Janus Henderson
INVESTORS

ANNUAL SHORT REPORT

For the year ended
30 June 2017

Henderson Strategic Bond Fund

Henderson Strategic 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 in higher yielding assets including high yield bonds, investment grade bonds, government bonds, preference shares and other bonds. The fund may also invest in equities. The fund will take strategic asset allocation decisions between countries, asset classes, sectors and credit ratings. 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 8 types of share class in issue; A income, I accumulation, I income, Z accumulation, A income gross, I income gross, I accumulation 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 share classes appear at 3 out of 7. Share classes in higher categories have shown greater and/or more frequent variations in share price in the past 5 years than those in lower categories.

The lowest category does not mean risk free.

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

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

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

Credit risk The value of a bond or money market security may fall if the financial health of the issuer weakens, or the market believes it may weaken. This risk is greater the lower the credit quality of the bond.

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

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

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

Interest rate risk When interest rates rise (or fall), the prices of different securities will be affected differently. In particular, bond values generally fall when interest rates rise. This risk is generally greater the longer the maturity of a bond investment.

Leverage risk Leverage arises from entering into contracts or derivatives whose terms have the effect of magnifying an outcome, meaning profits and losses from investment can be greater.

Liquidity risk Any security could become hard to value or to sell at a desired time and price, increasing the risk of investment losses.

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

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

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

Investment review

The first half of the year under review 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. Indeed, as the dust settled it became clear that the UK's vote to leave the European Union (EU), commonly referred to 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 UK's vote to leave the EU, the implications played positively into a number of themes that we had positioned within the fund. One example came in August, when the Bank of England (BoE) implemented their policy response to the Brexit vote – base rates were cut to 0.25% with a further cut promised if required. The monetary stimulus scheme was expanded by £60bn, plus 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 compressing bank margins.

Overall, this comprehensive package was a surprise to the market. Gilts and corporate bonds rallied aggressively. This compounded the already aggressive buying of European government and corporate bonds by the European Central Bank's (ECB's) own programme. High yield bonds were also good performers as the search for yield became more desperate. Financial bonds – having 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 (sharp fluctuations in price) 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 around the world, and the impact this might have on the shape of yield curves. The Bank of Japan's announcement that it had 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 new US President-elect Donald Trump. The market took this as a signal to enter 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 of the dollar. The fund underperformed during this period given that our interest rate sensitivity (duration) was too high. The source of this underperformance was the US investment grade book, which suffered after the election of Trump and the rout of US government bonds (with which these securities trade in line). Issuers such as Kraft Heinz, Comcast and Altria suffered due to the long maturities on these bonds. Some of these names were trimmed in favour of shorter US high yield issues due to the credit-supportive background.

We reduced duration by approximately one year during the week of Mr Trump's election. Trading in interest rate futures helped mitigate losses, as the fund went both long and short over the year, making approximately 24 basis points. Ten-year Treasury yields actually doubled from the deflation scare lows of 1.32% in June to a high of 2.64% six months later. Time will tell whether this is a cyclical or structural shift.

Coming into 2017, the pervasive bearishness on bonds was profound; using industry data on US Treasury futures, we observed throughout most of this year an all-time 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 that the equity market focused on seemed 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 indexes 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 April as the market embraced the favourable first-round outcome of the French election, and the markets continued to rally after the second-round election result. Wage inflation continued to be muted, to the frustration of many bond bears, and indeed, 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 was ready to take back the 50 basis points in 'emergency' rate cuts from 2015. The BoE then surprised investors, with a number of Monetary Policy Committee members already voting for a hike and the previously dovish chief economist signalling a willingness to consider rate hikes later in the year.

In addition, there was some confusion over the positions of both BoE governor Mark Carney and ECB president 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 in a secular sense, accepting shorter term cyclical peaks and troughs.

The fund performed in line with the sector. We enjoyed the uplift in bond pricing in a domestic sense post-Brexit vote. 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. We found this quarter somewhat challenging. Given the induced political crises we endured, we opportunistically managed duration from both the short and long side by using interest rate futures, sometimes hedging the book and at other times adding risk. We did achieve a favourable return for our shareholders, which was pleasing.

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. Examples of such names included Anheuser-Busch InBev, Vodafone, AT&T and Microsoft. We find that smaller deals hardly have any issue premium at all.

Notable sales included Dell, AXA, Walgreens, CVS Health and Kraft Heinz. 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. Separately, we added some sovereign duration risk into Australia – a country which has not had a recession for 22 years, has select property bubbles in some cities but lacks any material inflation, and looks somewhat unbalanced.

The fundamental backdrop of low growth, low inflation and low default rates is not at risk, in our view. However, government bond markets have, in recent years, become prone to very sharp moves higher in yields which, in our mind, provides buying opportunities given the underlying economic fundamentals. We feel it is likely that the move in yields that began in June could well develop into a shakeout in the bond market. However, this may present opportunities to lock in attractive long maturity yields for our clients.

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 Strategic Bond Fund	5.7	2.4	2.1	10.4	7.5

Source: Morningstar, bid to bid, and net of fees, as at 12 noon valuation point, based on performance of Class A income. The fund is not run against a specific benchmark.

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	1.40	1.41
Class I	0.69	0.69
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	123.96	125.59	128.16	133.11	133.96	136.19
Return before operating charges*	8.74	4.85	4.65	9.41	5.19	4.55
Operating charges	(1.77)	(1.77)	(1.81)	(0.94)	(0.92)	(0.96)
Return after operating charges*	6.97	3.08	2.84	8.47	4.27	3.59
Distributions on income shares	(4.95)	(4.71)	(5.41)	(5.42)	(5.12)	(5.82)
Closing net asset value per share	125.98	123.96	125.59	136.16	133.11	133.96
* after direct transaction costs of:	0.01	-	-	0.01	-	-
Performance						
Return after charges	5.62%	2.45%	2.22%	6.36%	3.19%	2.64%
Other information						
Closing net asset value (£000s)	141,182	145,165	270,253	750,378	669,598	548,297
Closing number of shares	112,064,232	117,101,951	215,188,710	551,106,085	503,058,250	409,285,683
Operating charges	1.40%	1.41%	1.41%	0.69%	0.69%	0.70%
Direct transaction costs	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%
Prices						
Highest share price (pence)	130.00	127.60	131.50	139.70	136.20	140.10
Lowest share price (pence)	124.10	121.40	125.80	133.60	130.00	133.60

Comparative tables (continued)

	Class I accumulation			Class Z accumulation		
	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)
Change in net assets per share						
Opening net asset value per share	306.46	296.77	285.78	328.74	316.39	305.41
Return before operating charges*	23.38	14.65	16.20	25.12	15.59	14.48
Operating charges	(2.20)	(2.08)	(2.07)	(0.14)	(0.13)	(0.13)
Return after operating charges*	21.18	12.57	14.13	24.98	15.46	14.35
Distributions on accumulation shares	(14.11)	(14.39)	(15.69)	(15.35)	(15.55)	(16.83)
Retained distributions on accumulation shares^	12.67	11.51	12.55	13.79	12.44	13.46
Closing net asset value per share	326.20	306.46	296.77	352.16	328.74	316.39
* after direct transaction costs of:	0.02	-	0.01	0.02	-	0.01
Performance						
Return after charges	6.91%	4.24%	4.94%	7.60%	4.89%	4.70%
Other information						
Closing net asset value (£000s)	447,750	338,278	209,874	11,496	12,603	14,018
Closing number of shares	137,263,784	110,382,900	70,720,435	3,264,424	3,833,723	4,430,762
Operating charges	0.69%	0.69%	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)	329.00	308.60	305.70	355.10	330.90	325.50
Lowest share price (pence)	309.00	293.80	286.60	331.50	314.40	303.80

^ 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	125.50	127.13	129.75	99.69	100.33	101.80
Return before operating charges*	9.49	6.08	6.07	7.55	4.81	4.71
Operating charges	(1.80)	(1.79)	(1.84)	(0.70)	(0.69)	(0.72)
Return after operating charges*	7.69	4.29	4.23	6.85	4.12	3.99
Distributions on income shares	(5.64)	(5.92)	(6.85)	(4.56)	(4.76)	(5.46)
Closing net asset value per share	127.55	125.50	127.13	101.98	99.69	100.33
* after direct transaction costs of:	0.01	-	-	0.01	-	-
Performance						
Return after charges	6.13%	3.37%	3.26%	6.87%	4.11%	3.92%
Other information						
Closing net asset value (£000s)	6,808	7,648	12,160	355,803	312,813	207,647
Closing number of shares	5,337,006	6,093,869	9,564,876	348,888,869	313,777,483	206,961,797
Operating charges	1.40%	1.41%	1.41%	0.69%	0.69%	0.70%
Direct transaction costs	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%
Prices						
Highest share price (pence)	131.80	129.30	133.40	104.80	102.10	105.10
Lowest share price (pence)	125.70	123.00	127.40	100.20	97.48	100.10

Comparative tables (continued)

	Class I accumulation gross			Class Z accumulation 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	355.92	341.60	323.90	360.31	343.55	328.15
Return before operating charges*	27.35	16.72	20.09	27.72	16.90	15.53
Operating charges	(2.56)	(2.40)	(2.39)	(0.15)	(0.14)	(0.13)
Return after operating charges*	24.79	14.32	17.70	27.57	16.76	15.40
Distributions on accumulation shares	(16.57)	(16.49)	(17.97)	(17.25)	(16.82)	(18.16)
Retained distributions on accumulation shares	16.57	16.49	17.97	17.25	16.82	18.16
Closing net asset value per share	380.71	355.92	341.60	387.88	360.31	343.55
* after direct transaction costs of:	0.02	-	0.01	0.02	-	0.01
Performance						
Return after charges	6.97%	4.19%	5.46%	7.65%	4.88%	4.69%
Other information						
Closing net asset value (£000s)	102,527	57,162	45,259	196	62	1,618
Closing number of shares	26,930,600	16,060,453	13,249,163	50,610	17,187	471,059
Operating charges	0.69%	0.69%	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)	383.80	358.20	351.10	391.00	362.40	352.60
Lowest share price (pence)	358.90	340.10	326.80	363.30	343.40	326.90

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	%
Australia (Commonwealth of) 1.75% 21/11/2020	6.36
Wachovia Capital Trust III 5.56975% Perpetual	1.37
HBOS Sterling Finance Jersey 7.881% Perpetual	1.30
Barclays Bank 6.278% Perpetual	1.29
Microsoft 3.30% 06/02/2027	1.19
PGH Capital 4.125% 20/07/2022	1.18
HSBC Bank 5.844% Perpetual	1.16
Daily Mail & General Trust 5.75% 07/12/2018	1.14
Virgin Media Secured Finance 6.25% 28/03/2029	1.12
Nationwide Building Society VAR Perpetual	1.07

Major holdings

as at 2016	%
UK Treasury 3.75% 07/09/2044	3.62
UK Treasury 2.00% 22/07/2020	1.75
Anheuser-Busch InBev 4.70% 01/02/2036	1.69
AT&T 4.75% 15/05/2046	1.53
Dresdner Funding Trust 8.151% 30/06/2031	1.39
Daily Mail & General Trust 5.75% 07/12/2018	1.35
HBOS Sterling Finance Jersey 7.881% Perpetual	1.33
Barclays Bank 6.278% Perpetual	1.33
Sky 3.75% 16/09/2024	1.31
BNP Paribas FRN Perpetual	1.29

Asset allocation

as at 2017	%
United States	32.94
United Kingdom	30.55
Australia	8.24
Ireland	2.69
Germany	2.36
Luxembourg	2.01
Netherlands	1.64
Switzerland	1.46
France	1.33
Canada	1.08
New Zealand	0.64
Sweden	0.56
Derivatives	0.65
Other net assets	13.85
Total net assets	**100.00**

Asset allocation

as at 2016	%
United Kingdom	40.57
United States	28.26
France	7.97
Germany	5.31
Ireland	2.48
Belgium	2.22
Netherlands	2.20
Switzerland	2.17
Luxembourg	1.68
Spain	1.09
Japan	0.95
Sweden	0.63
Norway	0.20
Canada	0.17
Italy	0.05
Derivatives	(2.68)
Other net assets	6.73
Total net assets	**100.00**

Report and accounts

This document is a short report of the Henderson Strategic 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
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Member of The Investment Association and authorised and regulated by the Financial Conduct Authority.
Registered in England No 2678531

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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 Strategic 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.

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