



# INTERIM SHORT REPORT

For the six months ended  
30 November 2016

**Henderson**  
GLOBAL INVESTORS

**Henderson UK & Irish Smaller Companies Fund**

# Henderson UK & Irish Smaller Companies Fund

## Short Report

For the six months ended 30 November 2016

### Investment Fund Managers

Adam McConkey and Rob Giles

### Investment objective and policy

The fund aims to achieve a long-term return, in excess of the long-term return that is typically achieved from United Kingdom and Irish smaller companies equity markets, by investing in smaller companies having their registered office in the United Kingdom and Ireland and smaller companies that do not have their registered office in the United Kingdom and Ireland but either (i) carry out a predominant proportion of their business activity in these markets, or (ii) are holding companies which predominantly own companies with registered offices in the United Kingdom and Ireland.

The return will be a combination of capital and income returns.

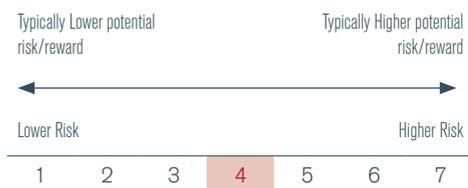
The fund may also invest at the Manager's discretion in other transferable securities, money market instruments, cash and near cash, derivative instruments and forward transactions, deposits and units in collective investment schemes (use may be made of stocklending, borrowing, cash holdings, hedging and other investment techniques permitted in applicable FCA Rules).

### Risk and reward profile

The fund currently has 3 types of share class in issue:

A accumulation, C accumulation and I accumulation.

A accumulation and C accumulation have the same risk and reward profile which is as follows:



I accumulation has a risk and reward profile as follows:



The Synthetic Risk and Reward Indicator (SRRI) is calculated based on historical volatility over a rolling 5<sup>1</sup> 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 region.
- As a category, shares are 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.

**Derivatives risk** Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative instrument.

**Liquidity/smaller companies risk** In certain market conditions the shares of smaller companies may be harder to value, more volatile and harder to sell than shares in larger companies and in extreme market conditions may impact the fund's ability to meet redemption requests on demand.

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

The rating does not reflect the possible effects of unusual market conditions or large unpredictable events.

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

There have been no changes to the risk rating in the period.

The SRR1 conforms to the ESMA guidelines for the calculation of the SRR1.

<sup>1</sup> Class I accumulation launched on 26 September 2014, as this share class does not have 5 years history, a synthetic history has been created using the fund's relevant sector average.

## Investment review

From a market perspective, the period under review was dominated by geopolitics, and in particular electoral politics, beginning with the UK's vote to leave the European Union (EU) and finishing with the election of Donald Trump as the new US president. Both campaigns are likely to be remembered for their emotive content and populism rather than reasoned argument. In the UK, the sad death of Member of Parliament Jo Cox brought some perspective back to the EU membership debate; polls appeared to swing back in favour of 'remain'; and the stock market closed on 23 June, the day of the referendum, near 2016 highs in anticipation of the status quo. The wisdom of the crowd, however, was profoundly misplaced.

However, the political uncertainty created by the referendum was resolved more rapidly than expected given the succession of David Cameron by Theresa May and a radically reshaped Cabinet. But by the period's end, the profound weakness in sterling, the largest cuts to GDP forecasts since 2008, a reactionary expansion of stimulus measures and the summer's interest rate cut seemed a long way away. The fall in sterling proved a boost for the UK economy, and it is now clear there will be a shift in scale and emphasis to make fiscal, industrial and public policy relevant to the regions where those disenfranchised by the UK financial and political establishment voted to leave the EU. In the UK, the economic outlook arguably appeared more certain post-referendum than in the quarter that preceded it. UK stock markets finished higher over the period, and (perhaps learning from the overreaction to the UK referendum) took the US presidential election result in their stride.

The fund returned 3.9% in the period. We entered the UK referendum with high cash levels and kept busy reinvesting over the summer period, with new investments directed heavily in favour of companies associated with the UK's domestic economy – many of which were heavily oversold in the immediate aftermath of the referendum. These investments reflected the team's conviction of a shift in policy emphasis to more direct and targeted fiscal investments by the government. The most notable move was to invest nearly 2% of the fund in Ibstock and Forterra, the dominant players in the UK brick industry; supply is tight in the industry, and we expect continued robust demand given the well-publicised housing shortage and universal political support for policies to back new building programmes. In related industries, we introduced new positions in Polypipe, Marshalls and Costain.

## Investment review (continued)

Domestic companies with secular growth characteristics and those taking market share also featured as new investments. Park Group provides Christmas savings products and has a growing market providing discount vouchers that companies can use as rewards or incentives for staff and customers. The primarily online On the Beach is taking market share from the traditional providers of summer holidays, and Hollywood Bowl is enjoying a pick up in sales after refreshing the tenpin bowling experience. Despite our reticence for participating in initial public offerings ahead of the EU referendum, we took a new position in Joules as it debuted on market. We first engaged with the very British retailer most famous for its contemporary take on the traditional Wellington boot in 2015. The time we have spent with the company since has given us high conviction in its growth prospects, including opening up the US market; we visited their marketing team and US distribution partner in May ahead of launch. Finally, we provided new funding for acquisitions at Shanks (waste management) and Chesnara (life insurance) and with stability returning to the oil price, built positions in North Sea oil producers Faroe Petroleum and Ithaca.

The fund was able to make a substantial number of new investments not only because it was placed with cash on balance sheet running in to the UK referendum, but also because of an increase in corporate activity providing realisations in a number of positions. Chief among these was Powerflute, one of the fund's largest, longest-standing and most successful investments. The specialist paper manufacturer was acquired by US private equity group Madison Dearborn after engagement with shareholders regarding the strategic direction of the group. Active engagement was also a significant part of performance, and corporate activity at

Management Consulting and Minds and Machines proved helpful. Asset disposal at Management Consulting has demonstrated its intrinsic value and led to substantial cash returns to shareholders. At Minds and Machines, the owner of high level domain names like .vip, a strategic investor took a stake in the company at a 20% premium. The period also saw the acquisition of Pinewood Studios, the disposal by Cambian of its adult mental health services, and the year drew to a close, a bidding war for Lavendon, a provider of powered access platforms.

We sit at an interesting juncture in stock markets. Yes, there is still much to worry about: the amount of debt on consumer, corporate and national balance sheets; the UK's exit from the EU; and the rise more generally in geopolitical uncertainty. Yet 2016 was also a year of profound change: the populism of Trump and the UK referendum are parts of a pattern which increasingly indicates that the sands that have shaped investment decision-making for a very extended period are changing. There is a discernible and growing shift in social moods and attitudes that point to the retreat of globalism and the policy framework that has fostered it. The UK referendum looks to have marked a low in bond yields globally. The electorate voted for reflation over austerity, fiscal policy over monetary policy and localism over globalism – all of which was reiterated much more bluntly in the US election campaign and its result. A change in the trajectory of monetary policy (for the first time in 30 years) points to a return to favour of value over growth, to small over large and an environment in which the attributes of smaller companies should receive a much better hearing. We enter 2017 in better economic health than was expected at the start of the summer.

## Performance summary

	Six months 31 May 16- 30 Nov 16 %	One year 30 Nov 15- 30 Nov 16 %	Five years 30 Nov 11- 30 Nov 16 %	Since launch 30 Dec 94- 30 Nov 16 %	
<b>Cumulative performance</b>					
Henderson UK & Irish Smaller Companies Fund	3.9	1.6	72.9	1,015.9	
Numis + AIM Index	4.5	6.3	100.5	n/a*	
	30 Nov 15- 30 Nov 16 %	30 Nov 14- 30 Nov 15 %	30 Nov 13- 30 Nov 14 %	30 Nov 12- 30 Nov 13 %	30 Nov 11- 30 Nov 12 %
<b>Discrete performance</b>					
Henderson UK & Irish Smaller Companies Fund	1.6	1.9	2.7	33.2	22.1

Source: Morningstar – bid to bid and net of fees as at 12 noon valuation point, based on performance of Class A accumulation.

Benchmark values are as at close of business.

\*Benchmark return is not quoted as the fund inception date is earlier than the benchmark inception date.

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* 30/11/16 p	Net asset value* 31/05/16 p	Net asset value % change
Class A accumulation	541.21	520.22	4.03
Class C accumulation	556.77	532.14	4.63
Class I accumulation	518.06	495.84	4.48

\* 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

30 November, 31 May

### Payment dates

31 January, 31 July

### Ongoing charge figure

	30/11/16 %	31/05/16 %
Class A	1.71	1.71
Class C	0.57	0.57
Class I	0.85	0.86

The annualised ongoing charge figure (OCF) of the fund is 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 European Securities and Markets Authority (ESMA).

## Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
<b>Class A accumulation</b>			
2012	0.43	394.36	316.58
2013	–	530.50	397.44
2014	0.81	562.50	488.90
2015	–	570.20	512.20
2016	–	559.70+	462.60+
2017	–*	–	–
<b>Class C accumulation</b>			
2012	4.27	387.99	307.77
2013	4.45	528.10	391.05
2014	7.87	561.10	491.00
2015	5.98	578.60	516.10
2016	4.33	574.50+	473.80+
2017	2.77*	–	–
<b>Class I accumulation</b>			
2014 <sup>1</sup>	–	501.60	459.60
2015	3.77	540.30	482.80
2016	2.67	534.90+	441.30+
2017	1.88*	–	–

\* to 31 January.

+ to 30 November.

<sup>1</sup> Class I accumulation was launched on 26 September 2014.

## Revenue distribution

Share class	30/11/16 p	30/11/15 p
Class A accumulation	–	–
Class C accumulation	2.77	2.45
Class I accumulation	1.88	1.58

Total dividend distributions for the six months ended 30 November 2016, comparison is for the same period last year.

Dividend distributions paid to shareholders after 6 April 2016 are paid gross as the government has abolished the dividend tax credit.

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

## Major holdings

as at 30/11/16	%
Just Retirement	3.66
Management Consulting	2.95
Caretech	2.88
Nanoco	2.80
Sportech	2.70
Market Tech	2.31
Futura Medical	2.26
Aldermore	2.00
BATM Advanced Communications	1.93
Costain	1.79

## Asset allocation

as at 30/11/16	%
Industrials	25.33
Financials	15.70
Consumer Services	14.70
Health Care	14.31
Technology	11.14
Oil & Gas	5.61
Consumer Goods	5.57
Basic Materials	3.66
Bonds	0.54
Utilities	0.44
Other net assets	3.00
<b>Total net assets</b>	<b>100.00</b>

## Major holdings

as at 31/05/16	%
Just Retirement	3.75
Powerflute	3.51
Sportech	2.81
Market Tech	2.64
Caretech	2.50
Nanoco	2.45
Management Consulting	2.42
BATM Advanced Communications	1.95
McBride	1.90
Aldermore	1.78

## Asset allocation

as at 31/05/16	%
Industrials	19.61
Financials	16.65
Consumer Services	15.20
Health Care	14.05
Technology	12.95
Consumer Goods	7.36
Basic Materials	5.95
Oil & Gas	3.52
Utilities	0.51
Bonds	0.55
Other net assets	3.65
<b>Total net assets</b>	<b>100.00</b>

## Report and accounts

This document is a short report of the Henderson UK & Irish Smaller Companies Fund for the six months ended 30 November 2016.

Copies of the annual and half yearly long form reports 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  
London EC2M 3AE

Member of The Investment Association and authorised and regulated by the Financial Conduct Authority.  
Registered in England No 2678531

### Depositary

National Westminster Bank plc  
135 Bishopsgate  
London EC2M 3UR

## 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

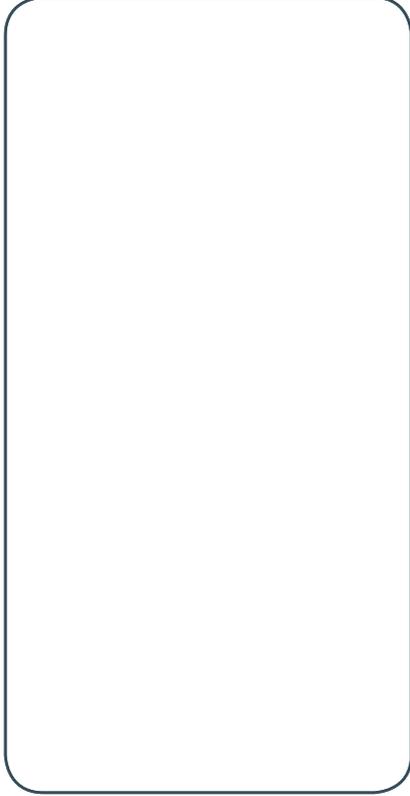
PricewaterhouseCoopers LLP  
141 Bothwell Street  
Glasgow G2 7EQ

### Shareholder Administrator

International Financial Data Services (UK) Limited  
IFDS House  
St. Nicholas Lane  
Basildon, Essex SS15 5FS

**Contact us**  
**Client Services 0800 832 832**  
**www.henderson.com**

**Head Office address, 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 30 November 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 & Irish 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**

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: 34Y

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

HGI44:307/1116