

Henderson

# Fixed Interest Monthly Income

Fund

**Short Report**

For the six months ended 1 September 2012

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## Short Report

For the six months ended 1 September 2012

### Fund Managers

John Pattullo and Jenna Barnard

### Investment objective and policy

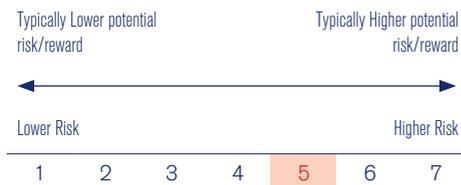
To achieve a high yield. The Fund will invest principally in fixed interest securities including preference shares. The Fund may also invest in securities acquired on the conversion of convertible securities held within the portfolio (or pursuant to schemes of reconstruction), derivatives and forward transactions, warrants, money-market instruments and deposits. Derivatives may be used for meeting the investment objective of the Fund and for efficient portfolio management.

### Other information

On 4 May 2012, Henderson Extra Monthly Income Bond Fund merged into Henderson Fixed Interest Monthly Income Fund. Termination of the Fund was completed on 1 September 2012.

### Synthetic risk and reward profile

The Fund currently has 5 unit classes in issue - A income, A accumulation, I income, Z accumulation and Euro hedged income. These unit classes have a risk and reward profile which is as follows:



The value of an investment in the Fund can go up and down. When you sell your shares, they may be worth less than what you paid for them.

The risk/reward rating above is based on medium-term volatility. In the future, the Fund's actual

volatility could be higher or lower and its rated risk/reward level could change.

The Fund's risk level reflects the following:

- As a category, bonds are less volatile than shares
- Fluctuations in exchange rates may cause the value of your investment to rise or fall

**Counterparty risk** The Fund could lose money if an entity with which it interacts becomes unwilling or unable to meet its obligations to the Fund.

**Default risk** The issuers of certain bonds could become unable to make payments on their bonds.

**Derivatives risk** Certain derivatives could behave unexpectedly or could expose the Fund to losses that are significantly greater than the cost of the derivative.

**Focus risk** The Fund's value may fall where it has concentrated exposure to an issuer or type of security that is heavily affected by an adverse event.

**Liquidity risk** Certain securities could become hard to value or sell at a desired time and price.

**Management risk** Investment management techniques that have worked well in normal market conditions could prove ineffective or detrimental at other times.

The full list of the Fund's risks are contained in the "Risk Warnings" section of the Fund's prospectus.

### Managers' commentary

The period under review was characterised by a global economic slowdown and concerns about the disintegration of the eurozone following the first Greek election in May. This backdrop was supportive for 'safe haven' government bond markets such as the UK, US and Germany and high quality investment grade corporate bonds. Indeed, a desire for safety was the dominant theme of the six-month

period, to such an extent that investors became willing to pay some European governments to take their money. Two-year government bond yields moved into negative territory in a number of core European countries including Germany, Austria and the Netherlands.

Globally, over the summer of 2012, both short and long-term government bond yields fell to levels unseen in modern history. In the case of the Netherlands, which has the longest time series for ten-year government bond yields, yields reached the lowest recorded level since data began in 1517. Central banks responded to this concerning backdrop with forceful action. The European Central Bank announced that it would consider purchasing unlimited quantities of short-dated peripheral government bonds for any country signing up to a programme of conditions. In addition, the US Federal Reserve strongly hinted in a speech by its Chairman Ben Bernanke in August, that it was set to extend its pre-existing quantitative easing policy of buying treasuries and mortgage-backed bonds. These actions from central banks served to reassure nervous investors and encouraged a summer rally in risk assets including credit spreads. Although their effect on economic growth may be muted, these policies continue to inject liquidity into markets, which generally manifests itself in asset price inflation.

The Fund performed well over the six-month period. The corporate bond holdings continued to provide a healthy income stream for investors in an environment of low default risk. Indeed, given the scarcity of yield available in the government bond markets there was continuous demand for both high yield and investment grade corporate bonds from new investors in these markets. As well as a benign

default rate environment, there also continued to be positive event risk for corporate bond investors. Examples include the announcement that Boots (the chemist) was to be acquired by a better-rated company - Walgreens of the US. This increased the value of the debt we owned in Alliance. In addition, another large holding, ITV, saw the company approach investors asking them to name a price at which they would allow the company to redeem their bonds. We participated in this tender at a significantly higher price than the debt was trading before the announcement. These examples serve to illustrate the generally supportive backdrop for corporate bond investing. Understandably, there are still very few examples of companies looking to take on additional debt in order to improve returns for equity investors e.g. through special dividends or aggressive acquisitions.

In addition to the strong returns from the underlying corporate bond holdings, the new fund managers made use of the fund's derivatives power to add additional interest rate risk. This enhanced returns in the second quarter of the year as government bond yields fell and the price of UK and US government bonds, which the Fund had additional exposure to, rose. The decision to add to these markets was a tactical one reflecting themes of capital flight and slowing economic growth. This position was removed and traded actively in subsequent months. Over the medium term, we continue to believe that government bonds offer very poor value as central banks continue to do their best to engineer inflation, which will erode the value of these low yielding bonds. However, in the short term these markets remain well supported by highly risk averse investors looking for the return of their capital, not a return on it.

## Discrete annual performance

	2 Sep 11- 1 Sep 12 %	2 Sep 10- 1 Sep 11 %	2 Sep 09- 1 Sep 10 %	2 Sep 08- 1 Sep 09 %	2 Sep 07- 1 Sep 08 %
Henderson Fixed Interest Monthly Income Fund	9.2	0.7	19.2	(6.7)	(7.0)
IMA £ Strategic Bond sector average	11.1	1.7	15.2	0.1	(1.3)

Source : Morningstar, mid to mid, net income reinvested, net of fees, GBP.

Figures in brackets are negative.

Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

## Summary of Fund performance

Unit class	Net asset value* 01/09/12 p	Net asset value* 01/03/12 p	Net asset value % change
Class A income	21.01	20.31	3.45
Class A accumulation <sup>†</sup>	21.27	-	-
Class I income <sup>†</sup>	99.71	-	-
Class Z accumulation <sup>†</sup>	104.40	-	-
Euro hedge income <sup>†</sup>	241.90	-	-

\* The net asset value is calculated as at close of business on the last business day of the accounting period. The investments are valued at fair value which is generally deemed to be the bid market price.

<sup>†</sup>A accumulation, I income, Z accumulation and Euro hedge income unit classes were launched on 4 May 2012.

## Fund facts

### Accounting dates

Class A, I and Z:  
1 March, 1 September and last calendar day of January, March, April, May,  
June, July, September, October, November and December

### Payment dates

Last working day of every month

Euro hedge income:  
1 March, 1 June, 1 September and 1 December

31 March, 30 June, 30 September  
and 31 December

Total expense ratio	01/09/12	01/03/12
	%	%
Class A	1.45	1.45
Class I	0.78	N/A
Class Z	0.04	N/A
Euro hedge income	1.43	N/A

The total expense ratio (TER) of the Fund is the ratio of the Fund's total operating costs to its average net assets for twelve months.

Ongoing charge figure*	01/09/12
	%
Class A	1.45
Class I	0.78
Class Z	0.04
Euro hedge income	1.43

The ongoing charge figure (OCF) of the Fund is the ratio of the total ongoing charges to the net asset value for twelve months.

\*The OCF replaces the TER. It is calculated in accordance with guidelines issued by the Committee of European Securities Regulators (CESR) with the aim of ensuring a harmonised approach to the calculation of the OCF by all UCITS.

## Performance record

Calendar year	Net revenue (pence per unit)	Highest price (pence per unit)	Lowest price (pence per unit)
<b>Class A income</b>			
2007	1.43	28.11	24.79
2008	1.66	26.21	15.56
2009	1.33	21.86	14.22
2010	1.25	22.18	20.34
2011	1.19	22.87	19.29
2012	0.76*	22.29+	19.63+
<b>Class A accumulation</b>			
2012 **	0.34*	22.56+	20.28+
<b>Class I income</b>			
2012 **	1.56*	101.50+	95.98+
<b>Class Z accumulation</b>			
2012 **	1.55*	105.89+	98.83+
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	Net revenue (Euro cent per unit)	Highest price (Euro per unit)	Lowest price (Euro per unit)
<b>Euro hedge income</b>			
2012 **	6.00*	3.27+	2.94+

\* to 28 September

+ to 1 September

\*\* A accumulation, I income, Z accumulation and Euro hedge income unit classes were launched on 4 May 2012

## Net revenue distribution

Unit class	01/09/12 p	01/09/11 p
Class A income	0.51	0.60
Class A accumulation	0.34	-
Class I income	1.56	-
Class Z accumulation	1.55	-
<hr/>		
Unit class	01/09/12 Euro cent	01/09/11 Euro cent
Euro hedge income	6.00	-

Total interest distributions for the period ended 1 September 2012, comparison is for the same period last year.

**Past performance is not a guide to future performance.**

## Major holdings

as at 01/09/12	%
Ziggo 8% 15/05/2018	2.68
Virgin Media 8.875% 15/10/2019	2.18
Alliance Boots 09/07/2015	1.98
Rexam 6.75% 29/06/2067	1.90
Daily Mail & General Trust 5.75% 07/12/2018	1.89
Investec Bank 9.625% 17/02/2022	1.66
UPC 9.75% 15/04/2018	1.61
Kabel Deutschland 6.5% 29/06/2018	1.57
SPCM 8.25% 15/06/2017	1.56
UK Treasury 4.5% 07/12/2042	1.56

## Asset allocation

as at 01/09/12	%
Corporate bonds	45.17
Eurobonds	37.87
Secured loans	6.38
US bonds	3.85
Gilts	3.03
Derivatives	(0.24)
Net other assets	3.94
<b>Total</b>	<b>100.00</b>

## Major holdings

as at 01/03/12	%
Ziggo 8% 15/05/2018	2.42
Investec Bank 9.625% 17/02/2022	1.90
Virgin Media 8.875% 15/10/2019	1.83
Tullet Prebon 7.04% 06/07/2016	1.74
Legal & General 6.385% perpetual	1.64
Kabel Deutschland 6.5% 29/06/2018	1.62
Rexam 6.75% 29/06/2067	1.62
UPC 9.75% 15/04/2018	1.60
Capital Shopping Centre 6.875% 05/13/2013	1.48
Standard Chartered FRN perpetual	1.47

## Asset allocation

as at 01/03/12	%
Corporate bonds	51.18
Eurobonds	31.52
Secured loans	5.56
US bonds	2.10
Preference shares	0.45
Derivatives	0.27
Net other assets	8.92
<b>Total</b>	<b>100.00</b>

## Report and accounts

This document is a short report of the Henderson Fixed Interest Monthly Income Fund for the six months ended 1 September 2012.

Copies of the annual and half yearly long form report and financial statements of this Fund are available on our website [www.henderson.com](http://www.henderson.com) or contact investor services on the telephone number provided.

## Other information

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

### Issued by:

Henderson Investment Funds Limited  
Registered office:  
201 Bishopsgate,  
London EC2M 3AE  
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by the Financial Services Authority.  
Registered in England No 2678531

### Trustee

National Westminster Bank Plc  
135 Bishopsgate  
London EC2M 3UR

## Risk warning

Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

### Auditor

KPMG Audit plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG



## Contact us

Client Services 0800 832 832  
[www.henderson.com](http://www.henderson.com)

Head Office address:  
201 Bishopsgate, London EC2M 3AE



### Changes of address – regulatory requirements

FSA regulation requires us to send this report mailing to the address held on file on the accounting date of 1 September 2012. If you have confirmed a change of address with us since that date we will ensure all future correspondence will be sent to your new address.

### Online valuations

You can value your Henderson Fixed Interest Monthly Income Fund at any time by logging on to [www.henderson.com](http://www.henderson.com). Select 'Personal Investor' and then access 'Valuations' from the Tools Menu. Simply select the fund you hold and enter the appropriate number of shares.

### Any questions?

Further information about the activities and performance of the fund for this and previous periods can be obtained from the Investment Manager. If you have any questions please call our Client Services Team on 0800 832 832 or email [support@henderson.com](mailto:support@henderson.com).

### Important Information

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