Henderson

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CREDIT ALPHA FUND

Henderson
GLOBAL INVESTORS

Fund facts at 31 December 2016

Structure
Open Ended Investment Company (Sophisticated UCITS)

Domicile
United Kingdom

Launch date
02 July 2007

Minimum investments
$1,000

Subsequent
£100

Share classes available
GBP, EUR, USD

Base currency
GBP

Sedol code
B3KTJD3

Bloomberg code
HENCRAA LN

Fees
Ongoing charge: 1.66%
Annual management fee: 1.50%
Performance fee: 20% of net performance over LIBOR (relative to the hurdle rate and high water mark)

Target return
Benchmark +5% p.a. gross

Benchmark
3 Month LIBOR

Target volatility
Typical vol 3-6%

Target exposure
-0.5x to +0.5x, net 2-3x gross

About the fund

The Henderson Credit Alpha Fund is a long short credit fund primarily taking positions in credit default swaps and corporate bonds. The fund has a global opportunity set spanning high grade and high yield. Currency risk and interest rate risk are hedged using forwards, government bond futures and interest rate swaps.

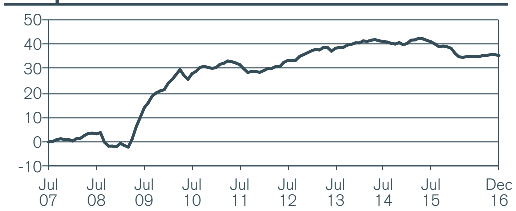
Please note that as of 31 December 2015, Chris Bullock no longer managed this fund.

Fund size £467.16m

	GBP	EUR
NAV per share	1.35	5.11
1 month	-0.32	-0.41
Year to date	-2.16	-3.10
1 year	-2.16	-3.10
Since inception (annualised)	3.21	0.32

Source: Henderson Global Investors to 30 Dec 16*

Fund performance GBP



Monthly performance (%)

GBP	2007	2008	2009	2010	2011	2012
	0.92	-2.92	23.64	7.16	-1.18	6.21

GBP	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2013	0.54	0.36	-0.08	0.72	-0.01	-1.07	0.81	0.28	0.06	0.62	0.24	0.40	2.90
2014	0.00	0.56	-0.13	0.36	0.13	-0.31	-0.13	-0.22	-0.38	-0.23	0.47	-0.64	-0.52
2015	0.44	0.91	0.02	0.49	-0.18	-0.42	-0.40	-0.63	-0.84	0.25	-0.21	-0.45	-1.03
2016	-1.49	-1.03	-0.20	0.25	0.00	-0.02	-0.06	0.43	-0.04	0.23	0.06	-0.32	-2.16

EUR	2010	2011	2012
	0.79	-1.10	5.73

EUR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2013	0.49	0.34	-0.12	0.69	-0.04	-1.10	0.77	0.27	0.05	0.57	0.65	0.37	2.67
2014	-0.02	0.56	-0.14	0.33	0.11	-0.33	-0.18	-0.24	-0.41	-0.29	0.44	-0.66	-0.83
2015	0.39	0.90	0.04	0.52	-0.26	-0.51	-0.45	-0.71	-0.90	0.19	-0.23	-0.55	-1.57
2016	-1.56	-1.05	-0.31	0.20	-0.09	-0.14	-0.19	0.35	-0.08	0.16	-0.01	-0.41	-3.10

Source: Henderson Global Investors to 30 Dec 16*

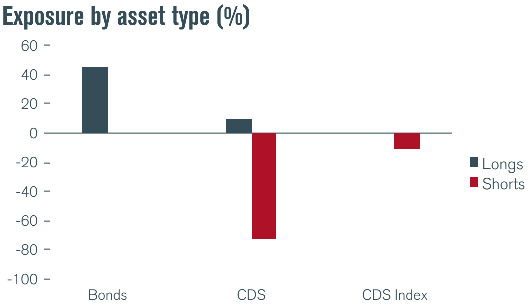
*Performance from inception to 31 March 2010 is on the I Acc gross share class track record net of 1.5% AMC and performance fees to create a simulated A share class return. The A share class return is used from 31 March 2010 onwards. The A share class is net of 1.5% AMC and performance fees. All data is close of business.

Holdings and credit exposures

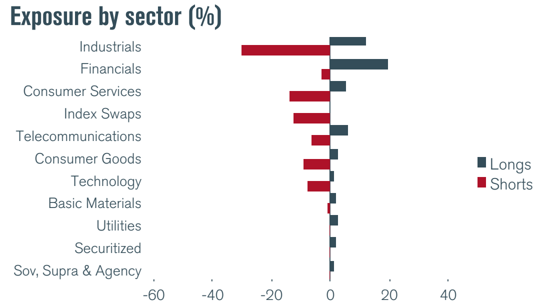
Top five holdings	Rating	Net Exposure %
Royal Caribbean Cruises	BB	5.0
Meccanica USA	BB	3.2
Telecom Italia	BB	2.9
Agrokor	Secured Loans	2.6
Kennedy Wilson Europe Real Estate	BBB	2.4

Bottom five holdings	Rating	Net Exposure %
Ladbrokes Group Finance	BB	-5.6
IBM	AA	-4.7
Carnival	A	-4.6
Deutsche Lufthansa	BB	-4.5
Stena	B	-3.8

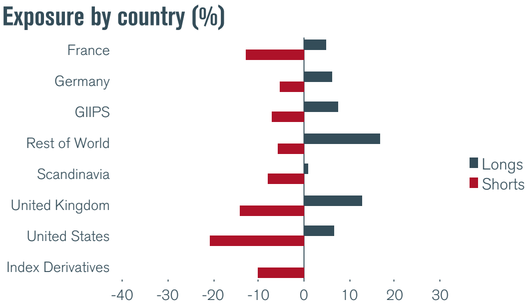
Exposure by asset type (%)



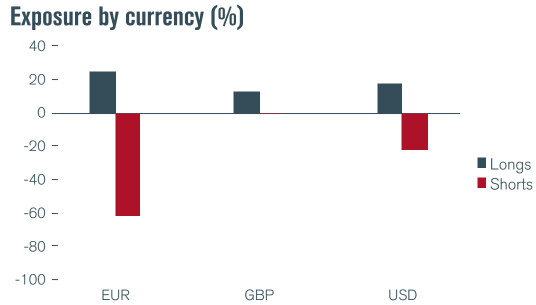
Exposure by sector (%)



Exposure by country (%)



Exposure by currency (%)



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Henderson GLOBAL INVESTORS

Fund manager
Tom Ross

Fund manager
Stephen Thariyan

Managers profile

Stephen Thariyan is the Global Head of Credit in charge of the 30-strong credit team of portfolio managers and analysts at Henderson. Prior to joining Henderson in 2007 as Head of Credit, Stephen was a portfolio manager at Rogge Global Partners responsible for investing in corporate bonds and credit derivatives globally. He was previously a director and senior analyst at NatWest Markets' credit rating and research unit where he led teams of sector analysts in credit research. He started his career as an accountant at Ernst & Young in 1988 and later moved to become senior auditor at Chevron Corporation. Stephen graduated from the University of Newcastle-Upon-Tyne with a BA (Hons) in Accountancy and Financial Analysis.

Tom Ross joined Henderson in 2002 and has been co-managing Henderson's absolute return credit funds since 2006. In August 2015 he was appointed co-manager of a number of European and global bond funds. Prior to fund management, Tom specialised in credit trading on Henderson's centralised dealing desk where he was able to build strong relationships with market participants in order to gain flow and positioning information to supplement credit views. Tom graduated from Nottingham University with a BSc (Hons) in Biology and is a CFA charterholder.

Managers comments

December was a positive month for credit markets. This was in spite of a rate hike in the US and a more hawkish sounding US Federal Reserve (Fed), and an announced reduction in the level of asset purchases from the European Central Bank (ECB) and jitters over the Italian banking sector.

Credit markets were buoyed by better than expected economic data and positive moves from the commodities market. Sterling-denominated assets were among the best performers as the asset class gained momentum after lagging the US credit market since the Brexit announcement. Other strong performers included lower rated bonds (particularly in the US), while at the sector level financials and commodity-related issuers performed well.

We started the month on a cautious footing, with a short overall exposure. This positioning proved unhelpful given the broad credit rally, with short positions and a position in credit derivative iTraxx Crossover detracting.

In the tactical strategy, positive contributions came from long positions in freight company CMA, which performed well following good results. As a result we are looking to take profits. Long position in high yield packaging company Lecta and a long standing position in Spanish construction firm Isolux both rallied with the former performing well on strong demand, while the latter benefited from ongoing restructuring and asset sales, with further price appreciation likely. While our exposure to financials is relatively low, performance benefited from a new issue we bought in Austrian bank RBI. The position performed well after the issuer made asset sales putting it ahead of its core tier 1 regulatory capital target. Holdings in UK insurers (Phoenix, Friends Provident), as well as Socgen AT1 bonds also benefited returns.

In the pair trades strategy, a long position in carmaker Jaguar outperformed a short to Italian industrial vehicle company CNH, with the former benefiting from a recent upgrade and from the ongoing weakness of sterling. In addition, our long position in the senior bonds of European debt collector Garfunkel outperformed versus the credit default swap (CDS) on the company's subordinated debt, which had been trading at similar levels to the bonds.

The thematic strategy dragged on performance thanks in part to CDS short positions which broadly detracted as markets rallied, but also due to a long position in a payment-in-kind (PIK) loan from Balkan food manufacturer Agrokor. The position declined as the issuer struggled due to a price war in one of its local markets and a downgrade by the rating agencies. Offsetting some of the weakness, a long position in Leonardo-Finmeccanica contributed to performance on expectations of an upgrade to investment grade, while our holding in in Mexican oil company Pemex retraced prior losses as the US dollar stabilised and oil prices rose following an agreement by OPEC to cut production.

Politically inspired volatility is likely to be a hallmark of 2017. Concerns include how Donald Trump's administration follows through on fiscal policy commitments, while in Europe we expect to see the UK trigger article 50 and elections in the Netherlands, France, Germany, and possibly Italy. Central banks will also remain in the spotlight, with the Fed and Bank of England in particular likely to be less accommodative in the face of higher commodity and employment driven inflationary tailwinds. In corporate bond markets, while default rates remain low, we remain cautious given how well markets performed into year-end. We do not think valuations are compelling at current levels, despite robust company fundamentals, low default rates and relatively low corporate leverage.

In terms of positioning, we maintain our relatively low net exposure and will look to use any market strength to take profits on long positions and increase our short exposure.

Important information

For further information please visit our website at
www.henderson.com