

INTERIM SHORT REPORT

For the six months ended
31 December 2013

Henderson Preference & Bond Fund

Henderson Preference & Bond Fund

Short Report

For the six months ended 31 December 2013

Fund Managers

John Pattulo and Jenna Barnard

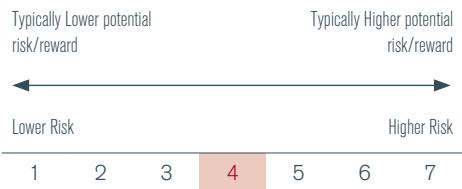
Investment objective and policy

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.

Risk and reward profile

The Fund currently has 7 types of share class in issue; A income, I income, I accumulation, Z accumulation, A gross income, I gross income and Z gross accumulation. Each type of 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, bonds are less volatile than shares
- Fluctuations in exchange rates may cause the value of your investment to rise or fall

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

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

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

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

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

Geographic risk The Fund's value may fall where it has concentrated exposure to a particular country or region 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 Managers' commentary

The period was characterised by credit risk outperforming interest rate risk. High yield outperformed investment grade, which in turn outperformed gilts. Two pivotal events happened in September. Larry Summers, a perceived monetary hawk, withdrew his candidacy for head of the US Federal Open Market Committee (FOMC); the market had sold off in anticipation as he was the front runner. Consequently, all risk assets including sovereign bonds rallied as the markets anticipated the more dovish Janet Yellen being appointed. Secondly, the current Federal Reserve chairman, Ben Bernanke, performed an about-face on his 'tapering' (reduction of asset purchases) plans, somewhat wrong-footing markets. The Fund was well-positioned for this result. The 'no tapering' decision in September was justified by the tightening in financial conditions in the US, which had happened after the initial summer tapering talks. Some reference was made to the difficulties of targeting one unemployment number and the lack of inflation in the US. Markets rallied on this dovish turn of events. Sovereign bonds, however, were weak into the year-end as credit and equity markets continued to rally.

The Fund performed very well over the review period. Interest rate sensitivity was generally run at the low end, but we managed to catch a rally in sovereign bonds, which occurred late on in the third quarter, by using interest rate futures. Duration (interest rate sensitivity) was extended as it appeared US economic data would continue to be

moderate, even though most investors seemed to be positioned short of the market. This position was then subsequently successfully closed. This worked well as sovereigns were weak late in the year.

Turning to new issues, Verizon Telecom brought the largest ever corporate debt offering to the market: US\$49bn. We felt this provided a great opportunity and we participated in it in size, which went extremely well. In addition, the Fund particularly benefited from its holding in a new instrument issued by Nationwide, the building society. This equity-like bond was issued with a yield of 10.25% and rallied 15% in price within a month of its November issue date. Further, generic credit risk was taken through the use of the highly liquid iTraxx Crossover credit derivative index, which boosted returns in the final months of the year. This reflected a tactical decision to boost the credit beta (exposure to market volatility) of the Fund over this time period.

We continue to think that income will be the primary driver of returns going forward with little opportunity for capital appreciation opportunities in the bond market. As of the end of December 2013 the I Shares provided a distribution yield of approximately 6%. With the expectation that defaults will remain at a historically low level, lower rated areas of the credit market continue to provide the potential for the most attractive returns in the fixed income universe. This has largely been the positioning of the Fund for a number of years now but there are, as yet, no signs that the 'animal spirits' required to cause a significant deterioration in the quality of high yield bonds in issue have yet returned.

| 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 Preference & Bond Fund | 5.1 | 9.0 | (6.3) | 5.4 | 27.2 |

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 income | 52.53 | 51.22 | 2.56 |
| Class I income | 55.44 | 53.87 | 2.91 |
| Class I accumulation | 114.75 | 108.83 | 5.44 |
| Class Z accumulation | 171.57 | 161.95 | 5.94 |
| Class A gross income | 53.19 | 51.85 | 2.58 |
| Class I gross income | 56.14 | 54.56 | 2.90 |
| Class Z gross accumulation | 195.21 | 183.10 | 6.61 |

*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, 30 November, last day of February, 31 May |

Ongoing charge figure

| | 31/12/13 % | 30/06/13 % |
|---------|---------------|---------------|
| Class A | 1.43* | 1.45 |
| Class I | 0.71** | 0.73 |
| Class Z | 0.04*** | 0.05 |

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

It 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 0.18% to 0.14%.

** from 0.10% to 0.075%.

*** from 0.03% to 0.023%.

Net revenue distribution

| Share class | 31/12/13 p | 31/12/12 p |
|----------------------------|---------------|---------------|
| Class A income | 1.32 | 1.36 |
| Class I income | 1.41 | 1.44 |
| Class I accumulation | 2.89 | 2.83 |
| Class Z accumulation | 4.31 | 4.18 |
| Class A gross income | 1.67 | 1.73 |
| Class I gross income | 1.78 | 1.83 |
| Class Z gross accumulation | 6.10 | 5.87 |

Total interest distributions for the period ended 31 December 2013, comparison is for the same period last year.

Performance record

| Calendar year | Net revenue (pence per share) | Highest price (pence per share) | Lowest price (pence per share) |
|-----------------------------|----------------------------------|------------------------------------|-----------------------------------|
| Class X income | | | |
| 2009 | 3.11 | 51.60 | 35.30 |
| 2010** | 0.87 | 52.10 | 50.70 |
| Class A income | | | |
| 2009 | 3.16 | 52.50 | 35.80 |
| 2010 | 3.25 | 55.80 | 50.60 |
| 2011 | 3.01 | 54.04 | 46.71 |
| 2012 | 2.64 | 53.98 | 47.58 |
| 2013 | 2.58 | 54.61+ | 51.48+ |
| 2014 | 0.68* | - | - |
| Class I income | | | |
| 2009 | 3.23 | 53.90 | 36.60 |
| 2010 | 3.38 | 57.40 | 52.10 |
| 2011 | 3.17 | 55.96 | 48.49 |
| 2012 | 2.80 | 56.49 | 49.47 |
| 2013 | 2.72 | 57.28+ | 54.05+ |
| 2014 | 0.73* | - | - |
| Class I accumulation | | | |
| 2009 | 4.10 | 89.20 | 57.40 |
| 2010 | 5.72 | 98.00 | 89.20 |
| 2011 | 5.70 | 101.40 | 90.56 |
| 2012 | 5.34 | 111.30 | 93.82 |
| 2013 | 5.46 | 116.60+ | 109.90+ |
| 2014 | 1.50* | - | - |
| Class Z accumulation | | | |
| 2009 | 7.31 | 128.60 | 82.30 |
| 2010 | 8.27 | 141.60 | 128.60 |
| 2011 | 8.31 | 147.30 | 131.90 |
| 2012 | 7.84 | 163.50 | 136.90 |
| 2013 | 8.12 | 172.34+ | 161.95+ |
| 2014 | 2.24* | - | - |

Performance record

| Calendar year | Net revenue (pence per share) | Highest price (pence per share) | Lowest price (pence per share) |
|-----------------------------------|----------------------------------|------------------------------------|-----------------------------------|
| Class A gross income | | | |
| 2009 | 3.99 | 53.40 | 36.30 |
| 2010 | 4.12 | 56.50 | 51.20 |
| 2011 | 3.82 | 54.84 | 47.31 |
| 2012 | 3.35 | 54.83 | 48.18 |
| 2013 | 3.26 | 55.36+ | 52.12+ |
| 2014 | 0.86* | - | - |
| Class I gross income | | | |
| 2009 | 4.08 | 54.90 | 37.10 |
| 2010 | 4.28 | 58.20 | 52.80 |
| 2011 | 4.03 | 56.91 | 49.21 |
| 2012 | 3.55 | 57.50 | 50.20 |
| 2013 | 3.46 | 58.19+ | 54.84+ |
| 2014 | 0.92* | - | - |
| Class Z gross accumulation | | | |
| 2009 | 9.71 | 138.30 | 87.40 |
| 2010 | 11.12 | 154.30 | 138.30 |
| 2011 | 11.45 | 161.90 | 145.80 |
| 2012 | 10.94 | 183.70 | 151.80 |
| 2013 | 11.49 | 196.10+ | 183.10+ |
| 2014 | 3.16* | - | - |

* to 28 February

+ to 31 December

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

Past performance is not a guide to future performance.

| Major holdings | |
|---------------------------------------|------|
| as at 31/12/13 | % |
| BUPA Finance Variable Perpetual | 1.96 |
| Scottish Widows 7% Perpetual | 1.71 |
| Alliance Boots FRN 07/07/2017 | 1.64 |
| Gala 8.875% 01/09/2018 | 1.60 |
| HBOS Capital Funding 6.461% Perpetual | 1.60 |
| INEOS 7.875% 15/02/2016 | 1.58 |
| Standard Life 5.314% Perpetual | 1.58 |
| Barclays Bank 10% 21/05/2021 | 1.49 |
| Ziggo Finance 8% 15/05/2018 | 1.44 |
| AA 9.5% 31/07/2019 | 1.44 |

| Asset allocation | |
|--------------------------------|---------------|
| as at 31/12/13 | % |
| United Kingdom corporate bonds | 46.56 |
| European corporate bonds | 26.13 |
| United States corporate bonds | 10.92 |
| Secured loans | 7.27 |
| Derivatives | 1.60 |
| Floating rate notes | 1.20 |
| Net other assets | 6.32 |
| Total | 100.00 |

| Major holdings | |
|---|------|
| as at 30/06/13 | % |
| BUPA Finance Variable Perpetual | 1.91 |
| Ziggo 8% 15/05/2018 | 1.87 |
| Alliance Boots FRN 07/07/2017 | 1.64 |
| Gala 8.875% 01/09/2018 | 1.60 |
| Scottish Widows 7% Perpetual | 1.55 |
| Barclays Bank 10% 21/05/2021 | 1.49 |
| HBOS Capital Funding 6.461% Perpetual | 1.46 |
| WPP 2010 4.75% 21/11/2021 | 1.40 |
| RL Finance Bonds 6.125% Perpetual | 1.27 |
| Daily Mail & General Trust 5.75% 07/12/2018 | 1.20 |

| Asset allocation | |
|--------------------------------|---------------|
| as at 30/06/13 | % |
| United Kingdom corporate bonds | 48.04 |
| European corporate bonds | 20.04 |
| United States corporate bonds | 11.20 |
| Secured loans | 5.71 |
| Floating rate notes | 2.07 |
| Equities | 0.19 |
| Canadian corporate bonds | 0.06 |
| Derivatives | (0.14) |
| Net other assets | 12.83 |
| Total | 100.00 |

Report and accounts

This document is a short report of the Henderson Preference & Bond 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 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

Member of the IMA and authorised and regulated
by the Financial Conduct Authority.
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

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

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

Any questions?

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

Important Information

Issued in the UK by Henderson Global Investors. Henderson Global Investors is the name under which Henderson Global Investors Limited (reg. no. 9069355), Henderson Fund Management Limited (reg. no. 2607112), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), Henderson Alternative Investment Advisor Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), Gartmore Investment Limited (reg. no. 1508030), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services. Ref: 34V

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

H006867/0114