Henderson Global Investors

**Henderson Horizon Fund -**
China Fund update

**FOR PROFESSIONAL INTERMEDIARIES' USE ONLY**

**Key investment risks to be considered before investing**

- The Fund primarily invests in equity securities and equity instruments of companies primarily listed in China, Hong Kong and Taiwan and may also invest in companies incorporated elsewhere that have significant assets, business, production, trading activity or other interests in China, Hong Kong or Taiwan.
- The Fund may invest a substantial amount of its assets in companies in China (emerging market) which may involve a higher concentration of risk and also may experience higher risks of economic, political, regulatory and social development changes. Investments in emerging market may be less liquid and more volatile than funds that invest in developed and more geographically diversified markets.
- The Fund uses trading strategies that use financial derivative instruments ("FDI") which may be unsuccessful due to a number of reasons; including volatile market conditions, imperfect correlation between the movements in securities on which derivatives are based, lack of liquidity within markets and counterparty default risk.
- The Fund typically holds long and short positions mainly through the use of FDI combining with direct investments and its total gross market exposure may exceed 100%. Such investment strategy and the use of FDI are inherently volatile and depending on market condition, the Fund could potentially be exposed to additional risk and costs should the market move against it and incur losses consequently.
- Investments in the Fund involve varying degree of investment risks (eg. market, legal, financial, interest rate, currency, etc). In extreme market conditions, you may lose your entire investment in the Fund.
- The Fund may not be suitable for all investors. You should not invest unless the intermediary who sells it to you has advised you that the product is suitable for you and explained how it is consistent with your investment objectives.

**Note: Investors should not only base on marketing material alone to make investment decisions. Investors are advised to read the Prospectus and Offering Document of the Fund for more details of the investment risks.**

## FAQ with Fund Managers Andrew Mattock and Caroline Maurer (January 2010)
## Henderson Horizon Fund – China Fund (the "Fund")

### In a bid to rein in lending, the PBOC (People's Bank of China) unexpectedly hiked the bank reserve requirement ratio (RRR) by 50bps on 13 January. Do you think this is cause for concern?

To begin with, we think that liquidity remains ample even with the increase in the banks reserves. The 50bps increase will likely wipe out approximately RMB 200-300 billion of liquidity which is somewhat insignificant when compared in relative terms to the RMB 600 billion of loans given out by banks in the first week of January alone. The market correction can also be attributed to profit taking following strong gains in 2009.

Furthermore, taking into consideration of how China's economic recovery has accelerated in recent months, we think that the hike in the RRR is merely a continuation of the tightening process by the Chinese government in response to the increased growth momentum. It comes closely on the back of recent moves such as the increase in interest rates on short term Treasury Bills, fresh measures rolled out to cool the property market, a cap in new loan issuance, etc. Increasing the RRR also allows policymakers to delay any interest rate hikes given that the Fed rate is likely to remain unchanged.

### Is the RRR hike a sign of further tightening to come?

This is the first RRR hike since June 2008, indicating a shift from a loose monetary policy to a more neutral one. We have seen a robust pick-up in fixed asset investment, consumption and industrial production and they are now close to 2007 levels, however the short term outlook for exports remains uncertain. Exports were up in December but this came on the back of restocking by companies, the outlook as to whether final demand from the US and Europe will rebound so soon is still cloudy. Until the government is confident of a sustained recovery in exports, we are likely to see only incremental tightening as pre-emptive measures are taken to prevent the economy from overheating. The unwinding of stimulus measures is a normalisation process that is necessary to control inflation as economic growth accelerates.

### How do you foresee the Chinese stockmarkets performing in a tightening environment?

Looking back, the last major tightening exercise was in 2003/2004. At that time, markets were trading at 18x earnings and the economy was grappling with inflation. Not surprisingly, markets suffered a beating as stocks were de-rated from a P/E perspective. The major difference is that with markets trading in the region of 14x 2010 earnings today, valuations are far from expensive, and neither inflation nor GDP growth has been an issue yet. We may see a bit of indigestion in markets as the government introduces more pre-emptive measures to rein in growth but we certainly do not think of this as a threat to the sustainability of the recovery.

From our perspective, the correction is just another opportunity to pick up some stocks as valuations still look attractive on a historical basis. Our view remains fairly positive for 2010 though we are mindful of the risks of the policy response becoming too aggressive, valuations becoming excessive and concerns over inflation in commodities and food prices.

### How is the Henderson Horizon Fund – China Fund currently positioned?

- In terms of sector allocation, the Fund is:
  - Overweight commodities i.e. energy and materials (e.g. Rio Tinto, Fortescue) as we expect construction activities for infrastructure projects and real estate to pick up after the Chinese New Year.
  - Overweight in consumer discretionary and staples as the government continues to reinforce household consumption as a key driver for economic growth.
  - Neutral financials (with a slight underweight in commercial banks offset by a slight overweight in insurance firms and property developers). We are looking for opportunities to increase our exposure to banks and property as their long term secular growth trend remains intact.
  - Big underweight in telecoms as the competitive environment is affecting margins (do not own China Mobile, short in China Telecom) and also underweight in utilities.
- In terms of country allocation, the Fund is:
  - Long Hong Kong/China and neutral Taiwan having recently pared back our long positions in Taiwanese technology stocks (e.g. Acer, Wistron). Taiwanese tech stocks have outperformed the broader market over the last few months driven by significant earning upgrades. We believe that any further earnings upside will only occur when a clearer picture of the recovery in demand from the US and EU emerges.
- The Fund has 57 holdings as at 31 December 2009
- There is no near term impetus to purchase put options given current valuations at 14x 2010 consensus earnings remain attractive, especially in view of potential earnings upside surprises as the economy continues improving and earnings growth picks up. We believe that bottom-up stockpicking remains key to Fund performance.

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