

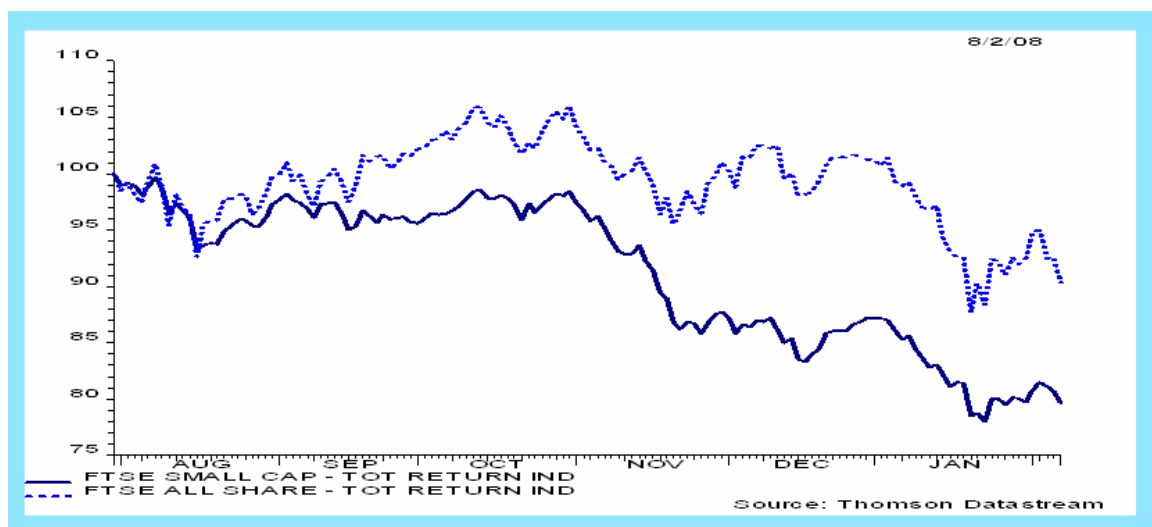
25 February 2008

Contrarian investor James Henderson continues to see long-term value in the small cap market

- Uses recent market weakness to refresh his portfolio and sees particular opportunity in small cap
- Purchased CFDs in larger-cap companies to ensure exposure to a large-cap upturn

The recent falls in the FTSE All Share Index have hit the small cap area of the UK market hardest, as is demonstrated by chart one below. But despite this James Henderson, manager of the Henderson UK Equity Income Fund, remains positive about the long term opportunities to be found in the sector and has used the recent market weakness to refresh his portfolio with several undervalued smaller-cap names.

Chart One: FTSE All Share vs FTSE Small Cap Aug 2007 – Jan 2008



Negative investor sentiment is appealing to the contrarian investor

In a weak environment for equities, smaller caps tend to take a greater hit than their larger counterparts because they do not come with the same security as larger caps. There's a widely held belief that in volatile markets, larger-caps are 'safer' investments.

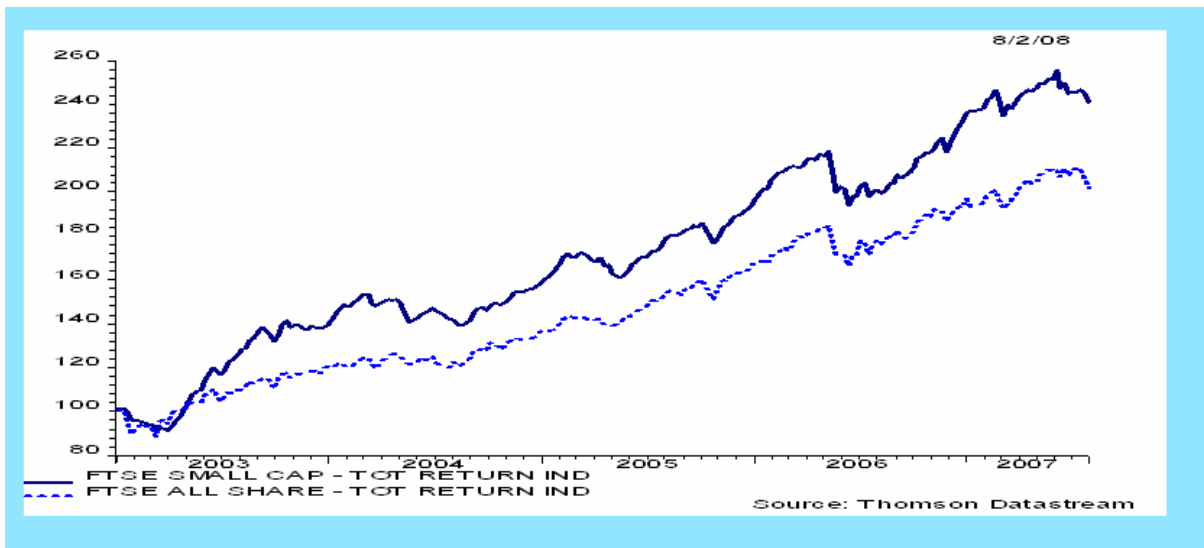
Most UK equity income funds tend to avoid smaller caps because research is relatively sparse. Furthermore, the companies themselves tend to yield less than large caps as most profits are retained for reinvestment and expansion, rather than paid out as shareholder dividends. However, in the current market because share prices have fallen so far some can be bought on high yields, which is an added attraction.

James believes the small cap market is a good place to diversify his portfolio and capture genuine growth that may be difficult to come by in the larger caps:

"The opportunities in small-caps are substantial and we need to use them by buying stock in a diverse selection of companies. I am using this period to refresh the portfolio with good value cash generative companies."

Chart two below shows how the FTSE small-cap outperformed the FTSE All Share since the last bear market to the beginning of the credit crunch.

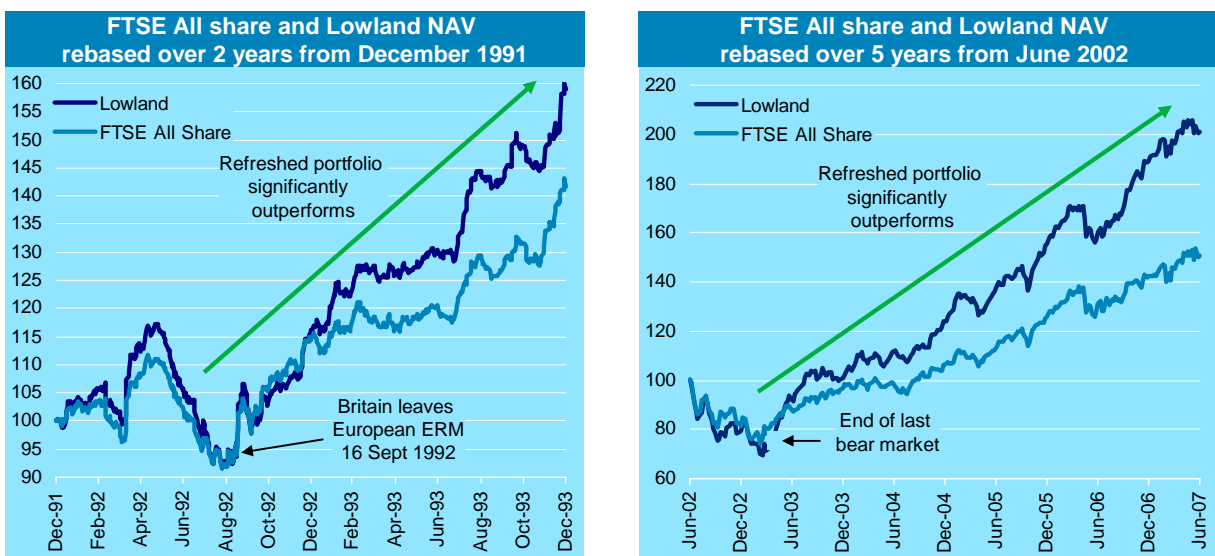
Chart Two: FTSE All Share vs FTSE Small Cap 2003 – 2007



James believes the upturn in the UK market will be led by large-cap so with this in mind he has purchased CFDs in larger-cap companies to make sure he does not miss out on the large-cap upturn yet allowing the fund to use its cash for the relatively more exciting opportunities in small-caps.

Below are two charts plotting James Henderson’s investment performance against two previous bear markets in the UK, during which time he employed a similar strategy for the Lowland Investment Company which he has managed since 1990. As is evident, the bounce back following the fall greatly outperformed the FTSE All Share on both occasions.

Chart Three: Outlook – History of taking advantage of bear markets



Source: Datastream, Henderson Global Investors

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About Henderson Global Investors

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