



ANNUAL SHORT REPORT

For the year ended
31 May 2017

Janus Henderson
— INVESTORS —

Henderson UK & Irish Smaller Companies Fund

Henderson UK & Irish Smaller Companies Fund

Short Report

For the year ended 31 May 2017

Investment Fund Managers

Adam McConkey and Rob Giles

Other information

With effect from 31 March 2017 the investment management team moved to Lombard Odier Investment Managers.

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.

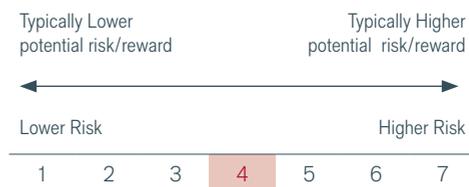
The fund may also invest at the Manager's discretion in other transferable securities, money market instruments, cash and near cash, derivative instruments and forward transactions, deposits and units in collective investment schemes (use may be made of stocklending, borrowing, cash holdings, hedging 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 (SRRl) 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 SRRl level. The SRRl 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 share class appears at 4 out of 7 (A accumulation and C accumulation) and 6 out of 7 (I accumulation). Share classes in higher categories have shown greater and/or more frequent variations in share price in the past 5 years than those in lower categories. The lowest category does not mean risk free.

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:

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

Counterparty risk The fund could lose money if a counterparty with which it trades becomes unwilling or unable to meet its obligations to the fund.

Derivatives risk Derivatives use exposes the fund to risks different from, and potentially greater than, the risks associated with investing directly in securities and may therefore result in additional loss, which could be significantly greater than the cost of the derivative.

Equities risk Shares can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result.

Hedging risk Measures designed to reduce the impact of certain risks may not be available or may be ineffective.

Smaller companies risk Shares of small and mid-size companies can be more volatile than shares of larger companies. Market conditions, such as decreases in market liquidity may mean that it is not easy to value or to sell a share at a desired time and price, increasing the risk of investment losses.

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 year.

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

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

Investment review

The standout events of the last 12 months from a political, economic and market perspective were largely the result of the UK referendum on European Union (EU) membership and the election of Donald Trump as the new US president. Both of these results came as a surprise to the majority of pollsters, economists and strategists. However, there were some common socioeconomic threads that represent an important shift that markets did not initially grasp following the referendum, but responded to much more quickly after Trump's election.

Electorates in the US and UK voted for growth over austerity, inflation over deflation, and a local over global policy agenda. There are natural regulators to the so-called 'reflation trade' in both the political and financial system. Both Trump and Theresa May have discovered they have to respect due political process in attempts to press on with border control and Article 50 (which triggered official EU-exit negotiations), respectively. The ability and willingness of the bond market to fund deficits is also a constraint on how hard either government can press targeted investment domestically. In this respect, funding demands tax reform more than tax cuts; but the broader picture is that interest rates probably hit their nadir in the summer of 2016.

The fund returned 21.7% for the year. The combination of the factors above point to a backdrop in which the re-rating (reassessment by the market) of large-cap equity via the search for yield is near complete. We believe we are entering a period in which a return to value investing, fundamentals and longer investment holding periods will take hold. We have certainly begun to notice a more favourable perception towards smaller companies whose fundamentals are most likely to benefit from the shift away from unfettered globalisation.

There has also been a pick-up in corporate activity, in part assisted by the relative weakness of sterling. This was evident in the bidding war that emerged between two European peers for the powered access machine business Lavendon. This secured an excellent return for the fund and fellow investors who had been patiently waiting while the progress of the business went unrecognised by the market.

Investment review (continued)

Elsewhere, the fund benefited from the acquisition of Powerflute, in the packaging industry, by a US-based private equity firm. Cambian Group was the largest contributor to returns over the period, as the injection of cash from the acquisition of its adult care business by Universal Health Services helped restore the balance sheet to health. Additionally, a notable contribution came from Futura Medical, which published trial results for a medical application that, when applied direct to site, rivals Viagra for its speed of action.

The main headwind for returns over the period was a cash drag of approximately 2%. The fund entered the referendum with a healthy cash level on its balance sheet, which was actively redeployed thereafter. However, the reinvestment rate has not quite kept up with regular cash returns from profitable investments where companies have been taken out or carried out disposals into the market. The most disappointing stock-specific investment was Sepura, a longstanding holding of the fund which saw five-year returns become undone by an annus horribilis. This included a poorly executed US acquisition with too much debt and cash collection issues in emerging markets, which crunched the equity. In May, the business was finally sold to a Chinese company. Otherwise, underperformance versus the benchmark was dominated by the recovery of highly indebted commodity companies such as Vedanta, EVRAZ and KAZ Minerals, which operate, for the most part, in territories not considered part of the team's competence.

It has been an active year for new ideas. The market overreaction to the referendum result threw up some fantastic opportunities in domestic names and industries. An example was the initiation of positions in Forterra and Ibstock, the major players in the UK bricks industry. We also built a position in On the Beach, which has emerged as the leading online travel agent in the UK and now sells more short-haul summer holidays than Thomas Cook. Among others, we supported Chesnara's acquisition ambitions overseas in the life insurance sector.

As ever, there are plenty of macroeconomic or political variables to concern investors. These are often used as the reason for not investing in smaller companies. However, we believe the lower valuations of smaller companies belie the scale of change we regularly identify from bottom-up fundamentals. In terms of portfolio construction, towards the year end and following a strong run, we have crystallised returns in companies with a cyclical tilt that we acquired when they were heavily oversold following the UK's EU referendum. In their stead, the portfolio has been enjoying some refresh into companies with more stock-specific drivers of shareholder value. We believe we are entering the new year with a growing list of companies with a well-formed route to value creation on sensible investment horizons.

Performance summary

	31 May 16- 31 May 17 %	31 May 15- 31 May 16 %	31 May 14- 31 May 15 %	31 May 13- 31 May 14 %	31 May 12- 31 May 13 %
Henderson UK & Irish Smaller Companies Fund	21.7	(6.1)	1.9	19.5	37.8
Numis & AIM Index*	23.9	(1.6)	10.4	19.1	39.3

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.

* On 3 March 2014 the fund changed its benchmark from FTSE Small Cap ex Investment Trust Index to the Numis & AIM (excluding investment companies and companies with a market capitalisation of more than £1bn).

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 dates
30 November, 31 May	31 January, 31 July

Ongoing charge figure

	2017 %	2016 %
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).

Comparative tables for the year ended 31 May 2017

	Class A accumulation			Class C accumulation		
	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)
Change in net assets per share						
Opening net asset value per share	520.22	554.83	546.69	532.14	561.15	547.10
Return before operating charges*	124.93	(25.36)	17.13	128.77	(25.88)	17.08
Operating charges	(9.47)	(9.25)	(8.99)	(3.25)	(3.13)	(3.03)
Return after operating charges*	115.46	(34.61)	8.14	125.52	(29.01)	14.05
Distributions on accumulation shares	–	–	–	(5.48)	(4.33)	(5.98)
Retained distributions on accumulation shares	–	–	–	5.48	4.33	5.98
Closing net asset value per share	635.68	520.22	554.83	657.66	532.14	561.15
* after direct transaction costs of:	2.02	1.25	1.21	2.08	1.27	1.22
Performance						
Return after charges	22.19%	(6.24%)	1.49%	23.59%	(5.17%)	2.57%
Other information						
Closing net asset value (£000s)	134,545	118,366	152,690	24,125	19,520	25,314
Closing number of shares	21,165,556	22,753,009	27,520,265	3,668,272	3,668,272	4,511,172
Operating charges	1.71%	1.71%	1.70%	0.57%	0.57%	0.57%
Direct transaction costs	0.37%	0.23%	0.23%	0.37%	0.23%	0.23%
Prices						
Highest share price (pence)	637.30	570.20	557.90	659.40	578.60	564.20
Lowest share price (pence)	462.60	494.20	488.90	473.80	503.80	491.00

Comparative tables (continued)

	Class I accumulation		
	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)
Change in net assets per share			
Opening net asset value per share	495.84	524.42	499.80 ¹
Return before operating charges*	119.75	(24.27)	28.92
Operating charges	(4.50)	(4.31)	(4.30)
Return after operating charges*	115.25	(28.58)	24.62
Distributions on accumulation shares	(3.60)	(2.66)	(3.77)
Retained distributions on accumulation shares	3.60	2.66	3.77
Closing net asset value per share	611.09	495.84	524.42
* after direct transaction costs of:	1.93	1.16	1.16
Performance			
Return after charges	23.24%	(5.45%)	4.93%
Other information			
Closing net asset value (£000s)	20,098	18,361	3,248
Closing number of shares	3,288,883	3,702,980	619,290
Operating charges	0.85%	0.86%	0.85%
Direct transaction costs	0.37%	0.23%	0.23%
Prices			
Highest share price (pence)	612.70	540.30	527.30
Lowest share price (pence)	441.30	469.90	459.60

¹ Class I accumulation launched 26 September 2014 and this is the first published price.

Performance values are at close of business and may not match those detailed in 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.

Share class launches and closures

There were no share classes launched or closed in the year.

Past performance is not a guide to future performance.

Major holdings	
as at 2017	%
Caretech	3.63
Sportech	3.24
Camibian	3.01
Market Tech	3.01
Nanoco	2.36
Aldermore	2.08
Eland Oil & Gas	2.07
Futura Medical	1.93
SafeCharge International	1.77
MySale	1.69

Major holdings	
as at 2016	%
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 2017	%
Industrials	25.20
Financials	16.68
Consumer Services	14.84
Health Care	13.37
Technology	8.89
Consumer Goods	5.32
Oil & Gas	5.03
Basic Materials	3.54
Telecommunications	0.92
Utilities	0.19
Bonds	0.13
Other net assets	5.89
Total net assets	100.00

Asset allocation	
as at 2016	%
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
Total net assets	100.00

Report and accounts

This document is a short report of the Henderson UK & Irish Smaller Companies Fund for the year ended 31 May 2017.

Copies of the annual and half yearly long form reports of this fund are available on our website www.janushenderson.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.

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

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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

Further information

Shareholder enquiries

If you have any queries about your fund holding, either contact your professional adviser or telephone us on one of the numbers below:

For dealing enquiries including buying and selling shares please telephone at local rate: **0845 608 8703**.

The following line is also available:

Client Services: **0800 832 832**

or you can contact us via email at support@janushenderson.com

We may record telephone calls for our mutual protection and to improve customer service.

Online valuations

You can value your Henderson UK & Irish Smaller Companies Fund at any time by logging on to www.janushenderson.com. Select 'UK Private Investor' and then access 'Valuations' from the Tools Menu. Simply select the fund you hold and enter the appropriate number of shares.

Important Information

Janus Henderson Investors is the name under which Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), 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 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.

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

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