

Fund update – December 2009

The past year has presented us with the classic tale of two markets. Investors have been taken from the depths of despair in February, with the financial system under extraordinary pressure, to a world which has demonstrated remarkable resilience.

In fact, since March European stock markets have delivered some of the best ever returns over a nine-month period. As a result and seemingly against all odds, investors who followed their convictions and stayed with equities have enjoyed a very successful year.

Fund performance

The Henderson Horizon Pan European Alpha Fund has performed well during 2009, and we are pleased with the way that we have navigated the transition within the portfolio away from the maximum defensive position held at the beginning of the year to one which was better attuned to a recovering market.

	Year to date	1 Year	2 Years	3 Years
Fund	28.52	27.22	-4.38	n/a
IMA 'EQ Europe' Sector Average	23.13	19.96	-31.18	n/a
Outperformance	+5.39	+7.26	+26.8	n/a
Quartile ranking	1	1	1	n/a

Source: Morningstar at 30 November 2009. Bid to Bid, Gross income reinvested, Net of fees, Euros

The key to this transition was in remaining objective during the markets' darkest days, and focusing our efforts on searching for good quality companies with extremely depressed valuations as a result of being heavily sold along with their more financially troubled counterparts. In the early part of the year there were many such opportunities and, while we didn't grab all of them, we certainly had our fair share.

In such a counterintuitive rally, where the share price of many financials and cyclicals soared simply on the back of avoiding bankruptcy, it is perhaps not so surprising to reveal that many of our best performing stocks are listed in countries at the centre of the crisis, such as Ireland and Spain. We tried not to be deterred by a stock's country of origin but instead examined the earnings exposures of the company in question to determine how resilient they could be on an individual basis. Aside from this we can say that more cyclical market exposure has tended to fare well since March 2009. Small and mid-cap companies have also performed extremely well over this period. All three of these categories contributed to portfolio performance during the year.

Sophisticated fund powers again prove invaluable

The ability to have short exposures within the portfolio was certainly of great benefit in late 2008 and the early part of 2009. In the six month period to the end of February, our short book - into which we had allocated significant capital given our bearish outlook - made money every single month. We felt this run was coming to an end in early March, however, as we were finding it increasingly difficult to justify such large short positions given that valuations had gone a long way to accounting for the problems these companies faced. We therefore started the process of closing-out many of these positions and at the time of writing the portfolio has what we would consider to be relatively low short exposure – a logical position given the lack of genuine opportunities on the short side at present.

Areas which have contributed to these returns from the short book include many industrial companies, a few financials and a number of renewable energy companies. The latter may seem strange given so much focus on Copenhagen and climate change. However, our view is simple - the winners waiting to emerge from any action on climate change are not necessarily going to European. If the competition from other countries is cheaper, and of comparable quality, then many European energy businesses will face ongoing problems. Hence these remain meaningful shorts in the fund.

Outlook for 2010

It looks to us like being a classic year for stockpickers, with no prevailing sector trend expected to dominate returns. At present we are finding new ideas for the fund across a range of sectors, and have been adding to Healthcare, Utilities and Automotives in the recent weeks.

Of course some risks still remain, especially in the area of monetary policy and government indebtedness. Nevertheless we think markets are taking this into account and are certainly not overly bullish or complacent. In fact the process of separating winners from losers may give us some scope to add new short positions too. The Banking sector is one corner of the market which still looks troubled to us and we are wary of committing too much capital here until the path to sustainably better returns is clearer. Regulation also remains a potential negative.

The year ahead is unlikely to provide such 'turbo-charged' returns for investors as 2009 did. Nonetheless, there is still plenty of value on offer. There are many companies which we expect will begin to grow revenue again and deliver earnings far ahead of analyst expectations. This should allow markets to make steady progress during the year. We keep hearing anecdotal evidence of investor money still waiting on the sidelines. It is certainly the case that equities look attractive compared to the returns available on cash or government bonds. The process of investors becoming less fearful will result in a search for better returns and European equity markets are a good place to start.

Paul Casson, 16 December 2009

For further information on the Henderson Horizon fund range please contact your local sales office or visit our website: www.henderson.com

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