

**PROSPECTUS**

**of**

**Henderson Cash Fund**

**(the "Scheme")**

**Valid as at 31 December 2011**

This document constitutes the Prospectus in respect of the Scheme which is an authorised unit trust which has been prepared in accordance with the rules contained in the Collective Investment Schemes Sourcebook (the "COLL Sourcebook") which forms part of the FSA Handbook of Rules and Guidance (the "Regulations") and complies with the requirements of COLL 4.2.5R of the COLL Sourcebook. Copies have been sent to the Financial Services Authority and to the Trustee.

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*This document is important and you should read all the information contained in it. If you are in any doubt as to the meaning of any information contained in this document you should consult your Financial Adviser.*

No person has been authorised by the Scheme to give any information or to make any representations in connection with the offering of units other than those contained in the Prospectus and, if given or made, such information or representations must not be relied on as having been made by the Scheme. The delivery of this Prospectus (whether or not accompanied by any reports) or the issue of units shall not, under any circumstances, create any implication that the affairs of the Scheme have not changed since the date hereof.

The distribution of this Prospectus and the offering of units in certain jurisdictions may be restricted. Persons into whose possession this Prospectus comes are required by the Scheme to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The units described in this Prospectus have not been and will not be registered under the Securities Act 1933 of the United States (as amended) ("the 1933 Act"), the United States Investment Company Act of 1940 or the securities laws of any of the states of the United States. The units may not be offered, sold or delivered directly or indirectly in the United States or to the account or benefit of any U.S. Person (as defined below).

"U.S. Person" means any citizen or resident of the United States of America, its territories and possessions including the State and District of Columbia and all areas subject to its jurisdiction (including the Commonwealth of Puerto Rico), any corporation, trust, partnership or other entity created or organised in or under the laws of the United States of America, any state thereof or any estate or trust the income of which is subject to United States federal income tax, regardless of source. The expression also includes any person falling within the definition of the term "U.S. Person" under Regulation S promulgated under the United States Securities Act of 1933.

Units in the Scheme are not listed on any investment exchange. Potential investors should not treat the contents of this Prospectus as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of units.

The provisions of the Trust Deed are binding on each of its unitholders (who are taken to have notice of them).

This Prospectus has been approved for the purpose of section 21 of the Financial Services and Markets Act 2000 by Henderson Investment Funds Limited.

This Prospectus is based on information, law and practice at the date hereof. The Scheme cannot be bound by an out of date Prospectus when it has issued a new Prospectus and investors should check with the Manager that this is the most recently published Prospectus.

Henderson Investment Funds Limited (the “Manager”) takes reasonable steps to ensure that each investment transaction carried out within the Scheme is suitable for the Scheme having regard to the investment objective and policy of the Scheme. The Prospectus is intended to provide comprehensible details to enable investors to make a balanced and informed decision about the merits of participating in the Scheme.

## 1. THE MANAGER

The Manager is a private limited company incorporated in England and Wales on 17 January 1992. Its registered number is 2678531 and its registered office and head office are both at 201 Bishopsgate, London EC2M 3AE. The ultimate holding company of the Manager is Henderson Group plc, a company incorporated in Jersey. The authorised share capital of the Manager consists of 5 million £1 ordinary shares, of which 1 million are issued and fully paid. The directors of the Manager are as follows:

A J Boorman

J Darkins

S J Garrood

D Jacob

A J Formica

Each of the directors is an employee of Henderson Administration Limited, which is also a subsidiary of Henderson, save for A J Boorman, A J Formica and S J Garrood who are employees of Henderson Group plc, and have varying responsibilities within the Group. Subject to this, none of the directors have any significant business activities other than those connected with the business of the Manager. The Manager may delegate its management and administration functions to third parties including associates subject to the rules in the COLL Sourcebook. Details of the functions the Manager currently delegates are set out below in paragraphs 4 and 5.

## 2. OTHER SCHEMES MANAGED BY THE MANAGER

The Manager is also the authorised corporate director of various open-ended investment companies with variable capital and the manager of various other authorised unit trusts as set out in Appendix V.

## 3. THE TRUSTEE

The Trustee of the Scheme is National Westminster Bank plc, which is a subsidiary of the Royal Bank of Scotland plc.<sup>1</sup> Its registered office is at 135 Bishopsgate, London EC2M 3UR. which is also its head office. Its ultimate holding company is The Royal Bank of Scotland Group plc, which is incorporated in Scotland. The principal business activity of

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<sup>1</sup> The Trustee changed from the Royal Bank of Scotland plc to National Westminster Bank on 1 October 2011.

the Trustee is banking. The Trustee is authorised and regulated by the Financial Services Authority.

The Trustee has been appointed under the trust deed. The terms agreed between the Manager and the Trustee relating to the Trustee's remuneration and expenses are set out under the heading "Trustee's charges and expenses" later in this document. The Trustee is responsible for the safe-keeping of all the property of the Scheme and has a duty to take reasonable care to ensure that the Scheme is managed in accordance with the provisions of the Regulations relating to the pricing of, and dealing in, units and relating to the income of the Scheme. It is a public limited company incorporated in Scotland. Subject to the Regulations and the Trust Deed, the Trustee has full power to delegate (and authorise its delegate to sub-delegate) all or any part of its duties as Trustee. The Trustee has delegated its custodial duties to BNP Paribas Securities Services (the "Custodian").

#### **4. THE INVESTMENT MANAGER**

The Manager has delegated its investment management powers and discretion to Henderson Global Investors Limited under the terms of an Investment Management Agreement dated 13 September 1996 (the "Agreement"). In addition, the Investment Manager is responsible for the provision of fund accounting, securities and cash services and other administration services ("Investment Administration Services") to the Manager. Henderson Global Investors Limited is also a subsidiary of Henderson with its registered office at 201 Bishopsgate, London EC2M 3AE. The principal activity of Henderson Global Investors Limited is the provision of investment management and related services. It is authorised and regulated by the Financial Services Authority.

Under the terms of the Agreement, Henderson Global Investors Limited provides the Manager with a full discretionary investment service with authority as agent to buy, sell, retain and otherwise deal in investments authorised to be acquired as property of the Scheme, without prior reference to the Manager. It will, however, at all times act within the limitations and restrictions applicable to the Scheme as set out in the trust deed of the Scheme, Chapter 5 to the COLL Sourcebook and this Prospectus. Henderson Global Investors Limited is entitled to delegate the provision of Investment Administration Services to other companies within the Henderson Group plc group of companies as well as to third parties with the prior consent of the Manager.

Henderson Global Investors Limited will not hold client money on behalf of the Manager or its clients nor will it receive commission in respect of any deals it is authorised to carry out on behalf of the Scheme under this Agreement.

The Agreement may be terminated at any time by either party giving written notice to that effect to the other.

##### **4.1 Conflicts of interest**

The Manager, the Investment Manager and other companies within the Henderson group may, from time to time, act as investment managers or advisers to other schemes, funds or sub-funds which follow similar investment objectives to those of the Scheme. It is therefore possible that the Manager and/or the Investment Manager may in the course of their business have potential conflicts of interest with the Scheme or that a conflict exists between the Company and other funds managed by the Manager. Each of the Manager and the Investment Manager will, however, have regard in such event to its obligations under the Trust Deed and the Investment Management Agreement respectively and, in particular, to its obligation to act in the best interests of the Scheme so far as practicable, having regard to its obligations to other clients, when undertaking any investment business where potential conflicts of interest may arise.

Where a conflict of interest cannot be avoided, the Manager and the Investment Manager will ensure that the Scheme and other collective investment schemes it manages are fairly treated.

The Manager acknowledges that there may be some situations where the organisational or administrative arrangements in place for the management of conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the Scheme or its unitholders will be prevented. Should any such situations arise the Manager will disclose these to unitholders in an appropriate format.

The Trustee may, from time to time, act as trustee, depository or custodian of other collective investment schemes.

## **5. ADMINISTRATION**

The Manager has appointed Henderson Administration Limited to provide certain fund administration services (including fund accounting). Henderson Administration Limited in turn delegates these functions to BNP Paribas Securities Services. BNP Paribas Securities Service's registered office is at 55 Moorgate, London EC2R 6PA.

The principal activity of BNP Paribas Securities Services is the provision of administration services.

The client administration function is carried out by International Financial Data Services Limited and International Financial Data Services (UK) Limited ("IFDS"). The registered office of IFDS is IFDS House, St Nicholas Lane, Basildon, Essex SS15 5FS.

## **6. THE REGISTER OF UNITHOLDERS**

The register of unitholders of the Scheme is maintained on behalf of the Trustee by IFDS at its office at IFDS House, St Nicholas Lane, Basildon, Essex SS15 5FS and may be inspected at the above address during normal business hours by any unitholder or any unitholder's duly authorised agent.

## 7. **AUDITORS**

The auditor for the Scheme is PricewaterhouseCoopers LLP, Kintyre House, 209 West George Street, Glasgow G2 2LW.

## 8. **SCHEME DETAILS**

Further details about the investment objective of the Scheme is set out in Appendix I. The Scheme has been established as an authorised unit trust.

The Scheme is a UCITS Scheme (Undertaking for Collective Investments in Transferable Securities) and is a money market fund as defined in the Regulations and its investment objective and policy will meet the conditions for such a fund as set out in COLL. The base currency of the Scheme is pounds Sterling. The Scheme has an unlimited duration. The Scheme is not listed on any investment exchange. The Scheme is marketable to all retail investors. Performance history in respect of the Scheme will be included in this Prospectus in Appendix V. Unitholders are not liable for the debts of the Scheme.

## 9. **RISK FACTORS**

A unit trust is an investment vehicle that provides a means of participation in various stockmarkets. The investments held by a unit trust are therefore subject to market fluctuations and to the risk inherent in all such investments. It follows that the value of units, and the income from them, are not guaranteed and may fall as well as rise. Where investments are made overseas, changes in exchange rates between currencies may also cause the value of a holding to either diminish or increase. An investor who realises an investment in a unit trust, particularly after only a short period, may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

### 9.1 **Exchange rates**

Fluctuations in exchange rates may adversely affect the value of units, although these could also be advantageous to the Scheme.

### 9.2 **Derivatives**

Derivative transactions may be used only for the purposes of hedging for efficient portfolio management in the Scheme. It is not expected that the use of derivatives will lead to a higher risk profile.

### 9.3 **Money Market Fund**

An investment in the Scheme is not a bank deposit and is not insured or guaranteed. Although the Manager seeks to preserve the value of any investment, it is possible to lose money by investing in the Fund.

#### 9.4 **Dilution and SDRT provision**

Investors should note that in certain circumstances a dilution levy or adjustment may be applied on their purchase or redemption of Units (see the “Dilution” section) or a provision for SDRT may be applied on the purchase, redemption or transfer of Units (see the “SDRT” section). Where a dilution levy is not applied the Scheme may incur dilution which may constrain capital growth.

#### 9.5 **Suspension of dealings in Units**

Investors are reminded that in certain circumstances their right to redeem Units (including a redemption by way of switching) may be suspended (see the “Suspension of dealings in the Scheme” section).

#### 9.6 **Tax**

Tax laws currently in place may change in the future which could affect the value of your investments (see the “Taxation” section for further details in respect of the taxation of the Scheme).

#### 9.7 **Inflation risk**

Returns will depend on the Scheme’s growth, interest rates and the effects of inflation over time.

#### 9.8 **Custody**

There may be a risk of loss where the assets of the Scheme are held in custody that could result from insolvency, negligence or fraudulent action of the custodian or sub-custodian.

#### 9.9 **Credit and Fixed Interest Security**

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of the capital may fall, and vice versa. Inflation will also decrease the real value of capital. The value of a Fixed Interest Security will fall in the event of the default or reduced credit rating of the issue. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. High yield bonds with lower credit rating (also known as sub-investment grade bonds) are potentially more risky (higher credit risk) than investment grade bonds. A sub-investment grade bond has a Standard and Poor’s credit rating of below BBB or equivalent.

## 10. **CLASSES OF UNITS**

### 10.1 **Classes of units**

The trust deed allows several classes of unit to be issued in respect of the Scheme distinguished by their criteria for subscription and fee structure. The Manager may accept deals at a level lower than the stated minima at its discretion. Further details are set out in Appendix I.

An income unit represents one undivided share in the property of the Scheme and an accumulation unit represents an increasing number of undivided shares in the property of the Scheme. Each undivided share ranks *pari passu* with the other undivided shares in the Scheme. Unitholders are entitled to participate in the property of the Scheme and the income from that property in proportion to the number of undivided shares in the Scheme represented by the units held by them. The nature of the right represented by units is that of a beneficial interest under a trust.

The trust deed allows gross income and gross accumulation units to be issued as well as net income and net accumulation units. Net units are units in respect of which income allocated to them is distributed periodically to the relevant unitholders (in the case of income units) or credited periodically to capital (in the case of accumulation units), in either case in accordance with relevant tax law, net of any tax deducted or accounted for by the Scheme. Gross units are income or accumulation units where, in accordance with relevant tax law, distribution or allocation of income is made without any tax being deducted or accounted for by the Scheme.

Gross units are available only to investors who qualify for the gross payment of interest distributions or accumulations. These include companies, trustees of authorised unit trusts, open-ended investment companies, certain pension funds, charities and persons who are not ordinarily resident in the UK. For a complete list, please refer to Part 4 of the Authorised Investment Funds (Tax) Regulations 2006 and Chapter 11, Part 15 of the Income Tax Act 2007.

Where the Scheme issues different classes, each class may attract different charges and so monies may be deducted from classes in unequal proportions. In these circumstances the proportionate interests of the classes within the Scheme will be adjusted in accordance with the provisions of the trust deed of the Scheme relating to proportion accounts which are set out in paragraph 10.5 below.

Where the Scheme issues different classes of units, unitholders are entitled (subject to certain restrictions) to switch all or part of their units in a class for units in another class within the Scheme. Details of this switching facility and the restrictions are set out in paragraph 10.3

Units in the Institutional Class are available to investors at the discretion of the Manager. Charges for managing investments within the Institutional class are charged outside the Scheme by agreement between the Manager and individual investors.

## 10.2 **Income allocations**

Allocations of income are made in respect of the income available for allocation in each accounting period. The Trustee shall allocate the amount of income available between accumulation and income units in issue at the end of the relevant accounting period.

In respect of accumulation units, the income will become part of the capital property of the Scheme as at the end of the relevant annual accounting period to increase the value of each unit. Distributions of income for the Scheme in which income units are issued are paid directly by BACS to a unitholder's bank or building society account on or before the relevant income allocation date in each year as set out in Appendix I.

If a distribution remains unclaimed for a period of six years after it has become due it will be forfeited and will revert to the Scheme.

The income available for allocation is determined in accordance with the COLL Sourcebook and the IMA's Statement of Recommended Practice for Accounting Standards for Investment Funds (SORP).

Distributable income comprises of all income received or receivable for the account of the Scheme in respect of the accounting period concerned, after deducting net charges and expenses paid or payable out of such income and after making such adjustments as the Manager considers appropriate, after consulting with the Scheme's auditors, in accordance with the COLL Sourcebook in relation to taxation and other matters. Income on debt securities, such as bonds, will be calculated on an Effective Yield basis. The Effective Yield basis treats any projected capital gain or loss on a debt security (when compared to maturity or par value) as income and this, together with any future expected income streams on the debt security, is amortised over the life of that debt security (to maturity) to calculate an effective yield which is used for the calculation of distributable income.

## 10.3 **Switching**

A unitholder in the Scheme may at any time switch all or some of his units of one class ("the Original Units") for units of another class in the Scheme ("the New Units"). The number of New Units issued will be determined by reference to the respective prices of New Units and Original Units at the valuation point applicable at the time the Original Units are redeemed and the New Units are issued.

Investors wishing to switch into a gross class must first complete a Declaration of Eligibility and Undertaking available from the Manager.

Switching instructions will be irrevocable and the unitholder concerned will have no right to cancel the transaction. Contract notes giving details of the switch will be sent on or before the business day next following the valuation point by reference to which the price of the unit switch was calculated.

Neither the Manager nor the Trustee are obliged to give effect to a request to switch units if the value of the units to be switched is less than the minimum permitted transaction or if it would result in the unitholder holding units of any class of less than the minimum holding required for that class of units. In addition, the Manager may decline to permit a switch in any case in which the Manager would be entitled by COLL to refuse to give effect to a request by the unitholder for the redemption of units of the old class or the issue of units of the new class. There may be a charge on switching which will not exceed the amount of the then prevailing initial charge of the New Units.

Please note that a switch of units in the Scheme for units in any other scheme is treated as a redemption of the Original Units and a purchase of new units and will, for persons subject to United Kingdom taxation, be a realisation for the purposes of capital gains tax.

A unitholder who switches between classes of units in the Scheme (or who switches units in the Scheme for units in any other scheme) will not be given a right by law to withdraw from or cancel the transaction.

For details on switching into any other Henderson collective investment scheme, please contact the Manager.

#### 10.4 **Charges on switching**

On the switching of units between classes in the Scheme or between the Scheme and other authorised funds operated by the Manager, the trust deed authorises the manager to impose a charge on switching. The charge is the application of the then prevailing initial charge for the New Units. If a redemption charge is payable in respect of the Original Units, this may become payable instead of, or as well as, the then prevailing initial charge for the New Units. The charge on switching is payable by the unitholder to the Manager. An SDRT provision may also be levied on the redemption of the Original Units.

Currently the Manager does not impose a charge on switching between classes in the Scheme. For details of charges in relation to switching into any other Henderson collective investment scheme, please contact the Manager.

## 10.5 Proportion Accounts

If there is more than one class in issue in the Scheme, the proportionate interests of each class in the assets and income of the Scheme shall be ascertained as follows. A notional account will be maintained for each class. Each account will be referred to as a "Proportion Account".

10.5.1 The word "proportion" in the following paragraphs means the proportion which the balance on a Proportion Account at the relevant time bears to the balance on all the Proportion Accounts of the Scheme at that time. The proportionate interest of a class of unit in the assets and income of the Scheme is its "proportion".

10.5.2 There will be credited to a Proportion Account:

10.5.2.1 the subscription money (excluding any initial charges) for the issue of units of the relevant class;

10.5.2.2 that class's proportion of the amount by which the net asset value of the Scheme exceeds the total subscription money for all units in the Scheme;

10.5.2.3 that class's proportion of the Scheme's income received and receivable; and

10.5.2.4 any notional tax benefit under paragraph 9.5.4 below.

10.5.3 There will be debited to a Proportion Account:

10.5.3.1 the redemption payment for the cancellation of units of the relevant class;

10.5.3.2 the class's proportion of the amount by which the net asset value of the Scheme falls short of the total subscription money for all units in the Scheme;

10.5.3.3 all distributions of income (including equalisation if any) made to unitholders of that class;

10.5.3.4 all costs, charges and expenses incurred solely in respect of that class;

10.5.3.5 that class's share of the costs, charges and expenses incurred in respect of that class and one or more other classes in the Scheme, but not in respect of the Scheme as a whole;

- 10.5.3.6 that class's share of the costs, charges and expenses incurred in respect of or attributable to the Scheme as a whole;
  - 10.5.3.7 any stamp duty reserve tax charge; and
  - 10.5.3.8 any notional tax liability under paragraph 9.5.4.
- 10.5.4 Any tax liability in respect of the Scheme and any tax benefit received or receivable in respect of the Scheme will be allocated between classes in order to achieve, so far as possible, the same result as not materially to prejudice any class. The allocation will be carried out by the Manager after consultation with the Scheme's auditors.
- 10.5.5 Where a class is denominated in a currency which is not the base currency of the Scheme, the balance on the Proportion Account shall be converted into the base currency of the Scheme in order to ascertain the proportions of all classes. Conversions between currencies shall be at a rate of exchange decided by the Manager as being a rate that is not likely to result in any material prejudice to the interests of unitholders or potential unitholders.
- 10.5.6 The Proportion Accounts are memorandum accounts maintained for the purpose of calculating proportions. They do not represent debts from the Scheme to unitholders or the other way round.
- 10.5.7 Each credit and debit to a Proportion Account shall be allocated to that account on the basis of that class's proportion immediately before the allocation. All such adjustments shall be made as are necessary to ensure that on no occasion on which the proportions are ascertained is any amount counted more than once.
- 10.5.8 When units are issued thereafter each such unit shall represent the same proportionate interest in the property of the Scheme as each other unit of the same category and class then in issue in respect of the Scheme.
- 10.5.9 The Scheme shall allocate the amount available for income allocation (calculated in accordance with the COLL Sourcebook) between the units in issue relating to the Scheme according to the respective proportionate interests in the property of the Scheme represented by the units in issue at the valuation point in question.

## 11. **PRICING OF UNITS**

The Scheme will operate on a single priced basis and there will only be a single price for any unit as determined from time to time by reference to a particular valuation point.

### 11.1 **Price per unit**

The price per unit at which units are bought or are redeemed is the net asset value per unit. Any initial charge or redemption charge is payable in addition to the price.

### 11.2 **Valuation of property**

Valuation of the Scheme will take place at 12.00 noon on each day on which the dealing office of the Manager is open for the buying and selling of units for the purpose of determining prices at which units in the Scheme may be brought from or sold ("redeemed") to the Manager, being calculated as set out below.

The Manager may at any time during a business day carry out an additional valuation of the property of the Scheme if the Manager considers it desirable to do so.

For the purposes of calculating the Manager's and Trustee's periodic charges the property of the Scheme is valued on a mid-market basis. The Manager prices the Scheme property on a forward pricing basis.

### 11.3 **Determination of the value of the Scheme property**

The Scheme is a single priced scheme and any part of the property of the Scheme which is not an investment (as defined in the Glossary) shall be valued at a fair value.

The value of the property of the Scheme shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions:

11.3.1 All the property of the Scheme (including receivables) is to be included, subject to the following provisions;

11.3.2 Property which is not cash (or other assets dealt with in paragraph 11.3.3 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:

11.3.2.1 units or shares in a collective investment scheme:

(a) if a single price for buying and selling units or shares is quoted, at that price; or

- (b) if separate buying and selling prices are quoted, at the average of the two prices provided the buying price has been reduced by any initial charge included therein and the selling price has been increased by any exit or redemption charge attributable thereto; or
  - (c) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a value which, in the opinion of the Manager, is fair and reasonable;
- 11.3.2.2 exchange-traded derivative contracts:
- (a) if a single price for buying and selling the exchange-traded derivative contract is quoted, at that price; or
  - (b) if separate buying and selling prices are quoted, at the average of the two prices;
- 11.3.2.3 over-the-counter derivative contracts shall be valued in accordance with the method of valuation as shall have been agreed between the Manager and the Trustee;
- 11.3.2.4 any other transferable investment:
- (a) if a single price for buying and selling the security is quoted, at that price; or
  - (b) if separate buying and selling prices are quoted, at the average of the two prices; or
  - (c) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or, if no price exists, at a value which in the opinion of the Manager, is fair and reasonable;
- 11.3.2.5 property other than that described in 11.3.2.1 to 11.3.2.4 above: at a value which, in the opinion of the Manager, represents a fair and reasonable price, or if there are separate buying and selling prices, mid-market price.
- 11.3.3 Cash and amounts held in current, deposit and margin accounts and in other time-related deposits shall be valued at their nominal values.
- 11.3.4 In determining the value of the property, all instructions given to issue or cancel units shall be assumed (unless the contrary is shown) to have been carried out and any cash payment made or received and all

consequential action required by the Regulations or the Trust Deed shall be assumed (unless the contrary has been shown) to have been taken.

- 11.3.5 Subject to paragraphs 11.3.6 and 11.3.7 below, agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and if, in the opinion of the Manager, their omission will not materially affect the final net asset amount.
- 11.3.6 Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under paragraph 11.3.5.
- 11.3.7 All agreements are to be included under paragraph 11.3.5 which are, or ought reasonably to have been, known to the person valuing the property.
- 11.3.8 Deduct an estimated amount for anticipated tax liabilities (on unrealised capital gains where the liabilities have accrued and are payable out of the property of the Scheme; on realised capital gains in respect of previously completed and current accounting periods; and on income where liabilities have accrued) including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty and stamp duty reserve tax.
- 11.3.9 Deduct an estimated amount for any liabilities payable out of the scheme property and any tax thereon treating periodic items as accruing from day to day.
- 11.3.10 Deduct the principal amount of any outstanding borrowings whenever repayable and any accrued but unpaid interest on borrowings.
- 11.3.11 Add an estimated amount for accrued claims for tax of whatever nature which may be recoverable.
- 11.3.12 Add any other credits or amounts due to be paid into the property of the Scheme.
- 11.3.13 Add a sum representing any interest or any income accrued due or deemed to have accrued but not received.
- 11.3.14 Currencies or values in currencies other than Sterling shall be converted at the relevant valuation point at a rate of exchange that is

not likely to result in any material prejudice to the interests of unitholders or potential unitholders.

#### 11.4 **Pricing basis**

The Manager currently deals on a forward basis until the valuation point i.e. at prices calculated by reference to the value of the property of the Scheme at the next valuation point.

The units in the Scheme are not listed or dealt in on any investment exchange.

#### 11.5 **Publication of prices**

The most recent price will be published daily at 9.00 a.m. on the Henderson website at [www.henderson.com](http://www.henderson.com) on the business day following each valuation point or is available by calling the Manager on 0800 832 832.

#### 11.6 **Equalisation**

In respect of the Scheme the price of units purchased during an accounting period includes an amount in respect of accrued income. As a result, the first allocation of income in respect of a unit after the purchase of that unit will include a capital sum ("income equalisation"). The amount of income equalisation will be an amount arrived at by taking the aggregates of the amounts of income included in the price of units of the same type issued in the accounting period in question and dividing that aggregate by the number of those units and applying the resulting average to each of the units in question. This is known as grouping for equalisation purposes and the relevant grouping periods are the accounting periods of the Scheme.

### 12. **DILUTION**

12.1 The Scheme is a single priced scheme and the basis on which the Scheme's investments are valued for the purpose of calculating the price of units as stipulated in the COLL Sourcebook and the trust deed is as set out in paragraph 11.3. The actual cost of buying or redeeming the Scheme's investments may be higher or lower than the mid-market value used in calculating the unit price – for example, due to dealing charges, or through dealing at prices other than the mid-market price. The Scheme may suffer dilution (reduction) in the value of the Scheme property as a result of the costs incurred in dealing in the underlying investments and of any spread between the buying and selling prices of those investments. It is not, however, possible to predict accurately whether dilution will occur at any point in time. Under certain circumstances (for example, large volumes of deals) dilution may have a material adverse effect on the existing/continuing unitholders' interest in the Scheme. To prevent this effect called "dilution" the Manager can make a dilution adjustment or charge a dilution levy.

12.2 The Manager does not currently make a dilution adjustment or impose a dilution levy as the Scheme holds cash and highly liquid assets (please see Appendix IV for further details) which have low trading costs, and therefore, the Manager does not envisage the Scheme being materially affected by large redemptions or purchases on a daily basis.

### 13. **BUYING AND SELLING UNITS**

#### 13.1 **Dealing**

The dealing office of the Manager is open from 9.00 a.m. until 5.30 p.m. on each working week day to receive requests by post, fax, telephone (at the Manager's discretion) (by telephoning 0845 608 8703) or via electronic dealing platforms (such as EMX) for the purchase, redemption and switching of units. In addition, the Manager may from time to time make arrangements to allow units to be dealt with through other communication media. All initial purchases must be accompanied by an application form which may be obtained from the Manager.

Investors wishing to purchase gross priced units must complete a Declaration of Eligibility and Undertaking which may be obtained from the Manager.

A contract note will be issued by the end of the next business day following execution of the order. This will show the number of units purchased and the price used, together with, where required, a notice of the applicant's right to cancel the application.

Applicants who have received advice may have the right to cancel their application to buy units at any time during the 14 days after the date on which they receive a cancellation notice from the Manager. If an applicant decides to cancel the contract, and the value of the investment has fallen at the time the Manager receives the completed cancellation notice, they will not receive a full refund as an amount equal to any fall in value will be deducted from the sum originally invested. The Manager may extend cancellation rights to other investors but is under no obligation to do so.

The price per unit at which units are bought or redeemed will be the net asset value per unit. Any initial charge is payable in addition to the price.

An order for the purchase of units will only be deemed to have been accepted by the Manager once it is in receipt of cleared funds for the application, unless prior agreement has been reached with the Manager. If settlement is not made within that time, then the Manager has the right to cancel any units issued in respect of the application.

Certificates will not be issued in respect of units and unitholders are advised to retain a copy of the purchase contract note for their records. Individual statements of a unitholder's units will be issued automatically as at 5 April and 5

October of each year detailing registered holdings and transactions executed during the period covered but as from June 2010, the individual statements will be issued as at 30 June and 31 December of each year. Statements may also be issued at any time on request by the registered unitholder. Bearer certificates are not issued in respect of the Scheme.

At any time that the Manager is willing to redeem units, it must also be prepared to issue units unless there are reasonable grounds for it to refuse to do so in whole or in part. In such an event the application monies or any balance will be returned by post at the risk of the applicant. Dealings in units are subject to the limits set out in Appendix I.

For requests to redeem a contract note together with a form of renunciation will be issued no later than the end of the business day following the valuation point by reference to which the price is determined. This will show the number of units sold back to the Manager and the price used. Payment in satisfaction of the redemption request will be issued either the business day following receipt by the Manager or the Registrar of the form of renunciation duly signed and completed as to the appropriate number of units, together with any other appropriate documents of title, or the business day following the valuation point following receipt by the Manager of the request to redeem, whichever is the later.

The Manager may arrange for the Scheme to issue units in exchange for assets other than cash, but will only do so when the Trustee has taken reasonable care to determine that the acquisition of those assets in exchange for the units concerned by the Scheme is not likely to result in any material prejudice to the interests of the unitholders. The Manager will ensure that the beneficial interest in the assets is transferred to the Scheme with effect from the issue of the units. The Manager will not issue units in the Scheme in exchange for assets the holding of which would be inconsistent with the objectives of the Scheme.

If a unitholder requests the redemption of units the Manager may, where it considers the deal to be substantial in relation to the total size of the Scheme concerned or in some way advantageous or detrimental to the Scheme, arrange, having given prior notice in writing to the unitholder, that in place of payment for the units in cash, the Scheme transfers property or, if required by the unitholder, the net proceeds of sale of the relevant property, to the unitholder. Before the redemption proceeds of the units become payable, the Manager must give written notice to the unitholder that the relevant property or the proceeds of sale of the relevant property will be transferred to that unitholder so that the unitholder can acquire the net proceeds of redemption rather than the relevant property if he so desires.

The Manager will select the property to be transferred in consultation with the Trustee but will only do so where the Trustee has taken reasonable care to

ensure the property concerned is not likely to result in any material prejudice to the interests of unitholders.

Calculation of the prices will take place on each business day at 12.00 noon.

A mandatory redemption or conversion of units may be required if an investor is subject to any restriction on investment in the United Kingdom or for any other reasonable case at the discretion of the Manager.

Neither the Manager, the Trustee, the Investment Manager, any of their associates, nor the auditors (an "affected person") is liable to account to another affected person or to the unitholders of the Scheme for any profits or benefits (e.g. box profits) it makes or receives that are made or derived from or in connection with:

- dealing in units of the Scheme;
- any transactions in Scheme property; or
- the supply of services to the Scheme.

### 13.2 **Suspension of dealings of the Scheme**

The Manager may, with the prior agreement of the Trustee, and must without delay if the Trustee so requires temporarily suspend the issue, cancellation, sale and redemption of units in the Scheme where due to exceptional circumstances it is in the interests of all the unitholders in the Scheme.

The Manager and the Trustee must ensure that the suspension is only allowed to continue for as long as is justified having regard to the interests of unitholders.

The Manager or the Trustee (as appropriate) will immediately inform the FSA of the suspension and the reasons for it and will follow this up as soon as practicable with written confirmation of the suspension and the reasons for it to the FSA and the regulator in each EEA state where the Scheme is offered for sale.

The Manager will notify unitholders as soon as is practicable after the commencement of the suspension, including details of the exceptional circumstances which have led to the suspension, in a clear, fair and not misleading way and giving unitholders details of how to find further information about the suspensions.

Where such suspension takes place, the Manager will publish details on its website, or by other general means, sufficient details to keep unitholders appropriately informed about the suspension, including, if known, its possible duration. During the suspension none of the obligations in COLL 6.2 (Dealing) will apply but the Manager will comply with as much of COLL 6.3 (Valuation and

Pricing) during the period of suspension as is practicable in light of the suspension.

Suspension will cease as soon as practicable after the exceptional circumstances leading to the suspension have ceased but the Manager and the Trustee will formally review the suspension at least every 28 days and will inform the FSA of the review and any change to the information given to unitholders.

The Manager may agree during the suspension to deal in units in which case all deals accepted during and outstanding prior to the suspension will be undertaken at a price calculated at the first valuation point after the restart of dealings in units.

### 13.3 **Deferred redemptions**

In times of high redemption, to protect the interests of continuing unitholders the Manager may defer all redemptions at any valuation point to the next valuation point where requested redemptions exceed 10 per cent of the Scheme's value. This will allow the Manager to match the sale of the scheme property to the level of redemptions, thereby reducing the impact of dilution on the Scheme. At the next such valuation point all deals relating to the earlier valuation point will be completed before those relating to a later valuation point are considered.

### 13.4 **Transfers**

Unitholders are entitled to transfer their units to another person or body. All transfers must be in writing in the form of an instrument of transfer approved by the Manager for this purpose. Completed instruments of transfer must be returned to the Manager in order for the transfer to be registered by the Manager.

Please note that gross priced units are available only to certain categories of investor and prospective investors in them must complete a Declaration of Eligibility and Undertaking (obtainable from the Manager) and return it to the Manager before the gross priced units can be transferred.

At present, transfer of title by electronic communication is not accepted.

### 13.5 **Money laundering**

As a result of legislation in force in the United Kingdom to prevent money laundering, the Manager is responsible for compliance with anti money laundering regulations. In order to implement these procedures, in certain circumstances investors may be asked to provide proof of identity when buying or redeeming units. Until satisfactory proof of identity is provided, the Manager reserves the right to refuse to issue units, pay the proceeds of a redemption of units, or pay income on units to the investor.

### 13.6 **Market timing**

The Manager may refuse to accept a new subscription, or a switch from another Henderson fund if it has reasonable grounds for refusing to accept a subscription or a switch. In particular, the Manager may exercise this discretion if it believes the investor has been or intends to engage in market timing activities.

For these purposes, market timing activities include investment techniques which involve short term trading in and out of units generally to take advantage of variation in the price of units between the valuation point of a Scheme. Short term trading of this nature may often be detrimental to long term unitholders, in particular the frequency of dealing may lead to additional dealing costs which can affect long term performance.

## 14. **CHARGES AND EXPENSES OF THE SCHEME**

Charges payable out of the property of the Schemes will in the first instance be payable out of the income property of the Scheme. In the unlikely event that the income property is not sufficient to meet charges and expenses due by the Scheme the charges and expenses due will be payable out of the capital property of the Scheme which may have the effect of constraining capital growth.

### 14.1 **Preliminary charge**

The Manager's preliminary charge is set out in Appendix I.

### 14.2 **Periodic charge**

The Manager is also entitled under the trust deed to make an annual management charge, set by the Manager as set out in Appendix I. The charge is calculated and accrued on a daily basis and the amount payable to the Manager at the end of each month is based on the mid-market value on the last working day of the previous month of the assets of the Scheme, including cash, but excluding any amounts for the time being standing to the credit of the Distribution Account.

### 14.3 **Redemption charge**

The trust deed of the Scheme permits the Manager to make a redemption charge of units in each class. Details of any redemption charges currently made are set out in Appendix I. Units of any class issued while this Prospectus is in force will not be subject to any redemption charge in the future.

The Manager may only introduce a redemption charge in accordance with the Regulations.

In relation to the imposition of a redemption charge as set out above, where units of the class in question in the Scheme have been purchased at different times by a redeeming unitholder, the units to be redeemed shall be deemed to be the units purchased first in time by that unitholder.

In the event of a change to the rate or method of calculation of a redemption charge, details of the previous rate or method of calculation will be available from the Manager.

#### **14.4 Trustee's charges and expenses**

##### **14.4.1 Charges**

The Trustee's remuneration, which is payable out of the assets of the Scheme, is a periodic charge at such annual percentage of the value of the property of the Scheme as is set out below, with the property of the Scheme being valued and such remuneration accruing and being paid on the same basis as the Manager's periodic charge. Currently, the Manager and the Trustee have agreed that the Trustee's remuneration in respect of the Scheme shall be calculated as 0.010 per cent of the net asset value of the Scheme.

The Trustee is also entitled to receive out of the property of the Scheme remuneration for performing or arranging for the performance of the functions conferred on the Trustee by the trust deed or the COLL Sourcebook. The Trustee's remuneration under this paragraph (other than in respect of acting as registrar, which may accrue and be paid on the same basis as the Trustee's periodic charge) shall accrue when the relevant transaction or other dealing is effected and shall be paid in arrears on the next following date on which payment of the Trustee's periodic charge is to be made or as soon as practicable thereafter. Currently the Trustee does not receive any remuneration or service charges under this paragraph.

The Trustee is permitted to increase its remuneration subject to the agreement of the Manager and upon giving notice to unitholders, by the Manager revising the Prospectus to reflect the proposed increase, and 60 days having elapsed since the revised Prospectus became available.

##### **14.4.2 Trustee's expenses**

In addition to the remuneration referred to above, the Trustee will be entitled to receive reimbursement for expenses properly incurred by it in the discharge of its duties or exercising any of the powers conferred upon it in relation to the Scheme, subject to approval by the Manager.

The Trustee has appointed BNP Paribas Securities Services as the Custodian of the property of the Scheme and is entitled to receive reimbursement of the Custodian's fees as an expense of the Scheme. BNP Paribas Securities Services' remuneration for acting as Custodian is calculated at an ad valorem rate determined by the territory or country in which the assets of the Scheme are held. Currently, the lowest rate is 0.005 per cent and the highest rate is 0.4 per cent. In addition, the Custodian makes a transaction charge determined by the territory or country in which the transaction is effected. Currently, these transaction charges range from £10-£120 per transaction.

The Trustee is also entitled to be reimbursed out of the property of the Scheme in respect of remuneration charged by the Custodian for such services as the Manager, Trustee and the Custodian may from time to time agree, being services delegated to the Custodian by the Trustee in performing or arranging for the performance of the functions conferred on the Trustee by the trust deed or COLL Sourcebook. Remuneration charged under this paragraph shall accrue when the relevant transaction or other dealing is effected and shall be paid in arrears. Currently the Custodian does not receive any remuneration under this paragraph.

The Custodian is permitted to increase its remuneration subject to the agreement of the Trustee and Manager and upon giving notice to unitholders, by the Manager revising the Prospectus to reflect the proposed increase, and 60 days having elapsed since the revised Prospectus became available.

#### **14.5 Expenses of the Manager**

The Scheme will also pay to the Manager out of the property of the Scheme any expenses incurred by the Manager or its delegates of the kinds described below under "Other payments out of the property of the Scheme", including legal and professional expenses of the Manager and its delegates in relation to the proper performance of the Manager's duties.

#### **14.6 General Administration Charge**

The General Administration Charge reimburses the Manager for the following costs, charges, fees and expenses which it pays on behalf of the Scheme:

- the fees and expenses payable in respect of Fund Administration (including fund accounting costs) and to their respective delegates, unless otherwise specified in this Prospectus;

- fees and expenses in respect of establishing and maintaining the Register of Unitholders (and any sub-register(s)) and charges made by the Fund Administrator, Client Administrator, the Registrar, their respective delegates or any other entity relating to dealings in units and related functions;
- any costs incurred in producing, distributing and dispatching income and other payments to unitholders;
- any costs in respect of the preparation and calculation of the net asset value and prices of units in the Scheme and the publication and circulation thereof;
- fees of the FSA under the Financial Services and Markets Act 2000 and the corresponding periodic fees of any regulatory authority in a country or territory outside the country in which units are or may lawfully be marketed;
- the fees, charges, expenses and disbursements of the auditors and any tax, legal and other professional service provider or adviser of the Scheme including (for the avoidance of doubt) any legal costs arising from any unitholder action;
- any costs incurred in respect of any meeting of holders (including meetings convened on a requisition by holders and not including the Manager or an associate of the Manager);
- any costs incurred in producing and despatching dividend or other payments of the Scheme;
- any costs incurred in modifying the Trust Deed, the Prospectus and the Simplified Prospectus, the Key Investor Information Document or any other pre-contractual disclosure required by law or regulation or any other relevant document required under the Regulations;
- costs incurred in taking out and maintaining any insurance policy in relation to the Scheme;
- any costs incurred in the preparation, translation, production (including printing) and distribution of annual, half yearly or other reports, accounts, statements, contract notes and other like documentation, any prospectuses (including simplified prospectuses (apart from the costs of distributing any simplified prospectus or any Key Investor Information Document or any other pre-contractual disclosure document required by law or regulation or other relevant documents required under the Regulations), any trust deed and any costs incurred as a result of periodic

updates of or changes to any prospectus or trust deed and any other administrative expenses;

- any amount payable by the Scheme under any indemnity provisions contained in any agreement with any functionary of the Scheme;
- any payments otherwise due by virtue of the COLL Sourcebook;
- all costs incurred in connection with communicating with investors;
- certain liabilities on amalgamation or reconstruction arising after transfer of property to the Scheme in consideration for the issue of units as more fully detailed in the FSA Rules;
- the fees and expenses of any paying agents, information agents or other entities which are required to be appointed by the Scheme by any regulatory authority; and
- any VAT that is payable on these charges where appropriate.

The current General Administration Charges for each unit class are set out in Appendix I.

The GAC is calculated as a percentage of the property of the Scheme and the amount each unit class in the Scheme will pay will depend on that unit class' proportionate interest in the property of the Scheme. The GAC accrues on a daily basis and is payable to the Manager by the Scheme monthly.

As the GAC is calculated as a single rate which is applicable to every UK authorised fund across the Manager's range, the GAC may be more or less than the charges and expenses that the Manager would be entitled to charge to a particular fund under the traditional charging method. It could be considered, therefore, that some UK authorised funds managed by the Manager will be "subsidising" its other UK authorised funds under the GAC method. However, the Manager believes that the GAC is more efficient and transparent than traditional charging methods, and that the degree of potential cross-subsidisation is small in relation to the gain in efficiency and transparency. In addition, the Manager is taking upon itself the risk that the market value of its funds will fall to the extent that the GAC will not fully recompense it for the charges and expenses that the Manager would otherwise be entitled to charge to those funds, and the Manager is therefore affording a degree of protection in relation to costs to investors.

To ensure that the GAC is, over time, set at a level that is a fair reflection of the charges and expenses that the Manager would be entitled to charge across all of its UK authorised funds under the traditional charging method, from time to time, and at least once a year, the Manager will review the operation and amount of the GAC.

The Manager is not accountable to unitholders should the aggregate fees generated by the GAC in any period exceed the charges and expenses that the Manager would be entitled to charge across all of the Manager's funds under the traditional charging method.

For the avoidance of doubt, any deductions and income arising from stock lending is not included in the GAC.

#### **14.7 Other payments out of the property of the Scheme**

In accordance with COLL Sourcebook, the following payments may lawfully be made out of the property of the Scheme:

- 14.7.1 broker's commission, fiscal charges and other disbursements which it is necessary to incur in effecting transactions for the Scheme and which are normally shown in contract notes, confirmation notes and difference accounts, as appropriate;
- 14.7.2 interest on borrowings permitted under the FSA rules and charges incurred in effecting or terminating such borrowings or in negotiating or varying the terms of such borrowings;
- 14.7.3 taxation and duties payable in respect of the property of the Scheme, the trust deed or in respect of the issue of units in a Scheme, including stamp duties or other taxes or duties in relation to the transfer to the Scheme of assets acquired in exchange for the issue of units;
- 14.7.4 any value added or similar tax relating to any charge or expense set out above; and
- 14.7.5 expenses incurred in acquiring and disposing of investments.

### **15. WINDING-UP OF THE SCHEME**

#### **15.1 Conditions**

The Trustee shall proceed to wind-up the Scheme:

- 15.1.1 if the order declaring the Scheme to be an authorised unit trust scheme is revoked, or
- 15.1.2 if the Manager or the Trustee requests the FSA to revoke the order declaring the Scheme to be an authorised unit trust scheme and the FSA has agreed (provided no material change in any relevant factor occurs) that on the winding-up of the Scheme, the FSA will accede to that request, or

15.1.3 on the effective date of a duly approved scheme of arrangement which is to result in the scheme being left with no property.

## 15.2 **Procedure**

If any of the events set out above occurs COLL 5 or COLL 6 (as appropriate) of the Regulations, concerning Investment and Borrowing Powers Pricing and Dealing, will cease to apply. The Trustee shall cease to issue and cancel units except in respect of the final cancellation and the Manager will stop redeeming and selling units.

In the case of a scheme of arrangement referred to in 15.1.3 above, the Trustee shall wind up the Scheme in accordance with the approved scheme of arrangement.

In any other case, the Trustee shall, as soon as practicable after the Scheme falls to be wound-up, realise the assets of the Scheme and, after paying, or retaining adequate provision for, all liabilities properly payable and retaining provision for the costs of the winding-up, distribute the proceeds to the unitholders and the Manager proportionately to the size of their holdings (upon production by them of such evidence, if any, as the Trustee may reasonably require as to their entitlement). The Manager will notify unitholders of the proposal to wind up the Scheme, or where this is not possible, notify the unitholders in writing as soon as practicable after winding up has commenced, of the commencement of the winding up.

Any unclaimed net proceeds or other cash (including unclaimed distribution payments) held by the Trustee after twelve months from the date the proceeds became payable, shall be paid by the Trustee into Court, although the Trustee will have the right to retain any expenses incurred in making that payment. On completion of the winding-up, the Trustee shall notify FSA in writing of that fact and the Trustee or the Manager shall request FSA to revoke the order of authorisation.

## 16. **TAXATION**

### 16.1 **General**

The information below is a general guide based on current UK law and HM Revenue & Customs practice, both of which are subject to change. In particular the tax rates referred to below are susceptible to change. It summarises the tax position of the Scheme and of investors who are UK resident and hold units as investments. Investors who are in any doubt about their tax position, or who may be subject to tax in a jurisdiction other than the UK, are recommended to take professional advice.

## 16.2 **The Scheme**

As the Scheme is an authorised unit trust scheme, it is itself exempt from UK tax on capital gains realised on the disposal of its investments (including interest-paying securities and derivatives).

The Scheme will be subject to corporation tax at 20 per cent on its income (other than dividends) but after deducting allowable expenses (including the agreed fees and expenses of the Manager and the Trustee) and the gross amount of all interest distributions.

## 16.3 **Unitholders**

### 16.3.1 **Income**

The Scheme currently pays interest distributions (which will be automatically reinvested in the Scheme as it issues accumulation units). For net priced units, these are made after income tax has been deducted and paid to HM Revenue & Customs by the Trustee. A tax voucher showing the total interest distribution before the deduction of tax (gross interest), the tax deducted and the amount of the interest distribution accumulated after tax has been deducted (net interest) will be supplied to unitholders.

For individual unitholders, the gross interest will be subject to UK income tax at 10 per cent in the case of starting rate on savings income taxpayers, 20 per cent in the case of basic rate taxpayers or 40 per cent in the case of higher rate taxpayers (and, as from 6 April 2010, 50 per cent in the case of additional rate taxpayers). The tax deducted will satisfy in full the tax liability on the interest of unitholders subject to basic rate income tax. For unitholders who are starting rate income taxpayers part of the tax deducted will satisfy their liability leaving part to be reclaimed from HM Revenue & Customs. Unitholders who are higher rate taxpayers should set the tax deducted against their tax bill and pay HM Revenue & Customs a further 20 per cent of the gross interest (this amounts to 25 per cent of the net interest received), (and additional rate taxpayers will have a further 30 per cent to pay). Non-taxpayers may reclaim the tax deducted from HM Revenue & Customs. Where units are held through an ISA the ISA manager may reclaim the tax deducted.

Unitholders chargeable to UK corporation tax will be liable to tax on the gross interest but will receive credit for the 20 per cent income tax deducted.

Non-UK resident unitholders may be entitled to a refund from HM Revenue & Customs of the tax deducted from their interest distributions (or a proportion of it) depending on their personal circumstances and whether there is a provision entitling them to repayment in any taxation convention or agreement which exists between their country of residence and the UK.

The Manager is able to accumulate interest distributions without withholding income tax from the payment for certain types of investor. These include companies, shareholders who are not ordinarily resident in the UK, local governments, pension funds and charities. Any eligible investor wishing to receive interest accumulations gross should contact the Manager who will provide the appropriate form to be completed and returned to it. The Manager may require a suitable indemnity from the recipient before gross accumulations can be made.

#### 16.3.2 **Income equalisation**

Income equalisation currently applies to the Scheme.

Part of the price on purchase of a Unit reflects the relevant share of accrued income received or to be received by the Scheme. This capital sum is returned to a Unitholder (or where accumulation Units are held, it will be accumulated) with the first allocation of income in respect of a Unit issued during an accounting period. The amount representing the income equalisation in the Unit's price is a return of capital, and is not itself taxable in the hands of Unitholders but must be deducted by them from the price of the Units for the purpose of calculating any liability to capital gains tax.

#### 16.3.3 **Gains**

Unitholders who are resident in the UK for tax purposes may be liable to capital gains tax on gains arising from the redemption, transfer or other disposal of Units.

Part of the increase in the price of accumulation Units is due to the accumulation of income allocations (including where applicable income equalisation but excluding tax credits). These amounts should be added to the acquisition cost of the Units when calculating the capital gain realised on their disposal.

Corporate unitholders in the Scheme subject to UK corporation tax must treat their unitholding as a creditor relationship subject to a fair value basis of accounting.

#### 16.3.4 **EU Savings Directive**

The Scheme is required to report details of certain interest and other payments to residents of the European Union and certain other jurisdictions to HM Revenue & Customs and also, on request, interest payments to UK residents. The Manager may require information from prospective unitholders and unitholders to enable the Scheme to comply.

#### 16.4 **Stamp Duty Reserve Tax**

No SDRT will arise on the surrender or transfers of units as the Scheme qualifies for exemption from it.

### 17. **MEETINGS OF UNITHOLDERS AND VOTING RIGHTS**

A meeting of unitholders duly convened and held may, by extraordinary resolution require, authorise or approve any act, matter or document in respect of which any such resolution is required or expressly contemplated by the Regulations, but shall not have any other powers.

Unitholders will receive at least 14 days' written notice of any meeting of unitholders and are entitled to be counted in the quorum and vote at any such meeting either in person or by proxy or in the case of a body corporate by a duly authorised representative. At any meeting of unitholders, on a show of hands every unitholder who (being an individual) is present in person or (being a corporation) is present by its representative properly authorised in that regard, shall have one vote. On a poll, every unitholder who is present in person or by proxy shall have one vote for every complete undivided share in the property of the Scheme and a further part of one vote proportionate to any fraction of such an undivided share. A unitholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way. To be passed an extraordinary resolution must be carried by a majority of not less than 75 per cent of the votes cast at a meeting.

For joint unitholders, the vote of the most senior who votes, whether in person or by proxy must be accepted to the exclusion of the voters of the other joint unitholders. For this purpose seniority is determined by the order in which the names stand in the register of unitholders.

A meeting of unitholders must have a chairman nominated by the Trustee.

The Manager is only entitled to be counted in a quorum and vote at a meeting (and any adjournment thereof) in respect of units which they hold on or on behalf of or jointly with a person who, if himself the registered unitholder would be entitled to vote and from whom they have received voting instructions. Associates of the Manager are entitled to be counted in the quorum but are only

entitled to vote in respect of units held by them on behalf of or jointly with a person who if himself the registered holder would be entitled to vote and from whom they have received voting instructions.

Where an extraordinary resolution is required to conduct business at a meeting of unitholders and every unitholder is prohibited from voting, due to the voting restrictions outlined in the paragraph above, a resolution may, with the prior written agreement of the Trustee to the process, instead be passed with the written consent of unitholders representing 75% of the units of the Scheme in issue.

## **18. GENERAL INFORMATION**

### **18.1 Reports and risk management**

The Manager will prepare a short report and a long report half yearly and annually, send the short report to all unitholders and make the long report available to unitholders on request. Annual reports will be published and sent to unitholders within four months of the end of annual accounting period of the Scheme. Interim reports will normally be published and sent to unitholders within two months of the end of interim accounting period of the Scheme. Copies may be inspected and obtained from the Head Office of the Manager free of charge. Information regarding the quantitative limits and the methods used in applying the risk management of each of the Schemes as well as information regarding the recent development of risks and yields of the main categories of investment in the Scheme is available on request from the Manager.

### **18.2 Trust deed**

A copy of the trust deed (as amended by any supplemental trust deeds) of the Scheme may be obtained from, or inspected at, the Head Office of the Manager free of charge to unitholders but otherwise at a small charge.

### **18.3 Prospectus**

A copy of the prospectus of the Scheme may be obtained from, or inspected free of charge by any person on request at, the Head Office of the Manager.

### **18.4 Complaints**

Complaints concerning the operation or marketing of the Scheme may be referred to the Manager's compliance officer at the Manager's offices or, if a satisfactory response is not obtained, direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

## 18.5 **Notices**

Notice and other documentation about the Scheme will be sent to a unitholder's registered address or by an electronic medium consistent with the Manager's or Trustee's knowledge of how the unitholder wishes or expects to receive the notice or document, provided the method chosen allows the recipient to know or record the time of receipt and is reasonable in the context.

## 18.6 **Strategy for the exercise of voting rights**

The Manager has a strategy for determining when and how voting rights attached to ownership of Scheme property are to be exercised for the benefit of the Scheme. A summary of this strategy is available from the Manager as are details of the actions taken on the basis of this strategy in relation to the Scheme.

## 18.7 **Best Execution**

The Manager is required to ensure unitholders' best interests are served when placing dealing instructions with securities dealings firms. The Manager monitors the quality of the execution arrangements they maintain with the brokers they use and promptly make any changes where they identify a need to do so. Further details relating to the Manager's internal policy are available by contacting the Manager.

## 18.8 **Inducements**

The Manager has entered into "dealing arrangements" with certain brokers under which a proportion of commission paid to them on transactions may be used to pay for execution and/or research services provided to the Manager by the broker or a third party. The Manager's policy in relation these "Commission Sharing Arrangements" is available on request.

## APPENDIX I

### FUND DETAILS

<b>Name</b>	<b>Henderson Cash Fund</b>					
<b>Type of Fund</b>	UCITS scheme and is a money market fund as defined in COLL					
<b>Investment objective and policy</b>	The investment objective of Henderson Cash Fund is to aim to provide a level of income in line with money market rates, commensurate with security of capital, through investment primarily in short term deposits, money market instruments and, at the Manager's discretion, fixed interest securities.					
<b>Origin of the Scheme</b>	The Scheme was established by a trust deed dated 24 April 1997. It was authorised on 12 May 1997.					
<b>Valuation point</b>	12 noon					
<b>Dealing cut off point</b>	12 noon					
<b>Annual accounting period ends:</b>	31 May					
<b>Interim accounting period ends:</b>	30 November					
<b>Income allocation dates:</b>	28 <sup>th</sup> day of each month					
<b>Unit classes and type of Units</b>	Retail Class Accumulation Units (net) Retail Class Accumulation Units (gross) Corporate Class Accumulation Units (net) Corporate Class Accumulation Units (gross) Financial Class Accumulation Units (net) Financial Class Accumulation Units (gross) Institutional Class Accumulation Units (net) Institutional Class Accumulation Units (gross) Intermediate Class Accumulation Units (net) Intermediate Class Accumulation Units (gross)					
<b>Charges</b>	Class		Initial Charge	Annual Management Charge (taken from Income)	Redemption Charge	General Administration Charge
	Retail Class Accumulation Units	Net gross	Nil Nil	0.3% 0.3%	Nil Nil	0.06% 0.06%
	Corporate Class Accumulation Units	Net gross	Nil Nil	0.2% 0.2%	Nil Nil	0.03% 0.03%

Financial Class Accumulation Units	Net gross	Nil Nil	0.15% 0.15%	Nil Nil	Not in issue 0.03%
Institutional Class Accumulation Units	Net gross	* *	* *	* *	Not in issue 0.03%
Intermediate Class Accumulation Units	Net gross	Nil Nil	0.5% 0.5%	Nil Nil	0.06% 0.06%

### Registrar fees

The fees of the registrar and the plan registrar for each holding on the register and any plan sub-register are currently £15 per annum.

### Investment minima\*\*

Class		Minimum Investment	Minimum Holding	Top up	Redemption
Retail Class Accumulation Units	Net gross	£1,000 £1,000	£1,000 £1,000	£1,000	£100
Corporate Class Accumulation Units	Net gross	£500,000 £500,000	£500,000 £500,000	£10,000	£10,000
Financial Class Accumulation Units	Net gross	£10,000,000 £10,000,000	£10,000,000 £10,000,000	£100,000	£100,000
Institutional Class Accumulation Units	Net gross	£100,000 £100,000	£100,000 £100,000	£10,000	£10,000
Intermediate Class Accumulation Units	Net gross	£1,000 £1,000	£1,000 £1,000	£1,000	£100

**The new investment minima will not apply to existing accounts but will apply to any new investment by existing unitholders.**

\* Charges of managing investments within the Institutional Class are charged outside the Scheme by agreement between the Manager and individual investors.

\*\* The Manager may waive the minimum levels at its discretion.

### Profile of Typical Investor

The Fund may be suitable for you if you consider collective investment schemes to be a convenient way of participating in investment markets and wish to seek to achieve defined investment objectives. You should have experience with or understand investments which may place capital at risk, and must be able to accept losses. The Fund may be suitable for you if you can set aside your capital for at least 5 years. If you are uncertain about whether this product is suitable for you, please contact a professional adviser.

## APPENDIX II

### ELIGIBLE SECURITIES MARKETS

The Scheme may deal through securities and derivative markets established in an EEA State on which transferable securities admitted to official listing in the EEA State are dealt in or traded and therefore these markets are not specifically listed below.

In addition, up to 10 per cent in value of the Scheme may be invested in transferable securities which are not approved securities.

The Scheme may also deal through the securities markets and derivatives markets indicated below:

**(i) Eligible Securities Markets:**

Australia	Australian Securities Exchange
Brazil	Sao Paulo Stock Exchange
Canada	TSX Venture Exchange
	Toronto Stock Exchange
	OTC Market in Canadian Government Bonds regulated by the Investment Dealers Association of Canada.
China	Shanghai Securities Exchange
	Shenzhen Stock Exchange
Egypt	Cairo Stock Exchange
	Alexandra Stock Exchange
Hong Kong	Hong Kong Stock Exchange
India	Bombay Stock Exchange
Indonesia	Indonesia Stock Exchange
Israel	Tel Aviv Stock Exchange
Japan	Nagoya Stock Exchange
	Osaka Securities Exchange

	Sapporo Stock Exchange
	JASDAQ Securities Exchange
	Tokyo Stock Exchange
Korea	Korea Stock Exchange (KRX)
Malaysia	Bursa Malaysia Berhad
Mexico	Mexico Stock Exchange
New Zealand	New Zealand Stock Exchange
Peru	Lima Stock Exchange
Philippines	Philippines Stock Exchange
Singapore	Singapore Stock Exchange
South Africa	JSE Securities Exchange
Sri Lanka	Colombo Stock Exchange
Switzerland	SWX Swiss Exchange
Taiwan	Taiwan Stock Exchange Corporation, Taipei
Thailand	Stock Exchange of Thailand, Bangkok
Turkey	Istanbul Stock Exchange
United States	American Stock Exchange
	OTC Bulletin Board (Operated by NASDAQ)
	The OTC Market in US Government Securities conducted by primary dealers selected by the Federal Reserve Bank of New York.
	Boston Stock Exchange
	Chicago Stock Exchange

NASDAQ

New York Stock Exchange

NYSE ARCA

Philadelphia Stock Exchange

Bond Market in the US conducted by the primary dealers regulated by the Federal Reserve of New York

United Kingdom

AIM

Listed Money Market Institutions, as described in the FSA publications "The Regulations of Wholesale Cash and OTC Derivatives" (The Grey paper) dated June, 1999 (as amended from time to time).

The International Capital Market Association

**(ii) Eligible Derivatives Markets**

Australia	Australian Stock Exchange
Canada	Montreal Stock Exchange
Hong Kong	Hong Kong Futures Exchange (HKFE)
Korea	Korea Stock Exchange (KRX)
Japan	Tokyo Stock Exchange (TSE) Osaka Securities Exchange
Malaysia	Bursa Malaysia Derivatives
Singapore	Singapore Exchange
United States	CME Group INC

Chicago Board Options Exchange

New York Futures Exchange  
(NYBOT)

OTC Market in the US conducted by primary and secondary dealers regulated by the SEC and the National Association of Securities Dealers and by banking institutions regulated by the US comptroller of the currency, the Federal Reserve System or Federal Deposit Insurance Corporation.

## APPENDIX III

### INVESTMENT AND BORROWING POWERS

#### 1. **Investment restrictions**

References to specific terms not defined elsewhere in the Prospectus refer to the definitions in the Glossary to the Regulations.

##### 1.1 **General rules of investment**

The property of the Scheme will be invested with the aim of achieving the investment objective and policy of the Scheme but subject to the limits set out in Chapter 5 of the COLL Sourcebook ("COLL 5") and further restricted by this Prospectus as detailed in this Appendix III. These limits apply to the Scheme as summarised below.

The investments of the Scheme will be limited to investments, any income on which is not taxable otherwise than under Case III of Schedule D (now section 299 Corporation Tax Act 2009), and is not an investment on the transfer of which ad valorem stamp duty would be chargeable, and is not an investment on the acquisition of which stamp duty land tax would be chargeable under Part 4 of the Finance Act 2003, and is not a chargeable security (as defined for SDRT).

##### 1.2 **Prudent spread of Risk**

The Manager must ensure that, taking account of the investment objective and policy of the Scheme, the property of the Scheme aims to provide a prudent spread of risk.

##### 1.3 **Cover**

1.3.1 Where the COLL Sourcebook allows a transaction to be entered into or an investment to be retained only (for example, investment in nil and partly paid securities and the general power to accept or underwrite) if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in COLL 5, it must be assumed that the maximum possible liability of the scheme under any other of those rules has also to be provided for.

1.3.2 Where a rule in the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only if that investment transaction, or the retention, or other similar transactions, are covered:

1.3.2.1 it must be assumed that in applying any of those rules, the Scheme must also simultaneously satisfy any other obligation relating to cover; and

1.3.2.2 no element of cover must be used more than once.

#### 1.4 **UCITS Schemes – general**

1.4.1 Subject to the investment objective and policy of the Scheme, the property of the Scheme must, except where otherwise provided in COLL 5, only consist of any or all of:

1.4.1.1 approved money-market instruments;

1.4.1.2 permitted derivatives and forward transactions (only for the purposes of efficient portfolio management);

1.4.1.3 permitted deposits; and

1.4.1.4 permitted units in collective investment schemes.

#### 1.5 **Investment conditions: money market funds**

1.5.1 The Scheme must:

1.5.1.1 ensure that the Scheme has a weighted average maturity of no more than 6 months;

1.5.1.2 ensure the Scheme property has a weighted average life of no more than 12 months.

1.5.2 The Scheme must not take direct exposure to equity or commodities, including via derivatives.

1.6 When calculating the weighted average life for securities (including structured financial instruments) for the purposes of paragraph 1.5.1.2, the maturity calculation must be based on either:

1.6.1 the residual maturity of the instruments; or

1.6.2 if the financial instrument embeds a put option, the exercise date of the put option if the following conditions are met at all times:

1.6.2.1 the put option can be freely exercised by the Manager at its exercise date;

1.6.2.2 the strike price of the put option remains close to the expected value of the instrument at the next exercise date; and

1.6.2.3 the investment strategy of the Scheme implies that there is a high probability that the option will be exercised at the next exercise date.

1.7 Where calculating the weighted average life for floating rate securities and structured financial instruments, the security's stated final maturity should be used and not the interest rate reset dates.

1.8 When calculating the weighted average life and weighted average maturity for the purposes of paragraphs 1.5.1.1 and 1.5.1.2, the ACD must take into account the impact of derivatives, deposits and efficient portfolio management.

1.8.1.1

1.8.1.2

## 1.9 **Approved money-market instruments**

An approved money-market instrument is a money-market instrument which is normally dealt in on the money-market, is liquid and has a value which can be accurately determined at any time.

1.9.1 A money-market instrument shall be regarded as normally dealt in on the money-market if it:

1.9.1.1 has a maturity at issuance of up to and including 397 days;

1.9.1.2 has a residual maturity of up to and including 397 days;

1.9.1.3 undergoes regular yield adjustments in line with money-market conditions at least every 397 days; or

1.9.1.4 has a risk profile, including credit and interest rate risks, corresponding to that of an instrument which has a maturity as set out in paragraph 1.9.1.1 or 1.9.1.2 or is subject to yield adjustments as set out in 1.9.1.3.

1.9.1.5

1.9.2 A money-market instrument shall be regarded as liquid if it can be sold at limited cost in an adequately short time frame, taking into account the obligation of the Manager to redeem units at the request of any qualifying unitholder.

- 1.9.3 A money-market instrument shall be regarded as having a value which can be accurately determined at any time if accurate and reliable valuations systems, which fulfil the following criteria, are available:
- 1.9.3.1 enabling the Manager to calculate a net asset value in accordance with the value at which the instrument held in the Scheme could be exchanged between knowledgeable willing parties in an arm's length transaction; and
  - 1.9.3.2 based either on market data or on valuation models including systems based on amortised costs.
- 1.9.4 A money-market instrument that is normally dealt in on the money-market and is admitted to or dealt in on an eligible market shall be presumed to be liquid and have a value which can be accurately determined at any time unless there is information available to the Manager that would lead to a different determination.
- 1.9.5 It has a residual maturity until the legal redemption date of less than or equal to two years, provided that the time remaining until the next interest rate reset date is less than or equal to 397 days. Floating rate securities should reset to a money market rate or index.
- 1.9.6 Where the security is denominated in a non-base currency, the exposure must be fully hedged.
- 1.9.7 The Scheme must ensure on an ongoing basis that the money market instruments it invests in are of high quality as determined by the Manager. In determining whether a money market instrument is of high quality the Manager must take into account a range of factors including, but not limited:
- (a) the credit quality of the instrument; an instrument will be considered not to be high quality unless it is an approved money-market instrument which has been awarded one of the two highest available short-term credit ratings by each recognised credit rating agency that has rated the instrument or, if the instrument is not rated, it is of an equivalent quality as determined by the Manager's internal ratings process;
  - (b) the nature of the asset class represented by the instrument;
  - (c) for structured financial instruments, the operational risk and counterparty risk inherent within the structured financial transaction; and

(d) the liquidity profile.

**1.10 Money-market instruments generally to be admitted or dealt in on an eligible market**

1.10.1 Approved money-market instruments held within the Scheme must be :

1.10.1.1 admitted to or dealt in on an eligible market (as described in 1.11.1.1 or 1.11.1.2); or

1.10.1.2 dealt on an eligible market (as described in 1.11.2); or

1.10.1.3 for an approved money-market instrument not admitted to or dealt in on an eligible market, within paragraph 1.12; or

1.10.2 The Scheme may invest no more than 10 per cent of the property of the Scheme in approved money-market instruments other than those referred to in paragraph 1.10.1.

**1.11 Eligible markets: requirements**

1.11.1 A market is eligible for the purposes of the rules if it is:

1.11.1.1 a regulated market as defined in the Regulations; or

1.11.1.2 a market in an EEA State which is regulated, operates regularly and is open to the public.

1.11.2 A market not falling within paragraph 1.11.1 is eligible for the purposes of COLL 5 if:

1.11.2.1 the Manager, after consultation with and notification to the Trustee, decides that market is appropriate for investment of, or dealing in, the property of the Scheme;

1.11.2.2 the market is included in a list in the prospectus; and

1.11.2.3 the Trustee has taken reasonable care to determine that:

(a) adequate custody arrangements can be provided for the investments dealt in on that market; and

(b) all reasonable steps have been taken by the Manager in deciding whether that market is eligible.

- 1.11.3 In 1.11.2.1, a market must not be considered appropriate unless it:
- 1.11.3.1 is regulated;
  - 1.11.3.2 operates regularly;
  - 1.11.3.3 is recognised as a market or exchange or as a self-regulating organisation by an overseas regulator;
  - 1.11.3.4 is open to the public;
  - 1.11.3.5 is adequately liquid; and
  - 1.11.3.6 has adequate arrangements for unimpeded transmission of income and capital to or to the order of investors.

## 1.12 **Money-market instruments with a regulated issuer**

- 1.12.1 In addition to instruments admitted to or dealt in on an eligible market, the Scheme may invest in an approved money-market instrument provided it fulfils the following requirements:
- 1.12.1.1 the issue or the issuer is regulated for the purpose of protecting investors and savings; and
  - 1.12.1.2 the instrument is issued or guaranteed in accordance with paragraph 1.13.
- 1.12.2 The issue or the issuer of a money-market instrument, other than one dealt in on an eligible market, shall be regarded as regulated for the purpose of protecting investors and savings if:
- 1.12.2.1 the instrument is an approved money-market instrument;
  - 1.12.2.2 appropriate information is available for the instrument (including information which allows an appropriate assessment of the credit risks related to investment in it), in accordance with paragraph 1.14; and
  - 1.12.2.3 the instrument is freely transferable.

## 1.13 **Issuers and guarantors of money-market instruments**

- 1.13.1 The Scheme may invest in an approved money-market instrument if it is:
- 1.13.1.1 issued or guaranteed by any one of the following:

- (a) a central authority of an EEA State or, if the EEA State is a federal state, one of the members making up the federation;
  - (b) a regional or local authority of an EEA State;
  - (c) the European Central Bank or a central bank of an EEA State;
  - (d) the European Union or the European Investment Bank;
  - (e) a non-EEA State or, in the case of a federal state, one of the members making up the federation;
  - (f) a public international body to which one or more EEA States belong; or
- 1.13.1.2 issued by a body, any securities of which are dealt in on an eligible market; or
- 1.13.1.3 issued or guaranteed by an establishment which is:
- (a) subject to prudential supervision in accordance with criteria defined by Community law; or
  - (b) subject to and complies with prudential rules considered by the FSA to be at least as stringent as those laid down by Community law.
- 1.13.2 An establishment shall be considered to satisfy the requirement in 1.13.1.3(b) if it is subject to and complies with prudential rules, and fulfils one or more of the following criteria:
- 1.13.2.1 it is located in the European Economic Area;
  - 1.13.2.2 it is located in an OECD country belonging to the Group of Ten;
  - 1.13.2.3 it has at least investment grade rating;
  - 1.13.2.4 on the basis of an in-depth analysis of the issuer, it can be demonstrated that the prudential rules applicable to that issuer are at least as stringent as those laid down by European Community law.

## 1.14 **Appropriate information for money-market instruments**

1.14.1 In the case of an approved money-market instrument within paragraph 1.13.1.2 or issued by a body of the type referred to in COLL 5.2.10EG; or which is issued by an authority within paragraph 1.13.1.1(b) or a public international body within paragraph 1.13.1.1(f) but is not guaranteed by a central authority within paragraph 1.13.1.1(a), the following information must be available:

1.14.1.1 information on both the issue or the issuance programme, and the legal and financial situation of the issuer prior to the issue of the instrument, verified by appropriately qualified third parties not subject to instructions from the issuer;

1.14.1.2 updates of that information on a regular basis and whenever a significant event occurs; and

1.14.1.3 available and reliable statistics on the issue or the issuance programme.

1.14.2 In the case of an approved money-market instrument issued or guaranteed by an establishment within paragraph 1.13.1.3, the following information must be available:

1.14.2.1 information on the issue or the issuance programme or on the legal and financial situation of the issuer prior to the issue of the instrument;

1.14.2.2 updates of that information on a regular basis and whenever a significant event occurs; and

1.14.2.3 available and reliable statistics on the issue or the issuance programme, or other data enabling an appropriate assessment of the credit risks related to investment in those instruments.

1.14.3 In the case of an approved money-market instrument:

1.14.3.1 within paragraph 1.13.1.1(a), (d) or (e); or

1.14.3.2 which is issued by an authority within paragraph 1.13.1.1(b) or a public international body within paragraph 1.13.1.1(f) and is guaranteed by a central authority within paragraph 1.13.1.1(a);

information must be available on the issue or the issuance programme, or on the legal and financial situation of the issuer prior to the issue of the instrument.

#### 1.15 **Spread: general**

- 1.15.1 For the purposes of this requirement companies included in the same group for the purposes of consolidated accounts as defined in accordance with Directive 83/349/EEC or in the same group in accordance with international accounting standards are regarded as a single body.
- 1.15.2 Not more than 20 per cent in value of the property of the Scheme is to consist of deposits with a single body.
- 1.15.3 Not more than 5 per cent in value of the property of the Scheme is to consist of approved money-market instruments issued by any single body., except that the limit of 5 per cent is raised to 10 per cent in respect of up to 40 per cent in value of the property of the Scheme
- 1.15.4
- 1.15.5 The exposure to any one counterparty in an OTC derivative transaction must not exceed 5 per cent in value of the property of the Scheme; this limit being raised to 10 per cent where the counterparty is an approved bank.
- 1.15.6 Not more than 20 per cent in value of the Scheme is to consist of approved money-market instruments issued by the same group.
- 1.15.7 Not more than 20 per cent in value of the Scheme is to consist of the units of any one collective investment scheme.
- 1.15.8 In applying the limits in 1.15.3, 1.15.4 and 1.15.7 and subject to 1.15.5, not more than 20 per cent in value of the property of the Scheme is to consist of any combination of two or more of the following:
  - 1.15.8.1 approved money-market instruments issued by; or
  - 1.15.8.2 deposits made with; or
  - 1.15.8.3 exposures from OTC derivatives transactions made with a single body.
- 1.15.9 For the purposes of calculating the limits in 1.15.7 and 1.15.10, the exposure in respect of an OTC derivative may be reduced to the extent

that collateral is held in respect of it if the collateral meets each of the conditions specified in 1.15.12.

- 1.15.10 The conditions referred to in 1.15.11 are that the collateral:
  - 1.15.10.1 is marked-to-market on a daily basis and exceeds the value of the amount at risk;
  - 1.15.10.2 is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;
  - 1.15.10.3 is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
  - 1.15.10.4 can be fully enforced by the Scheme at any time.
- 1.15.11 For the purpose of calculating the limits in 1.15.7 and 1.15.10, OTC derivative positions with the same counterparty may be netted provided that the netting procedures:
  - 1.15.11.1 comply with the conditions set out in Section 3 (Contractual netting (Contracts for novation and other netting agreements)) of Annex III to the Banking Consolidation Directive; and
  - 1.15.11.2 are based on legally binding agreements.
- 1.15.12 In applying this rule, all derivatives transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets both of the following conditions:
  - 1.15.12.1 it is backed by an appropriate performance guarantee; and
  - 1.15.12.2 it is characterised by a daily mark-to-market valuation of the derivative positions and an at least daily margining.

## **1.16 Counterparty risk and issuer concentration**

- 1.16.1 The Manager must ensure that counterparty risk arising from an OTC derivative is subject to the limits set out in paragraphs 1.15.7 and 1.15.10 above.
- 1.16.2 When calculating the exposure of the Scheme to a counterparty in accordance with the limits in paragraph 1.15.7 the Manager must use the positive mark-to-market value of the OTC derivative contract with that counterparty.

- 1.16.3 The Manager may net the OTC derivative positions of the Scheme with the same counterparty, provided they are able legally to enforce netting agreements with the counterparty on behalf of the Scheme.
- 1.16.4 The netting agreements in paragraph 1.16.3 above are permissible only with respect to OTC derivatives with the same counterparty and not in relation to any other exposures the Scheme may have with that same counterparty.
- 1.16.5 The Manager may reduce the exposure of scheme property to a counterparty of an OTC derivative through the receipt of collateral. Collateral received must be sufficiently liquid so that it can be sold quickly at a price that is close to its pre-sale valuation.
- 1.16.6 The Manager must take collateral into account in calculating exposure to counterparty risk in accordance with the limits in paragraph 1.15.7 when it passes collateral to an OTC counterparty on behalf of the Scheme.
- 1.16.7 Collateral passed in accordance with paragraph 1.16.6 may be taken into account on a net basis only if the Manager is able legally to enforce netting arrangements with this counterparty on behalf of the Scheme.
- 1.16.8 In relation to the exposure arising from OTC derivatives as referred to in paragraph 1.15.7 the Manager must include any exposure to OTC derivative counterparty risk in the calculation.
- 1.16.9 The Manager must calculate the issuer concentration limits referred to in paragraph 1.15.7 on the basis of the underlying exposure created through the use of OTC derivatives pursuant to the commitment approach.

1.15.13

## 1.16 **Investment in collective investment schemes**

Up to 10 per cent in value of the property of the Scheme may be invested in units or shares in other collective investment schemes ("second scheme") provided the second scheme satisfies all of the following conditions, and provided that no more than 30 per cent of the value of the Scheme is invested in second schemes within 1.18.1.2 to 1.18.1.5:

1.16.1 the second scheme must:

1.16.1.1 satisfy the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or

1.16.1.2 be recognised under the provisions of section 270 of the Financial Services and Markets Act 2000; or

1.16.1.3 be authorised as a non-UCITS retail scheme (provided the requirements of article 50(1)(e) of the UCITS Directive are met); or

1.16.1.4 be authorised in another EEA State (provided the requirements of article 50(1)(e) of the UCITS Directive are met); or

1.16.1.5 be authorised by the competent authority of an OECD member country (other than another EEA State) which has:

(a) signed the IOSCO Multilateral Memorandum of Understanding; and

(b) approved the scheme's management company, rules and depositary/custody arrangements,

(provided the requirements of article 50 (1)(e) of the UCITS Directive are met)

and such collective investment schemes meet the definition of a Money Market Fund or a Short Term Money Market Fund as defined in the Glossary to the Regulations.

1.16.2 the second scheme must comply, where relevant, with COLL 5.12.15R (Investment in associated collective investment schemes and COLL 5.2.16R (Investment in other group schemes));

1.16.3 the second scheme must have terms which prohibit more than 10 per cent in value of the property of the Scheme consisting of units in collective investment schemes ; and

1.16.4 where the second scheme is an umbrella, the provisions in 1.18.2 and 1.18.3 and paragraph 1.15 (Spread: general) apply to each sub-fund as if it were a separate scheme.

## 1.17 **Investment in nil and partly paid securities**

1.17.1 A transferable security or an approved money-market instrument on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Scheme, at the time when payment is required, without contravening the rules in this chapter.

## 1.18 Derivatives: general

Derivative transactions may be used only for the purposes of hedging for efficient portfolio management in the Scheme and only in line with the money market investment strategy of the Scheme and where the Manager is using derivatives that give exposure to foreign exchange must do so only for the purpose of hedging. It is not expected that the use of derivatives will lead to a higher risk profile.

1.18.1 A transaction in derivatives or a forward transaction must not be effected for the Scheme unless:

1.18.1.1 the transaction is of a kind specified in paragraph 1.21 (Permitted transactions (derivatives and forwards)); and

1.18.1.2 the transaction is covered, as required by paragraph 1.3 (Cover for investment in derivatives).

1.18.2 Where the Scheme invests in derivatives, the exposure to the underlying assets must not exceed the limits in paragraph 1.15 (Spread: general) and paragraph 1.17 (Spread: government and public securities) save as provided in paragraph 1.20.5.

1.18.3 Where an approved money-market instrument embeds a derivative, this must be taken into account for the purposes of complying with this section.

1.18.4 An approved money-market instrument will embed a derivative if it contains a component which fulfils the following criteria:

1.18.4.1 by virtue of that component some or all of the cash flows that otherwise would be required by the transferable security or approved money-market instrument which functions as host contract can be modified according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, and therefore vary in a way similar to a stand-alone derivative;

1.18.4.2 its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and

1.18.4.3 it has a significant impact on the risk profile and pricing of the approved money-market instrument.

- 1.18.4.4 An approved money-market instrument does not embed a derivative where it contains a component which is contractually transferable independently of the transferable security or the approved money-market instrument. That component shall be deemed to be a separate instrument.
- 1.18.5 Where a scheme invests in an index based derivative, provided the relevant index falls within paragraph 1.22 (Financial Indices underlying Derivatives) the underlying constituents of the index do not have to be taken into account for the purposes of paragraph 1.15 and 1.17.
- 1.18.6 The relaxation in 1.20.5 is subject to the Manager taking account of paragraph 1.2 (Prudent spread of risk).

#### 1.19 **Permitted transactions (derivatives and forwards)**

- 1.19.1 A transaction in a derivative must:
  - 1.19.1.1 be in an approved derivative; or
  - 1.19.1.2 be one which complies with paragraph 1.25 (OTC transactions in derivatives).
- 1.19.2 The underlying of a transaction in a derivative must consist of any one or more of the following to which the scheme is dedicated:
  - 1.19.2.1 approved money-market instruments permitted under paragraph 1.10.1.1 to paragraph 1.10.1.4 ;
  - 1.19.2.2 deposits permitted under paragraph 1.29 (Investment in deposits);
  - 1.19.2.3 derivatives permitted under this rule;
  - 1.19.2.4 collective investment scheme units permitted under paragraph 1.18 (Investment in collective investment schemes);
  - 1.19.2.5 financial indices which satisfy the criteria set out in paragraph 1.22;
  - 1.19.2.6 interest rates;
  - 1.19.2.7 foreign exchange rates; and
  - 1.19.2.8 currencies.

- 1.19.3 A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market.
- 1.19.4 A transaction in a derivative must not cause a scheme to diverge from its investment objectives as stated in the instrument constituting the Scheme and the most recently published version of the prospectus.
- 1.19.5 A transaction in a derivative must not be entered into if the intended effect is to create the potential for an uncovered sale of one or more approved money-market instruments, units in collective investment schemes or derivatives provided that a sale is not to be considered as uncovered if the conditions in 1.24 are satisfied.
- 1.19.6 Any forward transaction must be made with an Eligible Institution or an Approved Bank.
- 1.19.7 A derivative includes an instrument which fulfils the following criteria:
  - 1.19.7.1 it allows the transfer of the credit risk of the underlying independently from the other risks associated with that underlying;
  - 1.19.7.2 it does not result in the delivery or the transfer of assets other than those referred to in paragraph 1.4 (UCITS schemes: permitted types of property of the Scheme) including cash;
  - 1.19.7.3 in the case of an OTC derivative, it complies with the requirements in paragraph 1.25 (OTC transactions in derivatives);
  - 1.19.7.4 its risks are adequately captured by the risk management process of the Manager, and by its internal control mechanisms in the case of risks of asymmetry of information between the Manager and the counterparty to the derivative, resulting from potential access of the counterparty to non-public information on persons whose assets are used as the underlying by that derivative.

## 1.20 **Financial Indices underlying derivatives**

- 1.20.1 The financial indices referred to in paragraph 1.21.2.6 are those which satisfy the following criteria:
  - 1.20.1.1 the index is sufficiently diversified;

- 1.20.1.2 the index represents an adequate benchmark for the market to which it refers; and
  - 1.20.1.3 the index is published in an appropriate manner.
- 1.20.2 A financial index is sufficiently diversified if:
- 1.20.2.1 it is composed in such a way that price movements or trading activities regarding one component do not unduly influence the performance of the whole index;
  - 1.20.2.2 where it is composed of assets in which the Scheme is permitted to invest, its composition is at least diversified in accordance with the requirements with respect to spread and concentration set out in this section; and
  - 1.20.2.3 where it is composed of assets in which the Scheme cannot invest, it is diversified in a way which is equivalent to the diversification achieved by the requirements with respect to spread and concentration set out in this section.
- 1.20.3 A financial index represents an adequate benchmark for the market to which it refers if:
- 1.20.3.1 it measures the performance of a representative group of underlyings in a relevant and appropriate way;
  - 1.20.3.2 it is revised or rebalanced periodically to ensure that it continues to reflect the markets to which it refers, following criteria which are publicly available; and
  - 1.20.3.3 the underlyings are sufficiently liquid, allowing users to replicate it if necessary.
- 1.20.4 A financial index is published in an appropriate manner if:
- 1.20.4.1 its publication process relies on sound procedures to collect prices, and calculate and subsequently publish the index value, including pricing procedures for components where a market price is not available; and
  - 1.20.4.2 material information on matters such as index calculation, rebalancing methodologies, index changes or any operational difficulties in providing timely or accurate information is provided on a wide and timely basis.
- 1.20.5 Where the composition of underlyings of a transaction in a derivative does not satisfy the requirements for a financial index, the underlyings

for that transaction shall where they satisfy the requirements with respect to other underlyings pursuant to paragraph 1.21.2, be regarded as a combination of those underlyings.

## 1.21 **Transactions for the purchase of property**

1.21.1 A derivative or forward transaction which will or could lead to the delivery of property for the account of the Scheme may be entered into only if:

1.21.1.1 that property can be held for the account of the Scheme; and

1.21.1.2 the Manager having taken reasonable care determines that delivery of the property under the transaction will not occur or will not lead to a breach of the rules in the COLL sourcebook.

## 1.22 **Requirement to cover sales**

1.22.1 No agreement by or on behalf of the Scheme to dispose of property or rights may be made unless:

1.22.1.1 the obligation to make the disposal and any other similar obligation could immediately be honoured by the Scheme by delivery of property or the assignment (or, in Scotland, assignation) of rights; and

1.22.1.2 the property and rights at 1.24.1.1 are owned by the Scheme at the time of the agreement.

## 1.23 **OTC transactions in derivatives**

A transaction in an OTC derivative under paragraph 1.21.1.2 must be:

1.23.1 with an approved counterparty; a counterparty to a transaction in derivatives is approved only if the counterparty is:

1.23.1.1 an eligible institution or an approved bank; or

1.23.1.2 a person whose permission (including any requirements or limitations), as published in the FSA Register, or whose Home State authorisation, permits it to enter into the transaction as principal off-exchange;

1.23.2 on approved terms; the terms of the transaction in derivatives are approved only if, before the transaction is entered into, the Trustee is satisfied that the counterparty has agreed with the Manager:

- 1.23.2.1 to provide , at least daily and at any other time at the request of the Trustee or Manager, a reliable and verifiable valuation in respect of that transaction corresponding to its fair value (being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction) and which does not rely only on market quotations by the counterparty; and
- 1.23.2.2 that it or an alternative counterparty will, at the request of the Trustee or Manager, enter into a further transaction to sell, liquidate or close out that transaction at any time, at a fair value arrived at under the reliable market value basis or pricing model agreed under 1.25.3;
- 1.23.3 capable of reliable valuation; a transaction in derivatives is capable of reliable valuation only if the Manager having taken reasonable care determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy:
  - 1.23.3.1 on the basis of an up-to-date market value which the Manager and the Trustee have agreed is reliable; or
  - 1.23.3.2 if the value referred to in 1.25.3.1 is not available, on the basis of a pricing model which the Manager and the Trustee have agreed uses an adequate recognised methodology; and
  - 1.23.3.3 on approved terms; the terms of the transaction in derivatives are approved only if the Manager carries out at least daily a reliable and verifiable valuation in respect of that transaction corresponding to its fair value and which does not rely only on market quotations by the counterparty; and that it can enter into one or more further transactions to sell, liquidate or close out that transaction at any time, at its fair value; and

For the purposes of 1.25.3.3 above, "fair value" is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

## 1.24 **Valuation of OTC derivatives**

- 1.24.1 For the purposes of paragraph 1.25.3.3 the Manager must:

- 1.24.1.1 establish, implement and maintain arrangements and procedures which ensure appropriate, transparent and fair valuation of the exposures of the Scheme to OTC derivatives; and
- 1.24.1.2 ensure that the fair value of OTC derivatives is subject to adequate, accurate and independent assessment.
- 1.24.2 Where the arrangements and procedures referred to above involve the performance of certain activities by third parties, the Manager must comply with the requirements in SYSC 8.1.13 R (Additional requirements for a management company) and COLL 6.6A.4 R (4) to (6) (Due diligence requirements of AFMs of UCITS schemes).
- 1.24.3 The arrangements and procedures referred to in this rule must be:
  - 1.24.3.1 adequate and proportionate to the nature and complexity of the OTC derivative concerned; and
  - 1.24.3.2 adequately documented.

## 1.25 **Efficient portfolio management**

- 1.25.1 The Manager may use the property of the Scheme to enter into transactions for the purposes of EPM. Permitted EPM transactions are transactions in derivatives (i.e. options, futures, forward transactions or contracts for differences) dealt in or traded on an eligible derivatives market; off-exchange options or contracts for differences resembling options; or synthetic futures in certain circumstances. Eligible derivatives markets are those which the Manager, after consultation with the Trustee, has decided are appropriate for the purpose of investment of or dealing in the property with regard to the relevant criteria set out in the COLL Sourcebook and the formal guidance on eligible markets issued by the FSA as amended from time to time. The eligible derivatives markets for the Scheme are set out in Appendix III.
- 1.25.2 The addition of new eligible derivatives markets for the Scheme requires approval of a resolution of unitholders unless the Manager and the Trustee have agreed in writing that the addition does not constitute a fundamental change or in the event of a significant change the Manager has, not less than 60 days before the change, given notice in writing as set out above in the case of additional eligible securities markets.
- 1.25.3 Any forward transactions must be with an approved counterparty (Eligible Institutions, money-market institutions etc). A derivatives or

forward transaction which would or could lead to delivery of property to the Trustee in respect of the Scheme may be entered into only if such property can be held by the Scheme, and the Manager reasonably believes that delivery of the property pursuant to the transaction will not lead to a breach of the COLL Sourcebook.

1.25.4 There is no limit on the amount of the property which may be used for EPM but the transactions must satisfy three broadly based requirements:

1.25.4.1 A transaction must be reasonably believed by the Manager to be economically appropriate to the efficient portfolio management of the Scheme. This means that, for transactions undertaken to reduce risk or cost (or both), the transaction alone or in combination will diminish a risk or cost of a kind or level which it is sensible to reduce.

1.25.4.2 EPM must not include speculative transactions.

The purpose of an EPM transaction for the Scheme must be to achieve one of the following in respect of the Scheme:

(a) Reduction of risk. This allows for the use of the technique of cross-currency hedging in order to switch all or part of the property away from a currency the Manager considers unduly prone to risk, to another currency. This aim also permits the use of tactical asset allocation (please see paragraph (b) below).

(b) Reduction of cost. The aims of reduction of risk or cost, together or separately, allow the Manager on a temporary basis to use the technique of tactical asset allocation. Tactical asset allocation permits the Manager to undertake a switch in exposure by use of derivatives, rather than through the sale and purchase of the property. If a transaction for the Scheme relates to the acquisition or potential acquisition of transferable securities, the Manager must intend that the Scheme should invest in transferable securities within a reasonable time and the Manager must thereafter ensure that, unless the position has itself been closed out, that intention is realised within that reasonable time.

(c) The generation of additional capital or income for the Scheme (so called "enhancement strategies") with an acceptable level of risk. There is an acceptable level of risk

in any case where the Manager reasonably believes that the Scheme is certain (or certain barring events which are not reasonably foreseeable) to derive a benefit. The generation of additional capital or income may arise out of but not limited to taking advantage of price imperfections or from the receipt of a premium for writing covered call or covered put options (even if the benefit is obtained at the expense of the chance of yet greater benefit).

The relevant purpose must relate to property (whether precisely identified or not) which is to be or is proposed to be acquired for the Scheme or anticipated cash receipts of the Scheme, if due to be received at some time and likely to be received within one month

- 1.25.4.3 Each EPM transaction must be fully covered "globally" (i.e. after providing cover for existing EPM transactions there is adequate cover for another transaction within the property, so there can be no gearing). Property and cash can be used only once for cover. The lending transaction in a back to back currency borrowing transaction does not require cover.

## 1.26 Risk Management

- 1.26.1 The Manager uses a risk management process, (including a risk management policy) as reviewed by the Depositary, enabling it to monitor and measure at any time the risk of the Scheme's positions and their contribution to the overall risk profile of the Scheme.
- 1.26.2 The following details of the risk management process must be regularly notified by the Manager to the FSA and at least on an annual basis:
  - 1.26.2.1 a true and fair view of the types of derivatives and forward transactions to be used within the Scheme together with their underlying risks and any relevant quantitative limits;
  - 1.26.2.2 the methods for estimating risks in derivative and forward transactions.

The Manager must notify the FSA in advance of any material additions to the details in 1.28.2.1 or 1.28.2.2 above.

## 1.27 **Investment in deposits**

The Scheme may invest in deposits only with credit institutions as defined in the Regulations and which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months.

## 1.28 **Significant influence**

1.28.1 The Manager must not acquire, or cause to be acquired for the Scheme, transferable securities issued by a body corporate and carrying rights to vote (whether or not on substantially all matters) at a general meeting of that body corporate if immediately before the acquisition, the aggregate of any such securities held for the Scheme, taken together with any such securities already held for other authorised unit trusts of which it is also the Manager, gives the Manager power significantly to influence the conduct of business of that body corporate; or the acquisition gives the Manager that power.

1.28.2 The Manager is to be taken to have power significantly to influence the conduct of business of a body corporate if it can, because of the transferable securities held for all the authorised unit trusts of which it is the Manager, exercise or control the exercise of 20 per cent or more of the voting rights in that body corporate (disregarding for this purpose any temporary suspension of voting rights in respect of the transferable securities of that body corporate).

## 1.29 **Concentration**

A UCITS Scheme:

1.29.1 must not acquire transferable securities other than debt securities which do not carry a right to vote on any matter at a general meeting of the body corporate that issued them; and represent more than 10 per cent of these securities issued by that body corporate;

1.29.2 must not acquire more than 10 per cent of the debt securities issued by any single issuing body.

1.29.3 must not acquire more than 25 per cent of the units in a collective investment scheme;

1.29.4 must not acquire more than 10 per cent of the approved money-market instruments issued by any single body; and

1.29.5 need not comply with the limits in 1.31.2, 1.31.3 and 1.31.4 if, at the time of acquisition, the net amount in issue of the relevant investment cannot be calculated

### 1.30 **Cash and Near Cash**

1.30.1 The investment objective and policy of the Scheme means that at times it is appropriate not to be fully invested but to hold cash or near cash. Cash and near cash must not be retained in the property except to the extent that, where this may reasonably be regarded as necessary in order to enable:

1.30.1.1 the pursuit of the Scheme's investment objectives; or

1.30.1.2 redemption of units; or

1.30.1.3 efficient portfolio management of the Scheme in accordance with its investment objectives; or

1.30.1.4 other purposes which may reasonably be regarded as ancillary to the investment objectives of the Scheme.

During the period of the initial offer the property of the Scheme may consist of cash and near cash without limitation.

### 1.31 **Schemes replicating an index**

1.31.1 Notwithstanding paragraph 1.15 the Scheme may invest up to 20 per cent in value of the property of the Scheme in shares and debentures which are issued by the same body where the investment policy of that scheme as stated in the most recently published prospectus is to replicate the composition of a relevant index which satisfies the criteria specified in paragraph 1.34 (Relevant indices).

1.31.2 Replication of the composition of a relevant index shall be understood to be a reference to replication of the composition of the underlying assets of that index, including the use of techniques and instruments permitted for the purpose of efficient portfolio management.

1.31.3 The limit in 1.31.1 can be raised for a particular UCITS scheme up to 35 per cent in value of the property of the Scheme, but only in respect of one body and where justified by exceptional market conditions.

### 1.32 **Relevant indices**

1.32.1 The indices referred to in paragraph 1.33 are those which satisfy the following criteria:

1.32.1.1 the composition is sufficiently diversified;

1.32.1.2 the index represents an adequate benchmark for the market to which it refers; and

- 1.32.1.3 the index is published in an appropriate manner.
- 1.32.2 The composition of an index is sufficiently diversified if its components adhere to the spread and concentration requirements in this section.
- 1.32.3 An index represents an adequate benchmark if its provider uses a recognised methodology which generally does not result in the exclusion of a major issuer of the market to which it refers.
- 1.32.4 An index is published in an appropriate manner if:
  - 1.32.4.1 it is accessible to the public;
  - 1.32.4.2 the index provider is independent from the index-replicating UCITS scheme; this does not preclude index providers and the UCITS scheme from forming part of the same group, provided that effective arrangements for the management of conflicts of interest are in place.

### 1.33 **Derivative exposure**

- 1.33.1 The Scheme may invest in derivatives and forward transactions as long as the exposure to which the Scheme is committed by that transaction itself is suitably covered from within its property. Exposure will include any initial outlay in respect of that transaction.
- 1.33.2 Cover ensures that the Scheme is not exposed to the risk of loss of property, including money, to an extent greater than the net value of the property. Therefore, the Scheme must hold property sufficient in value or amount to match the exposure arising from a derivative obligation to which the Scheme is committed. Paragraph 1.36 (Cover for investment in derivatives) below sets out detailed requirements for cover of the Scheme.
- 1.33.3 Cover used in respect of one transaction in derivatives or forward transaction must not be used for cover in respect of another transaction in derivatives or a forward transaction.

### 1.34 **Cover for investment in derivatives**

- 1.34.1 The Scheme may invest in derivatives and forward transactions as part of its investment policy provided:
  - 1.34.1.1 its global exposure relating to derivatives and forward transactions held in the Scheme does not exceed the net value of the scheme property; and

1.34.1.2 its global exposure to the underlying assets does not exceed in aggregate the investment limits laid down in paragraph 1.15 above.

**1.35 Daily calculation of global exposure**

1.35.1 The Manager must calculate the global exposure of the Scheme on at least a daily basis.

1.35.2 For the purposes of this section, exposure must be calculated taking into account the current value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions.

**1.36 Calculation of global exposure**

1.36.1 The Manager must calculate the global exposure of the Scheme either as:

1.36.1.1 the incremental exposure and leverage generated through the use of derivatives and forward transactions (including embedded derivatives as referred to in paragraph 1.20 (Derivatives: general), which may not exceed 100% of the net value of the scheme property of the Scheme, by way of the commitment approach; or

1.36.1.2 the market risk of the scheme property of the Scheme, by way of the value at risk approach.

1.36.2 The Manager must ensure that the method selected above is appropriate, taking into account:

1.36.2.1 the investment strategy pursued by the Scheme;

1.36.2.2 the types and complexities of the derivatives and forward transactions used; and

1.36.2.3 the proportion of the scheme property comprising derivatives and forward transactions.

1.36.3 Where the Scheme employs techniques and instruments including repo contracts or stock lending transactions in accordance with paragraph 35 (Stock lending) in order to generate additional leverage or exposure to market risk, the Manager must take those transactions into consideration when calculating global exposure.

- 1.36.4 For the purposes of this paragraph, value at risk means a measure of the maximum expected loss at a given confidence level over the specific time period.

### 1.37 **Cover and Borrowing**

- 1.37.1 Cash obtained from borrowing, and borrowing which the Manager reasonably regards an Eligible Institution or an Approved Bank to be committed to provide, is not available for cover under paragraph 1.36 except where 1.39.2 below applies.

- 1.37.2 Where, for the purposes of this paragraph the Scheme borrows an amount of currency from an Eligible Institution or an Approved Bank; and keeps an amount in another currency, at least equal to such borrowing for the time being in 1.39.1 on deposit with the lender (or his agent or nominee), then this paragraph 1.39.2 applies as if the borrowed currency, and not the deposited currency, were part of the property.

### 1.38 **Stock lending**

- 1.38.1 The entry into stock lending transactions or repo contract for the account of the Scheme is permitted for the generation of additional income for the benefit of the Scheme, and hence for its investors.

- 1.38.2 The specific method of stock lending permitted in this section is in fact not a transaction which is a loan in the normal sense. Rather it is an arrangement of the kind described in section 263B of the Taxation of Chargeable Gains Act 1992, under which the lender transfers securities to the borrower otherwise than by way of sale and the borrower is to transfer those securities, or securities of the same type and amount, back to the lender at a later date. In accordance with good market practice, a separate transaction by way of transfer of assets is also involved for the purpose of providing collateral to the "lender" to cover him against the risk that the future transfer back of the securities may not be satisfactorily completed.

- 1.38.3 The stock lending permitted by this section may be exercised by the Scheme when it reasonably appears to the Scheme to be appropriate to do so with a view to generating additional income with an acceptable degree of risk.

- 1.38.4 The Trustee at the request of the Manager may enter into a stock lending arrangement or repo contract of the kind described in section 263B of the Taxation of Chargeable Gains Act 1992 (without extension by section 263C), but only if all the terms of the agreement under

which securities are to be reacquired by the Trustee for the account of the Scheme, are in a form which is acceptable to the Trustee and are in accordance with good market practice, the counterparty meets the criteria set out in COLL 5.4.4, and collateral is obtained to secure the obligation of the counterparty. Collateral must be acceptable to the Trustee, adequate and sufficiently immediate.

- 1.38.5 The Trustee must ensure that the value of the collateral at all times is at least equal to the value of the securities transferred by the Trustee. This duty may be regarded as satisfied in respect of collateral the validity of which is about to expire or has expired where the Trustee takes reasonable care to determine that sufficient collateral will again be transferred at the latest by the close of business on the day of expiry.
- 1.38.6 Any agreement for transfer at a future date of securities or of collateral (or of the equivalent of either) may be regarded, for the purposes of valuation under the COLL Sourcebook, as an unconditional agreement for the sale or transfer of property, whether or not the property is part of the property of the Scheme.
- 1.38.7 There is no limit on the value of the scheme property which maybe the subject of stock lending transactions or repo contract.

### 1.39 **General power to borrow**

The Trustee may on the instructions of the Manager, in accordance with this paragraph, borrow money for the use of the Scheme on terms that the borrowing is to be repayable out of the property. This power to borrow is subject to the obligation of the Scheme to comply with any restriction in the instrument constituting the Scheme. The Trustee may borrow only from an Eligible Institution or an Approved Bank. The Manager must ensure that any borrowing is on a temporary basis and that borrowings are not persistent, and for this purpose the Manager must have regard in particular to the duration of any period of borrowing, and the number of occasions on which resort is had to borrowing in any period. In addition, the Manager must ensure that no period of borrowing exceeds three months, whether in respect of any specific sum or at all, without the prior consent of the Trustee, the Trustee's consent may be given only on such conditions as appear to the Trustee appropriate to ensure that the borrowing does not cease to be on a temporary basis only.

The Manager must ensure that the Scheme's borrowing does not, on any business day, exceed 10 per cent of the value of the property of the Scheme. "Borrowing" includes, as well as borrowing in a conventional manner, any other arrangement (including a combination of derivatives) designed to achieve a

temporary injection of money into the property in the expectation that the sum will be repaid.

None of the money in the property of the Scheme may be lent and, for the purposes of this prohibition, money is lent by the Scheme if it is paid to a person ("the payee") on the basis that it should be repaid, whether or not by the payee.

Acquiring a debenture is not lending; nor is the placing of money on deposit or in a current account.

The property of the Scheme other than money must not be lent by way of deposit or otherwise.

The property of the Scheme must not be mortgaged. Where transactions in derivatives or forward transactions are used for the account of the Scheme in accordance with the rules in COLL 5, nothing in this paragraph prevents the Trustee at the request of the Manager, from:

- lending, depositing, pledging or charging property for margin requirements; or
- transferring property under the terms of an agreement in relation to margin requirements, provided that the Trustee reasonably considers that both the agreement and the margin arrangements made under it (including in relation to the level of margin) provide appropriate protection to unitholders,

where transactions in derivatives or forward transactions are used for the account of the Scheme in accordance with any other of the rules in COLL 5.

These borrowing restrictions do not apply to "back to back" borrowing for currency hedging purposes (i.e. borrowing permitted in order to reduce or diminish risk arising by reason of fluctuations in exchange rates).

#### 1.40 **General power to accept or underwrite placings**

Any power in COLL 5 to invest in transferable securities may be used for the purpose of entering into transactions to which this section applies, subject to compliance with any restriction in the trust deed. This section applies, to any agreement or understanding: which is an underwriting or sub-underwriting agreement, or which contemplates that securities will or may be issued or subscribed for or acquired for the account of the Scheme.

This ability does not apply to an option, or a purchase of a transferable security which confers a right to subscribe for or acquire a transferable security, or to convert one transferable security into another.

The exposure of the Scheme to agreements and understandings as set out above, on any business day be covered and be such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in this chapter.

#### 1.41 **General**

- 1.41.1 It is not intended that the Scheme will have an interest in any immovable property or tangible movable property.
- 1.41.2 The investment objective and policy of the Scheme may mean that at times it is appropriate not to be fully invested. This will only occur when the Manager reasonably regards it as necessary to enable units to be redeemed or for the efficient management of the Scheme in accordance with its investment objective or a purpose which may reasonably be regarded as ancillary to the investment objective of the Scheme.
- 1.41.3 Where the Scheme invests in or disposes of units or shares in another collective investment scheme which is managed or operated by the Manager or an associate of the Manager, the Manager must pay to the Scheme by the close of business on the fourth business day the amount of any preliminary charge in respect of a purchase, and in the case of a sale, any charge made for the disposal.
- 1.41.4 A potential breach of any of these limits does not prevent the exercise of rights conferred by investments held by the Scheme but, in the event of a consequent breach, the Manager must then take such steps as are necessary to restore compliance with the investment limits as soon as practicable having regard to the interests of unitholders.
- 1.41.5 The COLL Sourcebook permits the Manager to use certain techniques when investing in derivatives in order to manage the Scheme's exposure to particular counterparties and in relation to the use of collateral to reduce overall exposure with respect to over-the-counter ("OTC") derivatives; for example the Scheme may take collateral from counterparties with whom they have an OTC derivative position and use that collateral to net off against the exposure they have to the counterparty under that OTC derivative position, for the purposes of complying with counterparty spread limits. The COLL Sourcebook also permits the Scheme to use derivatives to effectively short sell (agree to deliver the relevant asset without holding it in the scheme) under certain conditions.

1.42 **Guarantees and indemnities**

- 1.42.1 The Trustee, for the account of the Trust, must not provide any guarantee or indemnity in respect of the obligation of any person.
- 1.42.2 None of the property of the Scheme may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.
- 1.42.3 These requirements do not apply to any indemnity or guarantee given for margin requirements where the derivatives or forward transactions are being used in accordance with COLL 5 and an indemnity given to a person winding up a body corporate or other scheme in circumstances where those assets are becoming part of the scheme property by way of unitisation.

## APPENDIX IV

### PAST PERFORMANCE TO 31 DECEMBER 2010

Name	Percentage Growth 1 Year to 31/12/2010	Percentage Growth 1 Year to 31/12/2009	Percentage Growth 1 Year to 31/12/2008	Percentage Growth 1 Year to 29/12/2007	Percentage Growth 1 Year to 30/12/2006
Henderson Cash R Acc	<b>0.55%</b>	2.13%	4.45%	4.17%	3.36%
<i>IMA Money Market Sector</i>	<i>0.32%</i>	<i>0.95%</i>	2.27%	3.97%	3.32%

**Source: Morningstar, Mid to Mid, Net income reinvested, Net of fees, GBP**

Past performance is not a guarantee of future performance. The value of your investments and the income from them can fall as well as rise and you might not get back the original amount invested. This can be as a result of markets movements, and also from variations in the exchange rates between sterling and the currency in which a particular underlying investment is denominated

## APPENDIX V

### LIST OF FUNDS FOR WHICH THE MANAGER IS ALSO AUTHORISED CORPORATE DIRECTOR OR MANAGER

#### OEICs

Cirillium OEIC

Henderson Global Care Funds

Henderson Global Funds

Henderson Investment Fund OEIC

Henderson Investment Funds Series I

Henderson Investment Funds Series II

Henderson Investment Funds Series III

Henderson Investment Funds Series IV

Henderson Investment Funds Series V

Henderson OEIC

Henderson Multi-Manager Investment OEIC

Henderson Secured Loans Fund

Henderson Strategic Investment Funds

Henderson UK & Europe Funds

#### Authorised Unit Trusts

Henderson Absolute Return Bond Fund

Henderson Asian Dividend Income Unit Trust

Henderson Diversified Absolute Return Fund

Henderson Enhanced Balanced Fund

Henderson Extra Monthly Income Bond Fund

Henderson Fixed Interest Monthly Income Fund

Henderson Global (50/50) Enhanced Equity Fund

Henderson Global Bond Fund

Henderson Global Strategic Capital Unit Trust

Henderson High Alpha Credit Fund

Henderson High Alpha Gilt Fund

Henderson High Alpha UK Equity Fund

Henderson Mainstream UK Equity Fund

Henderson Money Market Unit Trust

Henderson Multi-Manager Distribution Fund

Henderson Multi-Manager Income & Growth Fund

Henderson Sterling Bond Unit Trust

Henderson Global Innovation Unit Trust

Henderson UK Enhanced Equity Trust

Henderson UK Equity Income Trust

Henderson UK Equity Tracker Trust

Henderson UK Property Unit Trust

Henderson UK Strategic Capital Unit Trust

Henderson UK Strategic Income Unit Trust

Further details of these companies or any of the funds are available from the Manager on request.

## APPENDIX VI

### DIRECTORY

**The Scheme and Head Office:**

Henderson Cash Fund  
201 Bishopsgate  
London EC2M 3AE

**Manager:**

Henderson Investment Funds Limited  
201 Bishopsgate  
London EC2M 3AE

**Trustee:**

National Westminster Bank plc  
135 Bishopsgate  
London EC2M 3UR<sup>2</sup>

**Investment Manager:**

Henderson Global Investors Limited  
201 Bishopsgate  
London EC2M 3AE

**Fund Administrator, Client Administrator and registrar:**

BNP Paribas Securities Services  
55 Moorgate  
London EC2R 6PA

**Client Administrator and registrar:**

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

**Legal advisers:**

Eversheds LLP  
One Wood Street  
London EC2V 7WS

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<sup>2</sup> The Royal Bank of Scotland (RBS), transferred its trustee role in respect of the Scheme to National Westminster Bank plc on 1 October 2011. National Westminster plc is a subsidiary company of RBS and as such The Royal Bank of Scotland Group plc will remain as the ultimate holding company of the Trustee.

**Auditors:**

PricewaterhouseCoopers LLP  
Kintyre House  
209 West George Street  
Glasgow G2 2LW

**Issued by Henderson Investment Funds Limited**

201 Bishopsgate  
London EC2M 3AE

Henderson Investment Funds Limited is authorised and regulated by the Financial Services Authority. Incorporated in England and Wales. A subsidiary of Henderson Group plc