much of May and June. The S&P 500 Index rose 21.8% over the twelve months under review.

UK

After a hiatus in August, caused by weak US data, UK equities advanced over the remainder of the year despite succumbing to temporary selling in mid-November as Ireland's debt troubles reignited sovereign debt fears. Stocks slid in January on news that the UK economy had contracted 0.5% in the final quarter of 2010 and further poor economic data, particularly weaker manufacturing figures and declining consumer confidence, affected share prices in May and June. The lacklustre economic data led the Bank of England to keep interest rates on hold despite annual consumer price inflation closing the period above 4%. The FTSE All-Share index rose by 25.6% in sterling terms over the period, with medium-sized companies the strongest performing area of the market.

Europe

Encouraging banking stress test results and positive corporate earnings lifted European equities in July but they fell back in August on the back of weak US data. Equities regained their vigour over the autumn until November when Ireland was forced to accept a bailout from the European Union and the International Monetary Fund. European stocks rallied in December and a successful debut debt issuance by the European Financial Stability Facility also cheered investors in January. Rising inflation ignited concerns that the European Central Bank (ECB) would tighten monetary policy, particularly as the rhetoric from Jean-Claude Trichet, the president of the ECB, had turned increasingly hawkish. Stocks slid in March following the Japanese earthquake but rebounded in April on strong corporate earnings; even Portugal becoming the third eurozone country to require a bailout and the ECB pressing ahead with an interest rate rise failed to dampen risk appetite. Renewed concerns about Greece's debt returned to haunt markets in the final months of the period under review, although shares rallied sharply at the end of June after the Greek parliament passed austerity measures that released fresh bailout funds to stave off a default. The FTSE World Europe excluding UK index rose by 17.5% in euro terms over the period, translating into a gain of 29.6% in sterling terms.

Market review to 30 June 2011

Japan

Japanese equities made little headway during the third quarter of 2010 as a strengthening yen hurt exporters. They advanced strongly in the final three months of the year, however, as a weakening yen subsequently provided relief, while strong economic growth figures and the approval of an economic stimulus package lifted sentiment. Dominating events in Japan, however, was the impact of the earthquake and tsunami, which devastated parts of North East Japan on 11 March 2011. The yen surged but equities sank, causing the Bank of Japan to deploy cash to stabilise asset markets. The equity market recovered some of its losses in the final weeks of March but struggled to make headway in the second quarter of 2011. Critical damage at the Fukushima nuclear power plant triggered fears about a possible nuclear meltdown but this was subsequently contained and the disruption to supply chains wreaked by the earthquake and tsunami, whilst damaging, was not as bad as first feared, with industrial production rebounding sharply in May. The FTSE Japan index rose 3.2% in yen terms over the twelve months but was up 6.0% in sterling terms.

Asia Pacific (excluding Japan) and Emerging Markets

Supportive liquidity conditions and strong earnings boosted Asian equities over the summer months and in the autumn they performed strongly, buoyed by the additional liquidity provided by the second round of quantitative easing from the US. This soon gave way to worries about overheating and the potential inflationary impact of the move. Such fears were realised when data released in January revealed that the Chinese economy had grown by a faster-than-expected 9.8% annualised in the final quarter of 2010. Monetary policy tightening dominated the debate over the period and China was one of the weaker markets as it imposed higher reserve requirement ratios on banks and lifted the key lending rate in an effort to contain inflation. Malaysia and Indonesia were among the strongest gainers, driven by robust domestic economic performance and high commodity prices. Within Emerging Markets, the strongest performing region was Eastern Europe, with Russia benefiting from the strength of the oil price. The laggard was Egypt as socio-political unrest in the country and the decision to suspend dealing on the stock exchange sparked capital flight. The MSCI AC Asia Pacific excluding Japan index rose 21.0%, whilst the MSCI Emerging Markets Free index rose 19.1%, both in sterling terms.

Bonds and currency markets

Sharp swings in risk appetite characterised the latter half of 2010 as the fluctuating fortunes of the peripheral countries of the eurozone and contrasting news on the global recovery caused demand for government bonds to rise and fall. Strong risk appetite going into the end of 2010 boosted high yield bond markets as investors favoured credit-sensitive bonds over interest-rate sensitive bonds. A positive reception to Credit Suisse's hybrid bond further lifted sentiment for riskier assets in February, although increasing political unrest in North Africa and the Middle East caused a subsequent flight to quality and government bonds returned to favour, compounded in late April by some weak economic data. Government bonds outside the eurozone periphery performed well in May, but performed less well in June as nervousness over the possibility of a Greek sovereign default grew. The US and the UK kept interest rates on hold despite building inflationary pressures, but the European Central Bank lifted its policy rate in April. For the twelve months under review, the yield on the benchmark 10-year US government bond rose from 2.9% to 3.2%. In Greece the rise in the benchmark 10-year government bond yield was far more pronounced, climbing from 10.4% to 16.0% as investors demanded more compensation in terms of income to reflect the rising possibility of a default.

In the currency markets, the main trend was the weakening of the US dollar. It fell by 11.4% against a trade-weighted basket of currencies over the period. The Japanese yen was highly volatile, initially strengthening then weakening, only to strengthen at the nadir of the earthquake catastrophe and then weaken once more. The euro appreciated in line with the increasingly hawkish comments from the European Central Bank and the relatively strong economic performance from core eurozone economies.

Following the period end, some weak economic data, including softening of purchasing manager surveys and more muted job creation, has raised concerns that the earnings outlook for companies could be less strong than expected. Sentiment towards equities has also been affected by discord between politicians on how to deal with the high fiscal deficits of the US and several eurozone countries. There is a growing consensus that policymakers should be redoubling their efforts to promote economic growth to prevent the decline in confidence levels across the developed world from becoming entrenched. Whilst volatility in the markets is unnerving, the relative strength of corporate balance sheets in 2011 compared to a few years ago points to a much more robust corporate sector and parallels with 2008 therefore appear exaggerated. The uncertain economic backdrop does, however, mean that the market is likely to become more discriminatory, which should create opportunities for active investors.

Source for all index performance is Datastream.

Statement of Authorised Corporate Director's (ACD's) responsibilities

The Financial Services Authority's Collective Investment Schemes Sourcebook requires the ACD to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the Company and of its revenue/expenditure for the period. In preparing the financial statements the ACD is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the requirements of the Statement of Recommended Practice relating to Authorised Open Ended Investment Companies issued by the Investment Managers Association (IMA) in October 2010;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enable it to demonstrate that the financial statements, as prepared, comply with the above requirements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation for the foreseeable future.

The ACD is responsible for the management of the Company in accordance with its Instrument of Incorporation, Prospectus and the Regulations. The ACD is also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Depositary to the Shareholders of Henderson UK & Europe Funds

for the year ended 30 June 2011

The depositary is responsible for the safekeeping of all of the property of the company (other than tangible moveable property) which is entrusted to it.

It is the duty of the depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Schemes Sourcebook, ("the CIS Sourcebook"), the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) ("the OEIC Regulations") and the Company's Instrument of Incorporation, in relation to the pricing of, and dealings in, shares in the Company; the application of revenue of the Company; and the investment and and borrowing powers of the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's revenue in accordance with the CIS Sourcebook, and, where applicable, the OEIC Regulations and the Instrument of Incorporation of the Company; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

Royal Bank of Scotland
Edinburgh
27 October 2011

Independent Auditors' report to the Shareholders of Henderson UK & Europe Funds

We have audited the financial statements of Henderson UK & Europe Funds (the "Company") for the year ended 30 June 2011 which comprise the aggregated statement of total return, the aggregated statement of change in net assets attributable to shareholders, the aggregated balance sheet and related notes and for each of the Company's sub-funds, the statement of total return, the statement of change in net assets attributable to shareholders, the balance sheet, the related notes and the distribution tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

Respective responsibilities of director and auditors

As explained more fully in the Authorised Corporate Director's Responsibilities Statement, the Authorised Corporate Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company and each of the sub-funds at 30 June 2011 and of the net revenue and the net gains of the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Corporate Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' report to the Shareholders of Henderson UK & Europe Funds (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Company have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Glasgow

27 October 2011

Notes:

- (a) The maintenance and integrity of the Henderson Global Investors website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Aggregated statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	3	269,321	552,144
Revenue	5	303,493	283,300
Expenses	6	(42,477)	(42,333)
Finance costs: Interest	8	(38)	(461)
Net revenue before taxation		260,978	240,506
Taxation	7	(601)	(777)
Net revenue after taxation		260,377	239,729
Total return before distributions		529,698	791,873
Finance costs: Distributions	8	(274,735)	(253,956)
Change in net assets attributable to shareholders from investment activities		254,963	537,917

Aggregated statement of change in net assets attributable to shareholders

for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	5,166,941	4,272,764
Amounts receivable on issue of shares	1,030,248	1,392,564
Amounts receivable on mergers *	(82,555)	-
Amounts payable on cancellation of shares	(735,021)	(966,938)
Amounts payable on mergers *	(377,242)	(278,127)
Amounts outstanding due to mergers *	(16)	(774)
Amounts receivable on in specie transfers	269,586	351,391
Amounts payable on in specie transfers	(61,606)	(262,164)
	43,394	235,952
Dilution adjustment	1,438	3,931
Stamp duty reserve tax	(660)	(648)
Unclaimed distributions	66	72
Change in net assets attributable to shareholders from investment activities (see above)	254,963	537,917
Retained distributions on accumulation shares	129,932	116,953
Closing net assets attributable to shareholders	5,596,074	5,166,941

*Details on mergers can be found in the financial statements of each sub fund.

Aggregated balance sheet as at 30 June 2011

	Notes	2011		2010	
		£000	£000	£000	£000
Assets					
Investment assets			5,394,880		4,869,097
Debtors	9	120,767		106,227	
Cash and bank balances	10	251,566		348,443	
Total other assets			372,333		454,670
Total assets			5,767,213		5,323,767
Liabilities					
Investment liabilities			18,606		37,772
Creditors	11	70,470		49,495	
Bank overdrafts		45,950		30,656	
Distribution payable on income shares		36,113		38,903	
Total other liabilities			152,533		119,054
Total liabilities			171,139		156,826
Net assets attributable to shareholders			5,596,074		5,166,941

Certification of financial statements by Directors of the ACD

In accordance with the requirements of the Financial Services Authority's Collective Investment Schemes Sourcebook, we hereby certify the Investment Report and financial statements on behalf of the Directors of Henderson Investment Funds Limited.



Andrew Formica
(Chief Executive)



David Jacob
(Chief Investment Officer)

27 October 2011

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds (SORP) issued by the Investment Management Association (IMA) in October 2010.

Change in accounting policy

The Statement of Recommended Practice (October 2010) supersedes the previous version (November 2008) and applies to accounting periods beginning on or after 1 January 2010.

As a result of this change Portfolio turnover ratios have been removed from the financial statements as they are no longer required to be disclosed under the October 2010 SORP.

(b) Revenue recognition

Dividends receivable from quoted equity and non equity shares are credited to revenue, net of attributable tax credits, when the security is quoted ex-dividend. Dividends on unquoted stocks are credited to revenue when the dividend is announced. Interest and revenue earned on other securities are recognised on an accruals basis.

Overseas dividends are grossed up at the appropriate rate of withholding tax and the tax consequences are shown within the tax charge.

Interest from debt securities has been accounted for on an effective yield basis. Effective yield is a calculation that reflects the amount of amortisation of any discount or premium on the purchase price over the remaining life of the security.

Bank interest, interest on margin and revenue earned on other securities are recognised on an accruals basis.

Underwriting commission is taken to revenue and recognised when the issue takes place, except where the Fund is required to take up all or some of the shares underwritten in which case an appropriate proportion of the commission received is deducted from the cost of the relevant shares.

If any revenue receivable at the balance sheet date is not considered recoverable, a provision is made for the relevant amount.

Income distributions from Real Estate Investment Trusts (UK REIT's) will be split into two parts, a Property Income Distribution (PID) made up of rental revenue and a non-PID element, consisting of non-rental revenue. The PID element is subject to Corporation Tax as schedule A revenue, while the UK dividend will be treated as franked revenue.

In calculating the revenue from Index Linked securities, an estimate of the expected Retail Price Index (RPI) is made. This is currently estimated as the most recently published monthly RPI as at the year end, 235.20. This estimate affects the split between capital and revenue, but does not affect the total return of the relevant Fund. Currently, UK Gilt and Index Linked Bond Fund both contain index linked securities.

(c) Treatment of stock dividends

Dividends received as shares (scrip/stock dividends), to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue. This revenue forms part of any distribution.

In the case of enhanced scrip dividends, the amount by which such dividends exceed the cash dividends is treated as capital and does not form part of the distribution.

(d) Special dividends

These are recognised as either revenue or capital depending on the nature and circumstances of the dividend receivable.

Notes to the financial statements (continued)

1 Accounting policies (continued)

(e) Treatment of derivatives

In pursuing its investment objectives, each of the Funds may hold a number of financial instruments.

Forward currency contracts. Open forward currency contracts which are all covered are shown in the Portfolio Statement at fair value and the net gains/(losses) are reflected in net capital gains/(losses) on investments.

Futures contracts. Open futures contracts are shown in the Portfolio Statement at fair value and the net gains/(losses) are reflected within Derivative contracts in net capital gains/(losses) on investments.

Credit default swaps. Open credit default swaps (CDS) are shown in the Portfolio Statement at fair value and the net capital gains/(losses) are reflected within Derivative contracts in net capital gains/(losses) on investments. Premiums receivable or payable on CDSs are included in the revenue account on an accruals basis.

Interest rate swaps. Net capital gains/(losses) are reflected within Derivative contracts in net capital gains/(losses) on investments. Interest receivable or payable on interest rate swaps is included in the revenue account on an accruals basis.

Options contracts. Options contracts are shown in the Portfolio Statement at fair value and the net gains/(losses) are reflected within Derivative contracts in net capital gains/(losses) on investments

Contracts for difference. Contracts for difference are shown in the Portfolio Statement at fair value and the net gains/(losses) are reflected within Derivative Contracts in net capital gains/(losses) on investments.

Cash held at future brokers as margin is reflected separately within cash and bank balances.

Derivative transactions are accounted for on a trade date basis. Where such transactions are used to protect or enhance revenue, the revenue and expenses derived there from are included in 'Revenue' in the Statement of total return on an accruals basis. Where such transactions are used to protect or enhance capital, the gains and losses derived there from are included in 'Net capital gains/(losses)' in the Statement of total return.

(f) Treatment of expenses (including ACD expenses). All expenses (other than those relating to the purchase and sale of investments and stamp duty reserve tax arising on sales and repurchases of shares in the Fund) are charged against revenue on an accruals basis. The investment objectives of the UK Growth & Income Fund, Preference & Bond Fund, Strategic Bond Fund, UK Equity Income Fund and the UK Extra Income Fund concentrate on the generation of revenue as a higher priority than capital growth. The ACD and Depositary have agreed that 100% of the ACD's periodic charge for the UK Equity Income Fund, Preference & Bond Fund, UK Growth & Income Fund and the UK Extra Income Fund are to be taken to capital for the purpose of calculating the distribution, as permitted by the OEIC regulations and in accordance with the Prospectus. The distribution currently payable reflects this treatment together with any associated tax effect.

The ACD's periodic charge is calculated daily on the total net assets by Henderson Investment Funds Limited.

Allocation of revenue and expenses to multiple share classes. With the exception of the ACD's periodic charge and GAC, which are directly attributable to individual Share Classes, all revenue and expenses are allocated to Share Classes pro rata to the value of the net assets of the relevant Share Class on the day that the revenue or expense is incurred.

General administration charge. All fees, with the exception of the Annual Management Charge, Depositary and Safe Custody fees, have been replaced by a single ad valorem charge, the General Administrative Charge (GAC) which were introduced in January 2010. The ACD believes that the GAC creates more efficiency around the charging process than more traditional methods.

For further details please refer to the prospectus.

Notes to the financial statements (continued)

1 Accounting policies (continued)

(f) Distribution policy

The distribution policy of each Fund is to distribute/accumulate all available revenue, after deduction of expenses properly chargeable against revenue, subject to any of the ACD's periodic charge or other expense which may currently be transferred to capital.

For the purpose of calculating the distribution, revenue on debt securities is computed on an effective yield basis, the same basis on which it is reflected in the financial statements as modified by the revaluation of investments. For the purpose of calculating the distribution on the Henderson Preference & Bond Fund and the Henderson Strategic Bond Fund, interest from debt securities is computed as the higher of the amount determined on a coupon basis and an effective yield basis.

For the purposes of calculating the distribution on the Index Linked Bond Fund, revenue is computed on an effective yield basis utilising the exemption set out in the Financial Services Authority's COLL 6.8.3 (for funds whose policy is to invest predominantly in Index Linked securities) to treat capital indexation as non-distributable.

Gains and losses on investments and currencies, whether realised or unrealised, are taken to capital and are not available for distribution.

(g) Basis of valuation of investments

The valuation point is close of business on the last business day of the accounting period. Listed investments are valued at fair value which is generally deemed to be bid market price.

Unlisted, unapproved, illiquid or suspended securities are valued at the ACD's best estimate of the amount that would be received from an immediate transfer at arm's length.

Where applicable, investment valuations exclude any element of accrued revenue.

(h) Exchange rates

Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates prevailing at close of business on the last business day of the accounting period.

Revenue and expenditure transactions are translated at the rates of exchange ruling on the dates of the transactions.

Exchange differences on such transactions follow the same treatment as the principal amounts.

(i) Taxation

Provision is made for tax at the current rates on the excess of taxable revenue over allowable expenses, with relief for overseas taxation taken where appropriate.

In general, the tax accounting treatment follows that of the principal amount.

Deferred tax is provided on all timing differences that have originated but not reversed at the balance sheet date other than those recorded as permanent differences. Deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Deferred tax assets are only recognised to the extent it is regarded as more likely than not that there will be taxable profits against which the future reversal of underlying timing differences can be offset.

(j) Aggregation

The aggregated accounts represent the sum of the individual Funds within the umbrella company. Further analysis of the distribution and the net asset position can be found within the financial statements of the individual Funds.

2 Risk

In pursuing its investment objective each Fund holds a number of financial instruments. These financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from the Funds' operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued revenue. The Fund may also enter into derivative transactions. The purpose of these financial instruments is efficient portfolio management and for meeting the Funds investment objectives. The main risks arising from financial instruments are, foreign currency, liquidity, interest rate, market price and credit risks.

Interest rate risk

The Funds invest in debt securities. The revenue of the Funds may be affected by changes to interest rates relevant to particular securities or as a result of the Fund Manager being unable to secure similar returns on the expiry of contracts or sale of securities. The value of debt securities may be affected by interest rate movements or the expectation of such movements in the future. Certain Funds can invest in interest rate swaps and credit default swaps to adjust the interest rate risk profile of the Funds across the entire yield curve quickly and efficiently.

Liquidity risk

Liquidity risk is the risk that the Funds cannot raise sufficient cash to meet their liabilities when due. One of the key factors influencing this will be the ability to sell investments at, or close to, the fair value without a significant loss being realised. Recent market issues following the credit crunch resulted in a significant reduction in liquidity of the bond markets and Floating Rate Notes ("FRN") markets in particular.

Under normal circumstances, the Funds will remain close to fully invested. However, where circumstances require: for example because of illiquid securities markets or high levels of redemptions in the Funds, the Funds may hold cash and/or more liquid assets. Temporary higher liquidity levels may also arise during the carrying out of a change in asset allocation policy, or following a large issue of units.

The ACD manages the Funds' cash to ensure they can meet their liabilities. The ACD receives daily reports of subscriptions and redemptions enabling the ACD to raise cash from the Funds portfolio in order to meet redemption requests. In addition the ACD monitors market liquidity of all securities, with particular focus on the FRN market, where relevant, seeking to ensure the Funds maintain sufficient liquidity to meet known and potential redemption activity. Funds cash balances are monitored daily by the ACD and Administrator. Where investments cannot be realised in time to meet any potential liability, the Funds may borrow up to 10% of their value to ensure settlement. All of the Funds' financial liabilities are payable on demand or in less than one year.

Credit and counterparty risk

Credit risk arises from three main sources. Firstly, the possibility that the issuer of a security will be unable to pay interest and principal in a timely manner. Secondly, for asset backed investments (including FRNs) there is the possibility of default of the issuer and default in the underlying assets meaning the Funds may not receive back the full principal originally invested. Thirdly, there is counterparty risk, which is the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Funds have fulfilled its responsibilities, which could result in the Funds suffering a loss.

In order to manage credit risk the Funds are subject to investment limits for issuers of securities. Issuer credit ratings are evaluated periodically and an approved issuer list is maintained and monitored. In addition the Funds only buy and sell investments through brokers which have been approved by the ACD as an acceptable counterparty and limits are set and monitored to cover the exposure to any individual broker. Changes in broker's financial ratings are periodically reviewed by the Henderson Credit Risk Committee along with set limits and new counterparty approval.

A counterparty to a transaction in derivatives is approved only if the counterparty is an Eligible Institution or an Approved Bank; or a person whose permission (including any requirements or limitations), as published in the Financial Services Authority (FSA) Register or whose Home State authorisation, permits it to enter into the transaction as a principal off-exchange.

Notes to the Financial Statements (continued)

2 Risk (continued)

Credit and counterparty risk (continued)

Some Funds will invest in what are considered riskier bonds (below investment grade). This brings the potential for increased risk of default and could affect both the revenue and the capital value of the Fund. Further details can be found in the Funds portfolio statements.

Foreign currency risk

Foreign currency risk is the risk that the value of the Funds' investments will fluctuate as a result of changes in foreign currency exchange rates.

For those Funds where a proportion of the net assets of the Funds are denominated in currencies other than sterling, the balance sheet can be affected by movements in exchange rates. The ACD may seek to manage exposure to currency movements by using forward exchange contracts or by hedging the sterling value of investments that are priced in other currencies. The foreign currency profile for the relevant Funds is shown in their notes to the financial statements.

Market price risk

Market price risk is the risk that the value of the Funds' investment will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Funds might hold. It represents the potential loss the Funds might suffer through holding market positions in the face of price movements. The Funds' investment portfolios are exposed to market price fluctuations, which are monitored by the ACD in pursuance of their investment objectives and policies as set out in the Prospectus.

Adherence to investment guidelines and to investment and borrowing powers set out in the Instrument of Incorporation, the Prospectus and in the Financial Services Authorities Collective Investment Schemes Sourcebook mitigates the risk of excessive exposure to any particular type of security or issuer.

Notes to the Financial Statements (continued)

3 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	(445)	(56,052)
Forward currency contracts	(49,238)	13,174
Non-derivative securities	321,017	595,405
Other currency losses	(1,879)	(197)
Transaction costs	(134)	(186)
Net capital gains	269,321	552,144

4 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	3,861,031	3,515,557
Commissions	457	419
Taxes	440	455
Total purchase transaction costs*	897	874
Purchases including transaction costs	3,861,928	3,516,431
Sales in year before transaction costs	3,671,541	3,041,821
Commissions	(344)	(604)
Total sale transaction costs*	(344)	(604)
Sales net of transaction costs	3,671,197	3,041,217
Transaction handling charges*	134	186

* These amounts have been deducted in determining net capital gains.

Notes to the financial statements (continued)

5 Revenue

	2011	2010
	£000	£000
Bank interest	611	298
Unfranked investment revenue	-	55
Derivative revenue	(282)	10,307
Interest on debt securities	283,358	235,431
Interest on margin	165	187
Interest on unclaimed distribution	-	8
Overseas dividends	5,606	10,289
Stock dividends	153	286
Stock lending revenue	396	545
UK dividends	13,264	24,339
UK REIT revenue	125	205
Underwriting commission	97	1,350
Total revenue	303,493	283,300

Stock lending details

	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	414,182	172,569

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. Further details of these and the collateral value and type are set out in the accounts of each Sub Fund.

Notes to the financial statements (continued)

6 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	36,744	37,016
General administration charge*	4,853	2,590
Sub registration fees	-	1,142
	<u>41,597</u>	<u>40,748</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	674	587
Safe custody fees	358	335
	<u>1,032</u>	<u>922</u>
Other expenses:		
Audit fees	(8)	82
FSA fees	(8)	(3)
Other expenses	5	13
Listing fees	(41)	(39)
Printing and postage fees	(100)	270
Registration fees	-	340
	<u>(152)</u>	<u>663</u>
Total expenses	<u>42,477</u>	<u>42,333</u>

Irrecoverable VAT is included in the above expenses where necessary.

*The current year audit fee is £121,320 (2010: £134,209). The audit fee levied through the GAC charge is £121,320 (2010: £65,334). All fees with the exception of the ACD's periodic charge, the depositary fees and the safe custoday fees have been replaced by the GAC charge since January 2010.

Notes to the financial statements (continued)

7 Taxation

(a) Analysis of charge in the year

The tax charge comprises:

	2011	2010
	£000	£000
Overseas withholding tax	601	777
Total current tax (note 7b)	601	777

(b) Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs).

	2011	2010
	£000	£000
Net revenue before taxation	260,978	240,506
Corporation tax at 20% (2010: 20%)	52,194	48,100
Effects of:		
Revenue being paid as interest distributions	(52,286)	(45,326)
Indexation tax adjustments	(1,754)	(1,577)
Irrecoverable overseas tax	601	777
Non-taxable overseas dividends **	(1,083)	(1,755)
Other non taxable revenue	-	(184)
Revenue taxable in different periods	(1)	114
Stock dividends*	(30)	(57)
UK dividends*	(2,653)	(4,874)
Unused management expenses	5,613	5,559
Current tax charge for the year (note 7a)	601	777

* As an OEIC this item is not subject to corporation tax.

** Overseas dividends are not subject to corporation tax from 1st July 2009 due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains made within UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £70,057,869 (2010: £64,372,848) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

8 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	90,738	84,522
Interim accumulation	96,164	81,989
Final income	36,113	38,903
Final accumulation	33,768	34,964
Tax withheld on interest distributions	21,096	19,645
	<u>277,879</u>	<u>260,023</u>
Amounts deducted on cancellation of shares	4,710	5,950
Amounts received on issue of shares	(7,854)	(12,017)
	<u>274,735</u>	<u>253,956</u>
Finance costs: Distributions	274,735	253,956
Finance costs: Interest	38	461
	<u>274,773</u>	<u>254,417</u>
Total finance cost	274,773	254,417
Net revenue after taxation	260,377	239,729
Adjustment for capital indexation	(7,416)	(7,548)
Authorised Corporate Director's periodic charge paid from capital	20,431	20,341
Revenue shortfall	1,550	1,256
Sub Registration fees paid from capital	-	175
Undistributed revenue	(207)	3
	<u>274,735</u>	<u>253,956</u>
Finance cost: Distributions	274,735	253,956

9 Debtors

	2011	2010
	£000	£000
Accrued revenue	93,521	85,132
Amounts receivable for issue of shares	14,341	8,555
Currency transactions awaiting settlement	-	1,505
Overseas withholding tax reclaimable	874	734
Sales awaiting settlement	12,031	10,301
	<u>120,767</u>	<u>106,227</u>
Total debtors	120,767	106,227

Notes to the financial statements (continued)

10 Cash and bank balances

	2011	2010
	£000	£000
Amounts held at futures clearing houses and brokers	2,648	32,159
Cash and bank balances	248,918	316,284
Total cash and bank balances	251,566	348,443

11 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	2,922	3,024
Accrued Depositary's fees	61	52
Accrued other expenses	674	1,050
Amounts payable for cancellation of shares	5,239	5,949
Corporation tax payable	-	774
Currency transactions awaiting settlement	5	1,501
Amount payable to merger host funds on termination	887	-
Derivative interest payable	66	-
Income tax payable	10,305	9,294
Purchases awaiting settlement	50,311	27,851
Total creditors	70,470	49,495

12 Contingent Liabilities and Commitments

The aggregate of contingent liabilities and commitments not provided for at the balance sheet date is as follows:

	2011	2010
	£000	£000
Partly paid shares	-	236

Notes to the financial statements (continued)

13 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 8 and 9 and notes 6, 9 and 11 on pages 17 to 20 including all creations and cancellations where the ACD acted as principal.

Henderson Investment Funds Limited, as ACD to the Fund is a related party. The ultimate controlling party of Henderson Investment Funds Limited is Henderson Group plc. Aggregate value of purchases and sales transactions in, and revenue receivable from Henderson Group plc and its subsidiaries for the year amounts to £29,392,012 (2010: £72,235,645).

14 Dilution adjustment

The Company has the discretion to charge a dilution adjustment when there is a large volume of deals and, in accordance with the FSA regulations, to pay this amount into the Fund. In particular the company reserves the right to make such an adjustment in the following circumstances:

- (a) if the Fund is experiencing large levels of net purchases (ie purchases less redemptions), relative to its size;
- (b) where the Fund is experiencing large levels of net redemptions (ie redemptions less purchases) relative to its size;
- (c) in any other case where the ACD is of the opinion that the interests of existing or continuing shareholders and potential investors require the imposition of a dilution adjustment.

15 Risk disclosures

Details of the portfolio of each Fund and its exposure to risks are set out in the financial statements of each Fund.

Manager's report

Fund Manager

Philip Payne

Investment objective and policy

To provide a return by investing primarily in sterling denominated investment grade corporate bonds. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Performance summary

Over the year, the Fund increased by 4.2%, compared with a 5.2% increase by the iBoxx Non-Gilts Total Return Index.

Discrete annual performance†

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson All Stocks Credit Fund	4.2	12.3	4.3	(0.9)	(1.3)
iBoxx Non-Gilts Total Return Index	5.2	9.2	1.3	0.2	0.1

† Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
UK Treasury 4.75% 07/12/2038	39,917	UK Treasury 4.75% 07/12/2038	46,694
UK Treasury 5% 07/03/2025	36,055	UK Treasury 5% 07/03/2025	46,392
UK Treasury 4% 07/03/2022	33,226	UK Treasury 4% 07/09/2016	40,881
UK Treasury 6% 07/12/2028	31,829	UK Treasury 4% 07/03/2022	33,822
UK Treasury 5% 07/09/2014	31,176	UK Treasury 4.5% 07/03/2019	31,840
UK Treasury 4.75% 07/03/2020	29,743	UK Treasury 6% 07/12/2028	28,716
UK Treasury 4% 07/09/2016	26,775	UK Treasury 5% 07/03/2018	21,232
Nationwide Building Society 5.625% 28/01/2026	24,013	UK Treasury 4.75% 07/03/2020	20,740
Abbey National Treasury Services 5.75% 02/03/2026	21,488	UK Treasury 4.25% 07/03/2036	15,616
UK Treasury 5% 07/03/2018	21,049	UK Treasury 4.75% 07/09/2015	13,448

Manager's report

Corporate bond markets performed strongly over the year, benefiting from falling government bond yields (rising prices), with credit outperforming government bonds over the period, particularly within the financial sector. Macroeconomic and regulatory developments have been the main drivers of credit markets over the period. Asset prices have benefited from a second round of quantitative easing in the United States, which has helped to partially offset the sovereign debt crisis building in Europe. Both Ireland and Portugal joined Greece in requiring European Union and International Monetary Fund assistance after being shut out of government bond markets due to large increases in their funding costs. This has resulted in the creation of a European Stability Fund to aid these and potentially other troubled countries as they push through austerity measures to reduce their budget deficits. The financial sector banking stress tests and further regulatory clarification regarding requirements for bank capital going forward has provided a supportive backdrop and increased investor risk appetite for a sector that is still trading at a large discount to the rest of the market. However, increased talk of burden sharing in the event of future banking crises has ensured the sector remains volatile.

Exposure in the Fund to corporate and financial institutions that are based in or have a high exposure to peripheral European countries has been kept low due to the deterioration in government finances and the poorer economic outlook. This has benefited the Fund as this area has been the worst performing part of the market over the year. In particular, the decision to cut the fund's holdings in Irish banks prior to the Irish government requesting assistance proved to be a good call with much of this debt now being tendered for at 20% of face value.

Positioning in financials has also contributed positively to performance. The strategy of favouring low coupon, low cash priced bonds worked as these performed strongly following an announcement from the Basel Committee that outlined proposals for bank capital. The proposals increase the probability that subordinated bank debt (debt that ranks below senior debt with regard to claims on assets) is redeemed at the first opportunity. This decision benefited our holdings in Lloyds Banking Group, Barclays Bank and Friends Provident in particular. 2011 has also seen the first issuance in the sterling market of covered bonds from UK banks and building societies. The fund has established a position through these new deals which provide the holder with additional security over a pool of residential mortgages. Against this, holdings in senior unsecured bank debt (which occupies a senior position within the bank's capital structure but is not secured by specific collateral) have been reduced.

Non-financial sectors have traded in a small range over the year as relatively expensive valuations and new issuance, which has been focused more towards longer dated (10 year plus) maturities has weighed on the market. The position in British Telecom has performed well, benefiting from positive news regarding the company's pension fund while better-than-expected results have also led to the company being put on review for a ratings upgrade. Overweight positions have also been established in the mining sector through Anglo American, Xstrata and Glencore, which should continue to benefit from a pick-up in global growth and balance sheet improvements, whilst a position in Daily Mail has also been added due to improving corporate fundamentals, which we believe will lead to an upgrade later this year.

The Fund established an underweight to the utilities sector which has worked well as new issuance has led to existing bonds underperforming. This provided an opportunity to establish an overweight position in the utility PPL (who own the electricity distribution networks in the Midlands, South West and South Wales), through an attractively priced new issue. A decision was also taken to sell down the holding in RWE due to concerns regarding their ability to improve their balance sheet due to a fall in earnings driven by the nuclear tax in Germany. This position has subsequently benefited from the government decision to close down the nuclear facilities in Germany following the earthquake and tsunami in Japan. The overweight position in BAA the airports operator has also performed well on the back of an announcement regarding their debt refinancing, and the placement of a new deal.

Philip Payne
22 July 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	961,959,207	331,497	327,143	101.33
30/06/2010*	1,748,536,525	-	-	-
Class A income				
30/06/2009	961,959,207	7,948,194	7,875,858	100.92
30/06/2010	1,748,536,525	12,224,900	11,089,792	110.23
30/06/2011	1,736,876,700	18,524,834	16,715,225	110.83
Class I income				
30/06/2009	961,959,207	4,949,906	4,822,460	102.64
30/06/2010	1,748,536,525	506,418	450,808	112.33
30/06/2011	1,736,876,700	502,586	448,754	112.00
Class I accumulation				
30/06/2009	961,959,207	6,170,913	4,142,235	148.98
30/06/2010	1,748,536,525	4,574,542	2,697,885	169.56
30/06/2011	1,736,876,700	1,531,417	867,104	176.61
Class A gross income				
30/06/2009	961,959,207	459,936	454,164	101.27
30/06/2010	1,748,536,525	618,111	559,020	110.57
30/06/2011	1,736,876,700	503,194	452,688	111.16
Class I gross income				
30/06/2009	961,959,207	90,473,597	86,992,424	104.00
30/06/2010	1,748,536,525	127,529,043	112,358,641	113.50
30/06/2011	1,736,876,700	16,440,032	14,553,149	112.97
Class I gross accumulation				
30/06/2009	961,959,207	580,729,061	370,879,382	156.58
30/06/2010	1,748,536,525	806,000,512	448,948,197	179.53
30/06/2011	1,736,876,700	880,963,385	465,639,447	189.19
Class Z gross income				
30/06/2010**	1,748,536,525	311,913,777	308,536,755	101.09
30/06/2011	1,736,876,700	311,113,578	308,536,755	100.84
Class Z gross accumulation				
30/06/2009	961,959,207	270,896,103	218,563,022	123.94
30/06/2010	1,748,536,525	485,169,222	341,454,896	142.08
30/06/2011	1,736,876,700	507,297,674	335,947,748	151.00

* X share class merged with A share class 11 January 2010.

** Z class gross income launched 3 March 2010.

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	3.92	119.70	112.20
2007	3.34	113.10	106.10
2008	3.65	109.50	96.78
2009	3.48	110.70	96.30
2010 **	0.86	109.40	108.40
Class A income			
2006	4.42	119.30	111.80
2007	3.80	112.70	105.70
2008	4.09	109.10	96.39
2009	3.86	110.30	95.93
2010	3.67	116.20	107.90
2011	2.63*	113.90+	109.20+
Class I income			
2006	4.42	119.90	112.50
2007	4.04	114.30	106.90
2008	4.54	110.20	97.51
2009	4.30	111.60	97.04
2010	4.19	117.40	109.10
2011	2.90*	115.00+	110.50+
Class I accumulation			
2006	5.56	119.30	111.80
2007	5.38	151.40	144.70
2008	6.28	151.40	138.50
2009	6.22	165.20	141.00
2010	6.30	179.60	163.20
2011	4.50*	179.90+	171.30+
Class Z accumulation			
2006	5.20	119.00	113.80
2007#	2.02	118.30	111.80
Class A gross income			
2006	5.11	119.70	112.20
2007	4.72	113.50	106.10
2008	5.09	109.50	100.80
2009	4.85	110.90	96.28
2010	4.60	116.70	108.30
2011	3.28*	114.30+	109.60+
Class I gross income			
2006	6.13	126.10	113.90
2007	5.37	115.40	107.70
2008	5.73	111.20	100.30
2009	5.48	112.70	97.77
2010	5.36	118.80	110.00
2011	3.90*	116.30+	111.50+

Comparative tables (continued)

Performance record (continued)

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class I gross accumulation			
2006	7.85	155.10	148.50
2007	7.23	155.10	148.10
2008	8.10	156.30	144.00
2009	8.19	174.00	147.30
2010	8.43	191.00	172.00
2011	6.38*	192.60+	182.50+
Class Z gross income			
2010***	3.78	106.20	100.00*
2011	3.86*	103.90+	99.56+
Class Z gross accumulation			
2006	6.49	121.00	115.40
2007	6.24	121.60	115.90
2008	6.98	122.60	113.40
2009	7.05	137.80	116.30
2010	7.17	152.00	136.30
2011	5.64*	153.60+	145.40+

* to 31 August

+ to 30 June

** X share class merged with A share class 11 January 2010.

Z accumulation share class closed 11 December 2007.

*** Z class gross income launched 3 March 2010.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011 %	2010 %
Class A	1.20	1.11
Class I	0.55	0.54
Class Z	0.05	0.04

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Bonds 96.93%, (2010: 94.13%)			
Government bonds 6.51% (2010: 7.54%)			
GBP 10,571,329	UK Treasury 4.25% 07/03/2036	10,533	0.61
GBP 5,680,000	UK Treasury 4.25% 07/12/2040	5,651	0.32
GBP 6,587,710	UK Treasury 4.75% 07/09/2015	7,356	0.42
GBP 8,150,000	UK Treasury 4.75% 07/03/2020	9,078	0.52
GBP 8,705,156	UK Treasury 4.75% 07/12/2038	9,403	0.54
GBP 12,325,564	UK Treasury 5% 07/03/2012	12,696	0.73
GBP 39,875,987	UK Treasury 5% 07/09/2014	44,286	2.55
GBP 6,020,000	UK Treasury 5% 07/03/2018	6,877	0.40
GBP 5,870,000	UK Treasury 6% 07/12/2028	7,265	0.42
		113,145	6.51
Eurobonds 90.42% (2010: 86.59%)			
GBP 13,500,000	Abbey National Treasury Services 5.125% 14/04/2021	13,717	0.79
GBP 4,168,000	Abbey National Treasury Services 5.5% 18/06/2014	4,415	0.25
GBP 20,728,000	Abbey National Treasury Services 5.75% 02/03/2026	21,288	1.23
GBP 2,629,000	Anglian Water Services 7.882% 30/07/2037	2,760	0.16
GBP 4,135,000	Anglo American Capital 6.875% 01/05/2018	4,653	0.27
GBP 16,818,000	Anheuser Busch 6.5% 23/06/2017	19,144	1.10
GBP 748,000	Aspire Defence Finance 4.674% 31/03/2040 'A'	648	0.04
GBP 1,088,000	Aspire Defence Finance 4.674% 31/03/2040 'B'	949	0.05
GBP 8,500,000	Assicurazioni Generali 6.269% Perpetual	6,439	0.37
GBP 16,700,000	AT&T 5.875% 28/04/2017	18,451	1.06
GBP 3,050,000	AT&T 7% 30/04/2040	3,630	0.21
GBP 5,677,000	Aviva 5.9021% Perpetual	4,561	0.26
GBP 3,358,000	Aviva 6.875% 20/05/2058	3,160	0.18
GBP 3,634,000	AXA 6.6862% Perpetual	3,044	0.18
GBP 3,752,000	AXA 6.772% Perpetual	3,262	0.19
GBP 2,882,000	BAA 5.225% 15/02/2025	2,774	0.16
GBP 6,429,000	BAA 6.45% 10/12/2033	6,666	0.38
GBP 8,346,000	BAA 5.85% 27/11/2015	8,885	0.51
GBP 7,820,000	BAA 5.875% 13/05/2041	7,483	0.43
GBP 5,137,000	BAA 6.75% 03/12/2026	5,562	0.32
GBP 6,100,000	Bank of America 5.25% 09/11/2016	6,022	0.35
GBP 10,550,000	Bank of America 6.125% 15/09/2021	10,831	0.62
GBP 4,700,000	Bank of America 7% 31/07/2028	4,912	0.28
GBP 972,000	Bank of Scotland 7.281% Perpetual 'B'	794	0.05
GBP 3,310,000	Bank of Scotland 9.375% 15/05/2021	3,663	0.21
GBP 11,326,000	Barclays Bank 5.3304% Perpetual	8,126	0.47
GBP 1,510,000	Barclays Bank 6% Perpetual	1,194	0.07
GBP 13,438,000	Barclays Bank 6.3688% Perpetual	11,825	0.68
GBP 6,474,000	Barclays Bank 6.75% 16/01/2023	6,582	0.38
GBP 7,685,000	Barclays Bank 10% 21/05/2021	9,201	0.53
GBP 2,547,000	Barclays Bank 14% Perpetual	3,186	0.18
GBP 4,056,000	BAT International Finance 5.75% 09/12/2013	4,381	0.25
GBP 7,222,000	BAT International Finance 6% 24/11/2034	7,413	0.43

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
	Eurobonds (continued)		
GBP 7,588,000	BAT International Finance 6.375% 12/12/2019	8,517	0.49
GBP 15,919,000	BG Energy Capital 5.125% 07/12/2017	17,151	0.99
GBP 5,064,000	BG Energy Capital 5.125% 1/12/2025	5,062	0.29
GBP 4,100,000	BNP Paribas 7.436% Perpetual	3,958	0.23
GBP 3,345,000	British Telecom 5.75% 07/12/2028	3,233	0.19
GBP 2,754,000	British Telecom 6.375% 23/06/2037	2,785	0.16
GBP 9,945,000	Broadgate Financing 4.821% 05/07/2036	8,966	0.52
GBP 1,388,225	Broadgate Financing 4.949% 05/04/2031	1,415	0.08
GBP 4,572,000	British Sky Broadcasting 5.75% 20/10/2017	5,005	0.29
GBP 3,203,769	Canary Wharf Finance 6.455% 22/10/2033	3,623	0.21
GBP 7,934,000	Centrica 5.125% 10/12/2014	8,563	0.49
GBP 2,450,000	Centrica 5.5% 24/10/2016	2,677	0.15
GBP 4,439,000	Centrica 6.375% 10/03/2022	4,919	0.28
GBP 2,800,000	Centrica 6.4% 04/09/2026	3,107	0.18
GBP 4,907,000	Centrica 7% 19/09/2033	5,849	0.34
GBP 4,854,000	Citigroup 4.5% 03/03/2031	3,460	0.20
GBP 3,368,000	Citigroup 5.15% 21/05/2026	3,038	0.17
GBP 1,257,000	Citigroup 5.875% 01/07/2024	1,127	0.06
GBP 8,035,000	Citigroup 6.8% 25/06/2038	8,448	0.49
GBP 2,803,000	Citigroup 7.375% 01/09/2039	3,142	0.18
GBP 7,428,000	Citigroup 7.625% 03/04/2018	8,414	0.48
GBP 2,465,000	Comcast 5.5% 23/11/2029	2,430	0.14
GBP 8,760,000	Co-operative Bank 5.625% 08/07/2020	8,728	0.50
GBP 1,782,000	Co-operative Bank 5.625% 16/11/2021	1,560	0.09
GBP 10,150,000	Coventry Building Society 4.625% 19/04/2018	10,326	0.59
GBP 7,732,000	Coventry Building Society 5.875% 28/09/2022	7,581	0.44
GBP 1,800,000	Daily Mail 5.75% 07/12/2018	1,788	0.10
GBP 7,500,000	Daily Mail 6.375% 21/06/2027	6,830	0.39
GBP 1,547,000	Danske Bank 5.6838% Perpetual	1,298	0.07
GBP 6,200,000	Deutsche Telekom International Finance 6.5% 08/04/2022	6,850	0.39
GBP 11,806,000	DNB Norske Bank 7.25% 23/06/2020	13,090	0.75
GBP 2,650,000	E.On International Finance 5.875% 30/10/2037	2,766	0.16
GBP 2,800,000	E.On International Finance 6% 30/10/2019	3,132	0.18
GBP 3,650,000	E.On International Finance 6.75% 27/01/2039	4,264	0.25
GBP 2,423,000	Egg Banking 7.5% Perpetual	2,359	0.14
GBP 3,600,000	Electricite de France 5.125% 22/09/2050	3,388	0.20
GBP 12,500,000	Electricite de France 6.125% 02/06/2034	13,485	0.78
GBP 5,400,000	ELM 6.3024% Perpetual	4,733	0.27
GBP 4,853,000	Enel Finance International 5.75% 14/09/2040	4,482	0.26
GBP 13,000,200	European Investment Bank 3% 07/12/2015	13,317	0.77
GBP 6,232,000	European Investment Bank 5.375% 07/06/2021	6,967	0.40
GBP 2,764,000	European Investment Bank 5.5% 15/04/2025	3,091	0.18
GBP 9,361,000	European Investment Bank 5.625% 07/06/2032	10,750	0.62
GBP 27,094,000	European Investment Bank 6% 07/12/2028	31,894	1.84
GBP 28,069,000	European Investment Bank 6.25% 15/04/2014	31,473	1.81
GBP 6,563,000	European Investment Bank 8.75% 25/08/2017	8,618	0.50
GBP 5,635,000	Experian 4.75% 23/11/2018	5,782	0.33

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Eurobonds (continued)			
GBP 7,209,000	FirstGroup 6.875% 18/09/2024	7,686	0.44
GBP 6,762,000	FirstGroup 8.125% 19/09/2018	7,995	0.46
GBP 1,320,000	Fonterra Co-operative 4.875% 11/04/2013	1,382	0.08
GBP 2,014,000	Fonterra Co-operative 9.375% 04/12/2023	2,792	0.16
GBP 5,796,000	France Telecom 5% 12/05/2016	6,185	0.36
GBP 3,729,000	France Telecom 7.25% 10/11/2020	4,437	0.26
GBP 1,127,000	France Telecom 8.125% 20/11/2028	1,449	0.08
GBP 2,204,000	Freshwater Finance 5.182% 20/04/2035	2,067	0.12
GBP 4,191,000	Friends Provident 12% 21/05/2021	5,292	0.30
GBP 8,910,000	Friends Provident 6.875% Perpetual	7,377	0.42
GBP 12,570,000	Friends Provident 8.25% 21/04/2022	12,392	0.71
GBP 13,250,000	GDF Suez 6.125% 11/02/2021	14,887	0.86
GBP 4,300,000	GDF Suez 7% 30/10/2028	5,112	0.29
GBP 11,437,000	GE Capital UK Funding 5.125% 24/05/2023	11,267	0.65
GBP 2,277,000	GE Capital UK Funding 5.875% 01/11/2012	2,394	0.14
GBP 1,894,000	GE Capital UK Funding 5.875% 04/11/2020	2,021	0.12
GBP 11,748,000	GE Capital UK Funding 5.875% 18/01/2033	11,722	0.67
GBP 6,893,000	GE Capital UK Funding 6.25% 05/05/2038	7,190	0.41
GBP 1,682,000	GE Capital UK Funding 8% 14/01/2039	2,162	0.12
GBP 3,920,000	General Electric Capital 4.875% 18/09/2037	3,228	0.19
GBP 7,073,000	General Electric Capital 5.5% 15/09/2066	6,680	0.38
GBP 7,167,000	General Electric Capital 6.5% 15/09/2067	7,054	0.41
GBP 10,447,000	GlaxoSmithKline Capital 5.25% 19/12/2033	10,446	0.60
GBP 1,854,000	GlaxoSmithKline Capital 5.25% 10/04/2042	1,825	0.11
GBP 5,968,000	GlaxoSmithKline Capital 6.375% 09/03/2039	6,830	0.39
GBP 12,350,000	Glencore 6.5% 27/02/2019	12,974	0.75
USD 6,766,000	Glencore 7.5% 06/10/2049	4,403	0.25
GBP 4,272,000	Go-Ahead 5.375% 29/09/2017	4,410	0.25
GBP 2,284,000	Goldman Sachs 5.5% 12/10/2021	2,122	0.12
GBP 5,312,000	Goldman Sachs 7.25% 10/04/2028	5,763	0.33
GBP 5,970,000	Great Rolling 6.5% 05/04/2031	6,020	0.35
GBP 7,691,000	HBOS 6.305% 18/10/2017	7,225	0.42
GBP 13,035,000	HBOS Capital Funding 6.461% Perpetual	10,453	0.60
GBP 708,000	HBOS Sterling Finance 7.881% Perpetual	604	0.03
GBP 3,916,000	Heineken 7.25% 10/03/2015	4,430	0.26
GBP 4,822,000	HSBC 4.75% 29/09/2020	4,842	0.28
GBP 14,628,000	HSBC 5.375% 04/11/2030	13,390	0.77
GBP 711,000	HSBC 5.75% 27/06/2017	726	0.04
GBP 7,946,000	HSBC 5.75% 20/12/2027	7,464	0.43
GBP 8,578,000	HSBC 6% 29/03/2040	8,114	0.47
GBP 14,800,000	HSBC 6.375% 18/10/2022	15,661	0.90
GBP 3,750,000	HSBC 7% 07/04/2038	4,009	0.23
GBP 7,172,000	HSBC Capital Funding 5.844% Perpetual	6,078	0.35
GBP 2,000,000	Hutchison Whampoa Financial UK 5.625% 24/11/2017	2,165	0.12
GBP 5,250,000	Imperial Tobacco Finance 5.5% 22/11/2016	5,620	0.32
GBP 5,971,000	Imperial Tobacco Finance 8.125% 15/03/2024	7,237	0.42
GBP 11,571,000	Imperial Tobacco Finance 9% 17/02/2022	14,806	0.85
GBP 2,257,000	International Bank for Reconstruction & Development 4.875% 07/12/2028	2,405	0.14

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Eurobonds (continued)			
GBP 3,816,000	International Bank for Reconstruction & Development 5.75% 07/06/2032	4,479	0.26
GBP 3,950,000	Intesa 5.25% 28/01/2022	3,776	0.22
GBP 7,327,000	IPIC 6.875% 14/03/2026	7,474	0.43
GBP 12,150,000	Johnson & Johnson 5.5% 06/11/2024	13,001	0.75
GBP 7,993,000	JPMorgan 4.25% 25/01/2017	8,067	0.46
GBP 2,868,531	Juturna (ELoC 16) 5.0636% 10/08/2033	2,775	0.16
GBP 9,072,000	KFW 4.75% 07/12/2012	9,528	0.55
GBP 3,928,000	KFW 5.25% 12/01/2012	4,017	0.23
GBP 5,511,000	KFW 6% 07/12/2028	6,603	0.38
GBP 22,724,000	KFW International Finance 5.5% 07/12/2015	25,674	1.48
GBP 5,169,000	KFW International Finance 5.5% 18/06/2025	5,856	0.34
GBP 11,900,000	KFW International Finance 5.55% 07/06/2021	13,568	0.78
GBP 6,736,000	KFW International Finance 5.75% 07/06/2032	7,924	0.46
GBP 4,864,000	Koninklijke KPN 5.75% 17/09/2029	4,843	0.28
GBP 4,393,000	Lafarge 8.75% 30/05/2017	5,181	0.30
GBP 1,070,000	Land Securities Capital Markets 4.875% 07/11/2019	1,136	0.07
GBP 3,383,000	Land Securities Capital Markets 5.376% 30/09/2029	3,369	0.19
GBP 11,216,000	LCR Finance 4.5% 07/12/2028	11,338	0.65
GBP 10,100,000	Legal & General 6.385% Perpetual	9,031	0.52
GBP 2,100,000	Lehman Brothers 7.875% 08/05/2018	494	0.03
GBP 3,497,000	Lend Lease Europe 6.125% 12/10/2021	3,349	0.19
GBP 5,603,000	Lloyds TSB 4% 17/11/2011	5,668	0.33
GBP 9,211,000	Lloyds TSB 6% 08/02/2029	9,655	0.56
GBP 1,906,000	Lloyds TSB 6.5% 17/09/2040	1,770	0.10
GBP 3,150,000	Lloyds TSB 7.5% 15/04/2024	3,353	0.19
GBP 5,311,000	Lloyds TSB 7.625% 22/04/2025	5,061	0.29
GBP 7,855,883	Longstone Finance 4.791% 19/04/2036	7,907	0.46
GBP 7,565,000	Longstone Finance 4.896% 19/04/2036	6,852	0.39
GBP 2,436,000	Merrill Lynch 5.5% 22/11/2021	2,200	0.13
GBP 1,350,000	Motability Operations 5.25% 28/09/2016	1,463	0.08
GBP 6,882,000	Motability Operations 5.375% 28/06/2022	7,096	0.41
GBP 6,215,000	Motability Operations 5.625% 29/11/2030	6,278	0.36
GBP 1,460,000	National Australia Bank 5.125% 09/12/2021	1,477	0.08
GBP 4,694,000	National Grid 6.125% 15/04/2014	5,117	0.29
GBP 6,835,000	National Grid Electric 7.375% 13/01/2031	8,408	0.48
GBP 2,506,000	National Grid Gas 6% 13/05/2038	2,698	0.16
GBP 2,030,000	National Westminster Bank 6.5% 07/09/2021	1,887	0.11
GBP 2,630,000	National Westminster Bank 7.875% 09/09/2015	2,817	0.16
GBP 7,084,000	Nationwide Building Society 3.75% 21/11/2011	7,161	0.41
GBP 1,608,000	Nationwide Building Society 5.25% 23/11/2020	1,533	0.09
GBP 3,927,000	Nationwide Building Society 5.625% 09/09/2019	3,984	0.23
GBP 23,439,000	Nationwide Building Society 5.625% 28/01/2026	24,244	1.40
GBP 3,930,000	Nationwide Building Society 5.769% Perpetual	2,867	0.17
GBP 2,406,000	Nationwide Building Society 8.625% 29/03/2018	2,652	0.15
GBP 6,604,000	Network Rail Infrastructure Finance 4.375% 09/12/2030	6,515	0.38
GBP 5,026,000	Network Rail Infrastructure Finance 4.75% 22/01/2024	5,289	0.30
GBP 8,105,000	Network Rail Infrastructure Finance 4.875% 07/03/2012	8,312	0.48
GBP 4,214,000	Northern Gas Networks 5.625% 23/03/2040	4,106	0.24

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Eurobonds (continued)			
GBP 12,350,000	Pfizer 6.5% 03/06/2038	14,375	0.83
GBP 3,269,000	Rabobank Nederland 4% 10/09/2015	3,413	0.20
GBP 5,500,000	Rabobank Nederland 5.25% 23/05/2041	5,311	0.31
GBP 2,235,000	RL Finance 6.125% Perpetual	1,837	0.11
GBP 9,345,000	Roche Holdings 5.5% 04/03/2015	10,264	0.59
GBP 6,198,000	Royal Bank of Scotland 4.125% 14/11/2011 +	6,271	0.36
GBP 6,765,000	Royal Bank of Scotland 6.375% 29/04/2014 +	7,250	0.42
GBP 4,150,000	Royal Bank of Scotland 6.625% 17/09/2018 +	4,421	0.25
GBP 6,475,000	Royal Bank of Scotland 7.500% 29/04/2024 +	6,936	0.40
GBP 9,191,000	RSA Insurance 8.5% Perpetual	9,673	0.56
GBP 6,860,000	RSA Insurance 9.375% 20/05/2039	8,114	0.47
GBP 2,785,000	RWE Finance 6.375% 03/06/2013	3,018	0.17
GBP 1,185,000	Santander 9.625% 30/10/2023	1,364	0.08
GBP 1,941,679	Sceptre Funding No.1 5.253% 09/02/2027	2,085	0.12
GBP 2,851,000	Scottish & Southern Energy 5.453% Perpetual	2,815	0.16
GBP 14,668,000	Scottish & Southern Energy 5.75% 05/02/2014	15,858	0.91
GBP 6,246,000	Scottish Widows 5.125% Perpetual	5,316	0.31
GBP 6,296,000	Siemens 6.125% 14/09/2066	6,565	0.38
GBP 11,127,000	Silverstone Master Issuer 5.063% 21/01/2055	11,733	0.68
GBP 4,504,000	Skandinaviska Enskilda Banken 6.625% 09/07/2014	4,969	0.29
GBP 4,500,000	Societe Generale 5% 20/12/2018	4,528	0.26
GBP 8,711,000	Societe Generale 5.75% Perpetual	8,399	0.48
GBP 2,028,000	Southern Electric Power 4.625% 20/02/2037	1,780	0.10
GBP 4,608,000	Southern Water Services 6.125% 31/03/2019	5,092	0.29
GBP 6,988,000	SPI Australia Assets 5.125% 11/02/2021	7,167	0.41
GBP 4,222,000	SPI Electricity & Gas 7.125% 26/06/2018	4,957	0.29
GBP 12,000,000	Standard Chartered Bank 7.75% 03/04/2018	13,728	0.79
GBP 4,631,000	Standard Life Finance 6.75% Perpetual	4,108	0.24
GBP 1,708,000	Tate & Lyle International Finance 6.75% 25/11/2019	1,903	0.11
GBP 1,850,000	Telecom Italia 6.375% 24/06/2019	1,865	0.11
GBP 2,750,000	Telecom Italia 7.375% 15/12/2017	3,021	0.17
GBP 3,212,000	Telefonica 5.375% 02/02/2018	3,292	0.19
GBP 9,262,000	Telefonica 5.375% 02/02/2026	8,620	0.50
GBP 1,050,000	Telefonica 5.445% 08/10/2029	957	0.06
GBP 3,763,724	Telereal Securitisation 5.3887% 10/12/2033	3,878	0.22
GBP 1,720,000	Telereal Securitisation 5.9478% 10/12/2033	1,805	0.10
GBP 10,070,000	Tesco 5% 24/02/2014	10,769	0.62
GBP 9,723,060	Tesco Property Finance 6.0517% 13/10/2039	10,152	0.58
GBP 6,051,171	Tesco Property Finance 5.744% 13/04/2040	6,039	0.35
GBP 5,562,029	Tesco Property Finance 5.8006% 13/10/2040	5,583	0.32
GBP 8,812,000	Thames Water Utilities 7.241% 09/04/2058	10,205	0.59
GBP 4,098,000	Thames Water Utilities Cayman 5.75% 13/09/2030	3,970	0.23
GBP 5,515,000	UBS 5.25% 21/06/2021	5,614	0.32
GBP 3,841,000	UBS 6.625% 11/04/2018	4,319	0.25
GBP 12,059,000	United Utilities Water 6.125% 29/12/2015	13,491	0.78
GBP 2,585,000	Vattenfall 6.875% 15/04/2039	3,058	0.18
GBP 4,190,000	Verizon Wireless Capital 8.875% 18/12/2018	5,402	0.31
GBP 2,229,000	Virgin Media Secured Finance 7% 15/01/2018	2,372	0.14

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Eurobonds (continued)			
GBP 11,647,000	Virgin Media Secured Finance 5.5% 15/01/2021	11,538	0.66
GBP 12,059,000	Vodafone 4.625% 08/09/2014	12,765	0.73
GBP 5,362,000	Vodafone 8.125% 26/11/2018	6,679	0.38
GBP 15,239,000	Wal-Mart Stores 4.875% 19/01/2039	14,474	0.83
GBP 12,205,000	Wal-Mart Stores 5.625% 27/03/2034	12,905	0.74
GBP 6,652,000	Wal-Mart Stores 5.75% 19/12/2030	7,211	0.42
GBP 1,491,000	Wellcome Trust Finance 4.625% 25/07/2036	1,386	0.08
GBP 3,945,000	Wellcome Trust Finance 4.75% 28/05/2021	4,125	0.24
GBP 9,060,000	Western Power Distribution 5.25% 17/01/2023	9,016	0.52
GBP 9,701,000	Western Power Distribution 5.75% 16/04/2032	9,536	0.55
GBP 2,550,000	Western Power Distribution South Wales 5.75% 23/03/2040	2,499	0.14
GBP 5,350,000	Western Power Distribution South West 5.75% 23/03/2040	5,244	0.30
GBP 6,807,000	Westfield Financial 5.5% 27/06/2017	7,258	0.42
GBP 8,963,000	Westpac Banking 5% 21/10/2019	9,112	0.52
GBP 11,046,000	Xstrata Canada Finance 7.375% 27/05/2020	12,479	0.72
GBP 2,910,000	Yorkshire Building Society 4.75% 12/04/2018	2,963	0.17
GBP 8,321,000	Yorkshire Water 6% 24/04/2025	8,839	0.51
GBP 1,039,000	Yorkshire Water 6.375 19/08/2039	1,173	0.07
		1,570,572	90.42
Warrants 0.00% (2010: 0.00%)			
GBP 51,184	Taylor Wimpey Warrants 15/05/2014	7	-
Derivatives (0.04%) (2010: (0.11%))			
Futures 0.00% (2010: (0.02%))			
Forward foreign exchange contracts 0.00% (2010: 0.01%)			
	Buy GBP 4,695,854 : Sell USD 7,597,891 September 2011	(42)	-
Credit default swaps (0.04%) (2010: (0.10%))			
12,900,000	CDS 20/12/2015 - Deutsche Bank	(48)	-
10,700,000	CDS 20/03/2016 - Credit Agricole	101	-
12,550,000	CDS 20/03/2016 - Eli Lilly	(155)	(0.01)
12,550,000	CDS 20/03/2016 - Pfizer	143	0.01
10,800,000	CDS 20/03/2016 - Sanofi-Aventis	(260)	(0.02)
10,800,000	CDS 20/03/2016 - Sanofi-Aventis	(258)	(0.02)
2,500,000	CDS 20/06/2016 - Bertelsmann	(16)	-
10,550,000	CDS 20/06/2016 - Bertelsmann	(65)	-
4,650,000	CDS 20/06/2016 - British Airways	115	0.01
4,650,000	CDS 20/06/2016 - British Airways	108	0.01
4,650,000	CDS 20/06/2016 - Deutsche Lufhansa	112	0.01
4,650,000	CDS 20/06/2016 - Deutsche Lufhansa	112	0.01
10,850,000	CDS 20/06/2016 - ENI	(17)	-
5,200,000	CDS 20/06/2016 - Glencore	(303)	(0.02)
3,450,000	CDS 20/06/2016 - Lafarge	(198)	(0.01)
3,475,000	CDS 20/06/2016 - Lafarge	(194)	(0.01)

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Credit default swaps (continued)			
5,450,000	CDS 20/06/2016 - National Grid	53	-
10,800,000	CDS 20/06/2016 - Reed Elsevier	(120)	(0.01)
10,200,000	CDS 20/06/2016 - Royal & Sun Alliance	103	0.01
5,450,000	CDS 20/06/2016 - United Utilities	(4)	-
10,550,000	CDS 20/06/2016 - Vivendi	(25)	-
2,500,000	CDS 20/06/2016 - Vivendi	(6)	-
10,800,000	CDS 20/06/2016 - Wolters Kluwer	68	-
10,200,000	CDS 20/06/2016 - Zurich Insurance	(102)	(0.01)
8,800,000	CDS 20/09/2016 - Alcatel	(67)	-
10,900,000	CDS 20/09/2016 - Carrefour	34	-
8,800,000	CDX 20/06/2016 - Itraxx	336	0.02
10,700,000	CDX 20/06/2016 - Itraxx	(224)	(0.01)
		<u>(777)</u>	<u>(0.04)</u>
	Investment assets including investment liabilities	1,682,905	96.89
	Net other assets	53,972	3.11
	Net assets	1,736,877	100.00

* A related party to the Fund (see note 12)

Credit ratings

	Market value £000	Percentage of total net assets %
Above investment Grade (AAA - BBB)	1,667,736	96.02
Below investment grade (BB and below)	11,057	0.63
Unrated	4,931	0.28
Total bonds	1,683,724	96.93
Total derivatives	(819)	(0.04)
Investment assets including investment liabilities	1,682,905	96.89
Net other assets	53,972	3.11
Net assets	1,736,877	100.00

Source: Standard & Poor's.

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		8,787
Revenue	4	93,905	72,908
Expenses	5	(6,064)	(4,920)
Finance costs: Interest	7	-	(1)
Net revenue before taxation		87,841	67,987
Taxation	6	-	-
Net revenue after taxation		87,841	67,987
Total return before distributions		96,628	163,404
Finance costs: Distributions	7	(87,842)	(67,988)
Change in net assets attributable to shareholders from investment activities		8,786	95,416

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	1,748,537	961,959
Amounts receivable on issue of shares	166,521	572,097
Amounts receivable on inspecie transfers	16,322	287,766
Amounts payable on cancellation of shares	(208,840)	(120,477)
Amounts payable on inspecie transfers	(61,606)	(111,659)
	(87,603)	627,727
Dilution adjustment	353	3,451
Stamp duty reserve tax	(54)	(148)
Change in net assets attributable to shareholders from investment activities (see above)	8,786	95,416
Retained distribution on accumulation shares	66,858	60,132
Closing net assets attributable to shareholders	1,736,877	1,748,537

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			1,685,009		1,646,881
Debtors	8	35,163		36,998	
Cash and bank balances	9	38,818		96,306	
Total other assets			73,981		133,304
Total assets			<u>1,758,990</u>		<u>1,780,185</u>
Liabilities					
Investment liabilities			2,104		2,954
Creditors	10	8,145		14,760	
Bank overdrafts		7,483		8,297	
Distribution payable on income shares		4,381		5,637	
Total other liabilities			<u>20,009</u>		<u>28,694</u>
Total liabilities			22,113		31,648
Net assets attributable to shareholders			<u>1,736,877</u>		<u>1,748,537</u>

1 Accounting policies

(a) Basis of accounting

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Non-derivative securities	8,856	101,541
Derivative contracts	14	(5,512)
Transaction costs	(11)	(15)
Forward currency contracts	(15)	(2,629)
Other currency (losses)/gains	(57)	2,032
Net capital gains	8,787	95,417

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	939,599	1,169,479
Commissions	1	-
Total purchase transaction costs*	1	-
Purchases including transaction costs	935,600	1,169,479
Sales in year before transaction costs	901,581	510,953
Commissions	(1)	-
Total sale transaction costs*	(1)	-
Sales net of transaction costs	901,580	510,953
Transaction handling charges*	11	15

* These amounts have been deducted in determining net capital gains.

Notes to the financial statements (continued)

4 Revenue

	2011	2010
	£000	£000
Interest on debt securities	94,074	72,788
Bank interest	151	93
Stock lending revenue	53	29
Interest on margin	15	-
Derivative revenue	(388)	(2)
Total revenue	93,905	72,908

Stock lending details

	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	87,812	25,270

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £92,195,320 (2010: £25,904,037).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	5,130	4,352
General administration charge*	577	280
Sub registration fees	-	11
	<u>5,707</u>	<u>4,643</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	224	158
Safe custody fees	133	99
	<u>357</u>	<u>257</u>
Other expenses:		
Audit fees	-	5
Legal fees	-	1
Printing and postage fees	-	7
Registration fees	-	7
	<u>-</u>	<u>20</u>
Total expenses	6,064	4,920

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £11,520 (2010: £10,810). The audit fee levied through the GAC charge is £11,520 (2010: £5,464).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	87,841	67,987
Income tax at 20% (2010: 20%)	17,568	13,597
Effects of:		
Revenue being paid as interest distributions	(17,568)	(13,597)
Current tax charge for the year (note 6a)	-	-

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £708 (2010: £488) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	15,079	7,589
Interim accumulation	50,174	44,401
Final income	4,381	5,637
Final accumulation	16,684	15,731
Tax withheld on interest distributions	144	158
	<u>86,462</u>	<u>73,516</u>
Amounts deducted on cancellation of shares	2,005	970
Amounts received on issue of shares	(625)	(6,498)
Finance costs: Distributions	<u>87,842</u>	<u>67,988</u>
Finance costs: Interest	-	1
Total finance cost	<u>87,842</u>	<u>67,989</u>

Notes to the financial statements (continued)

7 Finance costs (continued)

Distributions and interest (continued)

	2011	2010
	£000	£000
Net revenue after taxation	87,841	67,987
Undistributed revenue	1	1
Finance costs: Distributions	87,842	67,988

Details of the distribution per share are set out in the distribution table on pages 44-47.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	32,940	32,781
Amounts receivable for issue of shares	60	2,452
Sales awaiting settlement	2,163	1,765
Total debtors	35,163	36,998

9 Cash and bank balances

	2011	2010
	£000	£000
Amounts held at futures clearing houses and brokers	1,050	3,069
Cash and bank balances	37,768	93,237
Total cash and bank balances	38,818	96,306

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	410	395
Accrued Depository's fees	24	17
Accrued other expenses	77	120
Amounts payable for cancellation of shares	1,664	63
Derivative interest payable	41	-
Income tax payable	73	71
Purchases awaiting settlement	5,856	14,094
Total creditors	8,145	14,760

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

Notes to the financial statements (continued)

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 35 and 36 and notes 5, 8 and 10 on pages 38 to 40 including all creations and cancellations where the ACD acted as principal.

Related parties, such as other authorised Funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company, Harewood Nominees Limited. Harewood Nominees Limited holds shares comprising 30.03% (2010: 29.81%) of the total net assets of the Fund as at 30 June 2011.

HSBC Global Custody Nominees, as a material shareholder, is a related party with an 18.09% (2010: nil) shareholding.

Material transactions throughout the year such as creations and cancellations for these shareholders are included in the Statement of change in net assets attributable to shareholders.

13 Shareholder funds

The Fund currently has 3 share classes; Class A (Retail with front-end charges), Class I (Institutional) and Class Z (Institutional). The annual management charge on each share class is as follows:

Class A	1.00%
Class I	0.50%
Class Z	0.00%*

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 24. The distribution per share class is given in the distribution table on pages 44-47. All share classes have same rights on winding up.

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

	Investment assets including investment liabilities	Net other assets /(liabilities)	Net assets
Currency	£000	£000	£000
2011			
UK sterling	1,679,280	53,289	1,732,569
US dollar	4,392	-	4,392
Euro	(766)	682	(84)
Total	1,682,906	53,971	1,736,877
2010			
UK sterling	1,596,432	101,212	1,697,644
Euro	26,760	2,194	28,954
US dollar	20,735	1,204	21,939
Total	1,643,927	104,610	1,748,537

Notes to the financial statements (continued)

14 Risk (continued)

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at the year end is set out in the following table:

	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
UK sterling	38,136	1,679,315	35,129	1,752,580
Euro	682	1,140	41	1,863
US dollar	-	4,547	-	4,547
Total	38,818	1,685,002	35,170	1,758,990

2010				
UK sterling	94,041	1,595,946	36,351	1,726,338
Euro	1,294	29,283	900	31,477
US dollar	970	21,166	234	22,370
Total	96,305	1,646,395	37,485	1,780,185

	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
UK sterling	7,483	-	12,527	20,010
Euro	-	1,907	41	1,948
US dollar	-	155	-	155
Total	7,483	2,062	12,568	22,113

2010				
Euro	-	2,352	171	2,523
UK sterling	8,297	-	20,397	28,694
US dollar	-	-	431	431
Total	8,297	2,352	20,999	31,648

Fixed rate financial assets

Currency	Weighted average interest rate	Weighted average period for which rate is fixed
2011	(%)	(years)
UK sterling	5.52	14.70
US dollar	0.05	0.06
2010		
Euro	6.45	6.88
UK sterling	5.70	14.54
US dollar	4.43	5.01

The 'weighted average interest rate' is based on the redemption yield of each asset, weighted by their market value.

Notes to the financial statements (continued)

14 Risk (continued)

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

The ACD assesses the market risk of the Fund's investments including any derivative exposures, using a Value at Risk (VaR) methodology. This process provides the ACD with an estimate of the maximum potential loss that could be expected to occur as a result of changes in market prices over a given period of time in all but a given percentage of circumstances - for example changes in the price of oil or the 2008 financial crisis. If the number is lower than that of its representative benchmark it should be less volatile than the benchmark or more volatile if higher than the benchmark.

The ACD uses the Risk Manager application from Risk Metrics. The VaR is calculated monthly on a 99% confidence level. The model uses 1 year of daily data which is equally weighted applying a decay factor of 0.97. The decay factor refers to a weighting scheme that puts emphasis on recent observation and events. Applying such a weighting scheme gives us risk numbers that are closer to current market conditions. The All Stocks Credit Fund is measured against the benchmark iBoxx & Non Gilt total return Index for comparison purposes. As at the accounting date of this report the Fund's Monthly VaR is 3.32% (2010 – 3.07%) compared to the iBoxx & Non Gilt total return Index which is 3.20% (2010 – 3.02%). The Fund's annual VaR is 11.75% (2010 – 10.47%) compared to the iBoxx & Non Gilt total return Index which is 11.34% (2010 – 10.20%). It should be noted that the VaR is only an indication of risk and the actual price movements may prove to be less or more volatile than predicted.

The Fund may open positions on Over-the-Counter (OTC) derivatives, which will typically be futures, options, contracts for difference and swaps. Of these, the Fund will predominantly use Futures, Interest Rate Swaps and Credit Default Swaps (CDS). Futures allow the Investment Manager to purchase an asset (or to sell an asset) at a predetermined future date and price, enabling them to manage the risk to the fund. Interest Rate Swaps are an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). The use of interest rate swaps is to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap. A CDS is designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the CDS.

The ACD monitors the Fund's portfolio against the Fund's investment restrictions and risk management policy on a daily basis.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim interest distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income	-	-	-	-	-	0.8687
Class A income						
Group 1	1.1106	0.2221	0.8885	-	0.8885	0.9738
Group 2	0.5000	0.1000	0.4000	0.4885	0.8885	0.9738
Class I income						
Group 1	1.2860	0.2572	1.0288	-	1.0288	1.0834
Group 2	0.5736	0.1147	0.4589	0.5699	1.0288	1.0834
Class I accumulation						
Group 1	1.9590	0.3918	1.5672	-	1.5672	1.5886
Group 2	0.2368	0.0474	0.1894	1.3778	1.5672	1.5886
Class A gross income						
Group 1	1.1146	-	1.1146	-	1.1146	1.2226
Group 2	0.4680	-	0.4680	0.6466	1.1146	1.2226
Class I gross income						
Group 1	1.3225	-	1.3225	-	1.3225	1.3762
Group 2	0.4028	-	0.4028	0.9197	1.3225	1.3762
Class I gross accumulation						
Group 1	2.1164	-	2.1164	-	2.1164	2.0987
Group 2	1.6144	-	1.6144	0.5020	2.1164	2.0987
Class Z gross income	1.3113	-	1.3113	-	1.3113	-
Class Z gross accumulation						
Group 1	1.8669	-	1.8669	-	1.8669	1.8232
Group 2	1.1493	-	1.1493	0.7176	1.8669	1.8232

Distribution table (continued)

Interim interest distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income	-	-	-	-	-	0.8598
Class A income						
Group 1	1.1028	0.2206	0.8822	-	0.8822	0.9685
Group 2	0.3844	0.0769	0.3075	0.5747	0.8822	0.9685
Class I income						
Group 1	1.2700	0.2540	1.0160	-	1.0160	1.0805
Group 2	0.9944	0.1989	0.7955	0.2205	1.0160	1.0805
Class I accumulation						
Group 1	1.9518	0.3904	1.5614	-	1.5614	1.5999
Group 2	1.7510	0.3502	1.4008	0.1606	1.5614	1.5999
Class A gross income						
Group 1	1.1064	-	1.1064	-	1.1064	1.2153
Group 2	0.2808	-	0.2808	0.8256	1.1064	1.2153
Class I gross income						
Group 1	1.3143	-	1.3143	-	1.3143	1.3744
Group 2	1.2143	-	1.2143	0.1000	1.3143	1.3744
Class I gross accumulation						
Group 1	2.1270	-	2.1270	-	2.1270	2.1219
Group 2	1.3447	-	1.3447	0.7823	2.1270	2.1219
Class Z gross income	1.3039	-	1.3039	-	1.3039	-
Class Z gross accumulation						
Group 1	1.8797	-	1.8797	-	1.8797	1.8526
Group 2	1.5903	-	1.5903	0.2894	1.8797	1.8526

Distribution table (continued)

Interim interest distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income						
Group 1	1.0635	0.2127	0.8508	-	0.8508	0.9172
Group 2	0.4466	0.0893	0.3573	0.4935	0.8508	0.9172
Class I income						
Group 1	1.1990	0.2398	0.9592	-	0.9592	1.0469
Group 2	0.5490	0.1098	0.4392	0.5200	0.9592	1.0469
Class I accumulation						
Group 1	1.8594	0.3719	1.4875	-	1.4875	1.5655
Group 2	1.0849	0.2170	0.8679	0.6196	1.4875	1.5655
Class A gross income						
Group 1	1.0611	-	1.0611	-	1.0611	1.1512
Group 2	0.4664	-	0.4664	0.5947	1.0611	1.1512
Class I gross income						
Group 1	1.2643	-	1.2643	-	1.2643	1.3373
Group 2	0.9843	-	0.9843	0.2800	1.2643	1.3373
Class I gross accumulation						
Group 1	2.0698	-	2.0698	-	2.0698	2.0904
Group 2	1.5262	-	1.5262	0.5436	2.0698	2.0904
Class Z gross income	1.2540	-	1.2540	-	1.2540	1.1585
Class Z gross accumulation						
Group 1	1.8311	-	1.8311	-	1.8311	1.6097
Group 2	1.1109	-	1.1109	0.7202	1.8311	1.6097

Distribution table (continued)

Final interest distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income						
Group 1	1.1195	0.2239	0.8956	-	0.8956	0.8948
Group 2	0.6706	0.1341	0.5365	0.3591	0.8956	0.8948
Class I income						
Group 1	1.1575	0.2315	0.9260	-	0.9260	1.0341
Group 2	0.2494	0.0499	0.1995	0.7265	0.9260	1.0341
Class I accumulation						
Group 1	1.8105	0.3621	1.4484	-	1.4484	1.5608
Group 2	0.6701	0.1340	0.5361	0.9123	1.4484	1.5608
Class A gross income						
Group 1	1.1123	-	1.1123	-	1.1123	1.1225
Group 2	0.6639	-	0.6639	0.4484	1.1123	1.1225
Class I gross income	1.3211	-	1.3211	-	1.3211	1.3247
Class I gross accumulation						
Group 1	2.1872	-	2.1872	-	2.1872	2.0953
Group 2	2.1242	-	2.1242	0.0630	2.1872	2.0953
Class Z gross income	1.3060	-	1.3060	-	1.3060	1.3090
Class Z gross accumulation						
Group 1	1.9309	-	1.9309	-	1.9309	1.8398
Group 2	0.2787	-	0.2787	1.6522	1.9309	1.8398

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

Paul Casson

On 25 February 2011 the Fund merged into the Henderson European Growth Fund, a sub-fund of the Henderson Investment Fund OEIC.

Investment objective and policy

To aim to provide capital growth by investing in European companies, excluding the United Kingdom. The Fund is not restricted in the size of companies in which it can invest.

Performance summary

Over the period to 24 February 2011, the Fund increased by 11.7% compared with a 22.1% increase in the FTSE World Europe (excluding UK) Index.

Discrete annual performance†

	1 Jul 10- 24 Feb 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson European Opportunities Fund	11.7	7.7	(19.8)	(13.0)	22.8
FTSE World Europe (ex UK) Index	22.1	15.9	(20.1)	(8.9)	25.9

† Source: Morningstar - mid to mid (excluding initial charge) 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.

Manager's report

The final six months of 2010 and the first two months of 2011 were on aggregate a strong period for equity markets. At the start of the period fears over sovereign refinancing abated and positive developments for the European banking sector materialised in the form of better-than-expected stress test results. Earnings season also provided a boost to equity prices as numbers in both the US and Europe were broadly ahead of consensus. The decision by the Fed to undertake additional stimulus in response to a deterioration in economic conditions also helped to move markets higher. Sovereign debt worries re-emerged in November as Ireland was forced to accept a bailout amid funding fears surrounding its financial system. Speculation remained that other countries might require support but relatively strong economic data and corporate results allowed equities to continue to make gains in subsequent months.

The Fund's performance has been disappointing over the period. Our underweight in the basic materials sector was detrimental to performance as the second round of US stimulus fuelled a commodity-led rally. Most of the underperformance however, can be attributed to two stocks: CRH, the building materials group, and Bank of Ireland. Having updated the market in July, the management of CRH was forced only a month later to downgrade the outlook for 2010 and the stock fell significantly. As a global industry leader trading at a discount to net asset value we decided to keep our holding and the share price recovered towards the end of the year. We participated in Bank of Ireland's capital raise in April as we felt it would be able to take advantage of being the only viable lender in Ireland. Unfortunately, we underestimated the extent of the undercapitalisation of the broader financial sector in the country and the resulting bailout that would be forced upon it from European politicians. Elsewhere in the portfolio there were some notable positives. Noreco, the Norwegian oil company, was one of the Fund's stronger performers as the oil price went above US\$90 a barrel and the company announced it had appointed two banks to assist with a strategic review designed to realise shareholder value. Dufry, the duty free operator, also posted strong gains as the company continues to benefit from strong growth in global passenger numbers, especially in emerging economies.

New positions included SGS, the testing and inspection company, Royal Dutch Shell and, more recently, Atlas Copco, the industrial equipment group. With prices of base metals staying strong and the cash flow of mining companies robust, we believe that Atlas Copco will be a beneficiary of the equipment investment that should follow.

On 25 February 2011, the assets of the Henderson European Opportunities Fund were merged into the Henderson European Growth Fund, following approval by the Financial Services Authority and shareholders of the Fund.

Paul Casson
11 July 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X accumulation				
30/06/2009	224,286,703	1,870,435	138,367	1,351.79
30/06/2010	209,562,653	-	-	-
30/06/2011*	-	-	-	-
Class A accumulation				
30/06/2009	224,286,703	202,579,006	14,353,189	1,411.39
30/06/2010	209,562,653	195,694,567	12,859,025	1,521.84
30/06/2011**	-	-	-	-
Class I accumulation				
30/06/2009	224,286,703	19,837,262	1,345,069	1,474.81
30/06/2010	209,562,653	13,868,086	867,009	1,599.53
30/06/2011**	-	-	-	-

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

** Merged with Henderson European Growth Fund on 25 February 2011

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X accumulation			
2006	-	1,807.20	1,483.10
2007	1.98	2,039.70	1,765.90
2008	12.59	2,017.40	1,121.30
2009	23.19	1,787.00	1,123.30
2010	-	1,768.40	1,726.70
2011**	-*	-+	-+
Class A accumulation			
2006	3.66	1,863.10	1,525.10
2007	13.24	2,111.40	1,822.50
2008	23.10	2,094.60	1,166.80
2009	31.54	1,868.50	1,171.00
2010	24.55	1,870.70	1,504.10
2011***	-*	1,781.10+	1,674.10+
Class I accumulation			
2006	12.78	1,922.40	1,570.80
2007	24.11	2,187.50	1,882.50
2008	33.85	2,176.50	1,215.20
2009	41.70	1,955.30	1,221.80
2010	39.37	1,962.80	1,580.90
2011***	5.67*	1,879.50+	1,766.00+

* to 25 March

+ to 24 February

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

*** Merged with Henderson European Growth Fund on 25 February 2011

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	n/a	1.75
Class I	n/a	1.17

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

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		18,366
Revenue	4	2,692	8,456
Expenses	5	(2,429)	(4,323)
Finance costs: Interest	7	(1)	(1)
Net revenue before taxation		262	4,132
Taxation	6	(367)	(633)
Net (expense)/revenue after taxation		(105)	3,499
Total return before distributions		26,882	21,865
Finance costs: Distributions	7	(52)	(3,499)
Change in net assets attributable to shareholders from investment activities		26,830	18,366

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	209,563	224,287
Amounts receivable on issue of shares	1,294	664
Amounts payable on cancellation of shares	(19,577)	(37,252)
Amounts payable on merger cancellation	(218,159)	-
Amounts outstanding due to mergers *	2	-
	(236,440)	(36,588)
Stamp duty reserve tax	(1)	(1)
Change in net assets attributable to shareholders from investment activities (see above)	26,830	18,366
Retained distribution on accumulation shares	48	3,499
Closing net assets attributable to shareholders	-	209,563

* Fund merged into the Henderson European Growth Fund on 25 February 2011

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			-		201,246
Debtors	8	647		970	
Cash and bank balances	9	49		8,119	
Total other assets			696		9,089
Total assets			<u>696</u>		<u>210,335</u>
Liabilities					
Creditors	10	696		772	
Total other liabilities			696		772
Total liabilities			696		772
Net assets attributable to shareholders			<u>-</u>		<u>209,563</u>

Notes to the financial statements (continued)

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Forward currency contracts	67	(1,992)
Non-derivative securities	26,147	21,441
Other currency gains/(losses)	777	(1,061)
Transaction costs	(4)	(22)
Net capital gains	26,987	18,366

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	188,102	128,424
Commissions	104	168
Taxes	23	57
Total purchase transaction costs*	127	225
Purchases including transaction costs	188,229	128,649
Sales in year before transaction costs	415,800	170,585
Commissions	(161)	(249)
Total sale transaction costs*	(161)	(249)
Sales net of transaction costs*	415,639	170,336
Transaction handling charges*	4	22

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	22	18
Overseas dividends	2,608	7,824
Stock dividends	-	122
Stock lending revenue	62	127
Underwriting commission	-	365
Total revenue	2,692	8,456

Notes to the financial statements (continued)

4 Revenue (continued)

Stock lending details

	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	-	119

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured.

All collateral held was in the form of securities. The aggregate value of collateral at the year end was £nil (2010: £200,672).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	2,111	3,711
General administration charge*	328	223
Sub registration fees	-	184
	<u>2,439</u>	<u>4,118</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	17	29
Safe custody fees	12	22
	<u>29</u>	<u>51</u>
Other expenses:		
Audit fees	-	6
FSA fees	(4)	-
Legal fees	-	1
Listing fees	(11)	-
Printing and postage fees	(24)	49
Registration fees	-	98
	<u>(39)</u>	<u>154</u>
Total expenses	<u>2,429</u>	<u>4,323</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fee is £5,640 (2010: £9,870). The audit fees levied through the GAC charge is £5,640 (2010: £4,638).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

The tax charge comprises:

	2011	2010
	£000	£000
Overseas withholding tax	367	633
Total taxation	367	633

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	262	4,132
Corporation tax at 20% (2010: 20%)	52	826
Effects of:		
Irrecoverable overseas tax	367	633
Non-taxable overseas dividends **	(488)	(1,471)
Stock dividends*	-	(24)
Unused management expenses	436	669
Current tax charge for the year (note 6a)	367	633

*As an OEIC these items are not subject to corporation tax.

**Overseas dividends are not subject to corporation tax from 1st July 2009 due to changes enacted in the Finance Act 2009

OEICs are exempt from tax on capital gains made within UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: £nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £1,105,109 (2010: £668,790) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim accumulation	48	-
Final accumulation	-	3,499
	<u>48</u>	<u>3,499</u>
Amounts deducted on cancellation of shares	4	-
	<u>52</u>	<u>3,499</u>
Finance costs: Distributions	52	3,499
Finance costs: Interest	1	1
	<u>53</u>	<u>3,500</u>
Total finance cost	53	3,500
Net revenue after taxation	(105)	3,499
Revenue shortfall	251	-
Undistributed revenue	(94)	-
	<u>52</u>	<u>3,499</u>
Finance cost: Distributions	52	3,499

Details of the distribution per share are set out in the distribution table on page 61.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	-	171
Currency transactions awaiting settlement	-	95
Overseas withholding tax reclaimable	647	589
Sales awaiting settlement	-	115
	<u>647</u>	<u>970</u>
Total debtors	647	970

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	49	8,119
	<u>49</u>	<u>8,119</u>
Total cash and bank balances	49	8,119

Notes to the financial statements (continued)

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	-	268
Accrued Depositary's fees	-	2
Accrued other expenses	-	88
Amounts payable for cancellation of shares	-	319
Currency transactions awaiting settlement	-	95
Amounts outstanding due to merger	696	-
Total creditors	696	772

11 Contingent liabilities and commitments

The aggregate of contingent liabilities and commitments not provided for at the balance sheet date is as follows:

	2011	2010
	£000	£000
Rights Issue - Bank of Ireland	-	236
Total contingent liabilities and commitments	-	236

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 53 and 54 and notes 5, 8 and 10 on pages 56 to 59 including all creations and cancellations where the ACD acted as principal.

13 Shareholder funds

The Fund currently has 2 share classes; Class A (Retail with front-end charges) and Class I (Institutional). The annual management charge on each share class is as follows:

Class A	1.50%
Class I	1.00%

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 50. The distribution per share class is given in the distribution table on page 61.

Notes to the financial statements (continued)

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

The Fund's exposure to currency risk is considered insignificant in the current year.

The net currency monetary assets and liabilities at the prior year end consisted of:

	Investment assets including investment liabilities £000	Net other assets /(liabilities) £000	Net assets £000
Currency 2010			
Danish krone	4,946	17	4,963
Euro	150,598	5,367	155,965
Norwegian krone	12,003	243	12,246
Russian ruble	2,825	-	2,825
Swiss franc	30,874	373	31,247
UK sterling	-	2,317	2,317
Total	201,246	8,317	209,563

Interest rate risk

The Fund's exposure to interest rate risk is considered insignificant. This is consistent with exposure in the prior year.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

A sensitivity analysis has not been provided as no material derivative activity has been undertaken during the year.

Distribution table for the year ended 30 June 2011 (in pence per share)

Merger dividend distribution (xd date 24 February 2011, paid on 25 March 2011)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Net revenue	Equalisation	Distribution paid 25/03/2011
Class A accumulation	-	-	-
Class I accumulation			
Group 1	5.6680	-	5.6680
Group 2	5.3542	0.3138	5.6680

Final dividend distribution (xd date 30 June 2011)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A accumulation	-	-	-	24.5531
Class I accumulation	-	-	-	39.3693

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

Simon Savill

Investment objective and policy

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

Performance summary

Over the year, the Fund rose by 48.4% compared with an increase of 34.4% in the HSBC Smaller Europe (excluding UK) Index.

Discrete annual performance†

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson European Smaller Companies Fund	48.4	29.3	(32.5)	(21.9)	45.5
HSBC Smaller Europe (ex UK) Index	34.4	22.7	(19.2)	(18.4)	32.9

† Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
Amag Austria Metall	1,205	Demag Cranes	1,868
RIB Software	1,172	Norbert Dentressangle	1,595
Norma	1,170	Pandora	1,577
Pandora	1,111	Yoox	1,511
Powerland	1,111	Interpump	1,488
Axel Springer	1,088	Tornos	1,459
Salvatore Ferragamo	1,056	Schoeller-Bleckmann	1,066
Francotyp-Postalia	1,034	Groupe Steria	1,063
Stratec Biomedical Systems	995	Nederman	970
Gigaset	867	Kapsch TrafficCom	912

Manager's report

Activity

Over the year, the Fund returned 48.4% and the HSBC Smaller Europe (ex UK) Index returned 34.4%.

New purchases included Morpol, the Norwegian salmon processor. The company has a strong competitive position, a highly efficient processing capacity and is the world leader in smoked salmon products. We also bought Axel Springer, the German media group which is using the strong cash flow from its core tabloid publishing business to invest in a growing portfolio of online assets. Another new holding was in Schmolz + Bickenbach, the Swiss listed special steel producer which underwent a capital restructure.

Other new holdings included Pescanova, the Spanish fishing and fish processing group which has built up an internationally diversified portfolio of fish assets in recent years. We also added holdings in Cegedim, the French software and services provider to the life sciences industry and RIB software, a German producer of software for the construction industry which we believe should be able to deliver strong growth as it rolls out its new product offering.

Other new purchases included Technicolor, the French media technology group which is continuing to restructure its business, Francotyp Postalia, the German franking machines producer which has begun to show better profitability after its restructuring and Stratec, the German producer of sophisticated medical diagnostic equipment.

We also bought Gigaset, the German producer of DECT home phones which has a strong market position and should be able to take advantage of new avenues for growth after its restructuring and Transmode, the Swedish provider of network equipment for operators, which has had good success with its products.

The strongest contributors to performance included Yoox, the Italian online fashion company which continued to grow strongly and Lectra, the French CAD/CAM equipment and software provider for textile design and cutting which reported very strong numbers, highlighting the excellent job that the management have done.

We also had strong contributions from IFG, the Irish speciality financial services company which reported that it had received a takeover approach and Schmolz + Bickenbach, the Swiss speciality steel company which is making good progress after its recapitalisation. Wirecard, the German electronic payments processing company was also a strong contributor as it continued to broaden the reach of its product offering.

Negative contributors included A-Tec, the Austrian specialist engineering group which had problems refinancing its debt, Innoconcepts, the Belgian injection moulding company which failed in its restructuring efforts and Loewe, the German premium TV company which struggled with its restructuring plan. We also had negative contributions from RIB software, the German speciality software producer which took longer to sign up new customers than expected and Kappahl, the Swedish clothing retailer which struggled with rising cotton prices.

Simon Savill
19 August 2011

Comparative tables as at 30 June 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X accumulation				
30/06/2009	56,542,115	499,176	96,152	519.15
30/06/2010*	63,255,158	-	-	-
Class A accumulation				
30/06/2009	56,542,115	53,786,637	9,943,302	540.93
30/06/2010	63,255,158	62,199,885	8,811,307	705.91
30/06/2011	86,744,728	85,199,909	8,091,444	1,052.96
Class I accumulation				
30/06/2009	56,542,115	2,256,302	399,216	565.18
30/06/2010	63,255,158	1,055,273	142,262	741.78
30/06/2011	86,744,728	1,544,819	138,639	1,114.27

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

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X accumulation			
2006	-	830.20	605.00
2007	-	1,051.00	826.60
2008	14.20	913.70	448.30
2009	3.24	762.70	391.70
2010**	-	787.30	747.60
Class A accumulation			
2006	2.17	856.70	622.00
2007	3.77	1,087.40	853.90
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+	940.20+
Class I accumulation			
2006	6.12	884.00	638.70
2007	5.70	1,125.10	881.30
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+	993.20+

* to 31 August.

+ to 30 June.

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

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	1.76	1.69
Class I	1.08	1.11

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Equities 95.75% (2010: 98.22%)			
Austria 6.74% (2010: 8.31%)			
13,440	A -Tec Industries	27	0.03
72,852	AMAG	1,074	1.24
28,773	Andritz	1,845	2.13
370,609	Bene	559	0.65
13,911	Kapsch TrafficCom	767	0.88
29,204	Schoeller-Bleckmann	1,572	1.81
		<u>5,844</u>	<u>6.74</u>
Belgium 3.79% (2010: 3.94%)			
42,118	EVS Broadcast Equipment	1,776	2.05
135,202	Transics	873	1.01
40,000	Zetes	636	0.73
		<u>3,285</u>	<u>3.79</u>
Finland 3.01% (2010: 3.43%)			
45,928	Cargotec	1,463	1.69
32,406	Outotec	1,147	1.32
		<u>2,610</u>	<u>3.01</u>
France 12.65% (2010: 14.93%)			
31,200	Acadomia	227	0.26
63,435	Antevenio	326	0.38
148,403	Boursorama	1,094	1.26
10,607	Cegedim	372	0.43
34,500	CFAO	929	1.07
447,479	Lectra	2,316	2.67
60,000	Medica	800	0.92
60,000	Medica (cash)	5	0.01
15,049	Norbert Dentressangle	1,103	1.27
178,839	Rentabiliweb	1,563	1.80
36,824	Sartorius Stedim Biotech	1,580	1.82
171,714	Technicolor	653	0.76
		<u>10,968</u>	<u>12.65</u>
Germany 29.27% (2010: 22.46%)			
85,000	Adler	769	0.89
41,730	Axel Springer	1,286	1.48
58,384	Bauer	1,531	1.77
29,548	Bechtle	824	0.95
24,014	Bilfinger Berger	1,479	1.71
188,404	Cenit Systemhaus	853	0.98
336,973	Francotyp-postalia	1,019	1.17
74,839	Gerresheimer	2,226	2.57

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Germany (continued)			
34,371	GFK	1,128	1.30
235,988	Gigaset	811	0.93
105,069	Isra Vision	1,817	2.09
86,753	Loewe	443	0.51
27,687	MTU Aero Engines	1,378	1.59
139,330	Nabaltec	1,360	1.57
63,207	Norma	1,156	1.33
84,767	Powerland	1,114	1.28
151,105	RIB Software	923	1.06
13,370	Sartorius	383	0.44
28,389	Schuler Young	290	0.33
40,168	Stratec	1,108	1.28
122,667	Tom Tailor	1,505	1.74
179,743	Wirecard	1,997	2.30
		<hr/>	<hr/>
		25,400	29.27
Ireland 3.68% (2010: 3.61%)			
1,951,477	IFG	3,190	3.68
		<hr/>	<hr/>
		3,190	3.68
Italy 11.83% (2010: 14.27%)			
791,653	Aeffe	829	0.96
354,942	Antichi Pellettieri	143	0.16
350,643	Astaldi	1,601	1.85
194,632	Autogrill	1,584	1.83
102,728	Brembo	909	1.05
12,306	Emak	42	0.05
168,923	Interpump	896	1.03
132,200	Interpump Warrants 31/10/2012	90	0.10
225,000	MutuiOnline	936	1.08
21,025	Sabaf	376	0.43
131,859	Salvatore Ferragamo	1,190	1.37
406,743	Tesmec	172	0.20
130,028	Yoox	1,491	1.72
		<hr/>	<hr/>
		10,259	11.83
Netherlands 7.87% (2010: 12.33%)			
64,975	Beter Bed	1,085	1.25
57,748	CSM	1,208	1.39
33,044	Fugro	1,484	1.71
54,257	Heijmans	851	0.98
54,230	Imtech	1,192	1.37
44,870	USG People	483	0.56
56,434	Wavin	530	0.61
		<hr/>	<hr/>
		6,833	7.87

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Norway 5.20% (2010: 3.10%)			
323,648	BWG Homes	785	0.91
346,918	Morpol	826	0.95
75,264	Schibsted	1,502	1.73
104,895	Statoil Fuel & Retail	634	0.73
324,407	Vizrt	761	0.88
		4,508	5.20
Russia 0.00% (2010: 0.00%)			
115,787	Amtel Vredestein GDR*	-	-
Spain 1.23% (2010: 0.73%)			
19,411	Pescanova	518	0.60
67,439	Vueling Airlines	549	0.63
		1,067	1.23
Sweden 4.84% (2010: 5.80%)			
173,182	Byggmax	727	0.84
192,214	Kappahl	581	0.67
210,000	MQ	487	0.56
150,880	Nederman	1,728	1.99
135,000	Transmode	676	0.78
		4,199	4.84
Switzerland 5.64% (2010: 5.31%)			
3,838	Publigroupe	434	0.50
250,007	Schmolz + Bickenbach	1,923	2.21
28,999	Swissquote	960	1.11
106,587	Tornos	997	1.15
458	Vetropack	583	0.67
		4,897	5.64
Investment assets		83,060	95.75
Net other assets		3,685	4.25
Net assets		86,745	100.00

* Security written down.

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		29,655
Revenue	4	1,658	1,362
Expenses	5	(1,378)	(1,254)
Finance costs: Interest	7	(6)	(3)
Net revenue before taxation		274	105
Taxation	6	(186)	(106)
Net revenue/(expense) after taxation		88	(1)
Total return before distributions		29,743	18,616
Finance costs: Distributions	7	(88)	(2)
Change in net assets attributable to shareholders from investment activities		29,655	18,614

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	63,255	56,542
Amounts receivable on issue of shares	9,515	12,191
Amounts payable on cancellation of shares	(15,768)	(24,107)
	(6,253)	(11,916)
Dilution adjustment	-	13
Change in net assets attributable to shareholders from investment activities (see above)	29,655	18,614
Retained distribution on accumulation shares	88	2
Closing net assets attributable to shareholders	86,745	63,255

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			83,060		62,132
Debtors	8	1,790		1,324	
Cash and bank balances	9	2,674		1,407	
Total other assets			4,464		2,731
Total assets			<u>87,524</u>		<u>64,863</u>
Liabilities					
Creditors	10	737		1,534	
Bank overdrafts		42		74	
Total other liabilities			779		1,608
Total liabilities			779		1,608
Net assets attributable to shareholders			<u>86,745</u>		<u>63,255</u>

Notes to the financial statements as at 30 June 2011

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Forward currency contracts	(2)	(7)
Non-derivative securities	29,491	18,722
Other currency gains/(losses)	172	(92)
Transaction costs	(6)	(6)
Net capital gains	29,655	18,617

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	18,701	11,215
Commissions	10	4
Total purchase transaction costs*	10	4
Purchases including transaction costs	18,711	11,219
Sales in year before transaction costs	27,465	26,785
Commissions	(41)	(33)
Total sale transaction costs*	(41)	(33)
Sales net of transaction costs	27,424	26,752
Transaction handling charges*	6	6

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	8	3
Overseas dividends	1,457	1,178
Stock dividends	149	146
Stock lending revenue	44	35
Total revenue	1,658	1,362

Notes to the financial statements as at 30 June 2011

4 Revenue (continued)

	2011	2010
	£000	£000
Stock lending details		
Aggregate value of securities on loan at the year end	5,392	5,127

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £5,661,478 (2010: £5,417,058).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	1,174	1,115
General administration charge*	187	85
Sub registration fees	-	19
	<u>1,361</u>	<u>1,219</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	9	9
Safe custody fees	8	7
	<u>17</u>	<u>16</u>
Other expenses:		
Audit fees	-	6
FSA fees	-	(1)
Listing fees	-	(11)
Printing and postage fees	-	14
Registration fees	-	11
	<u>-</u>	<u>19</u>
Total expenses	<u>1,378</u>	<u>1,254</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £9,240 (2010: £9,048). The audit fee levied through the GAC charge is £9,240 (2010: £4,638).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

The tax charge comprises:

	2011	2010
	£000	£000
Overseas withholding tax	186	106
Total current tax (note 6b)	186	106

(b) Factors affecting current tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	274	105
Corporation tax at 20% (2010: 20%)	55	21
Effects of:		
Irrecoverable overseas tax	186	106
Non-taxable overseas dividends **	(288)	(193)
Stock dividends*	(30)	(29)
Unused management expenses	263	201
Current tax charge for the year (note 6a)	186	106

* As an OEIC, this item is not subject to corporation tax.

** Overseas dividends are not subject to corporation tax from 1st July 2009 due to changes enacted in Finance Act 2009. OEICs are exempt from tax on capital gains made within UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £464,892 (2010: £201,520) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Final accumulation	88	2
	<u>88</u>	<u>2</u>
Finance costs: Distributions	<u>88</u>	<u>2</u>
Finance costs: Interest	6	3
Total finance cost	<u>94</u>	<u>5</u>
Net revenue/(expense) after taxation	88	(1)
Revenue shortfall	-	3
Finance cost: Distributions	<u>88</u>	<u>2</u>

Details of the distribution per share are set out in the distribution table on page 78.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	47	51
Amounts receivable for issue of shares	-	6
Currency transactions awaiting settlement	-	380
Overseas withholding tax reclaimable	211	129
Sales awaiting settlement	1,532	758
Total debtors	<u>1,790</u>	<u>1,324</u>

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	2,674	1,407
Total cash and bank balances	<u>2,674</u>	<u>1,407</u>

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	107	82
Accrued Depository's fees	1	1
Accrued other expenses	23	25
Amounts payable for cancellation of shares	224	329
Currency transactions awaiting settlement	-	382
Purchases awaiting settlement	382	715
Total creditors	<u>737</u>	<u>1,534</u>

Notes to the financial statements (continued)

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 70 and 71 and notes 5, 8 and 10 on pages 73 to 75 including all creations and cancellations where the ACD acted as principal.

Skandia Life Assurance Company Limited, as a material shareholder, is a related party holding shares comprising 26.02% (2010 - 26.83%) of the total net assets of the Fund as at 30 June 2011.

Material transactions throughout the year such as creations and cancellations for this shareholder are included in the Statement of change in net assets attributable to shareholders.

13 Shareholder funds

The Fund currently has 2 share classes; Class A (Retail with front-end charges) and Class I (Institutional). The annual management charge on each share class is as follows:

Class 'A' 1.50%

Class 'I' 1.00%

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 65. The distribution per share class is given in the distribution table on page 78. All share classes have the same rights on winding up.

Notes to the financial statements (continued)

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

Currency	Investment assets including investment liabilities £000	Net other assets /(liabilities) £000	Net assets £000
2011			
Euro	69,456	4,002	73,458
Norwegian krone	4,508	49	4,557
Swedish krona	4,199	-	4,199
Swiss franc	4,897	27	4,924
UK sterling	-	(393)	(393)
Total	83,060	3,685	86,745
2010			
Euro	53,147	1,070	54,217
Norwegian krone	1,959	3	1,962
Swedish krona	3,670	-	3,670
Swiss franc	3,356	160	3,516
UK sterling	-	(110)	(110)
Total	62,132	1,123	63,255

Interest rate risk

The Fund's exposure to interest rate risk is considered insignificant. This is consistent with the exposure during the prior year.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

A sensitivity analysis has not been provided as no derivative activity has been undertaken during the year.

Distribution table for the year ended 30 June 2011 (in pence per share)

Final dividend distribution (xd date 30 June 2011, paid on 31 August 2011)

	Net revenue	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A accumulation	0.9560	0.9560	-
Class I accumulation	7.7530	7.7530	1.6165

Manager's report

Fund Manager

Phillip Apel

Investment objective and policy

To provide a return by investing primarily in United Kingdom Government issued index linked securities. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Performance summary

Over the year, the Fund rose by 10.1% compared to a 9.7% increase in the FTSE Index Linked (over 5 years) Index.

Discrete annual performance†

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson Index Linked Bond Fund	10.1	7.2	1.0	14.3	0.8
FTSE Index Linked (over 5 years) Index	9.7	8.4	(0.6)	17.2	1.5

† Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
UK Treasury 1.125% Index-Linked 22/11/2037	65,473	UK Treasury 1.125% Index-Linked 22/11/2037	64,868
UK Treasury 0.625% Index-Linked 22/03/2040	60,332	UK Treasury 0.625% Index-Linked 22/03/2040	61,795
UK Treasury 1.25% Index-Linked 22/11/2055	39,405	UK Treasury 1.25% Index-Linked 22/11/2027	34,365
UK Treasury 1.875% Index-Linked 22/11/2022	35,607	UK Treasury 1.25% Index-Linked 22/11/2032	32,457
UK Treasury 1.25% Index-Linked 22/11/2032	34,266	UK Treasury 1.25% Index-Linked 22/11/2055	26,893
UK Treasury 1.25% Index-Linked 22/11/2027	31,936	UK Treasury 1.875% Index-Linked 22/11/2022	23,104
UK Treasury 0.625% Index-Linked 22/11/2042	17,980	UK Treasury 0.625% Index-Linked 22/11/2042	18,484
UK Treasury 0.75% Index-Linked 22/03/2034	16,976	UK Treasury 1.25% Index-Linked 22/11/2017	17,335
UK Treasury 2.5% Index-Linked 26/07/2016	14,036	UK Treasury 0.75% Index-Linked 22/03/2034	14,261
UK Treasury 0.75% Index-Linked 22/11/2047	8,972	UK Treasury 2.5% Index-Linked 26/07/2016	11,580

Manager's report

Gilts performed well during the third quarter of 2010, as the global economy appeared to enter a slowdown and fears increased about the longer term outlook for western economies. Government bonds sold off during the fourth quarter as the US engaged in further fiscal and monetary policy easing and economic data appeared to improve globally.

During this time, the Fund profited by positioning for UK and German yields to fall, whilst positioning for Australian yields to rise. We also positioned for longer-dated yields to fall relative to short-dated yields, in the UK, US and Europe. We profited by positioning for government bonds in the US to outperform swaps (an agreement to exchange on stream of cashflows for another), and also profited by positioning for inflation expectations to rise in the UK and Europe.

As we entered 2011, government bonds were largely range bound, as economic data continued to be positive. During the first quarter, we took both positive and negative stances to government bond markets during the course of the quarter, primarily using US bond futures (a contract to buy/sell an asset at a predetermined future date and price). We used the strength in markets following the Japanese earthquake and Middle East tensions to move underweight the front end (shorter maturities) of the UK, US and Australian markets, taking profits as markets normalised.

However, the Japanese earthquake, high commodity prices and the fading impact of monetary and fiscal policy stimulus led data to deteriorate sharply in the second quarter of 2011. The European sovereign debt crisis also weighed on sentiment and supported the better quality government bonds of the UK and Germany. During this quarter, we took a predominantly positive stance to government bond markets throughout the quarter, primarily in the 10-year sector of the US and Australian market. This was offset by losses made by expecting short-dated Australian yields to rise. We also profited by positioning for wider inflation expectations in the UK, through bonds with five years and twenty years left to maturity.

During the year, we also took cross market relative value trades, between the UK, European, US and Canadian markets, using both bond futures and interest rate swaps. We also took relative value curve views in the UK, around specific demand and supply events, particularly within the index-linked market.

Phillip Apel
2 August 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	238,440,675	416,494	183,221	227.32
30/06/2010*	179,432,901	-	-	-
Class A income				
30/06/2009	238,440,675	48,755,012	21,462,849	227.16
30/06/2010	179,432,901	67,086,160	27,554,671	243.47
30/06/2011	199,655,180	74,710,622	28,090,555	265.96
Class I income				
30/06/2009	238,440,675	953,006	420,273	226.76
30/06/2010	179,432,901	994,014	409,700	242.62
30/06/2011	199,655,180	1,110,539	417,218	266.18
Class I accumulation				
30/06/2009	238,440,675	3,254,746	1,260,874	258.13
30/06/2010	179,432,901	4,058,666	1,457,753	278.42
30/06/2011	199,655,180	5,261,195	1,718,957	306.07
Class A gross income				
30/06/2009	238,440,675	193,599	84,969	227.85
30/06/2010	179,432,901	632,915	259,188	244.19
30/06/2011	199,655,180	733,582	274,868	266.89
Class I gross income				
30/06/2009	238,440,675	2,284	994	229.78
30/06/2010	179,432,901	259,713	106,759	243.27
30/06/2011	199,655,180	251,123	94,057	266.99
Class I gross accumulation				
30/06/2009	238,440,675	162,401,020	61,811,973	262.73
30/06/2010	179,432,901	85,455,687	30,091,830	283.98
30/06/2011	199,655,180	95,139,547	30,447,339	312.47
Class Z gross accumulation				
30/06/2009	238,440,675	21,511,065	14,919,462	144.18
30/06/2010	179,432,901	20,440,951	13,068,364	156.42
30/06/2011	199,655,180	21,755,604	12,564,934	173.15
Class D gross accumulation				
30/06/2009	238,440,675	953,449	593,202	160.73
30/06/2010	179,432,901	504,795	290,071	174.02
30/06/2011	199,655,180	692,968	360,800	192.06

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

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	1.67	213.80	197.40
2007	0.61	220.30	197.00
2008	0.30	229.20	209.10
2009	0.40	243.10	209.10
2010**	0.18	238.80	237.10
Class A income			
2006	2.49	213.60	197.20
2007	1.73	220.30	196.80
2008	1.18	229.90	209.00
2009	1.22	243.30	209.00
2010	0.54	256.40	228.20
2011	-*	270.10+	245.00+
Class I income			
2006	3.17	213.20	196.90
2007	2.53	220.00	196.60
2008	2.10	228.70	208.70
2009	2.06	242.60	208.70
2010	1.23	255.90	227.70
2011	0.29*	270.20+	245.00+
Class I accumulation			
2006	3.48	234.90	216.60
2007	2.81	246.80	220.10
2008	2.36	260.30	237.00
2009	2.34	277.20	237.00
2010	1.40	293.90	260.30
2011	0.34*	310.70+	281.40+
Class Z accumulation			
2006	1.66	124.20	116.90
2007***	1.30	130.80	117.10
Class D accumulation			
2006	0.30	143.80	139.30
2007#	2.01	152.40	134.90
Class A gross income			
2006	1.51	212.90	197.80
2007	2.18	210.00	198.20
2008	1.53	229.90	209.70
2009	1.51	244.00	209.70
2010	0.81	257.10	228.90
2011	-*	271.00+	245.70+
Class I gross income			
2006	4.14	213.40	197.10
2007	3.20	220.40	196.60
2008	2.65	229.30	209.10
2009	2.58	243.30	209.10
2010	1.58	256.60	228.20
2011	0.38*	271.10+	245.60+

Comparative tables (continued)

Performance record (continued)

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class I gross accumulation			
2006	4.56	237.00	217.90
2007	3.59	250.00	223.80
2008	3.02	264.90	240.80
2009	2.97	282.50	240.80
2010	1.84	299.90	265.20
2011	0.44*	317.30+	287.10+
Class Z gross accumulation			
2006	2.87	128.40	117.70
2007	2.57	136.20	120.80
2008	2.34	145.40	131.90
2009	2.32	155.30	131.90
2010	1.60	165.60	146.00
2011	0.75*	175.80+	158.70+
Class D gross accumulation			
2007****	-	152.40	134.90
2008	2.91	166.00	142.30
2009	2.20	173.00	147.20
2010	1.46	184.00	162.50
2011	0.50*	195.00+	176.30+

* to 31 August

+ to 30 June

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

*** Z accumulation share class closed on 11 December 2007.

D accumulation share class closed on 1 October 2007.

**** D gross accumulation share class launched on 11 October 2007.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A net	1.19	1.06
Class A gross	1.07	1.06
Class I	0.54	0.54
Class Z	0.04	0.04
Class D	0.29	0.29

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Bonds 99.01% (2010: 98.36%)			
Government bonds 99.01% (2010: 95.85%)			
GBP 7,922,365	UK Treasury 2.5% Index-Linked 26/07/2016	26,184	13.11
GBP 5,404,251	UK Treasury 2.5% Index-Linked 16/04/2020	18,103	9.07
GBP 20,490,628	UK Treasury 1.875% Index-Linked 22/11/2022	26,818	13.43
GBP 5,383,114	UK Treasury 2.5% Index-Linked 17/07/2024	15,739	7.88
GBP 9,835,740	UK Treasury 1.25% Index-Linked 22/11/2027	12,871	6.45
GBP 4,204,291	UK Treasury 4.125% Index-Linked 22/07/2030	11,759	5.89
GBP 10,891,082	UK Treasury 1.25% Index-Linked 22/11/2032	13,079	6.55
GBP 7,667,857	UK Treasury 2% Index-Linked 26/01/2035	13,357	6.69
GBP 2,801,000	UK Treasury 0.75% Index-Linked 22/03/2034	2,854	1.44
GBP 7,976,000	UK Treasury 1.125% Index-Linked 22/11/2037	10,362	5.19
GBP 4,525,000	UK Treasury 0.625% Index-Linked 22/03/2040	4,899	2.45
GBP 5,997,651	UK Treasury 0.625% Index-Linked 22/11/2042	6,714	3.36
GBP 6,831,398	UK Treasury 0.75% Index-Linked 22/11/2047	8,277	4.15
GBP 4,068,399	UK Treasury 0.5% Index-Linked 22/03/2050	4,453	2.23
GBP 13,956,266	UK Treasury 1.25% Index-Linked 22/11/2055	22,206	11.12
		197,675	99.01
Non government bonds 0.00% (2010: 2.51%)			
Unit trusts 0.00% (2010: 0.00%)			
4,347	Deutsche Global Liquidity Platinum I	4	-
Derivatives 0.03% (2010: (0.13%))			
Inflation swaps 0.03% (2010: 0.00%)			
7,600,000	IIS 3.365% March 2016	62	0.03
Interest swaps 0.00% (2010: (0.14%))			
6,700,000	IRS 6 month LIBOR September 2020	(128)	(0.06)
6,700,000	IRS 6 month LIBOR October 2020	(120)	(0.06)
10,300,000	IRS 6 month LIBOR September 2030	112	0.06
10,300,000	IRS 6 month LIBOR October 2030	105	0.05
7,500,000	IRS 6 month EIBOR June 2031	(76)	(0.04)
4,100,000	IRS 6 month LIBOR June 2041	(1)	-
3,500,000	IRS 6 month EIBOR June 2051	104	0.05
		(4)	-

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
	Futures 0.00% (2010: 0.01%)		
(63)	CBT US 5 Year Note September 2011	16	0.01
(219)	SFE AUD 3 Year Bond September 2011	(24)	(0.01)
		(8)	-
	Investment assets including investment liabilities	197,729	99.04
	Net other assets	1,926	0.96
	Net assets	199,655	100.00

Credit ratings

Investment	Market value £000	Percentage of total net assets %
Above investment grade (AAA - BBB)	197,675	99.01
Below investment grade (BB and below)	-	-
Total bonds	197,675	99.00
Total unit trusts	4	-
Total derivatives	50	0.03
Investment assets including investment liabilities	197,729	99.04
Net other assets	1,926	0.96
Net assets	199,655	100.00

Source: Standard & Poor's

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		9,113
Revenue	4	8,798	9,977
Expenses	5	(1,366)	(1,300)
Finance costs: Interest	7	-	-
Net revenue before taxation		7,432	8,677
Taxation	6	-	-
Net revenue after taxation		<u>7,432</u>	<u>8,677</u>
Total return before distributions		17,555	17,790
Finance costs: Distributions	7	(400)	(1,573)
Change in net assets attributable to shareholders from investment activities		<u>17,155</u>	<u>16,217</u>

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	179,433	238,441
Amounts receivable on issue of shares	32,666	39,240
Amounts payable on cancellation of shares	(33,168)	(115,696)
Amounts receivable on in specie transfers	<u>3,171</u>	<u>-</u>
	2,669	(76,456)
Dilution adjustment	-	6
Stamp duty reserve tax	-	(1)
Change in net assets attributable to shareholders from investment activities (see above)	17,155	16,217
Retained distribution on accumulation shares	398	1,226
Closing net assets attributable to shareholders	<u>199,655</u>	<u>179,433</u>

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			198,078		176,730
Debtors	8	1,776		1,724	
Cash and bank balances	9	1,614		1,993	
Total other assets			3,390		3,717
Total assets			<u>201,468</u>		<u>180,447</u>
Liabilities					
Investment liabilities			349		470
Creditors	10	802		544	
Bank overdrafts		662		-	
Total other liabilities			<u>1,464</u>		<u>544</u>
Total liabilities			1,813		1,014
Net assets attributable to shareholders			<u>199,655</u>		<u>179,433</u>

Notes to the financial statements (continued)

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	689	(292)
Forward currency contracts	3	18
Non-derivative securities	9,466	9,363
Other currency (losses)/gains	(26)	35
Transaction costs	(9)	(11)
Net capital gains	10,123	9,113

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	346,454	164,408
Commissions	5	4
Total purchase transaction costs*	5	4
Purchases including transaction costs	346,459	164,412
Sales in year before transaction costs	343,784	238,947
Commissions	(6)	(4)
Total sale transaction costs*	(6)	(4)
Sales net of transaction costs	343,778	238,943
Transaction handling charges*	9	11

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	7	4
Unfranked revenue	-	3
Derivative revenue	(129)	(66)
Interest on debt securities	8,913	9,993
Interest on margin	3	-
Stock lending revenue	4	43
Total revenue	8,798	9,977

Notes to the financial statements (continued)

4 Revenue (continued)

Stock lending details	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	6,328	-

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £6,485,853 (2010: £nil).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	1,179	1,180
General administration charge*	159	75
Sub registration fees	-	1
	<u>1,338</u>	<u>1,256</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	22	23
Safe custody fees	6	6
	<u>28</u>	<u>29</u>
Other expenses:		
Audit fees	-	5
Legal fees	-	1
Printing and postage fees	-	7
Registration fees	-	2
	<u>-</u>	<u>15</u>
Total expenses	<u>1,366</u>	<u>1,300</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £11,520 (2010: £10,810). The audit fee levied through the GAC charge is £11,520 (2010: £4,638).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	7,432	8,677
Income tax at 20% (2010: 20%)	1,486	1,735
Effects of:		
Revenue being paid as interest distributions	(66)	(315)
Indexation tax adjustments	(1,754)	(1,577)
Unused management expenses	334	157
Current tax charge for the year (note 6a)	-	-

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £1,019,763 (2010: £466,465) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	2	225
Interim accumulation	386	1,226
Final accumulation	12	-
Tax withheld on interest distributions	3	59
	403	1,510
Amounts deducted on cancellation of shares	24	87
Amounts received on issue of shares	(27)	(24)
Finance costs: Distributions	400	1,573
Total finance cost	400	1,573
Net revenue after taxation	7,432	8,677
Adjustment for capital indexation	(7,416)	(7,526)
Revenue shortfall	384	422
Finance cost: Distributions	400	1,573

Details of the distribution per share are set out in the distribution table on pages 97 to 100.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	806	759
Amounts receivable for issue of shares	952	964
Sales awaiting settlement	18	1
Total debtors	1,776	1,724

9 Cash and bank balances

	2011	2010
	£000	£000
Amounts held at futures clearing houses and brokers	473	103
Cash and bank balances	1,141	1,890
Total cash and bank balances	1,614	1,993

Notes to the financial statements (continued)

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	102	92
Accrued Depositary's fees	2	2
Accrued other expenses	31	36
Amounts payable for cancellation of shares	666	76
Income tax payable	1	9
Purchases awaiting settlement	-	329
Total creditors	802	544

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 87 and 88 and notes 5, 8 and 10 on pages 90 to 93 including all creations and cancellations where the ACD acted as principal.

Henderson Investment Funds Limited, as ACD to the Fund is a related party. The ultimate controlling party of Henderson Investment Funds Limited is Henderson Group plc. Aggregate value of purchases and sales transactions in, and revenue receivable from Henderson Group plc and its subsidiaries for the year amounts to £2,000,449 (2010: £4,022,908).

Related parties, such as other authorised Funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company, Harewood Nominees Limited. Harewood Nominees Limited holds shares comprising 30.48% (2010: 28.85%) of the total net assets of the Fund as at 30 June 2011.

Nortrust Nominees Limited, as a material shareholder, is a related party holding shares comprising 15.89% (2010: nil) of the total net assets attributable to shareholders.

Material transactions throughout the year such as creations and cancellations for these shareholders are included in the Statement of change in net assets attributable to shareholders.

13 Shareholder funds

The Fund currently has 4 share classes; Class A (Retail with front-end charges), Class I (Institutional), Class Z (Institutional) and Class D (Institutional). The annual management charge on each share class is as follows:

Class A	1.00%
Class I	0.50%
Class Z	0.00%*
Class D	0.25%

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 81. The distribution per share class is given in the distribution table on pages 97 to 100. All share classes have same rights on winding up.

Notes to the financial statements (continued)

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

	Investment assets including investment liabilities £000	Net other assets /(liabilities) £000	Net assets £000
Currency 2011			
Australian dollar	(24)	271	247
Canadian dollar	-	8	8
Euro	28	76	104
UK sterling	197,709	602	198,311
US dollar	16	969	985
Total	197,729	1,926	199,655
Currency 2010			
Euro	21	139	160
UK sterling	176,239	2,927	179,166
US dollar	-	107	107
Total	176,260	3,173	179,433

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at the year end is set out in the following table:

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
Currency 2011				
Australian dollar	271	-	-	271
Canadian dollar	8	-	-	8
Euro	180	-	-	180
UK sterling	199,217	-	807	200,024
US dollar	-	-	985	985
Total	199,676	-	1,792	201,468
2010				
Euro	139	-	43	182
UK sterling	178,236	-	1,922	180,158
US dollar	107	-	-	107
Total	178,482	-	1,965	180,447

Notes to the financial statements (continued)

14 Risk (continued)

	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
Australian dollar	-	-	24	24
Euro	76	-	-	76
UK sterling	911	-	802	1,713
Total	987	-	826	1,813
2010				
Euro	-	-	22	22
UK sterling	-	-	992	992
Total	-	-	1,014	1,014

Fixed rate financial assets

Currency	Weighted average interest rate	Weighted average period for which rate is fixed
2011	(%)	(years)
UK sterling	0.75	21.20
2010		
UK sterling	1.16	19.86

The 'weighted average interest rate' is based on the redemption yield of each asset, weighted by their market value.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

15 Risk (continued)

Sensitivity analysis

The ACD assesses the market risk of the Fund's investments including any derivative exposures, using a Value at Risk (VaR) methodology. This process provides the ACD with an estimate of the maximum potential loss that could be expected to occur as a result of changes in market prices over a given period of time in all but a given percentage of circumstances - for example changes in the price of oil or the 2008 financial crisis. If the number is lower than that of its representative benchmark it should be less volatile than the benchmark or more volatile if higher than the benchmark.

The ACD uses the Risk Manager application from Risk Metrics. The VaR is calculated monthly on a 99% confidence level. The model uses 1 year of daily data which is equally weighted applying a decay factor of 0.97. The decay factor refers to a weighting scheme that puts emphasis on recent observation and events. Applying such a weighting scheme gives us risk numbers that are closer to current market conditions. The Index Linked Bond Fund is measured against the benchmark FTSE index Linked (over 5 years) index for comparison purposes. As at the accounting date of this report the Fund's Monthly VaR is 2.89% (2010 – 4.72%) compared to the FTSE index Linked (over 5 years) Index which is 2.79% (2010 – 4.81%). The Fund's annual VaR is 11.48% (2010 – 13.37%) compared to the FTSE index Linked (over 5 years) index which is 11.27% (2010 – 13.96%). It should be noted that the VaR is only an indication of risk and the actual price movements may prove to be less or more volatile than predicted.

The Fund may open positions on Over-the-Counter (OTC) derivatives, which will typically be futures, options, contracts for difference and swaps. Of these, the Fund will predominantly use Futures, Interest Rate Swaps and Credit Default Swaps (CDS). Futures allow the Investment Manager to purchase an asset (or to sell an asset) at a predetermined future date and price, enabling them to manage the risk to the fund. Interest Rate Swaps are an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). The use of interest rate swaps is to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap. A CDS is designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the CDS.

The ACD monitors the Fund's portfolio against the Fund's investment restrictions and risk management policy on a daily basis.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim interest distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income	-	-	-	-	-	0.0742
Class A income	-	-	-	-	-	0.3042
Class I income						
Group 1	0.2758	0.0552	0.2206	-	0.2206	0.5249
Group 2	-	-	-	0.2206	0.2206	0.5249
Class I accumulation						
Group 1	0.3164	0.0633	0.2531	-	0.2531	0.5984
Group 2	-	-	-	0.2531	0.2531	0.5984
Class A gross income	-	-	-	-	-	0.3841
Class I gross income						
Group 1	0.2782	-	0.2782	-	0.2782	0.6662
Group 2	0.2782	-	0.2782	-	0.2782	0.6662
Class I gross accumulation						
Group 1	0.3247	-	0.3247	-	0.3247	0.7712
Group 2	-	-	-	0.3247	0.3247	0.7712
Class Z gross accumulation						
Group 1	0.3721	-	0.3721	-	0.3721	0.6062
Group 2	0.1409	-	0.1409	0.2312	0.3721	0.6062
Class D gross accumulation						
Group 1	0.3062	-	0.3062	-	0.3062	0.5733
Group 2	0.2831	-	0.2831	0.0231	0.3062	0.5733

Distribution table (continued)

Interim interest distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income	-	-	-	-	-	0.1843
Class A income	-	-	-	-	-	0.4269
Class I income						
Group 1	0.1505	0.0301	0.1204	-	0.1204	0.6516
Group 2	-	-	-	0.1204	0.1204	0.6516
Class I accumulation						
Group 1	0.1728	0.0346	0.1382	-	0.1382	0.7445
Group 2	-	-	-	0.1382	0.1382	0.7445
Class A gross income	-	-	-	-	-	0.5391
Class I gross income						
Group 1	0.1581	-	0.1581	-	0.1581	0.8272
Group 2	-	-	-	0.1581	0.1581	0.8272
Class I gross accumulation						
Group 1	0.1847	-	0.1847	-	0.1847	0.9603
Group 2	-	-	-	0.1847	0.1847	0.9603
Class Z gross accumulation						
Group 1	0.3109	-	0.3109	-	0.3109	0.7242
Group 2	0.0706	-	0.0706	0.2403	0.3109	0.7242
Class D gross accumulation						
Group 1	0.2294	-	0.2294	-	0.2294	0.6982
Group 2	-	-	-	0.2294	0.2294	0.6982

Distribution table (continued)

Interim interest distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income	-	-	-	-	-	0.1108
Class I income						
Group 1	0.2141	0.0428	0.1713	-	0.1713	0.3541
Group 2	-	-	-	0.1713	0.1713	0.3541
Class I accumulation						
Group 1	0.2460	0.0492	0.1968	-	0.1968	0.4057
Group 2	-	-	-	0.1968	0.1968	0.4057
Class A gross income	-	-	-	-	-	0.2744
Class I gross income						
Group 1	0.2173	-	0.2173	-	0.2173	0.4739
Group 2	-	-	-	0.2173	0.2173	0.4739
Class I gross accumulation						
Group 1	0.2541	-	0.2541	-	0.2541	0.5521
Group 2	0.0716	-	0.0716	0.1825	0.2541	0.5521
Class Z gross accumulation						
Group 1	0.3417	-	0.3417	-	0.3417	0.5070
Group 2	0.0143	-	0.0143	0.3274	0.3417	0.5070
Class D gross accumulation						
Group 1	0.2707	-	0.2707	-	0.2707	0.4539
Group 2	-	-	-	0.2707	0.2707	0.4539

Distribution table (continued)

Final interest distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class Z gross accumulation						
Group 1	0.0924	-	0.0924	-	0.0924	-
Group 2	-	-	-	0.0924	0.0924	-

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

Philip Payne

Investment objective and policy

To provide a return by investing primarily in long dated sterling denominated investment grade corporate bonds. In line with the scheme's benchmark index the term Corporate Bond will include debt instruments issued by any entity other than a Government or local authority. The Fund may also invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Performance summary

Over the year, the Fund rose by 3.7%, compared to a 4.3% increase in the iBoxx GBP Non Gilt + 15 years Index.

Discrete annual performance†

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson Long Dated Credit Fund	3.7	12.7	5.6	(2.1)	(3.9)
iBoxx GBP Non-Gilt +15 years Index *	4.3	7.6	3.2	(1.8)	(2.4)

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

*The Benchmark changed from the Merrill Lynch GBP Non-Gilts (over 15 years) Index to the iBoxx GBP Non-Gilt + 15 years Index as at 1 December 2006. The performance shown reflects this change.

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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
UK Treasury 6% 07/12/2028	58,967	UK Treasury 4.75% 07/12/2038	50,696
UK Treasury 4.75% 07/12/2038	48,108	UK Treasury 6% 07/12/2028	50,572
UK Treasury 4.75% 07/12/2030	21,217	UK Treasury 4.75% 07/12/2030	16,188
Lloyds TSB Bank 6% 08/02/2029	15,404	UK Treasury 4.25% 07/12/2055	11,822
Lloyds TSB Bank 6.5% 17/09/2040	11,756	UK Treasury 5% 07/03/2025	11,438
BAA 5.875% 13/05/2041	11,709	KFW International Finance 5.75% 07/06/2032	9,909
Western Power Distribution 5.75% 16/04/2032	11,634	UK Treasury 4.25% 07/06/2032	9,477
UK Treasury 4.25% 07/12/2055	11,366	European Investment Bank 5.625% 07/06/2032	9,170
UK Treasury 5% 07/03/2025	10,697	UK Treasury 4.25% 07/12/2027	9,053
UK Treasury 4.25% 07/12/2027	10,634	Koninklijke KPN 5.75% 17/09/2029	6,437

Manager's report

Corporate bond markets performed strongly over the year, benefiting from falling government bond yields (rising prices), although credit outperformed government bonds over the period, particularly within the financial sector. Macro and regulatory developments were the main drivers of credit markets. Asset prices benefited from a second round of US quantitative easing which helped to partially offset the European sovereign debt crisis. Both Ireland and Portugal joined Greece in requiring European Union and International Monetary Fund assistance. These countries had been shut out of government bond markets due to large increases in their funding costs. This has resulted in the creation of a European Stability Fund to aid these and other potentially troubled countries as they push through austerity measures to reduce their budget deficits. In the financial sector, banking stress tests and further regulatory clarification regarding requirements for bank capital provided a supportive backdrop, and increased investor risk appetite for a sector that is still trading at a large discount to the rest of the market. However, increased talk of burden sharing in the event of future banking crisis has ensured the sector remains volatile.

Exposure in the Fund to corporate and financial institutions that are based in, or have a high exposure to peripheral European countries along with sterling bond issues from these sovereigns, has been kept low due to the deterioration in government finances and poor outlook. This benefited the Fund as it was the worst performing area of the market over the year. In particular, underweight positions in foreign sovereign issues from Spain and Italy, along with underweight positions in Enel, the Italian utility worked well.

Positioning in financials also contributed positively to performance. The strategy of favouring low coupon, low cash-priced bonds worked; and performed strongly following the Basel Committee's announcement which outlined proposals for bank capital. The proposals increase the probability that subordinated bank debt (debt that ranks below senior debt with regards to claims on assets) is redeemed at the first opportunity. This decision benefited our holdings in Lloyds Banking Group, HSBC and Barclays in particular. 2011 has also seen the first issuance in the sterling market of covered bonds from UK banks and building societies. The Fund has established a position through these new deals which provide the holder with additional security over a pool of residential mortgages. Against this, our holdings in senior unsecured bank debt (which occupies a senior position within the bank's capital structure but is not secured by specific collateral) have been reduced.

Non-financial sectors have traded within a small range over the year as relatively expensive valuations and new issuance which has been focused more towards longer dated (over ten year) maturities has weighed on the market. The position in British Telecom has performed well, benefiting from positive news regarding the company's pension fund. Better than expected results led to the company being reviewed for a ratings upgrade. A new position in Daily Mail has also been added due to improving corporate fundamentals, which we believe will lead to an upgrade later this year.

The Fund established an underweight to the utilities sector which was useful, as new issuance has led to the underperformance of existing bonds. This provided an opportunity to establish an overweight position in the utility PPL (owner of electricity distribution networks in the Midlands, South West and South Wales), through an attractively priced new issue. A decision was also taken to sell down the holding in RWE. There are concerns regarding their ability to improve their balance sheet due to a fall in earnings, driven by the nuclear tax in Germany. This position has subsequently benefited from the German government's decision to close down its nuclear facilities following the earthquake and tsunami in Japan. Finally, an overweight position in BAA, the airports operator also performed well. Positive newsflow included an announcement regarding their debt refinancing, and the placement of a new deal.

Philip Payne
22 July 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	552,448,122	1,297,491	994,235	130.50
30/06/2010*	605,480,806	-	-	-
Class A income				
30/06/2009	552,448,122	8,150,520	6,382,355	127.70
30/06/2010	605,480,806	9,051,642	6,443,831	140.47
30/06/2011	913,689,652	15,030,837	10,767,292	139.60
Class I income				
30/06/2009	552,448,122	33,896	26,216	129.30
30/06/2010	605,480,806	36,094	25,169	143.40
30/06/2011	913,689,652	130,177,767	91,336,714	142.53
Class I accumulation				
30/06/2009	552,448,122	1,491,052	803,781	185.50
30/06/2010	605,480,806	266,679	125,427	212.62
30/06/2011	913,689,652	276,476	126,232	219.02
Class A gross income				
30/06/2009	552,448,122	114,402	88,897	128.69
30/06/2010	605,480,806	120,087	84,825	141.57
30/06/2011	913,689,652	108,272	76,965	140.68
Class I gross income				
30/06/2009	552,448,122	23,478,519	18,122,588	129.55
30/06/2010	605,480,806	38,159,954	26,737,627	142.72
30/06/2011	913,689,652	19,722,316	14,100,186	139.87
Class I gross accumulation				
30/06/2009	552,448,122	380,883,804	196,447,171	193.89
30/06/2010	605,480,806	488,993,743	218,359,246	223.94
30/06/2011	913,689,652	748,372,711	320,309,889	233.64
Class Z gross accumulation				
30/06/2009	552,448,122	136,998,438	130,969,391	104.60
30/06/2010	605,480,806	68,852,607	56,696,008	121.44
30/06/2011	913,689,652	1,273	1,000	127.30

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

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	4.65	163.80	147.90
2007	3.99	150.50	135.80
2008	4.43	141.80	120.90
2009	4.40	146.30	120.80
2010**	1.03	141.20	139.80
Class A income			
2006	5.15	160.30	144.70
2007	4.49	147.30	132.90
2008	4.89	138.80	118.30
2009	4.82	143.20	118.20
2010	4.88	152.00	134.90
2011	3.54*	145.40+	137.60+
Class I income			
2006	5.65	160.40	144.80
2007	5.04	147.80	133.10
2008	5.37	139.00	119.00
2009	5.29	142.70	118.70
2010	3.95	154.10	135.50
2011	3.22*	148.50+	140.20+
Class I accumulation			
2006	7.18	203.00	186.20
2007	6.64	193.90	178.20
2008	7.35	189.00	167.10
2009	7.54	208.60	168.60
2010	5.85	230.30	199.80
2011	4.88*	226.00+	211.90+
Class A gross income			
2006	3.23	152.80	145.80
2007	5.66	148.80	133.90
2008	6.10	139.90	100.00
2009	6.12	144.30	119.20
2010	6.15	152.80	136.20
2011	4.47*	146.60+	138.80+
Class I gross income			
2006	7.22	160.60	144.90
2007	6.34	148.00	133.10
2008	6.78	139.10	118.70
2009	6.73	143.50	118.50
2010	6.98	152.70	135.50
2011	5.14*	145.90+	138.10+

Comparative tables (continued)

Performance record (continued)

Class I gross accumulation

2006	9.27	205.20	189.00
2007	8.53	198.10	182.50
2008	9.56	194.60	173.00
2009	10.00	220.20	175.00
2010	10.92	243.20	210.40
2011	8.39*	240.90+	225.20+

Class Z gross accumulation

2008***	2.10	102.80	92.96
2009	5.89	118.90	94.16
2010	6.51	131.90	113.80
2011	1.67*	127.89+	122.80+

* to 31 August

+ to 30 June

** X Share class merged with A share class on 11 January 2010.

*** Z gross share class launched 14 May 2008.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	1.20	1.11
Class I	0.55	0.54
Class Z	0.05	0.04

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Bonds 97.92% (2010: 98.33%)			
Eurobonds 91.79% (2010: 93.55%)			
GBP 3,320,000	3i 5.75% 03/12/2032	2,838	0.31
GBP 9,150,000	Abbey National Treasury Service 5.75% 02/03/2026	9,397	1.03
GBP 527,000	Aegon 6.125% 15/12/2031	496	0.05
GBP 3,661,000	Aegon 6.625% 16/12/2039	3,593	0.39
GBP 1,972,000	Affinity Sutton Capital Markets 5.981% 17/09/2038	2,155	0.24
GBP 503,000	Anglian Water Services Financial 6.625% 15/01/2029	574	0.06
GBP 3,797,000	Anglian Water Services Financial 6.293% 30/07/2030	4,188	0.46
GBP 5,152,000	Aspire Defence Finance 4.674% 31/03/2040 'A'	4,461	0.49
GBP 3,531,000	Aspire Defence Finance 4.674% 31/03/2040 'B'	3,080	0.34
GBP 4,324,000	AstraZeneca 5.75% 13/11/2031	4,662	0.51
GBP 7,400,000	AT&T 7% 30/04/2040	8,808	0.96
GBP 8,850,000	Aviva 6.125% 14/11/2036	7,968	0.87
GBP 3,768,000	Aviva 6.875% 20/05/2058	3,546	0.39
GBP 4,448,000	BAA 6.75% 03/12/2026	4,816	0.53
GBP 639,000	BAA 7.075% 04/08/2030	709	0.08
GBP 6,640,000	BAA 6.45% 10/12/2033	6,885	0.75
GBP 11,910,000	BAA 5.875% 13/05/2041	11,396	1.25
GBP 8,950,000	Bank of America 7% 31/07/2028	9,353	1.02
GBP 590,000	Bank of Scotland 7.281% Perpetual	482	0.05
GBP 1,536,000	Barclays Bank 5.75% 14/09/2026	1,322	0.14
GBP 2,517,000	Barclays Bank 6% Perpetual	1,991	0.22
GBP 383,000	Barclays Bank 6.125% Perpetual	330	0.04
GBP 6,060,000	BAT International Finance 6% 24/11/2034	6,220	0.68
GBP 2,740,000	BAT International Finance 5.75% 05/07/2040	2,714	0.30
GBP 2,908,000	British Telecom 5.75% 07/12/2028	2,811	0.31
GBP 3,393,000	British Telecom 6.375% 23/06/2037	3,431	0.38
GBP 3,650,000	Broadgate Financing 4.851% 05/04/2033	3,367	0.37
GBP 2,660,000	Broadgate Financing 4.999% 05/10/2033	2,422	0.27
GBP 9,065,000	Broadgate Financing 4.821% 05/07/2036	8,173	0.89
GBP 2,715,000	Canary Wharf 5.952% 22/10/2037	2,817	0.31
GBP 11,771,000	Centrica 7% 19/09/2033	14,030	1.54
GBP 544,000	Circle Anglia Social Housing 7.25% 12/11/2038	670	0.07
GBP 6,081,000	Citigroup 6.5% 16/08/2030	6,098	0.67
GBP 2,880,000	Citigroup 4.5% 03/03/2031	2,053	0.22
GBP 9,517,000	Citigroup 6.8% 25/06/2038	10,006	1.10
GBP 3,278,000	Citigroup 7.375% 01/09/2039	3,674	0.40
GBP 3,950,000	Comcast 5.5% 23/11/2029	3,894	0.43
GBP 2,980,000	Co-Operative Wholesale Society 6.25% 08/07/2026	2,935	0.32
GBP 4,300,000	Daily Mail & General 6.375% 21/06/2027	3,916	0.43
GBP 1,882,775	Derby Healthcare 5.564% 30/06/2041	1,754	0.19
GBP 1,215,000	Deutsche Telekom International Finance 8.875% 27/11/2028	1,633	0.18
GBP 162,000	Deutsche Telekom International Finance 7.625% 15/06/2030	197	0.02
GBP 2,410,000	DONG Energy 5.75% 09/04/2040	2,446	0.27
GBP 2,679,000	DWR Cymru Financing 6.015% 31/03/2028	2,883	0.32
GBP 250,000	DWR Cymru Financing 4.473% 31/03/2057	211	0.02

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Eurobonds (continued)			
GBP 5,699,000	E.ON International Finance 6.375% 07/06/2032	6,308	0.69
GBP 6,650,000	E.ON International Finance 5.875% 30/10/2037	6,941	0.76
GBP 4,700,000	E.ON International Finance 6.75% 27/01/2039	5,490	0.60
GBP 2,070,000	EDF Energy Networks 6.125% 07/06/2027	2,183	0.24
GBP 6,550,000	Electricite De France 6.25% 30/05/2028	7,187	0.79
GBP 5,564,000	Electricite De France 5.875% 18/07/2031	5,828	0.64
GBP 12,400,000	Electricite De France 6.125% 02/06/2034	13,377	1.46
GBP 6,400,000	Electricite De France 5.125% 22/09/2050	6,022	0.66
GBP 9,652,000	Enel Finance 5.75% 14/06/2040	8,915	0.98
GBP 4,679,000	European Bank of Reconstruction & Development 5.625% 07/12/2028	5,314	0.58
GBP 17,965,000	European Investment Bank 6% 07/12/2028	21,148	2.31
GBP 4,120,000	European Investment Bank 4.5% 07/06/2029	4,123	0.45
GBP 11,939,000	European Investment Bank 5.625% 07/06/2032	13,710	1.50
GBP 10,608,000	European Investment Bank 5% 15/04/2039	11,404	1.25
GBP 3,416,000	European Investment Bank 4.5% 07/03/2044	3,437	0.38
GBP 1,634,000	European Investment Bank 4.625% 12/10/2054	1,690	0.18
GBP 5,550,000	Eversholt Funding 6.697% 22/02/2035	5,673	0.62
GBP 9,030,000	France Telecom 8.125% 20/11/2028	11,610	1.27
GBP 2,855,000	France Telecom 5.625% 23/01/2034	2,868	0.31
GBP 1,050,000	France Telecom 5.375% 22/11/2050	1,020	0.11
GBP 743,000	Freshwater Finance 5.182% 20/04/2035	697	0.08
GBP 403,000	Freshwater Finance 4.556% 03/04/2036	339	0.04
GBP 5,750,000	GDF Suez 7% 30/10/2028	6,835	0.75
GBP 4,500,000	GDF Suez 5% 01/10/2060	4,170	0.46
GBP 6,545,000	GE UK Funding 5.875% 18/01/2033	6,531	0.71
GBP 7,052,000	GE UK Funding 6.25% 05/05/2038	7,356	0.81
GBP 3,280,000	GE UK Funding 8% 14/01/2039	4,217	0.46
GBP 3,290,000	General Electric Capital 5.25% 07/12/2028	3,114	0.34
GBP 568,000	General Electric Capital 5.625% 16/09/2031	552	0.06
GBP 7,378,000	General Electric Capital 4.875% 18/09/2037	6,076	0.66
GBP 3,056,000	General Electric Capital 5.375% 18/12/2040	2,851	0.31
GBP 9,366,000	GlaxoSmithKline Capital 5.25% 19/12/2033	9,365	1.02
GBP 8,522,000	GlaxoSmithKline Capital 6.375% 09/03/2039	9,752	1.07
GBP 7,096,000	GlaxoSmithKline Capital 5.25% 10/04/2042	6,984	0.76
GBP 3,342,000	Goldman Sachs 7.25% 10/04/2028	3,626	0.40
GBP 2,242,000	Goldman Sachs 6.875% 18/01/2038	2,129	0.23
GBP 586,000	Greene King Finance 5.106% 15/03/2034	517	0.06
GBP 2,279,402	Harbour Funding 5.28% 31/03/2044	2,270	0.25
GBP 410,000	HBOS 7.881% Perpetual	350	0.04
GBP 1,833,000	HBOS Capital Funding 6.461% Perpetual 'A'	1,470	0.16
GBP 9,935,000	HSBC 5.75% 20/12/2027	9,332	1.02
GBP 7,800,000	HSBC 6.75% 11/09/2028	8,093	0.89
GBP 8,350,000	HSBC 7% 07/04/2038	8,927	0.98
GBP 9,651,000	HSBC 6% 29/03/2040	9,129	1.00
GBP 1,280,000	HSBC 6.25% 30/01/2041	1,276	0.14
GBP 1,492,000	HSBC 4.75% 24/03/2046	1,161	0.13
GBP 3,000,000	Hutchison Whampoa Finance 5.625% 24/11/2026	3,044	0.33

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Eurobonds (continued)			
GBP 5,357,000	International Bank for Reconstruction & Development 4.875% 07/12/2028	5,708	0.62
GBP 8,755,000	International Bank for Reconstruction & Development 5.75% 07/06/2032	10,276	1.12
GBP 21,515,000	KFW 6% 07/12/2028	25,779	2.82
GBP 3,581,000	KFW 5% 09/06/2036	3,851	0.42
GBP 7,154,000	KFW International Finance 5.75% 07/06/2032	8,416	0.92
GBP 5,831,000	Koninklijke KPN 5.75% 17/09/2029	5,805	0.64
GBP 10,065,000	LCR Finance 4.5% 07/12/2028	10,175	1.11
GBP 4,376,000	LCR Finance 4.5% 07/12/2038	4,394	0.48
GBP 2,896,000	LCR Finance 5.1% 07/03/2051	3,257	0.36
GBP 2,359,000	Legal & General 5.875% 11/12/2031	2,332	0.26
GBP 351,000	Legal & General 5.875% 05/04/2033	343	0.04
GBP 15,240,000	Lloyds TSB Bank 6% 08/02/2029	15,975	1.75
GBP 6,200,000	Lloyds TSB Bank 6.5% 17/09/2040	5,759	0.63
GBP 2,636,000	London & Quadrant Housing 5.5% 27/01/2040	2,692	0.29
GBP 5,040,000	Longstone Finance 4.896% 19/04/2031	4,565	0.50
GBP 1,056,000	Lunar Funding 5.75% 18/10/2033	1,092	0.12
GBP 2,400,000	Merrill Lynch 8.125% 02/06/2028	2,526	0.28
GBP 6,000,000	Motability Operations 5.625% 29/11/2030	6,061	0.66
GBP 2,082,000	National Grid Electric Transmission 6.5% 27/07/2028	2,360	0.26
GBP 4,802,000	National Grid Electric Transmission 7.375% 13/01/2031	5,907	0.65
GBP 5,916,000	National Grid Gas 6% 13/05/2038	6,370	0.70
GBP 6,800,000	Nationwide Building Society 5.625% 28/01/2026	7,034	0.77
GBP 1,870,000	Nationwide Building Society 5.769% Perpetual	1,364	0.15
GBP 3,780,000	Network Rail Infrastructure Finance 4.375% 09/12/2030	3,729	0.41
GBP 15,988,000	Network Rail Infrastructure Finance 4.75% 29/11/2035	16,467	1.80
GBP 3,695,000	Northern Gas Networks 4.875% 30/06/2027	3,431	0.38
GBP 2,110,000	Northern Gas Networks 5.625% 23/03/2040	2,056	0.22
GBP 15,300,000	Pfizer 6.5% 03/06/2038	17,808	1.95
GBP 3,341,000	Procter & Gamble 6.25% 31/01/2030	3,840	0.42
GBP 1,528,000	Procter & Gamble 5.25% 19/01/2033	1,574	0.17
GBP 1,944,000	Prudential 5.875% 11/05/2029	1,918	0.21
GBP 3,289,000	Prudential 6.125% 19/12/2031	3,090	0.34
GBP 1,060,000	Quadrant Housing Finance 7.93% 10/02/2033	1,385	0.15
GBP 397,000	Rabobank Nederland 4.55% 30/08/2029	368	0.04
GBP 4,700,000	Rabobank Nederland 5.25% 23/05/2041	4,539	0.50
GBP 2,150,000	Rabobank Nederland 5.375% 03/08/2060	2,111	0.23
GBP 4,932,000	Reseau Ferre de France 5.25% 07/12/2028	5,271	0.58
GBP 1,083,000	Reseau Ferre de France 5.25% 31/01/2035	1,158	0.13
GBP 1,411,000	Reseau Ferre de France 5% 11/03/2052	1,484	0.16
GBP 797,000	Reseau Ferre de France 4.83% 25/03/2060	813	0.09
GBP 2,951,479	RMPA Services 5.337% 30/09/2038	2,852	0.31
GBP 920,000	Royal Bank of Scotland 6.375% 07/12/2028*	860	0.09
GBP 4,850,000	RWE Finance 6.125% 06/07/2039	5,115	0.56
GBP 2,903,000	Scottish & Southern Energy 8.375% 20/11/2028	3,816	0.42
GBP 4,330,000	SL Finance 6.75% Perpetual	3,841	0.42
GBP 3,843,000	Southern Electric Power 5.5% 07/06/2032	3,848	0.42
GBP 4,531,000	Southern Electric Power 4.625% 20/02/2037	3,976	0.44

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Eurobonds (continued)			
GBP 2,780,000	Southern Gas Network 4.875% 21/03/2029	2,580	0.28
GBP 2,923,000	Southern Water Services Financial 6.192% 31/03/2029	3,173	0.35
GBP 372,000	Southern Water Services Financial 4.5% 31/03/2052	312	0.03
GBP 563,000	Southern Water Services Financial 5.125% 30/09/2056	542	0.06
GBP 1,800,000	Sovereign Housing 5.705% 10/09/2039	1,897	0.21
GBP 3,443,000	Statoilhydro 6.875% 11/03/2031	4,147	0.45
GBP 1,423,000	Sunderland Finance 6.38% 31/03/2042	1,604	0.18
GBP 4,850,000	Telefonica Emisiones 5.445% 08/10/2029	4,422	0.48
GBP 950,000	Temasek Financial 5.125% 26/07/2040	955	0.10
GBP 861,000	Tennessee Valley Authority 5.625% 07/06/2032	974	0.11
GBP 254,000	Tennessee Valley Authority 4.625% 07/06/2043	254	0.03
GBP 500,000	Tesco 5.2% 05/03/2057	483	0.05
GBP 817,239	Tesco Property Finance 7.6227% 13/07/2039	993	0.11
GBP 10,275,261	Tesco Property Finance 6.0517% 13/10/2039	10,729	1.17
GBP 9,076,756	Tesco Property Finance 5.744% 13/04/2040	9,059	0.99
GBP 5,883,585	Tesco Property Finance 4 5.8006% 13/10/2040	5,905	0.65
GBP 6,300,000	Thames Water Utilities Cayman 5.5% 11/02/2041	6,280	0.69
GBP 800,000	Thames Water Utilities Finance 6.5% 09/02/2032	899	0.10
GBP 3,290,000	Thames Water Utilities Finance 6.75% 16/11/2028	3,810	0.42
GBP 2,018,000	Thames Water Utilities Finance 5.125% 28/09/2037	1,903	0.21
GBP 2,083,000	Transport for London 4.5% 31/03/2031	1,952	0.21
GBP 379,000	United Utilities Water 5% 28/02/2035	352	0.04
GBP 8,479,000	Vattenfall 6.875% 15/04/2039	10,030	1.10
GBP 5,850,000	Veolia Environnement 6.125% 29/10/2037	6,253	0.68
GBP 4,155,000	Vodafone 5.9% 26/11/2032	4,313	0.47
GBP 1,350,000	Wachovia 4.875% 29/11/2035	1,087	0.12
GBP 1,907,000	Wales & West Utilities Finance 5.75% 29/09/2030	1,952	0.21
GBP 3,434,000	WalMart Stores 5.75% 19/12/2030	3,723	0.41
GBP 10,365,000	WalMart Stores 5.625% 27/03/2034	10,960	1.20
GBP 9,362,000	WalMart Stores 5.25% 28/09/2035	9,374	1.03
GBP 11,561,000	WalMart Stores 4.875% 19/01/2039	10,980	1.20
GBP 3,227,000	Wellcome Trust Finance 4.625% 25/07/2036	2,999	0.33
GBP 1,128,000	Wellcome Trust Finance 4.625% 25/07/2036	1,048	0.11
GBP 546,000	Wessex Water Services Finance 5.375% 10/03/2028	548	0.06
GBP 584,000	Wessex Water Services Finance 5.75% 14/10/2033	604	0.07
GBP 11,742,000	Western Power Distribution 5.75% 16/04/2032	11,542	1.26
GBP 2,700,000	Western Power South Wales 5.75% 23/03/2040	2,646	0.29
GBP 1,250,000	Western Power South West 5.75% 23/03/2040	1,225	0.13
GBP 5,026,665	White City Property Finance 5.1202% 17/04/2035	4,865	0.53
GBP 2,242,000	Yorkshire Water Services Financial 6.454% 28/05/2027	2,536	0.28
GBP 479,000	Yorkshire Water Services Financial 6.6011% 17/04/2031	543	0.06
GBP 450,000	Yorkshire Water Services Financial 5.5% 28/05/2037	453	0.05
GBP 3,870,000	Yorkshire Water Services Financial 6.375% 19/08/2039	4,369	0.48
		838,482	91.79

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Floating rate notes 2.13% (2010: 1.39%)			
GBP 3,650,000	Assicurazioni Generali FRN Perpetual	2,765	0.30
GBP 2,111,000	AXA FRN Perpetual	1,768	0.19
GBP 9,346,000	Barclays Bank FRN Perpetual	6,706	0.73
GBP 1,283,695	Deco 8 - UK Conduit FRN 27/01/2036	103	0.01
GBP 4,335,000	HSBC FRN Perpetual	3,674	0.40
GBP 460,000	Land Securities Capital Markets FRN 31/03/2027	467	0.05
GBP 1,599,000	Land Securities Capital Markets FRN 30/09/2029	1,592	0.17
GBP 1,748,000	Land Securities Capital Markets FRN 07/02/2036	1,677	0.18
GBP 626,000	Land Securities Capital Markets FRN 31/07/2032	625	0.07
GBP 348,000	Marston's 5.1774% 15/04/2027	318	0.03
		19,695	2.13
Government bonds 4.00% (2010: 3.39%)			
United Kingdom 4.00% (2010: 3.39%)			
GBP 880,000	UK Treasury 5% 07/03/2025	982	0.11
GBP 1,500,000	UK Treasury 4.25% 07/12/2027	1,527	0.17
GBP 6,625,000	UK Treasury 6% 07/12/2028	8,200	0.90
GBP 4,650,000	UK Treasury 4.75% 07/12/2030	4,995	0.55
GBP 3,030,000	UK Treasury 4.25% 07/12/2040	3,015	0.33
GBP 15,586,839	UK Treasury 4.25% 07/12/2055	15,673	1.71
GBP 2,200,000	UK Treasury 4% 22/01/2060	2,102	0.23
		36,494	4.00
Warrants 0.00% (2010: 0.00%)			
GBP 51,676	Taylor Wimpey Warrants 15/05/2014	7	-
Derivatives (0.04%) (2010: (0.13%))			
Credit default swaps (0.04%) (2010: (0.13%))			
6,050,000	CDS 20/12/2015 - DeutscheBank	(23)	-
4,500,000	CDS 20/03/2016 - CreditAgricole	42	-
5,300,000	CDS 20/03/2016 - EliLilly	(65)	(0.01)
5,300,000	CDS 20/03/2016 - Pfizer	61	0.01
4,600,000	CDS 20/03/2016 - SanofiAvent	(111)	(0.01)
4,600,000	CDS 20/03/2016 - SanofiAvent	(110)	(0.01)
1,350,000	CDS 20/06/2016 - Bertelsmann	(8)	-
5,400,000	CDS 20/06/2016 - Bertelsmann	(34)	(0.01)
2,300,000	CDS 20/06/2016 - BritishAirways	57	0.01
2,300,000	CDS 20/06/2016 - BritishAirways	53	0.01
2,300,000	CDS 20/06/2016 - DeutscheLuf	55	0.01
2,300,000	CDS 20/06/2016 - DeutscheLuf	55	0.01
4,700,000	CDS 20/06/2016 - EniS.P.A.	(7)	-
2,300,000	CDS 20/06/2016 - Glencore	(134)	(0.02)
1,550,000	CDS 20/06/2016 - Lafarge	(89)	(0.01)
1,575,000	CDS 20/06/2016 - Lafarge	(88)	(0.01)
2,350,000	CDS 20/06/2016 - NationalGrid	23	-
4,700,000	CDS 20/06/2016 - ReedElsevie	(52)	(0.01)

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Credit default swaps (continued)			
5,300,000	CDS 20/06/2016 - Royal&Sun	54	0.01
2,350,000	CDS 20/06/2016 - United Utilities	(2)	-
5,400,000	CDS 20/06/2016 - Vivendi	(13)	-
1,350,000	CDS 20/06/2016 - Vivendi	(3)	-
4,700,000	CDS 20/06/2016 - Wolters	29	-
5,300,000	CDS 20/06/2016 - Zurich	(53)	(0.01)
3,800,000	CDS 20/09/2016 - Alcatel Lucent	(29)	(0.01)
4,700,000	CDS 20/09/2016 - Carrefour	15	-
4,500,000	CDX 20/06/2016 - Itraxx-Finse	(94)	(0.01)
3,800,000	CDX 20/06/2016 - Itraxx-Xover	145	0.02
		<u>(326)</u>	<u>(0.04)</u>
	Investment assets including investment liabilities	894,352	97.88
	Net other assets	19,338	2.12
	Net assets	913,690	100.00

* A related party to the Fund.

Credit ratings

Investment	Market value £000	Percentage of total net assets %
Above investment grade (AAA - BBB)	888,351	97.23
Below investment grade (BB and below)	<u>6,319</u>	<u>0.69</u>
Total bonds	894,670	97.92
Total equities - warrant	7	-
Total derivatives	(325)	(0.04)
Investment assets including investment liabilities	894,352	97.88
Net other assets	19,338	2.12
Net assets	913,690	100.00

Source: Standard & Poor's

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital (losses)/gains	2	(17,402)	58,496
Revenue	4	44,061	33,106
Expenses	5	(4,457)	(2,876)
Finance costs: Interest	7	-	(4)
Net revenue before taxation		39,604	30,226
Taxation	6	-	-
Net revenue after taxation		39,604	30,226
Total return before distributions		22,202	88,722
Finance costs: Distributions	7	(39,604)	(30,226)
Change in net assets attributable to shareholders from investment activities		(17,402)	58,496

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	605,481	552,448
Amounts receivable on issue of shares	195,367	148,313
Amounts payable on cancellation of shares	(154,476)	(175,363)
Amounts receivable on in specie transfers	245,460	46,127
Amounts payable on in specie transfers	-	(52,696)
	286,351	(33,619)
Dilution adjustment	1,052	246
Stamp duty reserve tax	(21)	(48)
Change in net assets attributable to shareholders from investment activities (see above)	(17,402)	58,496
Retained distribution on accumulation shares	38,229	27,958
Closing net assets attributable to shareholders	913,690	605,481

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			895,267		595,636
Debtors	8	18,689		15,005	
Cash and bank balances	9	<u>12,872</u>		<u>5,196</u>	
Total other assets			31,561		20,201
Total assets			<u>926,828</u>		<u>615,837</u>
Liabilities					
Investment liabilities			915		1,028
Creditors	10	4,045		6,841	
Bank overdrafts		6,550		1,821	
Distribution payable on income shares		<u>1,628</u>		<u>666</u>	
Total other liabilities			<u>12,223</u>		<u>9,328</u>
Total liabilities			13,138		10,356
Net assets attributable to shareholders			<u>913,690</u>		<u>605,481</u>

Notes to the financial statements

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital (losses)/gains

Net capital (losses)/gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	321	(471)
Forward currency contracts	-	(229)
Non-derivative securities	(17,738)	59,182
Other currency gains	24	20
Transaction costs	(9)	(6)
Net capital (losses)/gains	(17,402)	58,496

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	691,546	255,795
Purchases including transaction costs	691,546	255,795
Sales in year before transaction costs	376,305	256,074
Sales net of transaction costs	376,305	256,074
Transaction handling charges*	9	6

* These amounts have been deducted in determining net capital (losses)/gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	9	7
Derivative revenue	(170)	(2)
Interest on debt securities	44,217	33,097
Interest on margin	2	-
Stock lending revenue	3	4
Total revenue	44,061	33,106

Notes to the financial statements (continued)

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	4,032	2,617
General administration charge*	263	122
Sub registration fees	-	4
	<u>4,295</u>	<u>2,743</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	97	70
Safe custody fees	65	46
	<u>162</u>	<u>116</u>
Other expenses:		
Audit fees	-	5
Legal fees	-	1
Printing and postage fees	-	10
Registration fees	-	1
	<u>-</u>	<u>17</u>
Total expenses	<u>4,457</u>	<u>2,876</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £10,200 (2010: £9,870). The audit fee levied through the GAC charge is £10,200 : 2010: £4,847).

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	39,604	30,226
Income tax at 20% (2010: 20%)	<u>7,921</u>	<u>6,045</u>
Effects of:		
Revenue being paid as interest distributions	(7,921)	(6,045)
Current tax charge for the year (note 6a)	<u>-</u>	<u>-</u>

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

Notes to the financial statements (continued)

6 Taxation (continued)

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: £nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £459 (2010: £350) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	2,268	1,357
Interim accumulation	29,252	19,586
Final income	1,628	666
Final accumulation	8,977	8,372
Tax withheld on interest distributions	410	86
	<u>42,535</u>	<u>30,067</u>
Amounts deducted on cancellation of shares	559	1,135
Amounts received on issue of shares	(3,490)	(976)
Finance costs: Distributions	<u>39,604</u>	<u>30,226</u>
Finance costs: Interest	-	4
Total finance cost	<u>39,604</u>	<u>30,230</u>

Details of the distribution per share are set out in the distribution table on pages 122 to 125.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	18,536	11,597
Amounts receivable for issue of shares	153	19
Sales awaiting settlement	-	3,389
Total debtors	<u>18,689</u>	<u>15,005</u>

Notes to the financial statements (continued)

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	12,872	5,196
Total cash and bank balances	12,872	5,196

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	391	226
Accrued Depositary's fees	8	6
Accrued other expenses	51	52
Amounts payable for cancellation of shares	34	1,609
Derivative interest payable	18	-
Income tax payable	368	37
Purchases awaiting settlement	3,175	4,911
Total creditors	4,045	6,841

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 113 and 114 and notes 5, 8 and 10 on pages 116 to 118 including all creations and cancellations where the ACD acted as principal.

Chase Nominees Limited, as a material shareholder, is a related party holding shares comprising 20.25% (2010 - 29.19%) of the total net assets of the Fund as at 30 June 2011.

Related parties, such as other authorised Funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company, Harewood Nominees Limited. Harewood Nominees Limited holds shares comprising 14.03% (2010: 29.41%) of the total net assets of the Fund as at 30 June 2011.

Material transactions throughout the year such as creations and cancellations for these shareholders are included in the Statement of change in net assets attributable to shareholders.

Notes to the financial statements (continued)

13 Shareholder funds

The Fund currently has 3 share classes; Class A (Retail with front-end charges), Class I (Institutional) and Class Z (Institutional). The annual management charge on each share class is as follows:

Class A	1.00%
Class I	0.50%
Class Z	0.00%*

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 103. The distribution per share class is given in the distribution table on pages 122 to 125. All share classes have same rights on winding up.

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

	Investment assets including investment liabilities £000	Net other assets £000	Net assets £000
Currency 2011			
Euro	(320)	281	(39)
UK sterling	894,677	19,057	913,734
US dollar	(5)	-	(5)
Total	894,352	19,338	913,690
Currency 2010			
Euro	(811)	179	(632)
UK sterling	595,419	10,693	606,112
US dollar	-	1	1
Total	594,608	10,873	605,481

Notes to the financial statements (continued)

14 Risk (continued)

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at the year end is set out in the following table:

	Floating Rate financial assets	Fixed Rate financial assets	Financial assets not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
Euro	281	529	18	828
UK sterling	32,286	874,981	18,671	925,938
US dollar	-	61	1	62
Total	32,567	875,571	18,690	926,828

Currency				
2010				
Euro	179	217	-	396
UK sterling	13,414	587,020	15,006	615,440
US dollar	1	-	-	1
Total	13,594	587,237	15,006	615,837

	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
Euro	-	849	18	867
UK sterling	6,551	-	5,654	12,205
US dollar	-	65	1	66
Total	6,551	914	5,673	13,138

Currency				
2010				
Euro	-	1,028	-	1,028
UK sterling	1,821	-	7,507	9,328
Total	1,821	1,028	7,507	10,356

Fixed rate financial assets

Currency	Weighted average interest rate	Weighted average period for which rate is fixed (years)
2011	(%)	(years)
UK sterling	5.71	23.70
Currency		
2010		
UK sterling	6.07	23.14

The 'weighted average interest rate' is based on the redemption yield of each asset, weighted by their market value.

Notes to the financial statements (continued)

14 Risk (continued)

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

The ACD assesses the market risk of the Funds' investments including any derivative exposures, using a Value at Risk (VaR) methodology. This process provides the ACD with an estimate of the maximum potential loss that could be expected to occur as a result of changes in market prices over a given period of time in all but a given percentage of circumstances - for example changes in the price of oil or the 2008 financial crisis. If the number is lower than that of its representative benchmark it should be less volatile than the benchmark or more volatile if higher than the benchmark.

The ACD uses the Risk Manager application from Risk Metrics. The VaR is calculated monthly on a 99% confidence level. The model uses 1 year of daily data which is equally weighted applying a decay factor of 0.97. The decay factor refers to a weighting scheme that puts emphasis on recent observation and events. Applying such a weighting scheme gives us risk numbers that are closer to current market conditions. The Long Dated Credit Fund measured against the benchmark iBoxx & Non Gilt Index for comparison purposes. As at the accounting date of this report the Fund's Monthly VaR is 5.07% (2010 – 4.89%) compared to the iBoxx & Non Gilt Index which is 4.93% (2010 – 4.87%). The Fund's annual VaR is 17.34% (2010 – 16.86%) compared to the iBoxx & Non Gilt Index which is 17.37% (2010 – 16.47%). It should be noted that the VaR is only an indication of risk and the actual price movements may prove to be less or more volatile than predicted.

The Fund may open positions on Over-the-Counter (OTC) derivatives, which will typically be futures, options, contracts for difference and swaps. Of these, the Fund will predominantly use Futures, Interest Rate Swaps and Credit Default Swaps (CDS). Futures allow the Investment Manager to purchase an asset (or to sell an asset) at a predetermined future date and price, enabling them to manage the risk to the fund. Interest Rate Swaps are an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). The use of interest rate swaps is to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap. A CDS is designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the CDS.

The ACD monitors the fund's portfolio against the Fund's investment restrictions and risk management policy on a daily basis.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim interest distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income						
Group 1	-	-	-	-	-	1.0721
Group 2	-	-	-	-	-	1.0721
Class A income						
Group 1	1.4858	0.2972	1.1886	-	1.1886	1.1861
Group 2	0.5350	0.1070	0.4280	0.7606	1.1886	1.1861
Class I income						
Group 1	1.1173	0.2235	0.8938	-	0.8938	1.2345
Group 2	1.1173	0.2235	0.8938	-	0.8938	1.2345
Class I accumulation						
Group 1	1.6690	0.3338	1.3352	-	1.3352	1.7888
Group 2	0.5440	0.1088	0.4352	0.9000	1.3352	1.7888
Class A gross income						
Group 1	1.5000	-	1.5000	-	1.5000	1.4957
Group 2	0.6900	-	0.6900	0.8100	1.5000	1.4957
Class I gross income						
Group 1	1.7314	-	1.7314	-	1.7314	1.6588
Group 2	1.7314	-	1.7314	-	1.7314	1.6588
Class I gross accumulation						
Group 1	2.7573	-	2.7573	-	2.7573	2.5154
Group 2	0.6674	-	0.6674	2.0899	2.7573	2.5154
Class Z gross accumulation						
Group 1	1.6537	-	1.6537	-	1.6537	1.4943
Group 2	0.2537	-	0.2537	1.4000	1.6537	1.4943

Distribution table (continued)

Interim interest distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income						
Group 1	-	-	-	-	-	1.0291
Group 2	-	-	-	-	-	1.0291
Class A income						
Group 1	1.4900	0.2980	1.1920	-	1.1920	1.1493
Group 2	0.8669	0.1734	0.6935	0.4985	1.1920	1.1493
Class I income						
Group 1	1.0888	0.2178	0.8710	-	0.8710	1.2084
Group 2	1.0888	0.2178	0.8710	-	0.8710	1.2084
Class I accumulation						
Group 1	1.6360	0.3272	1.3088	-	1.3088	1.7663
Group 2	0.5110	0.1022	0.4088	0.9000	1.3088	1.7663
Class A gross income						
Group 1	1.5031	-	1.5031	-	1.5031	1.4477
Group 2	0.7131	-	0.7131	0.7900	1.5031	1.4477
Class I gross income						
Group 1	1.7330	-	1.7330	-	1.7330	1.6266
Group 2	1.7330	-	1.7330	-	1.7330	1.6266
Class I gross accumulation						
Group 1	2.7918	-	2.7918	-	2.7918	2.4956
Group 2	1.1587	-	1.1587	1.6331	2.7918	2.4956
Class Z gross accumulation						
Group 1	1.6742	-	1.6742	-	1.6742	1.4962
Group 2	1.6742	-	1.6742	-	1.6742	1.4962

Distribution table (continued)

Interim interest distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income						
Group 1	1.4816	0.2963	1.1853	-	1.1853	1.0307
Group 2	0.1017	0.0203	0.0814	1.1039	1.1853	1.0307
Class I income						
Group 1	1.2141	0.2428	0.9713	-	0.9713	0.7587
Group 2	0.0922	0.0184	0.0738	0.8975	0.9713	0.7587
Class I accumulation						
Group 1	1.8355	0.3671	1.4684	-	1.4684	1.1188
Group 2	0.6980	0.1396	0.5584	0.9100	1.4684	1.1188
Class A gross income						
Group 1	1.4942	-	1.4942	-	1.4942	1.3018
Group 2	0.7042	-	0.7042	0.7900	1.4942	1.3018
Class I gross income						
Group 1	1.7119	-	1.7119	-	1.7119	1.5033
Group 2	1.7119	-	1.7119	-	1.7119	1.5033
Class I gross accumulation						
Group 1	2.7914	-	2.7914	-	2.7914	2.3337
Group 2	1.4370	-	1.4370	1.3544	2.7914	2.3337
Class Z gross accumulation						
Group 1	-	-	-	-	-	1.4147
Group 2	-	-	-	-	-	1.4147

Distribution table (continued)

Final interest distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income						
Group 1	1.4575	0.2915	1.1660	-	1.1660	1.5063
Group 2	1.1204	0.2241	0.8963	0.2697	1.1660	1.5063
Class I income						
Group 1	1.7263	0.3453	1.3810	-	1.3810	1.0934
Group 2	1.0984	0.2197	0.8787	0.5023	1.3810	1.0934
Class I accumulation						
Group 1	2.6274	0.5255	2.1019	-	2.1019	1.6210
Group 2	0.8399	0.1680	0.6719	1.4300	2.1019	1.6210
Class A gross income						
Group 1	1.4715	-	1.4715	-	1.4715	1.9010
Group 2	0.6695	-	0.6695	0.8020	1.4715	1.9010
Class I gross income						
Group 1	1.6977	-	1.6977	-	1.6977	2.1202
Group 2	1.6977	-	1.6977	-	1.6977	2.1202
Class I gross accumulation						
Group 1	2.8019	-	2.8019	-	2.8019	3.3267
Group 2	1.5133	-	1.5133	1.2886	2.8019	3.3267
Class Z gross accumulation						
Group 1	-	-	-	-	-	1.9500
Group 2	-	-	-	-	-	1.9500

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

Phillip Apel

Investment objective and policy

To aim to provide a return by investing primarily in long dated United Kingdom Government securities. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Performance summary

Over the year, the Fund rose by 2.1% compared to a 2.8% increase in the FTA British Government (over 15 years) Index.

Discrete annual performance

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson Long Dated Gilt Fund	2.1	5.7	12.3	3.4	(4.4)
FTA British Government (over 15 years) Index	2.8	8.0	11.3	6.0	(3.3)

Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes

for the year ended 30 June 2011

Purchases	£000	Sales	£000
UK Treasury 4.25% 07/12/2040	10,309	UK Treasury 4.25% 07/09/2039	7,646
UK Treasury 4.25% 07/12/2055	9,742	UK Treasury 4.25% 07/12/2055	6,697
UK Treasury 4.25% 07/06/2032	6,116	UK Treasury 4.25% 07/12/2046	6,239
UK Treasury 4.25% 07/12/2046	5,426	UK Treasury 4.25% 07/06/2032	6,218
UK Treasury 8% 07/12/2021	5,067	UK Treasury 4% 22/01/2060	5,291
UK Treasury 4.25% 07/12/2027	4,438	UK Treasury 4.25% 07/12/2027	5,246
UK Treasury 4% 22/01/2060	3,955	UK Treasury 8% 07/12/2021	5,083
UK Treasury 4.75% 07/12/2038	3,284	UK Treasury 4.5% 07/09/2034	3,495
UK Treasury 4.5% 07/09/2034	2,335	UK Treasury 4.25% 07/12/2049	3,056
UK Treasury 4.25% 07/09/2039	2,295	UK Treasury 4.75% 07/12/2038	2,977

Manager's report

Gilts performed well during the third quarter of 2010, as the global economy appeared to enter a slowdown and fears increased about the longer term outlook for western economies. Government bonds sold off during the fourth quarter as the US engaged in further fiscal and monetary policy easing, and economic data appeared to improve globally.

During this time, the Fund profited by positioning for UK and German yields to fall, whilst positioning for Australian yields to rise. We also positioned for longer-dated yields to fall relative to short dated yields, in the UK, US and Europe. We profited by positioning for government bonds in the US to outperform swaps (an agreement to exchange one stream of cashflows for another), and also profited by positioning for inflation expectations to rise in the UK and Europe.

As we entered 2011, government bonds were largely range bound, as economic data continued to be positive. During the first quarter, we took both positive and negative stances to government bond markets during the course of the quarter, primarily using US bond futures (a contract to buy/sell an asset at a predetermined future date and price). We used the strength in markets following the Japanese earthquake and Middle East tensions to move underweight the front end (shorter maturities) of the UK, US and Australian markets, taking profits as markets normalised.

However the Japanese earthquake, high commodity prices and the fading impact of monetary and fiscal policy stimulus led data to deteriorate sharply in the second quarter of 2011. The European sovereign debt crisis also weighed on sentiment and supported the better quality government bonds of the UK and Germany. During this quarter, we took a predominantly positive stance to government bond markets throughout the quarter, primarily in the 10-year sector of the US and Australian market. This was offset by losses made by expecting short-dated Australian yields to rise. We also profited by positioning for wider inflation expectations in the UK, through bonds with five years and 20 years left to maturity.

During the year, we also took cross market relative value trades, between the UK, European, US and Canadian markets, using both bond futures and interest rate swaps. We also took relative value curve views in the UK, around specific demand and supply events.

Phillip Apel
2 August 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	161,272,893	76,362	60,031	127.20
30/06/2010*	106,751,495	-	-	-
Class A income				
30/06/2009	161,272,893	7,978,617	6,319,571	126.25
30/06/2010	106,751,495	6,217,630	4,763,237	130.53
30/06/2011	107,129,947	5,256,420	4,067,693	129.22
Class I income				
30/06/2009**	161,272,893	3,022	2,366	127.73
30/06/2010	106,751,495	-	-	-
Class I accumulation				
30/06/2009	161,272,893	3,581,995	2,091,944	171.23
30/06/2010	106,751,495	3,578,038	1,958,524	182.69
30/06/2011	107,129,947	2,725,935	1,464,168	186.18
Class I gross accumulation				
30/06/2009	161,272,893	94,241,417	52,965,610	177.93
30/06/2010	106,751,495	46,751,453	24,505,899	190.78
30/06/2011	107,129,947	43,617,832	22,294,075	195.65
Class Z gross accumulation				
30/06/2009	161,272,893	55,391,480	48,569,996	114.04
30/06/2010	106,751,495	50,204,374	40,827,397	122.97
30/06/2011	107,129,947	55,529,760	43,808,635	126.76

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

** I income share class was closed on 1 April 2010.

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	3.13	139.20	124.50
2007	2.84	128.10	114.80
2008	2.91	138.20	116.00
2009	2.86	137.40	120.40
2010 [^]	0.63	126.60	124.50
Class A income			
2006	3.66	138.20	123.50
2007	3.31	127.20	114.00
2008	3.36	137.30	115.10
2009	3.35	136.40	119.60
2010	3.14	139.50	120.90
2011	2.26*	133.30+	123.60+
Class I income			
2006	4.21	138.90	124.20
2007	3.84	128.00	114.60
2008	3.76	137.90	115.70
2009	3.83	136.80	120.20
2010 [#]	1.68	125.20	122.00
Class I accumulation			
2006	5.12	168.40	152.60
2007	4.82	161.10	145.70
2008	4.87	182.40	151.00
2009	5.12	182.20	160.10
2010	4.87	195.10	167.50
2011	3.75*	190.60+	175.90+
Class I gross income			
2006	5.38	138.90	124.10
2007	4.82	128.10	114.50
2008 ^{**}	4.79	137.00	115.60
Class I gross accumulation			
2006	6.62	170.00	154.30
2007	6.17	165.30	148.60
2008	6.38	188.90	155.30
2009	6.75	188.70	165.50
2010	6.65	204.20	174.40
2011	5.15*	200.40+	184.00+
Class Z gross accumulation			
2008	1.28	120.80	99.60
2009	4.88	120.60	105.90
2010	5.04	131.80	112.20
2011	3.80*	129.80+	119.00+

* to 31 August

+ to 30 June

[^] share class merged with A share class on 11 January 2010.

^{**} I gross income closed on 30 June 2008.

[#] I income share class was closed on 1 April 2010.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	1.19	1.10
Class I	0.54	0.54
Class Z	0.04	0.04

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Government bonds 99.10% (2010: 98.37%)			
United Kingdom 99.07% (2010 : 98.37%)			
GBP 5,741,799	UK Treasury 4% 22/01/2060	5,487	5.12
GBP 8,297,048	UK Treasury 4.25% 07/03/2036	8,267	7.71
GBP 9,403,103	UK Treasury 4.25% 07/06/2032	9,445	8.81
GBP 6,710,594	UK Treasury 4.25% 07/09/2039	6,689	6.25
GBP 7,630,797	UK Treasury 4.25% 07/12/2027	7,769	7.25
GBP 8,775,605	UK Treasury 4.25% 07/12/2040	8,731	8.15
GBP 7,369,901	UK Treasury 4.25% 07/12/2046	7,381	6.89
GBP 6,559,091	UK Treasury 4.25% 07/12/2049	6,571	6.14
GBP 8,037,571	UK Treasury 4.25% 07/12/2055	8,082	7.55
GBP 6,715,827	UK Treasury 4.5% 07/09/2034	6,944	6.48
GBP 6,684,735	UK Treasury 4.5% 07/12/2042	6,963	6.50
GBP 8,502,558	UK Treasury 4.75% 07/12/2030	9,133	8.53
GBP 6,105,054	UK Treasury 4.75% 07/12/2038	6,595	6.15
GBP 6,524,437	UK Treasury 6% 07/12/2028	8,075	7.54
		106,132	99.07
Unit trusts 0.00% (2010 : 0.09%)			
1,100	Deutsche Global Liquidity Managed Platinum	1	-
Derivatives 0.00% (2010 : 0.12%)			
Futures 0.00% (2010 : 0.01%)			
(34)	CBT 5 Year Note September 2011	9	-
(123)	SFE 3 Year Bond September 2011	(13)	-
		(4)	-
Interest swaps 0.03% (2010 : (0.13%))			
4,200,000	IIS UKRPI 24/03/2016	34	0.03
4,000,000	IRS 6 month EIBOR 28/06/2031	(41)	(0.04)
1,900,000	IRS 6 month EIBOR 28/06/2051	56	0.05
4,000,000	IRS 6 month LIBOR 01/10/2020	(72)	(0.07)
6,200,000	IRS 6 month LIBOR 01/10/2030	63	0.06
2,200,000	IRS 6 month LIBOR 23/06/2041*	-	-
4,000,000	IRS 6 month LIBOR 30/09/2020	(76)	(0.07)
6,200,000	IRS 6 month LIBOR 30/09/2030	68	0.07
		32	0.03
Investment assets including investment liabilities		106,161	99.10
	Net other assets	969	0.90
Net assets		107,130	100.00

* Market value less than £500.

Credit ratings

Investment	Market value	Percentage of total net assets
	£000	%
Above investment grade (AAA - BBB)	106,132	99.07
Below investment grade (BB and below)	-	-
Unrated	-	-
Total bonds	106,132	99.07
Total unit trusts	1	-
Total derivatives	28	0.03
Investment assets including investment liabilities	106,161	99.10
Net other assets	969	0.90
Net assets	107,130	100.00

Source: Standard & Poor's

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital (losses)/gains	2	(1,259)	4,186
Revenue	4	4,379	5,113
Expenses	5	(372)	(437)
Finance costs: Interest	7	-	(1)
Net revenue before taxation		4,007	4,675
Taxation	6	-	-
Net revenue after taxation		4,007	4,675
Total return before distributions		2,748	8,861
Finance costs: Distributions	7	(4,007)	(4,676)
Change in net assets attributable to shareholders from investment activities		(1,259)	4,185

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	106,751	161,273
Amounts receivable on issue of shares	16,912	18,732
Amounts receivable on in specie transfers	3,384	-
Amounts payable on in specie transfers	-	(12,912)
Amounts payable on cancellation of shares	(22,422)	(68,732)
	(2,126)	(62,912)
Dilution adjustment	-	(3)
Change in net assets attributable to shareholders from investment activities (see above)	(1,259)	4,185
Retained distribution on accumulation shares	3,764	4,208
Closing net assets attributable to shareholders	107,130	106,751

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			106,363		105,233
Debtors	8	673		3,475	
Cash and bank balances	9	1,307		1,108	
Total other assets			1,980		4,583
Total assets			<u>108,343</u>		<u>109,816</u>
Liabilities					
Investment liabilities			202		251
Creditors	10	102		2,198	
Bank overdrafts		877		576	
Distribution payable on income shares		32		40	
Total other liabilities			<u>1,011</u>		<u>2,814</u>
Total liabilities			1,213		3,065
Net assets attributable to shareholders			<u>107,130</u>		<u>106,751</u>

Notes to the financial statements (continued)

1 Accounting policies

The accounting policies are set out in notes 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital (losses)/gains

Net capital (losses)/gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	273	(152)
Forward currency contracts	-	(211)
Other currency (losses)/gains	(3)	50
Transaction costs	(5)	(5)
Non-derivative securities	(1,524)	4,504
Net capital (losses)/gains	(1,259)	4,186

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	66,064	88,014
Commissions	2	3
Total purchase transaction costs*	2	3
Purchases including transaction costs	66,066	88,017
Sales in year before transaction costs	(63,507)	147,390
Commissions	(3)	(3)
Total sale transaction costs*	(3)	(3)
Sales net of transaction costs	(63,504)	147,387
Transaction handling charges*	5	5

* These amounts have been deducted in determining net capital (losses)/gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	3	5
Interest on debt securities	4,437	5,112
Stock lending revenue	14	29
Interest on margin	4	-
Derivative revenue	(79)	(34)
Unfranked investment revenue	-	1
Total revenue	4,379	5,113

Notes to the financial statements (continued)

4 Revenue (continued)

Stock lending details

	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	29,426	24,616

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £30,161,864 (2010: £25,231,150).

5 Expenses

	2010	2009
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	314	385
General administration charge*	42	21
Sub registration fees	-	1
	<u>356</u>	<u>407</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	13	14
Safe custody fees	3	3
	<u>16</u>	<u>17</u>
Other expenses:		
Printing and postage fees	-	6
Audit fees	-	5
Legal fees	-	1
Registration fees	-	1
	<u>-</u>	<u>13</u>
Total expenses	<u>372</u>	<u>437</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fee is £10,200 (2010: £9,870). The audit fee levied through the GAC charge is £10,200 (2010: £4,772).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of income tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	4,007	4,675
Income tax at 20% (2010: 20%)	801	935
Effects of:		
Revenue being paid as interest distributions	(801)	(935)
Current tax charge for the year (note 6a)	-	-

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £214 (2010: £197) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	123	144
Interim accumulation	2,777	3,197
Final income	32	40
Final accumulation	987	1,011
Tax withheld on interest distributions	59	69
	3,978	4,461
Amounts deducted on cancellation of shares	101	312
Amounts received on issue of shares	(72)	(97)
Finance costs: Distributions	4,007	4,676
Finance costs: Interest	-	1
Total finance cost	4,007	4,677

Details of the distribution per share are set out in the distribution table on pages 142 to 145.

Notes to the financial statements (continued)

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	609	655
Amounts receivable for issue of shares	54	43
Sales awaiting settlement	10	2,777
Total debtors	673	3,475

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	1,043	1,012
Amounts held at futures clearing houses and brokers	264	96
Total cash and bank balances	1,307	1,108

10 Creditors

	2011	2010
	£000	£000
Amounts payable for cancellation of shares	35	2,119
Income tax payable	25	29
Accrued ACD's periodic charge	24	26
Accrued other expenses	17	23
Accrued Depository's fees	1	1
Total creditors	102	2,198

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 133 and 134 and notes 5, 8 and 10 on pages 136 to 138 including all creations and cancellations where the ACD acted as principal.

Related parties, such as other authorised Funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company, Harewood Nominees Limited. Harewood Nominees Limited holds shares comprising 71.38% (2010: 61.26%) of the total net assets of the Fund as at 30 June 2011.

Material transactions throughout the year such as creations and cancellations for this shareholder are included in the Statement of change in net assets attributable to shareholders.

Notes to the financial statements (continued)

13 Shareholder funds

The Fund currently has 3 share classes; Class A (Retail with front-end charges), Class I (Institutional) and Class Z (Institutional). The annual management charge on each share class is as follows:

Class A	1.00%
Class I	0.50%
Class Z	0.00%*

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 128. The distribution per share class is given in the distribution table on pages 142 to 145.

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

	Investment assets including investment liabilities £000	Net other assets £000	Net assets £000
Currency 2011			
UK sterling	106,161	761	106,922
Australian dollar	-	152	152
Canadian dollar	-	4	4
Euro	-	42	42
US dollar	-	10	10
Total	106,161	969	107,130
Currency 2010			
UK sterling	104,969	1,627	106,596
Euro	6	65	71
US dollar	-	84	84
Total	104,975	1,776	106,751

Notes to the financial statements (continued)

14 Risk (continued)

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at the year end is set out in the following table:

	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
UK sterling	1,330	106,132	673	108,135
Australian dollar	152	-	-	152
Euro	42	-	-	42
Canadian dollar	4	-	-	4
US dollar	-	-	10	10
Total	1,528	106,132	683	108,343
2010				
UK sterling	1,071	105,102	3,476	109,649
US dollar	84	-	-	84
Euro	65	-	18	83
Total	1,220	105,102	3,494	109,816
	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
UK sterling	1,066	-	147	1,213
Total	1,066	-	147	1,213
2010				
UK sterling	576	239	2,238	3,053
Euro	-	-	12	12
Total	576	239	2,250	3,065

Notes to the financial statements (continued)

14 Risk (continued)

Fixed rate financial assets

	Weighted average interest rate	Weighted average period for which rate is fixed (years)
Currency	(%)	
2011		
UK sterling	4.30	28.27
Currency		
2010		
UK sterling	4.38	29.07

The 'weighted average interest rate' is based on the redemption yield of each asset, weighted by their market value.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

The ACD assesses the market risk of the Fund's investments including any derivative exposures, using a Value at Risk (VaR) methodology. This process provides the ACD with an estimate of the maximum potential loss that could be expected to occur as a result of changes in market prices over a given period of time in all but a given percentage of circumstances - for example changes in the price of oil or the 2008 financial crisis. If the number is lower than that of its representative benchmark it should be less volatile than the benchmark or more volatile if higher than the benchmark.

The ACD uses the Risk Manager application from Risk Metrics. The VaR is calculated monthly on a 99% confidence level. The model uses 1 year of daily data which is equally weighted applying a decay factor of 0.97. The decay factor refers to a weighting scheme that puts emphasis on recent observation and events. Applying such a weighting scheme gives us risk numbers that are closer to current market conditions. The Long Dated Gilt Fund is measured against the benchmark FTA British Government (over 15 years) index for comparison purposes. As at the accounting date of this report the Fund's Monthly VaR is 6.69% (2010 – 6.86%) compared to the FTA British Government (over 15 years) Index which is 6.55% (2010 – 6.84%). The Fund's annual VaR is 22.28% (2010 – 23.60%) compared to the FTA British Government (over 15 years) index which is 21.69% (2010 – 23.87%). It should be noted that the VaR is only an indication of risk and the actual price movements may prove to be less or more volatile than predicted.

The Fund may open positions on Over-the-Counter (OTC) derivatives, which will typically be futures, options, contracts for difference and swaps. Of these, the Fund will predominantly use Futures, Interest Rate Swaps and Credit Default Swaps (CDS). Futures allow the Investment Manager to purchase an asset (or to sell an asset) at a predetermined future date and price, enabling them to manage the risk to the Fund. Interest Rate Swaps are an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). The use of interest rate swaps is to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap. A CDS is designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the CDS.

The ACD monitors the Fund's portfolio against the Fund's investment restrictions and risk management policy on a daily basis.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim interest distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income	-	-	-	-	-	0.7818
Class A income						
Group 1	0.9529	0.1906	0.7623	-	0.7623	0.9056
Group 2	0.4146	0.0829	0.3317	0.4306	0.7623	0.9056
Class I income	-	-	-	-	-	0.9941
Class I accumulation						
Group 1	1.5659	0.3132	1.2527	-	1.2527	1.3429
Group 2	0.4586	0.0917	0.3669	0.8858	1.2527	1.3429
Class I gross accumulation						
Group 1	1.7104	-	1.7104	-	1.7104	1.8235
Group 2	0.3851	-	0.3851	1.3253	1.7104	1.8235
Class Z gross accumulation	1.2605	-	1.2605	-	1.2605	1.3171

Distribution table (continued)

Interim interest distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income	-	-	-	-	-	0.6277
Class A income						
Group 1	0.9258	0.1852	0.7406	-	0.7406	0.7537
Group 2	0.5846	0.1169	0.4677	0.2729	0.7406	0.7537
Class I income	-	-	-	-	-	0.8507
Class I accumulation						
Group 1	1.5068	0.3014	1.2054	-	1.2054	1.1577
Group 2	0.9261	0.1852	0.7409	0.4645	1.2054	1.1577
Class I gross accumulation						
Group 1	1.6919	-	1.6919	-	1.6919	1.5896
Group 2	1.6719	-	1.6719	0.0200	1.6919	1.5896
Class Z gross accumulation	1.2470	-	1.2470	-	1.2470	1.1637

Distribution table (continued)

Interim interest distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income						
Group 1	0.9278	0.1856	0.7422	-	0.7422	0.7820
Group 2	0.4139	0.0828	0.3311	0.4111	0.7422	0.7820
Class I income	-	-	-	-	-	0.8271
Class I accumulation						
Group 1	1.5940	0.3188	1.2752	-	1.2752	1.1332
Group 2	0.3764	0.0753	0.3011	0.9741	1.2752	1.1332
Class I gross accumulation						
Group 1	1.6832	-	1.6832	-	1.6832	1.5347
Group 2	1.5807	-	1.5807	0.1025	1.6832	1.5347
Class Z gross accumulation						
Group 1	1.2418	-	1.2418	-	1.2418	1.2984
Group 2	0.5918	-	0.5918	0.6500	1.2418	1.2984

Distribution table (continued)

Final interest distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income						
Group 1	0.9668	0.1934	0.7734	-	0.7734	0.8432
Group 2	0.3573	0.0715	0.2858	0.4876	0.7734	0.8432
Class I accumulation						
Group 1	1.5914	0.3183	1.2731	-	1.2731	1.3303
Group 2	1.0466	0.2093	0.8373	0.4358	1.2731	1.3303
Class I gross accumulation						
Group 1	1.7745	-	1.7745	-	1.7745	1.8194
Group 2	1.6297	-	1.6297	0.1448	1.7745	1.8194
Class Z gross accumulation						
Group 1	1.3076	-	1.3076	-	1.3076	1.3197
Group 2	1.0576	-	1.0576	0.2500	1.3076	1.3197

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Managers' report

Fund Managers

John Pattullo and Jenna Barnard

Investment objective and policy

To provide a return by investing primarily in sterling denominated preference shares, Government securities, corporate bonds, Eurobonds and other bonds. Where the Fund invests in currencies other than sterling, the Fund will always be hedged at least 80% to sterling in aggregate. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Performance summary

Over the year, the Fund rose by 9.3% compared with a 3.1% increase by the FTSE All Stocks Index.

Discrete annual performance

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson Preference & Bond Fund	9.3	28.6	(15.6)	(4.3)	2.7
FTSE All Stocks Index	3.1	6.7	12.9	6.2	(0.7)

Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
UK Treasury 5% 07/03/2012	15,746	Credit Agricole FRN 30/01/2020	9,755
BUPA Finance 6.125% Perpetual	9,288	Standard Chartered 8.103% Perpetual	9,475
Investec Finance 7.75% 01/03/2016	8,177	Firstgroup 8.125% 19/09/2018	8,340
Investec Bank 9.625% 17/02/2022	7,669	Investec Finance 7.75% 01/03/2016	8,177
Nordenia 9.75% 15/07/2017	6,548	Investec Finance 7.75% 01/03/2016	7,669
Scottish & Southern Energy 5.453% Perpetual	6,250	BNP Paribas 7.436% Perpetual	7,407
Rexam 6.75% 29/06/2067	6,168	Societe Generale 8.875% Perpetual	7,268
Labco 8.5% 15/01/2018	6,064	HSBC Capital Funding FRN 30/06/2015	7,164
OI European 6.75% 15/09/2020	5,981	Barclays Bank 6% Perpetual	7,149
Inaer Aviation Finance 9.5% 01/08/2017	5,871	Santander Finance FRN 27/07/2014	6,427

Managers' report

The Fund returned 9.3% in the twelve months to 30 June 2011. The environment for corporate bond investing was generally supportive during the period with default rates in the high yield market continuing to fall, reaching levels which are well below the historic average. Many companies made use of these buoyant market conditions to refinance and lengthen their debt maturity schedules resulting in a virtuous circle for credit markets. However, despite this healthy dynamic there remained a number of major structural concerns, not least the rapidly evolving European sovereign bond crisis.

The dominant theme for investors over the course of the year was the deep strains within Eurozone economies. Divergences in both economic growth and fiscal strength increased. In addition, regional political leaders repeatedly failed to generate a comprehensive and credible plan which would keep bond vigilantes at bay. Without this, the troubles of Greece, Portugal and Ireland ineluctably spread to the larger, far more systemically-important economies of Italy and Spain. At the time of writing, it is clear that European politicians continue to lack a clear vision, let alone an institutional framework that can provide a solution. The most likely shortcut out of this vicious circle is large scale European sovereign bond purchases in the market by the European Central Bank, despite this being a policy which the ECB has been keen to avoid.

With this backdrop, it is no surprise that the Fund has been reducing exposure to corporate bonds which could be impacted by the European crisis. We significantly reduced European banking exposure over the course of the year. French banks were sold down along with Santander and some Irish bank exposure from the autumn of 2010.

The overall exposure to banks was reduced from approx 30% in June 2010 to approx 16% in June 2011 (with the vast majority of the remaining holdings focused in the UK). We also sold higher quality banks such as HSBC and Standard Chartered where we saw limited relative value. The sector as a whole has performed extremely well, reflecting substantial progress made in improving their financial strength and the regulatory changes which have made these institutions far more conservative and as a result, more bondholder friendly.

Holdings in insurance company bonds were increased, reflecting the value available in this segment of the market, and a mindset change on the part of management teams in the industry. There is a notable focus on enhancing cash flow returns, strengthening balance sheets and retaining market discipline which has been lacking for many years. This is exactly the kind of narrative which is beneficial to bondholders and has resulted in the price of the sector's bonds rising significantly over the course of the year.

The Fund also increased its holdings in high yield corporate bonds with a particular focus on seasoned, proven issuers in defensive sectors such as cable television and packaging. The yields on offer in this area of the market proved attractive given the low and declining level of default rates. Two of these companies, Rhodia and Nalco were subsequently acquired by better rated corporates, causing the bonds within the Fund to rally more than 10%. In contrast, given the continued uncertainty surrounding the length and strength of the current economic cycle, we were keen to avoid cyclical industries such as autos, shipping and heavy industrials where valuations no longer appear to reflect the inherent risk in these bonds.

During the year the duration sensitivity of the Fund was managed through the use of interest rate derivatives. The Fund held a short position (a position that allows it to profit from falling bond prices and rising bond yields) in the gilt market for most of the period, but this was reversed to a long position (a position that would benefit from rising bond prices and falling bond yields) amid signs of a slowdown in global growth in April 2011. In the same month the fund took a long position in the German Bund in order to generate some capital gains. This was from the view that the market had overestimated the strength of the European economy. Given the volatility of markets and their sensitivity to political factors, it is likely that interest rate derivatives will remain a useful hedging tool to offset some of the volatility during times of market stress.

Going forward the healthy income provided by our corporate bond holdings is likely to be the primary source of return whilst the ability to hedge out risks to capital, from either sovereign bond risk or default risk, depending upon the development of the economy, remains of utmost importance.

John Pattullo and Jenna Barnard
4 August 2011

Comparative tables as at 30 June 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	541,647,223	13,487,329	33,035,752	40.83
30/06/2010	610,621,404	-	-	-**
Class A income				
30/06/2009	541,647,223	382,834,132	923,745,424	41.44
30/06/2010	610,621,404	445,861,613	891,065,521	50.04
30/06/2011	620,350,221	443,828,109	852,154,950	52.08
Class I income				
30/06/2009	541,647,223	85,324,908	201,272,816	42.39
30/06/2010	610,621,404	87,135,851	168,445,439	51.73
30/06/2011	620,350,221	77,408,546	143,442,814	53.96
Class I accumulation				
30/06/2009	541,647,223	29,400,053	43,361,660	67.80
30/06/2010	610,621,404	30,422,767	34,449,741	88.31
30/06/2011	620,350,221	29,054,294	29,265,043	99.28
Class Z accumulation				
30/06/2009	541,647,223	9,700,269	9,799,178	98.99
30/06/2010	610,621,404	12,212,211	9,457,752	129.12
30/06/2011	620,350,221	12,778,684	8,848,537	144.42
Class A gross income				
30/06/2009	541,647,223	10,641,577	25,361,669	41.96
30/06/2010	610,621,404	20,551,757	40,588,704	50.63
30/06/2011	620,350,221	31,145,024	59,057,790	52.74
Class I gross income				
30/06/2009	541,647,223	10,257,899	23,875,936	42.96
30/06/2010	610,621,404	14,435,804	27,661,983	52.19
30/06/2011	620,350,221	26,133,975	47,724,824	54.76
Class Z gross accumulation				
30/06/2009	541,647,223	1,056	1,000	105.60
30/06/2010	610,621,404	1,401	1,000	140.10
30/06/2011	620,350,221	1,589	1,000	158.90

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

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	3.24	64.13	61.07
2007	3.44	61.50	56.59
2008	3.16	56.92	42.53
2009	3.11	51.60	35.30
2010	0.87	52.10	50.70*
Class A income			
2006	3.23	64.08	61.13
2007	3.47	61.76	57.06
2008	3.21	57.41	43.06
2009	3.16	52.50	35.80
2010	3.25	55.80	50.60
2011	2.31*	54.04+	51.97+
Class I income			
2006	3.24	64.22	61.36
2007	3.50	62.28	57.82
2008	3.25	58.19	43.96
2009	3.23	53.90	36.60
2010	3.38	57.40	52.10
2011	2.42*	55.96+	53.68+
Class I accumulation			
2006	4.29	85.99	82.49
2007	4.88	86.17	83.65
2008	4.80	85.40	67.52
2009	4.10	89.20	57.40
2010	5.72	98.00	89.20
2011	4.33*	101.40+	95.63+
Class Z accumulation			
2006	5.94	121.70	116.20
2007	6.92	122.10	119.00
2008	6.86	121.60	113.80
2009	7.31	128.60	82.30
2010	8.27	141.60	128.60
2011	6.31*	147.30+	138.70+
Class A gross income			
2006	2.03	63.57	61.92
2007	4.39	62.72	57.95
2008	4.07	58.16	43.80
2009	3.99	53.40	36.30
2010	4.12	56.50	51.20
2011	2.93*	54.84+	52.63+

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class I gross income			
2006	1.95	64.05	62.21
2007	4.49	63.29	58.78
2008	4.11	59.02	44.70
2009	4.08	54.90	37.10
2010	4.28	58.20	52.80
2011	3.08*	56.91+	54.48+
Class Z gross accumulation			
2006	7.60	124.80	118.30
2007	8.87	125.90	123.40
2008	21.58	127.30	102.10
2009	9.71	138.30	87.40
2010	11.12	154.30	138.30
2011	8.69*	161.90+	151.40+

* to 31 August.

+ to 30 June.

** X share class merged with A share class 11 January 2010.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011 %	2010 %
Class A	1.45	1.39
Class I	0.68	0.68
Class Z	0.05	0.06

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

Holding	Investment	Market value £000	Percentage of total net assets %
Bonds 96.71% (2010: 89.75%)			
Canadian corporate bonds 0.83% (2010: 0.00%)			
EUR 5,500,000	Bombardier 7.25% 15/11/2016	5,160	0.83
European corporate bonds 31.74% (2010: 25.63%)			
EUR 2,070,000	Ardagh Glass Finance 8.75% 01/02/2020	1,883	0.30
EUR 3,400,000	Ardagh Glass Finance 9.25% 01/07/2016	3,312	0.53
EUR 5,169,000	Ardagh Packaging Finance 7.375% 15/10/2017	4,738	0.76
GBP 2,000,000	Assicurazioni Generali 6.269% Perpetual	1,515	0.24
GBP 3,650,000	Assicurazioni Generali 6.416% Perpetual	2,827	0.46
USD 3,400,000	AXA 6.463% Perpetual	1,832	0.30
GBP 15,080,000	AXA 6.772% Perpetual	13,109	2.11
GBP 1,500,000	Barclays SLCSM Funding 6.14% Perpetual	1,428	0.23
GBP 4,200,000	BNP Paribas 7.436% Perpetual	4,055	0.65
EUR 4,850,000	Conti-Gummi Finance 7.5% 15/09/2017	4,569	0.74
EUR 125,000	Credit Suisse Capital Guernsey V 6.905% Perpetual	113	0.02
GBP 5,297,000	Credit Suisse Finance Guernsey 6.875% Perpetual	5,515	0.89
USD 2,150,000	Credit Suisse Guernsey I 7.875% 24/02/2041	1,374	0.22
EUR 1,935,000	Crown European 7.125% 15/08/2018	1,800	0.29
EUR 3,910,000	DONG Energy 7.75% 01/06/3010	3,752	0.60
EUR 1,550,000	Europcar 9.375% 15/04/2018	1,402	0.23
EUR 3,595,000	GCL 9.375% 15/04/2018	3,279	0.53
GBP 3,350,000	Generali Finance 6.214% Perpetual	2,889	0.47
USD 3,433,000	Glencore Finance Europe 7.5% Perpetual	2,234	0.36
EUR 7,437,000	HeidelbergCement Finance 8.5% 31/10/2019	7,522	1.21
EUR 4,000,000	Hertz Netherlands 8.5% 31/07/2015	3,802	0.61
EUR 5,100,000	InterXion 9.5% 12/02/2017	5,112	0.82
EUR 2,550,000	ISS 8.875% 15/05/2016	2,383	0.38
EUR 2,900,000	Kabel BW Erste Beteiligungs 7.5% 15/03/2019	2,680	0.43
EUR 4,525,000	Kabel Deutschland Vertrieb 6.5% 29/06/2018	4,116	0.66
EUR 7,100,000	Labco 8.5% 15/01/2018	6,484	1.05
GBP 1,850,000	Linde Finance 8.125% 14/07/2066	2,085	0.34
EUR 7,000,000	Lottomatica 8.25% 31/03/2066	6,384	1.03
EUR 5,000,000	Melchior CDO 11.52% 24/08/2013**	11	-
EUR 2,000,000	Musketeer 9.5% 15/03/2021	1,912	0.31
EUR 3,570,000	New World Resources 7.875% 01/05/2018	3,341	0.54
EUR 6,050,000	Nordenia 9.75% 15/07/2017	5,988	0.97
EUR 7,122,000	OI European 6.75% 15/09/2020	6,448	1.04
EUR 4,800,000	Picard Bondco 9% 01/10/2018	4,479	0.72
EUR 1,110,000	Refresco 7.375% 15/05/2018	1,018	0.16
EUR 5,180,000	Rexel 8.25% 15/12/2016	5,026	0.81
EUR 4,510,000	Rhodia 7% 15/05/2018	4,531	0.73
EUR 4,890,000	Sunrise Communications 8.5% 31/12/2018	4,633	0.75
GBP 9,000,000	Swiss Reinsurance 6.3024% Perpetual	7,888	1.27
EUR 2,900,000	Telenet Finance III 6.625% 15/02/2021	2,537	0.41
EUR 1,650,000	Telenet Finance Luxembourg 6.375% 15/11/2020	1,439	0.23
EUR 6,767,000	Unitymedia 9.625% 01/12/2019	6,612	1.07
EUR 4,100,000	Unitymedia Hessen 8.125% 01/12/2017	3,888	0.63

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
European corporate bonds (continued)			
EUR 4,750,000	UPC 8% 01/11/2016	4,440	0.72
EUR 7,000,000	UPC 9.75% 15/04/2018	6,748	1.09
EUR 6,540,000	Wind Acquisition Finance 11.75% 15/07/2017	6,689	1.08
EUR 6,400,000	Wind Acquisition Finance 7.375% 15/02/2018	5,949	0.96
EUR 11,875,000	Ziggo Bond 8% 15/05/2018	11,113	1.79
		<hr/>	<hr/>
		196,884	31.74
United Kingdom corporate bonds 40.86% (2010: 42.76%)			
GBP 1,900,000	Anglian Water Osprey Financing 7% 31/01/2018	1,868	0.30
EUR 2,250,000	Aviva 5.7% Perpetual	1,830	0.29
GBP 9,379,000	Aviva 5.9021% Perpetual	7,536	1.21
GBP 1,820,000	Aviva 6.125% Perpetual	1,507	0.25
EUR 4,000,000	Aviva 6.875% 22/05/2038	3,613	0.58
GBP 2,115,000	BAA 7.125% 01/03/2017	2,086	0.34
GBP 765,000	Bank of Scotland 7.281% Perpetual	625	0.10
GBP 1,496,000	Bank of Scotland 7.286% Perpetual	1,326	0.21
GBP 525,000	Bank of Scotland Capital Funding 6.059% Perpetual	452	0.07
GBP 1,050,000	Bank of Scotland Capital Funding 7.754% Perpetual	891	0.14
GBP 5,510,000	Barclays Bank 5.3304% Perpetual*	3,953	0.64
GBP 9,860,000	Barclays Bank 6% Perpetual*	7,996	1.29
GBP 16,993,000	BUPA Finance 6.125% Perpetual	14,979	2.41
GBP 7,000,000	Cattles 6.875% 17/01/2014	89	0.01
GBP 4,813,000	Co-Operative Bank 9.25% 28/04/2021	4,753	0.77
GBP 2,900,000	Daily Mail & General Trust 5.75% 07/12/2018	2,881	0.46
GBP 5,450,000	Daily Mail & General Trust 6.375% 21/06/2027	4,963	0.80
GBP 2,600,000	Daily Mail & General Trust 10% 09/04/2021	3,205	0.52
GBP 2,058,000	EGG Banking 6.875% 29/12/2021	1,995	0.32
GBP 2,135,000	F&C Asset Management 6.75% 20/12/2026	1,545	0.25
GBP 4,498,000	F&C Finance 9% 20/12/2016	4,603	0.75
GBP 1,140,000	Friends Life 8.25% 21/04/2022	1,124	0.18
GBP 4,856,000	Friends Provident 12% 21/05/2021	6,132	0.99
GBP 1,710,000	Friends Provident 6.875% Perpetual	1,416	0.24
GBP 1,500,000	Gala Electric Casinos 11.5% 01/06/2019	1,307	0.21
GBP 1,500,000	Gala Finance 8.875% 01/09/2018	1,388	0.22
GBP 6,290,000	HBOS Capital Funding 6.461% Perpetual	5,044	0.82
USD 1,000,000	HBOS Capital Funding 6.85% Perpetual	492	0.08
GBP 2,699,000	HBOS Sterling Finance Jersey 7.881% Perpetual	2,301	0.37
EUR 1,000,000	HSBC Capital Funding 5.13% Perpetual	857	0.15
GBP 7,749,000	Investec Bank 9.625% 17/02/2022	7,689	1.24
EUR 7,075,000	Investec Tier I UK 7.075% Perpetual*	5,367	0.87
EUR 4,400,000	ISS Financing 11% 15/06/2014	4,279	0.69
GBP 10,027,000	ITV 5.375% 19/10/2015	9,882	1.59
GBP 1,400,000	ITV 7.375% 05/01/2017	1,431	0.23
GBP 2,146,000	LBG Capital No.1 7.5884% 12/05/2020	1,970	0.32
GBP 1,898,000	LBG Capital No.1 7.869% 25/08/2020	1,766	0.28
GBP 4,352,000	LBG Capital No.1 11.04% 19/03/2020	4,638	0.75
GBP 17,500,000	Legal & General 6.385% Perpetual	15,648	2.52

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
United Kingdom corporate bonds (continued)			
GBP 2,190,000	National Westminster Bank 5.9779% Perpetual	1,794	0.29
GBP 3,510,000	National Westminster Bank 7.125% Perpetual	2,808	0.45
GBP 7,130,000	Nationwide Building Society 6.024% Perpetual	5,876	0.95
GBP 1,800,000	Nationwide Building Society 6.25% Perpetual	1,365	0.22
GBP 1,550,000	Nottingham Building Society 7.875% Perpetual	1,279	0.21
GBP 2,060,000	Odeon & UCI Finco 9% 01/08/2018	1,993	0.32
GBP 5,000,000	Old Mutual 6.376% Perpetual	4,225	0.68
GBP 2,800,000	Phones4u Finance 9.5% 01/04/2018	2,685	0.43
GBP 7,500,000	Portman Building Society 7.125% 10/10/2016**	7,477	1.21
GBP 800,000	Prudential 6.125% 19/12/2031	752	0.12
USD 3,570,000	Prudential 11.75% Perpetual	2,594	0.42
EUR 7,700,000	Rexam 6.75% 29/06/2067	6,745	1.09
GBP 3,800,000	RI Finance Bonds 6.125% Perpetual	3,123	0.50
GBP 3,000,000	Royal Bank of Scotland 7.5% 29/04/2024*	3,214	0.52
GBP 4,900,000	Royal Bank of Scotland 5.625% Perpetual*	3,366	0.54
GBP 10,544,000	RSA Insurance 6.701% Perpetual	9,569	1.54
GBP 3,185,000	RSA Insurance 8.5% Perpetual	3,352	0.54
GBP 6,250,000	Scottish & Southern Energy 5.453% Perpetual	6,170	0.99
GBP 4,717,500	Scottish Mutual Assurance 6.5864% Perpetual	3,043	0.49
EUR 6,980,000	Standard Life 5.314% Perpetual	5,729	0.92
GBP 1,700,000	Standard Life 6.546% Perpetual	1,487	0.24
GBP 11,075,000	Standard Life 6.75% Perpetual	9,825	1.58
GBP 2,260,000	Thames Water Utilities Cayman Finance 5.75% 13/09/2030	2,190	0.35
GBP 2,890,000	Towergate Finance 8.5% 15/02/2018	2,904	0.47
GBP 2,400,000	Towergate Finance 10.5% 15/02/2019	2,413	0.39
GBP 1,840,000	Virgin Media Finance 8.875% 15/10/2019	2,016	0.32
EUR 3,000,000	Virgin Media Finance 9.5% 15/08/2016	3,038	0.49
GBP 5,625,000	Virgin Media Secured Finance 7% 15/01/2018	5,986	0.96
GBP 1,000,000	William Hill 7.125% 11/11/2016	1,031	0.17
		253,476	40.86
United Kingdom government bonds 2.49% (2010: 0.00%)			
GBP 15,000,000	UK Treasury 5% 07/03/2012	15,450	2.49
United States corporate bonds 7.97% (2010: 6.36%)			
GBP 5,000,000	BA Credit Card Trust 6.1% 19/10/2015	4,957	0.80
USD 6,090,000	Boyd Gaming 9.125% 01/12/2018	3,860	0.62
USD 5,220,000	DineEquity 9.5% 30/10/2018	3,528	0.57
USD 2,150,000	HCA 9.25% 15/11/2016	1,421	0.23
GBP 5,687,000	Iron Mountain 7.25% 15/04/2014	5,658	0.91
GBP 2,350,000	Lehman Brothers 7.875% 08/05/2018	552	0.09
USD 3,300,000	Levi Strauss 7.625% 15/05/2020	2,055	0.33
EUR 4,647,000	Levi Strauss 7.75% 15/05/2018	4,066	0.66
GBP 5,900,000	Mellon Capital III 6.369% 05/09/2066	5,450	0.88
EUR 4,031,000	Nalco 6.875% 15/01/2019	3,660	0.59
USD 7,200,000	Pinnacle Entertainment 8.75% 15/05/2020	4,698	0.76
USD 3,400,000	Regal Entertainment 9.125% 15/08/2018	2,192	0.35

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
United States corporate bonds (continued)			
USD 1,260,000	RSC Equipment Rental 8.25% 01/02/2021	781	0.13
USD 1,315,000	Service International 6.75% 01/04/2016	883	0.14
USD 5,000,000	United Rentals North America 8.375% 15/09/2020	3,153	0.51
USD 1,915,000	Windstream 7.75% 15/10/2020	1,249	0.20
USD 2,000,000	ZFS Finance USA Trust IV 5.875% 09/05/2062	1,258	0.20
		<hr/>	<hr/>
		49,421	7.97
Floating rate notes 5.01% (2010: 10.15%)			
GBP 4,000,000	Alba FRN 17/03/2039	2,000	0.32
EUR 3,485,250	Amstel Corporate Loan Offering FRN 25/03/2017	3,037	0.49
EUR 3,444,235	Amstel Corporate Loan Offering FRN 25/05/2016	3,002	0.48
GBP 4,330,000	Canary Wharf Finance II FRN 22/10/2037	2,598	0.42
GBP 9,969,144	DECO Series FRN 27/01/2036	798	0.13
GBP 3,950,000	European Loan Conduit FRN 25/07/2017	3,120	0.51
USD 2,500,000	ING Bank FRN 03/07/2017	1,451	0.23
USD 2,800,000	ING Bank FRN 26/09/2016	1,640	0.26
GBP 1,299,650	Lambda Finance FRN 20/09/2031	979	0.16
EUR 3,614,299	Promise FRN 12/05/2024	2,454	0.40
GBP 2,500,000	Sherwood Castle Funding FRN 15/06/2016	2,283	0.37
EUR 7,391,870	Talisman Finance FRN 22/10/2016	1,001	0.16
GBP 2,754,225	Theatre Hospitals Series 1 FRN 15/10/2031	2,155	0.35
GBP 2,053,589	Theatre Hospitals Series 2 FRN 15/10/2031	1,607	0.26
GBP 9,500,000	Titan Europe FRN 20/01/2017	2,945	0.47
		<hr/>	<hr/>
		31,070	5.01
Secured Loans 7.81% (2010: 4.85%)			
GBP 3,000,000	Alliance Boots FRN 05/07/2015	2,858	0.46
EUR 1,573,971	Avio FRN 19/09/2017	1,399	0.23
GBP 3,200,000	Fitness First FRN 31/10/2013 B	2,976	0.48
USD 952,054	Flint FRN 25/04/2014 B5	580	0.09
USD (1,010,000)	Flint FRN 25/04/2014 B5	(616)	(0.10)
USD 53,703	Flint FRN 25/04/2014 B9	33	0.01
USD (400,000)	Flint FRN 25/04/2014 C5	(244)	(0.04)
USD 396,314	Flint FRN 25/04/2014 C5	242	0.04
USD 1,250,000	Flint FRN 30/06/2018 D	775	0.12
EUR 5,329	Flint FRN 31/12/2014 B3	5	-
EUR 307,781	Flint FRN 31/12/2014 B6	275	0.04
EUR 120,483	Flint FRN 31/12/2014 B7	108	0.02
EUR 22,450	Flint FRN 31/12/2014 C1	20	-
EUR 8,767	Flint FRN 31/12/2014 C3	8	-
EUR 144,103	Flint FRN 31/12/2014 C6	129	0.02
EUR 67,877	Flint FRN 31/12/2014 C7	61	0.01
GBP 3,500,000	Gala FRN 26/05/2018 B	3,142	0.51
GBP 1,735,410	IMO FRN 13/08/2014 B	1,688	0.27
EUR 387,841	Ineos FRN 16/12/2012 A1	365	0.06
EUR 2,071,194	Ineos FRN 16/12/2013 B1	1,938	0.31
EUR 2,246,019	Ineos FRN 16/12/2013 C1	2,111	0.34
EUR 94,728	Ineos FRN 19/02/2013 A	87	0.01

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Secured Loans (continued)			
EUR 3,400,000	KDG 16/06/2018 E	3,049	0.50
EUR 1,750,000	Lavena FRN 10/04/2015 B1	1,423	0.23
EUR 1,750,000	Lavena FRN 09/04/2016 C1	1,431	0.23
GBP 6,169,025	Macquarie Broadcast FRN 31/07/2017 A	5,498	0.89
GBP 1,169,026	Macquarie FRN 14/04/2015 D	977	0.16
GBP 1,000,000	New Look (Trinity) FRN 31/07/2013 B	950	0.15
GBP 1,000,000	New Look (Trinity) FRN 31/07/2014 C	955	0.15
EUR 407,893	Nycomed FRN 29/01/2015 B	364	0.06
EUR 535,251	Nycomed FRN 29/01/2015 B1	477	0.08
EUR 407,793	Nycomed FRN 29/01/2016 C	365	0.06
EUR 535,120	Nycomed FRN 29/01/2016 C1	479	0.08
EUR 42,779	Prosiben 10/04/2015 C2	36	0.01
EUR 950,806	Prosiben FRN 26/06/2015 C3	807	0.13
GBP 3,100,000	RBS Worldpay FRN 30/11/2016 A	3,067	0.49
GBP 3,650,000	RBS Worldpay FRN 15/10/2017 B1	3,627	0.58
EUR 1,050,847	Takko FRN 08/02/2018 B	936	0.15
GBP 3,250,000	Towergate FRN 04/08/2017 B	3,117	0.50
GBP 1,300,000	Vue Entertainment B FRN 29/11/2017	1,301	0.21
EUR 27,468	XSYS Flint FRN 25/04/2014 B1	25	0.00
GBP 4,090,099	Yell FRN 19/09/2017 A	1,653	0.27
		48,477	7.81
Equities 0.55% (2010: 1.12%)			
Preference shares 0.55% (2010: 1.12%)			
310,000	Whitnash 4.55% ^{^*}	-	-
550,000	Whitnash Products 9% ^{^*}	-	-
1,533,000	General Accident 8.875%	1,648	0.27
18,000	Lloyds Banking Group 9.25%	15	-
1,636,000	Santander UK 10.375%	1,718	0.28
		3,381	0.55
Derivatives 0.06% (2010: (0.75%))			
Credit default swaps 0.66% (2010: 0.21%)			
USD 5,100,000	CDS 20/09/2014 - Constellation	366	0.06
USD 21,000,000	CDS 20/09/2019 - Eli Lilly	(172)	(0.03)
USD 2,100,000	CDS 20/06/2015 - HCA	84	0.01
USD 2,100,000	CDS 20/06/2015 - HCA	84	0.01
USD 2,050,000	CDS 20/06/2015 - HCA	82	0.01
EUR 2,850,000	CDS 20/09/2013 - IESY	154	0.03
EUR 2,500,000	CDS 20/12/2014 - International Power	24	-
USD 10,000,000	CDS 20/09/2014 - Iron Mountain	379	0.06
EUR 10,300,000	CDX 20/06/2014 - Itraxx	1,621	0.26
EUR 7,000,000	CDX 20/06/2014 - Itraxx	1,096	0.18
EUR 7,000,000	CDS 20/06/2016 - M-Real	293	0.05
USD 21,000,000	CDS 20/09/2019 - Pfizer	(147)	(0.02)
USD 5,000,000	CDS 20/03/2021 - Rep Finland	59	0.01
EUR 3,000,000	CDS 20/09/2013 - Wind Acquisition	143	0.02

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
	Credit default swaps (continued)		
EUR 1,950,000	CDS 20/06/2016 - Wind Acquisition	35	0.01
		<u>4,101</u>	<u>0.66</u>
	Interest rate swaps (0.06%) (2010: (0.99)%)		
25,000,000	IRS 0% Libor March 2014	(348)	(0.06)
	Forward foreign exchange contracts (0.54%) (2010: 0.15%)		
	BUY GBP 43,705,673 SELL USD 70,357,392 September 2011	(166)	(0.03)
	BUY GBP 44,470,000 SELL EUR 50,000,000 September 2011	(622)	(0.10)
	BUY GBP 44,500,000 SELL EUR 50,000,000 September 2011	(592)	(0.10)
	BUY GBP 44,500,000 SELL EUR 50,000,000 September 2011	(592)	(0.10)
	BUY GBP 44,510,000 SELL EUR 50,000,000 September 2011	(582)	(0.09)
	BUY GBP 49,560,896 SELL EUR 55,705,177 September 2011	(676)	(0.11)
	BUY USD 11,435,822 SELL GBP 7,139,624 September 2011	(9)	-
	BUY USD 31,137,015 SELL GBP 19,500,000 September 2011	(84)	(0.01)
		<u>(3,323)</u>	<u>(0.54)</u>
	Futures (0.00%) (2010: (0.13)%)		
	Options 0.00% (2010: 0.01%)		
	Investment assets including investment liabilities	603,749	97.32
	Net other assets	16,601	2.68
	Net assets	620,350	100.00

* A related party to the Fund.

** Single broker priced security.

^ Suspended security.

Credit ratings

Investment	Market value £000	Percentage of total net assets %
Above investment grade (AAA - BBB)	210,610	33.95
Below investment grade (BB and below)	274,447	44.24
Unrated	114,881	18.52
	<hr/>	<hr/>
Total bonds	599,938	96.71
Total equities	3,381	0.55
Total derivatives	430	0.06
	<hr/>	<hr/>
Investment assets including investment liabilities	603,749	97.32
Net other assets	16,601	2.68
Net assets	620,350	100.00
	<hr/>	<hr/>

Source: Standard & Poor's

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		122,059
Revenue	4	47,744	54,727
Expenses	5	(8,099)	(7,869)
Finance costs: Interest	7	-	(9)
Net revenue before taxation		39,645	46,849
Taxation	6	-	-
Net revenue after taxation		39,645	46,849
Total return before distributions		73,016	168,908
Finance costs: Distributions	7	(46,652)	(53,925)
Change in net assets attributable to shareholders from investment activities		26,364	114,983

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	610,621	541,647
Amounts receivable on issue of shares	70,883	74,305
Amounts payable on cancellation of shares	(90,036)	(123,423)
	(19,153)	(49,118)
Dilution adjustment	-	101
Stamp duty reserve tax	(85)	(92)
Unclaimed distributions	16	15
Change in net assets attributable to shareholders from investment activities (see above)	26,364	114,983
Retained distribution on accumulation shares	2,587	3,085
Closing net assets attributable to shareholders	620,350	610,621

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			608,599		558,481
Debtors	8	15,977		13,733	
Cash and bank balances	9	34,015		71,685	
Total other assets			49,992		85,418
Total assets			<u>658,591</u>		<u>643,899</u>
Liabilities					
Investment liabilities			4,850		8,207
Creditors	10	14,241		8,594	
Bank overdrafts		9,883		6,997	
Distribution payable on income shares		9,267		9,480	
Total other liabilities			<u>33,391</u>		<u>25,071</u>
Total liabilities			38,241		33,278
Net assets attributable to shareholders			<u>620,350</u>		<u>610,621</u>

Notes to the financial statements (continued)

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	(4,361)	(19,790)
Forward currency contracts	(17,825)	5,905
Non-derivative securities	56,894	136,153
Other currency losses	(1,315)	(181)
Transaction costs	(22)	(28)
Net capital gains	33,371	122,059

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	313,737	334,322
Commissions	60	24
Total purchase transaction costs*	60	24
Purchases including transaction costs	313,797	334,346
Sales in year before transaction costs	323,026	410,217
Commissions	-	(20)
Total sale transaction costs*	-	(20)
Sales net of transaction costs	323,026	410,197
Transaction handling charges*	22	28

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	111	28
Derivative revenue	1,133	5,428
Interest on debt securities	46,113	48,891
Interest on margin	56	-
Interest on unclaimed distribution monies	-	5
Stock lending revenue	28	21
UK dividends	303	354
Total revenue	47,744	54,727

Notes to the financial statements (continued)

4 Revenue (continued)

Stock lending details	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	44,037	18,020

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £46,984,353 (2010: £18,481,904).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	7,007	7,075
General administration charge*	973	477
Sub registration fees	-	118
	<u>7,980</u>	<u>7,670</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	76	77
Safe custody fees	41	46
	<u>117</u>	<u>123</u>
Other expenses:		
Audit fees	-	5
Other expenses	2	3
Printing and postage fees	-	23
Registration fees	-	45
	<u>2</u>	<u>76</u>
Total expenses	<u>8,099</u>	<u>7,869</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £11,520 (2010: £10,810). The audit fee levied through the GAC charge is £11,520 (2010: £4,934)

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of income tax in the UK for authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	39,645	46,849
Income tax at 20% (2010: 20%)	7,929	9,370
Effects of:		
Revenue being paid as interest distributions	(9,270)	(10,785)
UK dividends*	(61)	(71)
Unused management expenses	1,402	1,486
Current tax charge for the year (note 6a)	-	-

* As an OEIC this item is not subject to corporation tax.

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £15,887,692 (2010: £14,486,149) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	26,014	30,533
Interim accumulation	1,935	2,380
Final income	9,267	9,480
Final accumulation	652	705
Tax withheld on interest distributions	8,429	10,024
	46,297	53,122
Amounts deducted on cancellation of shares	800	1,396
Amounts received on issue of shares	(445)	(593)
Finance costs: Distributions	<u>46,652</u>	<u>53,925</u>
Finance costs: Interest	-	9
Total finance cost	<u>46,652</u>	<u>53,934</u>
Net revenue after taxation	39,645	46,849
ACD's periodic charge paid from capital	7,007	7,075
Undistributed revenue brought forward	-	1
Finance cost: Distributions	<u>46,652</u>	<u>53,925</u>

Details of the distribution per share are set out in the distribution table on page 169-172.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	13,086	13,367
Amounts receivable for issue of shares	320	361
Sales awaiting settlement	2,571	5
Total debtors	<u>15,977</u>	<u>13,733</u>

Notes to the financial statements (continued)

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	34,015	65,500
Deposits held with brokers	-	6,185
Total cash and bank balances	34,015	71,685

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	568	566
Accrued Depositary's fees	6	6
Accrued other expenses	120	135
Amounts payable for cancellation of shares	695	293
Income tax payable	3,787	4,326
Purchases awaiting settlement	9,065	3,268
Total creditors	14,241	8,594

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 159 and 160 and notes 5, 8 and 10 on pages 162 to 165 including all creations and cancellations where the ACD acted as principal.

Related parties, such as other authorised Funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company, Cofunds Nominee Limited. Cofunds Nominee Limited holds shares comprising 12.68% (2010: nil) of the total net assets of the Fund as at 30 June 2011.

Material transactions throughout the year such as creations and cancellations for this shareholder are included in the Statement of change in net assets attributable to shareholders.

13 Shareholder funds

The Fund currently has 3 share classes; Class A (Retail with front-end charges), Class I (Institutional) and Class Z (Institutional). The annual management charge on each share class is as follows:

Class A	1.25%
Class I	0.60%
Class Z	0.00%

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 148. The distribution per share class is given in the distribution table on pages 169 to 172. All share classes have the same rights on winding up.

Notes to the financial statements (continued)

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

	Investment assets including investment liabilities £000	Net other assets /(liabilities) £000	Net assets £000
Currency 2011			
Euro	220,171	4,475	224,646
UK sterling	345,637	11,344	356,981
US dollar	37,941	782	38,723
Total	603,749	16,601	620,350
Currency 2010			
Euro	144,279	12,932	157,211
UK sterling	367,909	37,646	405,555
US dollar	44,161	3,694	47,855
Total	556,349	54,272	610,621

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at the year end is set out in the following table:

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
Currency 2011				
Euro	33,041	197,843	5,111	235,995
UK sterling	77,660	295,691	9,301	382,652
US dollar	4,721	34,568	1,565	40,854
Total	114,422	528,102	15,977	659,501
2010				
Euro	22,930	132,153	5,779	160,862
UK sterling	136,785	282,282	15,140	434,207
US dollar	15,381	32,806	643	48,830
Total	175,096	447,241	21,562	643,899

Notes to the financial statements (continued)

14 Risk (continued)

	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
Euro	-	-	11,349	11,349
UK sterling	10,231	-	14,440	24,671
US dollar	860	319	1,042	2,221
Total	11,091	319	26,831	38,241
2010				
Euro	-	387	3,264	3,651
UK sterling	13,072	-	15,580	28,652
US dollar	-	975	-	975
Total	13,072	1,362	18,844	33,278

Fixed rate financial assets

Currency	Weighted average interest rate	Weighted average period for which rate is fixed
2011	(%)	(Years)
Euro	2.64	3.54
UK sterling	4.56	9.19
US dollar	0.45	0.91
2010		
Euro	7.33	9.36
UK sterling	8.01	18.13
US dollar	7.79	20.17

The 'weighted average interest rate' is based on the redemption yield of each asset, weighted by their market value.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

The ACD assesses the market risk of the Fund's investments including any derivative exposures, using a Value at Risk (VaR) methodology. This process provides the ACD with an estimate of the maximum potential loss that could be expected to occur as a result of changes in market prices over a given period of time in all but a given percentage of circumstances - for example changes in the price of oil or the 2008 financial crisis. If the number is lower than that of its representative benchmark it should be less volatile than the benchmark or more volatile if higher than the benchmark.

The ACD uses the Risk Manager application from Risk Metrics. The VaR is calculated monthly on a 99% confidence level. The model uses 1 year of daily data which is equally weighted applying a decay factor of 0.97. The decay factor refers to a weighting scheme that puts emphasis on recent observation and events. Applying such a weighting scheme gives us risk numbers that are closer to current market conditions. The Preference & Bond Fund is measured against the benchmark FTSE All Stocks Index for comparison purposes. As at the accounting date of this report the Fund's Monthly VaR is 2.02% (2010 - 1.52%) compared to the FTSE All Stocks Index which is 3.54% (2010 - 3.62%). The Fund's annual VaR is 8.24% (2010 - 4.63%) compared to the FTSE All Stocks Index which is 12.82% (2010 - 12.82%). It should be noted that the VaR is only an indication of risk and the actual price movements may prove to be less or more volatile than predicted.

The Fund may open positions on Over-the-Counter (OTC) derivatives, which will typically be futures, options, contracts for difference and swaps. Of these, the Fund will predominantly use Futures, Interest Rate Swaps and Credit Default Swaps (CDS). Futures allow the Investment Manager to purchase an asset (or to sell an asset) at a predetermined future date and price, enabling them to manage the risk to the Fund. In currency forward contracts, the contract holders are obligated to buy or sell the currency at a specified price, in a specified quantity and on a specified future date. Interest Rate Swaps are an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). The use of interest rate swaps is to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap. A CDS is designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the CDS.

The ACD monitors the Fund's portfolio against the Fund's investment restrictions and risk management policy on a daily basis.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim interest distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income	-	-	-	-	-	0.8422
Class A income						
Group 1	0.9250	0.1850	0.7400	-	0.7400	0.8565
Group 2	0.4673	0.0935	0.3738	0.3662	0.7400	0.8565
Class I income						
Group 1	0.9685	0.1937	0.7748	-	0.7748	0.8766
Group 2	0.4815	0.0963	0.3852	0.3896	0.7748	0.8766
Class I accumulation						
Group 1	1.6805	0.3361	1.3444	-	1.3444	1.4247
Group 2	1.1941	0.2388	0.9553	0.3891	1.3444	1.4247
Class Z accumulation						
Group 1	2.4398	0.4880	1.9518	-	1.9518	2.0483
Group 2	0.9761	0.1952	0.7809	1.1709	1.9518	2.0483
Class A gross income						
Group 1	0.9371	-	0.9371	-	0.9371	1.0850
Group 2	0.4313	-	0.4313	0.5058	0.9371	1.0850
Class I gross income						
Group 1	0.9851	-	0.9851	-	0.9851	1.1114
Group 2	0.6992	-	0.6992	0.2859	0.9851	1.1114
Class Z gross accumulation	2.6587	-	2.6587	-	2.6587	2.7414

Distribution table (continued)

Interim interest distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income	-	-	-	-	-	0.8679
Class A income						
Group 1	0.9454	0.1891	0.7563	-	0.7563	0.8835
Group 2	0.4954	0.0991	0.3963	0.3600	0.7563	0.8835
Class I income						
Group 1	0.9918	0.1984	0.7934	-	0.7934	0.9059
Group 2	0.5508	0.1102	0.4406	0.3528	0.7934	0.9059
Class I accumulation						
Group 1	1.7453	0.3491	1.3962	-	1.3962	1.4980
Group 2	1.2090	0.2418	0.9672	0.4290	1.3962	1.4980
Class Z accumulation						
Group 1	2.5408	0.5082	2.0326	-	2.0326	2.1577
Group 2	1.3233	0.2647	1.0586	0.9740	2.0326	2.1577
Class A gross income						
Group 1	0.9591	-	0.9591	-	0.9591	1.1186
Group 2	0.6938	-	0.6938	0.2653	0.9591	1.1186
Class I gross income						
Group 1	1.0081	-	1.0081	-	1.0081	1.1481
Group 2	0.7282	-	0.7282	0.2799	1.0081	1.1481
Class Z gross accumulation	2.7800	-	2.7800	-	2.7800	2.8900

Distribution table (continued)

Interim interest distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income						
Group 1	0.9275	0.1855	0.7420	-	0.7420	0.8071
Group 2	0.4302	0.0860	0.3442	0.3978	0.7420	0.8071
Class I income						
Group 1	0.9726	0.1945	0.7781	-	0.7781	0.8403
Group 2	0.5160	0.1032	0.4128	0.3653	0.7781	0.8403
Class I accumulation						
Group 1	1.7368	0.3473	1.3895	-	1.3895	1.4133
Group 2	1.1877	0.2375	0.9502	0.4393	1.3895	1.4133
Class Z accumulation						
Group 1	2.5327	0.5065	2.0262	-	2.0262	2.0428
Group 2	1.3656	0.2731	1.0925	0.9337	2.0262	2.0428
Class A gross income						
Group 1	0.9394	-	0.9394	-	0.9394	1.0202
Group 2	0.5406	-	0.5406	0.3988	0.9394	1.0202
Class I gross income						
Group 1	0.9884	-	0.9884	-	0.9884	1.0642
Group 2	0.5593	-	0.5593	0.4291	0.9884	1.0642
Class Z gross accumulation						
	2.7880	-	2.7880	-	2.7880	2.6992

Distribution table (continued)

Final interest distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income						
Group 1	1.0144	0.2029	0.8115	-	0.8115	0.8206
Group 2	0.5915	0.1183	0.4732	0.3383	0.8115	0.8206
Class I income						
Group 1	1.0660	0.2132	0.8528	-	0.8528	0.8574
Group 2	0.4664	0.0933	0.3731	0.4797	0.8528	0.8574
Class I accumulation						
Group 1	1.9308	0.3862	1.5446	-	1.5446	1.4637
Group 2	0.4378	0.0876	0.3502	1.1944	1.5446	1.4637
Class Z accumulation						
Group 1	2.8199	0.5640	2.2559	-	2.2559	2.1220
Group 2	1.9428	0.3886	1.5542	0.7017	2.2559	2.1220
Class A gross income						
Group 1	1.0318	-	1.0318	-	1.0318	1.0405
Group 2	0.6253	-	0.6253	0.4065	1.0318	1.0405
Class I gross income						
Group 1	1.0878	-	1.0878	-	1.0878	1.0864
Group 2	0.9414	-	0.9414	0.1464	1.0878	1.0864
Class Z gross accumulation	3.1189	-	3.1189	-	3.1189	2.8676

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Managers' report

Fund Managers

John Pattullo and Jenna Barnard

Investment objective and policy

To provide a return by investing in higher yielding assets including high yield bonds, investment grade bonds, government bonds, preference shares and other bonds. The Fund may also invest in equities. The Fund will take strategic asset allocation decisions between countries, asset classes, sectors and credit ratings. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Performance summary

Over the year, the Fund rose by 8.7% compared with a 3.1% increase by the FTSE All Stocks Index.

Discrete annual performance[†]

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson Strategic Bond Fund	8.7	21.7	(4.7)	(2.9)	4.8
FTSE All Stocks Index	3.1	6.7	12.9	6.2	(0.7)

[†]Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
Crown European 7.125% 15/08/2018	12,543	Reynolds 7.75% 15/10/2016	12,162
Pinnacle Entertainment 8.75% 15/05/2020	12,483	Investec Finance 6.25% Perpetual	11,698
Lottomatica 8.25% 31/03/2066	11,748	Credit Agricole 7.589% 30/01/2020	11,470
Investec Bank 9.625% 17/02/2022	11,698	International Power Finance 7.25% 11/05/2017	10,220
Wind Acquisition Finance 7.375% 15/12/2018	11,131	Societe Generale 8.875% Perpetual	10,041
Royal Bank of Scotland 7.5% 29/04/2024*	10,511	Carlsberg 7.25% 28/11/2016	8,804
DONG Energy 7.75% 01/06/2021	9,868	Inaer Aviation Finance 9.5% 01/08/2017	8,605
Ardagh Packaging Finance 7.375% 15/10/2017	9,719	Anheuser Busch 6.5% 23/06/2017	8,570
Labco 8.5% 15/01/2018	9,223	Barclays Bank 10.179% 12/06/2021	7,203
Nordenia 9.75% 15/07/2017	9,110	Bank of Ireland 9.25% 07/07/2020	6,656

* A related party to the Fund.

The Fund returned 8.7% in the twelve months to 30 June 2011. Income proved a key driver of returns with a modest contribution from capital appreciation. The dominant theme for investors over the course of the year was the deep strains within Eurozone economies. Divergences in both economic growth and fiscal strength increased. In addition, regional political leaders repeatedly failed to generate a comprehensive and credible plan which would keep bond vigilantes at bay. Without this, the troubles of Greece, Portugal and Ireland ineluctably spread to the larger, far more systemically-important economies of Italy and Spain. At the time of writing, it is clear that European politicians continue to lack a clear vision, let alone an institutional framework that can provide a solution. The most likely shortcut out of this vicious circle is large scale European sovereign bond purchases in the market by the European Central Bank, despite this being a policy which the ECB has been keen to avoid.

With this backdrop, it is no surprise that the Fund has been reducing exposure to corporate bonds which could be impacted by the European crisis. We significantly reduced European banking exposure over the course of the year. French banks were sold down along with Santander and some Irish bank exposure from the autumn of 2010. Overall banking exposure was reduced from 26% in June 2010 to 12.5% in June 2011 (with the vast majority of remaining holdings focused in the UK). We also sold higher quality banks such as HSBC and Standard Chartered where we saw limited relative value. The sector as a whole has performed extremely well, reflecting substantial progress made in improving their financial strength and the regulatory changes which have made these institutions far more conservative and as a result, more bondholder friendly.

The cash proceeds were largely reinvested in high yield corporate bonds with a particular focus on seasoned, proven issuers in defensive sectors such as cable television and packaging. The yields on offer in this area of the market proved attractive given the low and declining level of default rates. Two of these companies, Rhodia and Nalco were subsequently acquired by better rated corporates, causing the bonds within the Fund to rally more than 10%. In contrast, given the continued uncertainty surrounding the length and strength of the current economic cycle, we were keen to avoid cyclical industries such as autos, shipping and heavy industrials where valuations no longer appear to reflect the inherent risk in these bonds.

During the year the duration sensitivity of the Fund was managed through the use of interest rate derivatives. The Fund held a short position (a position that would benefit from falling bond prices and rising bond yields) in the gilt market for most of the period, but this was reversed to a long position (a position that would benefit from rising bond prices and falling bond yields) amid signs of a slowdown in global growth in April 2011. In the same month the Fund took a long position in the German Bund in order to generate some capital gains. This was from the view that the market had overestimated the strength of the European economy. Given the volatility of markets and their sensitivity to political factors, it is likely that interest rate derivatives will remain a useful hedging tool to offset some of the volatility during times of market stress.

John Pattullo and Jenna Barnard
4 August 2011

Comparative tables as at 30 June 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	462,266,341	2,224,603	2,191,137	101.53
30/06/2010*	851,361,992	-	-	-
Class A income				
30/06/2009	462,266,341	259,531,036	251,425,923	103.22
30/06/2010	851,361,992	500,058,283	421,452,654	118.65
30/06/2011	1,149,531,428	635,752,952	518,202,006	122.68
Class I income				
30/06/2009	462,266,341	99,495,268	93,850,006	106.02
30/06/2010	851,361,992	149,977,372	121,957,131	122.98
30/06/2011	1,149,531,428	219,122,208	171,878,294	127.49
Class I accumulation				
30/06/2009	462,266,341	6,563,388	3,885,553	168.92
30/06/2010	851,361,992	41,778,474	20,024,723	208.63
30/06/2011	1,149,531,428	95,696,242	41,056,614	233.08
Class Z accumulation				
30/06/2009	462,266,341	5,214,139	2,967,319	175.72
30/06/2010	851,361,992	15,895,276	7,287,302	218.12
30/06/2011	1,149,531,428	21,100,231	8,715,061	242.11
Class A gross income				
30/06/2009	462,266,341	1,763,405	1,687,324	104.51
30/06/2010	851,361,992	8,736,215	7,278,110	120.03
30/06/2011	1,149,531,428	12,414,923	9,996,263	124.20
Class I gross income				
30/06/2009	462,266,341	79,100,839	99,567,892	79.44
30/06/2010	851,361,992	126,015,215	137,331,912	91.76
30/06/2011	1,149,531,428	153,348,493	160,611,156	95.48
Class I gross accumulation				
30/06/2009	462,266,341	8,373,663	4,673,473	179.17
30/06/2010	851,361,992	5,324,548	2,378,820	223.83
30/06/2011	1,149,531,428	6,776,283	2,650,477	255.66
Class Z gross accumulation				
30/06/2010**	851,361,992	3,576,609	1,607,840	222.45
30/06/2011	1,149,531,428	5,320,096	2,122,749	250.62

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

** Z gross accumulation share class launched December 2009.

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	7.13	134.10	129.30
2007	7.67	131.50	121.90
2008	6.63	122.10	96.71
2009	6.60	123.90	91.00
2010**	2.11	124.30	121.70
Class A income			
2006	7.15	134.10	129.50
2007	7.77	132.20	123.00
2008	6.71	123.30	98.03
2009	6.70	126.30	92.50
2010	7.67	131.40	119.90
2011	5.40*	127.00+	122.40+
Class I income			
2006	7.14	134.60	130.30
2007	7.83	133.60	124.90
2008	6.81	125.60	100.20
2009	6.87	130.00	94.70
2010	7.98	135.50	123.90
2011	5.71*	131.90+	126.80+
Class I accumulation			
2006	9.48	184.40	173.70
2007	10.98	187.10	181.50
2008	10.13	188.60	154.60
2009	10.88	213.80	148.80
2010	13.43	230.50	212.30
2011	10.13*	237.70+	224.90+
Class Z accumulation			
2006	6.92	186.20	176.10
2007	11.19	189.70	184.90
2008	10.28	192.10	157.90
2009	11.13	219.90	152.30
2010	13.89	238.40	219.00
2011	10.56*	246.70+	232.80+
Class A gross income			
2006	5.30	135.20	131.20
2007	9.94	134.20	124.90
2008	8.46	125.10	99.40
2009	8.48	128.40	93.60
2010	9.70	133.10	121.40
2011	6.83*	128.90+	123.90+
Class I gross income			
2006	4.41	100.90	97.70
2007	7.35	100.20	93.70
2008	6.36	94.21	75.13
2009	6.43	97.70	70.90
2010	7.48	101.60	92.70
2011	5.33*	99.02+	94.96+

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class I gross accumulation			
2006	13.79	188.20	174.80
2007	14.14	192.90	187.60
2008	13.18	197.30	162.80
2009	14.39	229.30	157.70
2010	18.07	250.40	229.20
2011	13.76*	260.30+	244.90+
Class Z gross accumulation			
2010***	17.19	244.50	100.00
2011	13.50*	255.00+	239.30+

* to 31 August.

+ to 30 June.

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

*** Z gross accumulation share class launched December 2009.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	1.45	1.39
Class I	0.68	0.66
Class Z	0.05	0.04

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Bonds 81.89% (2010: 88.65%)			
	Canadian corporate bonds 0.58% (2010: 0.00%)		
EUR 7,050,000	Bombardier 7.25% 15/11/2016	6,614	0.58
European corporate bonds 35.28% (2010: 25.34%)			
EUR 9,100,000	Ardagh Glass Finance 8.75% 01/02/2020	8,280	0.72
EUR 3,700,000	Ardagh Glass Finance 9.25% 01/07/2016	3,605	0.31
EUR 11,031,000	Ardagh Packaging Finance 7.375% 15/10/2017	10,112	0.88
GBP 3,250,000	Assicurazioni Generali 6.269% Perpetual	2,462	0.21
GBP 4,000,000	Assicurazioni Generali 6.416% Perpetual	3,098	0.27
USD 6,000,000	AXA 6.463% Perpetual	3,233	0.28
GBP 13,262,000	AXA 6.6666% Perpetual	11,831	1.03
GBP 10,770,000	AXA 6.772% Perpetual	9,362	0.81
GBP 6,250,000	Barclays SLCSM Funding 6.14% Perpetual	5,950	0.52
EUR 2,500,000	Bary Callebaut Services 5.375% 15/06/2021	2,241	0.20
GBP 6,500,000	BNP Paribas 5.954% Perpetual	5,977	0.52
GBP 1,950,000	BNP Paribas 7.436% Perpetual	1,883	0.16
EUR 3,250,000	Conti-Gummi Finance 7.5% 15/09/2017	3,062	0.27
EUR 126,000	Credit Suisse Capital Guernsey V 6.905% Perpetual	114	0.01
GBP 13,075,000	Credit Suisse Finance Guernsey 6.875% Perpetual	13,614	1.18
USD 3,350,000	Credit Suisse Guernsey I 7.875% 24/02/2041	2,140	0.19
EUR 9,270,000	Crown European 7.125% 15/08/2018	8,623	0.75
USD 10,000,000	Digicel 8.25% 01/09/2017	6,462	0.56
EUR 11,386,000	DONG Energy 7.75% 01/06/3010	10,925	0.95
EUR 2,200,000	Europcar 9.375% 15/04/2018	1,990	0.17
EUR 6,330,000	GCL 9.375% 15/04/2018	5,774	0.50
GBP 4,850,000	Generali Finance 6.214% Perpetual	4,183	0.36
USD 5,320,000	Glencore Finance Europe 7.5% Perpetual	3,462	0.30
EUR 13,398,000	HeidelbergCement Finance 8.5% 31/10/2019	13,552	1.18
EUR 6,000,000	Hertz Netherlands 8.5% 31/07/2015	5,703	0.50
EUR 13,320,000	ING Verzekeringen 3.352% 21/06/2021	11,306	0.98
EUR 5,500,000	InterXion 9.5% 12/02/2017	5,513	0.48
EUR 8,950,000	ISS 8.875% 15/05/2016	8,366	0.73
EUR 4,850,000	Kabel BW Erste Beteiligungs 7.5% 15/03/2019	4,482	0.39
EUR 8,400,000	Kabel Deutschland Vertrieb und Service 6.5% 29/06/2018	7,641	0.67
EUR 10,800,000	Labco 8.5% 15/01/2018	9,863	0.86
GBP 3,650,000	Linde Finance 8.125% 14/07/2066	4,114	0.36
EUR 16,500,000	Lottomatica 8.25% 31/03/2066	15,047	1.31
EUR 3,350,000	Musketeer 9.5% 15/03/2021	3,203	0.28
EUR 4,630,000	New World Resources 7.875% 01/05/2018	4,333	0.38
EUR 8,375,000	Nordenia 9.75% 15/07/2017	8,289	0.72
EUR 10,432,000	OI European 6.75% 15/09/2020	9,445	0.82
GBP 500,000	Panther CD0 I 0% 24/02/2016	25	-
EUR 9,075,000	Picard Bondco 9% 01/10/2018	8,469	0.74
EUR 1,960,000	Refresco 7.375% 15/05/2018	1,797	0.16
EUR 10,180,000	Rexel 8.25% 15/12/2016	9,877	0.86
EUR 11,380,000	Rhodia 7% 15/05/2018	11,434	0.99
GBP 1,000,000	Siemens Financieringsmaatschappij 6.125% 14/09/2066	1,043	0.09

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
European corporate bonds (continued)			
EUR 375,000	Signum Luxembourg 18/06/2015	298	0.03
EUR 5,000,000	Smurfit Kappa Acquisitions 7.25% 15/11/2017	4,612	0.40
EUR 7,995,000	Sunrise Communications 8.5% 31/12/2018	7,576	0.66
USD 5,000,000	Swiss Re Capital I 6.854% Perpetual	2,994	0.26
GBP 15,400,000	Swiss Reinsurance 6.3024% Perpetual	13,498	1.17
EUR 4,600,000	Telenet Finance III Luxembourg 6.625% 15/02/2021	4,025	0.35
EUR 5,573,000	Telenet Finance Luxembourg 6.375% 15/11/2020	4,861	0.42
EUR 2,350,000	TenneT 6.655% Perpetual	2,228	0.19
EUR 10,600,000	Unitymedia 9.625% 01/12/2019	10,357	0.90
EUR 6,100,000	Unitymedia Hessen 8.125% 01/12/2017	5,784	0.50
EUR 5,250,000	UPC 8% 01/11/2016	4,907	0.43
EUR 13,000,000	UPC 9.75% 15/04/2018	12,533	1.09
GBP 6,000,000	UPM-Kymmene 6.625% 23/01/2017	6,105	0.53
EUR 15,100,000	Wind Acquisition Finance 11.75% 15/07/2017	15,444	1.34
EUR 13,100,000	Wind Acquisition Finance 7.375% 15/02/2018	12,176	1.06
EUR 21,475,000	Ziggo Bond 8% 15/05/2018	20,097	1.75
EUR 7,100,000	Ziggo Finance 6.125% 15/11/2017	6,329	0.55
		407,079	35.28
United Kingdom corporate bonds 36.87% (2010: 49.58%)			
GBP 2,850,000	Anglian Water Osprey Financing 7% 31/01/2018	2,803	0.24
EUR 10,030,000	Aviva 5.7% Perpetual	8,159	0.71
GBP 8,481,000	Aviva 5.9021% Perpetual	6,814	0.59
GBP 16,030,000	Aviva 6.125% Perpetual	13,270	1.15
EUR 1,000,000	Aviva 6.875% 22/05/2038	903	0.08
EUR 3,100,000	BAA Funding 4.6% 30/09/2016	2,888	0.25
GBP 3,980,000	BAA Funding 6.75% 03/12/2026	4,309	0.37
GBP 2,365,000	BAA SH 7.125% 01/03/2017	2,333	0.20
GBP 3,025,000	Bank of Scotland 7.281% Perpetual	2,470	0.22
GBP 3,994,000	Bank of Scotland 7.286% Perpetual	3,539	0.31
GBP 1,050,000	Bank of Scotland Capital Funding 6.059% Perpetual	904	0.08
GBP 950,000	Bank of Scotland Capital Funding 7.754% Perpetual	806	0.07
GBP 8,510,000	Barclays Bank 5.3304% Perpetual	6,106	0.53
GBP 6,810,000	Barclays Bank 6% Perpetual	5,522	0.48
GBP 1,500,000	Barclays Bank 6.3688% Perpetual	1,320	0.11
GBP 29,003,000	BUPA Finance 6.125% Perpetual	25,566	2.22
GBP 1,000,000	Cattles 6.875% 17/01/2014	13	-
GBP 3,000,000	Co-Operative Bank 5.75% 02/12/2024	2,391	0.21
GBP 5,225,000	Co-Operative Bank 9.25% 28/04/2021	5,160	0.45
GBP 17,744,000	Daily Mail & General Trust 5.75% 07/12/2018	17,630	1.53
GBP 1,650,000	Daily Mail & General Trust 6.375% 21/06/2027	1,502	0.13
GBP 2,390,000	Daily Mail & General Trust 7.5% 29/03/2013	2,544	0.22
GBP 2,400,000	Daily Mail & General Trust 10% 09/04/2021	2,958	0.26
GBP 2,900,000	EGG Banking 6.875% 29/12/2021	2,811	0.24
GBP 3,111,000	F&C Asset Management 6.75% 20/12/2026	2,251	0.20
GBP 5,675,000	F&C Finance 9% 20/12/2016	5,807	0.51
GBP 3,840,000	Friends Life 8.25% 21/04/2022	3,786	0.33

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
United Kingdom corporate bonds (continued)			
GBP 2,410,000	Friends Provident 6.875% Perpetual	1,995	0.17
GBP 4,136,000	Friends Provident 12% 21/05/2021	5,223	0.45
GBP 3,000,000	Gala Electric Casinos 11.5% 01/06/2019	2,614	0.23
GBP 4,000,000	Gala Finance 8.875% 01/09/2018	3,701	0.32
GBP 11,815,000	HBOS Capital Funding 6.461% Perpetual	9,474	0.82
GBP 5,036,000	HBOS Sterling Finance Jersey 7.881% Perpetual	4,293	0.37
EUR 1,000,000	HSBC Capital Funding 5.13% Perpetual	857	0.08
GBP 3,000,000	Imperial Tobacco Finance 5.5% 22/11/2016	3,211	0.28
GBP 11,821,000	Investec Bank 9.625% 17/02/2022	11,730	1.02
EUR 6,825,000	Investec Tier I 7.075% Perpetual	5,177	0.45
EUR 7,000,000	ISS Financing 11% 15/06/2014	6,807	0.59
GBP 19,915,000	ITV 5.375% 19/10/2015	19,626	1.71
GBP 3,000,000	ITV 7.375% 05/01/2017	3,066	0.27
GBP 971,000	LBG Capital No.1 7.5884% 12/05/2020	891	0.08
GBP 4,229,000	LBG Capital No.1 7.869% 25/08/2020	3,936	0.34
GBP 3,578,000	LBG Capital No.1 11.04% 19/03/2020	3,813	0.33
GBP 32,150,000	Legal & General 6.385% Perpetual	28,749	2.50
GBP 2,280,000	National Westminster Bank 5.9779% Perpetual	1,868	0.16
GBP 5,190,000	National Westminster Bank 7.125% Perpetual	4,153	0.36
GBP 14,060,000	Nationwide Building Society 5.769% Perpetual	10,257	0.89
GBP 3,215,000	Nationwide Building Society 6.024% Perpetual	2,650	0.23
GBP 4,200,000	Nationwide Building Society 6.25% Perpetual	3,184	0.28
GBP 3,000,000	Nationwide Building Society 7.859% Perpetual	2,653	0.23
GBP 5,000,000	Nationwide Building Society 7.971% Perpetual	5,015	0.44
GBP 3,750,000	Odeon & UCI Finco 9% 01/08/2018	3,627	0.32
GBP 4,675,000	Phones4u Finance 9.5% 01/04/2018	4,483	0.39
USD 5,000,000	Prudential 11.75% Perpetual	3,633	0.32
GBP 608,000	Prudential 6.125% 19/12/2031	571	0.05
EUR 16,650,000	Rexam 6.75% 29/06/2067	14,585	1.27
GBP 8,200,000	RI Finance Bonds 6.125% Perpetual	6,739	0.59
GBP 3,800,000	Royal Bank of Scotland 5.625% Perpetual*	2,610	0.23
GBP 10,000,000	Royal Bank of Scotland 7.5% 29/04/2024*	10,712	0.93
GBP 14,000,000	RSA Insurance 6.701% Perpetual	12,705	1.11
GBP 6,815,000	RSA Insurance 8.5% Perpetual	7,173	0.62
GBP 8,800,000	Scottish & Southern Energy 5.453% Perpetual	8,688	0.76
GBP 1,200,000	Standard Chartered Bank 5.375% Perpetual	1,073	0.09
GBP 430,000	Standard Chartered Bank 7.75% Perpetual	452	0.04
EUR 5,910,000	Standard Life 5.314% Perpetual	4,851	0.42
GBP 13,178,000	Standard Life 6.546% Perpetual	11,525	1.00
GBP 9,525,000	Standard Life 6.75% Perpetual	8,450	0.74
GBP 3,160,000	Thames Water Utilities Cayman Finance 5.75% 13/09/2030	3,062	0.27
GBP 3,650,000	Towergate Finance 10.5% 15/02/2019	3,670	0.32
GBP 4,380,000	Towergate Finance 8.5% 15/02/2018	4,402	0.38
GBP 8,720,000	Virgin Media Finance 8.875% 15/10/2019	9,555	0.83
EUR 7,000,000	Virgin Media Finance 9.5% 15/08/2016	7,088	0.62

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
United Kingdom corporate bonds (continued)			
GBP 5,470,000	Virgin Media Secured Finance 7% 15/01/2018	5,821	0.51
GBP 6,450,000	William Hill 7.125% 11/11/2016	6,648	0.58
GBP 2,800,000	Yorkshire Building Society 6.375% 26/04/2024	2,161	0.19
		423,792	36.87
United States corporate bonds 6.55% (2010: 4.69%)			
USD 10,080,000	Boyd Gaming 9.125% 01/12/2018	6,388	0.56
USD 12,737,000	DineEquity 9.5% 30/10/2018	8,608	0.75
USD 850,000	HCA 9.25% 15/11/2016	562	0.05
EUR 2,340,000	Iron Mountain 6.75% 15/10/2018	2,064	0.18
GBP 2,883,000	Iron Mountain 7.25% 15/04/2014	2,868	0.25
GBP 1,800,000	Lehman Brothers 7.875% 08/05/2018	423	0.04
USD 5,000,000	Levi Strauss 7.625% 15/05/2020	3,114	0.27
EUR 8,506,000	Levi Strauss 7.75% 15/05/2018	7,442	0.65
EUR 6,006,000	Nalco 6.875% 15/01/2019	5,454	0.47
USD 18,790,000	Pinnacle Entertainment 8.75% 15/05/2020	12,260	1.07
USD 11,200,000	Regal Entertainment 9.125% 15/08/2018	7,220	0.63
USD 1,910,000	RSC Equipment Rental 8.25% 01/02/2021	1,184	0.10
USD 1,750,000	Service International 6.75% 01/04/2016	1,175	0.10
USD 2,900,000	Service International 7.625% 01/10/2018	1,982	0.17
USD 12,600,000	United Rentals North America 8.375% 15/09/2020	7,946	0.69
USD 2,947,000	Windstream 7.75% 15/10/2020	1,923	0.17
USD 7,400,000	ZFS Finance USA Trust IV 5.875% 09/05/2062	4,653	0.40
		75,266	6.55
Floating rate notes 2.61% (2010: 3.88%)			
EUR 917,171	Amstel Corporate Loan Offering FRN 25/03/2017	799	0.07
GBP 1,550,000	Canary Wharf Finance II FRN 22/10/2037	930	0.08
GBP 4,000,000	Centre Parcs Mortgage Finance FRN 10/10/2018	3,948	0.34
GBP 1,993,829	DECO Series FRN 27/01/2036	160	0.01
GBP 5,700,000	Epic FRN 15/07/2017	4,587	0.40
EUR 2,666,664	Epic FRN 26/07/2019	2,264	0.20
GBP 3,650,000	European Loan Conduit FRN 25/07/2017	2,884	0.25
GBP 1,450,000	European Property Capital FRN 20/07/2014	1,370	0.12
USD 2,900,000	ING Bank FRN 26/09/2016	1,698	0.15
USD 2,500,000	ING Bank FRN 03/07/2017	1,451	0.13
GBP 329,025	Lambda Finance FRN 20/09/2031	248	0.02
GBP 2,500,000	Marble Arch Residential Securitisation No.4 FRN 20/03/2040	750	0.07
GBP 5,130,276	Opera Finance FRN 25/04/2017**	4,669	0.41
EUR 1,844,413	Rhodia FRN 15/10/2013	1,660	0.15
USD 3,000,000	Royal Bank of Scotland FRN 11/04/2016*	1,629	0.14
EUR 2,097,693	Talisman Finance FRN 22/10/2016	95	0.01
GBP 1,226,074	Titan Europe FRN 23/04/2015**	98	0.01
EUR 1,693,366	Titan Europe FRN 24/07/2016**	8	-
GBP 2,000,000	Titan Europe FRN 20/01/2017**	620	0.05
		28,498	2.61

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Secured loans 7.89% (2010: 5.16%)			
GBP 12,000,000	Alliance Boots 05/07/2015	11,430	0.99
EUR 5,573,971	Avio FRN 19/09/2017	4,955	0.43
USD (1,000,000)	AZ Electronics 28/03/2016 C4	(601)	(0.05)
USD (1,000,000)	AZ Electronics 31/03/2015 B4	(598)	(0.05)
USD 1,000,000	AZ Electronics FRN 28/03/2016 C4	601	0.05
USD 1,000,000	AZ Electronics FRN 31/03/2015 B4	598	0.05
GBP 1,500,000	Biffa FRN 31/12/2018 B	1,356	0.12
GBP 1,423,800	Biffa FRN 31/12/2018 C	1,295	0.11
GBP 800,000	Fitness First FRN 31/10/2013 B	744	0.07
USD (1,890,000)	Flint 25/04/2014 B5	(1,152)	(0.10)
USD 1,894,239	Flint 25/04/2014 B5	1,155	0.10
USD (720,000)	Flint 25/04/2014 C5	(439)	(0.04)
USD 718,909	Flint 25/04/2014 C5	438	0.04
USD 2,340,000	Flint 30/06/2018 D	1,450	0.13
USD 5,000,000	Flint FRN 29/05/2016 D2	3,048	0.27
EUR 9,933	Flint FRN 31/12/2014 B3	9	-
EUR 573,635	Flint FRN 31/12/2014 B6	512	0.04
EUR 224,554	Flint FRN 31/12/2014 B7	200	0.02
EUR 41,841	Flint FRN 31/12/2014 C1	37	-
EUR 16,339	Flint FRN 31/12/2014 C3	15	-
EUR 268,576	Flint FRN 31/12/2014 C6	240	0.02
EUR 126,507	Flint FRN 31/12/2014 C7	113	0.01
GBP 3,500,000	Gala 26/05/2018 B	3,142	0.27
EUR 735,224	Ineos FRN 16/12/2012 A1	691	0.06
EUR 4,017,380	Ineos FRN 16/12/2013 B1	3,758	0.33
EUR 4,324,937	Ineos FRN 16/12/2013 C1	4,066	0.35
EUR 6,100,000	KDG 16/06/2018 E	5,471	0.48
EUR 3,250,000	Lavena 09/04/2016 C1	2,658	0.23
EUR 3,250,000	Lavena 10/04/2015 B1	2,643	0.23
EUR 2,353,281	Lavena FRN 09/04/2016 C1	1,924	0.17
EUR 2,353,281	Lavena FRN 10/04/2015 B1	1,914	0.17
GBP 0,000	Macquarie Broadcast FRN 14/04/2015 D #	-	-
GBP 1,000,000	New Look (Trinity) FRN 31/07/2013 B	950	0.08
GBP 1,000,000	New Look (Trinity) FRN 31/07/2014 C	955	0.08
GBP 500,000	New Look FRN 07/07/2013 B1	476	0.04
GBP 500,000	New Look FRN 07/07/2014 C	478	0.04
EUR 611,839	Nycomed FRN 29/01/2015 B	545	0.05
EUR 802,877	Nycomed FRN 29/01/2015 B1	716	0.06
EUR 611,690	Nycomed FRN 29/01/2016 C	548	0.05
EUR 802,680	Nycomed FRN 29/01/2016 C1	719	0.06
EUR 91,570	Prosiben 10/04/2015 C2	78	0.01
EUR 2,885,979	Prosiben FRN 26/06/2015 C3	2,449	0.21
GBP 5,000,000	RBS Worldpay 30/11/2017 B1	4,969	0.43
GBP 4,750,000	RBS Worldpay FRN 15/10/2017 B1	4,720	0.41
GBP 4,900,000	RBS Worldpay FRN 30/11/2016 A	4,849	0.42
EUR 3,809,322	Takko 08/02/2018 B	3,393	0.30
GBP 5,000,000	Towergate FRN 04/08/2017 B	4,796	0.42
GBP 1,300,000	Vue Entertainment 29/11/2017 B	1,301	0.11

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Secured loans (continued)			
GBP 937,500	Weetabix FRN 30/12/2014 D	892	0.08
GBP 562,500	Weetabix FRN 30/12/2014 D	535	0.05
EUR 5,250,000	Xerium FRN 25/05/2015	4,729	0.41
EUR 51,194	Xsys Flint FRN 08/11/2017 B1	46	-
GBP 2,180,671	Yell FRN 12/09/2016 A	881	0.08
		90,698	7.89
Equities 0.00% (2010: 0.25%)			
Ordinary shares 0.00% (2010: 0.08%)			
148,780	Dexia +	-	-
United Kingdom preference shares 0.00% (2010: 0.00%)			
14,000	Lloyds Banking 9.25%	12	-
United States preference shares 0.00% (2010: 0.17%)			
Derivatives (0.10%) (2010: (0.69%))			
Futures 0.00% (2010: (0.10%))			
Options 0.00% (2010: 0.01%)			
Credit default swaps 0.47% (2010: 0.12%)			
EUR 12,000,000	CDS 20/06/2016 - M-Real	503	0.04
EUR 2,500,000	CDS 20/12/2014 - International Power	24	-
EUR 9,400,000	CDS 20/06/2016 - Rhodia	1,671	0.15
EUR 3,200,000	CDS 20/06/2016 - Wind Acquisition	57	-
EUR 6,000,000	CDX 20/06/2014 - Itraxx	939	0.08
EUR 8,850,000	CDX 20/06/2014 - Itraxx	1,393	0.12
USD 19,000,000	CDS 20/09/2019 - Pfizer	(133)	(0.01)
USD 19,000,000	CDS 20/09/2019 - Eli Lilly	(156)	(0.01)
USD 9,000,000	CDS 20/09/2014 - Iron Mountain	341	0.03
USD 4,500,000	CDS 20/09/2014 - Constellation	323	0.03
USD 2,700,000	CDS 20/06/2015 - HCA	108	0.01
USD 2,700,000	CDS 20/06/2015 - HCA	108	0.01
USD 2,750,000	CDS 20/06/2015 - HCA	111	0.01
USD 8,000,000	CDS 20/03/2021 - Rep Finland	94	0.01
		5,383	0.47
Interest rate swaps (0.03%) (2010: (0.89%))			
GBP 25,000,000	IRS 0% Libor March 2014	(348)	(0.03)
Forward foreign exchange contracts (0.54%) (2010: 0.17%)			
	Buy GBP 4,275,380 Sell: EUR 4,824,141 September 2011	(75)	(0.01)
	Buy GBP 89,926,081 Sell: USD 144,763,006 September 2011	(342)	(0.03)
	Buy GBP 142,633,671 Sell: EUR 160,316,591 September 2011	(1,946)	(0.17)
	Buy GBP 88,934,000 Sell: EUR 100,000,000 September 2011	(1,250)	(0.11)
	Buy GBP 44,510,000 Sell: EUR 50,000,000 September 2011	(582)	(0.05)

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Forward foreign exchange contracts (continued)			
	Buy GBP 44,500,000 Sell: EUR 50,000,000 September 2011	(592)	(0.05)
	Buy GBP 44,470,000 Sell: EUR 50,000,000 September 2011	(622)	(0.05)
	Buy GBP 44,500,000 Sell: EUR 50,000,000 September 2011	(592)	(0.05)
	Buy GBP 2,510,450 Sell: EUR 2,778,747 September 2011	4	-
	Sell GBP 35,000,000 Buy: EUR 55,886,950 September 2011	(151)	(0.01)
	Sell GBP 2,405,999 Buy: USD 3,853,785 September 2011	(3)	-
		<u>(6,151)</u>	<u>(0.54)</u>
	Investment assets including investment liabilities	1,030,843	89.68
	Net other assets	118,688	10.32
	Net assets	1,149,531	100.00

** Single broker priced security.

+ Written down security.

Market value less than £500.

* A related party to the Fund.

Credit ratings

Investment	Market value £000	Percentage of total net assets %
Above investment grade (AAA - BBB)	313,213	27.25
Below investment grade (BB and below)	515,433	44.85
Unrated	208,336	18.12
Total bonds	1,036,982	90.22
Total equities - warrant	12	0.00
Total derivatives	(6,151)	(0.54)
Investment assets including investment liabilities	1,030,843	89.68
Net other assets	118,688	10.32
Net assets	1,149,531	100.00

Source: Standard & Poor's

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		37,667
Revenue	4	74,048	57,200
Expenses	5	(11,311)	(7,461)
Finance costs: Interest	7	(9)	(2)
Net revenue before taxation		62,728	49,737
Taxation	6	(1)	-
Net revenue after taxation		62,727	49,737
Total return before distributions		100,394	115,759
Finance costs: Distributions	7	(72,533)	(56,505)
Change in net assets attributable to shareholders from investment activities		27,861	59,254

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	851,362	462,266
Amounts receivable on issue of shares	369,031	393,016
Amounts payable on cancellation of shares	(104,440)	(66,019)
	264,591	326,997
Dilution adjustment	-	22
Stamp duty reserve tax	(213)	(139)
Unclaimed distributions	6	7
Change in net assets attributable to shareholders from investment activities (see above)	27,861	59,254
Retained distribution on accumulation shares	5,924	2,955
Closing net assets attributable to shareholders	1,149,531	851,362

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			1,040,425		760,697
Debtors	8	35,071		22,893	
Cash and bank balances	9	148,675		109,832	
Total other assets			183,746		132,725
Total assets			<u>1,224,171</u>		<u>893,422</u>
Liabilities					
Investment liabilities			9,582		9,698
Creditors	10	38,033		10,374	
Bank overdrafts		11,420		8,337	
Distribution payable on income shares		15,605		13,651	
Total other liabilities			65,058		32,362
Total liabilities			74,640		42,060
Net assets attributable to shareholders			<u>1,149,531</u>		<u>851,362</u>

Notes to the financial statements

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	(4,791)	(24,798)
Forward currency contracts	(31,480)	13,038
Non-derivative securities	75,430	79,019
Other currency losses	(1,463)	(1,200)
Transaction costs	(29)	(37)
Net capital gains	37,667	66,022

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	604,104	595,801
Commissions	132	21
Total purchase transaction costs*	132	21
Purchases including transaction costs	604,236	595,822
Sales in year before transaction costs	414,590	325,255
Commissions	(11)	(11)
Total sale transaction costs*	(11)	(11)
Sales net of transaction costs	414,579	325,244
Transaction handling charges*	29	37

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	250	69
Distributions from regulated collective investment schemes:		
Interest distributions	-	2
Derivative revenue	(196)	5,191
Interest on debt securities	73,887	51,911
Interest on margin	38	-
Stock lending revenue	69	26
UK dividends	-	1
Total revenue	74,048	57,200

Notes to the financial statements (continued)

4 Revenue (continued)

Stock lending details	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	88,810	25,968

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured.

All collateral held was in the form of securities. The aggregate value of collateral at the year end was £99,275,411 (2010: £27,251,214).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	9,806	6,768
General administration charge*	1,318	497
Sub registration fees	-	19
	<u>11,124</u>	<u>7,284</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	119	82
Safe custody fees	65	48
	<u>184</u>	<u>130</u>
Other expenses:		
Audit fees	-	5
Other expenses	3	4
Printing and postage fees	-	12
Registration fees	-	26
	<u>3</u>	<u>47</u>
Total expenses	<u>11,311</u>	<u>7,461</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £11,520 (2010: £10,810). The audit fee levied through the GAC charge is £11,250 (2010: £5,464)

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in year

The tax charge comprises:	2011 £000	2010 £000
Overseas withholding tax	1	-
Total current tax (note 6b)	1	-

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of income tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011 £000	2010 £000
Net revenue before taxation	62,728	49,737
Income tax at 20% (2010: 20%)	12,546	9,947
Effects of:		
Revenue being paid as interest distributions	(14,507)	(11,301)
Irrecoverable overseas tax	1	-
Unused management expenses	1,961	1,354
Current tax charge for the year (note 6a)	1	-

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £5,198,854 (2010: £3,237,827) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	40,819	32,966
Interim accumulation	3,983	1,805
Final income	15,605	13,651
Final accumulation	1,941	1,150
Tax withheld on interest distributions	12,014	9,204
	<u>74,362</u>	<u>58,776</u>
Amounts deducted on cancellation of shares	781	804
Amounts received on issue of shares	(2,610)	(3,075)
	<u>72,533</u>	<u>56,505</u>
Finance costs: Distributions	72,533	56,505
Finance costs: Interest	9	2
	<u>72,542</u>	<u>56,507</u>
Total finance cost	72,542	56,507
Net revenue after taxation	62,727	49,737
ACD's periodic charge paid from capital	9,806	6,768
	<u>72,533</u>	<u>56,505</u>
Finance cost: Distributions	72,533	56,505

Details of the distribution per share are set out in the distribution table on page 197-200.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	22,574	18,174
Amounts receivable for issue of shares	6,792	3,900
Currency transactions awaiting settlement	-	819
Sales awaiting settlement	5,705	-
	<u>35,071</u>	<u>22,893</u>
Total debtors	35,071	22,893

9 Cash and bank balances

	2011	2010
	£000	£000
Amounts held at futures clearing houses and brokers	-	7,850
Cash and bank balances	148,675	101,982
	<u>148,675</u>	<u>109,832</u>
Total cash and bank balances	148,675	109,832

Notes to the financial statements (continued)

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	910	691
Accrued Depository's fees	11	8
Accrued other expenses	169	152
Amounts payable for cancellation of shares	269	41
Currency transactions awaiting settlement	5	811
Derivative interest payable	7	-
Income tax payable	6,031	4,806
Purchases awaiting settlement	30,631	3,865
Total creditors	38,033	10,374

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 187 and 188 and notes 5, 8 and 10 on pages 190 to 193 including all creations and cancellations where the ACD acted as principal.

Related parties, such as other authorised Funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company, Cofunds Nominees Limited. Cofunds Nominees Limited holds shares comprising 14.51% (2010: nil) of the total net assets attributable to shareholders.

Material transactions throughout the year such as creations and cancellations for this shareholder are included in the Statement of change in net assets attributable to shareholders.

13 Shareholder funds

The Fund currently has 3 share classes; Class A (Retail with front-end charges), Class I (Institutional) and Class Z (Institutional). The annual management charge on each share class is as follows:

Class A	1.25%
Class I	0.60%
Class Z	0.00%*

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 175. The distribution per share class is given in the distribution table on pages 197 to 200. All share classes have same rights on winding up.

Notes to the financial statements (continued)

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on page 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

	Investment assets including investment liabilities £000	Net other assets /(liabilities) £000	Net assets £000
Currency 2011			
Euro	428,853	(4,615)	424,238
UK sterling	512,980	127,098	640,078
US dollar	89,010	(3,795)	85,215
Total	1,030,843	118,688	1,149,531
Currency 2010			
Euro	198,903	38,295	237,198
UK sterling	406,320	117,640	523,960
US dollar	76,405	13,799	90,204
Total	681,628	169,734	851,362

Notes to the financial statements (continued)

14 Risk (continued)

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at the year end is set out in the following table:

	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
Euro	53,012	379,417	9,593	442,022
UK sterling	207,157	457,412	21,306	685,875
US dollar	12,074	80,024	4,176	96,274
Total	272,243	916,853	35,075	1,224,171
2010				
Euro	36,886	198,475	5,996	241,357
UK sterling	137,011	405,770	18,165	560,946
US dollar	12,907	75,821	2,391	91,119
Total	186,804	680,066	26,552	893,422
	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
Euro	-	-	17,784	17,784
UK sterling	11,768	-	34,029	45,797
US dollar	2,790	289	7,980	11,059
Total	14,558	289	59,793	74,640
2010				
Euro	-	295	3,864	4,159
UK sterling	15,938	-	21,048	36,986
US dollar	-	915	-	915
Total	15,938	1,210	24,912	42,060

Notes to the financial statements (continued)

14 Risk (continued)

Fixed rate financial assets

	Weighted average interest rate	Weighted average period for which rate is fixed
Currency	(%)	(years)
2011		
Euro	8.22	10.60
UK sterling	8.62	16.26
US dollar	7.38	12.08
2010		
Euro	8.99	11.54
UK sterling	9.59	18.34
US dollar	9.63	19.84

The 'weighted average interest rate' is based on the redemption yield of each asset, weighted by their market value.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

The ACD assesses the market risk of the Fund's investments including any derivative exposures, using a Value at Risk (VaR) methodology. This process provides the ACD with an estimate of the maximum potential loss that could be expected to occur as a result of changes in market prices over a given period of time in all but a given percentage of circumstances - for example changes in the price of oil or the 2008 financial crisis. If the number is lower than that of its representative benchmark it should be less volatile than the benchmark or more volatile if higher than the benchmark.

The ACD uses the Risk Manager application from Risk Metrics. The VaR is calculated monthly on a 99% confidence level. The model uses 1 year of daily data which is equally weighted applying a decay factor of 0.97. The decay factor refers to a weighting scheme that puts emphasis on recent observation and events. Applying such a weighting scheme gives us risk numbers that are closer to current market conditions. The Strategic Bond Fund is measured against the benchmark FTSE All Stocks Index for comparison purposes. As at the accounting date of this report the Fund's Monthly VaR is 1.89% (2010 – 1.66%) compared to the FTSE All Stocks Index which is 3.54% (2010 – 3.62%). The Fund's annual VaR is 7.63% (2010 – 5.17%) compared to the FTSE All Stocks Index which is 12.82% (2010 – 12.82%). It should be noted that the VaR is only an indication of risk and the actual price movements may prove to be less or more volatile than predicted.

The Fund may open positions on Over-the-Counter (OTC) derivatives, which will typically be futures, options, contracts for difference and swaps. Of these, the Fund will predominantly use Futures, Interest Rate Swaps and Credit Default Swaps (CDS). Futures allow the Investment Manager to purchase an asset (or to sell an asset) at a predetermined future date and price, enabling them to manage the risk to the Fund. In currency forward contracts, the contract holders are obligated to buy or sell the currency at a specified price in a specified quantity on a specified future date. Interest Rate Swaps are an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). The use of interest rate swaps is to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap. A CDS is designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the CDS.

The ACD monitors the Fund's portfolio against the Fund's investment restrictions and risk management policy on a daily basis.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim interest distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income	-	-	-	-	-	1.9545
Class A income						
Group 1	2.1771	0.4354	1.7417	-	1.7417	1.9907
Group 2	1.1050	0.2210	0.8840	0.8577	1.7417	1.9907
Class I income						
Group 1	2.2860	0.4572	1.8288	-	1.8288	2.0426
Group 2	1.1960	0.2392	0.9568	0.8720	1.8288	2.0426
Class I accumulation						
Group 1	3.9428	0.7886	3.1542	-	3.1542	3.3039
Group 2	1.9075	0.3815	1.5260	1.6282	3.1542	3.3039
Class Z accumulation						
Group 1	4.0848	0.8170	3.2678	-	3.2678	3.3925
Group 2	2.0006	0.4001	1.6005	1.6673	3.2678	3.3925
Class A gross income						
Group 1	2.2044	-	2.2044	-	2.2044	2.5194
Group 2	1.0663	-	1.0663	1.1381	2.2044	2.5194
Class I gross income						
Group 1	1.7141	-	1.7141	-	1.7141	1.9135
Group 2	0.8809	-	0.8809	0.8332	1.7141	1.9135
Class I gross accumulation						
Group 1	4.2682	-	4.2682	-	4.2682	4.3976
Group 2	1.6530	-	1.6530	2.6152	4.2682	4.3976
Class Z gross accumulation						
Group 1	4.1687	-	4.1687	-	4.1687	-
Group 2	3.5222	-	3.5222	0.6465	4.1687	-

Distribution table (continued)

Interim interest distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income	-	-	-	-	-	2.1061
Class A income						
Group 1	2.3650	0.4730	1.8920	-	1.8920	2.1464
Group 2	1.2664	0.2533	1.0131	0.8789	1.8920	2.1464
Class I income						
Group 1	2.4846	0.4969	1.9877	-	1.9877	2.2042
Group 2	1.3671	0.2734	1.0937	0.8940	1.9877	2.2042
Class I accumulation						
Group 1	4.3459	0.8692	3.4767	-	3.4767	3.6245
Group 2	1.9259	0.3852	1.5407	1.9360	3.4767	3.6245
Class Z accumulation						
Group 1	4.5175	0.9035	3.6140	-	3.6140	3.7296
Group 2	2.3418	0.4684	1.8734	1.7406	3.6140	3.7296
Class A gross income						
Group 1	2.3944	-	2.3944	-	2.3944	2.7173
Group 2	1.2452	-	1.2452	1.1492	2.3944	2.7173
Class I gross income						
Group 1	1.8631	-	1.8631	-	1.8631	2.0671
Group 2	1.0027	-	1.0027	0.8604	1.8631	2.0671
Class I gross accumulation						
Group 1	4.7214	-	4.7214	-	4.7214	4.8492
Group 2	2.5927	-	2.5927	2.1287	4.7214	4.8492
Class Z gross accumulation						
Group 1	4.6268	-	4.6268	-	4.6268	4.0823
Group 2	2.8568	-	2.8568	1.7700	4.6268	4.0823

Distribution table (continued)

Interim interest distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income						
Group 1	2.1540	0.4308	1.7232	-	1.7232	1.8076
Group 2	1.0493	0.2098	0.8395	0.8837	1.7232	1.8076
Class I income						
Group 1	2.2685	0.4537	1.8148	-	1.8148	1.8884
Group 2	0.9580	0.1916	0.7664	1.0484	1.8148	1.8884
Class I accumulation						
Group 1	4.0301	0.8060	3.2241	-	3.2241	3.1588
Group 2	2.2657	0.4531	1.8126	1.4115	3.2241	3.1588
Class Z accumulation						
Group 1	4.1961	0.8392	3.3569	-	3.3569	3.2697
Group 2	2.0435	0.4087	1.6348	1.7221	3.3569	3.2697
Class A gross income						
Group 1	2.1768	-	2.1768	-	2.1768	2.2876
Group 2	1.1606	-	1.1606	1.0162	2.1768	2.2876
Class I gross income						
Group 1	1.6985	-	1.6985	-	1.6985	1.7702
Group 2	0.9855	-	0.9855	0.7130	1.6985	1.7702
Class I gross accumulation						
Group 1	4.3888	-	4.3888	-	4.3888	4.2425
Group 2	2.8437	-	2.8437	1.5451	4.3888	4.2425
Class Z gross accumulation						
Group 1	4.3078	-	4.3078	-	4.3078	4.3299
Group 2	2.2666	-	2.2666	2.0412	4.3078	4.3299

Distribution table (continued)

Final interest distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income						
Group 1	2.2357	0.4471	1.7886	-	1.7886	1.9697
Group 2	1.1321	0.2264	0.9057	0.8829	1.7886	1.9697
Class I income						
Group 1	2.3792	0.4758	1.9034	-	1.9034	2.0609
Group 2	1.6612	0.3322	1.3290	0.5744	1.9034	2.0609
Class I accumulation						
Group 1	4.2863	0.8572	3.4291	-	3.4291	3.4964
Group 2	1.2661	0.2532	1.0129	2.4162	3.4291	3.4964
Class Z accumulation						
Group 1	4.4915	0.8983	3.5932	-	3.5932	3.6196
Group 2	3.7642	0.7528	3.0114	0.5818	3.5932	3.6196
Class A gross income						
Group 1	2.2630	-	2.2630	-	2.2630	2.4939
Group 2	1.0812	-	1.0812	1.1818	2.2630	2.4939
Class I gross income						
Group 1	1.7676	-	1.7676	-	1.7676	1.9327
Group 2	1.0351	-	1.0351	0.7325	1.7676	1.9327
Class I gross accumulation						
Group 1	4.6476	-	4.6476	-	4.6476	4.7144
Group 2	2.8781	-	2.8781	1.7695	4.6476	4.7144
Class Z gross accumulation	5.7126	1.1425	4.5701	-	4.5701	4.6052

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Managers' report

Fund Managers

Graham Kitchen and Andrew Jones

On 25 February 2011 the Fund's I share class merged into Henderson High Alpha UK Equity I share class. The Fund's A class merged into Henderson UK Alpha A share class, a sub fund of Henderson Investment Fund OEIC. The Fund terminated on 30 June 2011.

Investment objective and policy

To aim to provide a return by investing in United Kingdom companies. The Fund will primarily invest in larger companies and may invest in fixed interest and convertible securities as well as ordinary shares.

Performance summary

Over the period, the Fund rose by 18.8% compared to a 22.7% increase in the FTSE 350 Index.

Discrete annual performance

	1 Jul 10- 24 Feb 11 %	1 Jul 09- 30 Jun 10 %	1 Jul 08- 30 Jun 09 %	1 Jul 07- 30 Jun 08 %	1 Jul 06- 30 Jun 07 %
Henderson UK Equity Fund	18.8	17.9	(21.3)	(18.8)	16.2
FTSE 350 Index	22.7	21.0	(20.5)	(12.6)	18.3

Source: Morningstar - mid to mid (excluding initial charge) 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.

Managers' report

During the eight-month period between 30 June 2010 and 24 February 2011, the Fund returned 18.8%, underperforming the FTSE 350 which rose 22.7%. On 25 February 2011 the Fund merged with the Henderson UK Alpha Fund and the Henderson High Alpha UK Equity Fund.

The UK market made strong gains over the review period, driven higher by positive economic news flow from China, further quantitative easing in the US and generally good corporate earnings in the US and UK. Commodity prices rose significantly, with oil up 34%, copper up 54% while zinc was up 40%. The rises were fuelled by supportive Chinese data and a weakening US dollar. This resulted in the outperformance of mining shares and the Fund's underweight position in the sector detracted from returns.

The Fund's positions in Imperial Tobacco and AstraZeneca were also detractors. Imperial Tobacco's cigarette volume performance disappointed investors despite reassurance on profit growth. AstraZeneca reported good quarterly earnings but underperformed as investors sought more cyclical exposure, and were concerned over future patent expiries. We believe these fears are overly discounted in the share price and the pharmaceutical's exposure to emerging markets should drive more robust earnings in the long term.

Elsewhere, the Fund's holdings in Burberry, Schroders and Jupiter Fund Management all aided performance. Burberry reported a very strong trading update during the period, leading analysts to upgrade their earnings forecasts. Both Jupiter's and Schroders' share prices were underpinned by strong equity markets, solid new fund flows and merger and acquisition activity in the sector.

During the period we initiated a position in Diageo. Diageo is the leading global branded spirits company, owning the number one premium brands in Scotch whisky, gin, tequila and vodka. The company is attractively valued given the strong forecast earnings growth over the next three years. The balance sheet is strong and dividends are growing.

We also added to our position in Prudential, and the credit services provider Experian. Prudential remains convinced that they can continue to grow very strongly in Asia whilst materially increasing cash flow generation across the group. Although not formally targeted at present, this should lead to acceleration in the dividend growth rate. There is also a positive read across the implied valuation of Prudential's Asian assets following the listing of AIA Group. As for Experian, it benefits from significant barriers to entry, high returns, strong cash flows and a robust balance sheet. The company is exposed to structural growth in emerging markets, cyclical recovery in developed markets, and further growth initiatives from moving into new sectors such as utilities and telecoms. The valuation is undemanding given these strong growth drivers and its attractive business model.

Within the aerospace and defence sector we exited our positions in Rolls Royce and Cobham. After Rolls Royce's strong performance during 2010, we believed the valuation fairly reflected the company's prospects. Cobham, meanwhile, has historically been a premium-rated company, reflecting its superior organic growth performance. However, we became concerned about the prospects for future order flow in a more difficult budgetary environment. Believing Cobham would de-rate to a lower valuation multiple, we sold our position. Finally we also took the opportunity to trim several positions. Among these were Whitbread, Burberry and Schroders following strong outperformance during the year. It is important to note that we have maintained positions in all three companies, given their attractive long term fundamentals.

Graham Kitchen and Andrew Jones
12 July 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	71,052,524	193,236	67,266	287.27
30/06/2010*	58,381,708	-	-	-
30/06/2011	-	-	-	-
Class A income				
30/06/2009	71,052,524	38,029,098	13,240,417	287.22
30/06/2010	58,381,708	40,972,551	12,327,204	332.38
30/06/2011**	-	-	-	-
Class I income				
30/06/2009	71,052,524	3,080,689	1,047,551	294.08
30/06/2010	58,381,708	1,243,683	366,984	338.89
30/06/2011**	-	-	-	-
Class I accumulation				
30/06/2009	71,052,524	29,749,501	8,062,680	368.98
30/06/2010	58,381,708	16,165,474	3,662,417	441.39
30/06/2011**	-	-	-	-

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

** Merged with Henderson UK Alpha & Henderson High Alpha UK Equity Funds on 25 February 2011.

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	7.91	472.90	408.40
2007	6.03	506.90	437.60
2008	9.29	476.10	265.70
2009	9.84	359.30	246.20
2010	2.05#	360.10	357.30
2011	-	++	++
Class A income			
2006	10.00	474.10	408.60
2007	8.49	508.30	438.10
2008	11.59	476.30	266.10
2009	11.42	360.10	246.40
2010	8.28	401.20	326.90
2011**	3.20*	407.60+	391.20+
Class I income			
2006	12.26	476.00	408.90
2007	12.09	510.30	438.70
2008	15.01	476.60	267.00
2009	13.81	361.50	294.80
2010	11.18	403.00	326.90
2011**	5.52*	408.10+	391.60+
Class I accumulation			
2006	13.87	550.70	466.80
2007	14.07	596.30	520.40
2008	17.93	571.20	328.30
2009	17.17	465.40	309.60
2010	14.49	536.00	434.80
2011**	7.36*	548.20+	526.00+

* to 25 March.

+ to 24 February.

X share class merged with A share class on 11 January 2010.

** Merged with Henderson UK Alpha & Henderson High Alpha UK Equity Funds on 25 February 2011.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	n/a	1.73
Class I	n/a	0.89

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

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		10,815
Revenue	4	1,313	2,623
Expenses	5	(606)	(940)
Finance costs: Interest	7	-	(1)
Net revenue before taxation		707	1,682
Taxation	6	-	-
Net revenue after taxation		707	1,682
Total return before distributions		11,522	10,841
Finance costs: Distributions	7		(678)
Change in net assets attributable to shareholders from investment activities		10,844	9,159

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	58,382	71,053
Amounts receivable on issue of shares	1,535	2,052
Amounts payable on cancellation of shares	(4,863)	(10,408)
Amounts payable on merger cancellation	(66,239)	-
Amounts outstanding due to merger *	75	-
Amounts payable on in specie transfers	-	(14,009)
	(69,492)	(22,365)
Stamp duty reserve tax	(7)	(8)
Unclaimed distributions	5	8
Change in net assets attributable to shareholders from investment activities (see above)	10,844	9,159
Retained distributions on accumulation shares	268	535
Closing net assets attributable to shareholders	-	58,382

* Fund merged into the Henderson UK Alpha & Henderson High Alpha UK Equity Funds on 25 February 2011.

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			-		58,958
Debtors	8	-		595	
Cash and bank balances	9	<u>30</u>		<u>697</u>	
Total other assets			30		1,292
Total assets			<u>30</u>		<u>60,250</u>
Liabilities					
Creditors	10	30		452	
Bank overdrafts		-		726	
Distribution payable on income shares		<u>-</u>		<u>690</u>	
Total other liabilities			30		<u>1,868</u>
Total liabilities			30		1,868
Net assets attributable to shareholders			<u>-</u>		<u>58,382</u>

Notes to the financial statements

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Non-derivative securities	10,820	9,165
Transaction costs	(5)	(6)
Net capital gains	10,815	9,159

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	7,141	11,586
Commissions	10	45
Taxes	31	14
Total purchase transaction costs*	41	59
Purchases including transaction costs	7,182	11,645
Sales in year before transaction costs	76,932	33,461
Commissions	(11)	(18)
Total sale transaction costs*	(11)	(18)
Sales net of transaction costs	76,921	33,443
Transaction handling charges*	5	6

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Interest on unclaimed distributions	-	1
Overseas dividends	29	41
UK dividends	1,282	2,572
Underwriting commission	2	9
Total revenue	1,313	2,623

Notes to the financial statements (continued)

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	547	810
General administration charge*	80	57
Sub registration fees	-	22
	<u>627</u>	<u>889</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	5	7
Safe custody fees	1	2
	<u>6</u>	<u>9</u>
Other expenses:		
Audit fees	-	6
FSA fees	(1)	-
Legal fees	-	1
Listing fees	(19)	-
Printing and postage fees	(7)	12
Registration fees	-	23
	<u>(27)</u>	<u>42</u>
Total expenses	<u>606</u>	<u>940</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £5,640 (2010: £9,408). The audit fee levied through the GAC charge is £5,640 (2010: £4,638).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs).

	2011	2010
	£000	£000
Net revenue before taxation	707	1,682
Corporation tax at 20% (2010: 20%)	141	336
Effects of:		
Non-taxable overseas dividends**	(6)	(8)
UK dividends*	(256)	(514)
Unused management expenses	121	186
Current tax charge for the year (note 6a)	-	-

* As an OEIC this item is not subject to corporation tax.

** Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: £nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £6,374,875 (2010: £6,253,874) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	401	383
Interim accumulation	268	199
Final income	-	690
Final accumulation	-	336
	669	1,608
Amounts deducted on cancellation of shares	13	90
Amounts received on issue of shares	(4)	(16)
Finance costs: Distributions	678	1,682
Finance costs: Interest	-	1
Total finance cost	678	1,683
Net revenue after taxation	707	1,682
Undistributed revenue	(29)	-
Finance cost: Distributions	678	1,682

Details of the distribution per share are set out in the distribution table on page 213.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	-	438
Amounts receivable for issue of shares	-	2
Sales awaiting settlement	-	155
Total debtors	-	595

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	30	697
Total cash and bank balances	30	697

Notes to the financial statements (continued)

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	-	65
Accrued Depositary's fees	-	1
Accrued other expenses	-	42
Amounts payable for cancellation of shares	-	107
Amounts outstanding due to merger	30	-
Purchases awaiting settlement	-	237
Total creditors	30	452

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 206 and 207 and notes 5, 8 and 10 on pages 209 to 212 including all creations and cancellations where the ACD acted as principal.

13 Shareholder funds

The Fund currently has 2 share classes; Class A (Retail with front-end charges) and Class I (Institutional). The annual management charge on each share class is as follows:

Class A	1.50%
Class I	0.75%

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 203. The distribution per share class is given in the distribution table on page 213. All share classes have same rights on winding up.

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

The Fund's exposure to interest rate risk and currency risk is considered insignificant. This is consistent with the exposure during the prior year.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

A sensitivity analysis has not been provided as no significant material derivative activity has been undertaken during the year.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim dividend distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: Shares purchased prior to 1 July 2010

Group 2: Shares purchased on or after 1 July 2010

	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income	-	-	-	2.0525
Class A income				
Group 1	2.2189	-	2.2189	2.8874
Group 2	0.9631	1.2558	2.2189	2.8874
Class I income				
Group 1	3.9694	-	3.9694	4.1290
Group 2	1.7795	2.1899	3.9694	4.1290
Class I accumulation				
Group 1	5.2795	-	5.2795	5.3161
Group 2	3.8346	1.4449	5.2795	5.3161

Merger dividend distribution (xd date 24 February 2011, paid on 25 March 2011)

Group 1: Shares purchased prior to 1 January 2011

Group 2: Shares purchased on or after 1 January 2011

	Net revenue	Equalisation	Distribution paid 25/03/2011	
Class A income				
Group 1	0.9833	-	0.9833	
Group 2	0.7285	0.2548	0.9833	
Class I income				
Group 1	1.5467	-	1.5467	
Group 2	-	1.5467	1.5467	
Class I accumulation	2.0777	-	2.0777	

Final dividend distribution (xd date 30 June 2011, paid on 31 August 2011)

	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income	-	-	-	5.3905
Class I income	-	-	-	7.0465
Class I accumulation	-	-	-	9.1776

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

James Henderson

Investment objective and policy

To aim to provide revenue 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.

Performance summary

Over the period, the Fund increased by 35.6% compared with a 25.6% increase in the FTSE All Share Index.

Discrete annual performance†

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson UK Equity Income Fund	35.6	32.9	(27.8)	(25.9)	24.0
FTSE All Share Index	25.6	21.1	(20.5)	(13.0)	18.4

†Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
Phoenix Group	6,704	ASOS.com	7,628
Phoenix	3,648	Western Coal	3,940
United Business Media	3,644	Weir	3,711
BAE Systems	2,413	BP	3,304
Morgan Crucible	2,344	British Insurance Holdings	2,562
Legal & General	2,284	Xstrata	2,518
Henderson International Income Trust *	2,250	Tomkins	1,286
IP	2,169	Rio Tinto	1,018
Oxford Catalysts	2,003	Henderson Diversified Income *	967
Mecom	1,771	Prudential	637

* A related party to the Fund

Manager's report

Activity

Over the year the fund returned 35.6% while the FTSE All-Share Index returned 25.6%. The Fund's outperformance was mainly attributed to our bias towards medium and small companies, particularly those in the industrial sector which has been producing strong earnings growth. The current operational gearing in these stocks when sales are increasing has continued to surprise investors. Strong earnings have led to substantial cash generation and as a result, balance sheets are now much improved. Companies have been growing their dividends at a higher than expected rate. Consequently these stocks are finding favour and the share prices are rising at a time when the returns on bonds and cash are relatively lower.

The portfolio is a mix of large, medium and small companies. Every holding is there because we believe it to be a robust and growing business. The portfolio is genuinely diversified by the activities of the companies held. We have found the best value in the smaller company area; these companies can control their own destinies in a period when there are very great macroeconomic uncertainties. For instance, there are no large general retailers in the Fund as the UK high street is currently experiencing very tough business conditions. That being said, the most successful holding in the portfolio in recent years has been online retailer, ASOS. This illustrates how a smaller company can be a successful investment regardless of the operating background. The holding in this company has now been profitably reduced and the proceeds are being reinvested across a wide range of businesses. It is important to recycle profits into new ideas.

Portfolio activity

In 2008 the dramatic economic slowdown meant earnings of companies and their share prices fell dramatically. This has created opportunities to buy shares at prices below their fundamental value. We have always focused on buying a certain number of recovery situations and the returns from these stocks have added substantial value over the last few years. The global industrial economy is growing and global trade is expanding. Firms that are successfully servicing this growth with competitive products will continue to operate profitably. It is important to remain invested in the companies that have a strong international franchise. Hence the activity within the portfolio has been low over the year. We have tried to reduce exposure to companies that are not truly competitive while staying with the strong performers. Individual holdings in successful companies such as Senior have therefore become larger parts of this portfolio. It is important to run with the winners and not be tempted to sell, as the current trends of a difficult economic environment in the UK and international growth, particularly in emerging markets, is set to continue.

Outlook

There are some very good companies with strong growth prospects to be found in the UK market. They are usually internationally focused and have a competitive edge. It is these companies that we focus on in the portfolio. They will come in all sizes with some of the best being small companies today. The portfolio is not a proxy for the UK economy, rather, it is a collection of dynamic businesses that are quoted in the UK. Their valuations are very undemanding as investors worry about the very testing economic background. This is the opportunity for the patient investor to buy quality long-term holdings in companies that will grow significantly in the coming years. The distributions from the Fund will we hope grow over the coming year as the companies in the portfolio come through in aggregate with growing profits and strong cash generation. The portfolio will remain broadly spread and hold a relatively large number of companies in order to reduce stock-specific risk. This also allows us to buy small companies and recovery shares at an early stage of their development. It is amongst these companies that major firms of tomorrow will be found. These holdings are blended with large mature companies to produce a portfolio that aims to grow both capital and income over time.

James Henderson
22 August 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	188,958,979	872,010	334,642	260.58
30/06/2010*	254,038,314	-	-	-
Class A income				
30/06/2009	188,958,979	56,091,615	20,882,939	268.60
30/06/2010	254,038,314	69,083,031	20,041,281	344.70
30/06/2011	366,824,783	103,866,696	22,806,871	455.42
Class I income				
30/06/2009	188,958,979	44,854,321	15,790,655	284.06
30/06/2010	254,038,314	67,602,896	18,368,603	368.04
30/06/2011	366,824,783	59,284,941	12,085,796	490.53
Class I accumulation				
30/06/2009	188,958,979	200,194	51,045	392.19
30/06/2010	254,038,314	10,590,264	1,991,413	531.80
30/06/2011	366,824,783	14,143,367	1,926,530	734.14
Class Z income				
30/06/2009	188,958,979	2,420,344	2,936,143	82.43
30/06/2010	254,038,314	2,964,860	2,748,071	107.89
30/06/2011	366,824,783	59,578,529	41,158,128	144.76
Class P income				
30/06/2009	188,958,979	84,520,495	111,339,311	75.91
30/06/2010	254,038,314	103,797,263	106,414,303	97.54
30/06/2011	366,824,783	129,951,250	100,841,664	128.87

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

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	18.45	528.90	442.40
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	336.40
Class A income			
2006	18.93	542.90	453.20
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	11.08*	459.40+	414.60+
Class I income			
2006	19.38	561.30	466.70
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	12.46*	493.60+	444.40+
Class I accumulation			
2006	23.43	696.40	562.60
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	18.58*	738.80+	661.40+
Class Z income			
2006	4.95	160.30	133.50
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	3.67*	146.10+	131.20+
Class P income			
2006	4.80	153.90	127.50
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	3.14*	130.00+	117.30+

* to 31 August

+ to 30 June

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

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	1.75	1.67
Class I	0.82	0.83
Class Z	0.07	0.08
Class P	1.75	1.67

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
	Fixed interest 0.49% (2010: 0.62%)		
GBP 2,000,000	Legal & General 6.385% Perpetual	1,788	0.49
	Equities 99.46% (2010: 97.27%)		
	Basic materials 5.65% (2010: 4.84%)		
2,692,000	Acertec ^	-	
950,925	Carclo	2,948	0.80
400,000	Croda	7,548	2.06
3,000,000	Elementis	5,175	1.41
2,450,000	Oxford Catalysts	2,009	0.55
3,000,000	Scapa	1,815	0.49
3,444,040	UK Coal	1,240	0.34
		20,735	5.65
	Construction and building 0.58% (2010: 0.73%)		
300,000	Bellway	2,145	0.58
	Consumer goods 8.32% (2010: 6.46%)		
806,463	Alba	198	0.05
225,000	British American Tobacco	6,145	1.68
24,716	Churchill China	68	0.02
750,000	Dairy Crest	2,775	0.76
3,850,000	GKN	8,924	2.43
500,000	Headlam	1,460	0.40
645,000	Hornby	877	0.24
3,666,666	Hot Tuna International	3	0.00
2,028,395	Interserve	6,542	1.78
202,500	Portmeirion Potts	982	0.27
1,576,316	Theo Fennell	307	0.08
100,000	Unilever	2,006	0.55
280,000	Uniq	216	0.06
		30,503	8.32
	Consumer services 9.36% (2010: 9.42%)		
6,288,031	Alexon	652	0.18
175,000	ASOS.com	4,200	1.14
1,083,333	Cineworld	2,205	0.60
600,000	Daily Mail & General Trust	2,786	0.76
38,733,887	Findel	2,971	0.81
650,000	Halfords	2,413	0.66
3,279,970	Infrastructure India	2,591	0.71
300,000	Infrastructure India Warrants 30/06/2013	25	0.01
2,750,000	Jacques Vert	461	0.13
3,000,000	Marston's	3,054	0.83
815,917	Mecom	1,760	0.48
666,667	Norcon	287	0.08
400,000	Pearson	4,704	1.28

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Consumer services (continued)			
150,000	Reed Elsevier	849	0.23
250,000	Sainsbury(J)	824	0.22
150,000	Tesco	603	0.16
1,547,500	Topps Tiles	882	0.24
550,000	United Business Media	3,061	0.84
		<u>34,328</u>	<u>9.36</u>
Financials 24.31% (2010: 25.31%)			
1,363,636	Abbey Protection	1,105	0.30
1,300,000	Amlin	5,279	1.44
300,000	Aurora	642	0.18
1,250,107	Aviva	5,488	1.50
235,000	Canfor Pulp Income Fund	2,651	0.72
2,968,750	Chaucer	1,577	0.43
2,537,079	Chesnara	6,140	1.67
923,921	EPE Special Opportunities	337	0.09
100,000	FBD	641	0.17
1,499,630	H&T	5,174	1.41
1,898,000	Hardy Underwriting	5,295	1.44
2,250,000	Henderson International Income Trust	2,261	0.62
1,081,753	Henderson Opportunities Trust *	5,268	1.44
116,350	Henderson Opportunities Trust Sub Shares * #	-	-
1,375,000	Herald Investment Trust	7,267	1.98
2,010,000	Hiscox	8,420	2.30
841,666	HSBC	5,205	1.42
662,497	Intermediate Capital	2,138	0.58
750,000	International Personal Finance	2,759	0.75
9,351,000	IP	4,629	1.26
250,000	Jardine Lloyd Thomson	1,703	0.46
690,008	Jupiter	1,745	0.48
2,000,000	Legal & General	2,364	0.64
3,500,000	London Scottish Bank +	-	-
222,221	Novae	789	0.22
250,000	Numis	240	0.07
375,000	Provident Financial	3,611	0.98
604,770	Prudential	4,354	1.19
3,150,000	T2 Income Fund	1,260	0.34
1,350,000	Tawa	837	0.23
		<u>89,179</u>	<u>24.31</u>
Health care 2.29% (2010: 2.83%)			
628,783	GlaxoSmithKline	8,388	2.29

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Industrials 33.30% (2010: 32.87%)			
2,447,807	Autologic	539	0.15
195,000	Avon Rubber	599	0.16
641,398	Babcock International	4,567	1.25
1,250,000	BAE Systems	3,981	1.09
1,428,571	Balfour Beatty	4,407	1.20
1,724,884	BBA	3,752	1.02
400,000	Begbies Traynor	173	0.05
1,700,000	Carillion	6,394	1.74
1,746,305	Castings	5,894	1.61
1,397,502	Clarke (T)	1,174	0.32
50,000	Clarkson (Horace)	622	0.17
625,000	Eleco	81	0.02
4,000,000	Fiberweb	2,370	0.65
1,824,235	Goldenport	1,934	0.53
997,539	Halma	4,133	1.13
870,578	Hampson Industries	222	0.06
2,052,425	Hill & Smith	7,137	1.95
300,000	IMI	3,159	0.86
8,709,000	Johnson Service	2,918	0.80
1,111,535	Low & Bonar	729	0.20
2,000,000	Macfarlane	530	0.14
1,240,000	Marshalls	1,327	0.36
1,830,911	Meggitt	6,985	1.90
429,114	Melrose	1,553	0.42
3,436,563	Metalrax	348	0.09
750,000	Morgan Crucible	2,309	0.63
7,299,457	Renold	2,664	0.73
439,721	Rolls Royce	2,834	0.77
42,213,216	Rolls Royce 'C'	42	0.01
1,056,578	RPC	3,837	1.05
12,502,667	Senior	22,730	6.20
650,000	Severfield-Rowen	1,412	0.38
1,500,000	Shanks	1,917	0.52
2,687,403	Smith (DS)	6,748	1.84
3,561,980	Somero Enterprises	499	0.14
850,000	Stobart	1,232	0.34
1,800,313	Trifast	918	0.25
1,050,000	TT Electronics	2,108	0.57
300,000	Weir	6,381	1.74
800,000	Wincanton	940	0.26
		122,099	33.30
Oil & gas 7.29% (2010: 8.37%)			
665,000	Baltic Oil Terminals	167	0.05
2,571,345	BP	11,794	3.21
665,159	Royal Dutch Shell 'B'	14,793	4.03
		26,754	7.29

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Real estate 1.17% (2010: 1.44%)			
400,000	Mucklow (A&J)	1,280	0.35
430,887	Segro	1,346	0.37
901,661	St Modwen	1,668	0.45
		<u>4,294</u>	<u>1.17</u>
Technology 2.75% (2010: 0.00%)			
100,000	Micro Focus International	335	0.09
1,500,000	Phoenix	3,518	0.96
1,025,000	Phoenix Group	6,247	1.70
		<u>10,100</u>	<u>2.75</u>
Telecommunications 1.11% (2010: 1.70%)			
362,760	Inmarsat	2,017	0.55
1,250,000	Vodafone	2,066	0.56
		<u>4,083</u>	<u>1.11</u>
Utilities 3.33% (2010: 3.30%)			
100,000	Centrica	323	0.09
1,500,000	Ipsa	83	0.02
1,186,520	National Grid	7,268	1.98
545,454	Pennon	3,807	1.04
50,000	Severn Trent	736	0.20
		<u>12,217</u>	<u>3.33</u>
Unit trusts 0.00% (2010: 0.01%)			
9,455	Henderson UK Equity Inc Trust Z *	18	-
		<u>18</u>	<u>-</u>
Investment assets		366,631	99.95
	Net other assets	194	0.05
	Net assets	366,825	100.00

* A related party to the Fund.

+ Written down security

Market Value less than £500

^ Suspended Security

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2	87,629	57,905
Revenue	4	11,981	10,446
Expenses	5	(4,220)	(3,655)
Finance costs: Interest	7	(8)	(48)
Net revenue before taxation		7,753	6,743
Taxation	6	(48)	(23)
Net revenue after taxation		7,705	6,720
Total return before distributions		95,334	64,625
Finance costs: Distributions	7	(11,315)	(9,913)
Change in net assets attributable to shareholders from investment activities		84,019	54,712

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	254,038	188,959
Amounts receivable on issue of shares	111,115	49,934
Amounts payable on cancellation of shares	(82,555)	(39,796)
	28,560	10,138
Dilution adjustment	-	15
Stamp duty reserve tax	(246)	(111)
Unclaimed distributions	39	40
Change in net assets attributable to shareholders from investment activities (see above)	84,019	54,712
Retained distribution on accumulation shares	415	285
Closing net assets attributable to shareholders	366,825	254,038

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			366,631		248,715
Debtors	8	7,297		1,357	
Cash and bank balances	9	4,119		8,433	
Total other assets			11,416		9,790
Total assets			<u>378,047</u>		<u>258,505</u>
Liabilities					
Creditors	10	2,498		998	
Bank overdrafts		3,568		-	
Distribution payable on income shares		5,156		3,469	
Total other liabilities			<u>11,222</u>		<u>4,467</u>
Total liabilities			11,222		4,467
Net assets attributable to shareholders			<u>366,825</u>		<u>254,038</u>

Notes to the financial statements as at 30 June 2011

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	-	1,196
Non-derivative securities	87,639	56,753
Other currency losses	(2)	(34)
Transaction costs	(8)	(10)
Net capital gains	87,629	57,905

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	58,272	36,934
Commissions	107	61
Taxes	146	142
Total purchase transaction costs*	253	203
Purchases including transaction costs	58,525	37,137
Sales in year before transaction costs	28,448	43,049
Commissions	(41)	(66)
Total sale transaction costs*	(41)	(66)
Sales net of transaction costs	28,407	42,983
Transaction handling charges*	8	10

* These amounts have been deducted in determining net capital gains.

Notes to the financial statements (continued)

4 Revenue

	2011	2010
	£000	£000
Bank interest	7	14
Certificates of deposit revenue	-	122
Distributions from regulated collective investment schemes:		
Unfranked investment revenue	-	117
Interest on debt securities	207	380
Overseas dividends	1,392	767
Stock lending revenue	54	51
UK dividends	10,152	8,563
UK REIT revenue	94	148
Underwriting commission	75	284
Total revenue	11,981	10,446

Stock lending details

	2010	2009
	£000	£000
Aggregate value of securities on loan at the year end	32,692	41,615

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £35,243,555 (2010: £17,491,343).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	3,610	3,131
General administration charge*	563	225
Sub registration fees	-	175
	<u>4,173</u>	<u>3,531</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	37	28
Safe custody fees	10	8
	<u>47</u>	<u>36</u>
Other expenses:		
Audit fees	-	5
Printing and postage fees	-	26
Registration fees	-	57
	<u>-</u>	<u>88</u>
Total expenses	4,220	3,655

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £9,240 (2010: £9,048). The audit fee levied through the GAC charge is £9,240 (2010: £4,638).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

The tax charge comprises:

	2011	2010
	£000	£000
Overseas withholding tax	48	23
Total current tax (note 6b)	48	23

(b) Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	7,753	6,743
Corporation tax at 20% (2010: 20%)	1,551	1,349
Effects of:		
Irrecoverable overseas tax	48	23
Non-taxable overseas dividends **	(278)	(178)
UK dividends*	(2,030)	(1,719)
Unused management expenses	757	548
Current tax charge for the year (note 6a)	48	23

* As an OEIC this item is not subject to corporation tax.

** Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £15,123,059 (2010: £14,365,106) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	5,951	6,289
Interim accumulation	205	131
Final income	5,156	3,469
Final accumulation	210	154
	<u>11,522</u>	<u>10,043</u>
Amounts deducted on cancellation of shares	183	173
Amounts received on issue of shares	(390)	(303)
	<u>11,315</u>	<u>9,913</u>
Finance costs: Distributions	11,315	9,913
Finance costs: Interest	8	48
	<u>11,323</u>	<u>9,961</u>
Total finance cost	11,323	9,961
Net revenue after taxation	7,705	6,720
ACD's periodic charge paid from capital	3,610	3,018
Sub Registration fees paid from capital	-	175
	<u>11,315</u>	<u>9,913</u>
Finance cost: Distributions	11,315	9,913

Details of the distribution per share are set out in the distribution table on pages 231 to 234.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	1,426	1,116
Amounts receivable for issue of shares	5,870	161
Overseas withholding tax reclaimable	1	-
Sales awaiting settlement	-	80
	<u>7,297</u>	<u>1,357</u>
Total debtors	7,297	1,357

9 Cash and bank balances

	2011	2010
	£000	£000
Amounts held at futures clearing houses and brokers	-	1
Cash and bank balances	4,119	8,432
	<u>4,119</u>	<u>8,433</u>
Total cash and bank balances	4,119	8,433

Notes to the financial statements (continued)

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	327	270
Accrued Depositary's fees	4	2
Accrued other expenses	111	93
Amounts payable for cancellation of shares	871	230
Purchases awaiting settlement	1,185	403
Total creditors	2,498	998

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 223 and 224 and notes 5, 8 and 10 on pages 226 to 229 including all creations and cancellations where the ACD acted as principal.

Henderson Investment Funds Limited, as ACD to the Fund is a related party. The ultimate controlling party of Henderson Investment Funds Limited is Henderson Group plc. Aggregate value of purchases and sales transactions in, and revenue receivable from Henderson Group plc and its subsidiaries for the year amounts to £3,368,953 (2010: £173,567).

Related parties, such as authorised funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company. Harewood Nominees Limited. Harewood Nominees Limited holds shares comprising 15.77% (2010: nil) of the total net assets of the Fund.

Material transactions throughout the year such as creations and cancellations for this shareholder are included in the Statement of change in net assets attributable to shareholders.

13 Shareholder funds

The Fund currently has 4 share classes; Class A (Retail with front-end charges), Class I (Institutional), Class Z (Institutional) and Class P (Institutional). The annual management charge on each share class is as follows:

Class A	1.50%
Class I	0.75%
Class Z	0.00%*
Class P	1.50%

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 216. The distribution per share class is given in the distribution table on pages 231 to 234. All share classes have the same rights on winding up.

Notes to the financial statements (continued)

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

The Fund's exposure to currency risk and interest rate risk is considered insignificant. This is consistent with the exposure during the prior year.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity Analysis

A sensitivity analysis has not been provided as no significant derivative activity has been undertaken during the year.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim dividend distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income				3.6191
Class A income				
Group 1	3.5440	-	3.5440	3.7346
Group 2	2.1416	1.4024	3.5440	3.7346
Class I income				
Group 1	3.9858	-	3.9858	3.9542
Group 2	3.3821	0.6037	3.9858	3.9542
Class I accumulation				
Group 1	5.8430	-	5.8430	5.5672
Group 2	4.3346	1.5084	5.8430	5.5672
Class Z income				
Group 1	1.1780	-	1.1780	1.1282
Group 2	0.8464	0.3316	1.1780	1.1282
Class P income				
Group 1	1.0027	-	1.0027	1.0568
Group 2	0.5010	0.5017	1.0027	1.0568

Distribution table (continued)

Interim dividend distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income				2.1228
Class A income				
Group 1	2.2211	-	2.2211	2.1901
Group 2	1.0084	1.2127	2.2211	2.1901
Class I income				
Group 1	2.5335	-	2.5335	2.3096
Group 2	1.9087	0.6248	2.5335	2.3096
Class I accumulation				
Group 1	3.7499	-	3.7499	3.2872
Group 2	2.6065	1.1434	3.7499	3.2872
Class Z income				
Group 1	0.7470	-	0.7470	0.6766
Group 2	0.6062	0.1408	0.7470	0.6766
Class P income				
Group 1	0.6290	-	0.6290	0.6198
Group 2	0.2782	0.3508	0.6290	0.6198

Distribution table (continued)

Interim dividend distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income				
Group 1	2.2603	-	2.2603	3.0180
Group 2	1.3070	0.9533	2.2603	3.0180
Class I income				
Group 1	2.6273	-	2.6273	3.3624
Group 2	1.6856	0.9417	2.6273	3.3624
Class I accumulation				
Group 1	3.9101	-	3.9101	4.8157
Group 2	2.1409	1.7692	3.9101	4.8157
Class Z income				
Group 1	0.7728	-	0.7728	0.9844
Group 2	0.4326	0.3402	0.7728	0.9844
Class P income				
Group 1	0.6390	-	0.6390	0.8546
Group 2	0.3670	0.2720	0.6390	0.8546

Distribution table (continued)

Final dividend distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income				
Group 1	6.5997	-	6.5997	4.8726
Group 2	2.7134	3.8863	6.5997	4.8726
Class I income				
Group 1	7.2974	-	7.2974	5.3506
Group 2	3.3647	3.9327	7.2974	5.3506
Class I accumulation				
Group 1	10.9213	-	10.9213	7.7314
Group 2	0.9636	9.9577	10.9213	7.7314
Class Z income				
Group 1	2.1531	-	2.1531	1.5513
Group 2	0.7683	1.3848	2.1531	1.5513
Class P income				
Group 1	1.8672	-	1.8672	1.3784
Group 2	0.4125	1.4547	1.8672	1.3784

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

Job Curtis

On 18 June 2010 the Fund merged into the Henderson Managed Distribution Fund, a sub fund of the Henderson Investment Fund OEIC. The Fund terminated on 30 June 2011.

Investment objective and policy

To aim to provide an above average and increasing income and long term prospects for capital growth. The Fund will invest in higher yielding shares and convertibles of UK companies and in fixed interest stocks. At least 80% by value of the Fund will be UK investments.

Discrete annual performance

	1 Jul 09- 17 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%
Henderson UK Extra Income Fund	23.8	(15.2)	(15.4)	14.8
80% FTSE All Share & 20% FTA All Gilt Index	24.4	(13.8)	(9.2)	14.6

Source: Morningstar - mid to mid (excluding initial charge) 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.

Comparative tables as at 30 June 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	51,627,504	134,000	158,227	84.69
30/06/2010**	-+	-	-	-
30/06/2011	-	-	-	-
Class A income				
30/06/2009	51,627,504	51,483,810	59,969,591	85.85
30/06/2010	-+	-	-	-
30/06/2011	-	-	-	-
Class I income				
30/06/2009	51,627,504	9,694	11,061	87.64
30/06/2010	-+	-	-	-
30/06/2011	-	-	-	-

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

+ Fund merged into Henderson Managed Distribution Fund on 18 June 2010.

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	5.32	134.90	119.40
2007	5.40	139.40	126.60
2008	5.73	134.70	83.53
2009	5.04	104.70	72.26
2010**	1.13	109.20	103.70
2011	-	-+	-+
Class A income			
2006	5.17	135.40	119.70
2007	5.44	140.10	127.30
2008	5.80	131.00	84.19
2009	5.14	106.30	73.20
2010	3.83	111.20	100.50
2011	-	-+	-+
Class I income			
2006	5.25	137.10	120.70
2007	5.51	142.20	129.40
2008	5.91	133.50	86.27
2009	5.17	108.80	74.60
2010	4.04	114.10	103.30
2011	-	-+	-+

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

+ Fund merged into Henderson Managed Distribution Fund on 18 June 2010.

Statement of total return for the year ended 30 June 2011

	Notes	2011		2010	
		£000	£000	£000	£000
Income					
Net capital gains	2		9		11,420
Revenue	4	(1)		3,118	
Expenses	5	8		(998)	
Finance costs: Interest	7	-		-	
Net revenue before taxation		7		2,120	
Taxation	6	-		(1)	
Net revenue after taxation			7		2,119
Total return before distributions			16		13,539
Finance costs: Distributions	7		-		(2,810)
Change in net assets attributable to shareholders from investment activities			16		10,729

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011		2010	
	£000	£000	£000	£000
Opening net assets attributable to shareholders		-		51,628
Amounts receivable on issue of shares	-		3,120	
Amounts payable on cancellation of shares	-		(6,334)	
Amounts payable on mergers *	-		(59,009)	
Amounts outstanding due to mergers *	(16)		(122)	
		(16)		(62,345)
Stamp duty reserve tax		-		(13)
Unclaimed distributions		-		1
Change in net assets attributable to shareholders from investment activities (see above)		16		10,729
Closing net assets attributable to shareholders		-		-

* Fund merged into Henderson Managed Distribution Fund on 18 June 2010.

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			-		-
Debtors	8	-		720	
Cash and bank balances	9	29		248	
Total other assets			29		968
Total assets			<u>29</u>		<u>968</u>
Liabilities					
Creditors	10	29		192	
Distribution payable on income shares		-		776	
Total other liabilities			29		968
Total liabilities			29		968
Net assets attributable to shareholders			<u>-</u>		<u>-</u>

Notes to the financial statements

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	-	11,420
Non-derivative securities	9	-
Other currency gains	-	4
Transaction costs	-	(4)
Net capital gains	9	11,420

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	-	10,823
Commissions	-	5
Taxes	-	17
Total purchase transaction costs*	-	22
Purchases including transaction costs	-	10,845
Sales in year before transaction costs	-	23,202
Commissions	-	(27)
Total sale transaction costs*	-	(27)
Sales net of transaction costs	-	23,175
Transaction handling charges*	-	4

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	1	2
Interest on debt securities	-	957
Overseas dividends	-	30
Stock lending revenue	1	8
UK dividends	(1)	2,074
UK REIT revenue	-	12
Underwriting commission	(2)	35
Total revenue	(1)	3,118

Notes to the financial statements (continued)

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	2	870
General administration charge*	-	48
Sub registration fees	-	65
	<u>2</u>	<u>983</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	-	6
Safe custody fees	-	12
	<u>-</u>	<u>18</u>
Audit fees	(4)	6
FSA fees	-	(1)
Listing fees	-	(21)
Printing and postage fees	(6)	11
Registration fees	-	2
	<u>(10)</u>	<u>(3)</u>
Total expenses	<u>(8)</u>	<u>998</u>

Irrecoverable VAT is included in the above expenses where relevant.

* The current year audit fees are £nil (2010: £2,714). The audit fee levied through the GAC charge is £nil (2010: £1,271).

6 Taxation

(a) Analysis of charge in the year

The tax charge comprises:

	2011	2010
	£000	£000
Overseas withholding tax	-	1
Total current tax (note 6b)	<u>-</u>	<u>1</u>

Notes to the financial statements (continued)

6 Taxation (continued)

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs)

	2011	2010
	£000	£000
Net revenue before taxation	7	2,120
Corporation tax at 20% (2010: 20%)	1	424
Effects of:		
Irrecoverable overseas tax	-	1
Non taxable overseas dividends**	-	(6)
Revenue taxable in different periods	(1)	(3)
UK dividends*	-	(415)
Current tax charge for the period (note 6a)	-	1

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

*As an OEIC this is not subject to corporation tax.

**Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in the Finance Act 2009.

(c) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £306,275 (2010: £307,782) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	-	2,021
Final income	-	776
	-	2,797
Amounts deducted on cancellation of shares	-	36
Amounts received on issue of shares	-	(23)
Finance costs: Distributions	-	2,810
Total finance cost	-	2,810
Net revenue after taxation	7	2,119
ACD's periodic charge paid from capital	2	696
Undistributed revenue	(9)	(5)
Finance cost: Distributions	-	2,810

Details of the distribution per share are set out in the distribution table on page 244.

Notes to the financial statements (continued)

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	-	720
Total debtors	-	720

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	29	248
Total cash and bank balances	29	248

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	-	42
Accrued other expenses	-	28
Currency transactions awaiting settlement	-	122
Amounts outstanding due to merger	29	-
Total creditors	29	192

11 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 237 and 238 and notes 5, 8 and 10 on pages 240 to 242 including all creations and cancellations where the ACD acted as principal.

12 Shareholder funds

The Fund currently has 2 share classes; Class A (Retail with front-end charges) and Class I (Institutional). The annual management charge on each share class is as follows:

Class A	1.50%
Class I	0.75%

Notes to the financial statements (continued)

13 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

The Fund's exposure to currency risk is considered insignificant. This is consistent with the exposure during the prior year.

Interest rate risk

The Fund's exposure to interest rate risk is considered insignificant in the current year.

The interest rate risk profile of the Fund's financial assets and liabilities at the prior year end is set out in the following table:

	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Total
Currency	£000	£000	£000	£000
2010				
UK sterling	248	-	720	968
Total	248	-	720	968

	Fixed rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000
2010			
UK sterling	-	968	968
Total	-	968	968

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

A sensitivity analysis has not been provided as no significant derivative activity has been undertaken in the year.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim dividend distribution (xd date 30 September 2010, paid on 30 November 2010)

	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income	-	-	-	0.9456
Class A income	-	-	-	0.9711
Class I income	-	-	-	1.0323

Interim dividend distribution (xd date 31 December 2010, paid on 28 February 2011)

	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income	-	-	-	1.1343
Class A income	-	-	-	1.1619
Class I income	-	-	-	1.0679

Interim dividend distribution (xd date 31 March 2011, paid on 31 May 2011)

	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income	-	-	-	1.3100
Class I income	-	-	-	1.3631

Final dividend distribution (xd date 30 June 2011, paid on 31 August 2011)

	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 19/07/2010
Class A income	-	-	-	1.3595
Class I income	-	-	-	1.6078

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

Phillip Apel

Investment objective and policy

To provide a return by investing primarily in United Kingdom Government securities. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Performance summary

Over the year, the Fund rose by 2.6% compared to a 3.1% increase in the FTA British Government All Stocks Index.

Discrete annual performance†

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson UK Gilt Fund	2.6	5.5	13.1	3.8	(2.0)
FTA British Govt. All Stocks Index	3.1	6.7	12.9	6.2	(0.7)

† Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
UK Treasury 2.25% 07/03/2014	43,854	UK Treasury 8% 07/06/2021	48,423
UK Treasury 2% 22/01/2016	43,509	UK Treasury 2% 22/01/2016	43,621
UK Treasury 4% 07/03/2022	41,078	UK Treasury 2.25% 07/03/2014	41,910
UK Treasury 4.25% 07/12/2040	37,340	UK Treasury 4% 07/03/2022	34,948
UK Treasury 8% 07/06/2021	34,384	UK Treasury 3.75% 07/09/2019	34,574
UK Treasury 3.75% 07/09/2019	34,025	UK Treasury 4.75% 07/03/2020	30,316
UK Treasury 4.5% 07/03/2013	28,555	UK Treasury 2.75% 22/01/2015	25,965
UK Treasury 5% 07/09/2014	27,522	UK Treasury 4.25% 07/12/2040	21,957
UK Treasury 4.25% 07/12/2055	26,978	UK Treasury 4.25% 07/12/2055	20,409
UK Treasury 4.75% 07/03/2020	26,748	UK Treasury 5% 07/09/2014	19,855

Manager's report

Gilts performed well during the third quarter of 2010, as the global economy appeared to enter a slowdown and fears increased about the longer term outlook for western economies. Government bonds sold off during the fourth quarter as the US engaged in further fiscal and monetary policy easing and economic data appeared to improve globally.

During this time, the Fund profited by positioning for UK and German yields to fall, whilst positioning for Australian yields to rise. We also positioned for longer-dated yields to fall relative to short-dated yields, in the UK, US and Europe. We profited by positioning for government bonds in the UK, US and Canada to outperform swaps (an agreement to exchange one stream of cashflows for another), and also profited by positioning for inflation expectations to rise in the UK and Europe.

As we entered 2011, government bonds were largely range bound, as economic data continued to be positive. During the first quarter, we took both positive and negative stances to government bond markets during the course of the quarter, primarily using US bond futures (a contract to buy/sell an asset at a predetermined future date and price). We used the strength in markets following the Japanese earthquake and Middle East tensions to move underweight the front end (shorter maturities) of the UK, US and Australian markets, taking profits as markets normalised.

However, the Japanese earthquake, high commodity prices and the fading impact of monetary and fiscal policy stimulus led data to deteriorate sharply in second quarter 2011. The European sovereign debt crisis also weighed on sentiment and supported the better quality government bonds of the UK and Germany. During this quarter, we took a predominantly positive stance to government bond markets throughout the quarter, primarily in the 10-year sector of the US and Australian market. This was offset by losses made by expecting short-dated Australian yields to rise. We also profited by positioning for wider inflation expectations in the UK, through bonds with 5-years and 20-years left to maturity.

During the year, we also took cross market relative value trades, between the UK, European, US and Canadian markets, using both bond futures and interest rate swaps. We also took relative value curve views in the UK, around specific demand and supply events.

Phillip Apel
2 June 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009*	450,981,400	87,881	53,913	163.01
Class A income				
30/06/2009	450,981,400	12,177,981	7,544,355	161.42
30/06/2010	353,057,144	7,608,178	4,483,405	169.70
30/06/2011	343,528,935	7,270,529	4,324,491	168.12
Class I income				
30/06/2009	450,981,400	102,222	63,395	161.25
30/06/2010	353,057,144	19,706	11,800	167.00
30/06/2011	343,528,935	19,733	11,800	167.23
Class I accumulation				
30/06/2009	450,981,400	3,658,526	1,623,673	225.32
30/06/2010	353,057,144	1,698,895	711,783	238.68
30/06/2011	343,528,935	1,611,006	658,648	244.59
Class I gross accumulation				
30/06/2009	450,981,400	114,519,086	48,625,020	235.51
30/06/2010	353,057,144	40,443,230	16,095,900	251.26
30/06/2011	343,528,935	29,866,961	11,529,379	259.05
Class Z accumulation				
30/06/2009**	450,981,400	1,235	955	129.32
Class Z gross accumulation				
30/06/2009	450,981,400	320,434,469	233,526,674	137.22
30/06/2010	353,057,144	295,726,515	200,943,365	147.17
30/06/2011	343,528,935	296,396,727	194,356,187	152.50
Class D gross accumulation				
30/06/2010***	353,057,144	7,570,620	7,300,421	103.70
30/06/2011	343,528,935	8,363,979	7,805,301	107.16

* X share class merged with A share class 11 January 2010.

** Z accumulation share class closed on 1 April 2010.

*** D share class was launched on 11 May 2010.

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	4.80	165.90	155.30
2007	4.45	157.20	146.40
2008	4.00	169.00	147.50
2009	2.88	169.70	158.60
2010**	0.55	163.20	162.20
Class A income			
2006	5.31	164.30	153.80
2007	5.04	155.80	145.00
2008	4.62	167.50	146.10
2009	3.50	168.20	157.10
2010	2.84	174.30	159.80
2011	2.15*	171.60+	162.40+
Class I income			
2006	5.76	163.50	152.90
2007	5.46	155.10	144.30
2008	5.00	166.50	145.50
2009	4.05	167.10	156.10
2010	3.45	172.80	158.30
2011	2.63*	170.40+	161.50+
Class I accumulation			
2006	7.24	204.70	194.40
2007	7.13	207.00	190.80
2008	6.75	229.60	197.50
2009	5.64	235.70	216.80
2010	4.92	248.10	224.90
2011	3.82*	248.10+	234.10+
Class I gross income			
2006****	7.50	165.60	154.90
Class I gross accumulation			
2006	9.42	206.70	196.80
2007	9.19	213.20	195.40
2008	8.95	239.10	204.00
2009	7.46	246.90	225.80
2010	6.73	261.80	236.90
2011	5.29*	262.70+	246.80+
Class Z accumulation			
2006	3.59	114.90	107.00
2007	2.63	117.90	108.70
2008	3.17	131.50	112.30
2009	3.80	135.60	114.30
2010#	1.78	133.30	128.90
Class Z gross accumulation			
2006	5.79	118.60	113.00
2007	5.88	123.60	112.80
2008	5.79	139.00	118.30
2009	5.02	144.00	157.10
2010	4.67	153.50	137.30
2011	3.68*	154.60+	145.00+

Comparative tables (continued)

Performance record (continued)

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class D gross accumulation			
2010 ^{***}	1.08	108.10	100.00
2011	2.36 [*]	108.70 ⁺	102.00 ⁺

* to 31 August.

+ to 30 June.

** X share class merged with A share class 11 January 2010.

*** D share class was launched on 11 May 2010.

**** I gross income closed on 29 December 2006.

Z accumulation share class closed on 1 April 2010.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011 %	2010 %
Class A	1.19	1.09
Class I	0.54	0.53
Class Z	0.04	0.03
Class D	0.32	0.33

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Bonds 98.42% (2010: 98.06%)			
Government bonds 92.49% (2010: 86.63%)			
United Kingdom 92.49% (2010: 86.63%)			
GBP 20,511,000	UK Treasury 5% 07/03/2012	21,126	6.15
GBP 10,541,940	UK Treasury 5.25% 07/06/2012	10,990	3.19
GBP 13,097,000	UK Treasury 4.5% 07/03/2013	13,902	4.05
GBP 1,969,000	UK Treasury 8% 27/09/2013	2,276	0.65
GBP 12,174,000	UK Treasury 2.25% 07/03/2014	12,511	3.64
GBP 14,850,000	UK Treasury 5% 07/09/2014	16,492	4.80
GBP 8,746,000	UK Treasury 2.75% 22/01/2015	9,075	2.64
GBP 13,642,000	UK Treasury 4.75% 07/09/2015	15,234	4.43
GBP 2,909,000	UK Treasury 8% 07/12/2015	3,665	1.07
GBP 7,671,000	UK Treasury 8.75% 25/08/2017	10,413	3.03
GBP 8,132,000	UK Treasury 5% 07/03/2018	9,289	2.70
GBP 8,720,559	UK Treasury 3.75% 07/09/2019	9,109	2.65
GBP 9,336,954	UK Treasury 4.5% 07/03/2019	10,303	3.00
GBP 9,898,000	UK Treasury 3.75% 07/09/2020	10,187	2.97
GBP 12,160,000	UK Treasury 4.75% 07/03/2020	13,545	3.94
GBP 5,188,000	UK Treasury 3.75% 07/09/2021	5,273	1.53
GBP 14,466,108	UK Treasury 4% 07/03/2022	14,959	4.35
GBP 8,564,000	UK Treasury 5% 07/03/2025	9,557	2.78
GBP 16,599,008	UK Treasury 4.25% 07/12/2027	16,899	4.92
GBP 6,847,000	UK Treasury 6% 07/12/2028	8,475	2.47
GBP 7,068,281	UK Treasury 4.75% 07/12/2030	7,593	2.21
GBP 9,975,000	UK Treasury 4.25% 07/06/2032	10,019	2.92
GBP 7,625,468	UK Treasury 4.5% 07/09/2034	7,885	2.30
GBP 8,598,100	UK Treasury 4.25% 07/03/2036	8,567	2.49
GBP 2,020,000	UK Treasury 4.75% 07/12/2038	2,182	0.64
GBP 4,484,549	UK Treasury 4.25% 07/09/2039	4,470	1.31
GBP 15,534,395	UK Treasury 4.25% 07/12/2040	15,455	4.50
GBP 7,360,610	UK Treasury 4.5% 07/12/2042	7,667	2.23
GBP 7,925,116	UK Treasury 4.25% 07/12/2046	7,937	2.31
GBP 7,696,068	UK Treasury 4.25% 07/12/2049	7,710	2.25
GBP 8,663,000	UK Treasury 4.25% 07/12/2055	8,711	2.54
GBP 6,553,000	UK Treasury 4% 22/01/2060	6,263	1.83
		<u>317,739</u>	<u>92.49</u>
Eurobonds 0.69% (2010: 1.79%)			
GBP 2,226,000	Principal Financial 5.625% 24/09/2013	2,367	0.69
Index linked 5.24% (2010: 9.64%)			
GBP 5,451,000	UK Treasury 2.5% Index-Linked 26/07/2016	18,016	5.24
Unit trusts 0.04% (2010: 0.03%)			
132,575	Deutsche Global Liquidity Service Managed Platinum	133	0.04

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Derivatives 0.17% (2010: 0.08%)			
Futures 0.00% (2010: (0.03%))			
(108)	US 5yr Note September 2011	27	0.01
(385)	EURO Bund September 2011	(42)	(0.01)
		<u>(15)</u>	<u>0.00</u>
Interest swaps 0.17% (2010: 0.11%)			
15,400,000	IIS 6 month LIBOR January 2016	493	0.14
13,500,000	IIS 6 month LIBOR March 2016	110	0.03
11,750,000	IRS 6 month LIBOR September 2020	(224)	(0.07)
11,750,000	IRS 6 month LIBOR October 2020	(210)	(0.06)
18,150,000	IRS 6 month LIBOR September 2030	198	0.06
18,150,000	IRS 6 month LIBOR October 2030	184	0.05
12,500,000	IRS 6 month EIBOR June 2031	(127)	(0.04)
6,800,000	IRS 6 month LIBOR June 2041	(1)	-
5,900,000	IRS 6 month EIBOR June 2051	175	0.06
		<u>598</u>	<u>0.17</u>
Investment assets including investment liabilities		338,838	98.63
	Net other assets	4,691	1.37
Net assets		343,529	100.00

Credit ratings

Investment	Market value £000	Percentage of total net assets %
Above investment grade (AAA - BBB)	338,122	98.42
Below investment grade (BB and below)	-	-
Unrated	-	-
	<hr/>	<hr/>
Total bonds	338,122	98.42
Total unit trusts	133	0.04
Total derivatives	583	0.17
	<hr/>	<hr/>
Investment assets including investment liabilities	338,838	98.63
Net other assets	4,691	1.37
Net assets	343,529	100.00

Source: Standard & Poor's

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		14,410
Revenue	4	11,222	12,253
Expenses	5	(449)	(515)
Finance costs: Interest	7	(8)	-
Net revenue before taxation		10,765	11,738
Taxation	6	-	-
Net revenue after taxation		10,765	11,738
Total return before distributions		11,129	26,148
Finance costs: Distributions	7	(10,765)	(11,738)
Change in net assets attributable to shareholders from investment activities		364	14,410

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	353,067	450,981
Amounts receivable on issue of shares	44,688	60,059
Amounts payable on cancellation of shares	(66,399)	(130,166)
Amounts receivable on in specie transfers	1,249	17,498
Amounts payable on in specie transfers	-	(70,888)
	(20,462)	(123,497)
Dilution adjustment	7	55
Stamp duty reserve tax	(1)	(2)
Change in net assets attributable to shareholders from investment activities (see above)	364	14,410
Retained distribution on accumulation shares	10,554	11,120
Closing net assets attributable to shareholders	343,529	353,067

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			339,442		347,708
Debtors	8	3,524		4,110	
Cash and bank balances	9	6,459		5,244	
Total other assets			9,983		9,354
Total assets			<u>349,425</u>		<u>357,062</u>
Liabilities					
Investment liabilities			604		1,098
Creditors	10	339		648	
Bank overdrafts		4,909		2,221	
Distribution payable on income shares		44		28	
Total other liabilities			<u>5,292</u>		<u>2,897</u>
Total liabilities			5,896		3,995
Net assets attributable to shareholders			<u>343,529</u>		<u>353,067</u>

Notes to the financial statements

1 Accounting policies

The accounting policies are set out in notes 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	926	(1,605)
Forward currency contracts	14	(719)
Non-derivative securities	(574)	16,587
Other currency gains	7	157
Transaction costs	(9)	(10)
Net capital gains	364	14,410

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	552,565	616,614
Commissions	9	4
Total purchase transaction costs*	9	4
Purchases including transaction costs	552,574	616,618
Sales in year before transaction costs	557,984	723,142
Commissions	(10)	(4)
Total sale transaction costs*	(10)	(4)
Sales net of transaction costs	557,974	723,138
Transaction handling charges*	9	10

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	16	21
Derivative revenue	(352)	(185)
Interest on debt securities	11,500	12,302
Interest on margin	5	-
Stock lending revenue	53	115
Total revenue	11,222	12,253

Notes to the financial statements (continued)

4 Revenue (continued)

Stock lending details	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	117,722	24,616

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £120,665,008 (2010: £25,231,150).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	284	395
General administration charge*	115	52
Sub registration fees	-	1
	<u>399</u>	<u>448</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	40	43
Safe custody fees	10	11
	<u>50</u>	<u>54</u>
Other expenses:		
Audit fees	-	5
Printing and postage fees	-	7
Registration fees	-	1
	<u>-</u>	<u>13</u>
Total expenses	<u>449</u>	<u>515</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fee is £10,200 (2010: £9,870). The audit fee levied through the GAC charge is £10,200 (2010: £4,844).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for Funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	10,765	11,738
Income tax at 20% (2010: 20%)	2,153	2,348
Effects of:		
Revenue being paid as interest distributions	(2,153)	(2,348)
Current tax charge for the year (note 6a)	-	-

OEICs are exempt from tax on capital gains made within UK. Therefore, any capital return is not included within the reconciliation

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £146 (2010: £130) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	81	123
Interim accumulation	7,136	8,644
Final income	44	28
Final accumulation	3,418	2,476
Tax withheld on interest distributions	37	45
	10,716	11,316
Amounts deducted on cancellation of shares	240	705
Amounts received on issue of shares	(191)	(283)
Finance costs: Distributions	10,765	11,738
Finance costs: Interest	8	-
Total finance cost	10,773	11,738

Details of the distribution per share are set out in the distribution table on pages 263 to 266.

Notes to the financial statements (continued)

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	3,385	3,469
Amounts receivable for issue of shares	108	641
Sales awaiting settlement	31	-
Total debtors	3,524	4,110

9 Cash and bank balances

	2011	2010
	£000	£000
Amounts held at futures clearing houses and brokers	861	482
Cash and bank balances	5,598	4,762
Total cash and bank balances	6,459	5,244

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	21	24
Accrued Depositary's fees	3	3
Accrued other expenses	35	43
Amounts payable for cancellation of shares	260	562
Income tax payable	20	16
Total creditors	339	648

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 254 and 255 and notes 5, 8 and 10 on pages 257 to 259 including all creations and cancellations where the ACD acted as principal.

Henderson Investment Funds Limited, as ACD to the Fund is a related party. The ultimate controlling party of Henderson Investment Funds Limited is Henderson Group plc. Aggregate value of purchases and sales transactions in, and revenue receivable from Henderson Group plc and its subsidiaries for the year amounts to £9,012,656 (2010: £68,039,170).

State Street Nominees Limited, as a material Shareholder, is a Related Party comprising 57.50% (2010: 57.75%) of the total net assets of the Fund as at 30 June 2011.

Related parties, such as other authorised Funds managed by Henderson Investment Funds Limited, may hold shares in the Fund via a nominee company, Harewood Nominees Limited. Harewood Nominees Limited holds shares comprising 30.65% (2010: 28.48%) of the total net assets of the Fund as at 30 June 2011.

Material transactions throughout the year such as creations and cancellations for these shareholders are included in the Statement of change in net assets attributable to shareholders.

Notes to the financial statements (continued)

13 Shareholder funds

The Fund currently has 4 share classes; Class A (Retail with front-end charges), Class I (Institutional), Class Z (Institutional) and Class D (Institutional). The annual management charge on each share class is as follows:

Class A	1.00%
Class I	0.50%
Class Z	0.00%*
Class D	0.25%

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 247. The distribution per share class is given in the distribution table on pages 263 to 266. All share classes have same rights on winding up.

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

Currency risk

Net currency monetary assets and liabilities consist of:

	Investment assets including investment liabilities	Net other assets /(liabilities)	Net assets
	£000	£000	£000
Currency			
2011			
Australian dollar	-	476	476
Canadian dollar	-	21	21
Euro	47	166	213
UK sterling	338,806	3,997	342,803
US dollar	(15)	31	16
Total	338,838	4,691	343,529
Currency			
2010			
Euro	43	277	320
UK sterling	346,567	5,964	352,531
US dollar	-	216	216
Total	346,610	6,457	353,067

Notes to the financial statements (continued)

14 Risk (continued)

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at the year end is set out in the following table:

	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Total
Currency	£000	£000	£000	£000
2011				
Australian dollar	476	-	-	476
Canadian dollar	21	-	-	21
Euro	340	-	-	340
UK sterling	6,914	338,123	3,493	348,530
US dollar	-	-	58	58
Total	7,751	338,123	3,551	349,425

Currency				
2010				
Euro	301	-	60	361
UK sterling	6,050	346,215	4,220	356,485
US dollar	216	-	-	216
Total	6,567	346,215	4,280	357,062

	Floating rate financial liabilities	Financial liabilities not carrying interest	Total
Currency	£000	£000	£000
2011			
Euro	127	-	127
UK sterling	5,344	383	5,727
US dollar	-	42	42
Total	5,471	425	5,896

2010			
Euro	-	41	41
UK sterling	3,129	825	3,954
Total	3,129	866	3,995

Fixed rate financial assets

Currency	Weighted average interest rate	Weighted average period for which rate is fixed
2011	(%)	(years)
UK sterling	3.09	13.40
Currency		
2010		
UK sterling	3.29	14.39

The 'weighted average interest rate' is based on the redemption yield of each asset, weighted by their market value.

14 Risk (continued)

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

The ACD assesses the market risk of the Fund's investments including any derivative exposures, using a Value at Risk (VaR) methodology. This process provides the ACD with an estimate of the maximum potential loss that could be expected to occur as a result of changes in market prices over a given period of time in all but a given percentage of circumstances – for example changes in the price of oil or the 2008 financial crisis. If the number is lower than that of its representative benchmark it should be less volatile than the benchmark or more volatile if higher than the benchmark.

The ACD uses the Risk Manager application from Risk Metrics. The VaR is calculated monthly on a 99% confidence level. The model uses 1 year of daily data which is equally weighted applying a decay factor of 0.97. The decay factor refers to a weighting scheme that puts emphasis on recent observation and events. Applying such a weighting scheme gives us risk numbers that are closer to current market conditions. The UK Gilt Fund is measured against the benchmark FTA British Govt. All Stocks Index for comparison purposes. As at the accounting date of this report the Fund's Monthly VaR is 3.66% (2010 – 3.59%) compared to the FTA British Govt. All Stocks Index which is 3.54% (2010 – 3.62%). The Fund's annual VaR is 13.36% (2010 – 12.54%) compared to the FTA British Govt. All Stocks Index which is 12.82% (2010 – 12.82%). It should be noted that the VaR is only an indication of risk and the actual price movements may prove to be less or more volatile than predicted.

The Fund may open positions on Over-the-Counter (OTC) derivatives, which will typically be futures, options, contracts for difference and swaps. Of these, the Fund will predominantly use Futures, Interest Rate Swaps and Credit Default Swaps (CDS). Futures allow the Investment Manager to purchase an asset (or to sell an asset) at a predetermined future date and price, enabling them to manage the risk to the fund. Interest Rate Swaps are an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). The use of interest rate swaps is to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap. A CDS is designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the CDS.

The ACD monitors the Fund's portfolio against the Fund's investment restrictions and risk management policy on a daily basis.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim interest distribution (xd date 30 September 2010, paid on 30 November 2010)

Group 1: shares purchased prior to 1 July 2010

Group 2: shares purchased on or after 1 July 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 30/11/2010	Distribution paid 30/11/2009
Class X income						
Group 1	-	-	-	-	-	0.6089
Group 2	-	-	-	-	-	0.6089
Class A income						
Group 1	0.9005	0.1801	0.7204	-	0.7204	0.7655
Group 2	0.3815	0.0763	0.3052	0.4152	0.7204	0.7655
Class I income						
Group 1	1.1178	0.2236	0.8942	-	0.8942	0.9036
Group 2	1.1178	0.2236	0.8942	-	0.8942	0.9036
Class I accumulation						
Group 1	1.6050	0.3210	1.2840	-	1.2840	1.2703
Group 2	0.8105	0.1621	0.6484	0.6356	1.2840	1.2703
Class I gross accumulation						
Group 1	1.7701	-	1.7701	-	1.7701	1.7002
Group 2	0.1573	-	0.1573	1.6128	1.7701	1.7002
Class Z accumulation						
Group 1	-	-	-	-	-	0.8812
Group 2	-	-	-	-	-	0.8812
Class Z gross accumulation						
Group 1	1.2252	-	1.2252	-	1.2252	1.1666
Group 2	0.6617	-	0.6617	0.5635	1.2252	1.1666
Class D gross accumulation						
Group 1	0.7891	-	0.7891	-	0.7891	-
Group 2	0.2151	-	0.2151	0.5740	0.7891	-

Distribution table (continued)

Interim interest distribution (xd date 31 December 2010, paid on 28 February 2011)

Group 1: shares purchased prior to 1 October 2010

Group 2: shares purchased on or after 1 October 2010

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 26/02/2010
Class X income						
Group 1	-	-	-	-	-	0.5526
Group 2	-	-	-	-	-	0.5526
Class A income						
Group 1	0.6928	0.1386	0.5542	-	0.5542	0.7127
Group 2	0.3481	0.0696	0.2785	0.2757	0.5542	0.7127
Class I income						
Group 1	0.9049	0.1810	0.7239	-	0.7239	0.8433
Group 2	0.9049	0.1810	0.7239	-	0.7239	0.8433
Class I accumulation						
Group 1	1.3061	0.2612	1.0449	-	1.0449	1.1920
Group 2	0.6369	0.1274	0.5095	0.5354	1.0449	1.1920
Class I gross accumulation						
Group 1	1.4673	-	1.4673	-	1.4673	1.6070
Group 2	1.4320	-	1.4320	0.0353	1.4673	1.6070
Class Z accumulation						
Group 1	-	-	-	-	-	0.8538
Group 2	-	-	-	-	-	0.8538
Class Z gross accumulation						
Group 1	1.0495	-	1.0495	-	1.0495	1.1252
Group 2	0.7172	-	0.7172	0.3323	1.0495	1.1252
Class D gross accumulation						
Group 1	0.6643	-	0.6643	-	0.6643	-
Group 2	0.2010	-	0.2010	0.4633	0.6643	-

Distribution table (continued)

Interim interest distribution (xd date 31 March 2011, paid on 31 May 2011)

Group 1: shares purchased prior to 1 January 2011

Group 2: shares purchased on or after 1 January 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/05/2011	Distribution paid 28/05/2010
Class A income						
Group 1	0.7136	0.1427	0.5709	-	0.5709	0.7783
Group 2	0.2504	0.0501	0.2003	0.3706	0.5709	0.7783
Class I income						
Group 1	0.9011	0.1802	0.7209	-	0.7209	0.9352
Group 2	0.9011	0.1802	0.7209	-	0.7209	0.9352
Class I accumulation						
Group 1	1.3064	0.2613	1.0451	-	1.0451	1.3289
Group 2	0.5381	0.1076	0.4305	0.6146	1.0451	1.3289
Class I gross accumulation						
Group 1	1.4849	-	1.4849	-	1.4849	1.7915
Group 2	0.9235	-	0.9235	0.5614	1.4849	1.7915
Class Z accumulation						
Group 1	-	-	-	-	-	0.9303
Group 2	-	-	-	-	-	0.9303
Class Z gross accumulation						
Group 1	1.0562	-	1.0562	-	1.0562	1.2295
Group 2	0.5185	-	0.5185	0.5377	1.0562	1.2295
Class D gross accumulation						
Group 1	0.6716	-	0.6716	-	0.6716	-
Group 2	0.3134	-	0.3134	0.3582	0.6716	-

Distribution table (continued)

Final interest distribution (xd date 30 June 2011, paid on 31 August 2011)

Group 1: shares purchased prior to 1 April 2011

Group 2: shares purchased on or after 1 April 2011

	Gross revenue	Income tax (20%)	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A income						
Group 1	1.2751	0.2550	1.0201	-	1.0201	0.6251
Group 2	0.7765	0.1553	0.6212	0.3989	1.0201	0.6251
Class I income	1.4838	0.2968	1.1870	-	1.1870	0.7821
Class I accumulation						
Group 1	2.1605	0.4321	1.7284	-	1.7284	1.1178
Group 2	1.3419	0.2684	1.0735	0.6549	1.7284	1.1178
Class I gross accumulation						
Group 1	2.3420	-	2.3420	-	2.3420	1.5625
Group 2	2.3176	-	2.3176	0.0244	2.3420	1.5625
Class Z gross accumulation						
Group 1	1.5725	-	1.5725	-	1.5725	1.0928
Group 2	0.5067	-	0.5067	1.0658	1.5725	1.0928
Class D gross accumulation						
Group 1	1.0269	-	1.0269	-	1.0269	0.2865
Group 2	0.6222	-	0.6222	0.4047	1.0269	0.2865

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Managers' report

Fund managers

Graham Kitchen and Andrew Jones

On 18 June 2010 the Fund merged into the Henderson High Alpha UK Equity Fund and Henderson Higher Income Fund. The Fund terminated on 30 June 2011.

Investment objective and policy

To aim to provide capital growth and revenue by investing in a diversified portfolio of UK companies. The Fund will primarily invest in large and medium sized companies.

Discrete annual performance

	1 Jul 09- 17 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%
Henderson UK Growth & Income Fund	23.6	(20.8)	(22.1)	17.6
FTSE All Share Index	29.1	(20.5)	(13.0)	18.4

Source: Morningstar - mid to mid (excluding initial charge) 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.

Comparative tables as at 30 June 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X income				
30/06/2009	189,282,385	68,266	88,375	77.25
30/06/2010**	-+	-	-	-
30/06/2011	-	-	-	-
Class A income				
30/06/2009	189,282,385	160,229,954	206,959,328	77.42
30/06/2010	-+	-	-	-
30/06/2011	-	-	-	-
Class I income				
30/06/2009	189,282,385	5,025,828	6,330,991	79.38
30/06/2010	-+	-	-	-
30/06/2011	-	-	-	-
Class Z accumulation				
30/06/2009	189,282,385	23,958,337	24,843,999	96.44
30/06/2010	-+	-	-	-
30/06/2011	-	-	-	-

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

+ Fund merged into Henderson High Alpha UK Equity Fund and Henderson Higher Income Fund.

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2006	0.93	138.00	117.70
2007	3.18	147.80	126.30
2008	5.02	134.40	73.49
2009	4.12	95.51	66.73
2010**	1.37	94.77	94.18
2011	-	-+	-+
Class A income			
2006	1.57	137.20	117.30
2007	3.60	146.90	125.70
2008	5.00	133.80	73.42
2009	4.14	95.97	66.78
2010	3.53	100.50	88.70
2011	-	-+	-+
Class I income			
2006	0.36	137.80	116.20
2007	3.38	148.30	127.80
2008	5.08	135.60	74.90
2009	4.23	98.77	68.31
2010	3.76	103.70	91.66
2011	-	-+	-+
Class Z accumulation			
2006	3.90	146.00	122.20
2007	4.63	158.70	139.90
2008	5.60	150.20	86.08
2009	4.93	120.40	80.53
2010	4.61	128.50	113.70
2011	-	-+	-+

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

+ Fund merged into Henderson High Alpha UK Equity Fund and Henderson Higher Income Fund.

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		41,894
Revenue	4	(2)	9,356
Expenses	5	48	(3,595)
Finance costs: Interest	7	-	(3)
Net revenue before taxation		46	5,758
Taxation	6	-	-
Net revenue after taxation		46	5,758
Total return before distributions		54	47,652
Finance costs: Distributions	7	-	(8,525)
Change in net assets attributable to shareholders from investment activities		54	39,127

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	-	189,282
Amounts receivable on issue of shares	-	15,456
Amounts payable on cancellation of shares	-	(25,083)
Amounts payable on mergers *	-	(219,118)
Amounts outstanding due to mergers *	(54)	(652)
	(54)	(229,397)
Dilution adjustment	-	(1)
Stamp duty reserve tax	-	(66)
Unclaimed distributions	-	1
Change in net assets attributable to shareholders from investment activities (see above)	54	39,127
Retained distribution on accumulation shares	-	1,054
Closing net assets attributable to shareholders	-	-

* Fund merged into Henderson High Alpha UK Equity Fund and Henderson Higher Income Fund.

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			-		-
Debtors	8	-		1,563	
Cash and bank balances	9	81		3,800	
Total other assets			81		5,363
Total assets			<u>81</u>		<u>5,363</u>
Liabilities					
Creditors	10	81		897	
Distribution payable on income shares		-		4,466	
Total other liabilities			81		5,363
Total liabilities			81		5,363
Net assets attributable to shareholders			<u>-</u>		<u>-</u>

Notes to the financial statements as at 30 June 2011

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	-	41,901
Non-derivative securities	9	-
Transaction costs	(1)	(7)
Net capital gains	8	41,894

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	-	38,821
Commissions	-	56
Taxes	-	176
Total purchase transaction costs*	-	232
Purchases including transaction costs	-	39,053
Sales in year before transaction costs	-	56,053
Commissions	-	(60)
Total sale transaction costs*	-	(60)
Sales net of transaction costs	-	55,993
Transaction handling charges*	-	7

* These amounts have been deducted in determining net capital gains.

Notes to the financial statements (continued)

4 Revenue

	2011	2010
	£000	£000
Bank interest	1	1
Overseas dividends	-	110
Stock lending revenue	1	6
UK dividends	(4)	9,203
UK REIT revenue	-	3
Underwriting commission	-	33
Total revenue	(2)	9,356

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	6	2,784
General administration charge*	2	298
Sub registration fees	-	398
	<u>8</u>	<u>3,480</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	-	25
Safe custody fees	-	21
	<u>-</u>	<u>46</u>
Other expenses:		
Audit fees	(4)	6
Listing fees	-	(7)
Printing and postage fees	(52)	53
Registration fees	-	17
	<u>(56)</u>	<u>69</u>
Total expenses	(48)	3,595

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £nil (2010: £2,715). The audit fee levied through the GAC charge is £nil (2010: £1,272).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

There is no tax charge for year.

(b) Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs)

	2011	2010
	£000	£000
Net revenue before taxation	46	5,758
Corporation tax at 20% (2010: 20%)	<u>9</u>	<u>1,152</u>
Effects of:		
Non-taxable overseas dividends**	-	(22)
UK dividends*	1	(1,841)
Unused management expenses	(10)	711
Current tax charge for the year (note 6a)	<u>-</u>	<u>-</u>

*As an OEIC this item is not subject to corporation tax.

**Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £15,719,253 (2010: £15,729,237) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Interim income	-	2,892
Interim accumulation		420
Final income	-	4,466
Final accumulation	-	634
	<hr/>	<hr/>
	-	8,412
Amounts deducted on cancellation of shares	-	242
Amounts received on issue of shares	-	(129)
Finance costs: Distributions	-	8,525
Finance costs: Interest	-	3
	<hr/>	<hr/>
Total finance cost	-	8,528
Net revenue after taxation	46	5,758
ACD's periodic charge paid from capital	6	2,784
Undistributed revenue	(52)	(17)
	<hr/>	<hr/>
Finance cost: Distributions	-	8,525

Details of the distribution per share are set out in the distribution table on page 277.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	-	1,563
	<hr/>	<hr/>
Total debtors	-	1,563

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	81	3,800
	<hr/>	<hr/>
Total cash and bank balances	81	3,800

Notes to the financial statements (continued)

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	-	135
Accrued Depositary's fees	-	1
Accrued other expenses	-	109
Amounts outstanding due to mergers	81	652
Total creditors	81	897

11 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 270 and 271 and notes 5, 8 and 10 on pages 273 to 276 including all creations and cancellations where the ACD acted as principal.

12 Shareholder funds

The Fund currently has 3 share classes; Class A (Retail with front-end charges), Class I (Institutional) and Class Z (Institutional). The annual management charge on each share class is as follows:

Class A	1.50%
Class I	0.75%
Class Z	0.00%*

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

13 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

The Fund's exposure to currency risk and interest rate risk is considered insignificant. This is consistent with the exposure during the prior year.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

A sensitivity analysis has not been provided as no significant derivative activity has been undertaken in the year.

Distribution table for the year ended 30 June 2011 (in pence per share)

Interim dividend distribution (xd date 31 December 2010, paid on 28 February 2011)

	Net revenue	Equalisation	Distribution paid 28/02/2011	Distribution paid 28/02/2010
Class X accumulation	-	-	-	1.3676
Class A income	-	-	-	1.3722
Class I income	-	-	-	1.4078
Class Z income	-	-	-	1.7135

Final dividend distribution (xd date 30 June 2011, paid on 31 August 2011)

	Net revenue	Equalisation	Distribution paid 31/08/2011	Distribution paid 19/07/2010
Class A income	-	-	-	2.1548
Class I income	-	-	-	2.3531
Class Z income	-	-	-	2.8999

Equalisation

This applies only to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Manager's report

Fund Manager

Stephen Peak

On 25 February 2011, the Fund merged into Henderson UK Alpha Fund, a sub fund of Henderson Investment Fund OEIC.

Investment objective and policy

To aim to provide capital growth by investing primarily in companies domiciled and/or listed in the United Kingdom either directly or indirectly via derivatives. The Fund is not restricted in the size of companies in which it can invest. The Fund may invest in other transferable securities, money market instruments, other derivatives and forward transactions for investment purposes, deposits, cash and near cash and units in collective investment schemes.

Performance summary

Over the period to 24 February 2011, the Fund rose by 28.9% compared to an 22.7% increase in the FTSE All-Share Index.

Discrete annual performance

	1 Jul 10- 24 Feb 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson UK Opportunities Fund	28.9	12.4	(30.2)	(14.2)	29.0
FTSE All-Share Index	22.7	21.1	(20.5)	(13.0)	18.4

Source: Morningstar - mid to mid (excluding initial charge) 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.

Manager's report

The Henderson UK Opportunities Fund rose by 28.9% during the eight month period from 1 July 2010 to 25 February 2011, whilst the FTSE All-Share Total Return Index rose 22.7%.

On the long book - the position of the Fund that comprise securities that are held in expectation that their share price will rise - some of our best performing positions were resource-related. BowLeven was a particularly strong contributor after making a significant oil discovery at their offshore Cameroon acreage. Kalahari also performed well; we believe that investors are only beginning to appreciate the value of this strategic uranium asset and its likely exploration upside. European Goldfields continued to make good progress as the company neared full regulatory approval for their major gold mining operations (the company has since received final approval and the shares have re-rated as a result). Exillon Energy continued to rally hard. The company is producing oil from two assets in Russia and has made significant progress in building the required infrastructure. Finally, our short position (a position that allows the Fund to profit from a share price fall) in Randgold also contributed to performance. The company's flagship mine, Loulo, had a tough final quarter in 2010, as total cash costs increased due to higher fuel and consumable prices. Randgold's shares also suffered on the back of political unrest in the Ivory Coast.

Our worst performers were a mixture of long and short positions. Poor performers on the long book included Essar Energy. The company was a strong performer in 2010 but performance weakened in the new year as risk aversion increased. We felt this was unjustified, as the company is embarking upon an ambitious but achievable expansion plan, and looks very cheap on the basis of the earnings power that the company should command three to four years from now. Our short position in ARM Holdings moved against us, we continue to see the company's shares as overvalued by the market. Also, our position in Burberry detracted from performance, as sales growth rates have shown continued strong momentum.

The period represented a relatively busy time in terms of trading and we made several initiations. On the long book for example, we participated in the initial offering of Zanaga Iron Ore which gives the Fund exposure to a high quality iron ore deposit in the Republic of Congo. We also initiated a position in Tesco, a company that we view as undervalued. The market has been focused on sluggish UK like-for-like sales whilst we are encouraged by Tesco's expansion into international markets and higher-return businesses such as banking. On the short book - which comprises positions that would profit from a fall in the share price of a security - we initiated a position in ASOS; the valuation looks stretched and assumes that their current high level of sales growth will continue for many years; we also worry about the long-term sustainability of margins given an increasingly competitive environment in internet-based retailing. Towards the end of the period, we increased our position in Cobham. We remain encouraged by the group's niche technologies and find valuations very compelling. We also sold out of our entire position in Tullow Oil, as the tax dispute with the Ugandan government continued to drag on. We see more attractive opportunities elsewhere. Finally, we trimmed into strength our positions in BowLeven and European Goldfields.

Equities enjoyed a good second half to 2010, encouraged by improving corporate earnings and strengthening economic conditions. However, positive sentiment moderated somewhat early into the new year, as macro concerns started to dominate, including rising tensions in the Middle East and North Africa. Macro concerns will remain, notably the debt crisis affecting Greece and other peripheral Eurozone economies. Nevertheless, we believe the current environment is good for stock picking and UK equities offer good value.

As of 25 February 2011, the Henderson UK Opportunities Fund merged into the Henderson UK Alpha Fund. We welcome our new unitholders and look forward to continue to produce strong performance for our clients. The Henderson UK Alpha Fund had assets of £434.9 million as at 30 June 2011.

Stephen Peak
19 July 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X accumulation				
30/06/2009	75,480,374	248,217	291,926	85.03
30/06/2010**	73,225,827	-	-	-
30/06/2011	-	-	-	-
Class A accumulation				
30/06/2009	75,480,374	66,648,235	75,088,958	88.76
30/06/2010	73,225,827	68,374,076	68,750,212	99.45
30/06/2011***	-	-	-	-
Class I accumulation				
30/06/2009	75,480,374	8,583,922	9,260,294	92.70
30/06/2010	73,225,827	4,851,751	4,642,969	104.50
30/06/2011***	-	-	-	-

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

*** Merged with Henderson UK Alpha Fund on 25 February 2011.

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X accumulation			
2006	-	140.80	104.40
2007	-	152.60	122.00
2008	1.51	138.50	60.23
2009	-	160.60	61.90
2010	-	104.80	100.70
2011**	-*	-+	-+
Class A accumulation			
2006	0.57	145.10	107.40
2007	0.52	157.60	126.30
2008	2.07	143.80	62.70
2009	0.32	167.70	64.50
2010	-	134.20	99.46
2011***	-*	141.20+	129.30+
Class I accumulation			
2006	1.20	149.70	110.40
2007	1.47	162.90	130.90
2008	3.24	149.30	65.29
2009	0.77	175.50	67.20
2010	-	141.60	104.50
2011***	-*	149.00+	136.60+

* to 25 March.

+ to 24 February.

** X share class merged with A Share Class on 11 January 2010.

*** Merged with Henderson UK Alpha Fund on 25 February 2011.

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011	2010
	%	%
Class A	n/a	1.77
Class I	n/a	1.21

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

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2		21,267
Revenue	4	66	1,016
Expenses	5	(955)	(1,449)
Finance costs: Interest	7	(4)	(385)
Net expense before taxation		(893)	(818)
Taxation	6	2	(13)
Net expense after taxation		(891)	(831)
Total return before distributions		20,376	9,981
Change in net assets attributable to shareholders from investment activities		20,376	9,981

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	73,226	75,480
Amounts receivable on issue of shares	5,559	1,888
Amounts payable on cancellation of shares	(6,275)	(14,113)
Amounts payable on merger cancellation	(92,844)	-
Amounts outstanding due to mergers *	(23)	-
	(93,583)	(12,225)
Stamp duty reserve tax	(19)	(10)
Change in net assets attributable to shareholders from investment activities (see above)	20,376	9,981
Closing net assets attributable to shareholders	-	73,226

* Fund merged into the Henderson UK Alpha Fund on 25 February 2011.

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			-		53,609
Debtors	8	16		1,486	
Cash and bank balances	9	35		33,528	
Total other assets			51		35,014
Total assets			<u>51</u>		<u>88,623</u>
Liabilities					
Investment liabilities			-		14,066
Creditors	10	51		505	
Bank overdrafts		-		826	
Total other liabilities			51		1,331
Total liabilities			51		15,397
Net assets attributable to shareholders			<u>-</u>		<u>73,226</u>

Notes to the financial statements

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Derivative contracts	6,484	(4,628)
Non-derivative securities	14,785	15,378
Other currency gains	7	73
Transaction costs	(9)	(11)
Net capital gains	21,267	10,812

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	63,175	43,646
Commissions	3	17
Taxes	197	25
Total purchase transaction costs*	200	42
Purchases including transaction costs	63,375	43,688
Sales in year before transaction costs	128,100	59,762
Commissions	(40)	(84)
Total sale transaction costs*	(40)	(84)
Sales net of transaction costs	128,060	59,678
Transaction handling charges*	9	11

Notes to the financial statements (continued)

4 Revenue

	2011	2010
	£000	£000
Bank interest	24	33
Derivative revenue	(101)	(211)
Interest on debt securities	10	-
Interest on margin	42	187
Overseas dividends	9	217
Stock lending revenue	2	20
UK dividends	54	232
UK REIT revenue	11	26
Underwriting commission	15	512
Total revenue	66	1,016

Stock lending details

	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	-	4,226

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured. All collateral held was in the form of securities. The aggregate value of collateral at the year end was £nil (2010: £4,467,904).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	842	1,226
General administration charge*	130	83
Sub registration fees	-	75
	<u>972</u>	<u>1,384</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	6	10
Safe custody fees	2	2
	<u>8</u>	<u>12</u>
Other expenses:		
Audit fees	-	6
FSA fees	(3)	-
Listing fees	(11)	-
Printing and postage fees	(11)	16
Registration fees	-	31
	<u>(25)</u>	<u>53</u>
Total expenses	955	1,449

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £5,640 (2010: £9,870). The audit fee levied through the GAC charge is £5,640 (2010: £4,638).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in year

The tax charge comprises:

	2011	2010
	£000	£000
Overseas withholding tax	(2)	13
Total taxation (note 6b)	(2)	13

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs)

	2011	2010
	£000	£000
Net (expenses) before taxation	(893)	(818)
Corporation tax at 20% (2010: 20%)	(179)	(164)
Effects of:		
Irrecoverable overseas tax	(2)	13
Non-taxable overseas dividends **	(1)	(37)
UK dividends*	(11)	(46)
Unused management expenses	191	247
Current tax charge for the year (note 6a)	(2)	13

* As an OEIC this item is not subject to corporation tax.

** Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: £nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £4,373,162 (2010: £4,182,285) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Final accumulation	-	-
Finance costs: Distributions	-	-
Finance costs: Interest	4	385
Total finance cost	4	385
Net revenue after taxation	(891)	(831)
Revenue shortfall	915	831
Undistributed revenue	(24)	-
Finance cost: Distributions	-	-

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	-	123
Amounts receivable for issue of shares	-	6
Currency transactions awaiting settlement	-	211
Interest receivable	-	10
Overseas withholding tax reclaimable	16	16
Sales awaiting settlement	-	1,120
Total debtors	16	1,486

9 Cash and bank balances

	2011	2010
	£000	£000
Amounts held at futures clearing houses and brokers	-	14,373
Cash and bank balances	35	19,155
Total cash and bank balances	35	33,528

Notes to the financial statements (continued)

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	-	93
Accrued Depositary's fees	-	1
Accrued other expenses	-	61
Amounts payable for cancellation of shares	-	137
Currency transactions awaiting settlement	-	213
Amounts outstanding due to merger	51	-
Total creditors	51	505

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 282 and 283 and notes 5, 8 and 10 on pages 285 to 288 including all creations and cancellations where the ACD acted as principal.

Henderson Investment Funds Limited, as ACD to the Fund is a related party. The ultimate controlling party of Henderson Investment Funds Limited is Henderson Group plc. Aggregate value of purchases and sales transactions in, and revenue receivable from Henderson Group plc and its subsidiaries for the year amounts to £15,009,954 (2010: £nil).

13 Shareholder funds

The Fund currently has 2 share classes; Class A (Retail with front-end charges) and Class I (Institutional). The annual management charge on each share class is as follows:

Class A 1.50%

Class I 1.00%

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 280.

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

The Fund's exposure to currency risk and interest rate risk is considered insignificant. This is consistent with the exposure during the prior year.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

A sensitivity analysis has not been provided as no significant derivative activity has been undertaken during the year.

Manager's report

Fund Manager

Neil Hermon

Investment objective and policy

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

Performance summary

Over the year the Fund rose by 41.2% compared to a 34.2% increase in the Hoare Govett Small Cap (excluding investment trusts) Index.

Discrete annual performance†

	1 Jul 10- 30 Jun 11	1 Jul 09- 30 Jun 10	1 Jul 08- 30 Jun 09	1 Jul 07- 30 Jun 08	1 Jul 06- 30 Jun 07
	%	%	%	%	%
Henderson UK Smaller Companies Fund	41.2	32.0	(25.7)	(21.4)	25.8
Hoare Govett Small Cap (ex Investment Trust) Index	34.2	28.0	(12.4)	(24.8)	25.4

† Source: Morningstar - mid to mid (excluding initial charge) 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.

Significant portfolio changes for the year ended 30 June 2011

Purchases	£000	Sales	£000
AZ Electronic Materials	755	Bluebay Asset Management	913
Filtrona	530	Charter International	758
Howden Joinery	523	BSS	748
Taylor Wimpey	463	Xcite Energy	620
Ashtead	431	EAGA	580
Lupus Capital	418	Scott Wilson	544
Rockhopper Exploration	408	Phoenix	533
Heritage Oil	381	Hochschild Mining	530
CPP	372	Rockhopper Exploration	515
Perform	355	Shed Production	466

Manager's report

Market commentary

The UK equity market made strong progress in the 12 months under review. Global economic conditions are gradually improving and specifically corporates are enjoying robust trading conditions with strong increases in profitability. Additionally merger and acquisition activity has seen a rebound and this has specifically helped the mid and small cap area with the Hoare Govett Small Cap Index producing a total return of 34.2% compared to a return of 25.6% from the FT All Share.

Performance

The Fund outperformed the benchmark over the year. Notable contributors to performance included Spectris (industrial and electronic control equipment) where the company exceeded expectations due to strong cost control and buoyant demand from Asia. Another contributor was Oxford Instruments (high technology scientific and industrial equipment) where profits are growing rapidly due to significant growth in its end markets. Croda (speciality chemicals) rose sharply as industrial demand saw continued recovery. E2V Technologies (high technology electronic components) recovered sharply after its restructuring delivered significant cost savings and customer demand recovered sharply. On the negative side WSP (international engineering consultancy) fell after profits failed to meet expectations due to weakness in UK public sector demand and CPP (credit card and identity protection insurance) declined as the FSA launched an investigation into potential miss-selling of its products.

Investment activity

In the six months to 31 December 2010 notable additions to the portfolio included Carphone Warehouse (mobile phone retailer), where we favour its exposure to international expansion and growing demand for smartphones. We also added Encore Oil (North Sea exploration), which has made possibly the most significant find in the North Sea of the last ten years. We took a position in F&C Asset Management (fund manager), after the activist investor, Sherborne, took a 10% stake. Their record in enhancing shareholder value in previous situations has been exemplary. We also initiated a position in Ashtead (plant hire) on the view that the company was well placed to benefit from a recovery in the US construction market. We took a position in AZ Electronic Materials (chemicals for the electronics industry) on its initial public offering (IPO) as we believe the company has excellent returns and strong growth prospects.

To finance these purchases we sold our positions in a number of stocks which had received agreed bids including Scott Wilson (consulting engineer), Chloride (uninterruptible power supplies), Shed Media (TV programme maker), BSS Group (builders merchant) and Bluebay Asset Management (fixed interest asset manager). We also disposed of our position in Headlam (floorcovering distributor) as the weakness in the housing market may affect sales and CVS Group (veterinary practices) as the outlook for profits is poor.

In the second half of the year we initiated a position in Howden Joinery (kitchen supplier) as the company has continued to exceed market expectations and the outlook looks strong. Additionally we added IOE (semiconductor manufacturer) to the portfolio, as we believe the company is poised to grow substantially on the back of increased smartphone penetration.

We sold our position in Wellstream (flexible pipe manufacturer) after the company received an agreed takeover bid from GE and Psion (ruggedized hand-held computer hardware) as we believe that the company is behind in its plans to improve margins. We also sold positions in Pace (set-top box provider) on the back of poor results and Eaga after an agreed takeover offer from Carillion. We sold our position in International Ferro Metals (ferrochrome producer) as the outlook is increasingly difficult with a strong Rand and falling ferrochrome prices impacting profitability. We also sold our position in Phoenix IT (diversified IT company) as the company is finding it increasingly difficult to generate growth.

Outlook

Macro economic news remains reasonable with developed economies enjoying modest growth and emerging economies displaying stronger conditions. Growth however does appear to be tempering and macro conditions are becoming more volatile. Additionally there are plenty of headwinds for the equity market to contend with such as concerns over the pace of economic recovery, sovereign credit risk, high commodity prices and inflation. The equity market does remain good value on around 11x 2011 earnings and corporate profitability is robust. Additionally M&A has seen a resurgence with foreign corporates particularly prevalent in targeting UK companies. This particularly aids small and mid sized companies where activity tends to be focused. With this backdrop I expect markets to make progress but remain choppy.

Neil Hermon
25 July 2011

Comparative tables as at 30 June 2011

Net asset value per share

	Net asset value of Fund (£)	Net asset value of shares (£)	Number of shares in issue	Net asset value per share (pence)
Class X accumulation				
30/06/2009	46,518,121	152,888	94,522	161.75
30/06/2010*	53,225,272	-	-	-
Class A accumulation				
30/06/2009	46,518,121	29,078,727	17,264,358	168.43
30/06/2010	53,225,272	34,764,390	15,538,639	223.72
30/06/2011	71,742,191	46,325,750	14,573,990	317.87
Class I accumulation				
30/06/2009	46,518,121	8,286,025	4,540,017	182.51
30/06/2010	53,225,272	7,385,509	3,021,308	244.44
30/06/2011	71,742,191	8,862,727	2,528,761	350.48
Class Z accumulation				
30/06/2009	46,518,121	9,000,481	7,657,820	117.53
30/06/2010	53,225,272	11,075,373	6,982,854	158.60
30/06/2011	71,742,191	16,553,714	7,223,143	229.18

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

Comparative tables (continued)

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X accumulation			
2006	-	268.10	208.80
2007	-	298.70	236.50
2008	0.56	249.00	212.80
2009	1.89	214.60	126.00
2010**	-	212.00	205.80
Class A accumulation			
2006	0.80	276.60	214.40
2007	0.68	308.80	244.40
2008	1.96	257.80	220.00
2009	2.90	223.80	131.00
2010	2.69	298.00	209.10
2011	2.10*	319.60+	292.50+
Class I accumulation			
2006	4.96	294.20	226.00
2007	3.09	329.30	261.80
2008	10.25	329.30	261.80
2009	4.36	243.00	141.70
2010	5.60	327.10	227.70
2011	5.33*	352.00+	321.70+
Class Z accumulation			
2006	2.71	185.90	142.00
2007	4.67	208.80	166.70
2008	4.28	176.90	150.30
2009	3.84	156.90	91.02
2010	4.41	213.10	147.30
2011	4.97*	229.90+	209.80+

* to 31 August.

+ to 30 June.

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

Total expense ratio

The annualised total expense ratio (TER) of the Fund, based on the total expenses included within the financial statements for the year as indicated below:

	2011 %	2010 %
Class A	1.75	1.79
Class I	0.82	0.96
Class Z	0.07	0.21

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

Portfolio statement as at 30 June 2011

Holding	Investment	Market value £000	Percentage of total net assets %
Equities 100.37% (2010: 99.71%)			
Basic materials 9.81% (2010: 7.56%)			
181,000	Avocet Mining #	389	0.54
291,738	AZ Electronic Materials	896	1.25
120,000	Croda International	2,264	3.16
641,060	GGG Resources #	143	0.20
105,000	Kalahari Minerals #	246	0.34
1,285,000	Kenmare Resources	757	1.06
105,000	London Mining #	376	0.52
115,000	Ncondezi Coal	154	0.21
121,000	Victrex	1,815	2.53
		<u>7,040</u>	<u>9.81</u>
Consumer goods 5.03% (2010: 3.63%)			
176,475	AGA Rangemaster	191	0.27
74,000	Asian Plantations	192	0.27
197,972	Bellway	1,415	1.97
140,000	Persimmon	675	0.94
3,000,000	Taylor Wimpey	1,134	1.58
		<u>3,607</u>	<u>5.03</u>
Consumer services 13.40% (2010: 14.90%)			
160,000	Carphone Warehouse	677	0.94
260,000	Chime Communications	720	1.00
700,000	Debenhams	483	0.67
110,000	Dunelm	428	0.60
112,000	Euromoney	731	1.02
165,000	Goals Soccer Centres #	212	0.30
137,000	Greene King	668	0.93
105,000	Halfords	390	0.54
520,000	Informa	2,247	3.13
270,000	ITE	589	0.82
92,000	Majestic Wine #	451	0.63
266,923	Next Fifteen Communications #	222	0.31
136,585	Perform	283	0.40
315,000	Restaurant Group	926	1.29
50,000	Ted Baker	398	0.56
328,579	Topps Tiles	187	0.26
		<u>9,612</u>	<u>13.40</u>
Financials 11.40% (2010: 12.04%)			
250,000	Aberdeen Asset Management	558	0.78
1,420,000	Capital & Regional Property	557	0.78
400,000	F&C Asset Management	300	0.42
168,000	GlobeOp Financial Services	658	0.92
662,206	Grainger Trust	860	1.20
340,000	Hansteen	297	0.41
450,000	Intermediate Capital	1,452	2.02
132,000	Jupiter Asset Management	334	0.47
235,000	LSL Property Services	658	0.92

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Financials (continued)			
300,000	LXB Retail Properties #	344	0.48
575,000	Paragon	1,141	1.59
27,000	Rathbone Brothers	305	0.42
135,000	Shaftesbury	713	0.99
		<u>8,177</u>	<u>11.40</u>
Health care 2.18% (2010: 2.72%)			
91,000	Abcam #	379	0.53
68,000	CareTech #	91	0.13
50,000	Consort Medical	259	0.36
100,000	Proximagen Neuroscience #	132	0.18
77,000	Synergy Healthcare	705	0.98
		<u>1,566</u>	<u>2.18</u>
Industrials 43.83% (2010: 42.88%)			
325,000	Ashtead	553	0.77
170,000	Atkins	1,272	1.77
130,000	Babcock International	926	1.29
310,000	Balfour Beatty	956	1.33
335,000	Carillion	1,260	1.76
145,000	Chemring	928	1.29
225,000	Costain	491	0.68
310,000	CPP	429	0.60
270,000	Domino Printing	1,841	2.57
1,500,000	E2V Technologies	2,025	2.82
200,000	Filtrona	735	1.02
465,000	Howden Joinery	498	0.69
132,000	Hyder Consulting	586	0.82
378,954	Interserve	1,222	1.70
68,000	Keller	317	0.44
475,000	Laird	962	1.34
380,000	Lupus Capital #	429	0.60
134,000	Meggitt	511	0.71
402,000	Melrose	1,455	2.03
170,000	Menzies (John)	845	1.18
240,000	Mouchel	144	0.20
2,450,000	Norcros	349	0.49
370,000	Northgate	1,213	1.69
186,000	Oxford Instruments	1,711	2.38
60,000	Renishaw	1,052	1.47
59,500	Rotork	1,003	1.40
148,000	RWS #	665	0.93
625,000	Senior	1,136	1.58
535,000	SIG	730	1.02
153,000	Spectris	2,436	3.40
790,000	Speedy Hire	237	0.33
353,323	Tribal	179	0.25
48,000	Ultra Electronic	824	1.15
585,000	WSP	1,527	2.13
		<u>31,447</u>	<u>43.83</u>

Portfolio statement (continued)

Holding	Investment	Market value £000	Percentage of total net assets %
Oil & gas 5.46% (2010: 5.10%)			
62,000	Bowleven #	208	0.29
66,690	Chariot Oil	124	0.17
250,000	Encore Oil #	158	0.22
140,000	Heritage Oil	307	0.43
60,000	John Wood	389	0.54
125,000	Kentz #	542	0.76
92,000	Nautical Petroleum #	288	0.40
600,000	Oilex #	141	0.20
272,000	Premier Oil	1,214	1.69
110,000	Rockhopper Exploration #	296	0.41
42,000	Valiant Petroleum #	248	0.35
		<u>3,915</u>	<u>5.46</u>
Technology 9.26% (2010: 10.88%)			
1,000,000	Anite	750	1.05
46,000	Aveva	788	1.10
206,000	CSR	638	0.89
170,000	Digital Barrier #	303	0.42
51,000	Fidessa	988	1.38
300,000	IOE	130	0.18
159,000	Kofax	704	0.98
93,000	NCC	572	0.80
127,000	Playtech	432	0.60
207,696	RM	303	0.42
56,036	RMS Communications +	-	-
460,000	Spirent Communications	685	0.95
63,000	Telecity	349	0.49
		<u>6,642</u>	<u>9.26</u>
	Investment assets	72,006	100.37
	Net other liabilities	(264)	(0.37)
	Net assets	71,742	100.00

Investment listed on the Alternative Investment Market.

+ Written down security.

Statement of total return for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2	21,300	14,268
Revenue	4	1,629	1,639
Expenses	5	(827)	(741)
Finance costs: Interest	7	(2)	(3)
Net revenue before taxation		800	895
Taxation	6	(1)	(1)
Net revenue after taxation		799	894
Total return before distributions		22,099	15,162
Finance costs: Distributions	7	(799)	(894)
Change in net assets attributable to shareholders from investment activities		21,300	14,268

Statement of change in net assets attributable to shareholders for the year ended 30 June 2011

	2011 £000	2010 £000
Opening net assets attributable to shareholders	53,225	46,518
Amounts receivable on issue of shares	5,162	1,497
Amounts payable on cancellation of shares	(8,757)	(9,969)
	(3,595)	(8,472)
Dilution adjustment	26	26
Stamp duty reserve tax	(13)	(9)
Change in net assets attributable to shareholders from investment activities (see above)	21,300	14,268
Retained distribution on accumulation shares	799	894
Closing net assets attributable to shareholders	71,742	53,225

Balance sheet as at 30 June 2011

		2011		2010	
	Notes	£000	£000	£000	£000
Assets					
Investment assets			72,006		53,071
Debtors	8	144		274	
Cash and bank balances	9	789		847	
Total other assets			933		1,121
Total assets			<u>72,939</u>		<u>54,192</u>
Liabilities					
Creditors	10	641		186	
Bank overdrafts		556		781	
Total liabilities			1,197		967
Net assets attributable to shareholders			<u>71,742</u>		<u>53,225</u>

Notes to the financial statements (continued)

1 Accounting policies

The accounting policies are set out in note 1 to the aggregated financial statements on pages 10 to 12.

2 Net capital gains

Net capital gains on investments during the year comprise:

	2011	2010
	£000	£000
Non-derivative securities	21,307	14,276
Transaction costs	(7)	(8)
Net capital gains	21,300	14,268

3 Portfolio transaction costs

	2011	2010
	£000	£000
Purchases in year before transaction costs	11,571	9,675
Commissions	14	7
Taxes	43	24
Total purchase transaction costs*	57	31
Purchases including transaction costs	11,628	9,706
Sales in year before transaction costs	14,019	16,946
Commissions	(19)	(22)
Total sale transaction costs*	(19)	(22)
Sales net of transaction costs	14,000	16,924
Transaction handling charges*	7	8

* These amounts have been deducted in determining net capital gains.

4 Revenue

	2011	2010
	£000	£000
Bank interest	1	-
Overseas dividends	111	122
Stock dividends	-	18
Stock lending revenue	12	31
UK dividends	1,478	1,340
UK REIT revenue	20	16
Underwriting commission	7	112
Total revenue	1,629	1,639

Notes to the financial statements (continued)

4 Revenue (continued)

Stock lending details	2011	2010
	£000	£000
Aggregate value of securities on loan at the year end	<u>1,963</u>	<u>2,992</u>

The aggregate value of securities at the year end and during the year subject to stock lending was fully secured.

All collateral held was in the form of securities. The aggregate value of collateral at the year end was £2,081,049 (2010: £3,142,707).

5 Expenses

	2011	2010
	£000	£000
Payable to the Authorised Corporate Director (ACD), associates of the ACD and agents of either of them:		
ACD's periodic charge	701	597
General administration charge*	116	47
Sub registration fees	<u>-</u>	<u>49</u>
	<u>817</u>	<u>693</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	8	6
Safe custody fees	<u>2</u>	<u>2</u>
	10	8
Other expenses:		
Audit fees	-	6
FSA fees	-	(1)
Printing and postage fees	-	17
Registration fees	<u>-</u>	<u>18</u>
	-	40
Total expenses	<u>827</u>	<u>741</u>

Irrecoverable VAT is included in the above expenses where relevant.

*The current year audit fees are £9,240 (2010: £9,048). The audit fee levied through the GAC charge is £9,240 (2010: £4,638).

Notes to the financial statements (continued)

6 Taxation

(a) Analysis of charge in the year

The tax charge comprises:

	2011	2010
	£000	£000
Overseas withholding tax	1	1
Total current tax (note 6b)	1	1

(b) Factors affecting current tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK for funds of authorised open ended investment companies (OEICs) of 20%. The differences are explained below.

	2011	2010
	£000	£000
Net revenue before taxation	800	895
Corporation tax at 20% (2010: 20%)	160	179
Effects of:		
Irrecoverable overseas tax	1	1
Non-taxable overseas dividends **	(22)	(24)
Stock dividends*	-	(4)
Unused management expenses	158	117
UK dividends*	(296)	(268)
Current tax charge for the year (note 6a)	1	1

* As an OEIC this item is not subject to corporation tax.

** Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in Finance Act 2009.

OEICs are exempt from tax on capital gains made in the UK. Therefore, any capital return is not included within the reconciliation above.

(c) Deferred tax

There is no provision required for deferred taxation at the Balance sheet date (2010: nil).

(d) Factors that may affect future tax charges

At the year end, after claiming relief against revenue taxable on receipt, there is a potential deferred tax asset of £4,789,683 (2010: £4,631,914) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

Notes to the financial statements (continued)

7 Finance costs

Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011	2010
	£000	£000
Final accumulation	799	894
	<u>799</u>	<u>894</u>
Finance costs: Distributions	799	894
Finance costs: Interest	2	3
Total finance cost	<u>801</u>	<u>897</u>

Details of the distribution per share are set out in the distribution table on page 304.

8 Debtors

	2011	2010
	£000	£000
Accrued revenue	112	138
Amounts receivable for issue of shares	32	-
Sales awaiting settlement	-	136
Total debtors	<u>144</u>	<u>274</u>

9 Cash and bank balances

	2011	2010
	£000	£000
Cash and bank balances	789	847
Total cash and bank balances	<u>789</u>	<u>847</u>

10 Creditors

	2011	2010
	£000	£000
Accrued ACD's periodic charge	62	49
Accrued Depository's fees	1	1
Accrued other expenses	40	43
Amounts payable for cancellation of shares	521	64
Purchases awaiting settlement	17	29
Total creditors	<u>641</u>	<u>186</u>

Notes to the financial statements (continued)

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

12 Related party transactions

The Financial Reporting Standard number 8 (FRS 8) on 'Related Party Disclosures' requires the disclosure of details of material transactions between the Fund and any related parties. Under the FRS the ACD is deemed to be a related party. All transactions and balances associated with the ACD are disclosed within the 'Statement of total return', 'Statement of change in net assets attributable to shareholders' and the 'Balance sheet' on pages 297 and 298 and notes 5, 8 and 10 on pages 300 to 302 including all creations and cancellations where the ACD acted as principal.

State Street Nominees Limited, as a material shareholder, is a related party with a 18.19% (2010: nil) shareholding.

Material transactions throughout the year such as creations and cancellations for this shareholder are included in the Statement of change in net assets attributable to shareholders.

13 Shareholder funds

The Fund currently has 3 share classes; Class A (Retail with front-end charges), Class I (Institutional) and Class Z (Institutional). The annual management charge on each share class is as follows:

Class A	1.50%
Class I	0.75%
Class Z	0.00%*

* Charges for managing Z class shares are levied outside the Fund and are agreed between the ACD and investors.

The net asset value of each share class, the net asset value per share and the number of shares in each share class are given in the comparative table on page 291. The distribution per share class is given in the distribution table on page 304. All share classes have the same rights on winding up.

14 Risk

Risks and policies in respect of financial assets and liabilities are set out in note 2 of the aggregated financial statements on pages 13 to 14.

The Fund's exposure to currency risk and interest rate risk is considered insignificant. This is consistent with the exposure during the prior year.

Interest earned and paid on bank balances during the year was at a variable rate. The interest rates on sterling bank accounts at the end of the year were 0.25% on credit balances (2010: 0.20%) and 1.75% on overdraft balances (2010: 1.70%).

Sensitivity analysis

A sensitivity analysis has not been provided as no significant derivative activity has been undertaken during the year.

Distribution table for the year ended 30 June 2011 (in pence per share)

Final dividend distribution (xd date 30 June 2011, paid on 31 August 2011)

	Net revenue	Distribution paid 31/08/2011	Distribution paid 31/08/2010
Class A accumulation	2.0962	2.0962	2.6871
Class I accumulation	5.3310	5.3310	5.5977
Class Z accumulation	4.9709	4.9709	4.4064



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