

Henderson

Preference & Bond

Fund

Short Report

For the six months ended 31 December 2011

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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 profile

The Fund's management charge is taken from capital, this may allow more income to be paid, however, it may also restrict capital growth or even result in capital erosion over time.

Derivative transactions may be used from time to time in order to meet the investment objective of the Fund. If they are used this may lead to greater volatility in the price of the Fund.

The Fund is a specialist country-specific or geographical region fund, the investment carries greater risk than a fund diversified across more countries.

The Fund invests in bonds therefore there is a risk that interest rate fluctuations could affect the capital value of investments. Where long term interest rates rise, the capital value of shares/units is likely to fall, and vice versa. In addition to the interest rate risk, bond investments are also exposed to credit risk reflecting the ability of the borrower (i.e. bond issuer) to meet its obligations (i.e. pay the interest on a bond and return the capital on the redemption date). The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on the Fund that invests in such bonds.

Manager's commentary

The second half of 2011 witnessed a sharp reversal in the fortunes of credit markets from the first half of the year. Adverse political developments in the US (the August debt ceiling stand-off and loss of its AAA debt rating) and the ongoing European debt crisis caused investor confidence to collapse. The result was a rush towards perceived safe havens (UK, US and German government bonds) and out of riskier corporate bonds, which drove up valuations in these 'safe haven' markets to extreme levels. Having feared inflation and worried about the prospect of interest rate rises at the beginning of the year, the bond market was converted to the theme of deflation and moved to price in little to no prospect of interest rate rises in the coming few years. Despite a faltering and timid response to the raging peripheral crisis in Europe, the European Central Bank did make a significant policy change in December by offering unlimited three-year funding to the banking sector, thereby staving off the prospect of further banking failures and enabling the banking sector to purchase government bonds. Despite the circularity and risks inherent in this policy it worked to improve confidence and reduce the fears of a disorderly collapse of the euro-system as the year ended.

Liquidity in corporate bond markets fell as volatility in risk assets increased. This made transacting in bonds both more expensive and, in some cases, difficult to do at all. As a result we increased the usage of derivatives to manage the portfolio and to express tactical views. The holdings of corporate bonds were relatively stable albeit with some pruning of names that were likely to face fundamental challenges in a lower growth environment. We reduced the banking exposure and made purchases in defensive industries such as Imperial Tobacco, BAA and Morrisons. The major detractor from performance proved to be the relative underweight position in UK government bonds as the announcement of another round of quantitative easing combined with a weak economic

backdrop pushed gilt yields to historic lows. Our largest sector insurance bonds, was a surprisingly poor performer, tending to be traded by the junior bank bond market makers they displayed more volatility than expected or arguably justified. Our second largest sector, media generally performed much better with a strong overweight in core European cable television names.

In the current market we are finding many opportunities to invest in seasoned credits with sensible capital structures offering yields of between 5% and 9%. These select names offer, in our mind, low default risk but with an attractive income stream.

This sits in sharp contrast to the UK government bond market where yields are being 'manipulated' to remain low through the Bank of England's quantitative easing policies, and offer little medium-term value. Equally we are not attracted to the more default sensitive areas of the market at higher yields due to the economic uncertainty which continues to weigh on the outlook. The middle ground of yield opportunities therefore seems to offer the best hunting ground for the Fund to ensure a realistic and achievable income stream for our investors.

John Pattullo and Jenna Barnard
25 January 2012

Discrete annual performance

	1 Jan 11- 31 Dec 11	1 Jan 10- 31 Dec 10	1 Jan 09- 31 Dec 09	1 Jan 08- 31 Dec 08	1 Jan 07- 31 Dec 07
	%	%	%	%	%
Henderson Preference & Bond Fund	(2.8)	6.6	29.3	(19.6)	(1.2)
Sector average*	3.6	8.6	22.7	(15.8)	(0.0)

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

* Average Morningstar £ Strategic Bond sector.

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 31/12/11 p	Net asset value 30/06/11 p	Net asset value % change
Class A income	47.16	52.08	(9.45)
Class I income	49.24	53.96	(8.75)
Class I accumulation	91.96	99.28	(7.37)
Class Z accumulation	135.68	144.42	(6.05)
Class A gross income	47.75	52.74	(9.46)
Class I gross income	49.75	54.76	(9.15)
Class Z gross accumulation	150.48	158.90	(5.30)

Fund facts

Accounting dates

30 June, 31 December

Payment dates

31 August, 30 November, 29 February, 31 May

Total expense ratio

	31/12/11 %	30/06/11 %
Class A	1.45	1.45
Class I	0.68	0.68
Class Z	0.05	0.05

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

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
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			
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	3.01	54.04+	46.71+
2012	0.72*	-	-
Class I income			
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	3.17	55.96+	48.49+
2012	0.76*	-	-
Class I accumulation			
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	5.70	101.40+	90.56+
2012	1.43*	-	-
Class Z accumulation			
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	8.31	147.30+	131.90+
2012	2.09*	-	-

Performance record (continued)

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class A gross income			
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	3.82	54.84+	47.31+
2012	0.92*	-	-
Class I gross income			
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	4.03	56.91+	49.20+
2012	0.97*	-	-
Class Z gross accumulation			
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	11.45	161.90+	145.80+
2012	2.90*	-	-

* to 29 February

+ to 31 December

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

Past performance is not a guide to future performance.

Net revenue distribution

	31/12/11 p	31/12/10 p
Share class		
Class A income	1.43	1.50
Class I income	1.51	1.57
Class I accumulation	2.79	2.74
Class Z accumulation	4.09	3.99
Class A gross income	1.81	1.90
Class I gross income	1.91	1.99
Class Z gross accumulation	5.66	5.44

Total interest distribution for the period ended 31 December 2011, comparison is for the same period last year.

Major holdings

as at 31/12/11	%
UK Treasury 5% 07/03/2012	8.17
US Treasury 0.125% 31/08/2013	5.09
UK Treasury 4.5% 07/03/2013	4.72
UK Treasury 5.25% 07/06/2012	4.04
Legal & General 6.385% Perpetual	2.45
BUPA Finance 6.125% Perpetual	2.21
Ziggo Bond 8% 15/05/2018	1.80
ITV 5.375% 19/10/2015	1.78
RSA Insurance 6.701% Perpetual	1.51
Rexam 6.75% 29/06/2067	1.29

Asset allocation

as at 31/12/11	%
United Kingdom corporate bonds	35.09
European corporate bonds	20.43
United Kingdom government bonds	16.93
Secured loans	7.11
United States corporate bonds	5.20
United States government bonds	5.09
Floating rate notes	3.91
Derivatives	0.72
Equities	0.52
Canadian corporate bonds	0.29
Net other assets	4.71
Total	100.00

Major holdings

as at 30/06/11	%
Legal & General 6.385% Perpetual	2.52
UK Treasury 5% 07/03/2012	2.49
BUPA Finance 6.125% Perpetual	2.41
AXA 6.772% Perpetual	2.11
Ziggo Bond 8% 15/05/2018	1.79
ITV 5.375% 19/10/2015	1.59
Standard Life 6.75% Perpetual	1.58
RSA Insurance 6.701% Perpetual	1.54
Barclays Bank 5.3304% Perpetual	1.29
Swiss Reinsurance 6.3024% Perpetual	1.27

Asset allocation

as at 30/06/11	%
United Kingdom corporate bonds	43.21
European corporate bonds	34.40
United States corporate bonds	7.97
Secured loans	7.81
United Kingdom government bonds	2.49
Canadian corporate bonds	0.83
Equities	0.55
Derivatives	0.06
Net other assets	2.68
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 2011.

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 investor 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 Services 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.

Important information

On 1 October 2011, the Depositary changed from The Royal Bank of Scotland plc to National Westminster Bank plc.

Depositary

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

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

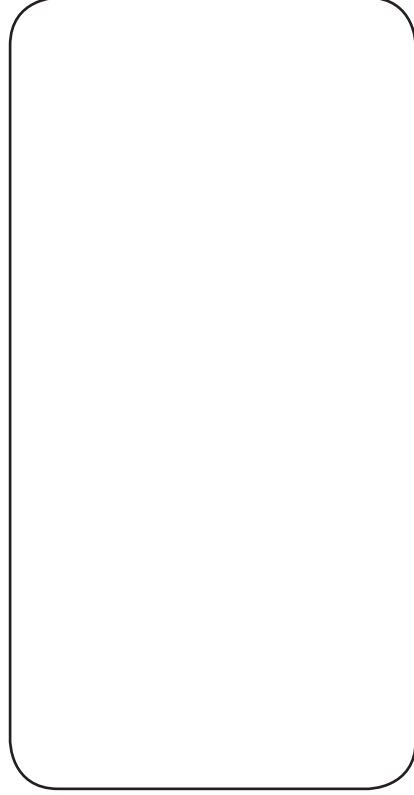
Auditor

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Contact us

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Changes of address - regulatory requirements

FSA regulation requires us to send this report mailing to the address held on file on the ex-dividend date of 31 December 2011. 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

Henderson Global Investors is the name under which Henderson Global Investors Limited (reg. no. 906355), 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), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE), Gartmore Investment Limited (reg. no. 1508030), Gartmore Fund Managers Limited (reg. no. 1137353), (each incorporated and registered in England and Wales with registered office 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Services Authority to provide investment products and services. Telephone calls may be recorded and monitored.

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