



# ANNUAL SHORT REPORT

For the year ended  
30 June 2017

Janus Henderson  
— INVESTORS —

**Henderson UK Smaller Companies Fund**

# Henderson UK Smaller Companies Fund

## Short Report

For the year ended 30 June 2017

### Investment Fund Manager

Neil Hermon

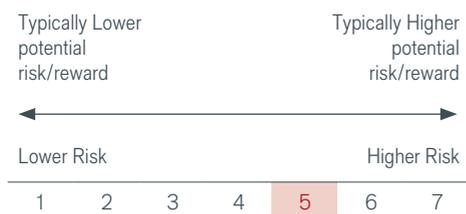
### Investment objective and policy

To aim to provide capital growth by investing primarily in United Kingdom smaller companies.

### Risk and reward profile

The fund currently has 3 types of share class in issue: A accumulation, I accumulation and Z accumulation.

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



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 shares are, in general, more volatile than either bonds or money market instruments.

- The fund focuses on a single country.
- Fluctuations in exchange rates may cause the value of your investment 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.

**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.

**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.

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 year under review was a very positive one for equity markets. It encompassed a period of significant political upheaval, with the aftermath of the UK's vote to exit the European Union (EU), commonly referred to as 'Brexit', the election of President Trump in November. Globally, a rise of populism and dissatisfaction with the perceived liberal ruling elite became increasingly prevalent. That equity markets made such good progress against this backdrop

was somewhat of a surprise, but performance was helped in the UK by the significant devaluation of sterling, which supported large international earners in particular.

Global economic conditions improved over the year, albeit modestly, with stronger growth around the world. Monetary conditions remained benign, with supportive monetary policies coming from most developed world central banks. Global geopolitical concerns remained heightened, with significant conflict in the Middle East causing an international migrant crisis. Commodity prices rebounded with robust Chinese economic growth and production cutbacks, aiding a recovery in oil and metal prices.

The fundamentals of the corporate sector remained robust. Companies continued to grow their dividends while balance sheets remained strong. UK corporate earnings saw stronger growth, helped by improving economic conditions and the weakness of sterling increasing the value of overseas earnings for UK companies.

Smaller companies outperformed larger companies over the year, with the Numis Smaller Companies ex Investment Companies Index gaining 29.1% compared with a rise of 18.1% in the FT All-Share Index.

The fund outperformed its benchmark over the year, returning 36.5%. Positive contributors to performance included NMC Health (a Middle East healthcare operator). The shares rose 69.7% as the company expanded quickly through a combination of organic expansion and acquisitions. Profitability of the group is growing fast, and the outlook remains strong. Melrose (an engineering group) rose 205.2% after it made a value-enhancing acquisition of Nortek. The improvement in Nortek's margins and return on capital employed is currently ahead of target.

Negative contributors included Laird (electronic components), which fell 43.4% as profits were hit by a severe contraction in margins at business with its largest customer. Additionally, the fund was hampered by a lack of exposure to the mining sector, which performed strongly due to the commodity market rebounding after a prolonged period of weakness.

In the first half of the year, we bought a position in Smart Metering Systems, a gas metering business. The company is well placed to benefit from the programme to roll out smart meters across the UK by 2020. We also bought a position in Hollywood Bowl, an operator of bowling alleys. It is well placed to grow, strongly aided by a site-opening programme and

capital investment in its existing estate. We initiated a position in Burford Capital, a litigation finance business. The company has benefited from a buoyant market and the high skill base of its employees. Prospects look strong, and Burford has limited correlation to the economic cycle. To finance these purchases, we disposed of our position in Keller, a ground engineering business, as it is struggling to perform on a consistent basis across its wide geographical base.

In the second half of the year, we bought a position in Medica, which provides radiology services, principally to the NHS. The company is growing quickly, aided by strong demand from its major customer as it continues to outsource. We bought a position in Alfa Financial Software, which provides software to the leasing industry. The company is growing quickly, aided by strong demand from its customer base. We also bought a position in SIG, a building material distributor. After a number of years of underperformance, we believe a highly creditable new management team are well placed to turn the company around. To finance these purchases, we disposed of our position in Dairy Crest, a branded dairy group, as the company is failing to hit expectations and its debt remains stubbornly high. We also disposed of our position in Volution, a ventilation group, due to poor organic growth and fears that its UK business will slow due to uncertainties caused by the political environment.

The recent UK general election represented a political gamble that spectacularly failed for the Conservative Party. Expectations of a significant majority in the House of Commons transformed into a hung Parliament and a minority government supported by a 'confidence and supply' arrangement with the Democratic Unionist Party in Northern Ireland. The frailties and complexities of such an arrangement, combined with the narrow majority it provides, means it is highly unlikely that the current government will last its full term; indeed, we believe there is a reasonable chance that we will have another election in the short to medium term.

At the same time, the UK government is entering into Brexit negotiations with the EU. There is clearly a range of possible outcomes from these negotiations, and what deal the UK will end up with is, at this point, unclear. One potential positive from the recent election is a more conciliatory stance from the UK in these negotiations and a 'softer' Brexit as an outcome.

This political uncertainty will probably make UK consumers cautious. At the same time, they are

facing the pressure of more expensive imported goods. This could squeeze consumers' net disposable income as wage inflation fails to match price inflation.

Outside the UK, economic conditions remain mixed, but on balance things seem to be getting better, particularly in the US and Europe. The recent rises in US interest rates have flagged to investors that loose global monetary conditions (in which lower rates make it easier to borrow) will at some stage reverse. However, the 'normalisation' of monetary policy (a gradual reversion to higher rates) will probably be a slow and measured process.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis

of 2008-9. Balance sheets are more robust and dividends are growing. In addition, a large proportion of UK corporate earnings comes from overseas, even among smaller companies, and will be boosted by the devaluation of sterling.

In terms of share-price valuations, the equity market is roughly in line with long-term averages. Merger and acquisition (M&A) activity remains a supportive feature for smaller companies. If corporate confidence improves, M&A will increase, especially as little or no return can currently be generated from cash and the cost of debt is historically low.

## 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 UK Smaller Companies Fund	36.5	(9.7)	18.4	17.4	33.8
Numis Smaller Companies (ex Investment Trusts) Index	29.1	(6.6)	10.4	20.3	31.8

Source: Morningstar, bid to bid and net of fees as at 12 noon valuation point, based on performance of Class A accumulation.

Benchmark values are at close of business.

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

31 December, 30 June

### Payment dates

31 August

### Ongoing charge figure

	2017 %	2016 %
Class A	1.70	1.70
Class I	0.85	0.85
Class Z	0.07	0.07

The annualised ongoing charge figure (OCF) of the fund, 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 accumulation			Class I 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)
<b>Change in net assets per share</b>						
Opening net asset value per share	533.13	583.80	493.42	614.18	666.89	558.83
Return before operating charges*	196.04	(40.95)	99.25	226.69	(47.14)	113.09
Operating charges	(10.86)	(9.72)	(8.87)	(6.27)	(5.57)	(5.03)
Return after operating charges*	185.18	(50.67)	90.38	220.42	(52.71)	108.06
Distributions on accumulation shares	(4.98)	(4.53)	(3.85)	(12.80)	(10.63)	(7.97)
Retained distributions on accumulation shares	4.98	4.53	3.85	12.80	10.63	7.97
Closing net asset value per share	718.31	533.13	583.80	834.60	614.18	666.89
* after direct transaction costs of:	0.67	0.83	0.66	0.78	0.95	0.76
<b>Performance</b>						
Return after charges	34.73%	(8.68%)	18.32%	35.89%	(7.90%)	19.34%
<b>Other information</b>						
Closing net asset value (£000s)	58,115	45,989	63,080	61,245	53,723	49,173
Closing number of shares	8,090,545	8,626,113	10,805,094	7,338,149	8,747,077	7,373,399
Operating charges	1.70%	1.70%	1.70%	0.85%	0.85%	0.84%
Direct transaction costs	0.10%	0.15%	0.13%	0.10%	0.15%	0.13%
<b>Prices</b>						
Highest share price (pence)	739.10	595.30	603.80	858.20	680.80	689.20
Lowest share price (pence)	505.70	508.60	453.90	582.70	585.90	515.40

## Comparative tables (continued)

	Class Z accumulation		
	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)
<b>Change in net assets per share</b>			
Opening net asset value per share	417.50	449.78	373.98
Return before operating charges*	154.61	(31.97)	76.04
Operating charges	(0.35)	(0.31)	(0.24)
Return after operating charges*	154.26	(32.28)	75.80
Distributions on accumulation shares	(11.89)	(11.14)	(9.88)
Retained distributions on accumulation shares	11.89	11.14	9.88
Closing net asset value per share	571.76	417.50	449.78
* after direct transaction costs of:	0.53	0.64	0.50
<b>Performance</b>			
Return after charges	36.95%	(7.18%)	20.27%
<b>Other information</b>			
Closing net asset value (£000s)	22,675	14,957	17,502
Closing number of shares	3,965,863	3,582,559	3,891,287
Operating charges	0.07%	0.07%	0.06%
Direct transaction costs	0.10%	0.15%	0.13%
<b>Prices</b>			
Highest share price (pence)	587.60	459.90	464.60
Lowest share price (pence)	396.20	398.30	345.70

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	%
Bellway	3.50
NMC Health	3.46
Melrose Industries	2.62
Atkins (WS)	2.20
Intermediate Capital	2.17
Paragon	2.11
Clinigen	2.10
Renishaw	2.04
Playtech	1.66
Victrex	1.58

## Asset allocation

as at 2017	%
Industrials	34.89
Financials	18.07
Consumer Services	14.78
Health Care	9.40
Technology	8.29
Consumer Goods	7.40
Basic Materials	4.71
Oil & Gas	2.32
Telecommunications	0.97
Other net liabilities	(0.83)
<b>Total net assets</b>	<b>100.00</b>

## Major holdings

as at 2016	%
NMC Health	3.67
E2V Technologies	2.82
Bellway	2.73
Victrex	2.07
Clinigen	1.97
Playtech	1.94
Intermediate Capital	1.92
Atkins (WS)	1.91
Renishaw	1.81
Paragon	1.67

## Asset allocation

as at 2016	%
Industrials	33.78
Financials	16.05
Consumer Services	14.34
Health Care	9.88
Technology	9.26
Consumer Goods	5.91
Basic Materials	4.34
Oil & Gas	3.24
Telecommunications	0.77
Other net assets	2.43
<b>Total net assets</b>	<b>100.00</b>

## Report and accounts

This document is a short report of the Henderson UK Smaller Companies 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](http://www.janushenderson.com) or contact client services on the telephone number provided.

## Other information

The information in this report is designed to enable you to make an informed judgement on the activities of the fund during the year it covers and the results of those activities at the end of the year.

### Issued by:

Henderson Investment Funds Limited  
Registered office:  
201 Bishopsgate  
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

## 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.

### Depository

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](mailto:support@janushenderson.com)

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

### Online valuations

You can value your Henderson UK Smaller Companies Fund at any time by logging on to [www.janushenderson.com](http://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.

### Important Information

Janus Henderson Investors is the name under which Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), AlphaGen Capital Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), Gartmore Investment Limited (reg. no. 1508030), (each incorporated and registered in England and Wales with registered office 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services. Telephone calls may be recorded and monitored.

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