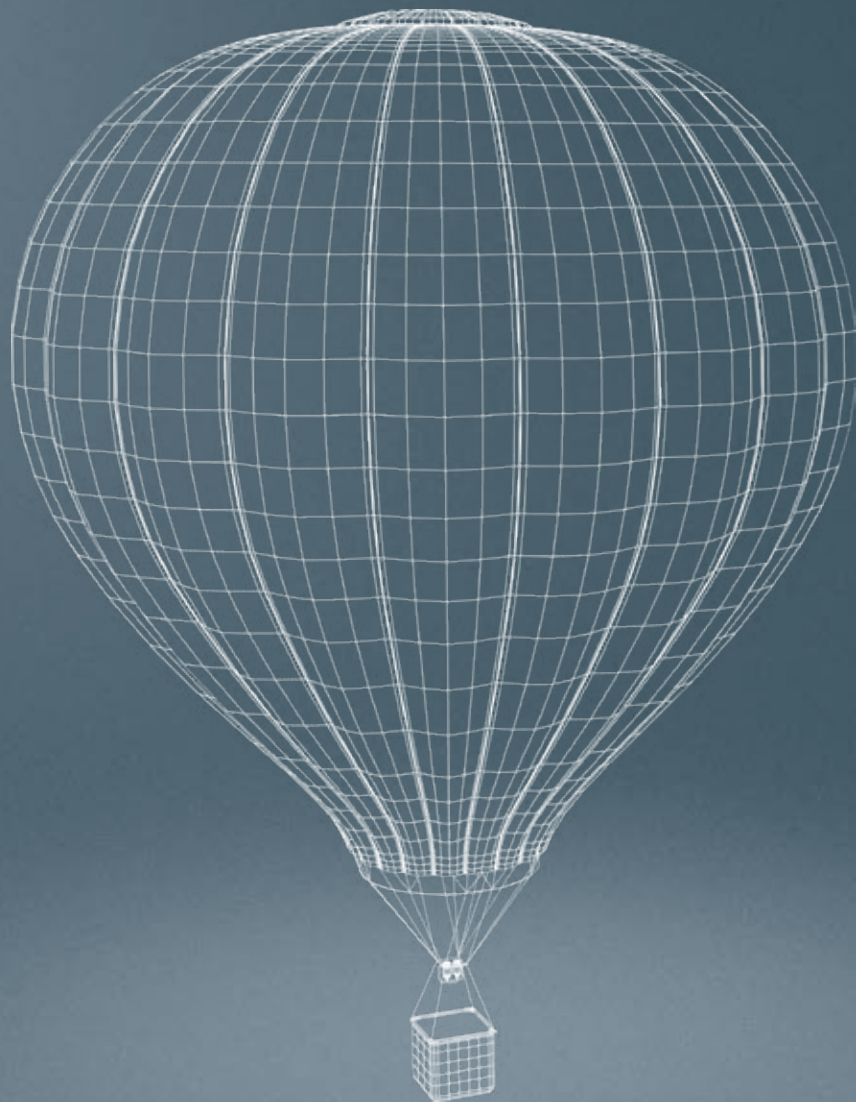


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Three years on:
**Henderson Horizon Global High Yield
Bond Fund**



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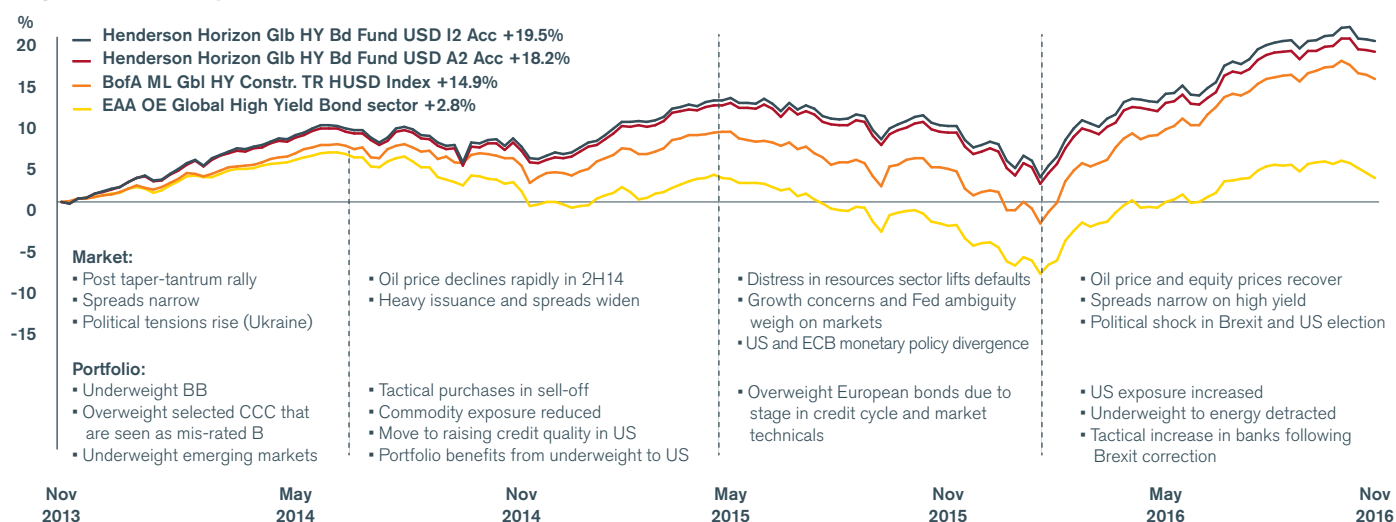
Three years on

Launched on 19 November 2013, the Henderson Horizon Global High Yield Bond Fund has comfortably outperformed both its peer group and the benchmark index over the three years to 19 November 2016. This document sets out what has driven the strong performance and what the fund managers believe is in store for global high yield (HY) bonds in the near future.

Performance

In the three years to 19 November 2016, the fund returned 18.2% (A Acc shares) against a peer group average of 2.8% and a benchmark return of 14.9%. Figure 1 charts the performance of the fund and the market drivers over the last three years, while the table shows that performance has been impressive in all three discrete years.

Fig 1: Cumulative performance, 19 Nov 2013 to 19 Nov 2016



Source: Morningstar, 19/11/2013 to 19/11/2016, cumulative total return, net of fees, in USD. **Past performance is not a guide to future performance.**

Fig 2: Discrete performance table

	Fund (%)	Fund quartile rank	Peer group (%)	Index (%)
19/11/2015 to 19/11/2016	8.6	1	5.3	10.2
19/11/2014 to 19/11/2015	2.1	1	-4.5	-0.8
19/11/2013 to 19/11/2014	6.5	1	2.2	5.1

Source: Morningstar, 19/11/2013 to 19/11/2016, performance of A2 Acc USD share class, nav-nav, net of fees, in USD. Quartile rank in Morningstar EEA OE Global High Yield Bond sector, which is also the peer group, benchmark index is BofA Merrill Lynch Global High Yield Constrained Total Return Hedged USD Index. **Past performance is not a guide to future performance.**

Distinctive qualities

- **Transatlantic team.** Managed jointly from both the US and Europe the fund benefits from the local knowledge of managers and analysts in the two major regions of high yield bonds. By being able to keep on top of regional market dynamics we believe this contributes to a stronger understanding of trends and individual corporate factors.
- **Finding value across the risk spectrum.** The strength of analysis within the credit teams gives the managers the confidence to invest in under-researched and mis-valued lower-rated and smaller issuers. Since launch, the fund has typically been overweight B and CCC at the expense of BB, although credit quality within the portfolio can often change; for example, credit quality was lifted in 2015, which helped to cushion against a downturn in high yield in late 2015 and early 2016.
- **Prepared to play the long game.** Identifying long-term improvement in a company allows the fund to buy into bonds ahead of the herd. It is our belief that credit ratings agencies, scarred by reputational fallout in the global financial crisis of 2007-09, are often overly cautious in re-rating bonds. This allows our own credit analysis to detect improvements before they translate into re-ratings, e.g. Tesco (fallen angel in retail that is concentrating on core competences to improve cash flow), Finmeccanica (engineering group that is refocusing its business and paying down debt through asset disposals).
- **Tactical use of derivatives.** We have used derivatives such as credit default swaps to take short positions on bonds where we expect a deterioration in credit quality. For example, shorts have been used to allow the fund to profit from weakness in single names.

Superior risk-adjusted returns

The strong returns on the portfolio have been achieved without assuming excessive risk, as the chart below demonstrates. Volatility on the fund is approximately average for the sector (see Fig 3). Actively positioning between corporate bonds in different geographic regions has also delivered a stronger return than would have been achieved by investing solely in US high yield or solely in European high yield, demonstrating the added value of the fund's global investment process and its wider remit (see Fig 4).

Fig 3: Total return versus volatility in peer group

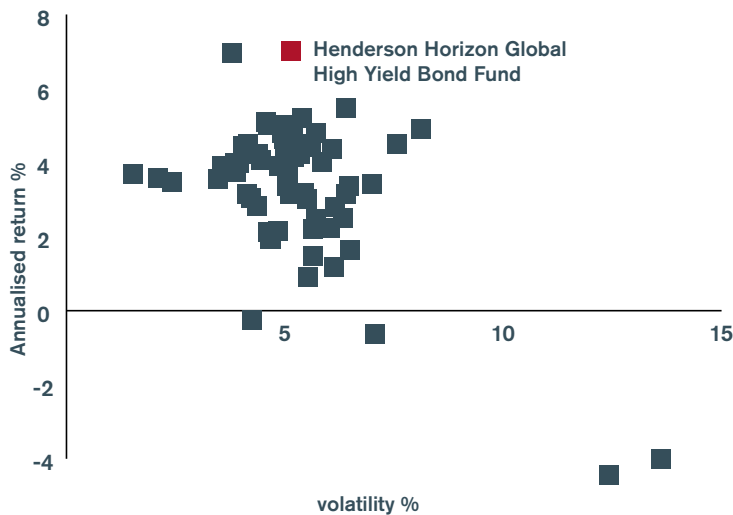
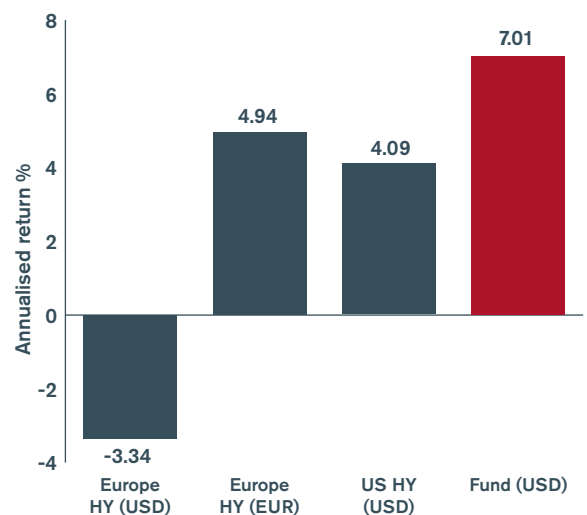


Fig 4: Total return of HY indices and Henderson Fund



Source for Fig 3: Morningstar, 19/11/2013 to 19/11/2016, EEA Global High Yield Bond sector, total return, gross of total expense ratio (TER), in USD. Volatility is standard deviation of daily returns annualised. Annualised return for the Henderson Horizon Global High Yield Bond Fund A2 Acc USD share class would be 1.29% lower on a post-TER basis, other fund returns in the sector would also be lower. Source for Fig 4: Same basis for fund as Fig 3; indices from Bloomberg: Europe HY = BofA Merrill Lynch European Currency High Yield Index (HP00), total return in USD and EUR; US HY = BofA Merrill Lynch US High Yield Index (HOA0), total return in USD.

Past performance is not a guide to future performance.

Lessons learned

It has not all been plain sailing. Over the last three years there were some decisions that detracted from performance. We had expected to see a continuation of 2015's trend for European high yield to outperform US high yield, concerned as we were about the significant portion of the US market that is represented by energy. However, the bottoming of the oil price combined with a number of out-of-court restructurings (which have kept a lid on the number of defaults) produced a strong turnaround for US high yield and we did not capture as much of this rebound as we would have liked. In individual positions, we bought a new issue from Geo Group, the second largest owner of private correctional and detention facilities in the US, in April 2016. Geo had historically been considered a stable operator given the favourable supply/demand characteristics of the industry (i.e. prison-overcrowding). However, in August, the US Deputy Attorney General issued a memo to the Federal Bureau of Prisons (BOP) asking for help in "beginning the process of reducing – and ultimately ending – its use of privately operated prisons". The Department of Homeland Security announced a review and we felt there could be considerably more downside if other agencies followed the BOP's directive. It taught us to have a greater appreciation of regulatory risk.

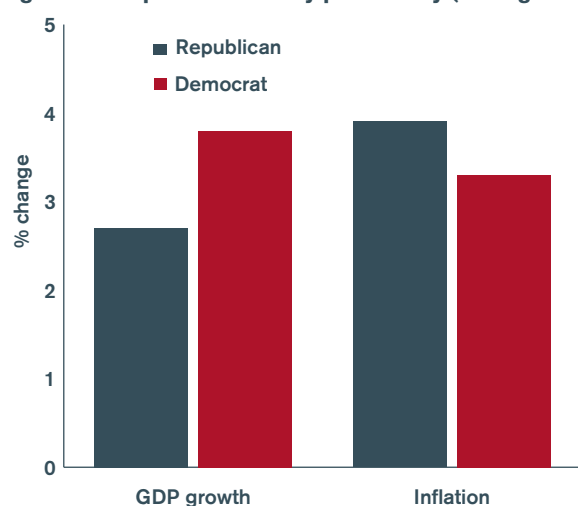
Henderson Horizon Global High Yield Bond Fund

Outlook

We are now positioned solidly above the benchmark in terms of credit risk as measured by yield (+36 basis points) and spread (+76 bps) at 30 November 2016 and in line in terms of weighted average credit rating (B1). Over the course of 2016 we reduced our European weighting and increased our weighting to the US. The reasons driving this move were mainly related to relative valuation differences, a more robust new issues market in the US, and a desire to increase our energy weighting. We continue to maintain an underweight to the emerging markets sector of the global high yield market although we do hold positions in selective emerging market issuers such as Vale and Cemex.

The election of Donald Trump as the next US president potentially elongates the credit cycle in the US given his pro-growth policies of tax cuts and reduced regulation and, more unusually for a Republican, increased government spending. At a sector level we are reviewing our healthcare exposure and may increase commodity exposure. Expectations of higher inflation, which is leading to higher sovereign bond yields, together with possible protectionist trade measures, however, could act as a headwind. Fig 5 shows that inflation has historically been higher under Republican presidencies. Elevated levels of policy uncertainty might also lead to more volatility in markets, which could create additional opportunities for active managers.

Fig 5: Macro performance by presidency (average annual rate)



Source: Morgan Stanley Research, BEA, Bloomberg, senate.gov, house.gov. Presidencies from 1947 to 2016.

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 and investors may not get back the amount originally invested.

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