

# HENDERSON EUROPEAN FOCUS TRUST PLC

Strategic Report 2016



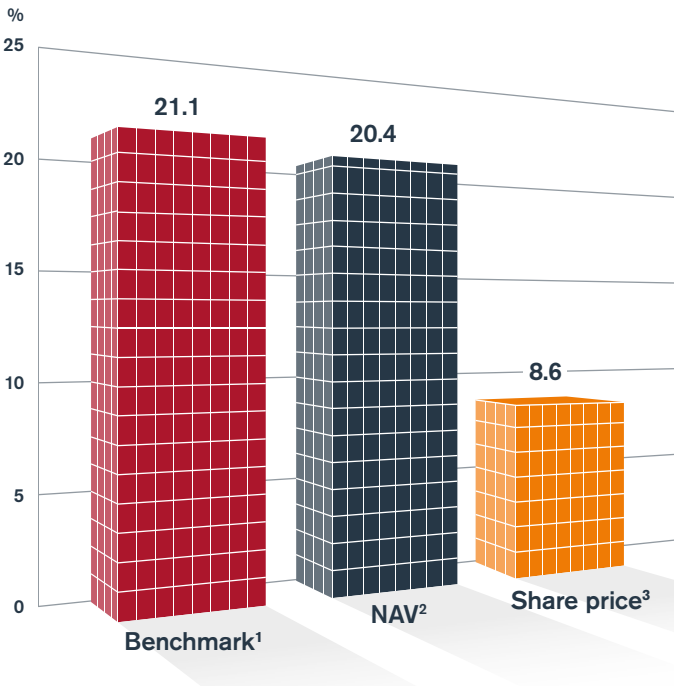
MANAGED BY

**Henderson**  
GLOBAL INVESTORS

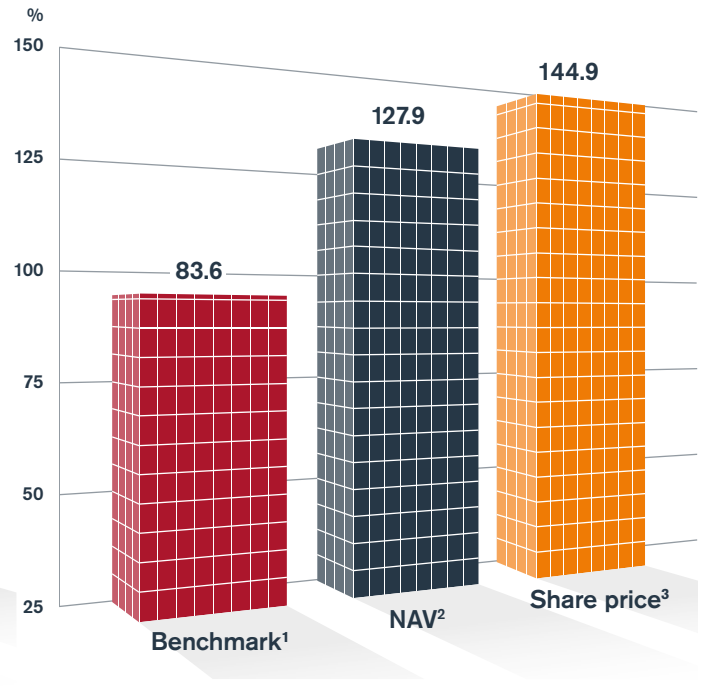
# Performance Highlights

## Total return performance to 30 September 2016

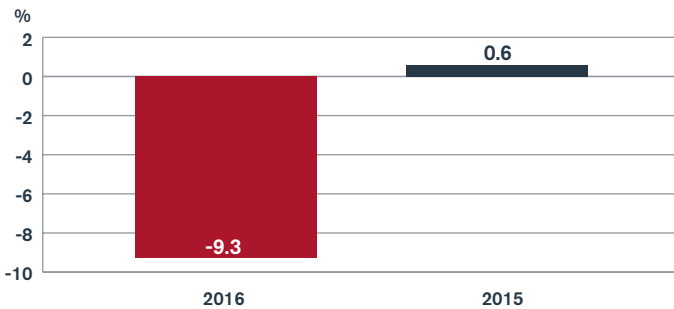
One year



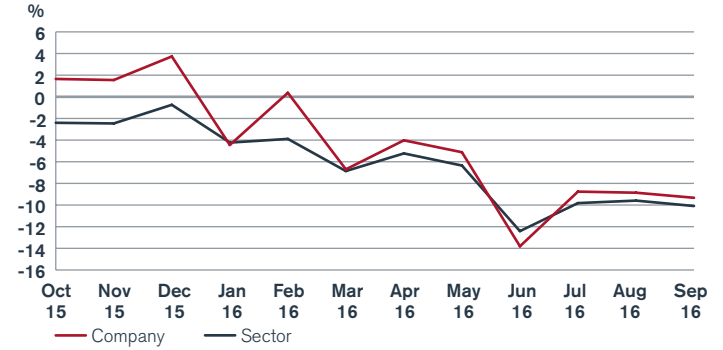
Five years



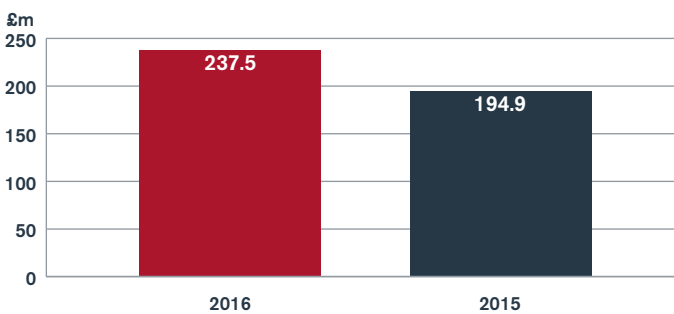
(Discount)/premium to NAV per ordinary share at year end<sup>4</sup>



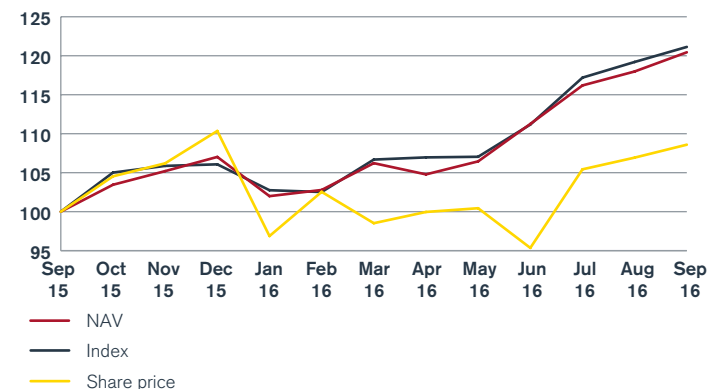
Premium/discount per ordinary share to the sector average<sup>5</sup>



Net assets at year end



NAV per ordinary share and share price performance versus the benchmark (rebased from 100)<sup>6</sup>



## Performance Highlights (continued)

### NAV per ordinary share at year end



### Share price at year end



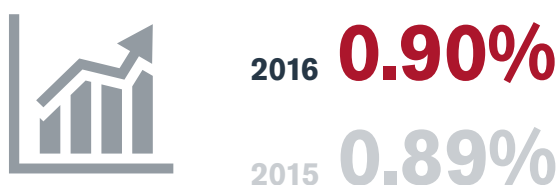
### Dividend for year<sup>7</sup>



### Dividend yield<sup>8</sup>



### Ongoing charge for year



### Gearing at year end



### Number of investments at year end



### Performance fee



1 FTSE World Europe ex UK Index on a total return basis in sterling terms

2 Net asset value per ordinary share total return (including dividends reinvested)

3 Share price total return using mid-market closing prices

4 Calculated using published daily NAVs per ordinary share including current year revenue

5 Graph shows the Company's share price premium/discount per ordinary share compared to the AIC Europe sector over the year to 30 September 2016

6 Graph shows the Company's NAV per ordinary share total return and share price total return compared to the total return of the benchmark over the year to 30 September 2016

7 Consisting of an interim dividend of 7.50p paid in June 2016 and a recommended final dividend of 18.90p due for payment in February 2017 subject to approval at the AGM

8 Based on the dividends paid or recommended for the year and the share price at the year end

Sources: Morningstar Direct, Henderson, Datastream

A glossary of terms is included on pages 17 and 18.

# Business Model

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## Investment objective

The Company seeks to maximise total return from a focused portfolio of listed stocks, mainly in Continental Europe.

## Strategy

The Company appoints an Alternative Investment Fund Manager and other specialised third-party service providers to establish and maintain an investment portfolio in line with the investment objective and policy. Performance of the Manager and other service providers is monitored and challenged by a Board of independent non-executive Directors. The Board is directly accountable to the Company's shareholders.

## Investment policy

### Asset allocation

The portfolio is unconstrained by benchmark and contains between 50 to 60 holdings at any one time. While awareness of benchmark constituents and sector weightings inform portfolio construction, actual weightings of stocks held in the Company's portfolio are based upon Henderson's view of their total return prospects rather than their weighting in the benchmark, therefore the stock weighting in the portfolio can be materially higher or lower than the benchmark weighting. The aim is to seek out inflection points at both stock and sector level where growth can be purchased at a reasonable price. Less emphasis is given to geographical diversification. The portfolio is not constructed with a yield target. Derivative instruments (such as futures and options) may be used for investment purposes for up to 10% of net assets. The portfolio has a bias to larger capitalised companies but may be invested in the equity of mid and smaller capitalised companies. The exposure to smaller capitalised stocks is normally limited to 10% of net asset value ("NAV"). Smaller capitalised companies are considered to be those with a market capitalisation of less than €1 billion at the time of investment.

### Risk diversification

The Company is invested in a diversified portfolio of investments containing between 50 to 60 stocks, with a maximum single stock weighting of 10% of NAV of the portfolio at the time of investment. Stocks weighted at 5% of the portfolio or more are not expected to exceed 40% of NAV in aggregate and the typical minimum stock weight is 1% of NAV.

### Gearing

The Company has the power to borrow and does so on a tactical basis when Henderson is confident that market conditions and opportunities exist to enhance investment returns by using gearing. Henderson has discretion to borrow within limits set by the Board from time to time but gearing will not exceed 20% of net assets at the time the borrowing is assumed.

## Management

The Company qualifies as an Alternative Investment Fund in accordance with the Alternative Investment Fund Managers Directive. The Company has appointed Henderson Investment Funds Limited ("HIFL") to act as its Alternative Investment Fund Manager in accordance with an agreement which was effective from 22 July 2014 and is terminable on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the Financial Conduct Authority ("FCA"). References to Henderson within this report refer to the services provided by both entities.

The fund management team is led by John Bennett, who has been in place since December 2010.

Henderson and its subsidiaries also provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of Henderson, by BNP Paribas Securities Services ("BNP"). Colleen Sutcliffe FCIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

Henderson receives a management fee of 0.65% per annum, calculated quarterly in arrears on the value of the Company's net assets. An additional management fee based on performance is payable if Henderson meets certain targets for the year. The performance is charged when the NAV per ordinary share total return is better than the benchmark index (the FTSE World Europe ex UK in sterling terms) total return, with a hurdle of 1%. Henderson is entitled to 15% of the NAV per ordinary share outperformance of the benchmark index above the hurdle (excluding the effect of share buy-backs, allotments or sales from treasury), subject to the maximum amount payable in any one year in respect of the management fee and the performance fee being 1.30% of the quarterly average net assets at the year end. Underperformance is carried forward and must be made up before any further performance fee can be paid. Any excess performance is carried forward and can be set against underperformance but not used to earn or enhance a performance fee payment. Each annual performance related fee is calculated based on the relevant figures for the financial year as audited and published in the relevant Annual Report.

# Chairman's Statement



**The Chairman of the Company, Rodney Dennis, reports on the year to 30 September 2016**

## Performance

In the financial year to 30 September 2016, the Company produced total return NAV per ordinary share of 20.4% (2015: 5.3%). This compares to a total return of 21.1% (2015: -1.2%) for the FTSE World Europe ex UK Index in sterling terms. The Company's share price total return was 8.6% (2015: 5.2%).

The Company's shares continued to trade in a tight range relative to NAV per ordinary share, and for part of the year traded at a premium. This enabled the Company to continue to issue new ordinary shares, at a premium to the prevailing NAV per ordinary share, in order to satisfy demand in the market from investors. During the year, 750,000 new ordinary shares were issued.

Demand from investors was such that the authority to issue shares was exhausted part way through the year and the Company issued a prospectus in October 2015 relating to the issue of further shares. This authority expired on 22 September 2016.

## Dividend

The Board is recommending a final dividend of 18.90p per ordinary share which, subject to shareholder approval, will be paid on 10 February 2017. When added to the interim payment of 7.50p this brings the full year dividend to 26.40p, an increase of 7.1% over last year's distribution.

## Board changes

The Board was pleased to announce the appointment of Robin Archibald as a director in March 2016. Robin brings with him 25 years' experience of corporate finance specialising in the UK closed-ended funds sector. He will stand for election by shareholders for the first time at the Annual General Meeting in February 2017.

## Annual General Meeting ("AGM")

At the AGM on 1 February 2017, the Directors will again be seeking to renew the authorities previously granted to allot and to buy-back ordinary shares for cancellation or to be held in treasury. The passing of these resolutions will continue to provide the Board with flexibility to add shareholder value should the opportunity arise. Shareholders are being asked to renew the authority to call general meetings at short notice.

Further details are provided in a separate letter to shareholders which includes the notice of AGM. I hope you will give these resolutions your full consideration and support. The Company's AGM will be broadcast live on the internet. If you are unable to attend in person you can watch the meeting live by visiting [www.henderson.com/trustslive](http://www.henderson.com/trustslive).

## Outlook

In my interim report six months ago, as well as last year's Annual Report, I referred to the effect of currencies on returns to investors. I did so conscious of the fact that we live in extraordinary times, in which central bank policies have been aimed at staving off deflation. A battle ongoing since the crisis of 2008, these efforts by policy makers have at times looked increasingly desperate. Essentially they target two variables: the bond yield curve and the currency of the country in question. Whenever politicians or central banks meddle in markets it is usually wise to be vigilant: unintended consequences often ensue. We now have a situation where elements of the assets of pension funds, insurance companies and other savings pools are invested in sovereign bonds delivering negative yields.

One unintended consequence of political events has benefited British based investors in the past year: Brexit. Although the UK media uniformly reported all manner of doomsday forecasts (none of which has come to pass), the UK in fact showed remarkable flexibility. The adjustments involved a change in leadership of the ruling Conservative party and crucially, the currency. Sterling's devaluation has been substantial and the mathematical fact is that it has benefited UK investors in foreign assets. It has also provided leeway to the British economy in a way that will be the envy of some on the Continent, notably the more fragile and inflexible parts such as France.

One need only look at equity indices to see the material effect of currency moves. The table overleaf shows the returns of Europe's key indices in the past year, both in sterling and in local terms.

## Chairman's Statement (continued)

### Returns for European key indices for the year to 30 September 2016

Index	Country	Local currency	GBP terms
EURO STOXX 50	Europe	-8.1	7.9
CAC	France	-4.1	12.6
DAX	Germany	-2.2	15.1
AEX	Netherlands	1.4	19.3
OMX	Sweden	-0.5	11.6
SMI	Switzerland	-7.7	7.5

We continue to believe well analysed stock selections can deliver something no index tracker can hope to: substantial value added in the form of meaningful long-term outperformance. Notwithstanding a tricky year behind us we fully believe that our active approach, as discussed in the Manager's Report to follow, will continue to serve our investors well.

Rodney Dennis  
Chairman  
6 December 2016

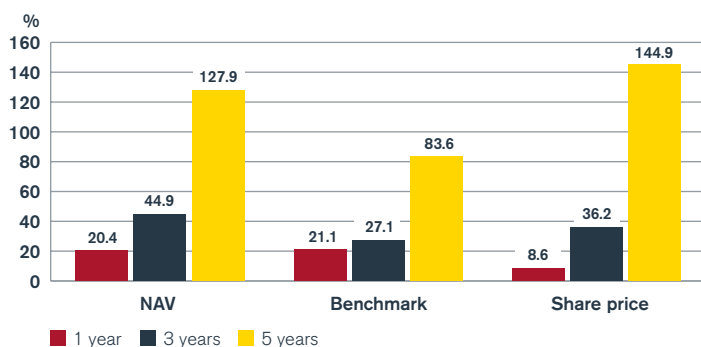
As a result of its sterling denomination, your Company has benefitted accordingly.

As our manager has often said, the investor in Europe is rarely far away from the next geopolitical event. At the time of writing we await the results of the December Italian referendum. As we enter 2017 and the US swears in a new president with a sharply different agenda to the more recent past, there is the prospect of further political disruption with French and German elections later in the year.

A little closer to home, we note the intended merger of our appointed investment manager, Henderson, with Janus Capital Group Inc. The transaction is expected to close in the second quarter of 2017. We will monitor progress with interest.

Successful investors always stick to what they are good at. We continue to believe in the approach that has served the Company and its investors well over the years: picking stocks and sectors. The graph below shows the returns from your Company, in share price as well as NAV terms, over the past one, three and five years, compared to the relevant benchmark.

### Performance



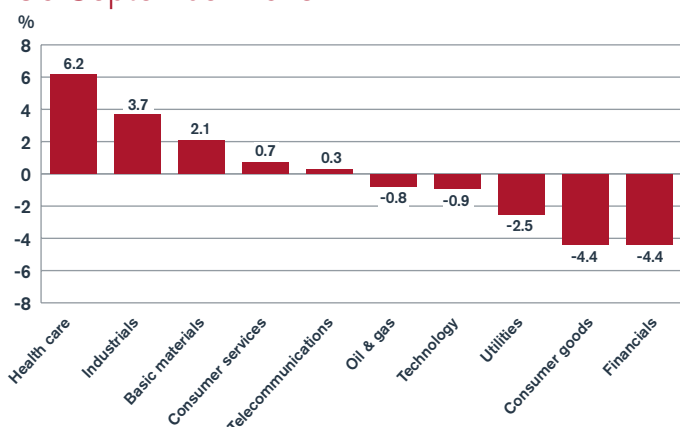
## Portfolio Information

### Sector exposure at 30 September

As a percentage of the investment portfolio excluding cash

	2016 %	2015 %
Health care	19.5	26.3
Industrials	19.1	11.5
Financials	16.0	20.8
Consumer goods	15.8	14.1
Basic materials	10.4	9.8
Consumer services	6.3	8.2
Telecommunications	4.3	5.8
Technology	3.8	1.1
Oil & gas	3.5	1.2
Utilities	1.3	1.2

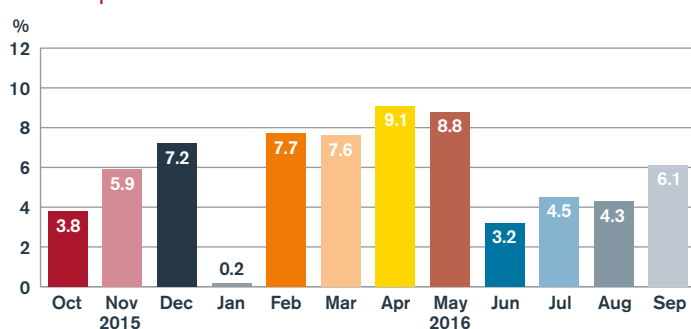
### Sector underweights/overweights as at 30 September 2016



### Currency exposure at 30 September<sup>1</sup>

	2016 %	2015 %
Euro	66.6	69.3
Swiss franc	21.5	19.6
Swedish krona	5.9	5.6
Danish krone	4.4	4.2
Norwegian krone	1.6	1.3

### Gearing levels over the year to 30 September 2016



Sources: Henderson and Factset

<sup>1</sup> Excludes sterling balances

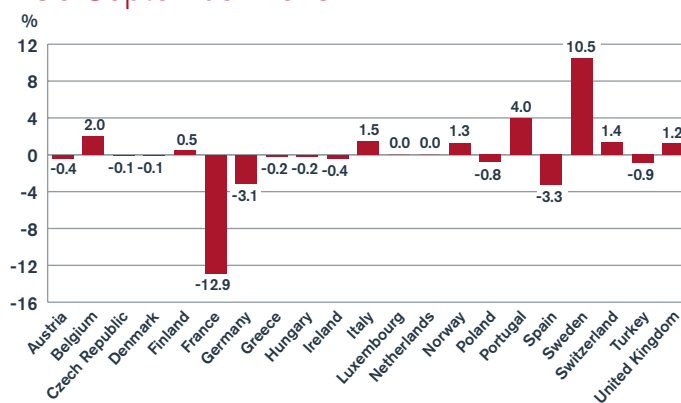
<sup>2</sup> Relative to the benchmark over the financial year to 30 September 2016

### Geographic exposure at 30 September

As a percentage of the investment portfolio excluding cash

	2016 %	2015 %
Switzerland	21.6	20.6
Germany	17.1	14.9
Sweden	16.9	14.6
France	7.8	9.8
Netherlands	7.0	8.4
Italy	5.9	5.9
Belgium	5.2	7.0
Portugal	4.4	1.6
Denmark	3.9	6.4
Spain	3.5	1.1
Finland	2.9	2.0
Norway	2.6	4.0
United Kingdom	1.2	-
Ireland	-	3.7

### Country underweights/overweights at 30 September 2016



### Key performance influences<sup>2</sup>

	%
Return of the portfolio of investments	
from sector allocation	-0.98
from stock selection (including currency effect)	+0.40
Impact of gearing (net)	+0.48
Impact of share buy-backs or issuance	+0.30
Impact of ongoing charges	-0.89
Impact of performance fee	-
Morningstar Cum Income NAV Return relative to the benchmark	<b>-0.69</b>

# Fund Manager's Report



**The Fund Manager of the portfolio, John Bennett, reports on the year to 30 September 2016**

As indicated in our interim report, this year has served up headwinds as well as tailwinds. Indeed, we have found ourselves, as an investment team, lamenting the fickle rotation which has characterised European markets throughout the year. While this can often be ascribed to the usual "macro" noise – from putative China meltdown to European banking crisis to Brexit – our read is that there is an underlying lack of conviction among investors. As far as market direction is concerned it has to be said that we share this sense of unease. Our own queasiness has less to do with macro or geopolitical dramas and more to do with the fact that bargains remain hard to come by. It was this key point that led us to enter 2016 cautioning that delegating the task of making money to an equity index was unlikely to prove rewarding. This doesn't seem to have been wide of the mark: as the table in the Chairman's statement highlighted, indices have struggled since the turn of the year.

The principal headwind for our portfolio in the last year has been the pharmaceutical sector. Since our decision to favour this industry in the spring of 2010 it has yielded ample reward. Yet, the past year has seen it stall. Much of this can be attributed to the electioneering of the US Presidential candidates, with Hillary Clinton particularly voluble on the sector. To dismiss the debate on drug pricing as wholly irrelevant would be a mistake. Our analysis tells us that the direction of travel is indeed to a tougher pricing environment but – and it is an important but –

those companies discovering and launching drugs which meet unmet clinical needs will secure their patents, their pricing and their future. It is the me-too brigade who should be afraid. Our health care overweight is now focused around the two Swiss names Novartis and Roche as well as Germany's Fresenius.

Within health care, by far the biggest disappointment has been Bayer. Having seen Syngenta being bid for by ChemChina, it appears that the Company has been bounced into a blockbuster acquisition of its own, in the shape of Monsanto. We engaged actively with Bayer's management in an effort to persuade them to call off the wedding but, alas, to no avail. As often happens, M&A in any given industry can unleash the "fear of missing out" ("FOMO") and a headlong rush toward gigantism. Long suffering investors in Europe's hapless banking sector would no doubt attest.

Bayer's management team isn't the first and won't be the last to succumb to FOMO. We may, of course, be proven wrong but our number crunching suggests to us that this deal is unlikely to prove value accretive to Bayer shareholders anytime soon. Thus, we voted with our feet and sold our holding.

If we turn our attention to the tailwinds of the past year we should repeat the Chairman's point regarding currency. Sterling's accelerated devaluation post Brexit has provided a useful boon to the NAV, for which we should be grateful in an otherwise tough year for European indices. Yet, it would be wrong to believe that only the currency has provided succour. Upon assuming management responsibility for the portfolio in December 2010, I was keen to increase the Company's exposure to small and mid-cap companies. Europe is much maligned for its "macro", its politics and its "leaders" with their unmatched ability to take an eternity to decide on seismic issues such as whether we should have still or sparkling water. Yet, when we do stick to our knitting, we are reminded of this Continent's opportunity. This is no better highlighted than by its wealth of small and mid-cap stocks. As we often remind investors, we don't care where our companies were born: we care about what they go on to do.

The table below shows the market capitalisation distribution of the portfolio as at the year end.

## Market capitalisation breakdown excluding cash

Region	Portfolio stocks	Portfolio weight %	Benchmark weight %	Benchmark stocks	Active weight %
>€50 billion	9	27.9	28.2	15	0.3
€20-50 billion	10	16.1	28.6	47	(12.5)
€10-20 billion	7	9.2	16.7	58	(7.5)
€5-10 billion	6	11.7	14.3	101	(2.6)
<€5 billion	25	35.1	12.2	252	22.9

Investors will note that those companies capitalised at up to €5 billion now represent some 29.5% of NAV. We don't have any fixed target for this segment of the market: it is necessarily opportunity driven. But it is that very opportunity which excites us: it remains our steadfast conviction that a closed ended fund

is the ideal vehicle via which to access small and mid-cap companies and blend them with holdings in their larger brethren. This is the strategy which has produced good returns for our shareholders through the last five or so years and which we believe will continue to do so.



## Fund Manager's Report (continued)

If we were to name specific contributors to the past year's performance we would have to highlight the following names:

### Small to mid-cap contributors to performance

Company	Country of origin	Market capitalisation	% of NAV at 30 September 2016	Share price return 1 year to 30 Sept 2016
Warehouses de Pauw	Belgium	1,289	1.5	27.4
Tessengerlo Chemie	Belgium	699	2.4	13.5
Royal Unibrew	Denmark	1,699	1.3	30.9
Tikkurila	Finland	844	1.8	29.0
Rubis	France	3,022	1.4	22.8
IMA	Italy	903	2.1	47.8
Interpump	Italy	1,282	2.1	27.4
IMCD	Netherlands	2,056	1.2	12.3
Veidekke	Norway	988	1.3	29.1
Loomis	Sweden	1,977	1.0	30.7

While a number of the above stocks were purchased during the year, it is notable that Tessenderlo Chemie, Warehouses de Pauw and Veidekke make a repeat show. Of course, no table of winners should stand unchallenged: we have had some smaller cap disappointments too. Our exposure to the European cable media sector has been a particular drag, with shares in Euskaltel and NOS falling by 14.0% and 15.7% respectively during the year. Nevertheless, we remain invested in both stocks as we see potential for pricing power and strong cash generation in what remains a consolidating sector.

### From "growth" to "value"

While forever wary of style labels, we are of the view that we are at the beginning of a major change in market leadership. For the best part of a decade investors have found comfort in so called "quality growth" stocks, prime examples being staples as well as other perceived "safe" businesses. The powerful tailwind that such stocks have received in the form of ever lower interest rates looks to have blown itself out. The corollary of this – the headwind – has been felt by the banking sector in particularly. Thus, for the first time in many a year we favour European banks in our portfolio. Rarely is this a sector for the faint hearted. Nevertheless, we believe that its lengthy bear market is ending as a combination of rehabilitated capital ratios and an inflection in interest rates makes the industry once again investable. It will be a volatile ride, not least given the European political agenda for the year ahead, but we will seek to hold on.

### Personal Holding

As at 10 October 2016, my personal holding in the Company had risen to 309,700 shares.

John Bennett  
Fund Manager  
6 December 2016

# Investment Portfolio as at 30 September 2016

Ranking 2016	Ranking 2015	Company	Sector	Country of listing	Valuation 2016 £'000	Percentage of portfolio
1	1	<b>Novartis</b>	Pharmaceuticals & Biotechnology	Switzerland	18,542	7.35
2	2	<b>Roche</b>	Pharmaceuticals & Biotechnology	Switzerland	16,532	6.56
3	3	<b>Nestlé</b>	Food Producers	Switzerland	12,696	5.04
4	–	<b>GALP Energia</b>	Oil & Gas Producers	Portugal	8,749	3.47
5	30	<b>Com Hem</b>	Fixed Line Telecommunications	Sweden	7,963	3.16
6	7	<b>Autoliv</b>	Automobiles & Parts	Sweden	7,656	3.04
7	43	<b>SAP</b>	Software & Computer Services	Germany	7,122	2.83
8	9	<b>Henkel</b>	Chemicals	Germany	6,572	2.61
9	12	<b>Nordea</b>	Banks	Sweden	5,865	2.33
10	21	<b>Tessenderlo Chemie</b>	Chemicals	Belgium	5,820	2.31
<b>10 largest</b>					<b>97,517</b>	<b>38.70</b>
11	10	Fresenius	Health Care Equipment & Services	Germany	5,135	2.04
12	25	Interpump	Industrial Engineering	Italy	4,932	1.96
13	24	IMA	Industrial Engineering	Italy	4,926	1.95
14	–	ING	Banks	Netherlands	4,735	1.88
15	6	RELX	Media	Netherlands	4,734	1.88
16	23	Continental	Automobiles & Parts	Germany	4,648	1.84
17	46	BIC	Household Goods & Home Construction	France	4,646	1.83
18	–	ABB	Industrial Engineering	Switzerland	4,292	1.70
19	53	Tikkurila	Construction & Materials	Finland	4,245	1.68
20	–	Swedish Match	Tobacco	Sweden	3,857	1.53
<b>20 largest</b>					<b>143,667</b>	<b>56.99</b>
21	8	Novo-Nordisk	Pharmaceuticals & Biotechnology	Denmark	3,705	1.47
22	–	Siemens	General Industrials	Germany	3,651	1.44
23	28	KBC	Banks	Belgium	3,615	1.43
24	11	Warehouses de Pauw	Real Estate Investment Trusts	Belgium	3,518	1.40
25	26	DNB	Banks	Norway	3,503	1.39
26	29	Trelleborg	Industrial Engineering	Sweden	3,467	1.38
27	–	Brenntag	Chemicals	Germany	3,425	1.36
28	49	Svenska Handelsbanken	Banks	Sweden	3,387	1.34
29	38	Bankinter	Banks	Spain	3,350	1.33
30	36	Rubis	Gas Water & Multiutilities	France	3,266	1.30
<b>30 largest</b>					<b>178,554</b>	<b>70.83</b>
31	–	Tarkett	Construction & Materials	France	3,255	1.29
32	27	Legrand	Electronic & Electrical Equipment	France	3,180	1.26
33	40	Royal Unibrew	Beverages	Denmark	3,139	1.25
34	45	Unilever	Personal Goods	Netherlands	3,094	1.23
35	44	Aktia	Banks	Finland	3,024	1.20
36	16	Veidekke	Construction & Materials	Norway	3,023	1.20
37	33	ISS	Support Services	Denmark	3,003	1.19
38	–	Havas	Media	France	2,975	1.18
39	–	Daily Mail & General Trust	Media	United Kingdom	2,893	1.15
40	–	Euskaltel	Fixed Line Telecommunications	Spain	2,871	1.13
<b>40 largest</b>					<b>209,011</b>	<b>82.91</b>
41	–	Securitas	Support Services	Sweden	2,834	1.12
42	–	IMCD	Chemicals	Netherlands	2,786	1.11
43	–	Marr	Food & Drug Retailers	Italy	2,783	1.10
44	42	Fuchs Petrolub	Chemicals	Germany	2,739	1.09
45	–	Grifols	Pharmaceuticals & Biotechnology	Spain	2,683	1.06
46	–	Volvo	Industrial Engineering	Sweden	2,602	1.03
47	–	BASF	Chemicals	Germany	2,529	1.00
48	–	Syngenta	Chemicals	Switzerland	2,484	0.99
49	–	Compugroup Medical	Software & Computer Services	Germany	2,465	0.98
50	–	Allianz	Nonlife Insurance	Germany	2,462	0.98
<b>50 largest</b>					<b>235,378</b>	<b>93.37</b>
51	–	Elekta	Health Care Equipment & Services	Sweden	2,450	0.97
52	19	NOS	Media	Portugal	2,442	0.97
53	–	Loomis	Support Services	Sweden	2,439	0.97
54	–	Philips	General Industrials	Netherlands	2,402	0.95
55	–	BNP Paribas	Banks	France	2,399	0.95
56	47	Deutsche Boerse	Financial Services	Germany	2,372	0.94
57	18	Intesa Sanpaolo	Banks	Italy	2,220	0.88
<b>Total listed equity investments at fair value</b>					<b>252,102</b>	<b>100.00</b>

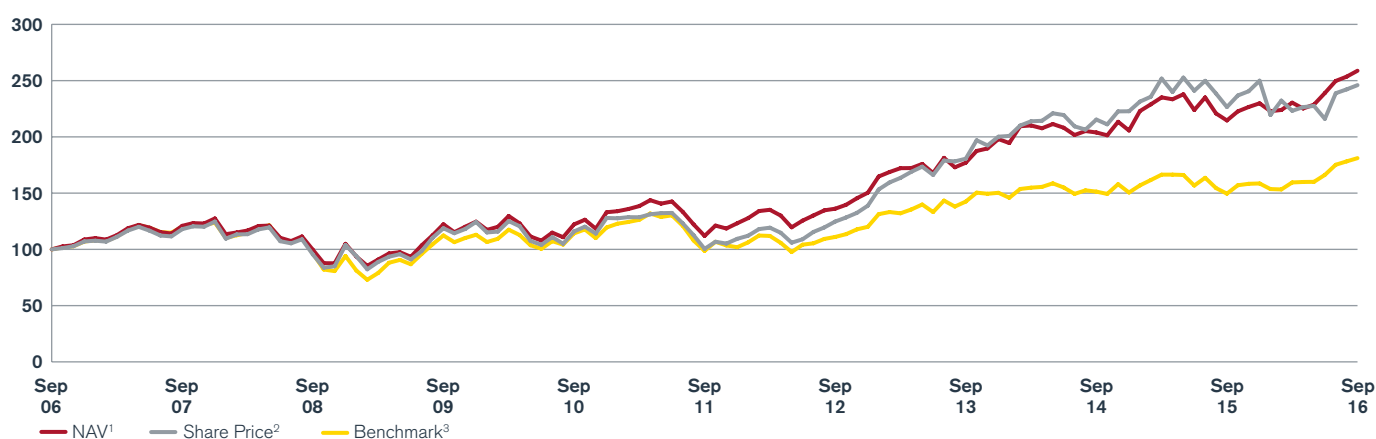
All securities are equity investments

# Historical Performance and Financial Information

Total return performance to 30 September 2016 (including dividends reinvested and excluding transaction costs)

	1 year %	3 years %	5 years %	10 years %
NAV <sup>1</sup>	20.4	44.9	127.9	158.8
Benchmark index <sup>2</sup>	21.1	27.1	83.6	81.1
Share price <sup>3</sup>	8.6	36.2	144.9	146.0
AIC Europe sector <sup>4</sup>	19.1	35.4	109.2	88.5
Ranking in sector	4	2	2	2

Total return performance over the 10 years to 30 September 2016 (rebased to 100)



## Financial information

At 30 September	Net assets £'000	NAV p	Mid-market price per ordinary share p	Profit/(loss) for year £'000	Revenue return p	Capital return p	Total return p	Dividend p	Expenses <sup>6</sup> %
2007	219,515	667.8	632.50	58,903	7.12	117.41	124.53	8.00	1.70
2008 <sup>5</sup>	161,739	551.3	505.50	(34,115)	15.12	(123.85)	(108.73)	14.00	1.00
2009	176,766	657.0	613.00	30,730	15.63	94.92	110.55	14.00	1.20
2010	144,945	645.9	585.50	(1,584)	15.69	(22.06)	(6.37)	16.50	1.10
2011	103,913	580.0	493.88	(9,750)	18.29	(69.09)	(50.80)	17.75	0.82
2012	115,431	682.2	591.75	19,832	17.49	98.18	115.67	19.00	1.16
2013	145,762	861.5	831.50	33,546	25.37	172.90	198.27	21.30	1.10
2014	170,988	956.7	962.00	21,010	22.14	98.38	120.52	23.45	0.88
2015	194,914	981.9	987.75	7,459	23.59	16.35	39.94	24.65	0.89
<b>2016</b>	<b>237,551</b>	<b>1,153.1</b>	<b>1,045.50</b>	<b>40,186</b>	<b>26.85</b>	<b>169.05</b>	<b>195.90</b>	<b>26.40</b>	<b>0.90</b>

1 Net asset value per ordinary share with income reinvested for one, three and five years and capital NAV per ordinary share plus income reinvested for 10 years

2 FTSE World Europe ex UK Index on a total return basis in sterling terms

3 Share price total return using mid-market closing prices

4 The AIC Europe sector is comprised of eight trusts

5 Revenue return includes 1.45p per ordinary share in respect of VAT recovery on past management fees

6 Using total expense ratio methodology for 2010 and previous years; ongoing charge methodology thereafter. The methodology for these calculations exclude performance fees

Sources: Henderson, Morningstar Funddata, Datastream

# Corporate Information

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## Directors

The Directors appointed to the Board at the date of this report are:

### Rodney Dennis

**Position:** Chairman of the Board and of the Management Engagement Committee

**Date of appointment:** 11 November 2003 (Chairman on 14 September 2006)

Rodney has held a number of non-executive directorships and trusteeships and was the deputy Chief Executive Officer of The Prince's Trust. Prior to that he had a career in the City, culminating in his appointment as Chief Investment Officer for Prudential Portfolio Managers.

### Robin Archibald

**Position:** Director

**Date of appointment:** 1 March 2016

Robin is a corporate financier and chartered accountant who has specialised in the UK closed-ended funds sector for over 25 years. He was previously employed by Winterflood Investment Trusts as head of their corporate team and prior to that worked with other advisory firms including Samuel Montagu, SG Warburg Securities and NatWest Markets.

Robin is a non-executive director of Albion Technology & General VCT PLC, Ediston Property Investment Company plc and Capital Gearing Investment Trust Pl.c. He is also Chairman of The Stewart Ivory Financial Education Trust, an educational charity.

### Alexander Comba

**Position:** Chairman of the Audit Committee and Senior Independent Director

**Date of appointment:** 11 November 2003

Alexander is a chartered accountant. He was Group Finance Director of Vinci PLC, one of the UK's largest construction groups, for over 20 years and now serves on various boards as a non-executive director or pension fund trustee.

### Alain Dromer

**Position:** Director

**Date of appointment:** 1 April 2014

Alain is an experienced financial services executive director. He was previously Chief Executive Officer of Aviva Investors; Global Head of Group Investment Business of HSBC Investments; Head of Asset Management at CCF Credit Commercial de France and Head of Capital Markets of La Compagnie Financiere Edmond de Rothschild Banque. Prior to that he held various roles in the government of France, French Treasury (including Section Head, World Monetary Affairs & IMF and Deputy Head of Office of Financial Markets). He is an independent non-executive director of Santander UK plc and Majid Al Futtaim Trust LLC, and an independent member of the board of Moody's Investors Services Limited and other European subsidiaries.

### Eliza Dungworth

**Position:** Director

**Appointed:** 1 January 2016

Eliza was at Deloitte for 25 years, with 15 of those as partner. She is an experienced adviser to the investment management industry with a thorough understanding of accounting, tax and regulatory issues.

All Directors are independent of Henderson and are members of the Management Engagement and Audit Committees.

# Corporate Information (continued)

## Registered office

201 Bishopsgate  
London EC2M 3AE

## Service providers

Alternative Investment Fund Manager  
Henderson Investment Funds Limited  
201 Bishopsgate  
London EC2M 3AE

## Depository and custodian

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

## Stockbrokers

Winterflood Investment Trusts  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London EC4R 2GA

## Corporate Secretary

Henderson Secretarial Services Limited  
201 Bishopsgate  
London EC2M 3AE  
Telephone: 020 7818 1818

## Registrar

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Telephone: 0371 384 2457  
(or +44 121 415 7047 if calling from overseas)  
Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

There is a range of shareholder information online.

You can check your holding and find practical help on transferring shares or updating your details at [www.shareview.co.uk](http://www.shareview.co.uk).

## Independent auditor

Ernst & Young LLP  
25 Churchill Place  
London E14 5EY

## Financial calendar

Annual results announced	December 2016
Ex dividend date	5 January 2017
Dividend record date	6 January 2017
Annual general meeting <sup>1</sup>	1 February 2017
Final dividend payable	10 February 2017
Half-year results announced	May 2016
Interim dividend payable	June 2017

## Information sources

For more information about the Company, visit the website at [www.henderson-european-focus.com](http://www.henderson-european-focus.com)

## HGi

HGi is a content platform provided by Henderson that offers online personalisation where you can “follow” investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Henderson’s investment expertise.

Scan the QR code or use this short URL to register for HGi:  
<http://HGi.co/rb>



Follow Henderson Investment Trusts on Twitter, YouTube and Facebook



## Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 225 525, email [Henderson@halifax.co.uk](mailto:Henderson@halifax.co.uk) or visit their website [www.halifax.co.uk/sharedealing](http://www.halifax.co.uk/sharedealing).

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

## Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman. Investors via Halifax Share Dealing receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

<sup>1</sup> At the Company's registered office at 2.30pm

## Corporate Information (continued)

### Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006 and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ("Section 1158"), is subject to the Listing Rules of the Financial Conduct Authority and is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company has obtained approval from HMRC of its status as an investment trust under Section 1158. The Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

### Principal risks and uncertainties

The Board, with the assistance of Henderson, has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. In carrying out this assessment, the Board has considered the market uncertainty arising from the result of the UK referendum to leave the European Union. The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to mitigate these as far as possible, are as follows:

Risk	Controls and mitigation	Board action/consideration
<p><b>Market risk</b></p> <p>The Company's performance is dependent on the performance of the companies and markets in which it invests.</p>	<p>Investment risk is spread by holding a diversified portfolio of companies with strong balance sheets and above average growth prospects. A significant proportion of the holdings in the Company's portfolio may not be represented in the benchmark index. An analysis of the Company's portfolio and geographical weightings compared to the benchmark index is included on page 7.</p>	<p>The Board considers this risk to have remained unchanged throughout the year under review.</p>
<p><b>Gearing</b></p> <p>Henderson has authority to use gearing in line with the Company's investment policy. In the event of a significant or prolonged fall in equity markets gearing would exacerbate the effect of the falling market on the Company's NAV and, consequently, its share price.</p>	<p>The Board has set a limit on gearing of 20% of net assets and monitors the level of gearing at each meeting.</p>	<p>The Board considers this risk to have remained unchanged throughout the year under review.</p>
<p><b>Other financial risks</b></p> <p>The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk, currency risk and credit and counterparty risk.</p>	<p>The Company minimises the risk of a counterparty failing to deliver securities or cash by dealing through organisations that have undergone rigorous due diligence by Henderson. The Company holds its liquid funds, which are mostly denominated in euros, almost entirely in interest bearing bank accounts in the UK or on short-term deposit. This, together with a portfolio which comprises mainly investments in large and medium-sized companies mitigates the Company's exposure to liquidity risk.</p> <p>The majority of the Company's assets and liabilities are denominated in currencies other than sterling. No hedging of the currency exposure is undertaken. Consequently, exchange rate fluctuations reduce or enhance returns for sterling based investors. Exposure to currencies as a percentage of the portfolio as at 30 September 2016 is shown on page 7.</p>	<p>The Board considers this risk to have remained unchanged throughout the year under review.</p>
<p><b>Operational risks</b></p> <p>Disruption to, or the failure of, Henderson's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. Henderson contracts some of the operational functions (principally those relating to trade processing, investment administration and accounting) to BNP.</p>	<p>The Board receives regular reports on the internal controls in place at Henderson, BNP and the depositary, HSBC (which appoints the custodian) to mitigate against the risk of failure of the systems. These include reports on business continuity planning and the procedures in place in relation to cyber risk.</p>	<p>The Board has considered the increased threat of cyber activity on Henderson's operations during the year and is comfortable with the controls and procedures put in place in this regard. This will be an ongoing area of consideration.</p>

## Corporate Information (continued)

Risk	Controls and mitigation	Board action/consideration
<p><b>Key man risk</b></p> <p>The Company depends on the diligence, skill and judgement of Henderson's investment team. The continued service of these individuals, and in particular John Bennett, could impact the future success of the Company.</p>	<p>The Board has been assured by Henderson that John Bennett and the European Equities team are appropriately remunerated and incentivised in their roles. The Company's performance fee provides an additional incentive. Henderson has a strong European Equities team which supports John Bennett in the management of the Company's portfolio and looks to develop managers with the capability to succeed John in the fullness of time.</p>	<p>The Board considers this risk to have remained unchanged throughout the year under review.</p>

### Viability statement

The Company is a long-term investor and the Directors believe it is appropriate to assess the viability of the Company over a three-year period in recognition of its long-term horizon and what is believed to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties documented in this Strategic Report.

The assessment has considered the impact of the likelihood of the principal risks and uncertainties facing the Company, in particular market, gearing, financial and operational risks, in severe but plausible scenarios, and the effectiveness of any mitigating controls in place.

The Directors took into account the liquidity of the portfolio, the gearing and the income stream from the portfolio in considering the viability of the Company over the next three-years and its ability to meet liabilities as they fall due. This included consideration of how the forecast income stream, expenditure and levels of reserves could impact on the Company's ability to pay dividends to shareholders over that period in line with its current dividend policy. Whilst detailed forecasts are only made over a shorter timeframe, the nature of the Company's business as an investment trust means that such forecasts are equally valid to be considered over the longer three-year period as a means of assessing whether the Company can continue in operation.

The Directors conducted this review for a period of three-years because they consider this to be an appropriate period over which they do not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place. Also the Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to

operate as an investment trust. Only a substantial financial crisis affecting the global economy could have an impact on this assessment. Whilst there is currently uncertainty in the markets following the UK referendum result to leave the European Union, the Board does not believe that this will have a long-term impact on the viability of the Company and its ability to continue in operation.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three-year period.

### Borrowing

The Company has a secured multi-currency overdraft arrangement with HSBC Bank plc that allows it to borrow up to the lesser of £46.8 million and 25% of custody assets as and when required. The level of gearing at 30 September 2016 is shown on page 3. The Fund Manager is responsible for deciding on the currency mix of the borrowings and seeks to avoid active currency positions relative to the benchmark. The Board monitors the level of gearing, which is restricted by the Company's investment policy. Borrowing levels are also restricted by financial covenants.

### Future developments

While the future performance of the Company is mainly dependent on the performance of international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and strategy explained on page 4. The Chairman's Statement and Fund Manager's Report provide commentary on the outlook for the Company.

### Key performance indicators

In order to measure the success of the Company in meeting its objective and to evaluate the performance of Henderson, the Directors take into account the following key performance indicators ("KPIs"):

KPI	Action
<b>Performance measured against the benchmark</b>	The NAV per ordinary share and share price total return compared with the movement of the FTSE World Europe ex UK Index in sterling terms on a total return basis.
<b>Discount or premium to NAV per ordinary share</b>	The level of discount or premium at which the ordinary shares trade relative to the NAV per ordinary share. The Board has a pragmatic approach to share buy-backs and keeps its policy under review, monitoring liquidity in the Company's shares and the level of discount in comparison to its peers as well as the longer-term trends for discounts in the sector.
<b>Ongoing charge</b>	The costs of running the Company calculated using the AIC ongoing charge methodology.

The charts and tables on pages 2, 3 and 11 show how the Company has performed against these KPIs and the Chairman's Statement and Fund Manager's Report give more information on performance.

## Corporate Information (continued)

### Corporate responsibility

#### Responsible investment

Henderson is responsible for reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical ("SEE") issues) in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance ("ESG") issues into mainstream investment decision-making and ownership practices. The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is considered by Henderson's risk team but investments are not ruled out on social and environmental grounds only.

#### Voting policy and the UK stewardship code

Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to Henderson. The Board receives regular reports on the voting undertaken by Henderson on behalf of the Company. The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale for doing so are fed back to the investee company prior to voting.

Practical difficulties may prevent Henderson voting in some markets. In particular, various factors, including restrictions on dealing and costs, may inhibit voting in some international markets and must be taken into account.

The Henderson responsible investment policy and further details of Henderson's responsible investment activities can be found on the Henderson website, [www.henderson.com](http://www.henderson.com).

#### Employees, social, community, human rights and environmental matters

The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues here; Henderson's policies are included in its Annual Report which can be found on the Henderson website.

Henderson's corporate responsibility statement is included on its website. In 2012 it was granted CarbonNeutral® Company status which it has committed to maintain at least until the end of 2018. The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as CarbonNeutral®. Papers for the Company's Board meetings are now mainly circulated electronically rather than in paper form.

#### Bribery Act 2010

The Board has reviewed the implications of the Bribery Act 2010, which came into force on 1 July 2011, and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

#### Modern Slavery Act 2015

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

### Board diversity

The Directors bring a range of skills to the Board including asset management, accounting, tax and broking experience. The Directors consider diversity when making appointments to the Board, taking into account skills, experience, knowledge and gender. The Company has no employees and, therefore, there is nothing further to report in respect of gender representation within the Company.

For and on behalf of the Board

Alexander Comba  
Director  
6 December 2016



# Glossary

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## Alternative Investment Fund Managers Directive (“AIFMD”)

Agreed by the European Parliament and the Council of the European Union and transposed into English Law, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds (“AIFs”) and requires them to appoint an Alternative Investment Fund Manager (“AIFM”) and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

## Association of Investment Companies (“AIC”)

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

## Benchmark

An index against which performance is compared. For the Company this is the FTSE World Europe ex UK Index on a total return basis in sterling terms.

## Capital return per share

The capital return per share is the capital profit for the year divided by the weighted average number of ordinary shares in issue during the year.

## Continental Europe

Every country in mainland Europe except the UK, the Channel Islands, Iceland and the Isle of Man.

## Custodian

The custodian is responsible for ensuring the safe custody of the Company's assets and that all transactions in the underlying holdings are transacted in an accurate and timely manner.

## Depositary

With effect from 22 July 2014, all AIFs were required to appoint a depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings and is responsible for the appointment of a custodian. The depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

## Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts.

## Dividend dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's registrars to know which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value per ordinary share will be disclosed ex-dividend.

## Gearing

Gearing means borrowing money to buy assets with the expectation that the return on investments bought will exceed the interest cost of the borrowings. The gearing percentage reflects the amount of borrowings (e.g. bank loans or overdrafts) the Company has used to invest in the market and is calculated by taking the difference between total investments and equity shareholders' funds, dividing this by equity shareholders' funds and multiplying by 100. The Company can also use synthetic gearing through derivatives and foreign exchange hedging.

## Investment trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

## Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

## Market capitalisation (“market cap”)

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

## Glossary (continued)

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### Net asset value (“NAV”) per ordinary share

The value of the Company’s assets (e.g. investments and cash held) less any liabilities (e.g. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders’ funds on the Statement of Financial Position. The NAV per ordinary share is published daily.

### Ongoing charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year as being the best estimate of future costs, excluding any performance fees, in accordance with methodology prescribed by the AIC and is the annualised ongoing charge expressed as a percentage of the average aggregate NAV in the period.

### Premium/discount

The amount by which the market price per share of an investment company is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

### Revenue return per share

The revenue return per share is the revenue profit for the year divided by the weighted average number of ordinary shares in issue during the year.

### Total return performance

This is the return on the share price or NAV per share taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders during a given period. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company’s assets (for NAV per share total return).

### Treasury shares

Shares repurchased by the Company but not cancelled.

### Yield

The annual dividend expressed as a percentage of the share price.



Henderson European Focus Trust plc  
Registered as an investment company in England and Wales with registration number 427958  
Registered office: 201 Bishopsgate, London EC2M 3AE

SEDOL/ISIN number: Ordinary Shares: 0526885/GB0005268858  
London Stock Exchange (EPIC) Code: HEFT  
Global Intermediary Identification Number (GIIN): THMNPN.99999.SL.826  
Legal Entity Identifier (LEI): 213800GS89AL1DK3IN50

Telephone: **0800 856 5656**  
Email: [trusts@henderson.com](mailto:trusts@henderson.com)

[www.hendersoneuropeanfocus.com](http://www.hendersoneuropeanfocus.com)

**aic**

The Association of  
Investment Companies



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