

# INTERIM SHORT REPORT

For the six months ended  
31 December 2013

**Henderson UK Smaller Companies Fund**

# Henderson UK Smaller Companies Fund

## Short Report

For the six months ended 31 December 2013

### Fund Manager

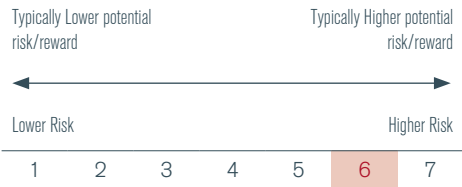
Neil Hermon

### Investment objective and policy

To aim to provide capital growth by investing primarily in United Kingdom Smaller Companies.

### Risk and reward profile

The Fund currently has 3 share classes in issue; A accumulation, I accumulation and Z accumulation. Each share class has the same risk and reward profile which is as follows:



The synthetic risk and reward indicator (SRRI) is calculated based on historical volatility over a rolling 5 year period, it is reviewed monthly and updated if volatility has changed materially to cause a movement in the SRRI level. The SRRI is an indicator and may not accurately reflect future volatility and market conditions.

The value of an investment in the Fund can go up or down. When you sell your shares, they may be worth less than you paid for them. The risk/reward rating above is based on medium-term volatility. In the future, the Fund's actual volatility could be higher or lower and its rated risk/reward level could change.

The lowest category does not mean risk free.

The Fund's risk level reflects the following:

- As a category, shares are more volatile than either bonds or money market instruments
- The Fund focuses on a single country
- Fluctuations in exchange rates may cause the value of your investment to rise or fall

The rating does not reflect the possible effects of unusual market conditions or large unpredictable events which could amplify everyday risk and trigger other risks such as:

**Counterparty risk** The Fund could lose money if an entity with which it interacts becomes unwilling or unable to meet its obligations to the Fund.

**Derivatives risk** Certain derivatives could behave unexpectedly or could expose the Fund to losses that are significantly greater than the cost of the derivative.

**Focus risk** The Fund's value may fall where it has concentrated exposure to an issuer or type of security that is heavily affected by an adverse event.

**Liquidity risk** Certain securities could become hard to value or sell at a desired time and price.

**Management risk** Investment management techniques that have worked well in normal market conditions could prove ineffective or detrimental at other times.

The full list of the Fund's risks are contained in the "Risk Factors" section of the Fund's prospectus.

### Fund Manager's commentary

The equity market rose over the six months to 31 December 2013. Positive sentiment was driven by a temporary solution to the US government debt impasse and agreement on the fiscal budget. The Federal Reserve's move to taper its bond-purchase programme at a measured pace also boosted investors' confidence. Additionally, the economic news remained positive, particularly in the UK. The FTSE-All Share Index rose 11.3% with mid and small caps outperforming. The Numis Smaller Companies ex-Investment Companies Index returned 21.0%.

The Fund outperformed the benchmark over the period, rising by 21.1%. Positive contributors to performance included Clinigen (speciality pharmaceutical products and services), which rose 100.9% as the company produced strong financial results and made two acquisitions

that will supplement strong organic growth. Oxford Instruments (high-tech instrumentation equipment) rose 47.1% after the firm highlighted an improvement in trading conditions and made a well-received bid for Andor Technology. Atkins (international engineering consulting) rose 44.8%, reflecting investors' growing confidence on a return to growth. As the UK housing market made a strong recovery and house prices started to rise, Grainger (residential property investment) rose 42.0%.

Negative contributors included Perform (commercialisation of sports rights), which fell 55.9% after it produced a severe profit warning, citing cost overruns and weakness in advertising sales. Meanwhile, Anite (telecom testing software) fell 26.4% after issuing a profit warning that pointed to a slowdown in spending by a number of customers involved in major corporate activity.

Over the period, notable additions to our portfolio included Safestyle (a UK windows installer). We believe that the company is well placed to see strong growth in revenues as the UK housing market recovers. We also initiated a position in Vectura (speciality pharmaceuticals). The recent approval of generic Advair in certain European territories highlights the attractiveness of the firm's drug pipeline. Another new position was in Qinetiq (UK and US defence services); its valuation looks attractive and the shape of its portfolio is improving. We started a position in UTV Media (UK and Irish TV and radio broadcaster), which looks set for strong growth in revenues as the UK and Irish economies

recover. As we think that UK consumer spending is recovering, we took a new position in N Brown (mail order and internet clothing retail); the firm's new management team should be able to drive growth by refocusing the business. Go-Ahead (a UK bus and rail operator) was a further addition; the company looks undervalued and should show good growth in the medium term, aided by potential rail contract wins.

To fund these purchases, we sold our position in Premier Farnell (electronic-component distribution) as we feel the company is operating in a highly competitive environment and is having to discount to grow sales. We also sold our position in Carphone Warehouse (mobile phone retail) because we feel that it faces fierce competition and we are concerned that it will be dis-intermediated by the telecom networks in the longer term. We sold out of Moneysupermarket.com (online price comparisons) because we have concerns over recent management share disposals and a slowdown in sales.

Although the global economy remains fragile, there are encouraging signs, particularly in the UK, that things are improving. Companies are in good health with strong balance sheets and growing dividends, and mergers and acquisitions continue to be a feature of the market. Over the medium term, in an improving economic environment, we would expect strong performances from equity markets, especially given the relative attractiveness of equities over bonds.

## Performance summary

	30 Jun 13- 31 Dec 13 %	30 Jun 12- 31 Dec 12 %	30 Jun 11- 31 Dec 11 %	30 Jun 10- 31 Dec 10 %	30 Jun 09- 31 Dec 09 %
Henderson UK Smaller Companies Fund	21.1	17.1	(13.6)	32.9	25.5
Numis Smaller Companies (ex Investment Trusts) Index	21.0	16.5	(14.0)	27.0	26.5

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

Figures in brackets are negative.

Please remember that past performance is not a guide to future performance. The value of an investment and the revenue from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

## Summary of Fund performance

Share class	Net asset value* 31/12/13 p	Net asset value* 30/06/13 p	Net asset value % change
Class A accumulation	508.46	419.64	21.17
Class I accumulation	573.42	471.20	21.69
Class Z accumulation	382.26	312.89	22.17

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

## Fund facts

Accounting dates	Payment dates
30 June, 31 December	31 August

### Ongoing charge figure

	31/12/13 %	30/06/13 %
Class A	1.71*	1.76
Class I	0.85**	0.87
Class Z	0.07***	0.08

The ongoing charge figure (OCF) of the Fund, calculated as the ratio of the total ongoing charges to the average net asset value for twelve months.

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

From 10 August 2013, the General Administration Charge (GAC) decreased:

\* from 0.24% to 0.18%.

\*\* from 0.10% to 0.075%.

\*\*\* from 0.06% to 0.045%.

## Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
<b>Class X accumulation</b>			
2009	1.89	214.60	126.00
2010**	-	212.00	205.80
<b>Class A accumulation</b>			
2009	2.90	223.80	131.00
2010	2.69	298.00	209.10
2011	2.10	326.90	250.70
2012	3.18	367.60	273.50
2013	2.57	508.56+	367.00+
<b>Class I accumulation</b>			
2009	4.36	243.00	141.70
2010	5.60	327.10	227.70
2011	5.33	360.50	277.10
2012	7.90	410.90	302.90
2013	4.58	573.53+	410.30+
<b>Class Z accumulation</b>			
2009	3.84	156.90	91.02
2010	4.41	213.10	147.30
2011	4.97	235.80	181.50
2012	6.72	271.70	198.80
2013	6.88	382.34+	271.40+

+ to 31 December 2013

\*\* Class X merged with Class A on 11 January 2010

Major holdings	
as at 31/12/13	%
Bellway	2.80
Taylor Wimpey	2.65
Spectris	2.60
Informa	2.35
Paragon	2.21
Ashtead	2.21
Interserve	2.12
Atkins	2.09
Senior	2.02
E2V Technologies	2.00

Asset allocation	
as at 31/12/13	%
Industrials	38.03
Consumer services	17.86
Financials	14.06
Technology	8.56
Consumer goods	5.56
Oil & gas	5.14
Health care	4.62
Basic materials	4.06
Net other assets	2.11
<b>Total</b>	<b>100.00</b>

Major holdings	
as at 30/06/13	%
Taylor Wimpey	2.90
Bellway	2.74
Informa	2.63
Ashtead	2.59
Spectris	2.46
Paragon	2.20
Intermediate Capital	2.18
Interserve	2.14
Atkins	2.10
Senior	2.09

Asset allocation	
as at 30/06/13	%
Industrials	38.54
Consumer services	19.57
Financials	14.59
Technology	8.07
Consumer goods	5.81
Oil & gas	5.31
Basic materials	3.78
Health care	3.73
Net other assets	0.60
<b>Total</b>	<b>100.00</b>

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

## Report and accounts

This document is a short report of the Henderson UK Smaller Companies Fund for the six months ended 31 December 2013.

Copies of the annual and half yearly long form report and financial statements of this Fund are available on our website [www.henderson.com](http://www.henderson.com) or contact client services on the telephone number provided.

## Other information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the period it covers and the results of those activities at the end of the period.

### Issued by:

Henderson Investment Funds Limited

Registered office:

201 Bishopsgate,  
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Member of the IMA and authorised and regulated  
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Registered in England No 2678531

## Risk warning

Please remember that past performance is not a guide to future performance. The value of an investment and the revenue from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

### Depository

National Westminster Bank Plc

135 Bishopsgate  
London EC2M 3UR

### Auditor

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G2 7EQ

# Contact us

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## Changes of address - regulatory requirements

FCA regulation requires us to send this report mailing to the address held on file on the accounting date of 31 December 2013. If you have confirmed a change of address with us since that date we will ensure all future correspondence will be sent to your new address.

## Online valuations

You can value your Henderson UK Smaller Companies Fund at any time by logging on to [www.henderson.com](http://www.henderson.com). Select 'Personal Investor' and then access 'Valuations' from the Tools Menu. Simply select the fund you hold and enter the appropriate number of shares.

## Any questions?

Further information about the activities and performance of the fund for this and previous periods can be obtained from the Investment Manager. If you have any questions please call our Client Services Team on 0800 832 832 or email [support@henderson.com](mailto:support@henderson.com).

## Important Information

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