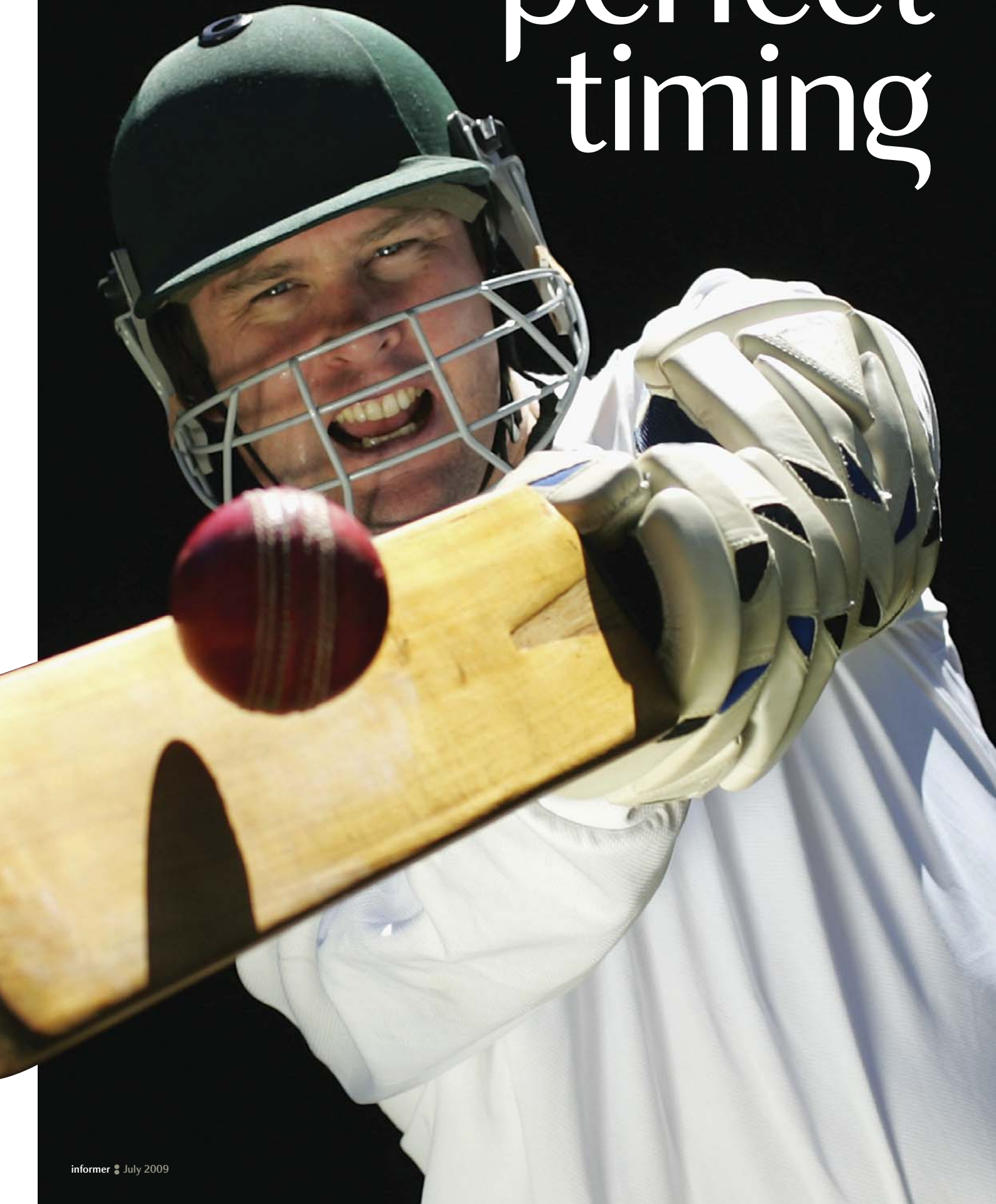


July 2009

perfect timing



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Laurie Jaques, head of UK retail sales at Henderson New Star, explains how a shift in sentiment in the credit and equity markets has neatly coincided with the launch of Henderson New Star.

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On 9 April 2009 Henderson completed its acquisition of New Star. The deal provided a stable and financially sound home for New Star funds. It was clear from our conversations with advisers that investors in New Star funds would welcome the reassurance of financial stability that being part of a large, established organisation like Henderson would bring. It is not just investors in New Star funds that would gain, however, since investors in the funds of both groups would benefit from the combined expertise of an expanded resource base and access to a larger pool of talented investment managers.

Two months down the line and the results are encouraging. We are already through the second phase of the integration, the first being the deal completion and the second being the brand integration. By the second quarter of 2010, we anticipate completing phase three, which will combine the administration platforms and harmonise fund names, enabling clients and advisers to have a single point of contact.

encouraging signs

The true measure of success will, however, be whether we deliver in terms of fund performance. In this regard, the early results are highly encouraging, with several New Star funds returning to top quartile performance for the year to date thanks to

a strong showing in recent months. To be fair, we inherited a New Star fund range that had been heavily biased towards value stocks within equities and credit-sensitive bonds within the fixed income range. This had led to a period of underperformance during 2007 and 2008 at the height of the credit crisis that had seen many New Star funds slip down the league tables.

The funds were, however, poised to benefit from an improvement in economic and market sentiment. To that end, the scale of support by governments and central banks to boost the economy appears to be having a positive effect, with markets turning up since early spring.

It is becoming increasingly clear that the pace of deterioration in the global economy has lessened and in some cases the data is showing a marked pick-up. For example, the OECD's leading indicator for the UK, as shown in the chart below, could be signalling a turning point. It would certainly echo more optimistic survey data on services and manufacturing.

Moreover, a floor seems to have been put under the banking system such that banks are again able to raise capital, even to the point of repaying funds lent by the authorities. In the US, several banks have agreed to repay the Troubled Asset Relief Program (TARP) funds; in the UK, Lloyds Banking Group bought back the

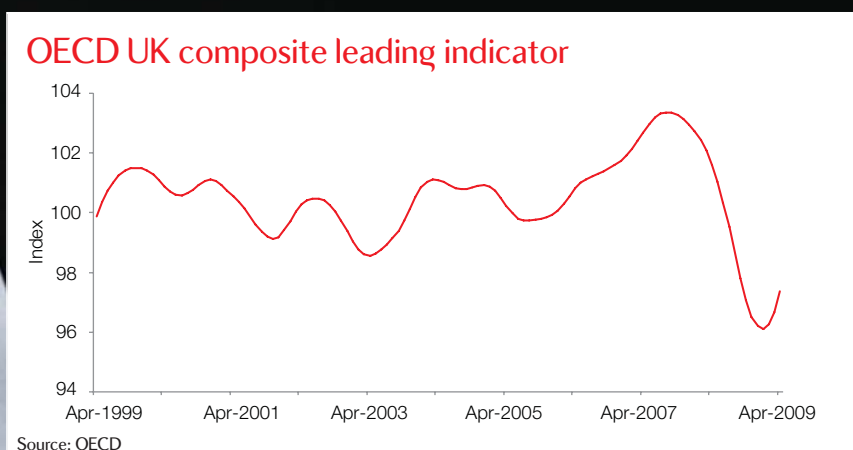
government's preference shares. Such a move would have seemed unthinkable only a few months ago. Companies outside the banking sector are also finding it possible to recapitalise, as evidenced by a raft of successful rights issues. In turn, the stronger balance sheets are assuaging fears that companies would not make it through the economic downturn.

improved performance

The palpable sense of improvement has had a dramatic effect on the fixed income markets, particularly in improved performance from corporate bonds. Liquidity has begun to return to the sector, while investor appetite has pushed up corporate bond prices and reduced yield spreads over government bonds from levels that were implying a return to the Great Depression. The effect has been notably felt in bonds issued by banks, which have been further boosted by banks tendering for their own bonds. Improved market conditions, together with new managers at the helm and the advantage of access to Henderson's sizeable resource base, has led to a marked turnaround in the performance of the New Star Managed Distribution Fund and the New Star Sterling Bond Unit Trust.

To focus only on factors contributing to a performance turnaround would, however, do a disservice to those Henderson New Star funds that have been consistently strong performers, such as the Henderson Strategic Bond Fund and the New Star European Growth Fund, which are top quartile for their five year performance to 31 May 2009*.

In summary, therefore, rising markets, corporate stability and an enhanced resource base have all neatly come together to create the conditions for strong performance across many of the Henderson New Star funds. With our focus firmly on delivering good performance for our investors we are confident we can build on the initial success to the benefit of all. ●●



*Source: Lipper, mid-mid, net income reinvested, GBP. Past performance is not a guide to future performance. The Skandia fund will not mirror the performance of the underlying fund because of Skandia fund charges, taxation adjustments (if appropriate) and the Skandia investment process.

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