Henderson Global Investors

Henderson Horizon Pan European Smaller Companies Fund

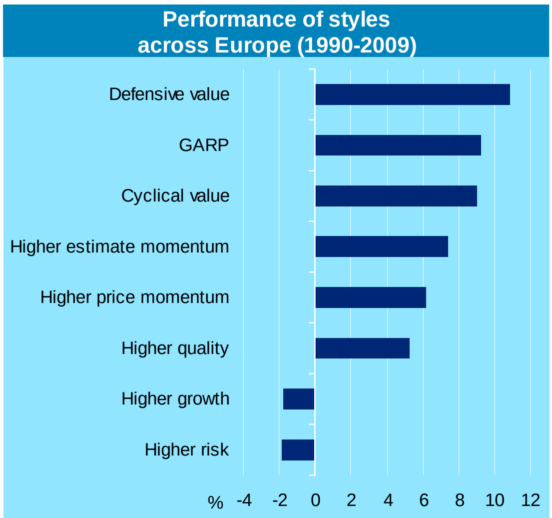
Fund update

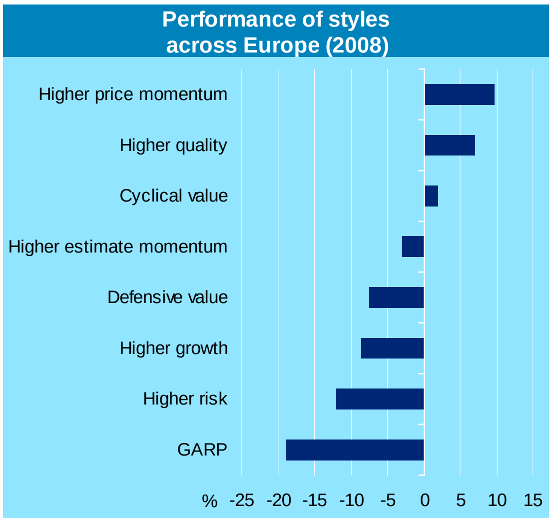
23 July 2009

In this fund update Ollie Beckett, manager of the **Henderson Horizon Pan European Smaller Companies Fund**, looks at how the smaller companies market has experienced a dramatic reversal of fortune following a painful 2008. Ollie also highlights some key holdings and explains why he believes smaller companies are well placed to continue to show strong performance as markets position themselves for recovery.

Overview: valuation bias has been a positive during 2009

Last year was a disappointing one, both for the smaller companies market in general and the performance of the Henderson Horizon Pan European Smaller Companies Fund in particular. As the chart below shows, over the last 20 years, attractively valued stocks have historically tended to outperform the wider market. In 2008, however, this was plainly not the case. Price momentum was the top-performing style, meaning that investors concerned at the deteriorating prospects for the global economy preferred to remain in the more expensive, higher-quality end of the market, where more consistent share price performance could be bought at a premium. This year, however, value investing has experienced something of a comeback, as evidenced by a marked improvement in the performance of the fund.





Source: Citigroup, as at 31 December 2008

Fund performance

The Henderson Horizon Pan European Smaller Companies Fund has returned 45.79% for the year to date (to 30 June 2009), a performance which compares very favourably to the 25.98% return of the benchmark HSBC Smaller Pan-European Index. We expect that the good performance of smaller companies will continue during 2009 and our valuation focus means that we are currently finding some extremely attractive valuations in the smaller companies space.

While the fund has an emphasis on growth, we also employ a strict valuation focus. The portfolio consists of smaller company names that we expect to grow into larger companies over the long-term, but are available for purchase at valuations that we believe to be relatively cheap compared to the wider market. Maintaining this longer term stock focus – at the expense of targeting more short-term price momentum – was painful during 2008, but has paid dividends this year

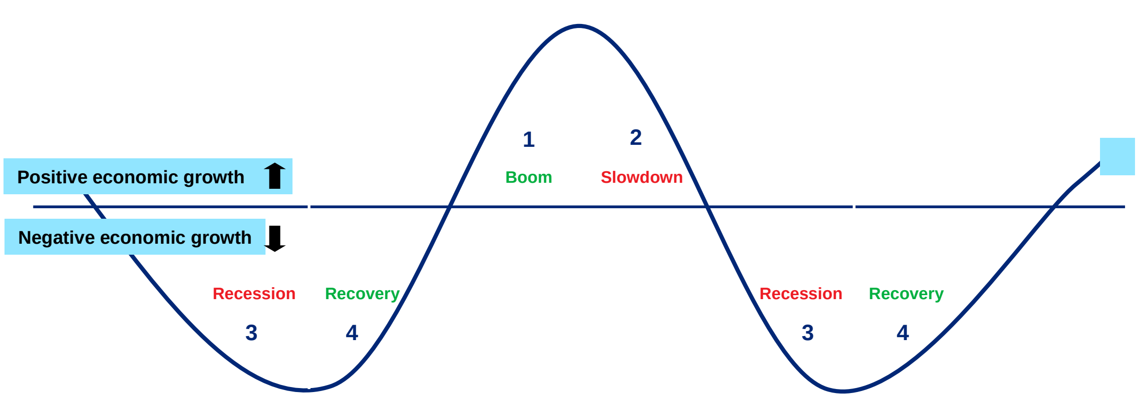
The fund is a true small cap portfolio, with an average market capitalisation of around €500m. This is smaller than the market cap of several of its peers, with many having opted to move up the market cap spectrum last year. Our true small cap approach has been a positive in 2009 and we expect it remain so going forward. It is an area of the market that offers significant value. It is also the area of the market that is most inefficient - with fewer analysts – and offers the greatest opportunities to discover hidden gems that have been ignored or discounted by the wider market.

Capturing the upswing in the economic cycle

The chart below is a visual representation of the four key phases of the economic cycle (boom, slowdown, recession and recovery). Most estimates are that we are currently somewhere between phases three and four. Whereas smaller companies tend to fall out of favour during a slowdown and recession (as negative growth becomes more entrenched and investors shun riskier assets), they have a historical tendency to benefit when the cycle moves into an upward phase, moving from recovery towards boom.

During these periods investor appetite for risk increases significantly and market momentum turns more favourably for smaller companies versus their larger peers. Given our current position in the market, there appears to still be considerable upside for smaller companies from here.

Phases of the economic cycle* and investment style preferences – Merrill Lynch 'Style Cycle'



* Source: Merrill Lynch

Portfolio positioning

It should be pointed out, however, that the smaller companies market should not simply be viewed as a high beta play on recovery. The smaller companies market remains a fertile hunting ground for stock-picking managers who are able to take advantage of the sheer lack of research and analytical coverage of the sector, finding undervalued names with a competitive edge and potential for expansion. Below is a selection of individual stock examples – all currently held within the fund – which we believe demonstrate the breadth and type of investment opportunities currently available within the small cap sector.

- **Acino** - a Swiss pharmaceutical company specialising in drug delivery systems and generic drugs. The company achieved net revenue growth of 28% during 2008 and with a number of new products in the pipeline there is considerable scope for further positive earnings upgrades.

- **Etam** - this French clothing and lingerie manufacturer has extensive operations in France, the UK and, more importantly, China, which is their main driver of growth. Etam is a profitable, cash generative business, but investors have been running away in their droves because of the flight away from smaller companies into larger investments. This is a stock with strong growth prospects, yet it trades at a 50% discount to the value of its property assets in France.

- **Dufry** - a global travel retailer, operating more than 1000 duty free and duty paid shops located at airports in more than 40 countries. The stock experienced significant share price falls in 2008, following an ill-timed US acquisition and concern over its exposure to troubled Italian airline Alitalia. We think that the worse-case scenario for this company has already been priced-in and, with the stock currently trading at around four times sales, offers considerable potential going forward.

- **Meetic** - while the market was preoccupied with short-term concerns in 2008, the online dating agency Meetic was looking towards the medium term. It recently acquired the European operations of rival match.com. Match.com operates in 15 European countries, which together comprise 13 percent of Match.com's overall income. Meetic is rapidly seizing market share, having acquired another competitor, DatingDirect, back in 2007. Furthermore, it is a very cash generative business, having posted €113.8 million revenue in 2007. The company estimated that merging the two platforms could save €15 million a year in synergies.

- **Wirecard** - a German online data processor that specialises in back office payment and transactions. The company is continuing to benefit from two trends: first, the need for greater credit card security and protection against internet fraud and second, the expansion of online shopping, boosted by cash-conscious shoppers searching the internet for bargains. Wirecard is currently trading at a 12 x price/earnings ratio, for more than 15% earnings per share growth.

Outlook

Having been forced to endure considerable pain during 2008, the signs are looking very positive for smaller companies in 2009. On an historical basis, an upswing in the economic cycle indicates that smaller companies are poised for a period of sustained outperformance compared to their larger cap counterparts. At the stock level, there are a number of well-managed, attractively-valued companies currently trading at significant discounts to fair value. We expect that the strong performance of the small cap sector, and the Henderson Horizon Pan European Smaller Companies Fund, should continue throughout 2009 and beyond.

Ollie Beckett
23 July 2009

For further information on the Henderson Horizon fund range please contact your local sales office or visit our website: www.henderson.com

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