Janus Henderson
INVESTORS

ANNUAL SHORT REPORT

For the year ended
30 June 2017

Henderson Preference & Bond Fund

Henderson Preference & Bond Fund

Short Report
For the year ended 30 June 2017

Investment Fund Managers

Jenna Barnard and John Pattullo

Investment objective and policy

To provide a return by investing primarily in sterling denominated preference shares, Government securities, corporate bonds, Eurobonds and other bonds. Where the fund invests in currencies other than Sterling, the fund will always be hedged at least 80% to Sterling in aggregate. The fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Risk and reward profile

The fund currently has 7 types of share class in issue; A income, I accumulation, I income, Z accumulation, A income gross, I income gross and Z accumulation gross.

Each share class has the same risk and reward profile which is as follows:

Typically Lower potential risk/reward						Typically Higher potential risk/reward
Lower Risk						Higher Risk
1	2	3	4	5	6	7

The Synthetic Risk and Reward Indicator (SRRI) is calculated based on historical volatility over a rolling 5 year period, it is reviewed monthly and updated if volatility has changed materially to cause a movement in the SRRI level. The SRRI is an indicator and may not accurately reflect future volatility and market conditions.

The value of an investment in the fund can go up or down. When you sell your shares they may be worth less than you paid for them.

The risk/reward rating above is based on medium-term volatility. In the future, the fund's actual volatility could be higher or lower and its rated risk/reward level could change.

The lowest category does not mean risk free.

The fund's risk level reflects the following:

- As a category bonds are, in general, less volatile than shares.
- Fluctuations in a number of factors, such as interest rates, exchange rates and the perceived credit quality of the bonds held may cause the value of your investment, and any income from it, to rise or fall.

The rating does not reflect the possible effects of unusual market conditions or large unpredictable events. Under normal market conditions the following risks may apply:

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

Default risk The issuers of certain bonds could become unable to make payments on their bonds. The risk of default may be higher where the fund invests in sub-investment grade bonds.

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

Focus risk The fund's value may fall where it has concentrated exposure to an issuer or type of security that is heavily affected by an adverse event.

Geographic risk The fund's value may fall where it has concentrated exposure to a particular country or region that is heavily affected by an adverse event.

Liquidity risk In difficult market conditions certain securities could become hard to value or sell at a desired time and price.

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

Exchange rate risk Fluctuations in exchange rates may cause the value of your investment and any income from it to rise or fall.

High yield bond risk High yield bonds (normally with a lower credit rating or unrated) generally carry greater market, default and liquidity risk.

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.

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

Investment review

The first half of the year was a remarkably strong one for a range of bond markets, especially UK government and investment grade corporate bonds. The sterling market proved a standout performer. It became clear that the UK's vote to leave the European Union (known as Brexit) was a significant catalyst for bond markets, albeit at the expense of a weaker currency. As bond markets digested the impact of the Brexit decision, the implications played positively into a number of themes that we had positioned within the fund. In August, the Bank of England (BoE) implemented their policy response to Brexit, cutting the base rate to 0.25%, with a further cut promised if required. The quantitative easing scheme (central bank liquidity measures) was expanded by £60bn, and a £10bn scheme was initiated to purchase UK industrial investment grade corporate bonds. In addition, a new Term Funding Scheme was established to offset the interest rate cut that compressed bank margins.

Overall, this comprehensive package was a surprise to the market, and gilts and corporate bonds rallied aggressively. This compounded the already aggressive buying of European government and corporate bonds by the European Central Bank's own programme. High yield bonds were also strong performers as the search for yield became more desperate. Financial bonds, which lagged before the Brexit decision, caught an international bid, helped by the devaluation of sterling.

The theme of central banks exaggerating the bond drought while suppressing volatility (sharper fluctuations in prices) was remarkable given how far we are into this monetary experiment. However, in September 2016, markets debated the significance of a shift in policy framework from monetary stimulus to fiscal stimulus globally and the impact this might have on the shape of yield curves. The Bank of Japan's announcement that it moved policy to a yield target of 0% on 10-year Japanese government bonds was also significant, not only in terms of the policy shift, but also in that a source of significant uncertainty in bond markets for months managed to pass without stoking additional volatility.

The final three months of 2016 were dominated by the appointment of the new US president, Donald Trump. The market took this as a signal to enter a full risk-on mode, as, along with the strengthening economic data already being observed at the start of the fourth quarter, anticipation of fiscal expansion drove a rapid sell off of US government bond yields and a significant appreciation in the dollar. UK bonds sold off in a global bond rout, while 10-year gilt yields rose from a post-Brexit low of 0.5% to a high of 1.54% in mid-December (prices move inversely to yields).

Coming into 2017, the pervasive bearishness on bonds was profound. Using industry data on US Treasury futures, we observed throughout most of this year a record number of short positions, meaning investors were positioning for prices on US government bonds to fall. Either the data was going to improve to justify the expected sell off in bonds, or it would fade and bonds would rally. Our view, that the reflation trade would have a limited lifespan, was justified. We felt this was a global synchronised cyclical uplift driven by China reflating its economy in 2016 rather than anything the Trump administration initiated. The subjective soft economic data which the equity market focused on seem to fade, while the more reliable hard economic data was much more muted – and indeed the correct focus of the bond community. The global economic surprise indices turned down significantly, albeit from elevated levels. US employment data was soft, with a few siren signs of distress appearing in sub-prime auto loans and shopping mall mortgage-related bonds. Headline inflation faded but remained problematic in the UK. Sovereign bonds rallied in this risk-off environment as short sellers of Treasuries scrambled to cover their shorts, as it appeared the secular trends of low growth, inflation and volatility re-asserted themselves. This bond rally faded in the last week of the April as the market embraced the favourable first round outcome of the French election, and the markets continued to rally after the election result. Wage inflation was muted to the frustration of many bond bears and central bankers.

Towards year end, the main news came from actual and perceived shifts in policy stance from central banks, rather than any underlying economic data. This was initiated by Canada, where low and falling inflation was disregarded and the central bank signalled that it is was ready to take back the 50 basis points in 'emergency' rate cuts from 2015. The BoE then surprised investors as a number of Monetary Policy Committee members voted for a hike and the previously dovish chief economist signalled a willingness to consider rate hikes later in the year. In addition, there was some confusion over the positions of both Mark Carney and Mario Draghi following speeches that were interpreted as a shift towards less accommodative monetary policy.

The combination of this rhetoric and exceptionally low volatility in bond markets created the beginnings of what we think may be another short, sharp move higher in government bond yields – the type of which has recently become known as a 'tantrum'. This may prove to be a modest move away from emergency monetary policies, but unless inflation picks up materially, we remain sympathetic to embracing duration (a measure of interest rate sensitivity) in a secular sense, accepting shorter term cyclical peaks and troughs.

The fund significantly outperformed the sector. We enjoyed the uplift in bond pricing in a domestic sense post-Brexit. Financial bonds, both high yield and investment grade, were stellar performers. Industrial high yield also performed well, while the smaller amount of holdings we had in industrial investment grade and loans were somewhat unexciting.

However, the fourth quarter was a tougher one for all bond holders. The 'Trump reflation' trade certainly tested the resolve of the secular 'stagflationist' camp. Given the political crises we endured, we very successfully and opportunistically managed duration from both the short and long side by using interest rate futures. We have been very selective on the new credits we have added to the fund. We saw significant value in some jumbo bond deals which typically, given their size, have to come at a significant new issue premium. Example of such names include Vodafone and AT&T. We bought a number of selective new high yield positions, including Ardagh Group and Eircom. Notable sales included AXA, Reynolds, Deutsche Telecom and Walgreens. We found that the smaller deals hardly offered any new issue premium at all. We purposely declined many new high yield deals either due to too much leverage, a weak business model, poor valuation or a combination of all three factors.

The fundamental backdrop of low growth, low inflation and low default rates is not at risk, in our view. However, government bond markets have recently become prone to very sharp moves higher in yields, which, in our mind, provide buying opportunities given the underlying economic fundamentals. We feel it is likely that the move in yields, which began in June, could well develop into a shakeout in the bond market. However, this may present opportunities to lock in attractive long maturity. We remain solely focused on providing a reliable, realistic and sustainable quarterly income stream for our clients without undue capital risk.

Performance summary

	30 Jun 16- 30 Jun 17 %	30 Jun 15- 30 Jun 16 %	30 Jun 14- 30 Jun 15 %	30 Jun 13- 30 Jun 14 %	30 Jun 12- 30 Jun 13 %
Henderson Preference & Bond Fund	8.2	2.6	2.1	10.7	7.8

Source: Morningstar, bid to bid and net of fees, as at 12 noon valuation point, base on performance of Class A income.
The fund is not running against a specific benchmark, for internal risk monitoring, the UK Strategic Bond sector is used.

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
31 December, 30 June	30 November, Last day of February, 31 May, 31 August

Ongoing charge figure

	2017 %	2016 %
Class A	1.41	1.41
Class I	0.69	0.70
Class Z	0.04	0.04

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

Comparative tables for the year ended 30 June 2017

	Class A income			Class I income		
	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	51.92	52.68	53.94	55.58	56.03	57.10
Return before operating charges*	4.92	2.13	1.90	5.30	2.26	1.90
Operating charges	(0.76)	(0.74)	(0.76)	(0.40)	(0.39)	(0.40)
Return after operating charges*	4.16	1.39	1.14	4.90	1.87	1.50
Distributions on income shares	(2.36)	(2.15)	(2.40)	(2.58)	(2.32)	(2.57)
Closing net assets value per share	53.72	51.92	52.68	57.90	55.58	56.03
* after direct transaction costs of:	-	-	-	-	-	-
Performance						
Return after charges	8.01%	2.64%	2.11%	8.82%	3.34%	2.63%
Other information						
Closing net asset value (£000s)	142,653	144,318	228,918	359,628	336,505	243,218
Closing number of shares	265,532,975	277,976,365	434,563,284	621,170,663	605,420,037	434,104,125
Operating charges	1.41%	1.41%	1.41%	0.69%	0.70%	0.70%
Direct transaction costs	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%
Prices						
Highest share price (pence)	54.79	53.55	55.15	59.05	56.99	58.56
Lowest share price (pence)	52.30	50.78	52.83	56.00	54.23	55.93

Comparative tables (continued)

	Class I accumulation			Class Z acccumulation		
	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	130.42	126.12	121.36	196.01	188.29	181.82
Return before operating charges*	13.31	6.53	7.05	20.04	9.80	8.65
Operating charges	(0.95)	(0.90)	(0.88)	(0.08)	(0.08)	(0.07)
Return after operating charges*	12.36	5.63	6.17	19.96	9.72	8.58
Distributions on accumulation shares	(6.87)	(6.64)	(7.04)	(10.47)	(10.04)	(10.57)
Retained distributions on accumulation shares^	6.15	5.31	5.63	9.37	8.04	8.46
Closing net asset value per share	142.06	130.42	126.12	214.87	196.01	188.29
* after direct transaction costs of:	0.01	-	-	0.01	-	-
Performance						
Return after charges	9.48%	4.46%	5.08%	10.18%	5.16%	4.72%
Other information						
Closing net asset value (£000s)	55,619	55,099	47,189	20,987	19,229	18,573
Closing number of shares	39,153,094	42,247,026	37,414,739	9,766,960	9,810,214	9,864,185
Operating charges	0.69%	0.70%	0.70%	0.04%	0.04%	0.04%
Direct transaction costs	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%
Prices						
Highest share price (pence)	143.30	131.70	129.90	216.70	197.90	193.60
Lowest share price (pence)	131.40	124.60	121.80	197.50	186.90	180.80

^ Retained distributions prior to 6 April 2017 are net of 20% income tax.

	Class A income gross			Class I income gross		
	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	52.56	53.33	54.60	56.38	56.84	57.81
Return before operating charges*	5.30	2.69	2.54	5.69	2.84	2.71
Operating charges	(0.77)	(0.75)	(0.77)	(0.40)	(0.40)	(0.41)
Return after operating charges*	4.53	1.94	1.77	5.29	2.44	2.30
Distributions on income shares	(2.70)	(2.71)	(3.04)	(2.94)	(2.90)	(3.27)
Closing net asset value per share	54.39	52.56	53.33	58.73	56.38	56.84
* after direct transaction costs of:	-	-	-	-	-	-
Performance						
Return after charges	8.62%	3.64%	3.24%	9.38%	4.29%	3.98%
Other information						
Closing net asset value (£000s)	1,993	2,368	9,965	168,064	143,682	120,073
Closing number of shares	3,665,145	4,506,128	18,686,388	286,159,637	254,826,432	211,264,586
Operating charges	1.41%	1.41%	1.41%	0.69%	0.70%	0.70%
Direct transaction costs	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%
Prices						
Highest share price (pence)	55.55	54.26	55.96	59.91	57.87	59.55
Lowest share price (pence)	52.95	51.46	53.51	56.81	55.08	56.77

Comparative tables

	Class Z accumulation gross		
	2017 (pence per share)	**2016 (pence per share)**	**2015 (pence per share)**
Change in net assets per share			
Opening net asset value per share	229.51	218.10	208.20
Return before operating charges*	23.69	11.50	9.99
Operating charges	(0.10)	(0.09)	(0.09)
Return after operating charges*	23.59	11.41	9.90
Distributions on accumulation shares	(12.70)	(11.65)	(11.82)
Retained distributions on accumulation shares^	12.70	11.65	11.82
Closing net asset value per share	253.10	229.51	218.10
* after direct transaction costs of:	0.02	-	-
Performance			
Return after charges	10.28%	5.23%	4.76%
Other information			
Closing net asset value (£000s)	213	2	2
Closing number of shares	84,375	1,000	1,000
Operating charges	0.04%	0.04%	0.04%
Direct transaction costs	0.01%	0.00%	0.00%
Prices			
Highest share price (pence)	255.10	231.60	223.80
Lowest share price (pence)	231.30	218.00	207.40

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

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

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	%
UK Treasury 1.25% 22/07/2018	2.69
BUPA Finance 6.125% Perpetual	2.14
Nationwide Building Society VAR Perpetual	1.91
PGH Capital 6.625% 18/12/2025	1.78
Wachovia Capital Trust III 5.56975% Perpetual	1.77
UBS 6.875% Perpetual	1.76
HBOS Sterling Finance Jersey 7.881% Perpetual	1.67
Co-Operative Bank 6.25% 08/07/2026	1.65
Zurich Finance UK 6.625% Perpetual	1.65
Unitymedia 3.75% 15/01/2027	1.62

Major holdings

as at 2016	%
Verizon Communications 6.55% 15/09/2043	1.84
Wachovia Capital Trust III 5.56975% Perpetual	1.80
AT&T 4.75% 15/05/2046	1.74
Nationwide Building Society VAR Perpetual	1.66
BUPA Finance 6.125% Perpetual	1.66
Charter Communications 6.484% 23/10/2045	1.58
HBOS Sterling Finance Jersey 7.881% Perpetual	1.56
Co-Operative Bank 6.25% 08/07/2026	1.56
Dresdner Funding Trust 8.151% 30/06/2031	1.54
Sky 3.75% 16/09/2024	1.44

Asset allocation

as at 2017	%
United Kingdom	42.14
United States	33.44
Switzerland	4.30
Ireland	2.68
Germany	2.49
France	2.22
Luxembourg	1.77
Canada	1.18
Sweden	0.73
New Zealand	0.68
Netherlands	0.58
Derivatives	0.68
Other net assets	7.11
Total net assets	**100.00**

Asset allocation

as at 2016	%
United Kingdom	41.09
United States	29.74
France	8.31
Germany	4.43
Ireland	3.11
Switzerland	2.55
Netherlands	2.33
Italy	1.43
Spain	1.23
Luxembourg	0.98
Sweden	0.74
Belgium	0.55
Norway	0.34
Canada	0.17
Derivatives	(2.60)
Other net assets	5.60
Total net assets	**100.00**

Prior year comparative percentages have changed for some sectors due to reclassification within these sectors.

Report and accounts

This document is a short report of the Henderson Preference & Bond Fund for the year ended 30 June 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.

Risk warning

Please remember that past performance is not a guide to future performance. The value of an investment and the revenue from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Issued by:
Henderson Investment Funds Limited
Registered office:
201 Bishopsgate
London
EC2M 3AE
Member of The Investment Association and authorised and regulated by the Financial Conduct Authority.
Registered in England No 2678531

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

Depositary
National Westminster Bank Plc
135 Bishopsgate
London
EC2M 3UR

Auditor
PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

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 e-mail 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 Preference & Bond Fund at any time by logging on to www.janushenderson.com. Select 'Personal Investor' and then access 'Valuations' from the Tools Menu. Simply select the fund you hold and enter the appropriate number of shares.

H030330/0717