

# Henderson Horizon Pan European Equity

Managed by Henderson Global Investors

Full Rating Report



**FitchRatings**  
Fund Quality Rating Scale

- < Excellent
- < **Strong**
- < Satisfactory
- < Weak
- < Inadequate

## Key Rating Drivers

**Stock Picking Focus:** The fund uses a traditional long term, bottom-up investment approach. The focus of the portfolio managers (PMs) is to identify undervalued growth companies. The fund is fully invested, and has a large cap, growth bias but no sector bias.

**Fundamental Company Analysis:** The investment universe is initially narrowed via various capitalisation and growth screens. Research focuses on qualitative company analysis. PMs conduct their own research, complemented by inputs from the Henderson Pan-European Team and external broker analysis.

**Experienced Portfolio Managers:** Both PMs have significant experience of European equity markets, with a combined experience of nearly 40 years. Tim Stevenson has run the fund since inception in 2001, and was joined by William Stormont in 2007. The reliance of the investment process on talented PMs results in some key person risk.

**Strong Risk Management Framework:** The PMs decide on the selection and sizing of positions based upon their beliefs. No specific limits exist in terms of size or tracking error, although diversification is monitored. The sell discipline is qualitative in nature. An independent investment risk team of six provides effective oversight of (and challenge to) the PMs' risk taking. Comprehensive, centralised risk reporting from Barra, Risk Metrics and Style Research facilitate the process.

**Established, Growing Asset Manager:** Henderson is a listed, global asset manager with GBP74.4bn assets under management (AuM), including EUR12bn of European equities as of end-June 2011. The operational and IT environment is built around standard third-party systems, such as Charles River, providing well controlled and efficient workflows.

**Appropriate Operational Environment:** The operational set-up passes Fitch Ratings' operational assessment as detailed on page 5. The set-up is fairly simple, given the fund's focus on listed European equities, with standard terms and third parties.

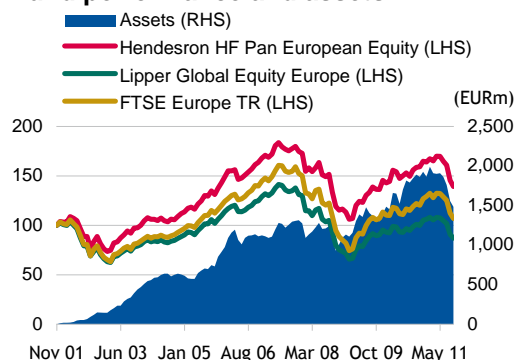
**Strong Track Record:** The fund has achieved the best Lipper Leader score of five over five years, with a score of four over three years. This performance history enables the fund to reach a "Strong" fund quality rating. A 10 year Lipper Leader score will be available at the end of November 2011 when the fund reaches a 10 year track record.

## Fund Features

Asset management company	Henderson Global Investors
Portfolio managers	Tim Stevenson and William Stormont
Inception date	November 2001
Size	EUR1,483m (as of 30 September 2011)
Lipper classification	Equity Europe
Strategy	Long-only Stock Picking
Reference index	FTSE World Europe Index TR
Share classes	Primary share class: A2: LU0138821268  Other share classes in EUR and SGD available.
Jurisdiction	Luxembourg

Figure 1

### Fund performance and assets



Source: Lipper

Figure 2

### Lipper Leaders: Consistent Return Rating<sup>a</sup>



<sup>a</sup> For the primary share class  
For more information, see [www.lipperleaders.com](http://www.lipperleaders.com)

## Analysts

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**Qualitative Assessment**

**Investment Process**

*Investment Philosophy*

The bottom-up investment approach is very traditional and straightforward. It focuses on the selection of good quality, steady, reliable companies that have a higher growth potential than is currently reflected in the market price. The portfolio therefore has a growth and a quality bias. The portfolio does not reflect any significant country or sector specific allocations. The philosophy has been adhered to since the fund's inception in 2001. The fund can utilise derivatives to control risk (equity beta) or to hedge currency exposures, but generally does not.

The fund is fully invested, consisting of a maximum of 60 high-conviction stocks. The portfolio has a large cap bias: at the end of September 2011, it was only invested in companies with market capitalisation above EUR2bn. The investment edge resides in the experience of the PMs in identifying long-term growth potential stocks.

The portfolio reflects a mainly "buy and hold" approach. Over one-third of the current portfolio has been held for a period of greater than 36 months. The portfolio turnover during the past year has been around 120%, reflecting a mixture of resizing of positions and new additions, with 36% of the current portfolio being purchased in the last 12 months.

*Research*

Research is initiated by the PMs (see *staffing*) who actively monitor around 80 to 90 names. These are taken mostly from the universe of the FTSE World Europe index, where traditional value and growth metrics are reviewed to narrow the universe.

Several sources of inputs are incorporated into the research process. The PMs conduct their own fundamental research, utilising Factset, looking for strong, consistent growth companies, which demonstrate a strong balance sheet, sustainable cash flows and profit growth. The quality and stability of the company management is also an important consideration.

External research from brokers is also considered to either support or challenge the views of the PMs. Broker portals, such as Thomson One Analytics, are used. Informal discussions are also held with the wider Pan-European fund management team at Henderson to leverage on their views and experiences.

The research mix used varies, and is based on the experience of the PMs, with the aim to identify mis-priced growth stocks. A wide range of metrics are considered, such as return on equity, return on capital employed and earnings per share, amongst others. However, PMs do not use Discounted Cash Flow models for valuation purposes, as they don't formulate target prices. The PMs' sector views are incorporated to determine long term themes that may impact a company's future prospects. These views are used to gain a greater understanding of the drivers of growth of a business, rather than to drive any specific sector allocations.

Formal research memos are increasingly produced since the acquisition of Gartmore. Notes from meetings with management are also maintained. Research is disseminated to the rest of the team by email in the absence of a centralised in-house research portal. Henderson does not use a formal grading system to document stock recommendations. This overall limited formalisation of research outputs is a function of the responsibility of PMs in the decision making process.

*Decision Making and Portfolio Construction*

Decisions to buy and sell are the responsibility of the two co-managers. Investment decisions are not taken at committees, but debates amongst the whole Pan-European team aid the process. The sell discipline is qualitative, in the absence of price targets or a strict stop loss policy. The lead PM would sell a stock typically when he believes the stock reaches the end of

Figure 3  
**Fund Statistics**  
Calendar returns (%)

Year	Fund	Reference index <sup>a</sup>	Lipper category
2011 <sup>b</sup>	-7.10	-9.06	-9.85
2010	13.27	11.70	10.48
2009	24.81	33.15	29.40
2008	-32.54	-43.14	-43.46
2007	2.80	3.61	0.75
2006	17.40	20.69	17.65
2005	28.00	26.81	24.02
<b>Statistics (1 year)</b>			
Volatility (%)			16.63
Sharpe ratio			-0.28
Max drawdown (peak to trough) (%)			-19.58
Tracking error (%)			9.14

<sup>a</sup> Reference index is the FTSE Europe TR EUR

<sup>b</sup> As of 31 October 2011

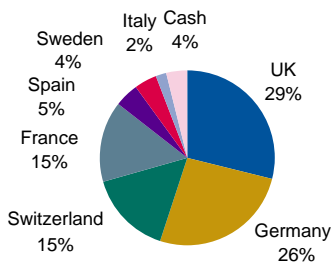
Source: Lipper

**Related Criteria**

Fund Quality Ratings (September 2011)

Figure 4

**Fund Country Exposure**



Source: Henderson

its growth and is therefore prone to be derated. Sell decisions are also based on adverse changes to an investment (such as in market conditions, company management, or PM opinion) or greater upside potential in alternative stocks.

Portfolio construction is benchmark unconstrained. Investments typically begin with a 1.2% size, which is then adjusted depending on the convictions of the PMs. Investments are not in general greater than 5% of the whole portfolio. In the absence of a top-down allocation process, sector and country exposures are largely a function of stock selection. Beta and tracking error are not targeted by the PMs, although this is monitored by the risk team via their daily reporting mechanism.

*Portfolio Monitoring*

Portfolio risk monitoring is based on daily, weekly and monthly risk reports produced independently by Investment Risk management from Barra, Risk Metrics and Style Research software. Through these reports, the PMs and senior management monitor the fund's tracking error, beta, contribution to tracking error, active risk decomposition, style factor breakdown, country and market capitalisation, and illiquid stocks, among other metrics.

The risk review process intends to ensure that the portfolio is not exposed to excessive or unintended risk. Regular dialogue between the Investment Risk team and PMs contributes to a genuine embedding of risk management in the investment process. Twice weekly equity risk meetings and a monthly investment risk committee formalise the risk oversight and escalation mechanisms.

A monthly document is produced which is shared amongst the Pan-European team. This gives an update on recent trades, performance and fund flows. Investment cases are updated and reviewed, to ensure that the initial analysis remains appropriate.

*Operational Front Office Workflows*

The PMs are directly in charge of the operational management of the fund. The Charles River system supports the straight through processing of orders, which are executed by the central dealing unit (9 equity traders; 4 dedicated to European Equities). Pre-trade compliance checks are automated in Charles River. Procedures allow for swift implementation of investment decisions and best execution. The fund's Front Office workflows have not materially changed since Gartmore was acquired by Henderson.

**Resources**

*Staffing*

The Henderson Pan-European team consists of 20 members, four of which joined from Gartmore following the recent integration. European equity managers at Henderson have an average of more than 18 years experience. The Pan European Equity Fund is run jointly by Tim Stevenson and William Stormont. Tim Stevenson joined Henderson in 1986 as a fund manager for Europe, and has run the Pan European Equity Fund since inception in 2001. Final responsibility for the fund lies with Mr. Stevenson. Mr. Stormont joined Henderson in 2007 as the assistant fund manager and has since been appointed co-manager. Both also work on several other European funds.

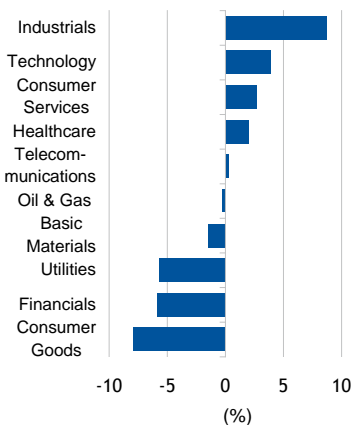
Henderson's culture emphasises the PM's accountability within small, focused and autonomous investment teams, resulting in some key person dependency. This is mitigated by the presence of a co-PM, and the expertise of the Henderson Pan-European team as a whole.

Support functions include the Investment Risk Management team of six, an operational risk team of four, two derivatives risk managers and one credit risk manager. The dealing desk consists of 9 equity traders, largely centralised in London.

Figure 5

**Sector Weighting**

Relative to benchmark, as at September 2011



Source: Henderson

*Technology*

Charles River is Henderson’s integrated “front to back” system. Pre-trade controls, trade transmission, cash management, NAV validation and subscriptions / redemptions are handled by the tool.

Equity risk and analytics systems include Barra (factor risk analysis), Factset (performance attribution), Risk Metrics (VaR and Stress tests) and Style Research (style analysis). All risk data and analytics are centralised in an internally developed website facilitating reporting production.

**Asset Manager**

*Ownership and Financial Conditions*

Henderson was founded in 1934. The company has been listed on the London and Sydney stock exchanges since December 2003, following its de-merger with AMP Asset Management. 85% of the stock is held by the top 20 investors. The largest two investors are National Nominees Limited (16%) and J.P. Morgan Nominees Australia Limited (15%). Henderson employed 293 investment professionals and over 1000 staff in total as of June 2011.

Henderson’s financial condition overall is sound. The Gartmore acquisition has had a positive impact on profitability. Operating margins improved in 1H11 to 36.1% from 30.0% in FY10. Gross Debt / Equity was 0.40 as at June 2011, down from 0.60 as at December 2010, before the Gartmore acquisition.

*Client Base*

Henderson’s clients represent a good blend of institutional (55%) and retail (45%) money. The UK represents 63% of the investor base.

*Institutional Experience & Market Presence*

Henderson managed GBP74.4bn as of end-June 2011. Flows have been volatile (+GBP0.2bn for retail and GBP2.7bn for institutional for H12011. Henderson has been managing SICAVs since 1985, and has a long track record of managing European equities. Henderson currently manages EUR12bn of European equity assets (as of June 2011.)

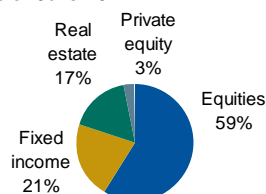
*Stability*

Henderson’s recent history is characterised by external growth: in 2009 it acquired New Star and in 2011 Gartmore. The integration of New Star and Gartmore appears to be progressing according to plan. There has, however, been some staff turnover, between 14-20% between 2008 and 2010.

Figure 6

**Company's AUM Breakdown by Asset Class**

As of June 2011



Source: Henderson

Figure 7

Operational Assessment

	✓ Pass	● Attention required	x Fail
<b>Service providers &amp; asset segregation</b>			
Custodian	✓		
Segregation of assets	✓		
Administrator	✓		
Auditors	✓		
Stability in service providers	✓		
Others	✓		
<b>Regulation &amp; governance</b>			
Regulated vehicle	✓		
Governance	✓		
Control framework	✓		
<b>Valuation &amp; pricing</b>			
Pricing responsibility	✓		
Pricing policy	✓		
Back-office reconciliations	✓		
<b>Fund terms</b>			
Liquidity management	✓		
Fee structure	✓		
<b>Conflicts of interest</b>			
Management of conflicts of interest	✓		
Alignment of interests	✓		
<b>Disclosure &amp; transparency</b>			
Clear strategy representation	✓		
Level of disclosure	✓		

Source: Fitch

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