



Investment ideas that are
sustainable over the longer-term
– it's happening at **Henderson**

Henderson Industries of the Future Fund



Tim Dieppe,
Manager of
The Henderson
Industries Of The
Future Fund

“ Last year was a difficult one, and 2009 will also be tough, but we see huge opportunity both in reinforced policy support for key sectors as well as opportunities to buy into quality stocks at low valuations. ”

Key aspects of our investment process

- This is a global fund invested entirely in ten Industries of the Future themes. This results in structural sector biases such as being very underweight financials, telecoms and resources sectors, and being under exposed to large cap stocks.
- The ten themes have strong growth characteristics and regulatory or demographic reasons why they should continue to grow faster than the market. Hence, this fund has a strong 'growth' bias in its style of investing.
- The fund is genuinely global in its exposure, with regional geographic weights kept close to those of the MSCI World Index

www.henderson.com/sri

2008: a momentous year

2008 was a truly momentous year in world economic history, with US\$720bn in write-downs and losses by financial institutions, US\$30tn wiped off market valuations, the semi-nationalisation of the international banking system and the biggest bankruptcy in corporate history. The S&P 500 Index reported its worst annual performance since 1937 and many other indices had their worst annual return for decades. Added to all this was immense market volatility. Between the end of September and beginning of December 2008 the S&P 500 index had six of the 10 best days since 1950 and four of the 10 worst days.

At the end of 2007 the market was concerned about the prospects of a global recession, but by the end of 2008 these concerns had magnified into the possibility of a depression. Paralysis in credit markets has had a knock-on effect on both consumer spending and corporate investment and credit markets need to re-open in order to see some light at the end of this economic tunnel. In the meantime, we have had a dramatic bear market, with most major markets losing 40% of their value in local currency terms as fear and risk aversion dominate.

During 2008, the MSCI World Index fell by 17.4% in sterling terms. The Henderson Industries of the Future Fund underperformed this benchmark by 1.2% (net of fees). The Fund is more exposed to mid cap stocks than the MSCI World Index. The FTSE World Mid Cap Index, underperformed the MSCI World Index by 5.2% (declining by 22.6% in sterling terms in 2008), the fund outperformed this index by 4.2%.



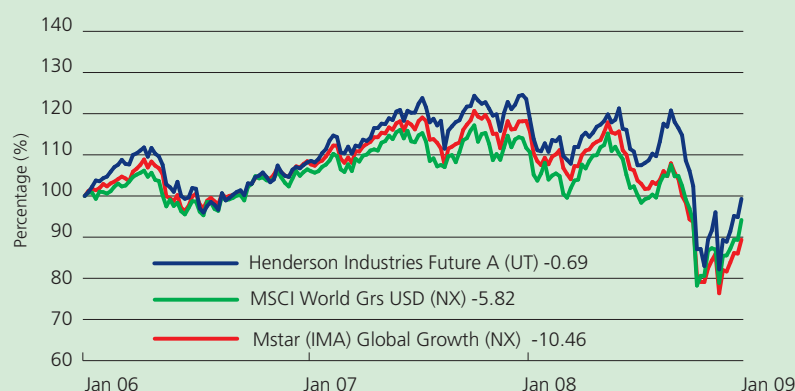
Industries of the Future: Fund Performance

Henderson Industries of the Future Fund

- The fund returned -0.69%, outperforming the MSCI World Index benchmark by 5.73% over three years.
- The three year percentile ranking against the Lipper Global Growth Peer Group was 12th percentile at the end of 2008.
- Tim Dieppe, manager of the Industries of the Future and Global Care Growth funds, received an 'A' rating from Citywire.
- The Industries of the Future Fund has a 'carbon footprint' that is 40% lower than its benchmark, the MSCI World Index.

* Fund performance is based on daily mid-mid pricing. 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.

Henderson Industries of the Future - three year performance review



Source: Morningstar, as at 31 December 2008

Henderson Industries of the Future Fund

% Annual returns	Dec 07-	Dec 06-	Dec 05-	Dec 04-	Dec 03-
	Dec 08	Dec 07	Dec 06	Dec 05	Dec 04
Henderson Industries of the Future Fund	-20.3	15.8	7.5	18.3	4.0

Source: Morningstar, as at 31 December 2008



While 2008 has been extremely challenging, the fund was supported both by our policy of maintaining a genuinely global exposure (our peers in the Lipper Global Growth peer group tend to have a higher weighting in UK stocks) and by our ability to adopt a relatively defensive fund position through the diversity of our ten investment themes. Over the course of the year we saw positive contributions from our Knowledge, Environmental Services, Quality of life, Safety and Efficiency themes. Each of these has a combination of counter-cyclical characteristics supported by regulatory or cost-saving features.

In addition to Knowledge, which was our top performing theme by some margin, Safety and Environmental Services stocks also performed well in the current recessionary environment. They are supported in many cases by regulatory drivers that require companies to invest in health, safety and environmental programmes regardless of the economic climate. Home security company **Secom** (Japan) in particular benefited the fund over the year as did waste management company **Stericycle** (USA).

We reduced the exposure to Cleaner Energy stocks early in 2008, when valuations began to look excessive, but we have not been immune to the catastrophic falls in share prices within the sector. Falls of up to 70% have not been uncommon in recent months, with the WilderHill New Energy Global Innovation Index down 71% from its peak at the end of 2007. Fears over overcapacity in solar energy, access to project funding and sharp declines in the oil price created the 'perfect storm', with stocks in the fund including **JA Solar** (US listed Chinese company) and **SolarWorld** (Germany) seeing significant falls.

Health has proved disappointing over the year despite resistance in the first three quarters. Unfortunately a fourth quarter rally in more cyclical names, and a realisation that hospital spending is likely to decline, meant some stocks were not as defensive as we had expected. **Quest Diagnostics** (USA) was a top contributor to the fund, but **Southern Cross** (UK) and **Synergy Health** (UK) disappointed.

Sustainability trends continue to influence mainstream investing

Seeing opportunity in diversity

The market turbulence of 2008 undoubtedly created extremely challenging conditions for investors, but at certain points in the year we felt that there was an indiscriminate sell-off that caused some stocks to hit irrationally low levels. We used these opportunities to open new positions in high quality companies where we had previously viewed valuations as too expensive.

Among the new holdings was Canadian consultancy **Stantec** (Environmental Services) which rose sharply towards the end of the year, on expectations of benefiting from an economic stimulus package in the US. **Quanta Services** (Efficiency) which upgrades and extends electricity transmission and distribution lines in the US where there is significant need for expenditure and we started a holding after some share price depreciation. We also purchased speciality diagnostics company **Meridian Bioscience** (Health), irrigation equipment manufacturer **Lindsay** (Water Management), safety testing company **Eurofins Scientific** (Safety), and geothermal power plant builder **Ormat** (Cleaner Energy).

Corporate and strategic engagement

As part of our wider mandate to encourage companies to adopt more progressive approaches to key environmental, social and governance (ESG) issues, we actively engaged with a range of companies and policy makers during 2008. Key highlights included:

- Encouraging and achieving improved disclosure at a range of companies including **Agilent Technologies** (Efficiency), **Apple Computers** (Knowledge), **CSL** (Health), **East Japan Railway** (Sustainable Transport) and **Intertek Testing** (Safety).
- Getting Chinese solar cell manufacturer, **Suntech Power** (Cleaner Energy) to commit to a programme of supplier audits aimed at improving the social and environmental performance of their supply-chain.
- Supporting resolutions on a range of sustainability issues at company annual general meetings including on establishing a Board-level sustainability committee at **Apple Computers** (Knowledge) and publishing environmental impact reports **Canadian National Railway Company** (Sustainable Transport).
- Playing a leading role in developing an investor statement on the need for a strong global agreement on climate change at the international climate talks in Poznan in December. The statement, developed under the auspices of the **Institutional Investor Group on Climate Change** (IIGCC), was sent to Heads of State as well as lead negotiators at the talks.
- Engaging with the **UK Government**, commenting on the UK's draft strategy on renewable energy and outlining our concerns about plans to build new coal-fired power plants, which we believe would be a set back in efforts to tackle climate change.
- Writing alongside other investors to **President-elect Obama**, encouraging him to reverse recent moves at the Securities and Exchange Commission to limit the ability of shareholders to table resolutions on social and environmental issues.

For further information on our engagement activities see <http://www.henderson.com/sites/henderson/sri/news.aspx>

Knowledge Theme

Our 'Knowledge' theme was the best performing theme by some margin over the course of the year. Education is not only defensive, but can also be viewed as counter-cyclical as more people choose to register for training and re-training at times of higher unemployment. Two Knowledge companies **Apollo**, the largest private institution of higher education in the US, and **Benesse**, a Japanese company offering correspondence educational services, were two of our three top performing companies over the year (and also represent the two largest active bets in the fund), and benefited from strong enrolments over the course of the year. We expect this theme will continue to do well and aim to add further names to the fund over the course of 2009.

Theme contribution to performance

Industry of the Future theme	Total contribution to gross performance (%)
Knowledge	1.52
Environmental Services	0.80
Quality of Life	0.69
Efficiency	0.56
Safety	0.56
Social Property & Finance	-0.03
Sustainable Transport	-0.12
Health	-0.83
Water Management	-0.95
Cleaner Energy	-2.77
Total	-0.71

2009 Outlook

We will continue to face tough economic conditions for most, if not all, of 2009. In spite of this we do see bright prospects for a number of our themes for the year.

One of the striking features of 2008 has been the surprisingly consistent support given to climate change policies in key regions around the world. New legislation in both the European Union and the UK includes demanding new commitments on carbon emission reductions and on growth targets for renewable energy, and the election of Barack Obama in the US bodes well for **cleaner energy** and **efficiency** stocks operating in these markets. We believe that valuations for many companies may have bottomed and we have begun to selectively add names (for example **Ibedrola Renovables**) and do expect to see better performance from this theme in 2009.



In addition to support for cleaner energy, governments have also indicated that they intend to invest more in infrastructure, not only to stimulate the economy, but also to improve transportation, water supply, electricity distribution, health and education provision. Expenditure in these areas will further drive growth behind several of the themes in the fund including in our **efficiency, health, knowledge** and **water management** themes.

We expect to add selectively to early cyclical within these themes over the course of the year.

Overall though, we remain largely cautious on the economic outlook and will maintain the defensive positioning of the fund with strong holdings in **knowledge, safety** and healthcare names in both our **health** and **quality of life** themes. We will maintain a strong exposure to our health theme, with a particular focus on healthcare IT and on those companies that are able to demonstrate cost and efficiency benefits to healthcare providers.

We will also continue to take opportunities created by ongoing market volatility to selectively add to positions or buy into stocks where we see valuations becoming attractive for long term investors.

Download the report at www.henderson.com/sri

Contact us

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Investing in the Industries of the Future – it's happening at Henderson



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