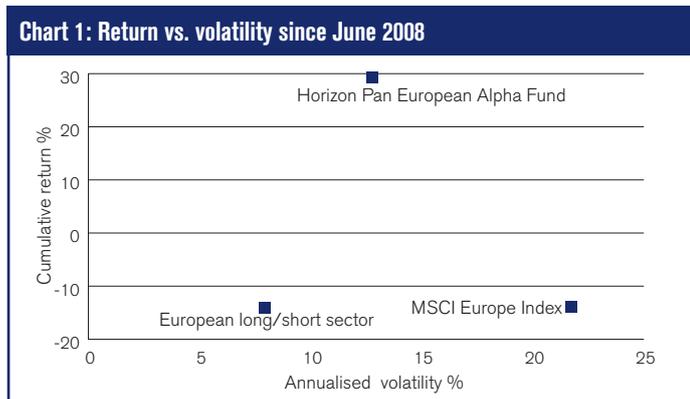


Pan European Alpha

Fund – 3 years of adding value for investors

The Henderson Horizon Pan European Alpha Fund recently celebrated its third anniversary under the stewardship of Paul Casson. Since Paul took over the fund it has returned 37.2%*. When Paul took control of the fund the aim was to return 10% to 12% per annum over a rolling three year period. The following three years forced the fund to navigate through what has been one of the most challenging periods in market history. Despite the hostile market environment we are pleased to have achieved our target, returning 11.1%* p.a. over the three years. On an equal note, we have been able to achieve this return for our clients at the relatively low volatility of 12.6%, versus 19.2% for the MSCI Europe Index. This risk-adjusted return compares favourably with other European equity long/short funds and the European equity market as a whole.

* Morningstar 30 June 2011



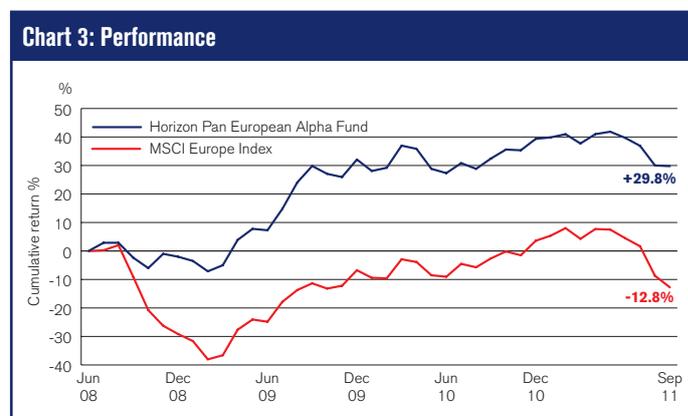
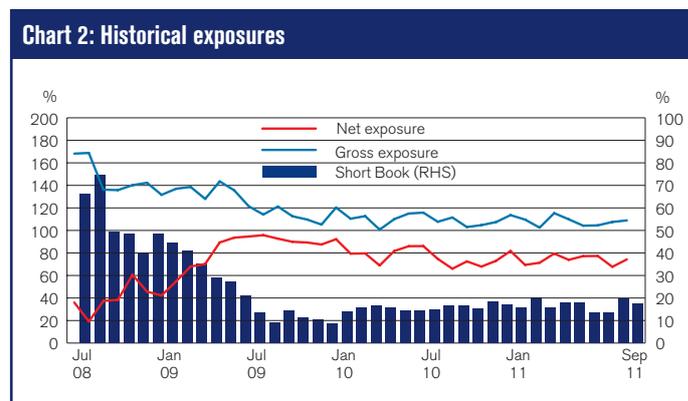
Source: Henderson Global Investors, as at 30 September 2011
Note: Based on Morningstar peer group – European long short.

How have we achieved this attractive risk-adjusted return?

The added powers of UCITS III allow us to use derivatives to take long and short positions. Within this fund structure we apply a simple stock-picking approach, no complex options or futures. Put simply, we go long stocks we like and short those we don't and that we think are expensive. Capital is only allocated to the long and short side when we see the potential for positive absolute returns. It is not always possible to make money through shorts so the size of the short book has varied dramatically, influenced by the market environment. How this has worked over the last three years is evident in the performance and exposure charts 2 and 3.

In 2008, we found there were a number of stocks that we wanted to go short on, due to a combination of high levels of company debt and a sharp deterioration in global demand. This led us to allocate more capital to the short book, with it peaking at 75% in August 2008, which in turn reduced our overall exposure to market movements at a time when markets went into decline. This enabled the fund to preserve client capital during the market falls, which gave the added advantage of working from a higher base when markets began to recover. It is important, however, to position your portfolio to benefit from a recovery – which is exactly what we did at

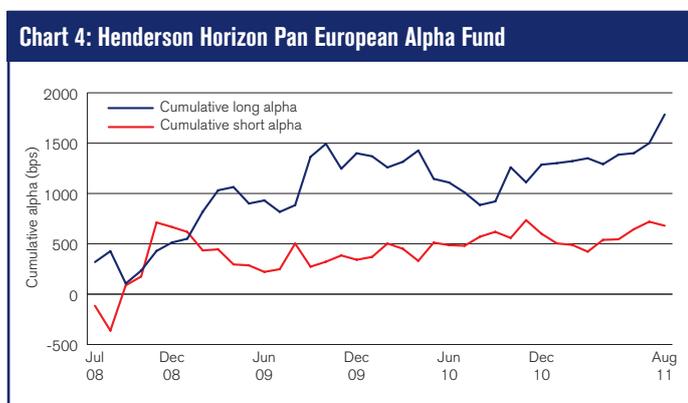
the beginning of 2009. It became clear that many of our short positions had reached such extreme valuations that we could no longer remain short and make a profit. We, therefore, gradually closed many of our short positions – this in turn increased our overall exposure to the market and allowed us to post gains along with the market.



Source: Henderson Global investors, as at 30 September 2011
Note: Performance is based on midday prices, gross income reinvested and net of fees in euro.

It's not only about net exposure management

Although it has been useful to use the number of stock opportunities that present themselves, as well as top-down influences, to guide our net market exposure, the main benefit of stock-picking is selecting those longs that have the potential to outperform the market and the shorts that are likely to underperform the market – namely alpha! The portfolio contains significant biases toward certain sectors and geographic regions. Although this can lead to the alpha generation for the portfolio not following a smooth path, the chart below shows how we have added alpha on the long and short side over the last three years.



Source: Henderson Global Investors, as at 31 August 2011

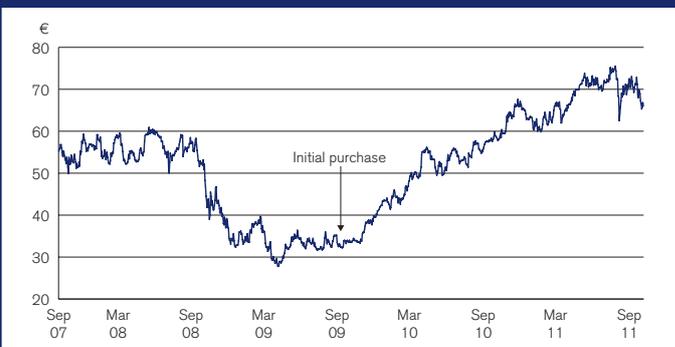
Stock selection – what do we look for?

On the long side we look for robust business models with strong cash-flow generation at attractive prices. **Fresenius** is a good example of the type of stock that we look for. Fresenius is a healthcare conglomerate with divisions that focus on four primary business areas:

- Fresenius Medical Care, the largest fully integrated dialysis company in the world;
- Kabi, a worldwide leader in nutrition and infusion therapy;
- Helios, one of the three largest private hospital operators in Germany; and
- Vamed, which provides engineering services to German hospitals and other healthcare sites.

The company has a robust and defensible market position and stands to benefit from changes in demographics such as ageing populations and the rising middle class in Asia. An ill timed acquisition at the height of the market offered us an attractive entry point in September 2009. The company continues to show good cashflow generation and growth and remains in the portfolio today.

Stock example: Fresenius share price

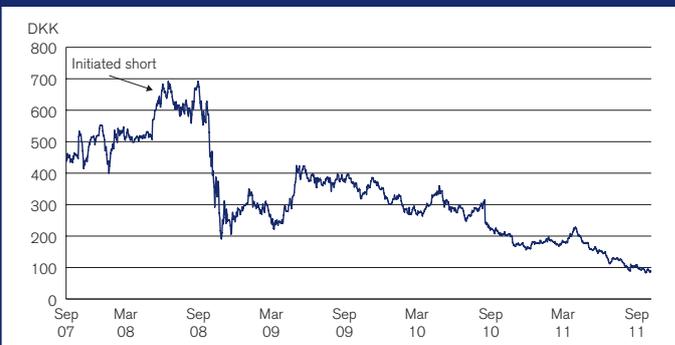


Source: Datastream, as at 30 September 2011

On the short side we look for damaged companies or companies that we feel are going to experience difficult periods that are not yet reflected in the share price. Problems with a company normally manifest themselves initially on the company's balance sheets before reaching the profit and loss figures. For this reason we spend a great deal of time looking at the debt level of a company. We also look for more subtle indicators such as inventory levels or accounts receivable. An increase in either may suggest that a company is finding it difficult to reach its sales targets and are having to offer clients better terms (i.e. longer payment schedules).

A good illustration of this is our long standing short position in **Vestas Wind Systems**, which makes wind turbines. We first entered the position in 2008 when the stock was trading on P/E of over 30x. The industry had been supported for many years by government subsidies and its Chinese peers had begun to produce very similar products at a significant discount. At a closer examination of the balance sheet we found a number of signs that all was not well and that the added competitive pressure was causing difficulties. This combined with the high valuation and the potential for government subsidies to be reduced, made us feel comfortable we could go short the stock.

Stock example: Vestas share price



Source: Datastream, as at 30 September 2011

Fund manager outlook

Seldom has writing a piece on the outlook for European equities seemed more dangerous. Currently the apparent epicentre for global risk, investors are concerned about all manner of issues neatly summarised as a 'Eurozone sovereign debt crisis'.

The truth of the matter is that the problem is more complex than this, but when broken into its component parts is perhaps a bit easier to understand. At the core is an unresolved banking crisis from 2008. The failure to properly recapitalise banks and reduce the leverage on their balance sheets is now causing a chronic lack of confidence in government finances. Put simply, if banks need to be saved again, can governments save them? And who will save the governments?

A solution to Greece is long overdue. It is clear to us the country cannot meet its debts and a form of loss sharing needs to be found. This will be a combination of private and public sector funds. However, once Greece defaults, it is done. A line will be drawn, preferably representing a deterrent to other countries of the dangers of delaying fiscal reform and providing a template for assisting other Eurozone member countries should they need it. At this point we can concentrate on what we think adds most value: analysing stocks instead of analysing politicians.

European equity markets have a clear distinction at the moment between financial companies and non-financials. We believe the issues facing the financial sector make it too risky to make equity investments in this area. Fortunately we don't have to and our attention turns to the rest of the market where we see many attractive opportunities. If valuation was all that mattered these equities would have stopped falling by now. On a realistic view of the profit outlook for 2012 and beyond we are more than happy to be buyers. On a short term basis the call is almost impossible. Valuations might fall further. While we are currently being provided with repeated chances to buy cheaply, this will not persist forever. Very few people committed to the market at the lows in March 2009, perhaps expecting an even lower price later. Investors have to make a choice between buying when fear is high or accepting meagre returns from cash and government bonds for many years as the "reward" for "security". A difficult choice but lucrative for those who get it right.

In the event of a recession what will happen? All recessions have winners and losers and in the short book we have the chance to capitalise on this. Companies with too much debt, pressure on operating models and high valuations are all good candidates. This is part of how we try to protect capital in weak markets.

Fear and negativity is in the ascendancy to the point where good news is being ignored. Interest rates are low and staying that way. Corporates are healthy and valuations much cheaper than before the last downturn. Finally, investors are nervous, not complacent, a sign that much bad news is already in the price.

Paul Casson
October 2011

Henderson Horizon Pan European Alpha Fund



"Long/short investing using the flexibility of UCITS III"

Paul Casson

Paul joined Henderson Global Investors in 2005 as an Associate Director in Pan European Equities before moving on to become a Director of Pan European Equities. He began his career in 1995 at KPMG in Belfast as a Trainee Accountant in their Audit department. In 1997 he joined Martin Currie Investment Management as a Fund Manager for European Equities where he stayed until 2001 before moving to SVM Asset Management as a Fund Manager for Pan-European Equities.

Key parameters

Typical number of positions	40-60
Typical position size	2-5% long 2-4% short
Maximum gross exposure	200%
Market cap focus	Large cap
Typical instruments used	CFD Common stock

Henderson Horizon

Pan European

Alpha

Fund Update

For further information on our products please contact your local sales office or visit our website at www.henderson.com

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