



# ANNUAL SHORT REPORT

For the year ended  
31 August 2016

**Henderson**  
GLOBAL INVESTORS

**Henderson UK Alpha Fund**

# Henderson UK Alpha Fund

## Short Report

For the year ended 31 August 2016

### Investment Fund Managers

James Ross and Neil Hermon

### Investment objective and policy

To achieve capital growth through a relatively concentrated portfolio. The fund will invest principally in the securities of UK companies. The fund also invests in fixed interest securities, preference shares, debt securities convertible into ordinary stock, money market instruments and deposits. The fund may also invest outside of the UK if the investment adviser believes that it is in the interest of the fund.

### Risk and reward profile

The fund currently has 4 types of share in issue;

A accumulation, C accumulation, I accumulation and Z accumulation.

The risk and reward profile is the same for each type of share and 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:

- The fund focuses on a single country
- As a category shares are, in general, more volatile than either bonds or money market instruments
- 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 under normal market conditions the following risks may apply:

**Counterparty risk** The fund could lose money if a counterparty with which it transacts 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. The risks of default may be higher where the fund invests in sub-investment grade bonds.

**Liquidity risk** In difficult market conditions 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.

There have been no changes to the risk rating in the year

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

### Investment review

The last 12 months were a volatile yet ultimately strong period for UK equities. The first half of the financial year was characterised by weak markets. The two main drivers of this were pressure on commodities and their related equities and market anxiousness surrounding the tightening of monetary policy in the US. In contrast, the second half of

the year was strong as a result of an apparent stabilisation in Chinese economic data causing miners to rally; sterling weakness making UK equities more attractive to foreign investors; and a further reduction in UK base rates highlighting the relative attractiveness of UK equities as an asset class. In this environment, large-cap stocks substantially outperformed mid-cap stocks. The fund, in turn, rose 9.6% over the year, while the FTSE All Share Total Return Index rose by 11.7% in sterling terms.

The fund's best-performing positions included NMC, Melrose Industries and Paddy Power Betfair. NMC, a Middle East-based healthcare operation, continued to deliver on its strategy of organic and inorganic growth. It successfully completed the construction and launch of its flagship Abu Dhabi hospital (NMC Royal) and undertook a number of strategically important and accretive deals during the year. Melrose Industries, a diversified engineering group specialising in turnaround situations, performed well after announcing a deal to acquire US industrial company Nortek. Paddy Power Betfair, a retail and online gaming operator, continued to produce exceptional trading results and increased synergies following the completion of the merger. We sold our position in Paddy Power Betfair in May.

The fund's worst-performing positions included Aldermore, Interserve and Essentra. Aldermore, a UK challenger bank specialising in small and medium enterprises and mortgage lending, suffered from regulatory measures against buy-to-let lending and negative sentiment towards UK domestic stocks following the UK's European Union (EU) referendum. Interserve is an international construction and support services group. Pressure on the stock arose from concerns around the impact of the national living wage on margins, risk associated with oil-revenue-dependent Middle Eastern markets and substantial losses on three waste-to-energy construction contracts. Since the year's end, the company has announced strong cash generation, which has allayed balance sheet concerns. Given its attractive valuation, we continue to hold this position. Essentra, a speciality plastic producer, suffered from a profits warning relating to lower order levels and continued issues around plant consolidation. The stock was also marred by the announced departure of their CEO, who was instrumental to the company strategy.

During the year, we initiated positions in Ascential, GVC, Microfocus, Phoenix, Ryanair and Saga.

Ascential is a media company with market-leading exhibition and data assets; both are businesses with visible earnings and a favourable cash generation profile. GVC is an online gaming operator that recently completed a reverse takeover of Bwin. Party and should be able to extract synergies in excess of what the market is currently discounting. Microfocus is a business that focuses on life-cycle management of legacy-declining software assets and then maximises cash generation from these assets. Phoenix is a closed-book life insurance company and fund consolidator that continues to find interesting bolt-on acquisitions. We see airline operator Ryanair as a market leader with a widening unit-cost advantage versus peers, which should make it the eventual winner from current industry malaise. Saga is a business with a strong brand, a large database of customers and a growing suite of products to cross-sell. We believe this provides them with ample opportunity for growth.

We sold our holdings in BHP Billiton, Rio Tinto, The Restaurant Group and SSP. Despite the recent bounce in the iron ore price, we are concerned that declining demand from China, combined with continued supply additions, will force iron ore prices lower over the medium term. This thesis was the main driver behind our sales of Rio Tinto and BHP Billiton. Our concerns over increasing industry supply, in conjunction with management's continued perseverance of a large roll-out, caused us to close out our position in The Restaurant Group. We sold SSP because we became concerned that continued travel disruption across Europe may negatively impact growth and margins in a high-fixed-cost business. This, combined with a high valuation, were the main reasons for our sale.

One of the most significant events during the year under review was the outcome of the UK referendum on the EU, where the UK voted to leave with a 52% to 48% majority. This was a seismic event which will undoubtedly have repercussions for years to come. Markets are still trying to digest the longer-term impact of the vote. However, in the short-term, corporate and consumer confidence has remained robust; monetary policy is supportive; the new government has suggested embarking on expansionary fiscal policy; and sterling continues to act as a shock absorber. Corporate balance sheets remain strong, and we continue to see plenty of opportunities to invest in quality growth companies. It is our view that current equity valuations are reasonable compared to their history and versus other asset classes.

## Performance summary

	31 Aug 15- 31 Aug 16 %	31 Aug 14- 31 Aug 15 %	31 Aug 13- 31 Aug 14 %	31 Aug 12- 31 Aug 13 %	31 Aug 11- 31 Aug 12 %
Henderson UK Alpha Fund	9.6	7.2	12.4	15.4	(2.5)
FTSE All-Share Total Return Index	11.7	(2.3)	10.3	18.9	10.2

Source: Morningstar - bid to bid net of fees as at valuation point 12 noon, based on performance of class A accumulation. Benchmark values are at close of business. 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.

## Fund facts

### Accounting dates

### Payment date

28 February, 31 August

31 October

### Ongoing charge figure

	2016 %	2015 %
Class A	1.70	1.69
Class C	0.56	0.55
Class I	0.84	0.83
Class Z	0.06	0.06

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.

The calculation is in accordance with guidelines issued by the European Securities and Markets Authority (ESMA).

## Comparative tables

	Class A accumulation			Class C accumulation		
	2016 (pence per share)	2015 (pence per share)	2014 (pence per share)	2016 (pence per share)	2015 (pence per share)	2014 (pence per share)
<b>Change in net assets per share</b>						
Opening net asset value per share	113.37	104.67	92.45	633.20	578.00	504.81
Return before operating charges*	10.90	10.56	13.92	61.47	58.56	76.22
Operating charges	(1.92)	(1.86)	(1.70)	(3.55)	(3.36)	(3.03)
Return after operating charges*	8.98	8.70	12.22	57.92	55.20	73.19
Distributions on accumulation shares	(1.57)	(1.93)	(1.01)	(16.42)	(17.71)	(5.45)
Retained distributions on accumulation shares	1.57	1.93	1.01	16.42	17.71	5.45
Closing net asset value per share	122.35	113.37	104.67	691.12	633.20	578.00
* after direct transaction costs of:	0.31	0.30	0.35	1.77	1.66	1.90
<b>Performance</b>						
Return after charges	7.92%	8.31%	13.22%	9.15%	9.55%	14.50%
<b>Other information</b>						
Closing net asset value (£000s)	326,160	373,097	400,858	446	449	456
Closing number of shares	266,571,219	329,087,501	382,964,714	64,479	70,882	78,945
Operating charges	1.70%	1.69%	1.69%	0.56%	0.55%	0.55%
Direct transaction costs	0.28%	0.27%	0.34%	0.28%	0.27%	0.34%
<b>Prices</b>						
Highest share price (pence)	122.90	121.00	106.10	694.40	673.80	582.70
Lowest share price (pence)	100.80	93.65	93.17	565.80	517.90	508.80

## Comparative tables

	Class I accumulation			Class Z accumulation		
	2016 (pence per share)	2015 (pence per share)	2014 (pence per share)	2016 (pence per share)	2015 (pence per share)	2014 (pence per share)
<b>Change in net assets per share</b>						
Opening net asset value per share	250.57	229.36	200.85	144.30	131.08	113.88
Return before operating charges*	24.23	23.24	30.34	13.90	13.30	17.28
Operating charges	(2.10)	(2.03)	(1.83)	(0.09)	(0.08)	(0.08)
Return after operating charges*	22.13	21.21	28.51	13.81	13.22	17.20
Distributions on accumulation shares	(5.15)	(5.16)	(3.25)	(1,752.69)	(3.31)	(5.54)
Retained distributions on accumulation shares	5.15	5.16	3.25	1,752.69	3.31	5.54
Closing net asset value per share	272.70	250.57	229.36	158.11	144.30	131.08
* after direct transaction costs of:	0.70	0.66	0.76	0.40	0.38	0.43

### Performance

Return after charges	8.83%	9.25%	14.19%	9.57%	10.09%	15.10%
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### Other information

Closing net asset value (£000s)	83,840	39,573	19,830	2	1,934	1,023
Closing number of shares	30,744,494	15,793,324	8,645,746	1,500	1,340,477	780,332
Operating charges	0.84%	0.83%	0.83%	0.06%	0.06%	0.06%
Direct transaction costs	0.28%	0.27%	0.34%	0.28%	0.27%	0.34%

### Prices

Highest share price (pence)	274.00	266.80	231.50	159.00	153.30	131.80
Lowest share price (pence)	223.60	205.40	202.40	129.20	117.50	114.80

Performance values are at close of business and may differ from the performance summary.

### Operating charges

Operating charges are expenses associated with the maintenance and administration of the fund on a day-to-day basis that are actually borne by the share class.

## Major holdings

as at 2016	%
Royal Dutch Shell 'B'	6.15
Vodafone	3.46
John Laing	3.21
NMC Health	3.21
HSBC Holdings	3.07
Imperial Tobacco	3.03
RELX	2.67
WPP	2.61
Prudential	2.59
Micro Focus International	2.57

## Major holdings

as at 2015	%
HSBC Holdings	6.10
Imperial Tobacco	3.67
Royal Dutch Shell 'B'	3.21
Prudential	3.18
Rio Tinto	2.95
RELX	2.68
Vodafone	2.61
BT	2.41
Legal & General	2.40
WPP	2.39

## Asset allocation

as at 2016	%
Financials	23.66
Industrials	22.56
Consumer Services	19.19
Oil & Gas	7.34
Health Care	5.94
Technology	5.92
Consumer Goods	5.90
Telecommunications	5.13
Basic Materials	3.12
Collective Investment Schemes	0.37
Other net assets	0.87
<b>Total net assets</b>	<b>100.00</b>

## Asset allocation

as at 2015	%
Financials	25.96
Industrials	22.93
Consumer Services	18.08
Basic Materials	7.71
Consumer Goods	5.49
Telecommunications	5.02
Health Care	4.72
Oil & Gas	4.04
Technology	2.93
Collective Investment Schemes	1.21
Other net assets	1.91
<b>Total net assets</b>	<b>100.00</b>

## Report and accounts

This document is a short report of the Henderson UK Alpha Fund for the year ended 31 August 2016.

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 year it covers and the results of those activities at the end of the year.

## 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.

### Issued by:

Henderson Investment Funds Limited  
Registered office:  
201 Bishopsgate  
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Member of the Investment Association and  
authorised and regulated  
by the Financial Conduct Authority.  
Registered in England No 2678531

### Auditor

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London EC2M 3UR

### Shareholder Administrator

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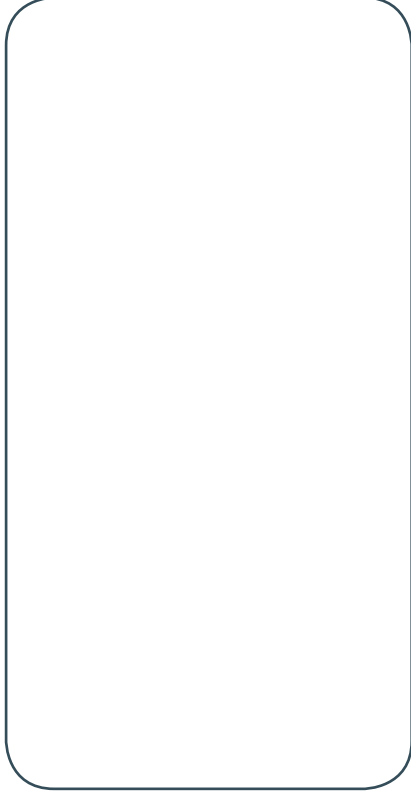


# Contact us

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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 August 2016. 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 Alpha 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

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), AlphaGen Capital 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. Telephone calls may be recorded and monitored. Ref: 34V

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

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