

Fund update

17 September 2009



Signs of stabilisation in the global economy, falling systemic risk and aggressive corporate cost-cutting have provided a backdrop supportive enough to enable European equities to record one of the largest and fastest rallies ever witnessed. In this fund update, Tim Stevenson, manager of the Henderson Horizon Pan European Equity Fund, looks at the rapid shift in market sentiment, and the implications for his portfolio

We are working on the scenario that economic recovery will gather pace over the next six months, but that this recovery will likely be followed by a period of relatively slow growth – similar to the growth environment experienced over the past few years in Europe. We view this as a positive for this fund, which has enjoyed considerable success with its approach of favouring high quality companies with the potential for growth over long-term investment horizons, and has contributed to the fund outperforming the market consistently since launch. In what will be a favourable environment for those companies that offer consistent, reliable growth, we expect this outperformance to continue to be the case going forward.

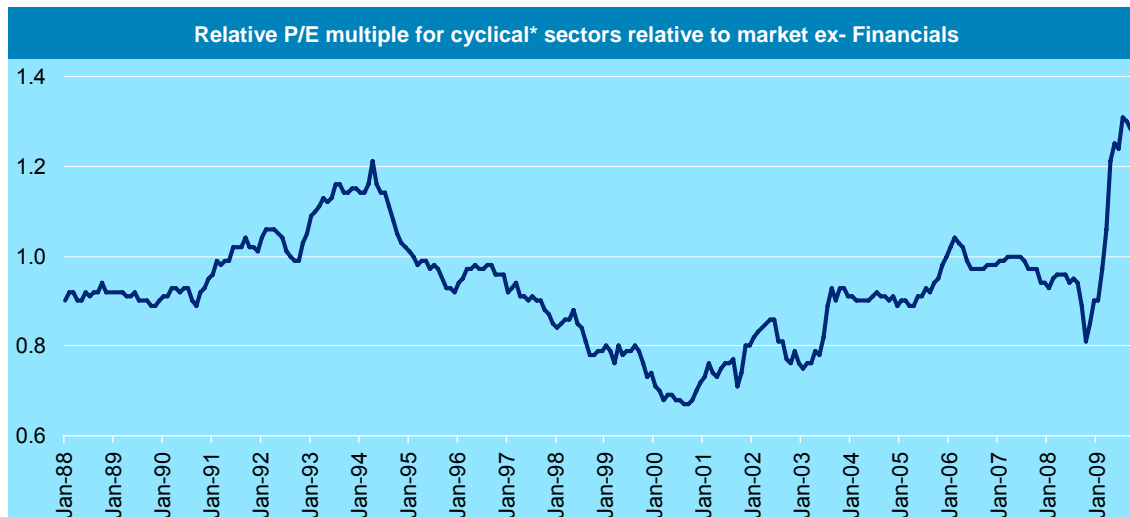
Consistent with our investment philosophy, we continue to favour a balanced approach, maintaining a core of quality holdings, but also more economically sensitive stocks that meet our quality criteria. The market turmoil that preoccupied us all at the start of the year is behind us, what is important is what will happen next. Economies are recovering, but what remains unclear is the strength and depth of that recovery. The outlook won't be clear for perhaps another 12 months, when interest rates resume their trend path and stimulus packages are phased out.

The rally has been surprisingly narrow in scope. The chart below illustrates the divergence in performance from the various market sectors since the rally started to gather pace in March this year. As you can see, only three sectors – Financials, Materials and Industrials – have outperformed the broader market since the market trough in March. We expect the next leg up to see a broadening out and here is where we expect those sectors that have lagged to start to catch up.

MSCI Sector	Performance
MSCI Europe Financials	129.5%
MSCI Europe Materials	60.6%
MSCI Europe Industrials	48.7%
MSCI Europe Index	47.0%
MSCI Europe Consumer Discretionary	39.8%
MSCI Europe IT	36.6%
MSCI Europe Utilities	27.3%
MSCI Europe Consumer Staples	27.2%
MSCI Europe Healthcare	21.4%
MSCI Europe Telecomms & Services	20.6%
MSCI Europe Energy	19.6%

Source: Bloomberg. MSCI Europe performance data from 9 March 2009 to 7 September 2009

The rally has left many quality companies outside of the financial sector looking very attractively valued relative to history and their growth prospects, as the chart below demonstrates.



Source: IBES, FTSE, Nomura Strategy Research.

* Cyclical refers to Basic Industries, Capital Goods and Consumer Cyclical

For example, **Fresenius**, the market leading provider of dialysis services is currently trading on around 10x next year's earnings, a multi-year low. This is a company that has consistently delivered 10-15% earnings growth per annum and will continue to do so going forward. There is nothing wrong with the business - investors have simply sold their positions to fund purchases of more racy stocks. Another example is **Capita**, one of the UK's most prominent outsourcing companies, has been held within the fund since its launch. Performance has disappointed this year, despite the company reporting relatively strong earnings (profits were recently up 17%). We view this as another example of a company with a steady growth profile simply being ignored by the market for the time being. The long-term outlook for Capita, however, remains a compelling one. It (justifiably, in our view) trades at a premium to the market and continually meets or beats analysts' expectations. We also believe the company has significant opportunities for further growth, particularly within central government operations.

We have, however, been increasing the 'cyclical' exposure of the Fund as our outlook for equity markets has become increasingly constructive. We have only been adding positions that fit our criteria of offering strong longer term growth prospects. Recent purchases in more cyclical stocks have been a positive – **Daimler** and **ArcelorMittal** were both particularly strong in July and August. We have not been willing to buy stocks that have no fundamental underpinning just because "they are going up". The chart on the next page shows the shifts in sector allocation for the Henderson Horizon Pan European Equity Fund since the beginning of the year:

MSCI Sector (%)	31 Dec 2008	4 Sep 2009	Change
Consumer Discretionary	11.1	9.6	▼
Consumer Staples	10.6	11.9	▲
Energy	10.7	7.7	▼
Financials	9.9	18.8	▲
Healthcare	19.7	13.5	▼
Industrials	22.2	15.3	▼
IT	1.4	3.9	▲
Materials	8.0	11.2	▲
Telecomms	4.8	4.2	—
Utilities	1.6	4.0	▲

Source: Henderson Global Investors, 4 September 2009

A significant change is the reduction in our weighting in the Healthcare sector. Having held close to 30% in the sector in 2008, our weight is now below 15%, and we have very little exposure to pharmaceuticals. The majority of our exposure is to companies with strong secular growth trends driven by the ageing global population (including, as previously mentioned, **Fresenius** along with **Essilor** and **Synthes**). We have doubled our Financials exposure and now have holdings in three banks: **HSBC**, arguably the highest quality name in the sector, as well as **UBS** and **Deutsche Bank**, two strong recovery stories. Capital raisings have enabled us to increase our exposure to the savings theme through purchases of insurers **Zurich Financial Services** and **Aegon**.

We participated in the UBS capital raising back in April, which has subsequently proven to be an excellent position for the fund, with the shares rallying by 25% since. Earlier in the year, lingering balance sheet weakness, concerns over its wealth management franchise, IRS problems with US clients and the overhang of the Swiss government's stakeholding were all clear impediments to an improved share price. We have taken the view that while the past year has been a very challenging period for the company the dust is starting to settle. The capital raising was a significant step in setting balance sheet concerns aside, while settlement of the IRS case has allowed the company to focus on rebuilding its reputation and business. However, we remain unconvinced of the longer-term outlook for much of the sector and while the share prices of several banks have continued to defy gravity, which has detracted from overall portfolio performance, we will only be adding to our financial positions on a selective basis.

Tim Stevenson

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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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