

# PAN EUROPEAN EQUITY FUND

For professional investors only

## Key features

- **Consistency and quality:**  
The fund manager invests in European companies with robust business models, proven management teams and solid finances – attributes which should help them to perform well over the long term, regardless of the prevailing economic backdrop.
- **Proven bottom-up stock picking strategy:** The fund's primary source of performance is bottom-up stock selection based on fundamental and qualitative analysis of companies and their management.
- **Robust risk management:** Diversification parameters, a strong sell discipline, regular portfolio monitoring and a multi-factor risk management approach.
- **Highly experienced management team:** Fund manager Tim Stevenson has evolved his bottom-up stock picking strategy since joining Henderson in 1986, delivering strong returns through multiple cycles.

## Investment process

### Overview

The Henderson Horizon Pan European Equity Fund invests in attractively priced quality European companies with strong market positions and structural drivers that have the potential to increase their return to shareholders over the long term. The fund employs a balanced total return strategy, investing in a focused portfolio of no more than 60 of what the fund manager considers to be Europe's most compelling growth companies.

### Philosophy

Tim Stevenson believes in following a "buy and hold" strategy that aims to identify European companies with good long-term growth potential and that can deliver strong growth in the context of the prevailing economic backdrop.

Tim focuses on quality, consistency and reliability, and believes patient investors will be rewarded for holding well-managed companies that have positioned themselves for long-term growth. Investors can also get paid for waiting, with highly cash-generative businesses benefiting from globally diversified sources of income offering potentially attractive dividend yields, as well as potentially lower share price volatility.

The portfolio is constructed with a view that quality pays in the long run, and that markets are ultimately inefficient, failing to price stocks at a level that accurately reflects their growth potential. This pricing mismatch creates an opportunity to invest in quality growth stocks at a lower price than the market pays, and thus beat the market's potential for capital growth.

### Fund management

**Tim Stevenson** (30 years' investment experience) has managed the fund since launch in November 2001. He is supported by Henderson's broader Pan European Equity Team, a group of 21 investment professionals who manage more than €16.8 billion in assets\*.

\* Source: Henderson Global Investors, as at 30 June 2014.

### Investment process

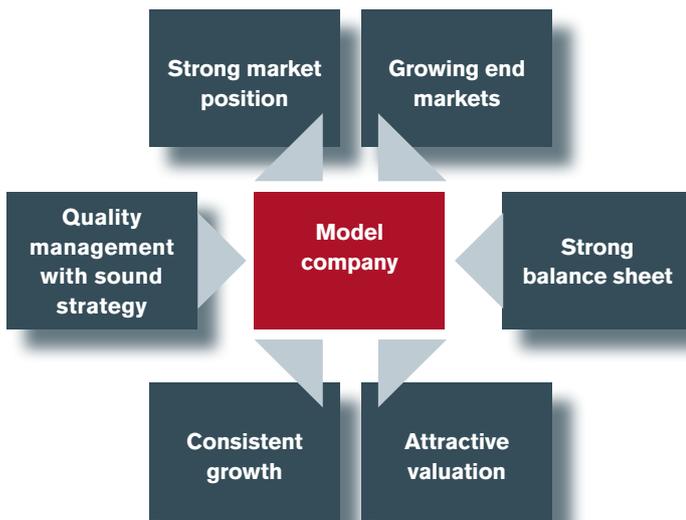
The aim of the fund's process is to identify companies with good long-term growth prospects and to maintain those holdings for as long as they continue to deliver the expected levels of Earnings per Share (EPS) and dividend growth.

Economic inputs and sector and thematic analysis may be used to gain fuller understanding of the risks and opportunities affecting specific businesses. This approach requires extensive company research – as well as knowledge and judgment that come from many years of experience.

# Henderson Horizon Pan European Equity Fund

Performance is driven more by the long-term potential of the fund's holdings than by short-term momentum in the markets. As the chart here shows, Tim looks for attractively priced 'model' companies with strong market positions and structural drivers that can lead to consistent growth. Stock selection is based on the identification of those companies with the qualities that enable them to perform well across economic cycles.

## Defining the ideal investment



## Portfolio constituents

The fund holds a maximum of 60 stocks. This discipline means the fund manager continually evaluates the merits of existing holdings relative to other investment opportunities in the market.

The focused nature of the portfolio enables Tim to create high-conviction positions that can make a significant contribution to overall returns. Full stock positions are never less than 1% of the portfolio. Holdings can be as large as 5% of the portfolio and the size of each position reflects the level of conviction the fund manager has in the underlying stock.

The fund's investment universe consists of the FTSE World Europe Index, comprising approximately 550 stocks, plus a small number of stocks not listed on the index. The fund manager exclusively focuses on large and mid-cap European companies – his area of expertise – which generally excludes firms with a market capitalisation of less than €2bn. This basic market-cap screen narrows the universe to approximately 400 stocks.

From there, investment ideas are generated from four primary sources:

- Screens
- Company meetings
- Colleagues (via weekly meetings and informal discussions)
- Selective use of brokers

The fund manager's experience forms a key component of the screening process. There are few management teams within the universe that Tim has not interacted with previously, which can help to guide his strategy in the event of management changes. Broad valuation screening, focusing on Earnings per Share (EPS) growth and dividend growth, helps to refine Tim's strategy. The stock selection process is fluid, however, and stocks excluded at this stage may still be considered, if supported by a strong investment case.

Those stocks that make it into the portfolio must:

- Match portfolio parameters
- Offer potential earnings per share (EPS)/dividend growth above market average
- Have attractive valuations per unit of growth
- Complement existing portfolio holdings

The core holdings, which make up more than 90% of the portfolio, consist of three main groups:

- Quality cyclical stocks – from media conglomerates and employment agencies to automotive component manufacturers; well-managed firms with good business models and exhibiting shareholder-friendly characteristics
- Traditional quality growth stocks – established companies with a strong competitive position and consistent earnings growth, including leading branded goods manufacturers, business support services or medical care providers;
- Financials - a unique area

**Sleepers:** Up to 5% of the fund may be invested in 'sleepers'. These are companies that the fund manager expects to produce high and accelerating growth over the long term, but where there is no immediate catalyst.

**Trading positions:** Up to 5% of the fund may be invested in short term tactical opportunities. These tend to be companies that may not necessarily fulfil the fund manager's 'quality' criteria, but which he believes offer significant short-term upside potential.

# Henderson Horizon Pan European Equity Fund

Objective and timely buy and sell decisions are a crucial element in the investment process. The fund manager places equal emphasis on monitoring the progress of existing holdings and applying objective criteria to evaluate each stock, such as continued assessment of company valuations and projected EPS growth, thus avoiding the tendency of many investors to become emotionally attached to individual holdings.

## Sell discipline

Positions will be closed if:

- Stock is no longer expected to deliver above-market total returns
- Valuation target is reached
- Fundamental change negatively impacts outlook/valuation
- Re-evaluation of original analysis
- Other investments are more attractive

The fund manager continually looks for new ideas, while regularly reviewing his thinking about companies already held in the portfolio. The value of potential investments and existing positions are debated with other members of the 21-strong Henderson Pan European Equities team.

The fund manager tends to scale into and out of positions and decisions to adjust exposure result from continual portfolio monitoring and ongoing stock analysis. The investment process does not employ automatic sell criteria or a stop-loss discipline. A decline in share price will not automatically trigger a sell decision; rather it will result in re-evaluation of the investment thesis and may result in a position being increased.

## Index aware, not index driven

Tracking error does not play a large role in portfolio construction, but is instead a result of a bottom-up investment process. Tracking error is measured both ex-ante and ex-post by Henderson's independent risk team.

## Typical portfolio characteristics

Informal guides are used to ensure adequate diversification and help maintain the fund's disciplined investment strategy:

<b>Number of stocks</b>	Maximum 60 holdings
<b>Country allocation</b>	No geographic weight limits (developed European exchanges only)
<b>Sector allocation</b>	No sector weight limits
<b>Minimum market cap</b>	€2bn
<b>Maximum position size</b>	5%

### Derivatives

The team may use currency positions to defensively hedge exposure.

### Cash

The fund manager aims to keep cash levels below 5%, except in exceptional circumstances when this level may rise to 10% of the fund.

## Independent risk monitoring

The risk management division at Henderson is independent from the portfolio managers. The team, however, works closely with the investment teams to ensure all risk taken is intended and accurately reflects the managers' core views.

The team monitors all of the usual ex-ante risk metrics, including: stock, sector, industry, country, ratings, currency exposures; style exposures; liquidity; stress tests; scenario analysis; and volatility / tracking error.

These quantitative, forward-looking measures of risk are calculated using various risk models and systems, incorporating both industry standard and Henderson-specific risk settings.

Liquidity analysis is also conducted on a daily basis. This provides a snapshot of the liquidity profile and enables analysis of how the fund is positioned relative to investor liquidity requirements.

Style Research is used on a monthly basis in order to show the style footprint of the fund relative to the benchmark or market (value and/or growth biases, momentum tilts, size exposures, etc, as well as providing a longer term risk model forecast and decomposition).

The risk team also makes use of daily dashboards, which summarise key exposures and risk levels. This enables changes in the fund's risk levels to be highlighted and discussed with the fund manager or others where necessary.

## Fund management team



### Tim Stevenson

Director of European Equities, Fund Manager

Tim Stevenson, who has managed the Henderson Horizon Pan European Equity Fund since its launch in 2001, has 30 years' experience of investing in European equities. He joined Henderson in 1986 as a Fund Manager for Europe. Tim graduated from Sussex University with a BA (Hons) in Economics and European Studies.



Past performance is not a guide to future performance.

The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

## Henderson Pan European Equity Team

Tim is supported by Henderson's broader Pan European Equity Team, a group of 21 experienced investment professionals who leverage each other's capabilities and ideas in order to identify new opportunities. Cross pollination of ideas is encouraged, although ultimate responsibility for investment decisions rests directly with the fund manager. The team has more than €16.8 billion in assets under management\*.

### A broad range of capabilities: Henderson Pan European Equity Team

Large cap				Mid cap	Small cap
Growth	Agnostic	Value	Long/short		
Tim Stevenson	John Bennett Head of team	Nick Sheridan	Léopold Arminjon	Richard Pease Simon Rowe James Milne	Ollie Beckett Rory Stokes
Bill Casey	Asim Rahman	Robert Schramm-Fuchs			
Dealing, Operations and Marketing Support					
Richard Brown		Eleanor Cameron		Julia Brown	

\*Source: Henderson Global Investors, as at 30 June 2014.

### Contact us

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### Important Information

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This fund is designed to be used only as one component in several in a diversified investment portfolio. Investors should consider carefully the proportion of their portfolio invested into this fund. Currency markets are highly volatile by nature and are affected by various factors such as political/economic developments, changes in tax/ monetary policies of governments, balance of payments, international trade patterns and liquidity in the currency markets. Currency investments may result in the possibility of greater loss, increased transaction costs and greater volatility in the NAV of the Sub-Fund. The Fund may use derivatives for hedging purposes to protect portfolios against currency fluctuation, market movements and interest rates risks. Derivatives involve risks different from, and in certain cases, greater than, the risk presented by more traditional investments. Where the investment policy allows, funds may engage various strategies in view of reducing certain of their risk and for attempting to enhance return. These strategies may include the use of derivative instruments such as options, warrants, swaps and/or futures. In certain market conditions, investments held by the Fund may not be as liquid as they would be in normal circumstances. A reasonable price may be harder to attain in such conditions and there is a risk that the price at which the investment is valued may not be realisable in the event of sale. The Fund may therefore be unable to readily sell such investment. The value of the investments in the Fund may go up or down due to changing economic, political, regulatory, social development or market conditions that impact the share price of the companies that the Sub-Fund invests in. OTC investment's valuation may be difficult to obtain as reliable information of the issuers and the risks associated to the issuers' business is not publicly available. OTC derivatives have the risk of incorrectly valuing or pricing and they may not fully correlate with the underlying assets. Investment in OTC markets carries the risk that a counterparty may default on its obligations. The method of calculating performance fee gives rise to the situation that a shareholder redeeming shares may still incur performance fee in respect of the shares, even though a loss in investment capital has been suffered by the redeeming shareholder. Where share class hedging is undertaken, the Investment Manager may use financial swaps, futures, forward currency exchange contracts, options and other derivative transactions in order to preserve the value of the hedged share class currency against the base currency of the Sub-Fund. The effects of the hedging will be reflected in the net asset value of the hedged share class. Any expenses arising from such hedging transactions will be borne by the share class in relation to which they have been incurred and will thereby impact on the performance of that share class. Where such hedging is undertaken it may substantially protect investors against a decrease in the value of the base currency of the Sub-Fund. The securities included in this document are not registered in the Foreign Securities Registry of the Superintendencia de Valores y Seguros for public offering and, therefore, the use of this document is only for general information purposes. Nothing in this document is intended to or should be construed as advice. This document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment. 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