



# ANNUAL SHORT REPORT

For the year ended  
31 January 2017

**Henderson**  
GLOBAL INVESTORS

**Henderson Core 3 Income Fund**

# Henderson Core 3 Income Fund

## Short Report

For the year ended 31 January 2017

### Investment Fund Manager

Henderson Multi-Asset Team

### Investment objective and policy

The fund aims to provide a sustainably high income return whilst maintaining a moderately low level of volatility (variation of returns) over the medium to long term.

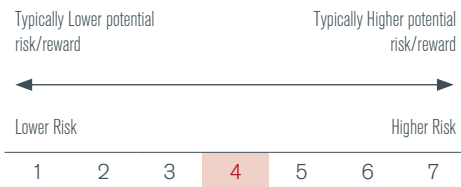
The fund is managed so that it aims not to deviate from predetermined parameters of forecast volatility, as measured by an independent risk rating body, over a medium to long term rolling period of at least 5 years. However, during this period the fund's forecast volatility may be outside of such parameters if the portfolio manager believes it is expedient to do so in order to maintain investment performance. Observing the forecast volatility parameters will be prioritised over the generation of income.

The fund will invest in a combination of transferable securities, fixed income securities, investment companies, collective investment schemes, exchange traded funds (ETFs), money market instruments, deposits, cash and near cash.

Derivatives and forward transactions may be used by the fund for investment purposes to achieve asset allocation and for the purposes of efficient portfolio management.

### Risk and reward profile

The fund currently has 4 types of share in issue: A accumulation, A income, I accumulation and I income. The risk and reward profile of each type of share is as follows:



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 share class appears at 4 out of 7. Share classes in higher categories have shown greater and/or more frequent variations in share price in the past 5 years than those in lower categories. The lowest category does not mean risk free.

The fund targets a risk profile of 3 as calculated by Distribution Technology who is engaged by Henderson as an independent provider of risk profiling tools to funds and investment advisers. Distribution Technology profiles funds using a rating scale of 1-10 and takes into consideration risk targets and other factors as well as past data. Investor should note that the Distribution Technology risk profile is different to the "Risk and Reward Profile" scale above, which is an industry standard required by the FCA using a scale of 1-7 and which only takes into account past data. For further information on the Distribution Technology risk profile please contact us or refer to the fund's Prospectus.

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:

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

**Collective investment scheme risk** The fund may invest in other types of collective investment schemes which can involve different risks to investing directly in the underlying assets. Such

schemes may increase risk due to investment in risky assets such as property or commodities, restrictions on withdrawals, less strict regulation and use of derivatives. The value of your investment may fall as a result.

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

**Derivatives risk** Derivatives use exposes the fund to risks different from, and potentially greater than, the risks associated with investing directly in securities and may therefore result in additional loss, which could be significantly greater than the cost of the derivative.

**Exchange rate risk** Changes in currency exchange rates may cause the value of your investment and any income from it to rise or fall.

**Hedging risk** Measures designed to reduce the impact of certain risks may not be available or may be ineffective.

**Leverage risk** Leverage arises from entering into contracts or derivatives whose terms have the effect of magnifying an outcome, meaning profits and losses from investment can be greater.

**Liquidity risk** Any security could become hard to value or to sell at a desired time and price, increasing the risk of investment losses.

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

There have been no changes to the risk rating in the year.

## Investment review

The Henderson Core 3 Income Fund returned 10.6% over the year under review.

With the global macro economy gathering significant momentum over the year, it is unsurprising that the fund's risk assets contributed most plentifully to investment returns. UK equity holdings such as the Henderson Institutional High Alpha UK Equity Fund performed well, particularly given our preference for large cap focused strategies. International equities delivered strong capital growth, which was further enhanced by the weakness in sterling. Top performing equity holdings included the JP Morgan Global Emerging Markets Fund (+65.4%), the CF Morant Wright Nippon Yield Fund (+37.3%) and the Princess Private Equity Trust (+46.1%).

There were also positive absolute returns generated within the allocation to fixed income. Government bonds and high quality corporate debt saw volatility through political events in 2016, but rose in capital value over the year, with the iShares UK Gilts up +2.8% and the SSGA SPDR Barclays Capital UK Corporate Bond Fund rising +2.2%. This volatility presented opportunities for active fixed income managers, which were captured by the Henderson Fixed Interest Monthly Income Fund (+8.4%) and the TwentyFour Select Monthly Income Fund (+14.8%).

Elsewhere, there was a mixed contribution from alternatives. The Henderson UK Property PAIF was down -4.0% over the year amid a challenging liquidity environment following the EU referendum result (Brexit) and a switch in its pricing methodology. Other alternatives saw increased interest, such as the Picton Property Income Trust rising +19.4% and the International Public Partnerships Trust gaining +14.3%.

Within UK equities, the Schroder Income & Growth Fund was sold and the RWC Enhanced Income Fund was added for its competitive yield. Profits were taken from Investec and the position was completely sold. Elsewhere, in the direct equity sleeve, ING Group was added to replace Syngenta.

During the second quarter of 2016, we fully redeemed the holding in the Kames High Yield Bond Fund following an announcement regarding a change to the portfolio manager. Allocations to cyclical regions, including Europe, were reduced by selling Eurostoxx 50. Meanwhile, in Japan, a new holding was added in the CF Morant Wright Nippon Yield Fund. In addition, cash in the portfolio was raised towards the end of the quarter as the Brexit referendum result gave rise to wider concerns about risk assets and future economic activity in the UK and Europe.

Fixed income themes were broadly consistent over the year, with a preference for high yield corporate debt over expensively valued government bonds. The Henderson Horizon Global High Yield Bond Fund replaced the iShares Euro High Yield Corporate Bond for its active approach in an asset class that has performed well through 2016. Government bond exposures were actively managed amid market volatility and political set piece events, with new positions added in the iShares UK Gilts towards the end of the year as market expectations for higher inflation and growth seemed optimistic as Brexit approaches.

UK commercial property was trimmed throughout the first half of the year as political risks increased, and the fund was able to take some profits from a position that had performed well. Other alternatives trades included adding a new position in International Public Partnerships Trust and completely selling out of Empiric Student Property Trust.

Our outlook remains optimistic, with a broad deflationary tilt to our portfolios. We are relatively balanced in relation to short-term foreign exchange views, but we continue to hold a negative view of sterling, particularly versus the US dollar, over the medium term. As we look further into 2017, we are monitoring the political situation in Europe and, increasingly, the US. We believe that we will get an opportunity to add to our emerging markets exposure in coming months as fears about a protectionist US and the stronger dollar are currently overshadowing a significant improvement in underlying macro momentum.

## Performance summary

	31 Jan 16 - 31 Jan 17 %	31 Jan 15 - 31 Jan 16 %	31 Jan 14 - 31 Jan 15 %	31 Jan 13 - 31 Jan 14 %	24 Sep 12 <sup>†</sup> - 31 Jan 13 %
Henderson Core 3 Income Fund	10.6	(3.1)	7.8	2.5	4.1

Source: Morningstar, bid to bid and net of fees as at 12 noon valuation point, based on performance of Class I income share class.

<sup>†</sup> Inception date.

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.

## Comparative tables

	Class A accumulation			Class I accumulation		
	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)
<b>Change in net assets per share</b>						
Opening net asset value per share	54.82	56.60	52.71	111.45	114.25	106.14
Return before operating charges*	6.10	(1.05)	4.67	12.29	(2.02)	9.01
Operating charges	(0.77)	(0.73)	(0.78)	(0.85)	(0.78)	(0.90)
Return after operating charges*	5.33	(1.78)	3.89	11.44	(2.80)	8.11
Distributions on accumulation shares	(1.98)	(1.80)	(1.84)	(3.89)	(3.55)	(3.66)
Retained distributions on accumulation shares	1.98	1.80	1.84	3.89	3.55	3.66
Closing net asset value per share	60.15	54.82	56.60	122.89	111.45	114.25
* after direct transaction costs of:	0.05	0.05	0.07	0.11	0.11	0.13
<b>Performance</b>						
Return after charges	9.72%	(3.14%)	7.38%	10.26%	(2.45%)	7.64%
<b>Other information</b>						
Closing net asset value (£000s)	96	40	230	3,544	986	300
Closing number of shares	160,097	73,410	405,587	2,883,639	884,816	262,177
Operating charges	1.31%	1.36%	1.41%	0.71%	0.76%	0.81%
Direct transaction costs	0.09%	0.09%	0.12%	0.09%	0.09%	0.12%
<b>Prices</b>						
Highest share price (pence)	60.54	57.92	56.85	123.70	117.30	115.00
Lowest share price (pence)	53.77	54.16	52.91	109.30	110.10	106.50

## Comparative tables (continued)

	Class A income			Class I income		
	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)	2017 (pence per share)	2016 (pence per share)	2015 (pence per share)
<b>Change in net assets per share</b>						
Opening net asset value per share	48.99	52.57	50.63	99.74	106.14	101.97
Return before operating charges*	5.37	(1.14)	4.49	10.83	(2.17)	8.65
Operating charges	(0.67)	(0.66)	(0.73)	(0.74)	(0.71)	(0.84)
Return after operating charges*	4.70	(1.80)	3.76	10.09	(2.88)	7.81
Distributions on income shares	(1.92)	(1.78)	(1.82)	(3.78)	(3.52)	(3.64)
Closing net asset value per share	51.77	48.99	52.57	106.05	99.74	106.14
* after direct transaction costs of:	0.05	0.05	0.06	0.09	0.10	0.13
<b>Performance</b>						
Return after charges	9.59%	(3.42%)	7.43%	10.12%	(2.71%)	7.66%
<b>Other information</b>						
Closing net asset value (£000s)	23	27	32	4,847	2,651	1,621
Closing number of units	43,486	55,851	61,688	4,570,834	2,657,232	1,527,781
Operating charges	1.31%	1.36%	1.41%	0.71%	0.76%	0.81%
Direct transaction costs	0.09%	0.09%	0.12%	0.09%	0.09%	0.12%
<b>Prices</b>						
Highest unit price (pence)	52.48	53.32	52.80	107.30	108.10	106.80
Lowest unit price (pence)	48.05	48.54	50.62	97.84	98.77	102.00

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.

## Fund facts

### Accounting dates

31 July, 31 January

### Payment dates

Monthly (last business day of each month)

### Ongoing charge figure

	2017 %	2016 %
Class A	1.31	1.36 <sup>1</sup>
Class I	0.71	0.76 <sup>2</sup>

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 OCF includes a synthetic element of 0.18% (2016: 0.17%) to incorporate the OCF of underlying funds.

The ACD made a contribution to limit the fund's OCF ratio.

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

The fund is a non-UCITS fund and we have used this disclosure to enable comparison across our fund range.

<sup>1</sup> With effect from 1 October 2015, the annual management charge decreased from 1.20% to 1.10%.

<sup>2</sup> With effect from 1 October 2015, the annual management charge decreased from 0.60% to 0.50%.

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

## Major holdings

as at 2017	%
Henderson Fixed Interest Monthly Income Fund A+	8.22
AXA US Short Duration High Yield Bond Fund	3.90
iShares IV USD Short Duration Corporate Bond UCITS	3.24
Henderson Horizon Global High Yield Bond Z3 Inc+	3.09
Henderson UK Property PAIF Z Income+	2.90
iShares UK Gilts	2.80
RWC Enhanced Income Fund	2.61
ETFS Physical Gold	2.48
iShares II USD TIPS ETF	2.37
iShares USD Corporate Bond UCITS ETF	2.35

+ Related party to the fund.

## Major holdings

as at 2016	%
Henderson Fixed Interest Monthly Income Fund A+	7.87
Henderson UK Property OEIC Z Income +	5.73
SSGA SPDR Barclays Capital UK Corporate Bond Fund	3.77
iShares USD Corporate Bond	3.55
RWC Enhanced Income Fund	2.90
iShares UK Dividend	2.43
iShares USD Corporate Bond Interest Rate Hedged	2.04
Carador Income Fund 'C'	1.99
AXA US Short Duration High Yield Bond Fund	1.90
SSGA SPDR Barclays Capital 1-5 Year Gilt	1.90



<b>Asset allocation</b>	
<b>as at 2017</b>	<b>%</b>
High Yield Bonds	13.70
Investment Grade Bonds	9.23
Diversified Bonds	8.76
Government Bonds	8.69
UK Equity	7.71
Europe ex UK Equity	7.24
Property	5.33
Commodities	3.02
North America Equity	2.63
Global Emerging Market Equity	2.45
Asia Ex Japan Equity	2.03
Alternatives	1.74
Private Equity	0.98
Japan Equity	0.55
Specialist Equity	0.44
Derivatives	0.56
Other net assets	24.94
<b>Total net assets</b>	<b>100.00</b>

<b>Asset allocation</b>	
<b>as at 2016</b>	<b>%</b>
Investment Grade Bonds	10.64
High Yield Bonds	10.12
Diversified Bonds	9.47
Property	9.38
UK Equity	8.84
Europe ex UK Equity	8.27
Government Bonds	4.43
Alternatives	2.75
North America Equity	2.09
Asia Ex Japan Equity	1.81
Specialist Equity	1.41
Global Emerging Market Equity	1.35
Commodities	1.05
Derivatives	(0.35)
Other net assets	28.74
<b>Total net assets</b>	<b>100.00</b>

## Report and accounts

This document is a short report of the Henderson Core 3 Income Fund for the year ended 31 January 2017.

Copies of the annual and half yearly long and short form reports of this fund are available on our website [www.henderson.com](http://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.

### Issued by:

Henderson Investment Funds Limited  
Registered office:  
201 Bishopsgate,  
London EC2M 3AE  
Member of the Investment Association and  
authorised and regulated  
by the Financial Conduct Authority.  
Registered in England No 2678531

### Shareholder Administrator

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

## 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.

### Depository

National Westminster Bank Plc  
135 Bishopsgate  
London EC2M 3UR

### Auditor

PricewaterhouseCoopers LLP  
141 Bothwell Street  
Glasgow  
G2 7EQ

## Further information

### Shareholder enquiries

If you have any queries about your fund holding, either contact your professional adviser or telephone us on one of the numbers below:

For dealing enquiries including buying and selling shares please telephone at local rate: **0845 608 8703**

The following line is also available:

Client Services: **0800 832 832**

or you can contact us via e-mail at [support@henderson.com](mailto:support@henderson.com)

We may record telephone calls for our mutual protection and to improve customer service.

### Online valuations

You can value your Henderson Core 3 Income Fund at any time by logging on to [www.henderson.com](http://www.henderson.com). Select 'UK Private Investor' and then access 'Valuations' from the Tools Menu. Simply select the fund you hold and enter the appropriate number of shares.

### Important Information

Henderson Global Investors is the name under which Henderson Global Investors Limited (reg. no. 906355), Henderson Fund Management Limited (reg. no. 2607112), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), AlphaGen Capital Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), Gartmore Investment Limited (reg. no. 1508030), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services. Telephone calls may be recorded and monitored. Ref: 34V

Unless otherwise stated, all data is sourced by Henderson Global Investors.

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