

Henderson

Sterling Bond Unit Trust

Short Report

For the six months ended 15 October 2013

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Fund Managers

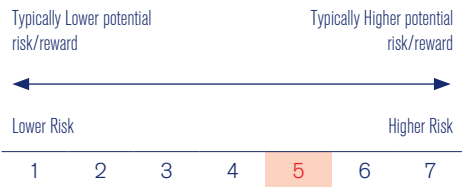
Stephen Thariyan & Philip Payne

Investment objective and policy

To achieve a high and stable income. The Fund will invest principally in sterling denominated fixed interest securities including preference shares. The Fund may also invest in securities acquired on the conversion of convertible securities held within the portfolio, derivatives and forward transactions, warrants originally acquired with fixed interest investments, or under a scheme of reconstruction affecting securities in the Fund, money market instruments and deposits. The Fund concentrates on investment grade corporate bonds. Derivatives may be used for meeting the investment objective of the Fund and for efficient portfolio management.

Risk and reward profile

The Fund currently has 4 types of unit class in issue; Income, Accumulation, Class I income and Class I accumulation. The risk and reward profile is as follows:



The value of an investment in the Fund can go up and down. When you sell your units, 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, bonds are less volatile than shares
- Fluctuations in exchange rates may cause the value of your investment to rise or fall

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

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

Default risk The issuers of certain bonds could become unable to make payments on their bonds.

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

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

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

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

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

Fund Managers' commentary

Corporate bond markets have continued to perform well over the period with credit spreads declining. This has helped to partially offset the rise in government bond yields, which have risen by around 1% predominantly due to concerns that the US Federal Reserve may begin to reduce their asset purchases, but also due to an improvement in economic data, especially in the UK. In a continuation of the trend for the year, financials outperformed non-financials with subordinated bonds seeing the strongest returns, whilst lower rated bonds have performed better than higher rated bonds, benefiting from a lower sensitivity to rising government bond yields. The rise in yields since the beginning of May has led to an increased demand for longer dated corporate bonds. Despite a pickup in issuance in September and heavy issuance in overseas markets, overall supply in the UK remains light compared to previous years.

The Fund's holdings in financials have been the biggest contributors to performance, especially holdings in insurance. Close to the beginning of the period a new position was established in Scottish Widows. The latter along with holdings in Aviva, Standard Life and Friends Life, have all performed well. The Fund's exposure to Old Mutual was sold due to concerns regarding emerging markets, which experienced high volatility just before the summer due to concerns regarding the US Federal Reserve reducing asset purchases.

The holding in UK subordinated bank bonds has also worked with HSBC, Barclays and Lloyds all performing well. Barclays benefited from their decision to undertake a rights issue in order to raise more capital, whilst Lloyds benefited from the government's decision to sell down part of their stake. Holdings in bank covered bonds have

not performed as well and have detracted from performance. In particular the position in Nationwide due to the bond's higher sensitivity to interest rates, and also partially due to some contagion from the troubles at the Co-operative Bank, which announced a £1.5bn capital shortfall. We did not have exposure to The Co-operative Bank's subordinated debt, which saw the largest falls, but we do remain exposed to the Co-operative Group whose bonds also underperformed as the group are expected to inject further capital into the bank, but it is not yet known how any rescue package will be structured.

Market appetite for longer dated bonds following the rise in yields and widening in credit spreads in May and June was supportive of the Fund's holdings in EDF and Heathrow Airport. However, over the period the Fund's holdings in longer dated bonds have detracted from performance due to the rise in government bond yields. Following weak results and a downgrade to BBB by ratings agencies Fitch and S&P, we increased exposure to Tesco as it focuses on improving its balance sheet after exiting the US. Exposure to Dutch telecoms operator KPN has also been increased following their decision to sell their German mobile operations to Telefónica, which should help to strengthen their balance sheet.

The trend of rising government bond yields has led to lower rated bonds outperforming. This has benefited holdings in GKN, Daily Mail & General and Glencore. During the period the Fund has also participated in a number of new deals including issuance from SEB, Anheuser Busch and AT&T, whilst the holding in Verizon Wireless has been increased after the bonds cheapened up following a record amount of new issuance in the US by their parent company. Notable positions which have been either sold or reduced during the period included Digital Realty, Anglo American and Heathrow Airport.

Performance summary

	15 Apr 13- 15 Oct 13 %	15 Apr 12- 15 Oct 12 %	15 Apr 11- 15 Oct 11 %	15 Apr 10- 15 Oct 10 %	15 Apr 09- 15 Oct 09 %
Henderson Sterling Bond Unit Trust	(2.1)	8.5	0.2	6.4	50.9
IMA £ Corporate Bond average	(1.8)	8.4	(0.2)	6.6	22.5

Source Morningstar, mid to mid, net revenue reinvested, net of fees, GBP.

Figures in brackets are negative.

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

Summary of Fund performance

Unit class	Net asset value* 15/10/13 p	Net asset value* 15/04/13 p	Net asset value % change
Income	58.38	60.72	(3.85)
Accumulation	178.37	183.17	(2.62)
Class I income	100.69	104.31	(3.47)
Class I accumulation	103.82	105.87	(1.94)

* 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 bid market price.

Fund facts

Accounting dates

15 October, 15 April

Payment dates

15 September, 15 December, 15 March, 15 June

Ongoing charge figure

	15/10/13 %	15/04/13 %
Income	1.44*	1.45
Accumulation	1.44*	1.45
Class I	0.71**	0.72+

The annualised ongoing charge figure (OCF) of the Fund is the ratio of the total ongoing charges to the net asset value for twelve months.

The OCF is calculated in accordance with guidelines issued by the Committee of European Securities Regulators (CESR) with the aim of ensuring a harmonised approach to the calculation of the OCF by all UCITS.

From 10 August 2013:

* The General Administration Charge (GAC) decreased from 0.18% to 0.14%.

** The General Administration Charge (GAC) decreased from 0.10% to 0.075%.

Performance record

Calendar year	Net revenue (pence per unit)	Highest price (pence per unit)	Lowest price (pence per unit)
Income			
2008	2.59	63.43	40.58
2009	2.47	52.17	31.90
2010	2.16	54.51	48.42
2011	1.83	54.88	51.98
2012	1.59	60.03	53.97
2013	1.54*	64.44+	57.10+
Accumulation			
2008	6.38	153.88	103.27
2009	6.41	140.97	82.53
2010	5.93	152.79	130.83
2011	5.22	159.87	147.33
2012	4.70	179.89	157.77
2013	4.66*	195.61+	173.52+
Class I income			
2012#	0.70	103.78	98.61
2013	3.25*	107.24+	98.35+
Class I accumulation			
2012#	0.70	104.49	98.61
2013	3.32*	109.68+	100.85+

* to 13 December

+ to 15 October

Unit class launched 1 August 2012

Net revenue distribution

Unit class	15/10/13 p	15/10/12 p
Income	0.77	0.80
Accumulation	2.33	2.37
Class I income	1.62	0.70
Class I accumulation	1.66	0.70

Total interest distributions for the period ended 15 October 2013, comparison is for the same period last year.

Past performance is not a guide to future performance.

Major holdings	
as at 15/10/13	%
EDF Energy Networks 5.5% 17/10/2041	1.43
HSBC 6.375% 18/10/2022	1.37
Wal-Mart Stores 4.875% 19/01/2039	1.35
Barclays Bank 10% 21/05/2021	1.28
AT&T 5.875% 28/04/2017	1.17
Western Power West 5.75% 16/04/2032	1.10
Imperial Tobacco 5.5% 22/11/2016	1.04
General Electric Capital 5.875% 18/01/2033	0.97
BAT International Finance 6.375% 12/12/2019	0.93
Pfizer 6.5% 03/06/2038	0.92

Asset allocation	
as at 15/10/13	%
Fixed corporate bonds	94.50
Government bonds	0.85
Floating rate notes	0.48
Profit participating deferred shares	0.09
Net other assets	4.08
Total	100.00

Major holdings	
as at 15/04/13	%
Nationwide Building Society 5.625% 28/01/2026	1.45
EDF Energy Networks 5.5% 17/10/2041	1.41
Wal-Mart Stores 4.875% 19/01/2039	1.39
HSBC 6.375% 18/10/2022	1.33
Barclays Bank 10% 21/05/2021	1.29
AT&T 5.875% 28/04/2017	1.17
Western Power West 5.75% 16/04/2032	1.13
Johnson & Johnson 5.5% 06/11/2024	1.05
Imperial Tobacco 5.5% 22/11/2016	1.03
General Electric Capital 5.875% 18/01/2033	1.00

Asset allocation	
as at 15/04/13	%
Fixed corporate bonds	95.59
Government bonds	0.66
Floating rate notes	0.47
Profit participating deferred shares	0.09
Net other assets	3.19
Total	100.00

Report and accounts

This document is a short report of the Henderson Sterling Bond Unit Trust for the six months ended 15 October 2013.

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

Other information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the 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,
London EC2M 3AE

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Risk warning

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

Auditor

KPMG Audit Plc

Saltire Court

20 Castle Terrace

Edinburgh EH1 2EG

Trustee

National Westminster Bank Plc

135 Bishopsgate

London EC2M 3UR

Contact us

Client Services 0800 832 832
www.henderson.com

Head Office address:
201 Bishopsgate, London EC2M 3AE

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 15 October 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 Sterling Bond Unit Trust at any time by logging on to www.henderson.com. Select 'Personal Investor' and then access 'Valuations' from the Tools Menu. Simply select the fund you hold and enter the appropriate number of shares.

Any questions?

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

Important Information

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

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