Henderson
GLOBAL INVESTORS

ANNUAL SHORT REPORT

For the year ended
31 October 2016

Henderson UK Index Fund

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Short Report
For the year ended 31 October 2016

Investment Fund Manager

Mark Davey

Investment objective and policy

This fund is designed to track the capital performance of the FTSE All-Share Index and to maintain a gross income yield equal to that of the Index. The fund is managed on a fully invested basis and has a portfolio of, typically, over 600 stocks comprising the FTSE All-Share Index although, occasionally, the fund may invest in stocks outside the Index. The emphasis is on maintaining tracking precision. Stocks are screened to minimise deviation from the Index. The portfolio also maintains a balance between large and small capitalisation stocks. The fund may also invest at the Manager's discretion in other transferable securities, money market instruments, cash and near cash, derivative instruments and forward transactions, deposits and units in collective investment schemes (use may be made of stocklending, borrowing, cash holdings, hedging and other investment techniques permitted in applicable FCA Rules).

Risk and reward profile

The fund currently has 3 types of share class in issue; A income, A accumulation and I accumulation.

The risk and reward profile of each type of share class is as follows:

Typically Lower potential risk/reward — Typically Higher potential risk/reward

Lower Risk — Higher Risk

1	2	3	4	5	6	7

The Synthetic Risk and Reward Indicator (SRRI) is calculated based on historical volatility over a rolling 5 year period, it is reviewed monthly and updated if volatility has changed materially to cause a movement in the SRRI level. The SRRI is an indicator and may not accurately reflect future volatility and market conditions.

The value of an investment in the fund can go up or down. When you sell your shares, they may be worth less than 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 lowest category does not mean risk free.

The fund's risk level reflects the following:

- The fund focuses on a single country
- As a category shares are, in general, more volatile than either bonds or money market instruments
- As a tracker fund, the fund takes no measures to reduce exposure to market risks

The rating does not reflect the possible effects of unusual market conditions or large unpredictable events. Under normal market conditions the following risks may apply:

Counterparty risk The fund could lose money if a counterparty with which it transacts becomes unwilling or unable to meet its obligations to the fund.

Liquidity risk In difficult market conditions 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.

There has been no change to the risk rating in the year.

The full list of the fund's risks are contained in the "Risk Factors" section of the fund's Prospectus.

The SRRI conforms to the ESMA guidelines for the calculation of the SRRI.

Investment review

Over the year ending 31 October 2016, the Henderson UK Index Fund accumulation share class returned 11.6%, compared with a one-year return of 12.2% for the FTSE All-Share Total Return Index.

Starting the year in review in November 2015, the UK Office for Budget Responsibility (OBR) handed the Chancellor an early Christmas present in the form of a revenue windfall. It concluded that government tax receipts are likely to come in higher than forecast, together with slightly lower debt repayments due to a drop in market interest rates. The UK growth forecast was duly upgraded from 2.3% to 2.4% for next year, despite the OBR's more negative view on overall global growth.

At the beginning of 2016, international markets were again concerned over the actions taken by the Chinese authorities to devalue the renminbi, as this was interpreted as a sign of a potential hard landing. However, risk appetite returned soon after. The relief rally in growth assets that began in the middle part of February continued well into March. Sharp gains in the energy sector in February, and improved global manufacturing data in March, provided the foundation for the improvement in sentiment during the second half of the first quarter of 2016. Continued active and verbal support from central banks in response to the deteriorating global growth outlook also aided the recovery. UK equities ended the first quarter broadly flat following a strong recovery from their lows of mid-February.

From a sector perspective in the UK, commodity and consumer-related sectors had a positive impact on performance. Of particular note were the re-rating (sector reassessment by the market) of the oil & gas sector as commodity prices rallied in tandem with the weakening dollar and the completion of the merger between Royal Dutch Shell and BG. Sterling depreciated further as the risk of a British exit from the European Union (EU) came to the fore following the announcement of the referendum date. This had a particularly negative impact on the performance of the banking sector due to the prospect of reduced net interest margins if interest rates were to remain lower for longer.

Global economic releases were mixed in April, hinting at underlying weaknesses across the board. The month began with the release of purchasing manager indices, which indicated a return to growth in the US and Chinese manufacturing sectors after their steady contraction over the past half-year. There were also some positive numbers from the eurozone, with GDP growth exceeding expectations. The US first quarter GDP release was underwhelming at a 0.5% rate of growth (annualised), and eurozone inflation continued to disappoint to the downside.

However, during the second quarter of 2016, the Brexit referendum was the defining event, with an announcement on 24 June revealing that the UK had voted by a majority of 52% to 48% to leave the EU. The initial market reactions were pronounced: sterling fell dramatically, safe haven assets such as government bonds rallied and equity markets declined. Equities generally staged a recovery in the final days of the quarter, supported by expectations that interest rates would stay lower for longer, that the Bank of England (BoE) could cut rates and because of the lack in clarity surrounding the next steps towards Brexit. The post-referendum UK market rally was evident, with the FTSE 100 ending June as the best-performing index. However, markets still worried about Italian banks' capital shortfall, and observed euro area banks falling over 21% in June. While UK banks did fall 30-40%, there was some recovery by the end of the month.

There were no policy changes from the European Central Bank in the second quarter, but it continued with its government bond purchases and started buying corporate bonds in June. Ever-lower yields were the dominant theme in the eurozone, as bond yields made steady progress during the quarter, rallying further in the post-Brexit vote period (prices move inversely to yields). Ten-year German bund yields hit a record low of -0.17% before ending June at -0.13%, down from a positive yield of 0.15% at the start of the quarter. Following the Brexit vote, the UK market rallied from what were already record low yields, with the 10-year gilt yield ending the quarter at 0.87% versus 1.42% three months earlier.

Investment review (continued)

During the third quarter, the BoE surprised markets with no action in July, despite the strong probability for a 25 basis point (bps) cut in the bank's policy rate just the day before. The market reaction was contained, however, as the BoE signalled strongly that new stimulus would be forthcoming at the August Monetary Policy Committee meeting. In August, the BoE did not disappoint and engaged in some easing measures by reducing the policy rate by 25bps and by extending its quantitative easing (QE; central bank liquidity measures) programme by £60bn over six months. The QE update included a private sector asset purchase programme (consisting of up to £10bn of corporate bonds over the next 18 months) and the introduction of a new Term Funding Scheme.

August data saw desirable results in some areas despite continued anticipated fallout from the Brexit referendum. The Confederation of British Industry's quarterly manufacturing and retail survey balances for August rallied from their July declines, suggesting there was no break in activity immediately following the Brexit vote, and that growth has only decelerated moderately in the aftermath of the referendum. The GDP growth estimates from the National Institute of Economic and Social Research moderated to 0.3% in the three months to August from 0.4% in the three months to July and 0.6% in the three months to June.

Fears of a hard Brexit resurfaced in September, drowning out UK data improvement from August and September. During the month, sterling declined and UK equities outperformed. Brexit and central bank moves were not the only headliners in the third quarter. The Italian banks' non-performing loans/capital shortfall issue intensified, while trepidations grew over Deutsche Bank's capital position (falling nearly 20% in September). Weaknesses in the banking sector contributed to the general underperformance of eurozone equities.

Investors found very few places to avoid negative returns as perceived safe haven investments and riskier growth assets both came under pressure during October. One of the most identifiable causes for the angst across asset classes was a sharp rise in global sovereign bond yields that coincided with a paring back of expectations for future global central bank policy support. While much of this year was dominated by notable outperformance of high yielding asset classes that benefit from further suppression of yields by global central banks, October could be viewed as a cautionary preview of what can happen if the narrative suddenly shifts to one where monetary policy support begins to be unwound.

The most notable event in the UK occurred earlier in October when sterling fell to a 31-year low after UK Prime Minister Theresa May's speech at the Conservative Party conference touched upon Brexit timing and processes. On top of this, the pound experienced what can only be described as a 'flash crash' in the early hours of 7 October. The pound/US dollar fell by 7% to a low of 1.15. Causes of the abrupt drop in sterling have been attributed to lower trading volume in Asian markets or to human error. The pound recovered from this but overall ended the month 5.4% lower. After reaching record lows in July following the surprise Brexit vote, 10-year US, German and UK government bond yields surged 20, 28 and 59bps, respectively, in October, matching pre-Brexit vote levels.

Performance summary

	31 Oct 15- 31 Oct 16 %	31 Oct 14- 31 Oct 15 %	31 Oct 13- 31 Oct 14 %	31 Oct 12- 31 Oct 13 %	31 Oct 11- 31 Oct 12 %
Henderson UK Index Fund	11.6	2.3	0.2	20.9	8.3
FTSE All-Share Total Return Index	12.2	3.0	1.0	22.8	9.8

Source: Morningstar, bid to bid and net of fees as at 12 noon valuation point, based on the performance of Class A accumulation.

Benchmark values are as at close of business.

Please remember that past performance is not a guide to future performance. The value of an investment and the revenue 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.

Fund facts

Accounting dates	Payment dates
31 October, 30 April	31 December, 30 June

Ongoing charge figure

	2016 %	2015 %
Class A accumulation	0.71	0.70
Class A income	0.71	0.70
Class I accumulation	0.37	0.37

The annualised ongoing charge figure (OCF) of the fund is calculated as the ratio of the total ongoing charges to the average net asset value for twelve months.

The calculation is in accordance with guidelines issued by the European Securities and Markets Authority (ESMA).

Comparative tables as at 31 October 2016

	Class A accumulation			Class I accumulation		
	2016 (pence per share)	2015 (pence per share)	2014 (pence per share)	2016 (pence per share)	2015 (pence per share)	2014 (pence per share)
Change in net assets per share						
Opening net asset value per share	494.70	483.35	481.81	510.57	497.65	494.80
Return before operating charges*	60.76	14.89	4.95	62.85	14.85	4.65
Operating charges	(3.56)	(3.54)	(3.41)	(1.93)	(1.93)	(1.80)
Return after operating charges*	57.20	11.35	1.54	60.92	12.92	2.85
Distributions on accumulation shares	(11.60)	(13.02)	(9.03)	(13.68)	(15.15)	(10.76)
Retained distributions on accumulation shares	11.60	13.02	9.03	13.68	15.15	10.76
Closing net asset value per share	551.90	494.70	483.35	571.49	510.57	497.65
* after direct transaction costs of:	0.18	0.06	0.17	0.19	0.06	0.17
Performance						
Return after charges	11.56%	2.35%	0.32%	11.93%	2.60%	0.58%
Other information						
Closing net asset value (£000s)	187,343	193,392	217,532	33,294	13,486	4,987
Closing number of shares	33,944,985	39,092,839	45,005,446	5,825,819	2,641,417	1,002,117
Operating charges	0.71%	0.70%	0.70%	0.37%	0.37%	0.36%
Direct transaction costs	0.03%	0.01%	0.03%	0.03%	0.01%	0.03%
Prices						
Highest share price (pence)	566.20	538.30	506.70	586.20	554.80	520.90
Lowest share price (pence)	434.60	463.20	449.90	448.90	476.60	462.70

	Class A income		
	2016 (pence per share)	2015 (pence per share)	2014 (pence per share)
Change in net assets per share			
Opening net asset value per share	364.63	369.03	375.48
Return before operating charges*	44.22	8.04	3.08
Operating charges	(2.61)	(2.66)	(2.61)
Return after operating charges*	41.61	5.38	0.47
Distributions on income shares	(8.50)	(9.78)	(6.92)
Closing net asset value per share	397.74	364.63	369.03
* after direct transaction costs of:	0.13	0.04	0.13
Performance			
Return after charges	11.41%	1.46%	0.13%
Other information			
Closing net asset value (£000s)	21,848	21,850	23,901
Closing number of shares	5,493,256	5,992,374	6,476,684
Operating charges	0.71%	0.70%	0.70%
Direct transaction costs	0.03%	0.01%	0.03%
Prices			
Highest share price (pence)	411.90	405.20	386.80
Lowest share price (pence)	320.30	346.40	343.50

Performance values are at close of business and may differ from the performance summary.

Operating charges

Operating charges are expenses associated with the maintenance and administration of the fund on a day-to-day basis that are actually borne by the share class.

Past performance is not a guide to future performance.

Major holdings

as at 2016	%
HSBC Holdings	5.46
BP	4.05
Royal Dutch Shell 'A'	3.94
British American Tobacco	3.90
Royal Dutch Shell 'B'	3.53
GlaxoSmithKline	3.50
Vodafone	2.66
AstraZeneca	2.58
Diageo	2.45
Reckitt Benckiser	2.05

Major holdings

as at 2015	%
HSBC Holdings	4.71
British American Tobacco	3.42
BP	3.36
GlaxoSmithKline	3.28
Royal Dutch Shell 'A'	3.15
Vodafone	2.72
AstraZeneca	2.52
Diageo	2.26
Lloyds Banking	2.15
Royal Dutch Shell 'B'	1.96

Asset allocation

as at 2016	%
Financials	23.83
Consumer Goods	15.18
Oil & Gas	12.12
Consumer Services	11.18
Industrials	9.72
Health Care	9.26
Basic Materials	6.54
Telecommunications	4.31
Utilities	3.77
Technology	0.87
Derivatives	0.02
Other net assets	3.20
Total net assets	**100.00**

Asset allocation

as at 2015	%
Financials	25.55
Consumer Goods	16.52
Consumer Services	12.37
Oil & Gas	10.77
Industrials	9.19
Health Care	8.32
Telecommunications	5.01
Basic Materials	4.89
Utilities	3.73
Technology	1.57
Derivatives	0.07
Other net assets	2.01
Total net assets	**100.00**

Report and accounts

This document is a short report of the Henderson UK Index Fund for the year ended 31 October 2016.

Copies of the annual and half yearly long form reports of this fund are available on our website www.henderson.com or contact Client 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.

Risk warning

Please remember that past performance is not a guide to future performance. The value of an investment and the revenue 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.

Issued by:
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Member of the Investment Association and authorised and regulated by the Financial Conduct Authority.
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Changes of address – regulatory requirements
FCA regulation requires us to send this report mailing to the address held on file on the accounting date of 31 October 2016. 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 UK Index Fund at any time by logging on to 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.

HGI44757/1016