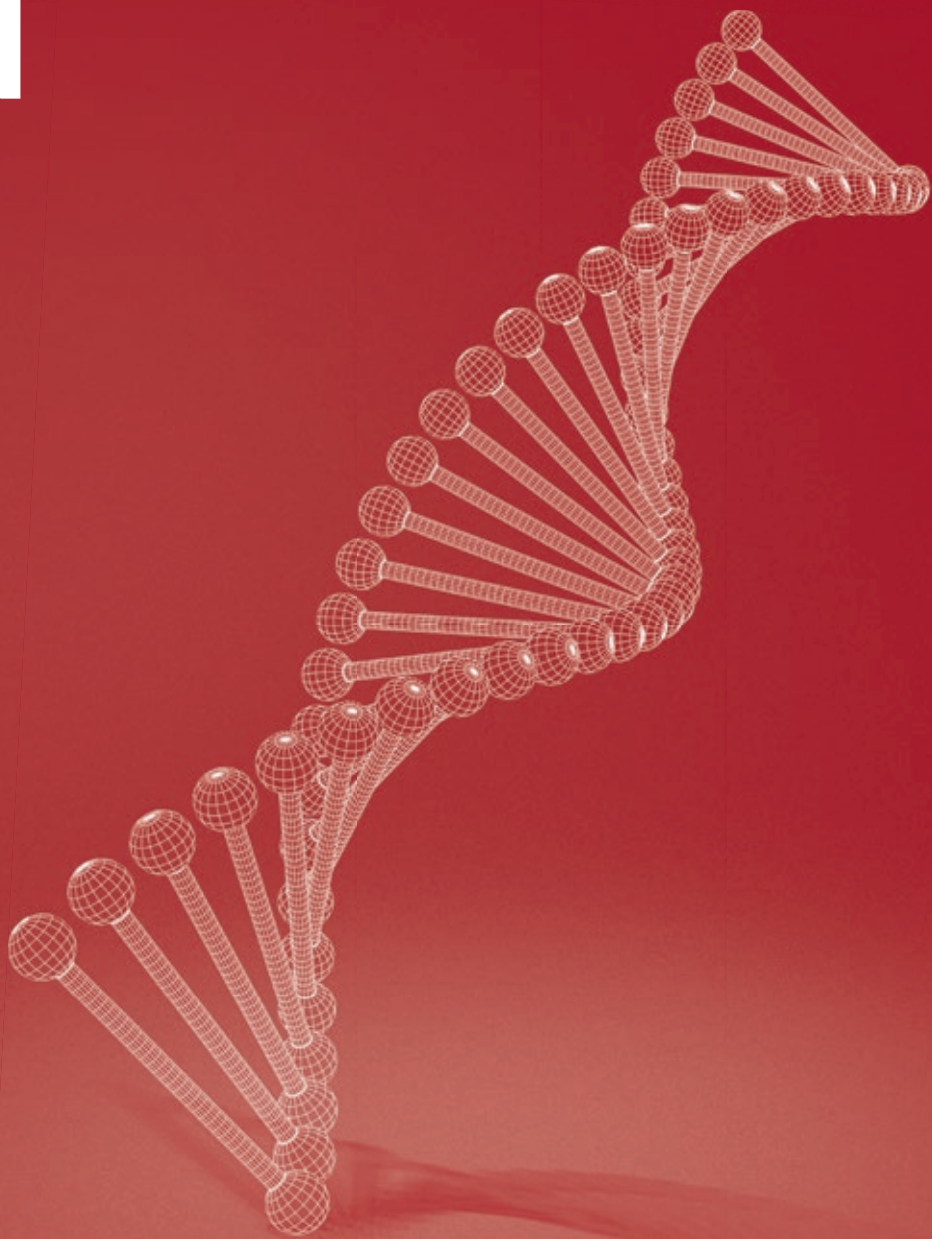


# ANNUAL REPORT 2014

Henderson  
GROUP PLC



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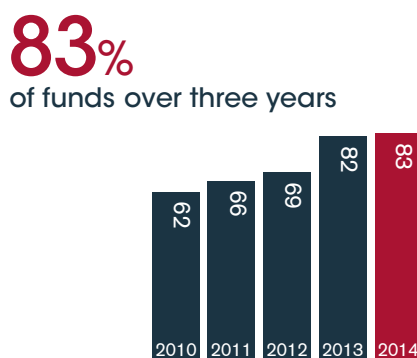
In this report

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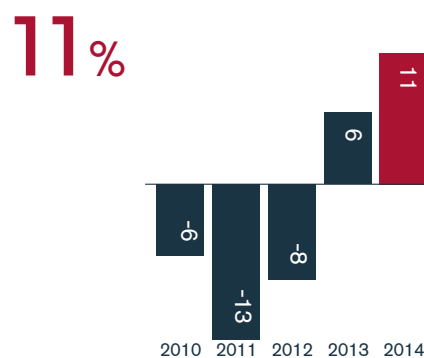
This report and additional information about the Group can be found online at [henderson.com/IR](http://henderson.com/IR)

## Performance highlights

### Investment outperformance

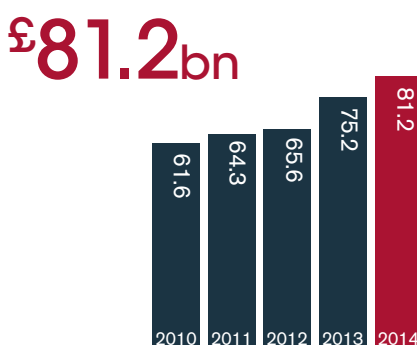


### Net new money growth<sup>1</sup>

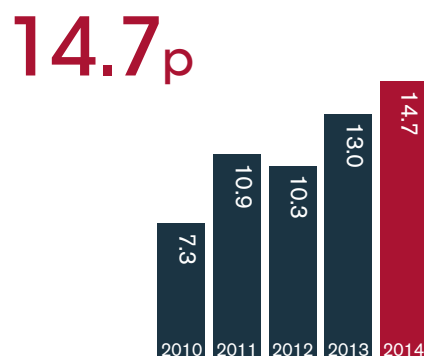


1. As a percentage of opening AUM from continuing operations.

### Assets under management

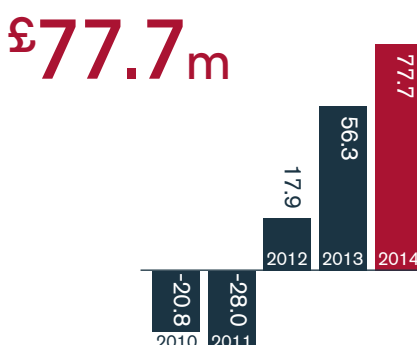


### Diluted earnings per share<sup>2</sup>



2. Calculation based on continuing underlying profit after tax attributable to equity holders of the parent (see note 2 on page 19).

### Net cash



### Dividend per share



Pages 1 to 43 of the 2014 Annual Report constitute the Strategic report which has been signed on behalf of the Board:

**Richard Gillingwater**  
Chairman

**Andrew Formica**  
Chief Executive



Alexander Henderson, our first client

# CLIENT FOCUS

When Henderson was founded in 1934, the company was not named after a fund manager, an executive or an office location – it was named after its first client. 80 years of continuous service have nurtured a trusting relationship with clients – their needs are at the heart of everything we do, built into our DNA. The Group continues to serve the Henderson family to this day.

Now an independent active asset manager and with investment expertise across asset classes, Henderson offers clients access to all major markets around the globe, with core capabilities in European Equities, Global Equities, Global Fixed Income, Multi-Asset and Alternatives.

Throughout this Annual Report, we pay tribute to our current clients, just as we commemorate our founding client and namesake.

# GROWTH AND GLOBALISATION

## Our mission

To be a trusted global asset manager, focused on delivering excellent performance and service to our clients.

## Our philosophy

Active fund management, with our clients' needs at the heart of everything we do.

## 2014 highlights

- Assets under management of £81.2bn, up 8%
- 11% net new money growth<sup>1</sup>
- Strong investment performance with 83% of funds outperforming over three years<sup>2</sup>
- Investment into our investment capabilities, distribution reach and infrastructure
- Launch of TIAA Henderson Real Estate, of which we own a 40% share
- Acquisition of Geneva Capital Management



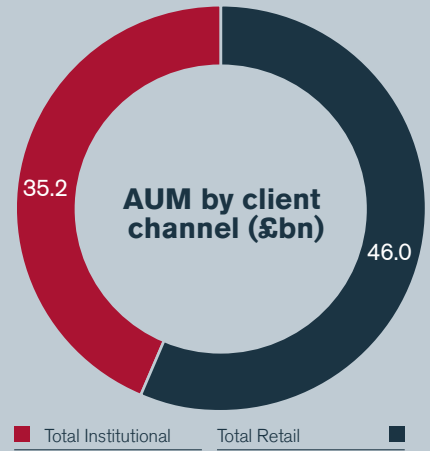
 Our offices

Note: All data as at 31 December 2014, unless stated otherwise.

1. Net flows as a percentage of opening AUM from continuing operations.
2. Percentage of funds, on an asset-weighted basis, that are outperforming relative to benchmark, percentile ranking or absolute where appropriate and includes Henderson UK Property OEIC.
3. Includes Middle East and Africa.



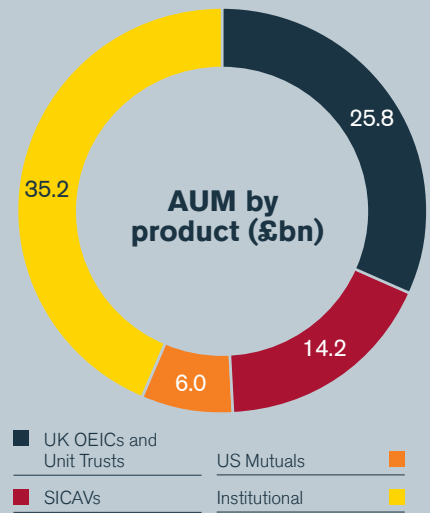
Our clients are financial professionals, private investors and institutional investors



**Asia**

- Restructured in 2014
- 24 investment professionals
- 24 distribution experts

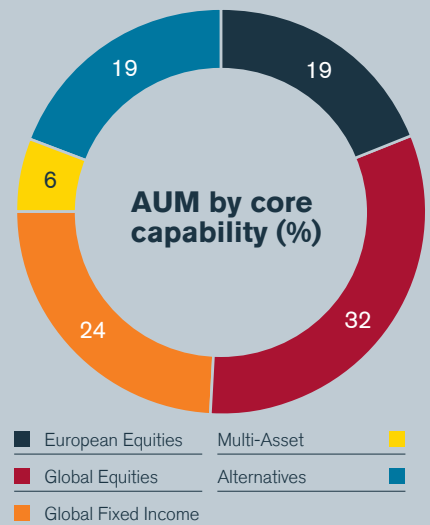
We have four key product ranges – UK OEICs and Unit Trusts, SICAVs, US Mutuals and Institutional



**Australia**

- Fledgling business with strong brand and heritage
- 3 investment professionals
- 5 distribution experts

We have five core investment capabilities – European Equities, Global Equities, Global Fixed Income, Multi-Asset and Alternatives



# Chairman's statement



**Henderson's strategic philosophy of being client-led is deeply ingrained in our corporate history.**

**Richard Gillingwater**  
Chairman

## Dear Shareholder

It is a great privilege to chair Henderson in the company's 80th year. This anniversary has given me the opportunity to look back over the company's history, as well as forward to its future. A series of familiar themes emerge. First, the boldness with which our founding client invested. Alexander Henderson made his fortune through railway investments as far afield as South America, Spain and East Africa, and was one of the early pioneers of global investing. It strikes me that he would have approved of the high conviction, active, global approach which unites our fund managers today. Second, the tradition of innovation which began with Alexander Henderson and continued with Henderson Administration, founded to manage his estate. In the 1950s and 60s, Henderson Administration switched early into equities from bonds to capture the benefits of growth, and built a reputation for well managed investment trusts. Third, longstanding relationships, built on trust. Alexander Henderson's stockbroking business was merged into Cazenove Ackroyd in 1932, and JP Morgan Cazenove remains one of our corporate advisers to this day. The words written by the third Lord Faringdon to introduce his book commemorating the company's 50th anniversary ring as true now as they did in 1984: "To maintain our standards, we will continue to depend upon our own people, on the host of international connections we are lucky enough to have and, above all, on satisfied clients."

## A client-focused Board

Henderson's strategic philosophy of being client-led is deeply ingrained in our corporate history. It is of vital importance that we respect the fact that we are trusted with our clients' money, on which their future wellbeing may depend. I see it as a key part of the Board's role to set a clear tone from the top, and to reinforce a client-centric attitude across the firm. Customer interests and treating customers fairly are topics discussed regularly and in depth by the Board, and the quality of information made available to us has increased significantly.

During the last year, some of the Board spent time visiting our UK retail transfer agent, International Financial Data Services, to review how a subset of our clients buy and sell into our funds and how their queries and concerns are dealt with. I, personally, am keen to meet a wide cross section of clients. I have met with all the Chairs of our Investment Trusts and have received valuable feedback. In addition, Angela Seymour-Jackson's arrival on the Board brings a new client-centric perspective, based on her significant experience in retail financial services. The Board also recognised the value of its regular discussions around clients.

During 2014, a comprehensive external evaluation of the Board was carried out by Independent Board Evaluation. This found that the Board was effective in its operation and had improved from the previous evaluation.

## 2014 viewed from the Boardroom

When the next instalment of Henderson's corporate history is written, I would like to think that 2014 will be remembered as a year of disciplined investment in growth, for the benefit of our clients. We took decisions to continue to build our investment management capabilities, to support geographic expansion in North America and Australia, and to continue to invest in global platforms. Most of our investments focused on organic growth, but these initiatives were supplemented in October by the acquisition of Geneva Capital Management, to accelerate our progress in North America. The launch of TIAA Henderson Real Estate in April marked the implementation of a significant strategic project, to give clients invested in Property exposure to a larger scale business, with access to capital to accelerate future growth. This, combined with the roll off of our Henderson Private Equity business, demonstrates Henderson's strategic focus on the liquid end of asset management.

# CLIENT FOCUS



“Henderson has helped shape the delivery of our investment thoughts to our group – they have been a pioneer in that regard.”

Ben Gutteridge — Brewin Dolphin

Our financial results during the year showed the benefits of long-term strategic decision making, including the acquisitions of New Star Asset Management in 2009 and Gartmore in 2011.

Henderson delivered net client inflows of £7.1bn, significantly outperforming our peer group in our major markets. Despite a heightened level of organic investment in our business, underlying profit before tax rose 13% to £188m.

I was particularly pleased to see the progress made across the business this year to build the leadership team, in support of our growth and globalisation ambitions. Rob Gambi joined as Chief Investment Officer in April. With Roger Thompson (Chief Financial Officer) and Phil Wagstaff (Global Head of Distribution), he completes a strong senior team to support Chief Executive, Andrew Formica. Strong hires throughout the business demonstrate Henderson's increasing ability to attract high quality new recruits to what is seen as an attractive, ambitious, growing business.

Over the course of 2014, the Board continued its programme of engagement with a broad range of significant stakeholders, notably regulators and shareholders. We engage actively with our regulators, to ensure that we maintain an open dialogue about their expectations and regulatory change. We are committed to working responsibly with our regulators to strengthen our business and benefit our clients. This year saw us broaden and strengthen our engagement with our shareholders. We commissioned an Investor Perception Study and reviewed its implications at the Board, and I was pleased to meet many of our loyal Australian shareholders in person during the Board's visit to Sydney for the Annual General Meeting in May. Tim How, as Chairman of the Remuneration Committee, consulted widely with shareholders about the changes to our remuneration policy and practice which we propose to introduce this year.

### Dividend and capital management

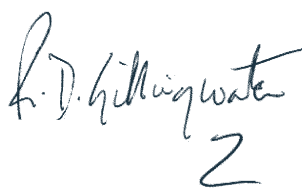
Henderson's capital position strengthened during 2014, and we ended the year with a regulatory capital surplus. We enter 2015 ready to fulfil our regulatory capital requirements without the benefit of our investment firm waiver from consolidated supervision, which expires in April 2016. During 2015, our priority will be to build the level of capital buffer deemed appropriate by the Board to take our capital to a robust position.

Henderson operates a progressive ordinary dividend policy and expects to grow ordinary dividends broadly in line with earnings growth over the medium term. The Board is recommending a final dividend for 2014 of 6.4 pence per share, bringing the total dividend for the year to 9.0 pence per share, a 12.5% increase over 2013 in sterling terms. The final dividend will be paid on 29 May 2015 to shareholders on the register on 8 May 2015.

### Conclusion

In our 80th anniversary year, Henderson has continued its long tradition of investing in people, capabilities and relationships, to deliver excellent performance and service to our clients. Our growth and globalisation ambitions are on track, and I am confident in our ability to continue to deliver industry-leading net new money growth, and improved profitability.

In closing, I would like to thank my fellow Board members for their support and commitment, and extend my congratulations to everyone at Henderson for a successful year. My thanks also to our shareholders and clients for their continuing support.



**Richard Gillingwater**  
Chairman



### Governance is paramount to our sustainable success.

At Henderson, we are committed to making certain that the Board devotes enough time to consider the Group's strategy and its links to the business. We believe that our governance framework remains robust, continuing to enable us to deliver on our strategy.

→ [Read our detailed report on governance from page 44](#)

# Chief Executive's review



**For me, the single most important aspect of our history is that we were named after our first client. This reminds each of us, every day, to put the client first.**

**Andrew Formica**  
Chief Executive

## Investing for our clients

Our 80th anniversary celebrations this year gave us opportunity to reflect on Henderson's distinguished history of pioneering products, global investment horizons and valued relationships with clients and counterparties. For me, the single most important aspect of our history is that we were named after our first client. This reminds each of us, every day, to put the client first.

## What did we deliver for our clients in 2014?

At the heart of what every asset manager aspires to deliver to their client is a high quality investment process and consistently strong investment returns. At Henderson, 83% of our funds outperformed over the three year period our clients monitor most closely, with two thirds outperforming over the more volatile one year period.

### Investment performance by core capability

	1 year	3 years
European Equities	●	●
Global Equities	●	●
Global Fixed Income	●	●
Multi-Asset	●	●
Alternatives	●	●
<b>Total</b>	66% ●	83% ●

● 1st quartile ● 2nd quartile ● 3rd quartile ● 4th quartile

In equities, our managers delivered exceptional performance across a broad range of strategies in European Equities, which meant that even in falling markets we gained market share in the second half of 2014. Performance in Global Equities was more varied, with income and cautious managed styles delivering strong performance for clients, but our new Global Equities team suffered performance setbacks after a strong first year. Fixed Income performance pulled back from its 2013 levels, as government bond markets stayed stronger than our teams anticipated. However, the new recruits to our Fixed Income business contributed well, with the Henderson Horizon Global High Yield Bond Fund delivering first decile performance in its

first calendar year. Multi-Asset portfolios delivered solid performance, and in Alternatives our flagship equity long/short funds succeeded in providing better defensive investment options than many of our peers – an attractive characteristic in the difficult market conditions seen in the second half of the year. In short, we delivered impressive investment performance across a broad range of strategies.

Investment process and performance form the bedrock of what we deliver to our clients, but strong, sustainable client relationships are equally important, especially as activities to maintain and enhance these connections continue to evolve. We have always worked with our largest clients to develop new investment ideas. As our product design process evolved this year, we sought client feedback at the design stage of a series of new strategies to meet current and future demand, which led to us launching new funds focused on global and emerging markets corporate bond strategies. In the intermediated Retail markets, we also increased the level of information and insight we source from our clients' end customers, commissioning research into evolving customer needs and inviting 300 of our end customers to sit on a Customer Panel to share their views on a range of topics.

We made significant steps forward in the quality of the reporting we provide to our clients, particularly online, where video is challenging the written word in popularity. It is no longer sufficient for a portfolio manager to invest wisely: he or she also needs to communicate well. During the course of this year, our managers shared their insights through thought leadership pieces and fund commentaries, and also on video, which led to a surge in monthly page views on our award-winning digital platform. Our aim is to share our perspectives with our clients, to enable them to understand our thinking and use it to shape their own decisions. During the course of this year, we re-launched our brand around the *Knowledge. Shared* proposition. This is aimed at providing unrivalled levels of thought leadership, transparency and service; attributes that clients tell us add the most value to them. Relationships with clients are being transformed into partnerships.

# CLIENT FOCUS

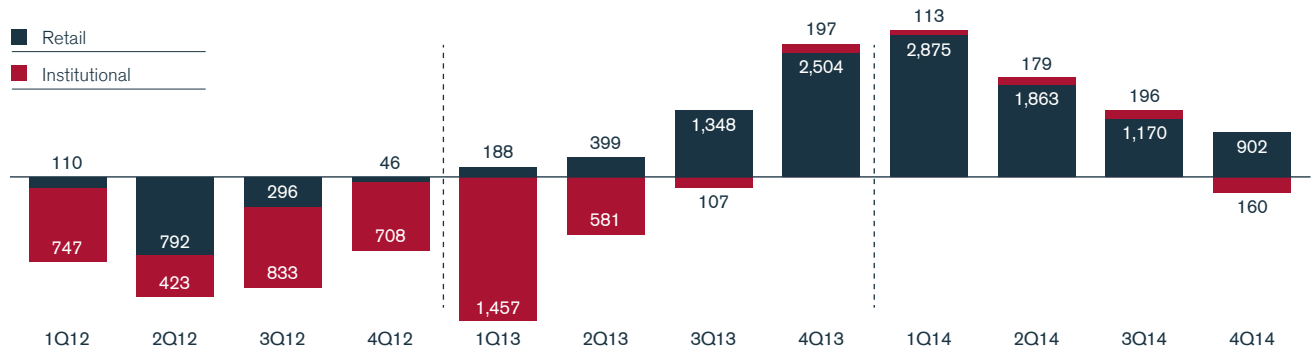
“Henderson try to be in the shoes of their customers – they really understand what they’re selling, and know the best ways of communicating it to their customers.”

Jorge Lopez Farjeat – Santander, Mexico



## Chief Executive's review continued

## Retail and Institutional total net fund flows by quarter – FY12 to FY14 (£m)



### What were the results of this client-focused approach?

2014 has seen a significant improvement in net client inflows, which I attribute to three main factors: markets, products and service.

The year started exceptionally strongly for us, with a resurgence of demand for European equities. It is testament to the tenacity of our distribution teams, who continued to share our knowledge of European equities with clients while the region was out of favour, that we attracted more than our share of new business when European equities came back into vogue. 2014 also demonstrated the strategic success of our past acquisitions. Up until this point, we had seen the financial benefits of the New Star (2009) and Gartmore (2011) acquisitions in cost synergies and improved profitability. During 2014, client confidence in our newly integrated business manifested itself in increased flows, with over half of our flows in the period coming from products or managers who joined Henderson as a result of these acquisitions.

As the year progressed, the diversity of our product line helped sustain net inflows as market conditions became more volatile. Eighteen Retail funds saw net inflows this year of over £100m, across a broad range of capabilities – European Equities, Global Equities, Global Fixed Income and Alternatives. The diversity of our product lines stood us in good stead in the second half of the year, when clients switched from high beta styles into more defensive investments. Our top selling Retail funds in the second half reflected reduced client appetite for risk, demand for income and the defensive characteristics of absolute return.

Our plans to diversify and balance our product lines are more advanced in some regions than in others. Our UK Retail business is the poster child in this respect, and generated net inflows of £2.8bn this year. Top selling UK Retail funds include Henderson UK Property, Henderson Cautious Managed, Henderson Euro Selected Opportunities, Henderson European Focus,

Henderson UK Absolute Return, Henderson Strategic Bond and Henderson Multi Manager Income and Growth. By contrast, our US Mutuals business had a very successful first half selling European equities, but did not have a broad enough product range to continue to capture flows once client demand for European equities subsided. We are on the cusp of being able to broaden our US client offer, with our All Asset and Dividend and Income Builder funds reaching their three year track records in 2015, two further funds reaching three year track records in 2016 and an additional three in 2017, including US Growth Opportunities with input from Geneva Capital Management, acquired in October.

Client inflows this year were predominantly driven by our strong Retail businesses in the UK, Continental Europe, the US and Latin America. Our Institutional business made steady progress but needs global product and geographic diversification outside the UK for flows to accelerate. We started to see some early success this year, with inflows from the US, Australia and Japan, as well as the UK and Continental Europe.

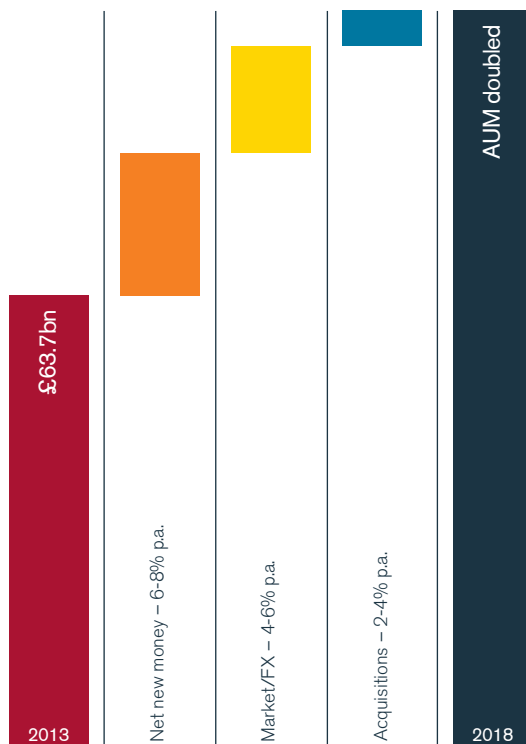
Our Institutional business saw a net outflow in the fourth quarter, because of client withdrawals from Geneva Capital Management funds in the immediate aftermath of the change in ownership. Whilst this was unexpected, I am very comfortable with the progress we have made with Geneva since the acquisition closed in October.

Net growth in new client money is, for me, the most significant measure of success in our business. We have done well this year both on an absolute basis, and in relative terms. Industry sources confirm that we have gained market share in major markets such as UK, European and US Retail, which reinforces my view that our client-focused approach is proving successful.

### This time last year, we articulated a strategy based on growth and globalisation. How are we doing?

This time last year, I set out a strategy based on strong organic growth and modest acquisitions, the output of which, assuming helpful markets, will be to double our assets under management by 2018. Publicly communicating a quantifiable objective is a risk, I acknowledge, but it has acted as a clear and effective rallying cry for everyone in Henderson.

#### **Doubling assets under management**



2014 was a year of carefully targeted organic investment in diversification by product, channel and geography, as well as strategic moves to structure our business around our core capabilities.


Alternatives is an area where we are changing the shape of our business to focus on the liquid end. The IPO of John Laing Group plc in February 2015 marked an important step towards our exit from Private Equity. Our Private Equity business delivered disappointing returns for some clients because of very difficult market conditions during and after the 2008 global financial crisis. Although this outcome is clearly not what we hoped for, we have done everything in our power to preserve and maximise value for clients.

Elsewhere in our business, we continued to build on longstanding initiatives to stimulate growth. We hired investment specialists in Asian equities, US investment grade credit, and emerging markets to round out our investment management capabilities. We built out our

Australian operation; we refreshed our brand; and we delivered the first phase of our new global finance platform. Given the scale of new investments made this year, we expect 2014 to represent the high point in our expenditure on new initiatives. We are currently carrying the cost of new teams which earn very little revenue, particularly in investment management, where it will take at least three years for them to build a track record.

A personal area of focus for me this year has been to stimulate the flow of new blood and new ideas into Henderson, right through the firm from my senior team to graduate recruits. It is a particular pleasure to welcome Rob Gambi as Chief Investment Officer. Rob is a bold, talented team leader, who has already made an impact on the investment floor. While investment decisions remain the preserve of individual investment managers, Rob has galvanised management decision making and brought a strong risk-focused challenge and debate to the investment discussions. His arrival completes my senior team.

Equally important to me is the success of the Henderson Trainee Programme, part of the Investment 2020 initiative to create more entry level opportunities into fund management. Henderson's programme is aimed at recent graduates, school leavers and those looking for a career change and offers the opportunity to join us on a short-term basis of up to 12 months. 120 trainees have completed our programme since its inception in 2010, and 90% of them have gone on to secure permanent roles within our industry. Our Trainee Programme is not about altruism: it is run for true commercial benefit.



### Geneva Capital Management

Small acquisitions have a key role to play in delivering our strategy, where we see opportunities to accelerate growth. In October 2014, we completed the acquisition of Geneva Capital Management, the US growth equity manager. This was an important strategic milestone for our North American business. Geneva brings proven investment expertise in mid- and small-cap US high quality growth equities to add to Henderson's international capabilities, and a predominantly Institutional client base which complements Henderson's strong US Retail presence. Most significantly, Geneva's investment-led culture complements Henderson's, and the two teams are already working well together to build a US business where the whole is bigger than the sum of the parts.

Ours is an industry at risk from disruptive technology, narrow-mindedness and complacency. An injection of youth into our workforce helps guard against these risks.

Having launched our growth and globalisation strategy last year, I am delighted with the first year's results. Roger Thompson's financial review covers our results in detail, so suffice for me to say that net new money growth came through very well, despite muted market returns in the second half, and we maintained a disciplined approach to investing in our business. We delivered a 13% rise in underlying profit. Looking back, I hope we will see 2014 as a pivotal year for Henderson, when we invested well for profitable future growth.

## What are our priorities for 2015?

With 2014 marking the high point of our significant investment programme, 2015 is about delivery. Our strategy is clear and well embedded within our business. Our focus now is to deliver what we know we are capable of. Key to achieving this is maintaining strong relationships with our clients, which in turn should lead to high retention rates and strong new business growth. Our focus on investment performance is unrelenting.

Here, then, are our priorities for 2015:

- Continue to deliver for our clients – which in turn will drive new business and enable us to gain market share
- Monitor and support our new investment teams as they establish their track records
- Continue to build our business geographically
- Continue to look for attractive small scale acquisitions to accelerate growth
- Demonstrate the operating leverage in our business model.

We will maintain a disciplined approach to use of capital, and enter 2015 ready to operate without recourse to the investment firm waiver from consolidated supervision, which expires in April 2016. Our next priority is to build the level of capital buffer prescribed by the Board, above which I see no requirement to hold additional capital. Once a robust capital position is achieved, I look forward to the increased flexibility to redeploy capital to:

- fund organic growth and globalisation
- supplement organic growth with value accretive acquisitions
- increase returns to shareholders.

## What are the key risks to delivering our strategy?

I am often asked about the key risks to the success of our strategy. We manage risks within our business actively and diligently, as Chief Risk Officer, Chris Chaloner reports in his section starting on page 36, but I am also very conscious of the potentially detrimental effect on our plans of external factors – notably markets and regulation.

The rise in volatility we have seen in financial markets in the latter months of 2014 is likely to be a persistent feature in 2015, as markets adjust to disruptive changes in the economic and political landscape. This is a year in which politics could have a greater influence than usual on investor confidence, with a number of key elections taking place in the major economies, against a backdrop of growing support for non-mainstream parties in many countries.

On the positive side, central banks remain focused on sustaining the global recovery and with the drag from fiscal tightening receding globally and the drop in the oil price providing further support, 2015 could be a year of positive growth surprises, after four years of growth downgrades. This is a year for active investment managers to make their mark.

Regulatory change continues to challenge us, and it is comforting to work in a business with the scale, expertise and track record to navigate the regulatory landscape carefully. The implications of unbundling research from dealing commissions as part of MiFID II in Europe are still being worked through, and represent the greatest regulatory challenge for us at present.

## Outlook for 2015 and beyond

We enter 2015 with good momentum, knowing that we are gaining market share in our major markets. I am confident that we can continue to generate strong organic growth, principally from our current diverse product range, but increasingly from new initiatives as they build their long-term track records.

Key to our success in 2015 and beyond is staying true to our clients and true to our brand, encapsulated in the *Knowledge. Shared* brand proposition. Throughout this Annual Report, we have showcased portraits of our current clients as well as that of our founding client, Alexander Henderson, to illustrate the continuing importance we attribute to the views of our clients. This unrelenting focus on the client is central to our 80 year history, and remains key to our future success.

I would like to conclude by thanking all of the Henderson team for their hard work this year, our shareholders for their support, and our clients for trusting us with their money.



**Andrew Formica**  
Chief Executive

# Business model

Our business model is client centric. It is designed to meet client needs through the deployment of our resources, relationships and business processes to generate sustained value for all of our stakeholders – clients, shareholders and employees.

## Clients and their end customers

Our clients are financial professionals, private investors and institutional investors.

The roles of different market practitioners vary across the globe, and we adapt our client relationships accordingly.

→ [Read more about our clients on page 26](#)

## Our resources and relationships

**People:** Investment management expertise, client relationship management

**Product:** Diverse product range: European Equities, Global Equities, Global Fixed Income, Multi-Asset, Alternatives

**Services:** Distribution and client service, administration, reporting, risk management

**Financial resources:** Capital, seed investing, investing in infrastructure and people, disciplined acquisitions, joint ventures and disposals

**Brand:** an attractive, aspirational brand centred around the proposition of *Knowledge. Shared*

## How we generate and preserve value over the long term

Clients allocate money – either their own or money they manage for their clients – to Henderson to manage according to a specified mandate or funds prospectus. We measure these monies as assets under management – AUM. Our AUM increases or decreases, primarily depending on inflows and outflows of clients' money, our investment performance, and currency movements. To the extent that Henderson invests in new businesses or divests, this is reflected in AUM.

Our clients pay a management fee, which is usually represented as a percentage of the client's money we manage. In addition, Henderson may receive a performance fee from clients when our managers deliver strong investment performance. Henderson's management and performance fees are sourced from a diverse range of investment strategies, which contribute to the sustainability of our business model.

The resources which Henderson deploys to manage clients' money constitute our cost base. Our business is heavily people-focused. We apply stringent cost discipline to our business, while at

the same time making sure we have the right remuneration arrangements in place to attract and retain top-class talent. We invest to grow our business in a careful and targeted manner. This balance between cost discipline, reward and investment is key to the long-term success of our business.

We generate value for our shareholders by delivering sustained revenue growth, a function of our distribution activities, strong investment performance and our decisions to invest to grow our business. Our business model is scalable, which means that earnings growth should follow revenue growth. A high proportion of our earnings convert into cash, which we then distribute to shareholders, usually via ordinary dividends. As our capital position strengthens, we will have increased flexibility to redeploy excess capital, to fund organic growth and globalisation, supplement organic growth with value accretive acquisitions, and increase returns to shareholders.

→ [Read our financial review on page 20](#)

## Outcomes

### ▪ Clients

- Strong investment performance
- Excellent service

→ [Read more about our distribution and client service on page 24](#)

### ▪ Shareholders

- Income and profit growth
- Strong conversion of profits
- Capital returns achieved through growth

→ [Read our financial review on page 20](#)

### ▪ Employees

- Attractive career prospects
- Competitive remuneration and benefits
- Benefits of working for a growing business

→ [Read more about our people on page 34](#)

## What we are known for

Asset management business models tend to be fairly similar. To give a sense of what differentiates Henderson, here are the factors for which we think we are best known:

- Exclusive focus on active – not passive – fund management by investment managers with unique individual perspectives, who operate unconstrained by a house view, overlaid with a strong risk management focus
- Investment expertise in meeting specific client needs such as income generation, capital appreciation and preservation, and outcome-focused strategies
- Successful track records in both traditional and alternative investment styles

- Strong investment performance across a diverse product range
- Well established global footprint in Retail markets including a top 10 position in the UK
- Trusted, client-led brand
- Attractive place to work.

To deliver our strategy of growth and globalisation, we are investing in our business, specifically in global, high capacity investment styles and institutional quality teams.

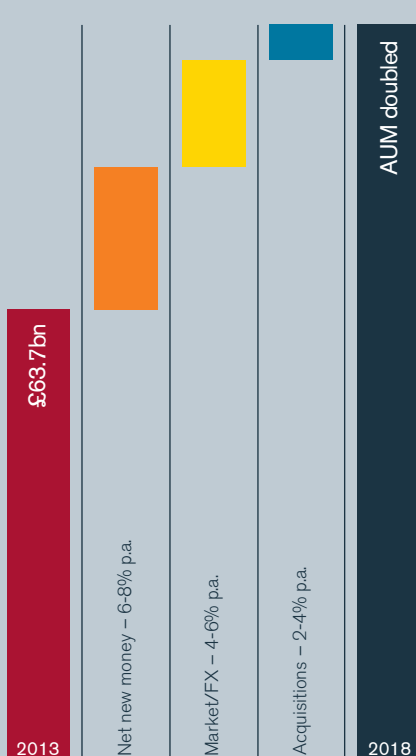
→ [Read about our capabilities on page 28](#)

# Our strategy

Our strategy focuses on growth and globalisation.

We aim to deliver a sustained period of organic growth, attracting net new client money ahead of industry growth. We will supplement this organic growth with value accretive acquisitions. By 2018, we will have established a truly global footprint, infrastructure and mind-set. Assuming market growth in line with the long-term average, the output of our strategy will be to double our assets under management.

## Doubling assets under management



## How?

← Across all of our strategic initiatives, our focus is on

Deliver first-class investment performance and service to our clients

Our strategy is focused primarily on our clients, on understanding and meeting their investment requirements and serving them responsibly, wherever they are in the world.

Shape our global product offering to meet the current and future needs of our clients

We deploy our expertise across our core capabilities to find attractive and innovative investment opportunities for our clients, and provide products which consistently meet their current and future needs.

## 2014 progress

- Investment performance remained strong, with 83% of funds outperforming on a three year basis
- Continued investment in client service, specifically our Customer Interests Programme and embedding the fair treatment of customers into the firm's business model
- Global rebrand, to support client engagement and better reflect the power of *Knowledge. Shared*
- Continued to invest in our core capabilities, with key team hires in US investment grade credit, Asian equities, emerging markets credit and equities, all to Institutional quality
- Broadened our product range, launching funds including International Long/Short Equity, US Growth Opportunities, Global Fixed Income Total Return and Global Commodities Enhanced Index

## Priorities for 2015 and beyond

- Continued focus on investment performance across a broader range of investment styles
- Ensure that customer interest enhancements are thoroughly embedded in normal course of business
- Targeted marketing initiatives to support client-focused themes and events
- Continue to globalise our product range, launching successful products in new wrappers to broaden their reach
- Create products to meet client demand for global income, capital appreciation and preservation and other specific outcomes

## providing world-class service to our clients >

### Diversify our global business

We have ambitious plans for growth, and are expanding our investment management and distribution reach to deliver value to a broader client base.

- Acquired Geneva Capital Management to boost our investment management capability in US equities and our US Institutional distribution
- Broadened our distribution reach in Continental Europe, Asia, the US and Australia
- Strengthened our investment management in the US and Australia
- Strengthened Institutional distribution outside the UK

- Continue to diversify our US business notably through the integration of Geneva Capital Management
- Broaden our Institutional client base beyond our current UK concentration
- Grow our presence in Australia in both Institutional and Retail channels
- Develop our emerging markets expertise to complete our global investment reach

### Operate efficiently

Our operating model is designed to meet client needs, attract and retain excellent people, and deliver profitable growth. We aim to build operating leverage and capital strength.

- Disciplined investment in key growth opportunities
- Upgraded our infrastructure platforms in portfolio management and finance
- Achieved a regulatory capital surplus without the need for a waiver from consolidated supervision
- Achieved leverage through scale, with 15 Retail funds over £1bn of AUM

- Focus on improving operating margins after a period of targeted investment
- Disciplined use of mergers and acquisitions to supplement organic growth
- Disciplined capital management to build an appropriate capital buffer
- Continue to invest in infrastructure

➔ Read about the risk we actively manage to ensure our strategy remains on track on page 36

➔ Read about how we measure the success of our strategy in our KPIs on page 18

➔ Read our Directors' remuneration report for an understanding of how we reward people for the success of our strategic goals

# GROWTH AND GLOBALISATION

## Guiding principles

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The success of our strategy begins with the way in which our people operate – tenaciously sticking to Henderson’s key behaviours.

### **Collaboration:**

We believe in working together and sharing knowledge so our clients benefit from the combined force of the whole company.

### **Conviction:**

We demand passion, belief and energy from our people. We have no house style to constrain the expertise of our investment professionals.

### **Responsibility:**

We know that performance, service and trust all flow from taking personal and collective responsibility, always in the service of our clients’ needs.



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Our people are discussed in detail on page 34

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“ Henderson’s key philosophy of good client service and investment performance comes through in the relationship we have with them. ”

Craig Baker — Phoenix Group

# CLIENT FOCUS



# Key performance indicators

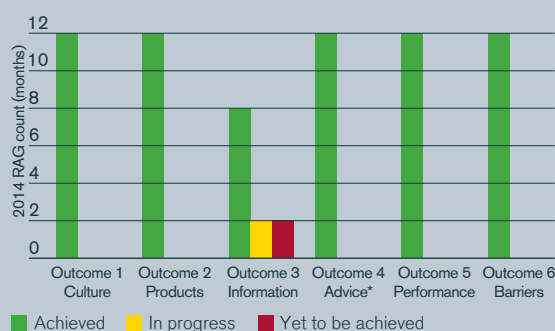
We measure our strategic and operational progress through a set of indicators that focus on core performance factors.

Performance indicator

Our strategy

2014 performance

## Treating Customers Fairly (TCF)



\* Whilst Henderson does not give advice, we recognise our responsibilities as a product provider in satisfying ourselves that products we develop are being sold in line with our expectations of the type of customer they were designed for.

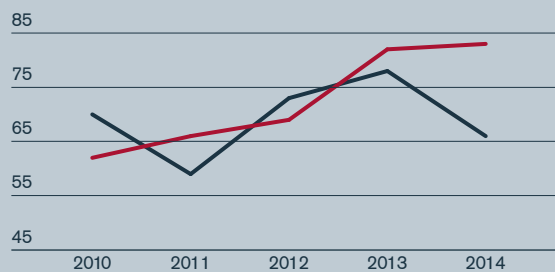
With our clients' needs at the heart of everything we do, we continue to strive to meet the expectations of our clients and their customers and to embed the fair treatment of customers into the firm's business model.

Embedding is measured using monthly management information to derive a "Red Amber Green" (RAG) rating for each of the six FCA TCF outcomes.

Key customer focused initiatives have included:

- 2nd annual Staff Survey<sup>1</sup> on our performance in achieving our client goals showed an improvement in positive responses in all question areas across the UK business
- The Henderson Customer Panel was established to gather feedback from UK retail direct investors
- Major enhancements to TCF management information, reporting and governance structure

## Investment performance over 1 and 3 years (%)

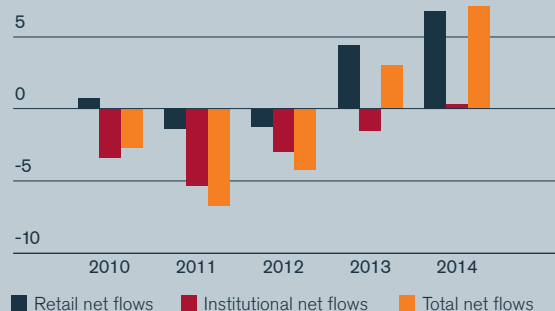


% of assets at/exceeding relevant metric over: — 1 year — 3 years

Strong investment performance underpins our growth strategy, our reputation and our ability to attract net new money from clients. We measure the percentage of our assets at or exceeding the relevant metric over 1 and 3 years to monitor our performance.

- At the end of 2014, 66% of funds had outperformed over 1 year and 83% over 3 years, demonstrating consistently strong investment performance
- Investment performance was strong across all of our core capabilities

## Net fund flows (£bn)



Net fund flows are a strong lead indicator of the success of our strategy and are a key driver of revenue and profitability. Reflected in the mix of our fund flows are investment performance, distribution and client service, the success of our product offering in meeting client needs, and our strategy to globalise our business, as well as external market factors.

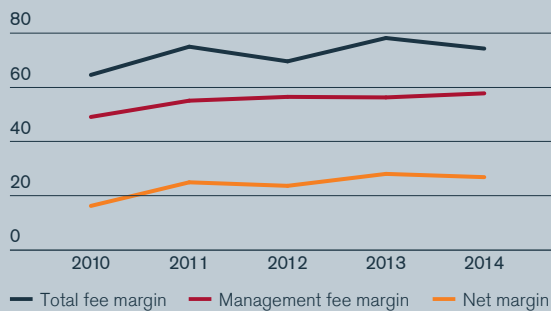
- Net new money growth of 11%
- Total net fund inflows of £7.1 bn driven by our Retail business which contributed £6.8bn
- Institutional net flows improved with £0.3bn in 2014 across a broader geographical base
- Our significant net fund inflows reflect strong investment performance across an increasingly diverse product range

1. The survey captures UK staff attitudes to customer-centric topics.

## Performance indicator

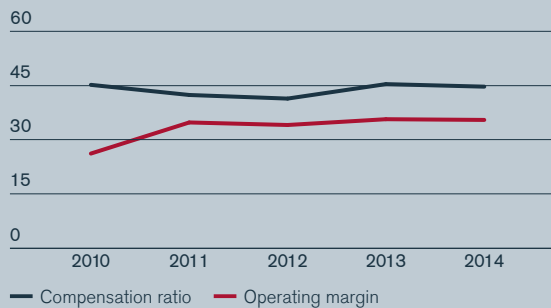
## Our strategy

## 2014 performance

Fee margins (bps)<sup>2</sup>

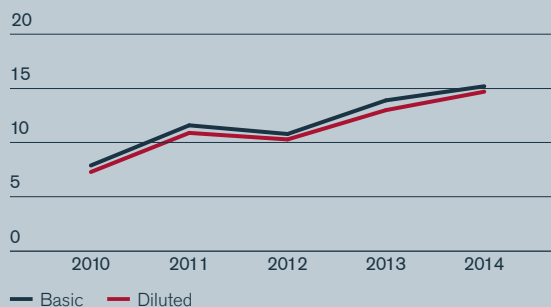
Fee margins are under constant pressure across our industry – from clients, intermediaries, competitors and regulators. Our average fee margin is a strong indicator of our ability to adapt and respond to these pressures, by delivering the right product at the right price to our clients, globally.

- Management fee margin increased to 57.8bps driven by strong retail flows and increased flows into higher margin products including SICAVs
- Total fee margin decreased slightly to 74.3bps, impacted by the fall in performance fees from the high in 2013
- Net margin remained relatively stable at 26.9bps, highlighting our ability to maintain operational efficiency

Compensation ratio and operating margin (%)<sup>2</sup>

Our ability to deliver value to our clients and shareholders depends on achieving the right balance between investing in the growth of our business, rewarding and retaining our staff and operating efficiently. These two ratios enable us to monitor this balance.

- Compensation ratio reduced from 45.4% in 2013 to 44.7% in 2014, despite an 11% increase in total staff compensation
- We delivered an operating margin of 35.5% in 2014 which is broadly in line with 2013 (35.7%). 2014 was a peak year for investment, but we maintained cost discipline as market volatility increased in the second half of 2014

Earnings per share on continuing underlying profit (p)<sup>2</sup>

Earnings per share on continuing underlying profit is a clear measure of our ability to deliver sustainable, profitable growth on a global basis, and deliver value to our shareholders.

- Diluted earnings per share on continuing underlying profit grew to 14.7p in 2014, up from 13.0p in 2013
- The key driver of this growth is the 13% increase in continuing underlying profit before tax, as the effective tax rate and weighted average number of shares remained relatively flat

2. Net margin, compensation ratio, operating margin and diluted earnings per share are all based upon continuing underlying profit which, while not a GAAP measure, in the opinion of the Directors, gives relevant information on the profitability of the Group and its ongoing operations.

# Financial review



**We sustained growth in flows and revenues through delivering performance for clients and demonstrated a commitment to investing for future growth.**

Roger Thompson  
Chief Financial Officer

## Financial performance

2014 has been a successful year for Henderson.

We delivered strong investment performance for our clients, grew our client base, and invested in our business to make progress towards our strategic goals of growth and globalisation. In a world of increasing accounting complexity, my review aims to distil our financial statements into key business insights.

The Group achieved underlying profit before tax from continuing operations of £187.8m, an increase of 13% (excluding profit from our Property business generated in the first quarter). This was driven by the 22% rise in management fees (£403.5m), our core revenue stream. Performance fees remained strong at £82.8m, but down on the level reported in 2013.

As we invested across the business in areas including investment management, client relationships, marketing and technology, we saw a £37.9m increase in total operating expenses to £334.6m. However, we maintained cost discipline and delivered a 35.5% operating margin, which is one of our key measures of performance.

The Group's key performance indicators validate our strong financial results. We delivered strong retail fund inflows throughout the year, with exceptional inflows in the first half when markets were less volatile. Management fee margin moved up slightly to 57.8bps, with the mix in AUM being the main driver of the change. These factors, in combination with our strong investment performance, are the key drivers for revenue growth. As mentioned, we remained vigilant on costs and despite a rise in total compensation, we saw a reduction in our compensation ratio from 45.4% in 2013 to 44.7% in 2014. Diluted continuing underlying EPS increased by 13% to 14.7 pence, primarily driven by increased profit.

Selected KPIs (continuing)	2014
Underlying profit before tax	<b>£187.8m</b>
Net fund flows	<b>£7.1bn</b>
3 year investment outperformance	<b>83%</b>
Management fee margin	<b>57.8bps</b>
Operating margin	<b>35.5%</b>
Compensation ratio	<b>44.7%</b>
Diluted EPS	<b>14.7p</b>

## AUM and flows

AUM by channel (£m)

	Opening AUM 1 Jan 14	Net flows	Market/ FX	Acquisitions/ disposals	Closing AUM 31 Dec 14
Retail	39,253	6,810	1,919	(1,975)	46,007
Institutional	35,983	328	2,132	(3,288)	35,155
<b>Total</b>	<b>75,236</b>	<b>7,138</b>	<b>4,051</b>	<b>(5,263)</b>	<b>81,162</b>

The Group's total AUM at 31 December 2014 was £81.2bn, an increase of 8%. We achieved net fund inflows of £7.1bn as we strengthened our product offering, enhanced our global distribution and delivered strong investment performance.

The Group completed a number of transactions this year, notably the property transactions resulting in a 40% joint venture with TIAA-CREF, the acquisition of Geneva Capital Management and the sale of our 50% holding in Intrinsic Cirilium to Old Mutual, which have resulted in an overall negative impact from acquisitions and disposals of £5.3bn. Ignoring the impact of these transactions, our AUM increased by 16%.

This year, our strong net fund inflows of £7.1bn resulted in an overall net new money growth of 11%, demonstrating that we are well positioned in terms of our key products and capabilities.

AUM by product	£m
<b>Retail</b>	<b>46,007</b>
UK OEIC/Unit Trusts/Other	20,615
SICAVs	14,171
US Mutuals	6,005
Investment Trusts	5,216
<b>Institutional</b>	<b>35,155</b>
<b>Total</b>	<b>81,162</b>

Flows have been primarily driven by our Retail business this year, but there has been an improvement in our Institutional business where we have seen small positive net inflows, across a broadening geographical base. We were pleased that we continued to capture strong flows in Retail, especially in the latter half of the year, as market volatility increased and investor sentiment changed.

In particular, our UK Retail business attracted strong flows across a diverse product set and we are seeing the benefits from our

New Star and Gartmore acquisitions, giving us strong growth momentum. Our US Mutuals business had an impressive first half driven by flows into European Equities products, but as demand slowed, we saw clients subsequently rotate into domestic dominated strategies. This slowing was also apparent across our SICAV range, where we observed a rotation away from growth orientated strategies and into more defensive and absolute return products.

Over the course of the year, we continued to take market share across our key markets and have made positive steps towards the delivery of our long-term strategy.

## Income drivers

	FY14 £m	FY13 £m
<b>Income</b>		
Management fees	403.5	331.9
Other income	32.5	34.9
Performance fees	82.8	94.5
<b>Net fee income from continuing operations</b>	<b>518.8</b>	461.3
Income from associates and joint ventures	5.1	1.8
Finance income	10.1	10.2
<b>Net income from continuing operations</b>	<b>534.0</b>	473.3

## Fee margins

Driven by the mix of our AUM, management fee margin rose slightly in 2014 to 57.8bps, an increase of 1.5bps on 2013 (56.3bps). Over recent years, we have observed some pricing pressure and in 2014 we benefited from increased flows into higher fee margin products, including UK OEICs, SICAVs and US Mutuals, to help offset this pressure. Fee margins for our Institutional business are more wide-ranging but averaged just over 30bps.

## Management fees

In 2014, management fees grew significantly by 22% to £403.5m. This was largely driven by strong net fund flows and good investment performance.

## Performance fees

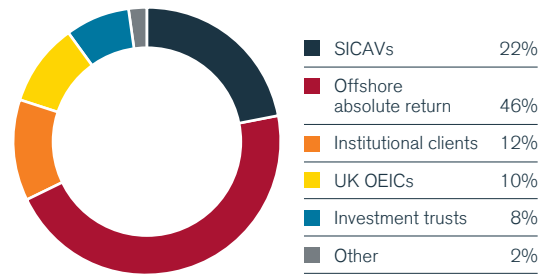
Our consistently strong investment performance with 66% and 83% of our funds outperforming on a 1 year and 3 year basis respectively, has helped maintain a strong level of performance fees.

As a result, we achieved performance fees of £82.8m which were slightly ahead of expectations, but down by £11.7m on the record high achieved in 2013 when market growth was very strong. The chart highlights our ability to generate performance fees from a diverse range of products, which gives us confidence in our ability to continue to earn fees in the year ahead. In 2014, we saw good relative growth in performance fees from our Offshore Absolute Return fund range, whilst across SICAVs, Institutional and UK OEICs we observed a small decrease in the proportion of performance fees generated.

## Other income

In 2014, other income fell slightly by £2.4m to £32.5m. The majority of this income is attributable to our general administration charge for which we implemented a policy change in August 2013. The policy change resulted in a reduced rate which had a full year impact in 2014.

## Performance fees



## Expense drivers

	FY14 £m	FY13 (restated) £m
<b>Expenses</b>		
Fixed employee compensation and benefits	88.4	80.6
Variable employee compensation and benefits	143.6	128.8
<b>Total employee compensation and benefits</b>	<b>232.0</b>	209.4
Non-staff operating expenses	102.6	87.3
<b>Total operating expenses from continuing operations</b>	<b>334.6</b>	296.7
Finance expenses	11.6	11.1
<b>Total expenses from continuing operations</b>	<b>346.2</b>	307.8

## Total operating expenses

As we progress towards delivering our growth and globalisation strategy, it should be noted that 2014 was the peak year for investment. Total operating expenses increased by 13% to £334.6m, primarily driven by employee compensation and benefits which increased by £22.6m to £232.0m. Fixed staff compensation has increased to £88.4m, reflecting our investment in new talent. Variable staff compensation increased to £143.6m as we rewarded staff for strong net flows, investment performance and business performance. In line with expectations, our non-staff operating expenses increased by £15.3m to £102.6m, due to additional investment in areas including marketing and technology and the impact of favourable one-off items recognised in 2013.

## Finance income and expenses

Finance income decreased marginally from £10.2m in 2013 to £10.1m in 2014. In 2014, £3.6m was generated from the sale of seed capital investments and £4.5m was the recognition of net interest on the Group's retirement benefit asset.

Finance expenses increased marginally to £11.6m and primarily relate to interest payable on the 2016 Loan Notes which are repayable in March 2016.

## Acquisition related and non-recurring items

The acquisition related and non-recurring items are disclosed separately from that of the Group's underlying profit to enable the users of our financial statements to better understand the components of our total profit. These items totalled £88.0m before tax and are primarily attributable to the intangible amortisation of previously capitalised investment management contracts, although this year they have been more than offset by the gain on disposal of the Property business. See notes 7 and 9 to the financial statements.

### Tax

The tax charge on the Group's continuing underlying profit for the year was £20.6m, resulting in an effective tax charge of 11.0% in comparison to the pro-rata UK corporation tax rate of 21.5%. The difference is primarily due to the benefit of profits in some overseas jurisdictions being subject to lower tax rates and tax credits on settlement and finalisation of tax returns relating to prior years.

### TH Real Estate

On 1 April 2014, the Group completed the transactions with TIAA-CREF relating to its Property business. This resulted in the Group taking a 40% share in the TH Real Estate joint venture. In the nine months to 31 December 2014, TH Real Estate contributed £2.7m to continuing underlying profit, recognised in income from associates and joint ventures.

### Geneva Capital Management

On 1 October 2014, the Group completed its acquisition of Geneva Capital Management LLC (Geneva), a US growth equity manager, resulting in a £3.4bn increase to our AUM. Geneva brings established investment expertise in mid- and small-cap US high quality growth equities, which complements our existing international capabilities. Through the acquisition of Geneva, we have also strengthened our institutional distribution capabilities and client base in North America, which creates a solid foundation for growth across this channel.

Since the acquisition of Geneva, our focus has been on investment performance and integration. We have had positive engagement with clients, with the vast majority consenting to the transaction but have experienced outflows totalling £494.1m for the three months to 31 December 2014 which includes the impact of the termination of one significant portfolio.

In December, we launched the US Growth Opportunities Fund, which fills an important domestic equity product gap for our US Mutuals business and will help to accelerate our growth.

### Capital and liquidity management

The Group continued to generate strong net operating cash flows.

Total cash and cash equivalents at 31 December 2014 were £242.8m (including cash classified as held for sale). Unrestricted cash stood at £227.7m after excluding manager dealing accounts, restricted cash and cash held in structured entities. With gross debt, at par, amounting to £150.0m, the Group ended 2014 in a net cash position of £77.7m (2013: £56.3m).

The increase in net cash was moderated as we invested in our strategic priorities including a net investment of £35.3m of seed capital into new fund launches including total return bond funds in the US and Australia.

### Regulatory requirements

The Group is subject to regulatory oversight and inspection by the FCA and other international regulatory bodies. The Group ensures it is compliant with its regulatory obligations at all times. In 2011, as part of the Gartmore acquisition process, the Group was granted a new investment firm waiver from consolidated supervision which is valid until April 2016. The regulatory capital surplus of the Group under the parent financial holding company test was £960.0m as at 31 December 2014 (2013: £983.0m).

During 2014, we continued to monitor the Group's capital position without recourse to the aforementioned waiver. We have made strong progress on reducing the Group's consolidated capital deficit. Despite the recent Geneva acquisition, we are delighted to report that, based on our calculations, we now operating with a surplus of £44.0m<sup>1</sup> as at 31 December 2014.

### Pension schemes

The Group has four pension schemes. A defined benefit scheme and a defined contribution scheme, together form the Henderson Group Pension Scheme, and there are three smaller unapproved pension top-up schemes for former executives. The net retirement benefit asset increased during 2014 to £119.6m (2013: £96.5m), mainly as a result of higher returns from the scheme assets.

### Dividends

The Board declared an interim dividend of 2.60 pence per share and is recommending a final dividend for 2014 of 6.40 pence per share, bringing the total dividends for 2014 to 9.00 pence per share, an increase of 12.5%. The proposed final dividend will be paid on 29 May 2015 to shareholders on the register on 8 May 2015. We will continue to maintain a progressive dividend policy, with the Board actively reviewing and setting the interim and final dividends for 2015 in line with business performance and outlook.



**Roger Thompson**  
Chief Financial Officer

1. Calculated based on the Group's pillar 2 capital requirement as approved by the Board in its 30 June 2014 ICAAP.

# CLIENT FOCUS

“ We have a very good level of activity, proving that there is good interaction between our clients, us as an intermediary and Henderson as a provider. ”

Aymeric de Poncins — BNP Paribas

# Distribution and client service



**We have an active client engagement programme that helps us improve our understanding of client needs, enabling us to directly feed back the views of our customers into both product design and our communications with them.**

**Phil Wagstaff**  
Global Head of Distribution

This year's Annual Report showcases our clients, from our very first, Alexander Henderson, who we were named after, through to the present day, because we must never forget whose money we look after. The Annual Report also showcases our refreshed brand, which we launched globally in 2014. In the course of the year, we updated the look and feel of our written materials, advertising and websites; positioned Henderson as a sophisticated and aspirational company to an increasingly institutionalised target market; and began to live and develop our core brand proposition – *Knowledge. Shared.*

Prominent throughout Henderson is the mantra that our clients' needs are at the heart of everything we do. We continue to strive to meet or exceed the expectations of our clients and their customers and to embed the fair treatment of customers into the firm's business model. We have an active client engagement programme that helps us improve our understanding of client needs through our research programme, enabling us to directly feed back into both product design and literature the views of our customers. This in turn allows us to ensure that not only do clients get the products that are most suitable for them, but they also get updates and communications in a format that suits them.

For example, in our Institutional business, close co-operation with a UK-based life insurance company resulted in the creation of a specifically tailored global credit product, closely matching the needs of their underlying clients. In Retail, the direct customer feedback through our surveys enabled us to launch guides to help with understanding of certain products, such as absolute return and bond investing. As I write, we are working on a guide to charging which our clients have highlighted they would like more clarity on.

As ever, the main driver of new business remains the quality of our core product offering: that is, risk adjusted returns and the quality of our investment processes. Investment performance has remained strong across our five core capabilities in 2014, and has driven significant net fund inflows into a wide range of strategies. Rob Gambi, our Chief Investment Officer, further discusses the progress we have made across our core capabilities on page 28.

## Our distribution and client service operation

Distribution and client service at Henderson sits at the centre of our business, and comprises sales, marketing, investment and client communications, client service, product strategy and development

and brand management – 27% of our staff across 14 locations worldwide. Our distribution capabilities are critical to the success of our strategy.

### Distribution strategy

Our strategy of growth and globalisation was described in detail on page 14.

Our distribution strategy, which I outlined to the investment community in the course of 2014, contributes significantly to each of the Group's four major strategy workstreams and can be summarised as follows:

### Performance, and the perception of performance, is critical to long-term success

Consistently strong investment performance is critically important to clients. Once you have established a reputation and a brand associated with strong performance, this will strengthen the loyalty of clients.

### Global product development is a key success driver

Product development is about creating options to respond to client demand, however it evolves. Not all product ideas will ultimately prove successful. We operate a disciplined global process, which helps us prioritise systematically, allocate our resources, back our winners and cut initiatives if they prove irrelevant to our clients.

Our brand needs to convey a confident, aspirational but believable image. I am delighted with the progress we have made this year, principally with our updated brand. The feedback has been universally positive with the new website winning a number of awards.

### Distribution structure is based around client types

This is extremely important when it comes to ensuring that client-facing people at Henderson understand who they are dealing with, and what clients' needs are and why, and are able to deliver tailored levels of service.

### Quality of people determine the quality of success

This is critical. Since I first arrived at Henderson, I have focused on upgrading the quality of our people across distribution, across functions and across the globe and now have the strongest distribution team I have ever worked with in nearly 30 years – dedicated to Henderson's clients and servicing their needs.

### Teamwork and collaboration are critical in a global market

We have reinforced these behaviours in our compensation schemes because in distribution teams there is a direct link between compensation and output. We have introduced globally consistent, discretionary compensation wherever local market practice allows, to influence behaviour and promote teamwork in line with our distribution strategy.

### We invest in our core franchises

This takes time, patience and persistence, as the case study shows:

#### Case study

Henderson Horizon Euro Corporate Bond Fund is just one example of how we have recently built a successful franchise.

Launched in 2009, the fund was a new idea and franchise for Henderson, to be marketed primarily in Europe. The fund's first anniversary marked the beginning of marketing activities to support sales efforts which aimed to re-establish Henderson's reputation as a fixed income fund manager.

2011 through 2013 saw high client interest in credit funds and Henderson's marketing activity was expanded through events and frequent fund management thought leadership communications. This increased level of marketing drove the profile of the fund and combined with strong performance, new business sales have flowed in to the fund.

The Henderson Horizon Euro Corporate Bond Fund is now £2.2bn in size, the second best-selling fund in the sector over the past three years and one of the top 10 funds in terms of asset size with a market share of just over 2%.

### Key client themes

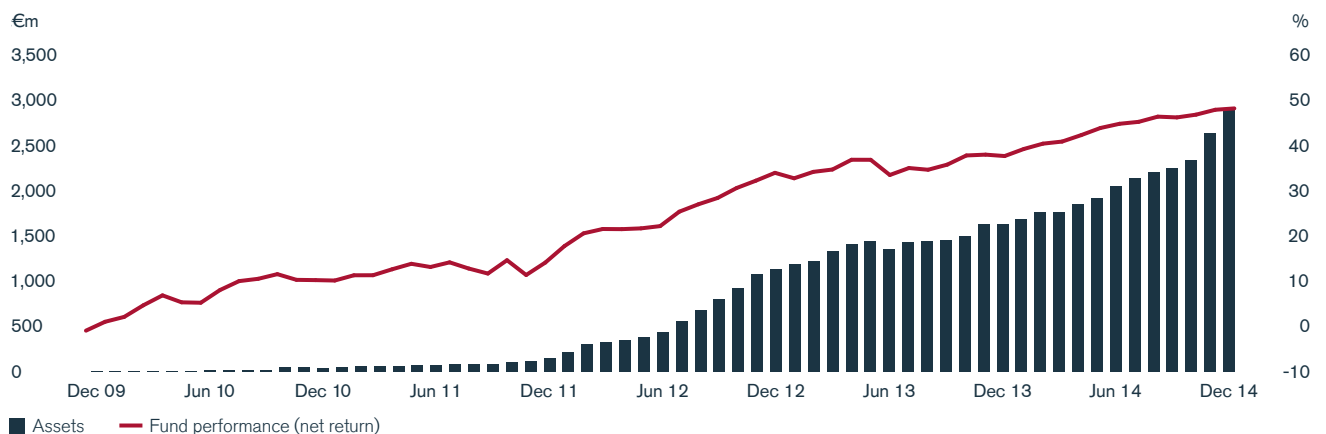
The diagram overleaf describes who our clients are, globally. This time last year, I described the key themes which we saw influencing their buying decisions, noting that we believed that these themes had a number of years to run. The majority of 2013's identified themes remain relevant today. Here is an update on these themes, including how we have been developing our competitive position to take advantage of these opportunities.

#### Search for income

With low returns on cash savings combined with demographic trends, there is increasing demand for income-generating products, whether in the form of corporate bond funds or equity income products. During 2014, we broadened the appeal of our highly successful Global Equity Income strategy by launching it in different wrappers, for example as a Luxembourg SICAV to make it accessible to European, Asian and South American investors. We have continued to develop higher yielding and successful income generating fixed income products, with the launch of an emerging market corporate bond fund during the year, and posted excellent performance in our US and global high yield funds.

We also increased the profile of Global Equity Income with a major thought leadership initiative – the Henderson Global Dividend Index. Released quarterly, it is a long-term study into global dividend trends – the first research of its kind – providing regional and industry insight into the progress global firms are making in paying investors an income on their capital. In 2014, dividends from companies worldwide reached a record US\$1.2 trillion.

### Henderson Horizon Euro Corporate Bond Fund performance and asset growth



## Distribution and client service continued

### Globalisation

We continue to see investors, retail and institutional, survey the global marketplace when searching for the best returns rather than being constrained by their domestic market. This is manifesting itself in demand for global strategies such as Global Equity Income, Global Equity, Global Credit, Global High Yield and Global Natural Resources. We have continued to invest in all of these strategies in 2014. We believe the reduction in allocations to global emerging markets is temporary, and have used the lull in demand as an opportunity to build our teams, recruiting new heads of Emerging Markets Equities and Fixed Income in the course of the year.

### Absolute return

There continues to be very significant demand globally for absolute return products – products designed to have low correlations to equities markets and lower volatility, whilst still aiming to produce positive market returns through the investment cycle. Low returns on cash and bonds are driving demand for higher returns without full equity market risk. At Henderson, we are able to take advantage of this through both our onshore and offshore fund ranges and market a mix of strategies, from equity long/short to alternatives such as agriculture and commodities. We have a strong hedge fund sub-brand in AlphaGen, recognised globally with awards such as Best Overall Group at the Hedge Fund Review European Performance Awards. We were also delighted to see our commodities-related hedge fund strategies pass US\$1bn in AUM during this year.

### Institutionalisation of the fund buying process

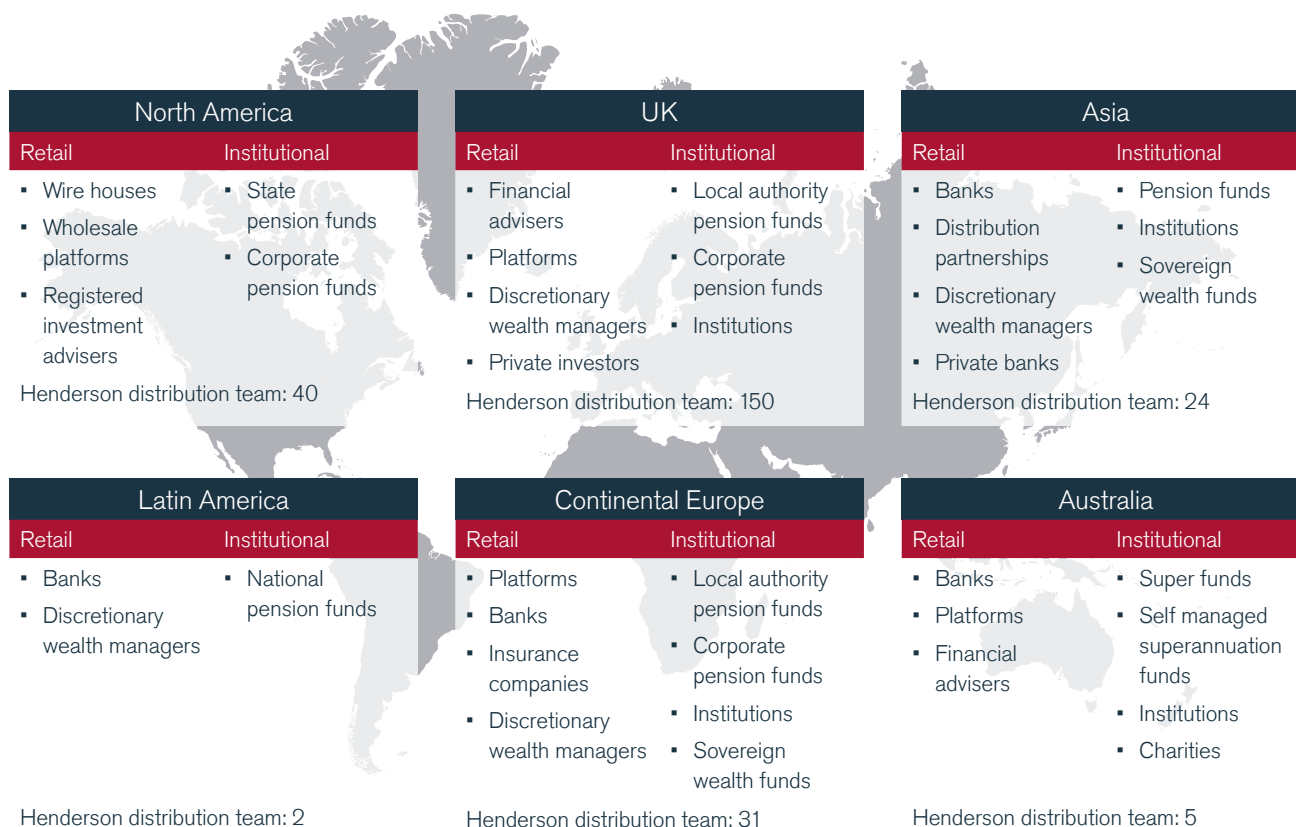
As I highlighted last year, one of the main changes resulting from the Retail Distribution Review in the UK and the growing profile of private banking across the globe is that the process of fund selection in the retail marketplace is now much more rigorous and akin to the institutional selection process. This means a great deal of in-depth research by fund panels and investment committees the world over. This fits well with Henderson's approach, as all of our investment strategies have stringent processes behind them with an overlay of an extremely strong risk management framework suited to this type of buyer.

### Concentration of fund flows

As a result of increasingly institutionalised fund buying, combined with a flight to the safety and security perceived to be offered by bigger brands and funds, there has been an increasing amount of flow into fewer funds. Data from Morningstar shows that in the 12 months to December 2014, the top 1% of global funds attracted inflows of US\$1.3 trillion. Six of Henderson's funds were in this top one percentile.

We are in a 'winner takes all' market. This is a trend which we recognise and have built into our distribution strategy, ensuring we support the marketing of prospective winners but also being bold enough to reduce activity when a strategy does not gain traction. For example, we continued to talk about European equities in the US when this strategy was deeply out of favour, and reaped the benefits in late 2013 and early 2014 when the US re-invested in Europe. In the UK, our Property fund now holds the coveted number one slot.

## Henderson's global clients



## Multi-Asset investing

A key theme in the UK and an increasing trend globally is the desire to outsource a combination of asset allocation and stock or fund selection. This has given rise to larger inflows into investment solutions strategies, and Henderson has been at the forefront of this trend using the skills of our Multi-Asset team. We have expanded the reach of our Multi-Asset team during 2014 and are now focusing on Institutional as well as Retail clients.

The one key theme which I highlighted last year which did not remain current throughout all of 2014 was global demand for European equities. This tailed off in the second half of 2014, but remains an important theme in the longer term and Henderson remains very well placed for a future turnaround, with one of the strongest European teams of any asset manager. It was also pleasing to see Henderson continue to gain market share of net flows in the second half, despite a reduction in demand for European equities, which is testament to the quality of our performance and record in this area.

## Progress to date and next steps

I am now three years into delivering our five year plan to upgrade our distribution capabilities. Here are the key elements of our progress to date:

### Recognising and nurturing our core franchises

Henderson is a firm with global aspirations, successfully expanding from a strong UK base. 2014 has seen exceptional market share growth in our UK business, with strong flows into a diversified range of products including Henderson UK Property, Henderson Cautious Managed, Henderson European Focus, Henderson European Selected Opportunities, Henderson UK Absolute Return, Henderson Multi Manager Income and Growth and Henderson Strategic Bond. We are committed to protecting and growing this diversified base. As the Chairman mentions in his opening remarks, we are privileged to have a 50 year track record in investment trusts, which we can point to in developing our retail open-ended funds business in areas such as Europe and Latin America.

### Making sure we are well resourced with talented people in growth markets

The two markets where we have seen most progress this year are Australia and the US. Our Australian office is now fully staffed with an excellent team, has launched global equity and fixed income products for the institutional market and is starting to build a retail presence. Our Australian commodities funds are starting to build traction inside and outside Australia. In North America, our growth strategy was accelerated this year with the acquisition of Geneva Capital Management. Geneva's expertise and relationships boost Henderson's Institutional presence in the US, complementing our existing Retail strength – we have plans to bring their expertise to other funds around the globe in due course.

## Globalising the product suite

Key developments this year include building track records in global equities and fixed income, and broadening our US Mutuals product range. We are continuing the evolution towards a global asset management business and have hired new investment talent which will provide our clients with new investment capabilities, including Global Natural Resources, Asian Equities, Global Credit, Emerging Market Debt, US Equities, Global High Yield and Emerging Markets Equities.

## Rebranding the business and increasing our marketing impact

Our brand refresh was a significant step forward this year, and we have also increased our direct client contact with a record number of client events.

Over the next year, we will continue to develop each of these elements. Additionally, we see opportunities to grow our retail networks in Continental Europe and Latin America, and we have more work to do in Asia.

People often ask me to characterise Henderson's competitive advantage – a difficult question to answer for asset managers. We all rely on essentially the same elements – investment performance; the right people, products and relationships; a strong client service ethic; and a respected brand. What tends to mark out the winners from the losers is execution. I am delighted with the progress Henderson has made this year on behalf of our clients, and believe we have the people, products and processes we need to continue to deliver to our clients.

“ Henderson understands what we want of the mandate we have given them, including the level of contact, and I put them in the top decile for that understanding. ”

Martin Jones –  
Independent trustee



# Our core capabilities



**We balance independence with robust investment processes, strong governance and an impactful Risk team.**

**Robert Gambi**  
Chief Investment Officer

As Chief Investment Officer, my primary role is to manage people, allocate resources and contribute to the strategic direction of the Group, while keeping client interests at the heart of what we do. As CIO, I provide leadership to the investment teams, facilitating the activity of fund managers rather than dictating my view of the world to them.

Teams are free to follow individual investment processes at Henderson. We deliberately employ passionate, intelligent investment professionals, who can work in teams. There is no point, therefore, in giving fund managers responsibility only to shackle them with a house view that could drive out the very creativity that has led to success and that our clients want from Henderson. We balance independence with robust investment processes, strong governance and an impactful Risk team.

When I joined in April 2014, I set about getting to know the business and developing strong relationships with the 220-strong Investment Management function. Throughout the year, I sought to bring focus and a greater sense of urgency in terms of execution of projects, including product development and infrastructure, and to address those few areas where we have experienced performance challenges. I was also keen to see Henderson maximise its skillsets; in some of the following pages you can read examples of where we have been developing products that harness long-only skills for hedge fund clients and hedge-type skills in the retail arena.

As the business expands, the demands on management increase so I have also built a team around me with individuals whose specialist knowledge and experience in areas such as risk and infrastructure are invaluable in helping to share the challenge of overseeing the Investment Management function.

New hires can be very important in terms of filling a skill gap but we need to be confident that alongside their experience, qualifications and potential they also share Henderson's values and exhibit the right behaviours. In a business that survives on the quality of its people, every person can and must make a difference.

In 2014, we selectively invested in strengthening the investment management base through quality rather than quantity. Within fixed income, we have grown the team in the US to provide strength in investment grade bonds and have brought on board an Emerging Markets Credit team so we can provide comprehensive global coverage. Within equities, we have invested selectively across the platform, hiring Glen Finegan in emerging markets and Andrew Gillan in Asia.

Performance overall has been good so it would be unfair to single out one area when 83% of our funds have met or exceeded their benchmark over three years. While acknowledging aggregate success it is also important that we ameliorate those pockets that can do better. Part of my role is to ensure fund managers have the support they need and if they underperform, that we understand why. It also means putting in place measures to improve, so we can continue to communicate our strategy with confidence to our clients.

In 2015, my priority is to maintain good investment performance for our clients. Beyond this, I will be looking at how we can develop our Institutional business in equities and multi-asset. I want to look at how we can gain more scale in fixed income: it is a profitable part of Henderson's business and we are now in a position to manage more. Last but by no means least, we will continue to prioritise the integration and embedding of the acquisitions we have made in recent years, such as Geneva in the US, ensuring we maximise their value.

# European Equities

## Experience counts

The experience of Henderson's European Equities team once again came to the fore in a year that was beset with challenges for European equity markets. Although sentiment towards the Eurozone was initially strong in the early part of the year, this began to fade by the summer as a confluence of factors – anaemic economic growth, worryingly low inflation and a constriction in trade caused by sanctions on Russia – led to concerns about the profitability of European companies. Countering this, however, was an expectation that the European Central Bank would support the economy with additional monetary easing, through measures such as lowering interest rates or quantitative easing – both of which were likely to be positive for equity markets.

This somewhat contradictory environment played into the hands of Henderson's European Equities team, not only because investors tend to gravitate towards asset managers with an established track record during times of uncertainty, but also because the Henderson team has been consistent in its message that European corporate success need not be dictated by a company's domicile or domestic economy.

The team spent the year carefully analysing companies against the framework of the continuously shifting macroeconomic backdrop. The combination of rigorous investment processes coupled with the benefit of experience, translated into strong investment performance, with 89% of funds at or exceeding their benchmark or peer group over a one or three year period<sup>1</sup>. All of Henderson's mid- and large-cap European equity funds outperformed their respective peer groups over one year. The one area that lagged during 2014 was our smaller companies fund range, which was affected by economic uncertainty, prompting investors to rotate towards larger companies.

## Positive flows

The strong performance translated into positive flows for the majority of our European Equities funds, something that was aided by the willingness of our fund managers to engage with clients and highlight the relative value within European equities. In January, Henderson hosted a European Equities Day for European clients, which allowed each of our managers to explain their process and the long-term merits of holding European equities. Nick Sheridan, the manager of the Henderson Horizon Euroland Fund, was particularly busy, attending events in Montreux, Paris and Miami as he highlighted how an approach that focuses on corporate fundamentals and cancels out market noise can pay dividends over the long term.

In terms of flows, of particular note was the US-registered Henderson European Focus Fund, managed by Stephen Peak, which was the number one selling fund in the Europe stock sector in the US, with total net inflows of US\$645m. In the UK, the Henderson European Focus Fund doubled in size over the year to £342m. In Europe, the Henderson Gartmore Continental Europe Fund grew by €767m to more than €2.5bn, while Henderson's largest fund, the Henderson Horizon Pan European Equity Fund, managed by Tim Stevenson, continued to attract assets, with net inflows of €250m contributing to a fund size of €3.5bn. The strong net inflows meant Henderson retained its position as the third largest provider of Luxembourg and UK-domiciled actively managed European equity funds.

## Leveraging the skillset

Given the volatility in markets, there was considerable interest in conviction strategies that focus on identifying a relatively concentrated portfolio of companies with the potential to outperform the broader market. This is a strategy pursued by John Bennett on the UK-registered Henderson European Focus Fund. During the year, this fund won the Money Observer Awards 2014 Best Larger Europe Fund. Its sister fund in the investment trust space – the Henderson European Focus Trust – won European Equity Fund of the Year (Investment Adviser 100 Club) and Best European Investment Trust at the Investment Week Investment Company of the Year Awards 2014. Given the level of interest, the trust was able to raise an additional £9.6m from investors through share issues. Enquiries about the conviction strategy from hedge fund clients encouraged Henderson to launch the AlphaGen European Best Ideas Fund in July as a US onshore LLC (Limited Liability Company). This is a long-only unconstrained portfolio of around 35 stocks which has already attracted significant flows. In this way, a single strategy can be applied across multiple investment vehicles allowing a broader range of investors to access Henderson's investment management capabilities.

## European Equities AUM



## Euro hat-trick

**Perseverance pays. In November 2011, we launched the Henderson Horizon Euroland Fund, arguing that the Eurozone offered value for investors. In each of the last three calendar years, the fund has delivered first quartile performance, which, together with strong net inflows, has enabled the fund to grow to more than €600m in size.**

1. On an asset-weighted basis to 31 December 2014.

# Global Equities

Henderson's Global Equities capability is diverse, covering all the major regions and market capitalisation sizes as well as having strengths in specialist areas, such as technology and funds with an environmental and ethical focus. This means Henderson can offer funds and mandates that act as both the core of a portfolio or provide a thematic or strategic role in asset allocation. In total, Henderson's Global Equities capability represents some £25.7bn of the Group's AUM.

2014 was a year of progress for most equity markets, although the journey was punctuated by periods of volatility. Developed markets were generally strong but several emerging markets struggled against the headwinds of weakening commodity prices and a strengthening US dollar. There was a mixed picture within our own emerging markets funds as Latin America underperformed and experienced outflows, yet the UK-registered Henderson China Opportunities Fund delivered top quartile performance in the year to 31 December 2014 and had the highest net inflow of any fund in the IMA China/Greater China sector. In terms of overall performance within our Global Equities capability, 58% and 78% of Henderson funds over one and three years respectively were meeting or exceeding their benchmark<sup>1</sup>.

## Global expansion

Henderson has been clear about its ambition to grow the capability globally. During 2014, Andrew Gillan, based in Singapore, joined as Head of Asia (ex Japan) Equities from Aberdeen Asset Management, where he had built an enviable track record in managing Asian equities. In keeping with our desire to increase the on-the-ground investment talent, we relocated a number of our Asian equity analysts from London to Singapore. We also restructured the emerging market equities capability by recruiting Glen Finegan, who had built a strong track record at First State.

We also acquired US-based Geneva Capital Management. This brought more than US\$5bn in assets, primarily in US small- and mid-cap equities, which, together with a large institutional client base, helps to diversify our presence in North America. Utilising the investment talent at Geneva, we launched the Henderson US Growth Opportunities Fund. We also added to the US-registered mutual fund range with the Henderson International Select Equity Fund, an EAFE fund that resonates with US investors who want to gain overseas equity exposure.

Our Institutional business continued to record mandate wins and it was encouraging to see a geographical spread. In the US, we gained fresh mandates for International Select Equity and World Select, despite a challenging year for the strategy. In Japan, there was demand for Japanese Small Caps.

## Doing well by doing good

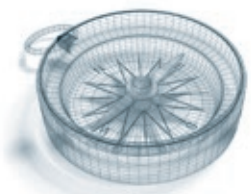
Henderson's sustainable and responsible investment funds continued to perform well, with first quartile performance across the range for the year, demonstrating that sustainability can translate into strong investment returns. The team has worked closely with their fixed income colleagues to engender a greater appreciation of Environmental, Social and Governance (ESG) factors in their credit analysis, an important consideration in a year in which fines on banks for mis-selling and market manipulation highlighted the corporate cost of unethical behaviour.

## Equity Income

Given the ongoing decline in bond yields and the meagre interest paid on cash savings, client interest in equities as a source of income continued to grow. Henderson's established reputation in this area meant we were in a strong position to capture asset flows, with AUM across Henderson's equity income products growing to £9.2bn. To facilitate access to our global equity income strategies for European and Asian investors, we launched a SICAV version of Global Equity Income, echoing the OEIC and US mutual fund formats. Alongside our open-ended mutual funds, Henderson is a formidable force in the management of income-generating investment trusts. For The City of London Investment Trust, it was another year of superlatives, with the trust retaining the investment trust industry record for the longest consecutive increase in annual dividends – 48 years. The trust also achieved £106.1m in share issuance as investors were eager to gain access to the portfolio.

We view the interest in equity income as a long-term trend as investors seek to diversify their sources of income and adjust to a world of structurally low interest rates. The demographics of an ageing world also mean equity income's capacity to offer an attractive income together with the potential for capital growth makes it a vital building block for retirement portfolios and an important growth area for Henderson.

## Global Equities AUM



## Reaping dividends

In 2014, we launched the Henderson Global Dividend Index, which provides granular information on the growth of dividends in different parts of the world each quarter. This initiative demonstrates our desire to share knowledge as well as acting as a powerful source of publicity, generating global press coverage and establishing our brand in equity income.

1. On an asset-weighted basis to 31 December 2014.

# Global Fixed Income

Henderson's Fixed Income business covers a range of assets from cash-type instruments through to higher risk subordinated and hybrid debt. This requires a range of skills from forecasting likely interest rate direction to detailed analysis of the creditworthiness of a bond issuer. To facilitate this, the business is broadly split into four areas:

- **Secured Credit:** This covers assets such as secured loans, asset-backed securities and structured products. These assets tend to be higher yielding and have floating rates, which can make them attractive to clients concerned about a rise in interest rates
- **Government Bonds and Rates:** This area of the business focuses on government bond portfolios including index-linked bonds, as well as providing analysis of interest rate products
- **Corporate Credit:** This is split between a UK Retail business that invests primarily in credit (corporate bonds) but has scope to invest across the fixed income spectrum and a pure credit business
- **Diversified Fixed Income:** This area focuses on multi-asset mandates led by the fixed income Investment Strategy Group, and draws upon the ideas from across our Fixed Income alpha teams.

## Diverging markets

2014 was characterised by divergence, both in terms of asset class performance and monetary policy. In one camp were the US and UK central bankers hinting at tighter monetary policy if their economies remained robust. In the other were the central bankers of Japan and the Eurozone, both of which, prompted by domestic economic weakness, undertook further monetary easing. The prospect of central bank bond purchases, together with tumbling commodity prices depressing inflation, led to falling yields on investment grade bonds. High yield and emerging market debt struggled in the second half of 2014 given the mixed economic picture and the strength of the US dollar.

In terms of performance, 60% and 80% of funds over one and three years respectively were meeting or exceeding their benchmark<sup>1</sup>. This was down on last year over both timeframes, primarily because those funds that are driven by the Rates and the Diversified Fixed Income strategies were positioned for weaker government bond markets than turned out to be the case.

Performance elsewhere was broadly good. The UK Retail business successfully exploited the recapitalisation of the European financial sector and consolidation within telecoms, enabling the Henderson Strategic Bond Fund to outperform and attract more than £104m in

net inflows. Henderson Diversified Income Limited, an investment company managed by the same team, increased its gross assets from £87m to £140m during 2014, primarily through a number of share issues.

Within the pure credit business, there was increased client interest in "Buy and Maintain" mandates that draw on credit analysis to build portfolios without reference to a benchmark but often with a specific maturity profile and target return. These mandates are held for the long term and had grown to £2.3bn by the year end. The high yield product suite also performed well, despite the challenging market backdrop, with the Henderson Horizon Global High Yield Bond Fund delivering first decile performance in its first calendar year. Within Secured Credit, there was demand for Secured Loans and for our Multi-Asset Credit strategy. Investment came from the UK, the Nordics, Israel and Japan, with a yen share class specifically launched for the Henderson Multi-Asset Credit Fund to meet Japanese demand.

## Globalisation in practice

The Henderson Horizon Euro Corporate Bond Fund demonstrates the ongoing globalisation of our range. Managed against an investment grade index, the fund was launched in December 2009 and has since built an outstanding track record. Client interest soared in its third year and in 2014 the fund attracted more than €1.1bn of net inflows to reach nearly €2.9bn in size. At the Investment Europe Awards held in Milan in November, the fund won best Corporate Bond Fund. Looking to replicate this success, over the last couple of years we have launched high yield funds from the same credit team, which has been boosted by the expansion of the credit team in the US. During 2014, we brought on board two investment grade specialists to join the US credit team based in Philadelphia. Together with the recruitment of an Emerging Market Credit team, this enabled us to launch two new global funds – the Henderson Horizon Emerging Market Corporate Bond Fund and the Henderson Horizon Global Corporate Bond Fund. Within the total return strategy, we launched an Australian mutual fund to stand alongside the European and US versions of the Total Return Bond capability, which gives clients access to fixed income without a benchmark constraint.

Flexibility is likely to be an advantage in 2015. Global credit fundamentals are broadly supportive but the prospect for tighter monetary policy in the US has the potential to trigger volatility. In such an environment, we take comfort from the breadth of our fixed income capabilities and our strong risk management.

## Global Fixed Income AUM



## Sharing knowledge

Both clients and Henderson can benefit from the sharing of knowledge. In 2014, we provided training on the nature of the "Buy and Maintain" investment approach to clients of a UK pension scheme. This was very well received, cementing the relationship we had built and contributing to the securing of a credit mandate.

1. On an asset-weighted basis to 31 December 2014.

# Multi-Asset

## Shaping the future

The Multi-Asset team at Henderson has the broadest remit of any of Henderson's investment teams. The scope of Multi-Asset means the team needs to be proficient at blending together different asset classes, using a combination of investment vehicles or directly held instruments to achieve the objectives of each portfolio. This requires several layers of skills, ranging from analysis of market and economic data to determine overall asset allocation through to an assessment of individual funds, investment instruments and external managers. Overlaying the entire process is careful risk control and analysis, with a senior member of Henderson's Risk team dedicated to supporting the Multi-Asset team.

In 2013, the Multi-Asset team was re-shaped with a number of hires and this continued into 2014, allowing the team to structure along four areas: asset allocation, alternatives, fund selection and investment support. The latter area, in particular, was boosted by the arrival of John Harrison as an investment director in August 2014. His experience provides valuable support in building our profile with investors in an area of the investment market that relies heavily on strong communication of the investment process and strategy.

## Building the proposition

We spent 2014 further educating investors about Henderson's Multi-Asset proposition. For institutional investors, this meant ongoing discussions with clients about Diversified Growth, our strategy that seeks to offer equity-like returns but with lower volatility, together with introducing Diversified Alternatives, our strategy that includes higher exposure to alternative asset classes. Within the Retail space, we continued to demonstrate our traditional multi-asset range, noting the ongoing interest in funds that provide a combination of income and growth. This included presenting at the Multi-Manager Academy, an educational forum for advisers in the UK, where we scored highest compared to other fund manager groups in terms of content and presentation. We recognise that it is early days for some of our newer offerings such as the Henderson Core Solutions range in the UK and the Henderson All Assets Fund in the US but we expect interest in these propositions to pick up once a three year track record is attained.

## Beyond the numbers

In terms of performance, 67% and 74% of our Multi-Asset portfolios were at or exceeding their benchmark or peer group over one and three years respectively<sup>1</sup>. This registered an improvement on the previous three year number but the one year figure was down on last year's impressive figure of 94%. The weaker one year performance in 2014 reflected an unwillingness to embrace interest rate risk in the bond market given the historically low bond yields. This was disappointing because it detracted from the otherwise good positioning in equities and alternatives across most of the portfolios but reflected a conscious decision to avoid an asset class that appeared to offer a poor risk and reward profile.

AUM in the Multi-Asset business would have been higher year-on-year but for the sale of the Group's interest in managing the Cirilium range, the multi-manager joint venture with adviser network Intrinsic. In February 2014, Old Mutual Wealth bought Intrinsic and it became clear that they wished to offer an integrated proposition to investors so it was a natural progression for us to sell our 50% stake to Old Mutual. The move allowed greater clarity for Cirilium investors and for Henderson to preserve its strong relationship with Old Mutual, which remains a valued client.

Flows within Optimum continued to be positive and this range of funds grew to £190m under management by the end of 2014. Optimum is a partnership approach in the UK whereby the Multi-Asset team manages 'building block' portfolios that advisers draw on to construct risk-targeted portfolios for their clients. Among the direct-to-retail-facing Multi-Asset funds, the Henderson Multi Manager Income and Growth Fund enjoyed net inflows of more than £100m. In a world where income and growth are arguably scarce, investors were drawn to the fund's objective and process.

2014 was a year in which the core asset classes of equities and bonds performed well. Our experience is that investors tend to gravitate towards greater diversification within Multi-Asset portfolios when they are more risk averse. Henderson has built a strong reputation within Multi-Asset and its range of portfolios that blend diversification with asset allocation should be well placed to meet investor needs.

## Multi-Asset AUM



## Back on track

The Henderson Value Trust plc mandate was awarded to Henderson in 2013 and throughout 2014 we took a measured approach to stabilising the legacy portfolio we inherited from the previous managers, re-positioning the trust's holdings to improve its liquidity and quality. In December 2014, shareholders passed a continuation vote, which means that the trust will continue for at least a further three years.

1. On an asset-weighted basis to 31 December 2014.

# Alternatives

## Growing recognition

Interest in absolute return and alternative strategies continues to grow. In part, this reflects concerns that valuations on equities and bond markets appear rich on a historical basis and investors are looking to diversify with non-correlated exposure. Equally, it reflects growing comfort with alternative strategies, recognising that techniques such as being able to short sell (take positions that profit if securities fall in price) can prove advantageous, particularly in volatile markets.

Henderson has spent many years building its reputation in Alternatives, investing in manager skill as well as developing appropriate infrastructure, risk management and client expertise. Our well-regarded product range and investment talent meant that we were in a strong position to capture assets in 2014 and this was reflected in AUM growing to £15.8bn.

Performance was very respectable, with 61% and 100% of funds over one and three years respectively meeting or exceeding their benchmark<sup>1</sup>. Of particular note, the Henderson Horizon Pan European Alpha Fund comfortably beat its benchmark and its long/short profile appealed to investors who were uncertain about the prospects for European equities. During the year, the fund attracted almost €1bn of inflows. Similarly, the Henderson Gartmore United Kingdom Absolute Return Fund attracted €786m in 2014 and its sister hedge fund – AlphaGen Octanis – won best Long/Short Equity Hedge Fund at the Hedge Funds Review Awards. There was some disappointment: Credit Alpha, the targeted absolute return credit fund, was lacklustre after suffering idiosyncratic risk in a number of fund positions, while the US long/short equity fund managed by Northern Pines experienced unwelcome drawdowns when markets fell heavily in July and October.

We continued to add to our AlphaGen range of hedge funds. After dialogue with a number of clients revealed there was interest in a concentrated long book of European stocks, we launched the AlphaGen European Best Ideas Fund in July. It is a US onshore LLC, which will help to enhance our offering and distribution presence in North America. Also, to allow investors to access the talents of several of our managers in one fund, we launched the offshore AlphaGen Rigel Fund. This is a high conviction, best ideas, EAFE equity long/short strategy, which we had run since January 2013.

## Acquire and develop

Commodities is a significant diversifier for clients because the asset class offers returns that are relatively uncorrelated with equities and fixed income; this is also of strategic value to Henderson in that it provides additional revenue diversification. The last few years have offered a relatively good time to buy commodity businesses given the weakness in commodity prices so in 2011 we acquired an Agricultural team and in 2013 we acquired H3 Global Advisers, a commodities team, both of which are based in Australia.

Despite the challenging backdrop for the asset class, we have succeeded in growing assets under management organically since the acquisitions, trebling those in Agriculture and increasing by two thirds those in Commodities, which takes the combined AUM above US\$1bn at the end of 2014. Driving this growth has been the good performance in both businesses together with the adaptability and depth of Henderson's distribution infrastructure, which has allowed us to showcase the talent of the teams and the value within the asset class. The success of the business is being recognised independently with the AlphaGen Relative Value Agriculture Fund winning the Best Energy/Commodities Hedge Fund at the Hedge Funds Review Awards and the Commodities and Currency Fund award at the Investors Choice Hedge Fund Awards.

## Springboard for growth

Initially, our Alternatives business was focused around Cayman Islands hedge funds but over time we have developed our UCITS alternative funds where deeper regulatory oversight is a draw for European investors. In the last quarter of 2014, we launched our first 40 Act Alternative fund in the US – the Henderson International Long/Short Equity Fund – which seeks capital growth from exposure to non-US companies.

## Alternatives AUM



## Liquidity risk premium

Henderson's Liquidity strategies grew strongly over 2014, with assets under management up by 49% to US\$454m, driven by performance, inflows and the launch of a new diversified fund. These strategies, which aim to generate returns by providing liquidity in equity and fixed income markets, have benefited from banks stepping back from their traditional liquidity provision role since the 2008 global financial crisis.

1. On an asset-weighted basis to 31 December 2014.

# Our people



**At Henderson, we recognise that the strong brand and reputation we have built over the past 80 years are a direct result of our people. As we enter the next stage of our journey as a company, our people will continue to be our most important asset. Attracting, developing and retaining the finest talent in our industry remain central to achieving our goals.**

**Kathleen Reeves**  
Global Head of Human Resources

## Building a global footprint

A key priority for 2014 has been building our global footprint through recruitment or acquisitions, and then integrating these into the existing Henderson business whilst living our brand promise: *Knowledge. Shared.* In North America, we have continued to help support the integration of the US high yield credit team based in Philadelphia into our Fixed Income business. We look forward to seeing this business grow further in 2015 and realise wider business opportunities as a result of this integration. In addition, we have focused on ensuring a smooth integration of Geneva Capital Management into our equities business and we are excited about the opportunity to work with our new colleagues in Milwaukee to build equity presence and strength in the US market.

In the UK, we have hired into our emerging market equity and credit capabilities, creating the potential to expand our global product offering into new markets and bringing a new range of clients into Henderson.

A key initiative for Henderson has been the dissemination of our strategy through all levels of the organisation. This has been achieved through a significant number of targeted strategy workshops to ensure that each business area understands and can engage with our ambitions of growth and globalisation, and to move towards our goal of creating a global mind-set.

## Embedding our behaviours

As we grow as a business and establish ourselves in new markets, it is critical that we do not lose sight of, or dilute, the guiding behaviours and principles that have made Henderson over the last 80 years. In 2014, we implemented a leadership development programme with our guiding principles at its heart, in order that we engender a commitment to these principles in the next generation of our leadership team. In addition, we examined our performance management process to ensure that the way we assess performance is clearly aligned to our principles.

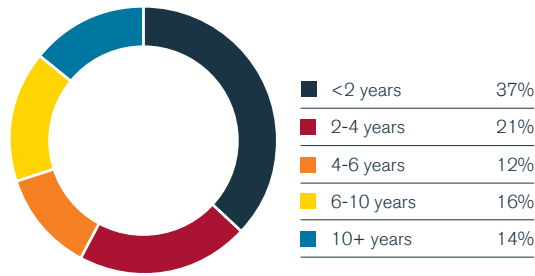
Our people continue to be set apart by their dedication to working together, across the globe, to provide an excellent service to our clients. Through our commitment to the Treating Customers Fairly philosophy and the implementation of our Customer Interests Programme, we aim to embed further our client-centric approach to risk and regulation that puts our clients' needs at the heart of everything we do. Activities include a customer interests survey and ensuring our employees understand their personal regulatory obligations through appropriate training.

We have also developed a clearer approach to Corporate Responsibility. We have drawn together the many different ways in which we give back to the communities in which we operate – such as our longstanding involvement in the Investment 2020 programme, our charitable giving and our support to Henderson employees who act as volunteers – and have developed clearer and consistent guidelines to maximise our impact in this area. In 2015, our focus will be on community engagement and how we can share the skills and knowledge at Henderson for the benefit of our local communities.

## Engagement and retention

2014 saw a host of new talent join Henderson, but it was also a year of high engagement and retention of our existing talent. At the end of 2014, our average tenure was five years, with an average tenure of eight and seven years for our Executive Committee and investment professionals respectively. Turnover also remains low at 8%. In our 2014 employee engagement survey, we had an overwhelming response rate of 91%, and an overall engagement score of 87%, which is significantly higher than our comparison benchmark. Also, 89% of respondents to the survey said they were proud to work for Henderson, and 81% of people envisaged working at Henderson in two years' time.

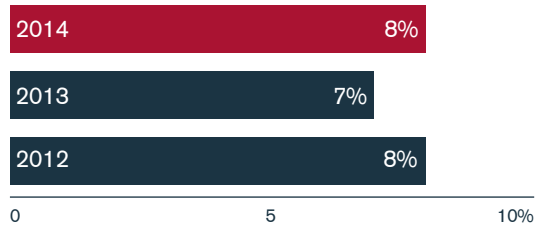
### Length of service



We have also begun to implement a talent strategy which will help us to differentiate and ultimately develop our key talent across all areas of the organisation. By learning how to cultivate a global mind-set and facilitating active knowledge sharing and building robust succession plans, we will effectively 'future proof' our organisation by creating a strong talent pipeline to support organic growth.

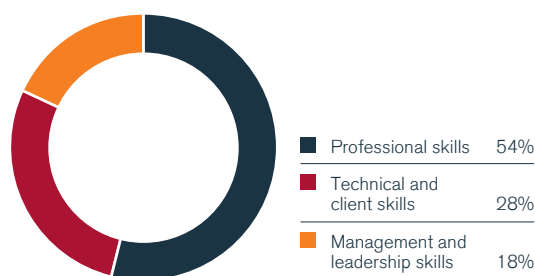
Our Trainee Programme is a key channel through which we attract and engage with a diverse group of emerging junior talent. Initiated in 2010 by Andrew Formica, the scheme offers the opportunity for participants to experience up to 12 months in an asset management company. To date, 90% of our trainees have secured work in the industry with over 70% of these remaining at Henderson.

### Turnover<sup>1</sup>



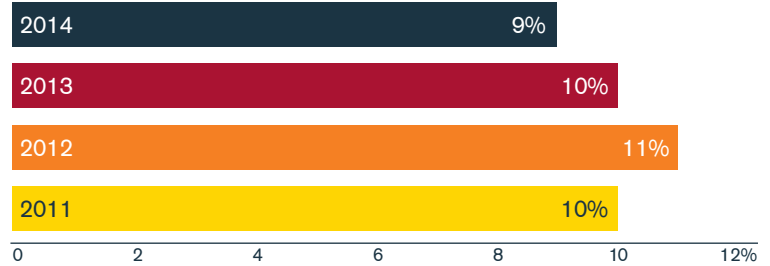
At Henderson, we recognise that high quality learning and development are crucial levers in the retention of our talent. We offer a wide range of tools for our people to develop themselves and continue to invest heavily in learning. During 2014, 316 employees completed at least one non-compliance related training course and 45 managers completed the Management Essentials Programme. Our mix of internal and external courses, combined with targeted individual coaching opportunities, provides a cost effective way for Henderson to develop and retain its talent.

### Training and development



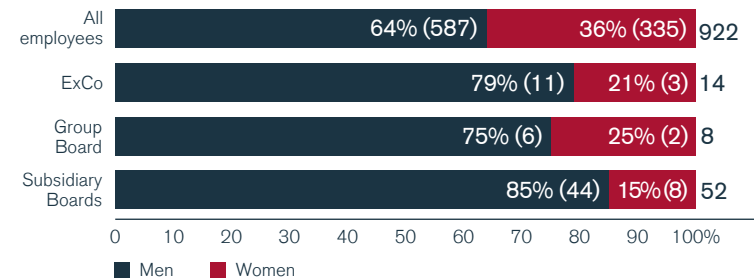
Another key part of our approach to retention is the operation of a successful performance related remuneration strategy that aligns our people's own interests with those of our clients and shareholders. 88% of our employees are Henderson shareholders and we continue to promote share ownership as it aligns our staff interests with those of our clients and shareholders.

### Staff share ownership<sup>2</sup>



As well as continuing to retain a broad mix of backgrounds, skills and experiences within our business, this year also saw the creation of the Diversity and Inclusion Steering Group whose mission is to ensure that as we grow globally, our culture and values reflect the diversity of our people and the communities we operate in. The group successfully commissioned and implemented a diversity survey in 2014, the results of which will help management to understand better the diversity of our organisation and the ways in which we can adapt internally to support, develop and retain our people.

### Gender diversity



### Looking ahead

Our people priorities for 2015 will be to continue the initiatives we started in 2014, particularly in helping to build our people capability to facilitate growth and developing a global mind-set. A key focus for 2015 will be on developing our talent and ensuring our succession planning is robust for the future. Maintaining our strong engagement levels and retention of our talent will also be key to our success, as they have proved to be over the past 80 years.

1. Figures exclude employees who transferred to TH Real Estate.  
 2. 2011 and 2012 calculated on amounts held by employee benefit trusts (EBTs). 2013 and 2014 calculated on amounts held by EBTs and amounts recorded on the Group's personal trading system.

# Risk management



When the Investment Risk team reviews performance with each investment manager, we aim to put ourselves in the client's shoes and to examine risk from their perspective.

Chris Chaloner  
Chief Risk Officer

## Risk overview

Our strategic objectives and the key risks to our strategy and business model are deeply interconnected. Risk management is fundamental to our operating model and deeply integrated into the day-to-day running of our business.

Strategic priority	Risk appetite theme							
	Client and fund investment focus	Group financial stability	Group growth and performance	Operational risk	People risk	Regulatory change	Reputational risk	Trust
Deliver first-class investment performance and service to our clients								
Shape our global product offering to meet the current and future needs of our clients								
Diversify our global business								
Operate efficiently								

Note: Quadrants represent the impact of each risk event on Henderson's ability to meet its strategic objectives – not the likelihood of the risk occurring. Lowest impact Highest impact

## Risk management framework

The principle of individual accountability and responsibility for risk awareness and risk management is an important feature of our culture. Overall accountability for risk management lies with the Board which articulates the risks that the Group is willing to take in pursuit of its strategy through the Group's risk appetite statement. The risk appetite statement is reviewed by the Board on an annual basis and covers eight main themes regarded as essential to the successful delivery of the Group's strategy and goals:

- Client and fund investment focus;
- Group financial stability;
- Group growth and performance;
- Operational risk;

- People risk;
- Regulatory change;
- Reputational risk; and
- Trust.

In order to manage risk effectively, the Board and senior management have to take a forward-looking view and our risk management process aims to identify new and emerging risks at an early stage so that these are assessed alongside known and continuing risks. The principal risks faced by the Group, together with the approach to mitigating these risks to ensure that the Group's risk profile remains within its risk appetite, are described on pages 38 and 39.

The risk management framework is set out in the Group's risk policy, a summary of which can be found on our website ([www.henderson.com/IR](http://www.henderson.com/IR)).

### Three lines of defence

Our framework utilises a ‘three lines of defence’ approach to managing risk.

The first line comprises the Chief Executive and business management, who ensure the Group is managed in accordance with the Group’s risk appetite on a day-to-day basis.

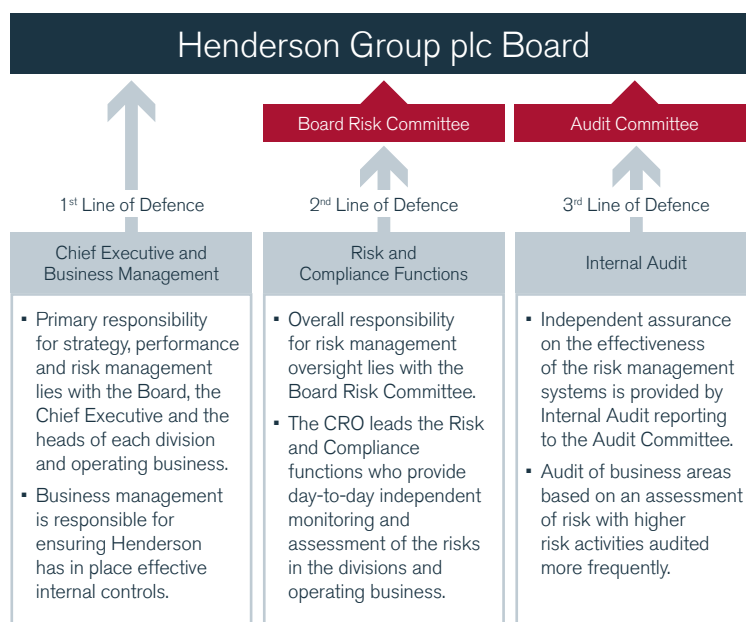
The second line comprises the Risk and Compliance functions which monitor the financial, operational and regulatory risks in the business and the related controls in place to manage these risks. The Chief Risk Officer (CRO) reports independently of management to the Chair of the Board Risk Committee (BRC) and attends all Board, Audit Committee and BRC meetings; the CRO and the Risk and Compliance functions provide reports to each Committee meeting.

Internal Audit is the third line of defence, providing independent assurance that the controls are appropriate and are operating effectively. Internal Audit reports independently to the Audit Committee.

### Board Risk Committee’s principal activities during 2014

The BRC received risk management reports which addressed real and potential emerging risks, strategic and operational risks and topical matters such as cyber-crime and regulatory updates. During the year, the Group has explored a number of acquisition opportunities and completed one of these – the acquisition of Geneva Capital Management in October. The BRC reviewed and challenged the risk assessments provided by the CRO throughout the acquisition process. In addition, the Group disposed of its 50% equity interest in Intrinsic Cirilium Investment Company Limited to Old Mutual Wealth in December and this transaction was also subject to review, challenge and oversight by the BRC.

The pace of regulatory change has continued unabated during 2014. This included the implementation of the AIFMD (covering principally the Group’s Hedge Fund and Investment Trust activities), the Capital Requirements Directive IV, which changed the calculation of the Group and its subsidiaries’ regulatory capital requirements, and the derivatives related EMIR (European) and Dodd-Frank (US) requirements. The Group implemented the required changes successfully and is on track with implementing these and other evolving regulatory requirements, related policies and procedures. The BRC reviews reports from the CRO that cover regulatory pronouncements that are pertinent for the Group’s business model. The Assurance function also reports to the BRC on any investigations into operational risks including incidents that have resulted in significant losses and/or regulatory fines for competitor firms.



In 2014, there was a continued increase in the apparent frequency and sophistication of cyber-crime incidents experienced by companies throughout the world. The BRC received a presentation from an external expert on cyber security and conducted a “deep-dive” into broader information technology related risks. The BRC also reviewed the Group’s business continuity plans during 2014. The Group has an Information Security Management Committee, which assesses, monitors and controls related risks including cyber crime.

An important regular activity conducted by the Group is the annual Internal Capital Adequacy Assessment Process (ICAAP) which involves the first and second lines of defence in assessing the Group’s risk profile and control environment for mitigating these risks. The ICAAP results in an assessment by management of the appropriate amount of capital to be held by the Group. The BRC reviews and challenges management’s assessments (including stress tests and reverse stress tests) and conclusions and makes a recommendation on capital requirements to the Board.

Outside the framework of formal meetings, the Chair of the BRC, Sarah Arkle, meets and has regular contact with the Chief Executive, the Chief Financial Officer and the CRO.

Further information on the BRC’s role in monitoring and assessing the Group’s management of risk is set out in the risk management and oversight of internal controls section on page 53.

# Key risks and their mitigation

The key risks faced by the Group fall into a number of distinct categories and the means adopted to mitigate them are both varied and relevant to the nature of the risk concerned.



### Acquisition and divestment



### Credit



### Foreign currency



### Fund flows



### Key personnel

#### Description

- Risk of organisational stress through potential demands on staff and resources through need to integrate acquired businesses or to reorganise processes to divest parts of the business.
- This risk is aligned to the Group's long-term strategy that involves willingness to consider the acquisition of businesses.
- Risk of a counterparty to the Group defaulting on funds deposited with it or the non-receipt of a trade debt.
- Risk that the Group will sustain losses through adverse movements in exchange rates.
- Risk of net redemptions by clients resulting in a decline in AUM and revenues earned by the Group.
- Risk of losing either a member of the ExCo or one of the Group's key investment or distribution professionals.
- Potential adverse effect on business growth and/or the retention of existing business.

#### Trends in 2014

- Acquisition of Geneva Capital Management.
- Divestment of the Group's property business and formation of the TH Real Estate joint venture.
- Disposal of our equity interest in the Intrinsic Cirilium investment management joint venture.
- Credit default swap spreads of our principal counterparties narrowed in 2014 indicating reduction in perceived default risk.
- Volatility of foreign exchange rates remained low in 2014, although they have increased in 2015.
- Overall, strong positive net inflows in 2014.
- Staff turnover generally low throughout 2014.
- Percentage of Group revenues from funds managed by an individual fund manager remains well diversified, albeit with increasing concentration in European Equities.

#### Mitigation

- Acquisitions/divestments considered only where they fit with our strategic goals and meet our financial criteria such that we can realise value for our shareholders. The Board's risk appetite statement includes quantitative and qualitative criteria that must be met for any acquisition.
- Thorough due diligence performed before any acquisition is made including assessment of our ability to integrate successfully the acquired business.
- Integration risk, post closing, is managed, monitored and reported.
- Credit risk arising from exposures to counterparties is assessed, managed and monitored in line with the Group's risk appetite.
- The Credit Risk Committee meets regularly to approve, review and set limits for all new and existing counterparties.
- Holding financial assets and liabilities of equal value in the same currency.
- Limiting the net exposure to an individual currency.
- Hedging currency exposure arising from seed capital investments.
- Risk overseen by the Hedge Committee that submits a monthly report to the Board.
- Diversity of sources of revenue by asset class, capability, fund style, strategy and geography.
- Diversity of investor base between retail and institutional and by geography.
- Strong investment performance across product ranges.
- Our remuneration structures are competitive and are designed to recognise and reward performance.
- Succession planning to ensure that there is cover for key roles should they become vacant.
- Staff surveys identify any issues which could adversely impact staff retention.
- Comprehensive training is offered to all staff.
- Deliberate strategy to avoid dependence on a single investment manager or team for a high proportion of our revenues, resulting in broad and diverse fund manager teams.



## Investment performance



## Market



## Operational and legal



## Regulatory change



## Reputational

## Description

- Risk that funds fail to achieve performance hurdles or benchmarks relative to similar funds managed by other firms, leading to client redemptions and reduction in AUM and revenues earned by the Group.
- Poor fund performance will also result in lower performance fees.
- Risk that market conditions lead to a reduction in the value of clients' AUM and revenues earned by the Group.
- Risk that market conditions lead to a decline in the value of Group seed capital investments.
- Risk of losses through inadequate or failed internal processes, people or systems or through external events. This includes the risk of loss arising from failing to manage key outsourced service providers properly, the risk arising from major disruption to our business and the risk of losses from breaches of investment mandates.
- Risk of losses from litigation.
- Risk that a change in laws and regulations will materially affect the Group's business or markets in which it operates.
- This may affect the business either directly or indirectly by reducing investors' appetite for our products, increasing capital requirements, restricting our ability to sell products, pursue certain investment strategies and/or increasing the cost and complexity of the Group's business.
- Risk that negative publicity regarding the Group will lead to client redemptions and a decline in AUM and revenue and/or to litigation.
- The risk of damage to the Group's reputation is more likely to result from one of the other key risks materialising rather than as a standalone risk.

## Trends in 2014

- Continued strong fund performance with 83% of funds (weighted by AUM) outperforming over three years.
- Slight weakening in one year performance, but still continues to be strong.
- Positive market performance in 2014 resulted in an increase in AUM, and therefore revenue, and in the value of seed capital investments.
- Continued rise in the number and sophistication of acts of cyber-crime against firms generally.
- Pace of regulatory change remains significant with implementation of the AIFMD and Capital Requirements Directive. Major regulatory change also underway with Regulation and Central Clearing of OTC Derivatives, changes to UK client money regulations and MIFID II.
- Regulations regarding the fair use of dealing commissions are a particular focus for the FCA.
- Henderson's brand has continued to strengthen in 2014 as evidenced by positive feedback from clients and the related net fund inflows across multiple channels and geographic regions.

## Mitigation

- Robust investment process including detailed research.
- Clearly articulated investment philosophy including analysis of our funds by comparing their performance against appropriate benchmarks.
- Broad range of funds to reduce the probability of all funds underperforming at the same time.
- Independent Investment Risk function aims to ensure that the level of risk taken for each portfolio is consistent with client mandates and fund prospectuses.
- Risk of a fall in the value of clients' AUM is mitigated by diversity of AUM by asset class and underlying investment strategy.
- We actively seek fee bases which are not solely calculated by reference to the market value of AUM and a significant amount of our expense base is variable.
- Limits on the aggregate amount of seed capital investments, diversification of the assets invested and appropriate hedging of the market risks where appropriate.
- Our control systems are designed to ensure operational and legal risks are mitigated to an acceptable level.
- Three lines of defence model is key (see page 37 for details).
- Outsourced service providers are overseen by the relevant line function and, for key relationships, their controls are also reviewed by the Group's assurance functions.
- We maintain and test business continuity plans which are designed to ensure that, in the event of business disruption, we can maintain our operations without irreparable damage to the business.
- Active and constructive engagement with regulators.
- Regulatory developments are monitored by a dedicated team in Compliance who provide training to the relevant teams where appropriate.
- Working groups implement required changes to our business processes.
- Compliance monitors ongoing regulatory obligations and engages in regular dialogue with our regulators.
- Active involvement with and through industry bodies.
- Reputational risk is primarily mitigated through the effective mitigation of the other key risks.
- Reputational risk is also mitigated by our culture, which is based on the value of integrity, trust and treating clients fairly.
- Risk appetite, risk and compliance policies, governance structures (e.g. the Conflicts of Interest Committee) and reward structures include significant focus on issues and behaviours that could affect Henderson's reputation.

# Corporate Responsibility



**We commit to act responsibly, not only in the way we invest and engage with our clients, but also in terms of supporting our people, managing our impact on the environment and contributing to the communities of which we are part.**

**Roger Thompson**  
Chief Financial Officer

## A different approach

Henderson has a proud track record of success in Corporate Responsibility initiatives. We have been certified CarbonNeutral® since 2005, were a founder signatory of the UN Principles for Responsible Investment (UNPRI) in 2006, led the industry when we launched the Henderson Trainee Programme in 2010, and established the Henderson Foundation to further support our philanthropic activity, in 2012.

Many of our Corporate Responsibility activities are the result of local initiatives which originated at a functional or team level, or are even due to the hard work of a passionate individual. These efforts have received numerous accolades and endorsements, and we are looking to build on this success – maximising the impact of Henderson's Corporate Responsibility activity by improving overall co-ordination and cohesion.

Corporate Responsibility has evolved to become such an important part of how we do business that we are increasing the oversight and leadership at a Group level. We want to be known for driving a comprehensive Corporate Responsibility programme across our business.

We are challenging ourselves to ensure that the activities Henderson engages in are appropriate to our business and the communities we operate in. We want to contribute in a way that draws upon our skills, knowledge and influence to make the greatest difference. Wherever possible, we will draw on the Group's guiding principles of Collaboration, Conviction and Responsibility in the delivery of our Corporate Responsibility programme.

## Governance

As an indication of the increasing importance of Corporate Responsibility at Henderson, the Group has established a Global Corporate Responsibility Committee. The Committee reports through the CFO to raise issues and make recommendations, as appropriate, to the ExCo and the Board. The Global Corporate Responsibility Committee meets quarterly and is comprised of the CFO and other appointed representatives from relevant business functions.

The Committee acts as a custodian for Corporate Responsibility strategy, reviewing performance and monitoring progress against targets and key initiatives.

## Why this is important to Henderson

Henderson does not just engage in Corporate Responsibility activity because it is the 'right' thing to do – we believe it supports our business strategy and values.

A strong Corporate Responsibility agenda is increasingly demanded by clients, expected by investors, and embraced by our employees. This means that a robust Corporate Responsibility strategy is integral to achieving all the elements of our mission.

Corporate Responsibility is also an important component of brand and reputation. It helps us to maintain high levels of customer trust and employee engagement, and we believe this will ultimately lead to improved business performance.

At Henderson, we focus on five pillars which support our Corporate Responsibility activities:

- Clients
- Responsible Investment
- People
- Community
- Environment.





## Clients

### Aims and objectives

With our clients' needs at the heart of everything we do, client engagement forms a central theme of Henderson's Corporate Responsibility programme. We continue to strive to meet the expectations of our clients and their customers and to embed the fair treatment of customers into the firm's business model. Our client engagement approach encompasses:

1. Improving customer understanding and insight through our research programme
2. Hardwiring the consideration of customer interests into our core business processes, such as design of products and communications
3. Establishing the basis for a cultural evolution across the organisation supported by a consistent tone from the top and senior management engagement
4. Improving the sensitivity of our control and oversight framework to customer issues.

### Progress in 2014

Particular progress has been made in embedding a client-centric attitude across the firm. This is evidenced in the UK by the annual Customer Staff Survey showing both an improved participation rate and an improvement in positive responses across the UK business.

Focused customer satisfaction studies also demonstrate a high level of customer service satisfaction in the core customer channels of UK Retail and European Institutional.

### Monitoring performance

#### Customer Staff Survey

Each year, UK staff complete a short survey to help us understand how we are doing in meeting our clients' needs and expectations.

- 2014: participation rate 71% (2013: 57%)

This survey will be rolled out to all Henderson staff in 2015 as part of the global application of the Henderson Statement of Customer Principles (where local regulation permits).

#### Customer Satisfaction

We undertake focused customer satisfaction studies in our core customer channels.

#### UK Retail

- 2014: Grant Thornton/IFDS Customer Call Satisfaction Score: 81.7/100 (2012: 91.0/100)
- 2013: IFDS Investor in Customers rating (IIC): ★★★ Exceptional (2012: ★★★ Exceptional)

#### EMEA Institutional

- 2014: Client experience rated as above average or excellent 98% (2013: 94%)



## Responsible Investment

### Aims and objectives

As an asset manager, perhaps the greatest impact we can have is in our influence over the companies in which we invest. Henderson is committed to the principles of good stewardship and responsible investment. We believe that integrating Environmental, Social and Governance (ESG) issues into our investment decision making and ownership practices will help deliver better investment outcomes for our clients. We therefore aim to ensure our investment teams have access to the highest quality ESG data. Our Governance and Responsible Investment team works closely with our investment teams to promote ESG integration in line with client mandates.

### Progress in 2014

We have made good progress in developing systems to improve access to ESG data, and in our voting, engagement and governance processes. Initiatives included:

- Integrating ESG data into our main investment platform. This data includes company ratings, internal research, engagement notes and voting outcomes.
- The full Henderson voting record is now made publicly available. In addition, we published our first public responsible investment report summarising work undertaken to implement our Responsible Investment policy.
- We increased the proportion of meetings at which we voted.
- We increased our involvement in collaborative engagement initiatives on environmental and social issues such as climate change, water use and labour standards.
- We established a standalone fixed income responsible investment committee to build on the progress made in integrating ESG across our Fixed Income business.

### Monitoring performance

Success in implementing our Responsible Investment policy is reviewed against both internal and external data. External sources include the annual UNPRI Survey and feedback from investment consultants, both of which showed continued improvement compared to previous years. We also review company engagement and voting data and internal feedback on the integration of ESG data into research platforms.

### Henderson's voting record





## People

### Aims and objectives

We approach our responsibility to look after our people assets as proactively and carefully as we do our clients' assets. We are committed to providing a positive work environment that offers equality of opportunity, supports the health and well-being of our employees, and offers a wide range of career development options.

### Progress in 2014

This year's employee engagement survey, which ran in October 2014, saw our highest ever response rate (91%). With over 230 new hires in 2014, it was paramount to seek feedback from our employees on how we, as an organisation, are doing. Our results on the whole were exceptionally positive, coming 12% above our financial/insurance services benchmark on employee engagement\*. In particular, we saw that:

- 96% of employees care about the future of Henderson (benchmark 88%)
- 91% of employees are proud of the work they do at Henderson (benchmark 84%)
- 89% of employees are proud to say they work for Henderson (benchmark 70%).

The survey also highlighted some key development themes around career progression, reward and recognition, which the ExCo will look to focus on in 2015 in order to keep building on our success.

As part of our commitment to developing our people, we have extended our global Learning and Development offering, with courses now being run across Europe, Asia and the US.

The ExCo recently appointed a Diversity and Inclusion Steering Group, which aims to ensure we are attracting, developing and retaining the best people irrespective of their background. In February 2015, we became officially accredited as a UK Living Wage employer.

Henderson actively encourages employee participation in sports and social activities. In 2014, we provided ongoing support for several sports teams and organised other sports, social and cultural events.

We also continue to provide excellent health and well-being benefits, including private medical insurance for all our employees, as well as local benefits such as private GP services and a 24 hour assistance helpline in the UK.

### 87% Employee Engagement\*

\* Employee engagement is a measure of an employee's commitment to the organisation's goals and values, motivation to contribute to organisational success, and ability at the same time to enhance their own sense of well-being.



## Community

### Aims and objectives

Henderson aims to encourage and support its employees' philanthropic activity towards charities and causes that have a personal meaning to them as well as those selected on a corporate level. Sharing skills and knowledge, as well as supporting charities that focus on education and developing local communities, is central to our community engagement activity.

Henderson believes in developing longstanding relationships with charities and has supported the East London charity Community Links since 1987. Promoting social mobility continues to be high on our community engagement agenda as well as encouraging volunteering by teams and individuals.

### Progress in 2014

Throughout the year, we have reviewed our methods of supporting employee philanthropic activity. We continue to match employee charitable fundraising and donations of up to £2,000 per annum, and we achieved a Payroll Giving Gold Quality Award for our participation rates in the Give As You Earn scheme in the UK.

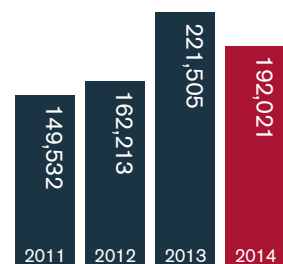
All employees are entitled to one day's paid leave for volunteering, and in line with our *Knowledge. Shared* brand proposition, we hosted three financial education days for local students under the RedSTART initiative. We hope to encourage and support volunteering further by promoting it within our learning and development programmes, and by incorporating it into the Trainee Programme syllabus.

We continued our relationship with Community Links, Isaac Newton Foundation and the Disasters Emergency Committee, and developed new links with Fragile X Foundation and Hunger Task Force in the US.

To further support our goal of increasing social mobility, we have developed a link with the City of London's programme City Action to promote Investment 2020 and the Henderson Trainee Programme at a range of schools, universities and charities. We also registered our support of Code College, a new technology and coding college in London designed to reduce the skills gap in the UK and tackle social mobility.

### Henderson Foundation spending (£)

£192,021





## Environment

### Aims and objectives

Henderson understands the important role that a business must play in managing and mitigating its environmental impact. This is an important factor when considering how we invest, and we believe it is important that we lead by example. We strive to take great care in the operation of our business and focus on ensuring that we operate sustainable business practices.

### Progress in 2014

We continued to maintain our position as a CarbonNeutral business by offsetting our unavoidable emissions through a range of voluntary carbon reduction projects around the world. This means that for every tCO<sub>2</sub>e we produce, we invest in a project that saves an equivalent amount. These projects are validated and verified to recognised global standards. For 2014, our total offset amounted to 5,229tCO<sub>2</sub>e.

We continued to engage with best practice environmental groups to help develop our environmental strategies. During the year, we hosted a British Council for Offices seminar which focused on energy management within the built office environment.

The CDP (Carbon Disclosure Project) 2014 UK Corporate Environmental Report recognised Henderson as a top 10 company within the FTSE 350 for our climate change disclosure and performance, placing us in the Leadership Index both in the UK and Australia.

## Monitoring performance

### CDP ratings

Reporting year	Henderson disclosure percentage	Henderson performance band	FTSE 100 average disclosure percentage/performance band	FTSE 250 average disclosure percentage/performance band
2014	97	A	85/B	72/C
2013	81	B	81/B	60/C

### GHG emissions reporting

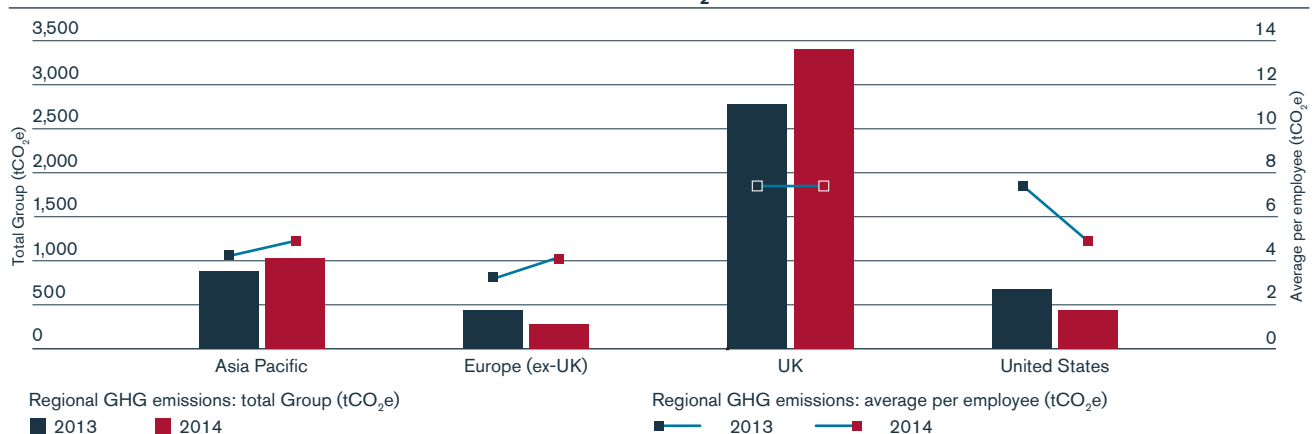
In 2014, as we continued our strategy of growth and globalisation, we maintained our focus on delivering this growth in the most efficient way possible. Notwithstanding this effort, our growth has naturally resulted in an increase in the overall level of our emissions. Henderson's emissions are calculated in accordance with the international GHG Protocol framework and are independently verified in accordance with ISO 14064-3.

### GHG emissions by scope (tCO<sub>2</sub>e)

Scope	2014	2013
<b>Scope 1</b>		
Fuel (natural gas)	12	26
<b>Scope 2</b>		
Electricity	2,053	2,197
<b>Scope 3</b>		
Business travel (air, rail, road)	2,661	2,310
Hotels	218	183
Business freight (air, road)	49	50
Total Scope 3	2,928	2,543
<b>Total GHG emissions</b>	<b>4,993</b>	<b>4,766</b>
<b>Total per employee<sup>1</sup></b>	<b>4.82</b>	<b>4.12</b>

1. Excludes waste and electricity transmission and distribution (236 tCO<sub>2</sub>e). Employee numbers are averaged over the year and include project and temporary staff and employees from the Property business who left Henderson in April 2014.

### GHG emissions by region and per employee (tCO<sub>2</sub>e)



As we continue to grow, we will maintain our focus on the environment. We are committed to offsetting all of our emissions so we mitigate our impact on climate change.

## Chairman's introduction



**Our governance framework supports and enables us to deliver on our strategy.**

**Richard Gillingwater**  
Chairman

### Dear Shareholder

The past year has seen a number of matters to consider as a Board and once again I would like to provide some insight as to how we dealt with the main issues facing the Group in 2014.

We have continued to pursue our strategy of growth and globalisation in the Group as evidenced by an important strategic milestone for our business, the acquisition of the US fund manager, Geneva Capital Management. Further information regarding Geneva can be found on page 10. As usual, we set up a dedicated Board committee to oversee the necessary due diligence for the acquisition of Geneva which considered the proposed structure, risk factors, finance issues, tax treatment, operations, human resources and any legal issues. Following this meeting, the Board as a whole met to further consider any outstanding points.

As a Board, we spent a week in Australia getting to know our business there in more depth, meeting institutional clients, opinion formers in the Financial Services industry and our Australian shareholders. We took time to review not only our Australian operations, but also our broader Asian strategy. Our AGM was a good opportunity to meet a very lively group of Australian investors, which we thoroughly enjoyed. Our time in Australia was time well spent and I would hope to do this again at some point in the future as we grow in this location. Whilst on the topic of the AGM, although the Remuneration Report and Remuneration Policy were approved by shareholders, we took the number of votes cast against the Remuneration Report extremely seriously and we have been more proactive this year to improve the level of disclosure and transparency and to improve consultation with shareholders and voting agencies.

As set out last year, I am committed to making certain that the Board devotes enough time to consider the Group's strategy and its link to the business. At the end

of each Board meeting we continue to hold a discussion with the Non-Executive Directors to ensure that matters are being considered and addressed to their satisfaction. We also hold strategy days during the year at which the Board receives presentations and proposals from management on our progress against strategy, opportunities and where we see the Group positioned in the long term, as well as presentations from fund managers on our business and clients. A description of our business model and our strategy for achieving our goals is set out on pages 12 to 16.

I am glad to report that the standard of work by our Audit, Board Risk, Remuneration and Nomination Committees remains high. We were externally evaluated this year by Independent Board Evaluation and a fuller report of the results of that evaluation is set out on page 46. As always, I would like to thank the Audit, Board Risk and Remuneration Committee Chairmen and the other Non-Executive Directors for their time and support and the valuable contributions made during the year. A summary of the Committees' activities is set out later in this Corporate Governance section.

I believe that our governance framework remains robust and continues to enable us to deliver on our strategy and I look forward to the challenges and opportunities that 2015 will bring.

This Corporate Governance statement is correct as at 24 February 2015 and has been approved by the Board of Directors.

A handwritten signature in black ink that reads "R. D. Gillingwater" with a stylized number "2" written below it.

**Richard Gillingwater**  
Chairman

24 February 2015

## UK Corporate Governance Code and ASX Principles

The Directors embrace, and are subject to, the high standards of corporate governance contained in the UK Corporate Governance Code issued by the FRC in September 2012 (UK Code) and the Corporate Governance Principles and Recommendations with 2010 Amendments issued by the ASX Corporate Governance Council in June 2010 (ASX Principles). The UK Code and the ASX Principles can be found on the websites of their respective organisations at [www.frc.org.uk](http://www.frc.org.uk) and [www.asx.com.au](http://www.asx.com.au). The Company's corporate governance policies can be found on our website. Compliance with both the new UK Corporate Governance Code, published in September 2014, and the ASX Corporate Governance Principles and Recommendations issued in March 2014, which apply from the financial year commencing on 1 January 2015, will be disclosed in the 2015 Annual Report and Accounts.

The Company complied with the UK Code and the ASX Principles in 2014 except in regard to the setting and disclosure of gender diversity targets. We recognise that the principles of equality and diversity are fundamental to our success and that this will continue to add value to the way in which our business operates in the future. While we do not have formal diversity targets, as we believe that appointments should be based on merit and objective criteria, we are committed to promoting equality and diversity in the workplace and recognise the need for, and benefits of, diversity in helping us attract and retain high potential employees. We have numerous policies, employee benefits and business practices in place to support a diverse workforce and a forum, chaired by the General Counsel and Company Secretary, made up of representatives from across the business has been constituted on behalf of the ExCo to look more closely at diversity and inclusion at Henderson.

As we grow globally, it is important to ensure we are attracting, developing and retaining the best people and this means ensuring our culture and values reflect the diversity of our people and the communities we operate in.

This statement together with the Directors' remuneration report, describes how we applied the 'main principles' set out in the UK Code and complied with the ASX Principles. Further details can be found in the corporate governance section of our website. The ASX Principles also encourage companies that are not subject to the Australian Corporations Act 2001 to adopt practices and make disclosures to achieve the aims of the provisions contained in certain sections of that Act. We achieved the aims of some of those provisions, although not fully on senior executives' remuneration. Our disclosure of individuals' remuneration is limited to the Executive Directors who were members of the Board in 2014. Disclosure of the remuneration of non-directors is not a requirement in the UK and we consider this information to be commercially sensitive. However, we have disclosed the aggregate annual remuneration of FCA Code Staff on our website at [www.henderson.com](http://www.henderson.com).

## The Board's structure

The Board comprises a Non-Executive Chairman, two Executive Directors and five other Non-Executive Directors. Biographical details of the Directors are set out on page 49.

Although the Chairman, Richard Gillingwater, met the independence criteria on appointment, the UK Code provides that the test of independence is not appropriate thereafter and does not allow the Chairman to be counted with the independent Non-Executive Directors in determining whether there is an appropriate balance on the Board, which is not the case under the ASX Principles. For the avoidance of doubt, the Chairman considers himself to be both objective and independent but for good order he is not counted with the independent Non-Executive Directors. The Board considers all the other Non-Executive Directors – Sarah Arkle, Kevin Dolan, Tim How, Robert Jeens and Angela Seymour-Jackson – to be independent, as they do not have any interest or business or other relationship which could, or could reasonably be perceived to, interfere materially with their ability to act in the best interests of the Company. We have considered the criteria proposed by the UK Code and the ASX Principles in assessing the independence of the Directors. Materiality, as referred to in the ASX Principles, has been assessed on a case-by-case basis by reference to each Director's individual circumstances rather than general materiality thresholds. We are satisfied that the independent Non-Executive Directors meet a quantitative materiality threshold for independence, which is that none of them has a relationship with the Group which generates or accounts for more than 5% of the Group's revenue or expenses. Accordingly, the Board (excluding the Chairman) has a majority of Directors who are independent. Tim How is the Senior Independent Director.

There is a division of responsibility between the Chairman, who is responsible for leading the Board and ensuring its effectiveness, and the Chief Executive who is responsible to the Board for the overall management and performance of the Group. The Chairman's other significant commitments are shown in the Board of Directors section on page 49.

Non-Executive Directors are initially appointed for a fixed term, normally three years, and any subsequent terms are considered by the Board. If a Non-Executive Director is reappointed after having served six years, such reappointment, and any subsequent reappointment, will normally be for a period of 12 months. The remuneration of the Non-Executive Directors is shown on page 82. The terms and conditions of their appointment are on our website, as is the process for their appointment and reappointment.

At our AGM held on 1 May 2014, shareholders reappointed Sarah Arkle, Kevin Dolan, Andrew Formica, Richard Gillingwater, Tim How, Robert Jeens, Angela Seymour-Jackson and Roger Thompson as Directors. Our next AGM is due to take place on 30 April 2015 in London, when all Directors on the Board at that date

## Corporate governance continued

will be seeking reappointment in accordance with the recommendations of the UK Code.

### Diversity

Our Human Resource policies and staff benefits aim to attract and retain a diverse and flexible workforce. In order to assist us in monitoring our progress on gender diversity, senior management reviews statistics on numbers and proportions of men and women in the workplace generally and broken down by: working patterns; status; length of service; turnover; region; division; and salary band.

We apply the same principles at Board level. Candidates for appointment to the Board are identified taking into account:

- the current composition of the Board, with due regard for the benefits of diversity on the Board, including gender;
- the need for independence;
- the strategic direction and progress of the business; and
- the geographic spread and diversity of the Group.

Sarah Arkle and Angela Seymour-Jackson constitute 25% of the Board. The General Counsel and Company Secretary, Jacqui Irvine, the Chief Operating Officer, Lesley Cairney, and the Global Head of HR, Kathleen Reeves, constitute 21% of the ExCo.

### Responsibilities and operation of the Board

The Board met nine times in 2014, of which eight were scheduled meetings. All Board and standing Board Committee meetings were held in the UK, except for meetings in Sydney, Australia, in April 2014.

The number of meetings held by the standing Committees during the year are set out later in this governance report. We are scheduled to meet at least eight times in 2015.

Additional meetings will be held as required, or at the request of a Director. Some of the Non-Executive Directors also attended the senior management conference held in May 2014.

During each meeting, Directors are given the opportunity to question and challenge any initiatives and proposals from management. The Board dedicated a day and a half to strategy, in addition to considering regular strategy updates from management during the year.

To enable us, as a Board, to perform our role effectively, we are provided with the means and information necessary for us to make informed decisions and to follow best corporate governance practices. In addition, the Chairman, Chief Executive and Chief Financial Officer hold agenda-setting meetings before each Board meeting to review the items of business, the likely time to be spent on each agenda item, who should present particular items and to ensure that appropriate papers are provided.

We receive detailed reports on the various aspects of the business and any major issues affecting it, which include a monthly performance report. An overview of some of the matters considered by the Board in 2014 is on page 56.

We reviewed and approved our corporate governance policies and manual in 2014. These include, but are not limited to, an overview of the Company's corporate governance procedures, a policy on trading in the shares of the Company by Directors and employees and the Code of Conduct which sets out our values and standards. We have a Market Disclosure and Communication Policy designed to ensure compliance with our disclosure obligations and a Chief Disclosure Officer to oversee this. Together, these corporate governance policies set a framework within which the Directors and employees are expected to protect the interests of shareholders, clients, employees and suppliers. These policies and other corporate governance documents are on our website.

All Directors have access to the advice and services of Jacqui Irvine, the General Counsel and Company Secretary. The Company Secretary can be appointed or removed only with the approval of the Board. The Directors are entitled to seek independent professional advice, at the Company's expense, where they judge it necessary for them to discharge their responsibilities.

### Training

To ensure that the Directors continually update their skills and knowledge, all Directors receive regular presentations on different aspects of the Group's business and on financial, legal and regulatory matters affecting our sector. For example, during 2014, the Directors received training regarding derivatives, the ASX Listing and Disclosure Rules, Australian regulation, a presentation on the embedding of TCF and customer interests in Henderson and a presentation on cyber risk.

### Evaluation of the Board's performance

An external evaluation of the Board's performance was conducted in 2014 by Independent Board Evaluation (IBE). IBE has no other connections with the Company. IBE held interviews with each of the Directors and attended one of the scheduled Board and Committee meetings. IBE subsequently held discussions with the Chairman to discuss the results and presented its recommendations to the Board. After taking account of the Board evaluation, the Senior Independent Director met with the other Non-Executive Directors (excluding the Chairman) and evaluated the Chairman's performance.

A report was presented to and considered by the Board following the evaluation process, at which it was agreed that both the Board and its Committees continue to operate effectively and had improved in effectiveness since the last external evaluation. However, the Directors

agreed that, amongst other issues, a number of areas could be improved upon which included a review of the structure of information provided to the Board and Committees, considering increasing international experience on the Board, and the embedding of succession planning in the business.

The performance of Andrew Formica, Chief Executive, was evaluated by the Chairman and the Remuneration Committee. The evaluation of the Executive Committee members was undertaken by the Chief Executive and the Remuneration Committee. These performance evaluations were conducted in accordance with the processes disclosed on our website.

## Delegations of authority

A schedule of matters reserved for approval by the Board is reviewed annually and is also on our website. The Board has granted specific delegated authorities (with financial limits approved by the Board) to the Chief Executive, the Chief Financial Officer and senior executives in respect of financial, accounting, treasury, regulatory and other matters relating to the Group's business and these were reviewed and updated during 2014.

The delegations of authority are based on the Chief Executive's authority from the Board. The delegations cover three levels: the Chief Executive's delegations (level one), the delegations by the Chief Executive to his direct reports (level two), and the delegations of matters to senior executives (level three). A list of persons to whom these three levels of delegations apply and the authority to sub-delegate is set out in these delegations.

## Executive Committee

The Chief Executive, along with the other Executive Committee members, is responsible for developing business strategy and, once approved by the Board, for ensuring that the strategy is implemented in accordance with the approved operating plan and complies with internal policies, procedures and controls. A number of other committees have been appointed to manage aspects of our business and form part of the risk management framework that monitors and mitigates the risks and uncertainties and these are set out on pages 38 and 39.

## Investor relations

We actively engage with investors and investor bodies and welcome the opportunity to discuss their views on relevant issues. The Board also receives regular feedback from the Investor Relations team and the Executive Directors about investors' and analysts' views on the Group and wider industry matters. The monthly performance report provides a summary of our largest shareholders and significant movements in the share register, and reviews share price performance and key market and sector developments.

Our website provides online services to help shareholders manage their holding and engage with the Investor Relations team and Share Registry. To assist shareholders in accessing up-to-date information on the Group, market briefings and other Company announcements and presentations are available on our website. The Company's Market Disclosure and Communication and Shareholder Communication Policies, which are designed to promote effective communication with shareholders, are available on our website. We publish our financial results on both the LSE and the ASX. The 2013 Annual Report was sent to all shareholders that had requested it and all other shareholders were notified, via post or email, that the 2013 Annual Report was available on our website.

Our Executive Directors meet with institutional shareholders and equity analysts regularly. The Chief Executive and the Chief Financial Officer met our largest shareholders during 2014 and those shareholders were all offered meetings with the Non-Executive Directors.

All shareholders were invited to the AGM held on 1 May 2014, held in Sydney, Australia and simultaneously broadcast to London. All Directors attended the AGM. Notice of the AGM was given to shareholders and a summary of the questions asked at the AGM and the answers given, together with the results of resolutions put to the AGM, are on our website.

## Board Committees

We have delegated specific responsibilities to four standing Committees of the Board. The membership of the Board Committees and a summary of their main duties and terms of reference are set out in this governance report. The Committees' terms of reference are on our website.

# Board of Directors

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Left to right: Tim How, Kevin Dolan, Andrew Formica, Richard Gillingwater, Sarah Arkle, Angela Seymour-Jackson, Roger Thompson and Robert Jeens

**Richard Gillingwater****Chairman of the Board and Chairman of the Nomination Committee**

**Experience:** Mr Gillingwater was Dean of Cass Business School until 2013. Prior to this he spent 10 years at Kleinwort Benson, before moving to BZW and, in due course, becoming joint Head of Corporate Finance and then latterly Chairman of European Investment Banking at Credit Suisse First Boston. He was Chief Executive and later Chairman of the Shareholder Executive, Chairman of CDC Group plc and has also been a Non-Executive Director of P&O, Debenhams, Tomkins, Qinetiq Group and Kidde.

**Term of office<sup>1</sup>:** Non-Executive Director since February 2013 and appointed as Chairman following the AGM in May 2013. Current three year term of office expires in February 2016.

**External appointments:** Senior Independent Director of Hiscox Ltd and Helical Bar plc. Currently Deputy Chairman of SSE plc and will become Chairman at the end of 2015. Non-Executive Director of Wm Morrison Supermarkets Plc.

**Committee membership:** Chairman of the Nomination Committee. Attends meetings of other Committees by invitation.

**Andrew Formica****Chief Executive**

**Experience:** Mr Formica has been with the firm and in the fund management industry since 1993. He has held various senior roles with the Group and he has been a member of the Executive Committee since 2004. Prior to being appointed Chief Executive of the Company, he was Joint Managing Director of the Listed Assets business (from September 2006) and was Head of Equities (since September 2004). In the early part of his career, he was an equity manager and analyst for the Group.

**Term of office<sup>1</sup>:** Executive Director since November 2008. No fixed term of office.<sup>2</sup>

**External appointments:** Member of the Board of The Investment Association and Director of TIAA Henderson Real Estate Limited.

**Committee membership:** Attends Committee meetings by invitation.

**Roger Thompson****Chief Financial Officer**

**Experience:** Mr Thompson joined Henderson Group from JP Morgan Asset Management where most recently he was Global Chief Operating Officer and was previously Head of UK and, prior to that, International CFO. In his 19 year career at JP Morgan, Mr Thompson held a broad range of roles and worked internationally, spending time in Tokyo, Singapore and Hong Kong. He has wide-ranging asset management experience, both in the UK and internationally.

**Term of office<sup>1</sup>:** Executive Director since June 2013. No fixed term of office.<sup>2</sup>

**External appointments:** Steering committee member of ICI Global.

**Committee membership:** Attends Committee meetings by invitation.

**Sarah Arkle****Independent Non-Executive Director and Chair of the Board Risk Committee**

**Experience:** Ms Arkle has been in the financial services industry for over 32 years. She joined Allied Dunbar Asset Management in 1983 which became Threadneedle in 1994. She was Vice Chairman of Threadneedle until the end of July 2012 and was Chief Investment Officer until December 2010, a role she held for 10 years. She was instrumental in establishing Threadneedle's investment process and recruiting a number of the firm's senior fund managers. Previously, Ms Arkle worked at the Far Eastern stockbroker WI Carr (Overseas) Limited and was an advisor to the South Yorkshire Pension Fund.

**Term of office<sup>1</sup>:** Non-Executive Director since September 2012. Current three year term of office expires in September 2015.

**External appointments:** Non-Executive Director of Foreign & Colonial Investment Trust plc and a member of the Newnham College, Cambridge Investment Committee. Non-Executive Director of JPMorgan Emerging Markets Investment Trust plc.

**Committee membership:** Chair of the Board Risk Committee. Member of the Audit, Nomination and Remuneration Committees.

**Kevin Dolan****Independent Non-Executive Director**

**Experience:** Mr Dolan has been in the financial services industry for 35 years and has extensive experience in M&A transactions, both in Europe and the US. Mr Dolan has held various executive positions, including as Chief Executive of the Asset Management Division of Bank of Ireland Group and Chief Executive of Edmond de Rothschild Asset Management. He spent 10 years with the AXA Group where he was Chief Executive Officer of AXA Investment Managers Paris, and Global Deputy Chief Executive Officer of AXA Investment

Management. He was Chief Executive of La Fayette Investment Management in London from 2006 until 2009. Mr Dolan has been a Director on a number of boards in Europe and the US, including DLJ and Alliance Capital.

**Term of office<sup>1</sup>:** Non-Executive Director since September 2011.

Mr Dolan's current three year term of office expires in September 2017.

**External appointments:** Founding partner of Anafin LLC. Director of Meeschaert Gestion Privée.

**Committee membership:** Member of the Board Risk, Nomination and Remuneration Committees. Attends Audit Committee meetings by invitation.

**Tim How****Senior Independent Director and Chairman of the Remuneration Committee**

**Experience:** Mr How has extensive business experience. He was Chief Executive of Majestic Wine PLC from 1989 until August 2008 and was formerly Managing Director of Bejam Group Plc. He was Chairman of Downing Income VCT 4 Plc until December 2013, Deputy Chairman of the Peabody Trust and Non-Executive Director of Peabody Capital plc until February 2014.

**Term of office<sup>1</sup>:** Non-Executive Director since November 2008 and Senior Independent Director since January 2010. Mr How's current term of office expires in November 2015.

**External appointments:** Chairman of both Woburn Enterprises Limited and Roys (Wroxham) Ltd. He is also Non-Executive Director of Dixons Carphone plc and Senior Independent Director of the Norfolk and Norwich University Hospitals NHS Foundation Trust.

**Committee membership:** Chairman of the Remuneration Committee. Member of the Audit and Nomination Committees. Attends Board Risk Committee meetings by invitation.

**Robert Jeens****Independent Non-Executive Director and Chairman of the Audit Committee**

**Experience:** Mr Jeens has extensive experience of financial services, initially as an audit partner in Touche Ross & Co, and subsequently as Finance Director of Kleinwort Benson Group plc and Woolwich plc. His previous Non-Executive Director appointments include the Chairman of nCipher plc and the Deputy Chairman of Hepworth plc. Mr Jeens was a Non-Executive Director of The Royal London Mutual Insurance Society Limited from 2003 to May 2012. Mr Jeens resigned as a Non-Executive Director of TR European Growth Trust PLC on 30 June 2014.

**Term of office<sup>1</sup>:** Non-Executive Director since July 2009. Mr Jeens' current three year term of office expires in July 2015.

**External appointments:** Non-Executive Director of JP Morgan Russian Securities plc and Chairman of Allianz Technology Trust plc (previously RCM Technology Trust plc).

**Committee membership:** Chairman of the Audit Committee. Member of the Nomination and Board Risk Committees. Attends Remuneration Committee meetings by invitation.

**Angela Seymour-Jackson****Independent Non-Executive Director**

**Experience:** Ms Seymour-Jackson has over 20 years' experience in retail financial services. She has held various senior marketing and distribution roles in Norwich Union Insurance, General Accident Insurance, CGU plc and Aviva. She was Chief Executive Officer of RAC Motoring Services Limited from 2010 until 2012 and led the sale to Carlyle. She joined Aegon UK in May 2012 and was appointed Managing Director of the Workplace Solutions Division in December 2012.

**Term of office<sup>1</sup>:** Non-Executive Director since January 2014. Ms Seymour-Jackson's current three year term of office expires in January 2017.

**External appointments:** Non-Executive Director of Rentokil Initial plc.

**Committee membership:** Member of the Board Risk, Nomination and Remuneration Committees. Attends Audit Committee meetings by invitation.

**Notes**

1. If a Non-Executive Director is reappointed after having served six years, such reappointment, and any subsequent reappointment, will normally be for a period of 12 months. Resignations in 2014: None. All Directors' appointments are subject to their retirement by rotation and reappointment by shareholders at the Company's Annual General Meetings.
2. Executive Directors are employed on annual rolling agreements and their service contracts are terminable on 12 months' written notice by the Company or on not less than six months' written notice by the relevant Executive Director.

# Board Risk Committee



The Board Risk Committee is forward looking. It reviews key risk matters relevant to the Group and considers emerging risks at each meeting.

Sarah Arkle  
Board Risk Committee Chair

## Membership

Sarah Arkle is the Chair of the Board Risk Committee. The other current members are Kevin Dolan, Robert Jeens and Angela Seymour-Jackson. The Board Risk Committee met four times in 2014.

## Board Risk Committee

	Date appointed	Number of Meetings <sup>1</sup>	Meetings Attended <sup>1</sup>	Meetings Attended <sup>1</sup>
Sarah Arkle (Chair)	17/10/2012	4	4	100%
Kevin Dolan	26/09/2011	4	4	100%
Robert Jeens	29/06/2010	4	4	100%
Angela Seymour-Jackson	23/01/2014	3	3	100%

1. Whilst a member of the Committee.

## Responsibilities

The Board Risk Committee is responsible for overseeing, managing and assessing the Group's key risks through a mixture of qualitative guidance and quantifiable measures. The Board Risk Committee is forward looking and advises the Board on the Group's risk profile and risk appetite in setting its future strategy. It also advises the Board on the amount of surplus regulatory capital that should be held and oversees the effectiveness of the risk management framework and procedures. Responsibilities include the monitoring of the principal risks and uncertainties relating to the Group. It reviews the work and reports prepared by the Chief Risk Officer (CRO) (who reports directly to the Chair of the Board Risk Committee) and oversees the effectiveness of the CRO's role.

## Board Risk Committee's principal activities during 2014

The Risk management statement (refer to pages 36 to 39) provides details on how the Board Risk Committee exercised its responsibilities during 2014.

# Audit Committee



The presence and activity of the new auditors have been an important feature of 2014.

Robert Jeens  
Audit Committee Chairman

## Membership

Robert Jeens is the Chairman of the Audit Committee. The other current members are Sarah Arkle and Tim How. All members of the Committee are independent and have “recent and relevant financial experience” and “financial expertise” as recommended by the UK Code and the ASX Principles. Robert Jeens has competence in accounting and auditing as required by the Disclosure and Transparency Rules. The Audit Committee met six times in 2014, five of which were scheduled meetings.

## Audit Committee

	Date appointed	Number of Meetings	Meetings Attended	Meetings Attended
Robert Jeens (Chairman)	26/08/2009	6	6	100%
Sarah Arkle	09/12/2013	6	6	100%
Tim How	11/05/2009	6	6	100%

## Responsibilities

The Audit Committee is responsible for overseeing the reliability and appropriateness of the Group's financial reporting, overseeing the effectiveness of the Group's system of internal controls, assessing the effectiveness of the Internal Audit function, reviewing the performance and independence of the external auditors (as well as being responsible for recommending their appointment, reappointment and removal) and reviewing the Group's arrangements in respect of whistleblowing. However, ultimate responsibility for reviewing and approving the Annual Report and other public reports, declarations and statements remains with the Board. A description of how the Audit Committee spent its time discharging its responsibilities during 2014 is set out below.

## Audit Committee's principal activities during 2014

### Reliability and appropriateness of the Group's financial reporting

The Company has in place arrangements to ensure that the Annual Report, taken as a whole, is fair, balanced and understandable as required by the UK Code and provides shareholders with the information necessary to assess the Group's performance, business model and strategy. To assist the Board in making this decision, the Audit Committee, as part of the oversight of the reliability

and appropriateness of the Group's financial reporting, received and reviewed reports from management and the external auditors relating to the Annual Report of the Group and the Company as well as the Interim Report and Accounts, interim management statements, related disclosures and the financial reporting process. This included the review and approval of the timetable and deliverables for both the annual and interim results. In addition, it considered the components of the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

As part of the review of the Annual Report, the Audit Committee also considered various significant issues and discussed how these may be addressed. These included:

- disposal of the Property business and recognition of the TH Real Estate joint venture;
- acquisition of Geneva Capital Management LLC; and
- consolidation of funds under the implementation of IFRS 10.

To address these issues, in each case the Audit Committee received regular updates and reports from management which set out a summary of the issues with judgements or recommendations made as to the appropriate accounting treatment or disclosure. The

Committee considered these and challenged management where appropriate on matters of judgement and the resultant recommendations. The Committee concluded that the judgements made in respect of the above matters are reasonable and that appropriate disclosures have been included in the accounts. A further explanation of the above issues and how they were viewed by PricewaterhouseCoopers LLP is set out on in their report on pages 88 to 96.

A number of areas of focus were also considered by PricewaterhouseCoopers LLP, which included (i) migration of the accounting records to a new general ledger, (ii) recognition of management and performance fees, (iii) goodwill and intangible assets impairment review and (iv) recognition of share based payments and the associated deferred tax, and a note on these is also set out in their report. The Committee received updates on all of these matters throughout the year.

The Committee fully reviewed the Annual Report following the review of the matters and reports referred to above and recommended to the Board that the Annual Report, taken as a whole, is fair, balanced and understandable.

The Audit Committee also received the Money Laundering Reporting Officer's report and received updates on tax, including reports on tax accounting matters and received external advice where necessary.

### Internal controls

The Audit Committee received an internal controls report each quarter which contained an update from each of the Internal Audit, Legal and Compliance functions. The Internal Audit section of the report contained an update of outstanding audits in accordance with the Internal Audit Plan and the results of audits undertaken throughout the business, together with any findings and outstanding actions. The Audit Committee also received a list of auditable activities ranked in priority of risk.

The Legal section sets out a summary of significant known or potential claims made by or against the Group.

The Compliance section sets out a summary of any significant compliance issues facing the Group such as priority areas relating to a combination of business as usual, and other regulatory developments including notifications to regulators, client money and assets, regulatory developments and initiatives, compliance monitoring reviews, financial crime and updates regarding contact and meetings with the FCA. Where necessary, the updates included actions undertaken or those recommended to be undertaken by the Group.

### Internal audit

The Audit Committee reviewed Internal Audit in 2014 and was satisfied with the performance of the function.

### External auditors and auditor independence

The appointment of the external auditors, PricewaterhouseCoopers LLP, was approved by shareholders at the 2014 AGM. The presence and activity of the new auditors were an important feature of 2014 for the Committee and a presentation was provided by the PricewaterhouseCoopers LLP central audit team on delivering the integrated audit model. A summary of the fees paid and services provided by PricewaterhouseCoopers LLP is set out in Note 4.2 to the financial statements section. The Audit Committee also reviewed and approved the external auditors' remuneration and engagement letter, and reviewed the effectiveness of the outgoing auditors, Ernst & Young LLP, which included an overview of the services provided, the cost of services provided, a description of the assignments fulfilled, and feedback from management on the quality of service. As part of this review, the Audit Committee reviewed and authorised details of the non-audit services provided by Ernst & Young LLP and agreed that the provision of non-audit services were satisfactory and had not compromised their objectivity or independence. The Audit Committee considered the risk and contingency plan in the event of the withdrawal of the external auditors from the market.

The audit engagement partner and senior audit team members are rotated every five years and no contractual obligations exist to restrict the choice of auditors of the Group and the Company. The Group will comply with the UK Code's 10 year provision to tender the audit engagement when appropriate.

The Charter of Statutory Auditor Independence was also reviewed, which requires both the Company and the external auditors to take measures to safeguard both the objectivity and the independence of the external auditors. The Charter takes into account the FRC Guidance on Audit Committees. The Charter includes those services which are deemed to be pre-approved, those which need prior approval and those which are prohibited. These measures include a prohibition regarding any non-audit services in respect of specific areas (e.g. secondments to management positions) or which could create a conflict or perceived conflict. It also includes information on the procedures for the selection, appointment and rotation of the external audit engagement partner. The Charter is on our website. The Audit Committee also reviewed the independence of PricewaterhouseCoopers LLP and put in place a policy on non-audit services to maintain auditor independence as part of the above review.

The external auditors will be asked to attend the Company's AGM on 30 April 2015 and will be available to answer questions from shareholders about the conduct of the audit and the preparation and content of the independent auditors' report as shown on pages

88 to 96. The Head of Internal Audit and external auditors attended the scheduled Audit Committee meetings during the year and, on one occasion, met the Non-Executive Directors without the Executive Directors being present. Outside the framework of formal meetings, the Audit Committee Chairman meets and has regular contact with the Chief Executive, the Chief Financial Officer, the Managing Director, Finance, the Head of Internal Audit, the Head of Compliance and the senior engagement partner of our external auditors.

## Oversight of internal controls

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The effectiveness of the Group's system of internal controls is reviewed at least annually by the Board in order to safeguard the Group's assets as well as clients' and shareholders' interests. In 2014, this review covered all material controls including financial, operational, compliance controls and risk management systems. As part of its review, the Board received assurances from the Chief Executive and the Chief Financial Officer that the statement provided on page 87 is founded on a sound system of risk management and internal controls and that the system is operating effectively in all material respects in relation to financial reporting risks. In addition, the ExCo reported positively to the Board on the effectiveness of the Group's system of internal controls and the mitigation of any material business risks.

Our system of internal controls requires line managers to confirm monthly that controls in their respective areas have operated effectively. These controls, and the risks which they are designed to mitigate, are maintained within the Group's operational risk database, which in turn reflects the risk profiles of each part of the Group's business. The Board will report against the new Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014 in the 2015 Annual Report and Accounts.

## Internal controls over financial reporting

Our financial reporting process has been designed to provide reasonable assurance regarding the reliability of the financial reporting and preparation of financial statements, including consolidated financial statements, for external purposes, in accordance with IFRS. This process is under the supervision of the Chief Executive and the Chief Financial Officer and has appropriate internal controls to ensure its effectiveness. The internal controls include policies and procedures that:

- relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposals of the Group's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements, and that the receipts and expenditures of the Group are being made only in accordance with authorisations of management and Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of Group assets that could have a material effect on the Group's financial statements.

## Conflicts of Interest Committee

The Conflicts of Interest Committee (CC) is a sub-committee of the Audit Committee and is responsible for reviewing and overseeing the Group's arrangements for identifying and managing conflicts of interest and ensuring the best interests of its clients are considered at all times. The Chairman of the Audit Committee chairs the CC. Its other members comprise the General Counsel and Company Secretary, Chief Risk Officer, the Global Head of Human Resources, Global Head of Compliance and the Chief Investment Officer. In particular, the CC has responsibility for:

- overseeing the Group's culture, awareness and training in relation to conflicts of interest;
- overseeing the policies and procedures designed to ensure clients' interests are considered in the business conduct of the Group and its governance;
- overseeing the Group's Conflicts of Interest Policy and related policies, ensuring these adhere to regulatory requirements and have regard to industry best practice;
- reviewing conflict identification and controls implemented to mitigate conflicts of interest; and
- reviewing appropriate management information to determine whether conflicts of interest are being effectively mitigated and/or managed.

During 2014, the CC received presentations from senior management in relation to potential conflicts affecting various areas of the business including a presentation from the Chief Executive on culture and conflicts in the organisation. The CC also reviewed research commissions and noted that steps had been taken to address issues identified previously. Furthermore, the global remuneration policies were reviewed as well as the composition and activities of the CC to ensure that it was still fit for purpose. Robert Gambi, the Chief Investment Officer, was appointed as a member of the CC as a result of this evaluation.

## Financial reporting and going concern

Refer to page 59 for a statement on the adoption of the going concern basis in preparing the Annual Report.

# Nomination Committee



**Succession planning is important to the Group and is a standing item on the agenda for the Nomination Committee.**

**Richard Gillingwater**  
Nomination Committee Chairman

## Membership

Richard Gillingwater is the Chairman of the Nomination Committee. All the other Non-Executive Directors are members of the Nomination Committee. The Nomination Committee met twice in 2014.

## Nomination Committee

	Date appointed	Number of Meetings	Meetings Attended	Meetings Attended
Richard Gillingwater (Chairman)	06/02/2013	2	2	100%
Sarah Arkle	16/10/2012	2	2	100%
Kevin Dolan	26/09/2011	2	2	100%
Tim How	28/11/2008	2	2	100%
Robert Jeens	26/08/2009	2	2	100%
Angela Seymour-Jackson	23/01/2014	2	2	100%

## Responsibilities

The Nomination Committee has responsibility for considering the size, composition, expertise, experience and balance of the Board as well as the appointment and retirement of Directors and making recommendations to the Board on these matters and issues of succession planning.

## Nomination Committee's principal activities during 2014

Angela Seymour-Jackson was appointed to the Board on 23 January 2014 and a description of the appointment process was set out in the 2013 Annual Report.

The Nomination Committee also reviewed the mix of diversity, skills and experience on the Board and succession planning for the Non-Executive Directors. The Nomination Committee has included succession planning as a standing item for its meetings and carried out a detailed review of a succession plan for the ExCo and senior roles, including some fund management roles.

# Remuneration Committee



The Remuneration Committee has responsibility for making recommendations to the Board on the Group's remuneration plans, policies and practices.

Tim How  
Remuneration Committee Chairman

## Membership

Tim How is the Chairman of the Remuneration Committee. The other current members are Sarah Arkle, Kevin Dolan and Angela Seymour-Jackson. The Remuneration Committee met five times in 2014.

## Remuneration Committee

	Date appointed	Number of Meetings <sup>1</sup>	Meetings Attended <sup>1</sup>	Meetings Attended <sup>1</sup>
Tim How (Chairman)	28/11/2008	5	5	100%
Sarah Arkle	16/10/2012	5	5	100%
Kevin Dolan	26/09/2011	5	5	100%
Angela Seymour-Jackson	23/01/2014	4	4	100%

1. Whilst a member of the Committee.

## Responsibilities

The Remuneration Committee has responsibility for making recommendations to the Board on the Group's remuneration plans, policies and practices and for determining, within agreed terms of reference, specific remuneration packages for the Executive Directors and other members of the ExCo. These include pension rights, compensation payments (if any) and the implementation of executive incentive schemes. The Remuneration Committee operates on the principle that members of the ExCo should be provided with incentives to encourage superior performance and should, in a fair and responsible manner, be rewarded for their individual contributions to the success of the Group. The Remuneration Committee also agrees, maintains and periodically reviews a list of Code Staff to ensure the correct individuals are identified and their remuneration structures are reviewed for compliance with the FCA Remuneration Code.

## Remuneration Committee's principal activities during 2014

The Directors' remuneration report (refer to pages 60 to 86) provides details on how the Remuneration Committee exercised its responsibilities during 2014 and also contains a statement on whether externally appointed remuneration consultants have any other connection with the Company.

# Summary of Board business

## An overview of the topics addressed by the Board in 2014

### January

- Acquisition of Geneva Capital Management

### February

- Acquisition of Geneva Capital Management
- Update on TH Real Estate Completion Matters
- Annual Report and Full Year Results
- Annual Review of Internal Controls
- Final Dividend for 2013
- Update on FCA Waiver
- Notice of AGM
- Update on Customer Interests
- Treating Customers Fairly
- FATCA Impact Summary

### April

- Acquisition of Geneva Capital Management

- Update on Business Initiatives and Strategy
- Institutional Business
- Insurance Renewal
- Treating Customers Fairly
- Pan Asia Strategic Plan

### June

- Acquisition of Geneva Capital Management
- Board Strategy Day
- Update on Customer Interests
- Scottish Independence
- Interim Dividend for 2014
- Treasury Mandate

### August

- Acquisition of Geneva Capital Management
- 2014 Interim Results
- Interim Dividend for 2014
- Treating Customers Fairly

### November

- Update on TH Real Estate
- Draft 2015 Budget and Review of Strategic Initiatives
- Update on Tax
- Internal Capital Adequacy Assessment Process (ICAAP)
- Format of Annual Report and Accounts

### December

- 2015 Budget and Five Year Strategic Plan
- Update on Australia
- Update on Geneva Capital Management
- Investor Perception Presentation
- Review of Corporate Governance Arrangements
- Corporate Responsibility Reporting
- Review of External Advisers
- Delegation of Authorities
- Treating Customers Fairly

## Board meeting attendance

	Date appointed	Number of Meetings <sup>1</sup>	Meetings Attended <sup>1</sup>	Meetings Attended <sup>1</sup>
Richard Gillingwater (Chairman)	06/02/2013	9	9	100%
Sarah Arkle	05/09/2012	9	9	100%
Kevin Dolan	26/09/2011	9	9	100%
Andrew Formica	05/11/2008	9	9	100%
Tim How	28/11/2008	9	9	100%
Robert Jeens	29/07/2009	9	9	100%
Angela Seymour-Jackson	23/01/2014	8	8	100%
Roger Thompson	26/06/2013	9	9	100%

1. The number of meetings represent those whilst a Director.

## Board gender balance



## Board split



## Tenure of Non-Executive Directors



# Directors' report

## Corporate governance

The Corporate Governance statement appears on pages 44 to 56 and forms part of this Directors' report.

## Branches

The Group continues to operate a number of overseas branches.

## Reporting

Shares in Henderson Group plc are listed on both the LSE and the ASX (in the form of CHESS Depository Interests (CDIs)) and therefore the Company is required to comply with both sets of disclosure requirements.

## Events after the reporting date

The Board has not received, as at 24 February 2015, being the date on which the Annual Report and Accounts were approved, any information concerning significant conditions in existence at the reporting date which have not been reflected in the financial statements as presented. The Board has, however, given due regard to the event which occurred after the reporting date as described in note 34 to the financial statements.

## Directors

Details of the Board members who served during the year and at the date of this report are set out on page 49.

In accordance with the UK Corporate Governance Code, all Directors, will offer themselves for reappointment at the AGM on 30 April 2015.

Pursuant to the Articles of Association, shareholders may remove a Director before the end of his or her term by passing an ordinary resolution at a meeting. An ordinary resolution is passed if more than 50% of the votes cast, in person or by proxy, are in favour of the resolution.

## Directors' remuneration and interests

A report on Directors' remuneration appears on pages 60 to 86, including details of Directors' interests in shares and share options or any right to subscribe for shares in the Company.

## Directors' conflicts of interest

The Directors have put in place procedures to deal with conflicts of interest and these have operated effectively throughout 2014. A Register of Conflicts of Interest is maintained by the Company and reviewed by the Board on an annual basis. Any Director who is considering accepting a new external appointment must provide full details of the appointment to the Chairman and Company Secretary. In some cases, the interest or duty of someone who is connected with a Director may give rise to a potential conflict of interest and details of that must also be provided to the Chairman and Company Secretary. The Chairman will then decide whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. If it is considered and approved by the Board, such interest or potential interest is added to the Register of Conflicts of Interest.

## Indemnification and insurance of Directors and officers

The Company provides an Instrument of Indemnity to Directors to the extent permitted by Jersey law, including (i) indemnification against any liabilities incurred in defending any proceedings in which judgment is given in that Director's favour or the Director is acquitted; (ii) against liabilities incurred otherwise than to the Company, if the Director acted in good faith with a view to the best interests of the Company; and (iii) against any liabilities incurred in successfully applying to the Court for relief where the Director acted honestly.

In addition, the Instrument of Indemnity provides that Directors will have access to Board and Committee papers of the Company for the period of their office and for seven years after ceasing to be a Director for the purpose of defending legal proceedings, and that the Company will maintain Directors' and Officers' liability insurance cover for the Directors to the extent permitted by law for the period of their office.

During, or since the end of the financial year, the Company has paid or agreed to pay premiums in respect of a contract insuring all of the officers (including all Directors) of the Group against certain liabilities. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of liability.

## Financial instruments

Information regarding the risk management objectives, policies and related matters in respect of the use of financial instruments, including policies for hedging and the exposure to price, interest rate, liquidity, foreign currency and credit risks, can be found in note 27 to the financial statements.

## Political donations

The Group made no UK political donations, incurred no European Union political expenditure and made no contributions to non-European Union political parties during the year.

## Rounding

In accordance with the Australian Securities and Investments Commission Class Order 98/100, amounts in this Directors' report and other sections of this Annual Report and Accounts have been rounded to the nearest £0.1m, unless stated otherwise.

## Annual General Meeting

A separate document, the Notice of Annual General Meeting 2015, covering the AGM of the Company to be held on 30 April 2015, will be sent or made available to all shareholders and will contain an explanation of the business before that meeting.

## Share capital and structure

Details of movements in the allotted share capital during the year are given in note 25 to the financial statements.

The share capital of the Company, issued and unissued, consists entirely of ordinary shares of 12.5 pence each. Each share ranks equally and carries the same right to receive dividends and other distributions declared, made or paid by the Company. No restrictions exist on the transfer or holding of securities in the Company under its Articles of Association and there are no shares carrying special rights with regard to the control of the Company.

### Substantial shareholdings

At 24 February 2015, in accordance with the provisions of Rule 5 of the Disclosure and Transparency Rules, the Company had received notification of direct and indirect holdings in the Company's issued share capital as set out in the table below.

Substantial shareholdings	Total number of shares	Percentage of total voting rights
Perpetual Limited	115,931,961	10.17%
JCP Investment Partners Ltd	58,578,688	5.14%
Hyperion Asset Management Limited	56,676,081	4.98%
Commonwealth Bank of Australia	56,593,062	4.96%
Wellington Management Company, LLP	55,342,341	4.88%
IOOF Holdings Limited	49,005,304	4.40%
AustralianSuper Pty Ltd	43,730,658	3.83%

### Employee share schemes

The Company has a number of employee share schemes. The rights attached to the shares of several of the share schemes are not exercisable directly by employees. The trustees of such share schemes have an obligation to act in the best interests of the beneficiaries of the share schemes and, although the trustees may consider any recommendations made by the Company, where applicable, the discretion to vote remains with the trustees with two exceptions: firstly, in cases of takeover or reconstruction, the employees do have a right to vote via the trustees and secondly, the trustee of the Henderson Group plc Buy As You Earn Share Plan, and its international equivalent, does not have discretion on how to vote. For these plans, the trustee seeks instructions from the employees beneficially entitled to the shares.

### Restrictions on voting rights

All shareholders entitled to attend and vote at Company meetings are also entitled to appoint a proxy to attend, speak and vote on their behalf. A member may appoint more than one proxy. Proxy forms must be received not less than 48 hours before the time appointed for holding a meeting, as set out in any notices concerning a general meeting or in any proxy form sent by or on behalf of the Company in relation to a meeting. In addition, the Companies (Uncertificated Securities) (Jersey) Order 1999 provides for a time to be specified in the notice of meeting for determining attendance and voting entitlements. This time may not be more than 48 hours before the meeting. Further details are set out in any Notice of Meeting issued by the Company from time to time.

### Amendment to the Articles of Association of the Company

Under the Companies (Jersey) Law 1991, the Company may only amend its Articles of Association if its shareholders pass a special resolution to that effect. A special resolution is passed if two thirds or more of the votes cast, in person or by proxy, are in favour of the resolution.

### New issues of share capital and disapplication of pre-emption rights

Under the Company's Articles of Association, the Directors of the Company are, with certain exceptions, unable to allot any ordinary shares without express authorisation which cannot last more than five years. The Company follows best practice and asks shareholders to grant such authority on an annual basis. Under the Company's Articles of Association, the Board may not allot ordinary shares for cash, other than pursuant to an employee share scheme, without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a resolution of the shareholders passed by a majority of at least three quarters of the holders of the shares who vote in person or by proxy in favour of the resolution.

The Directors have been authorised by shareholders to allot the Company's unissued shares up to an aggregate nominal amount of £46,725,000, or £93,450,000 when in connection with an offer of equity securities by way of a rights issue to shareholders in proportion to their existing holdings. The former amount represented less than one third of the Company's issued ordinary share capital as at 31 December 2014. As at 24 February 2015, the Company has authority to allot shares up to a nominal value of £46,725,000, or £93,450,000 when in connection with an offer of equity securities by way of a rights issue to shareholders in proportion to their existing holdings. Shareholders will be asked to renew this authority up to a limit of £47,501,641, or £95,003,282 when in connection with an offer of equity securities by way of a rights issue to shareholders in proportion to their existing holdings, at the AGM on 30 April 2015. The latter allotment ceiling of up to two thirds of the nominal value of the issued shares is in accordance with guidelines issued by The Investment Association.

The Directors have authority to allot equity securities for cash or sell ordinary shares held in treasury (treasury shares) for cash on a non-pre-emptive basis: (a) pursuant to a rights issue; or (b) up to an aggregate nominal amount of £7,008,950. This empowers the Company to make limited allotments of unissued equity shares of the Company or certain rights to acquire such shares (equity securities) and to sell treasury shares for cash other than in accordance with the pre-emption rights in the Articles of Association. This amount represents less than 5% of the Company's issued share capital. Shareholders will be asked to renew this authority up to a limit of £7,125,246 at the AGM on 30 April 2015.

### Purchase of own share capital

Subject to authorisation by a special resolution passed by shareholders, the Company may purchase its own shares in accordance with the Companies (Jersey) Law 1991. Any shares bought back may be held as treasury shares or, if not so held, cancelled, thereby reducing the amount of issued share capital. The maximum number of ordinary Shares the Directors are authorised to purchase for the period up to the forthcoming AGM, is 112,140,000 minus the number of shares purchased as CDIs under a Contingent Purchase Contract (CP Contract). The minimum

price (exclusive of expenses) which may be paid for an ordinary share is 12.5 pence (being the nominal value of an ordinary share). The maximum price (exclusive of expenses) which may be paid for each ordinary share is the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the LSE Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the LSE Trading System. No ordinary shares were bought back by the Company during 2014.

The Directors consider that it may be advantageous for the Company to buy back interests in its own CDIs in certain circumstances. However, because CDIs are interests in shares, rather than shares themselves, the Companies (Jersey) Law 1991 provisions which provide for a buy back of shares do not apply to CDIs. The Company, therefore, cannot buy CDIs pursuant to the above authority.

The Company achieved a similar result by entering into a CP Contract. The Companies (Jersey) Law 1991 provides that a CP Contract must be approved by shareholders by special resolution. No Converted Shares were bought back by the Company during 2014.

The maximum number of Converted Shares which could be bought back by the Company, together with the number of shares bought back by the Company under the authority to purchase its own shares set out above, is limited to 112,140,000, which represented under 10% of the Company's issued share capital at 24 February 2015. Shareholders will be asked to renew these authorities up to a limit of 114,003,938 ordinary shares at the AGM on 30 April 2015.

## Significant agreements

Henderson UK Finance plc (a wholly-owned subsidiary of the Company) has in issue £150,000,000 2016 Notes maturing on 24 March 2016 which are listed on the LSE. Condition 7.3 of the terms and conditions of the 2016 Notes gives each noteholder the option to require Henderson UK Finance plc to redeem or (at Henderson UK Finance plc's option) to purchase that 2016 Note at its principal amount together with accrued interest in the event of a 'Change of Control'. A 'Change of Control' will be deemed to have occurred if any person or persons acting together come(s) to own more than 50% of the share capital of Henderson Group plc (or more than 50% of the voting rights attached to the share capital of Henderson Group plc) save in circumstances where the ultimate shareholders remain the same. In the event that 80% or more in the nominal amount of the 2016 Notes then outstanding has been redeemed or purchased in accordance with this condition, Henderson UK Finance plc may redeem, at its option, the remaining 2016 Notes as a whole at their principal amount plus accrued interest.

## Independent auditors

It is proposed that PricewaterhouseCoopers LLP be reappointed as independent auditors and a resolution for shareholders will be proposed at the 2015 AGM.

## Financial reporting and going concern

The Directors have acknowledged their responsibilities in the Directors' responsibilities statement in relation to the consolidated financial statements for the year ended 31 December 2014 (refer to page 87).

Our business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive's review on pages 7 to 11. The financial position of the Group, and its cash flow and liquidity position, is described in the consolidated financial statements and notes. In particular, note 27 to the financial statements summarises the Group's objectives, policies and processes for managing its financial risk management objectives, details of financial instruments used and hedging activities and its exposures to price, interest rate, liquidity, foreign currency and credit risks.

The Group has sufficient financial resources together with diverse revenue streams. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors closely monitored the material uncertainties inherent in current and expected market conditions, the trading performance of the Group and the debt instruments issued by the Group in 2011.


After thorough examination, the Directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating in the foreseeable future, and therefore, continue to adopt the going concern basis in preparing the Annual Report.

## Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving this Directors' report are listed on page 49. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- so far as the Director is aware, there is no relevant audit information needed by the Company's external auditors in connection with preparing their report of which the Company's external auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make themselves aware of any relevant audit information needed by the Company's external auditors in connection with preparing their report and to establish that the Company's external auditors are aware of that information.

Signed in accordance with a resolution of the Board of Directors:



**Richard Gillingwater**  
Chairman

24 February 2015



**Andrew Formica**  
Chief Executive

24 February 2015

# Directors' remuneration report

## Rewarding performance



**We have undertaken significant shareholder consultations since the last AGM and are proposing a number of changes to our remuneration policy to reflect those discussions.**

**Tim How**  
Remuneration Committee Chairman

### Dear Shareholder

I am pleased to present our 2014 report on Directors' remuneration for your approval at our Annual General Meeting on 30 April 2015 in the UK and Australia.

The remuneration report is in two parts: the Directors' remuneration policy and the annual report on remuneration, which provides information on how the policy has been implemented during the year.

As indicated in our last remuneration report, we comply with the UK reporting requirements and the ASX Principles relating to Directors' remuneration on a voluntary basis. While our remuneration policy was subject to an advisory shareholder vote at our 2014 AGM, following an in-depth review of our remuneration framework which included extensive shareholder consultation, we are proposing some changes to our policy. As such, there will be an advisory vote on our revised policy at our 2015 AGM as well as the usual advisory vote on our annual report on remuneration. The intention is that our new policy will apply for up to three years.

### Changes to our policy from 2015 onwards

Following the result of our 2014 AGM, we have undertaken significant shareholder engagement activities including a number of one-to-one meetings with our shareholders and the proxy agencies to ensure we fully understood the issues which contributed to the low favourable vote and to address the key points that were raised within the remuneration policy and practices for 2015. A number of changes are proposed as a result which are summarised in the table opposite.

Chief Executive's maximum Short-Term Incentive (STI) opportunity	<ul style="list-style-type: none"> <li>We have reduced the Chief Executive's maximum STI opportunity to 500% of base salary (previously 600%) to align with the maximum Long-Term Incentive (LTI) opportunity.</li> </ul>
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Long-Term Incentive Plan (LTIP)	<p>We announced as part of last year's remuneration report that we would review performance measures, vesting and holding periods under our LTIP. Following that review, we are proposing to:</p> <ul style="list-style-type: none"> <li>adopt additional holding periods for vested LTIP awards taking the holding period between grant and ultimate release up to five years; and</li> <li>augment the historic single financial measure (TSR) with a broader range of performance measures (Net Flows, long term Investment Performance, Strategic Considerations) which are explicitly aligned to our five year growth and globalisation strategy.</li> </ul>
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Use of the Deferred Equity Plan (DEP) and Restricted Share Plan (RSP)	<ul style="list-style-type: none"> <li>We have made changes to the operation of these plans to reflect shareholder sentiment and have removed both the ability to award matching shares (DEP) and the ability to use the RSP for Executive Directors except for buy-out of deferred compensation in recruitment scenarios.</li> </ul>
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Mandatory shareholding for Executive Directors	<ul style="list-style-type: none"> <li>We have enhanced the mandatory shareholding requirement for Executive Directors to at least 300% of base salary.</li> </ul>
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Base salary increases for Executive Directors

- We will make periodic, incremental increases to Executive Directors' salaries, in line with the increases more typically granted across the wider employee population, to avoid the necessity to award material, one-off, increases.

Further to the publication of the updated UK Corporate Governance Code, we will be implementing malus and clawback provisions (or enhancing existing provisions) on all variable pay arrangements from 2015 onwards. Under a broadened range of specified circumstances, (including a material downturn in performance in respect of malus provisions and the extension of circumstances relating to a material failure of risk management within the clawback provisions), the Committee will be able to apply:

- malus to any participant within the Deferred Equity Plan, Restricted Share Plan and Long-Term Incentive Plan for the duration of the relevant vesting/performance periods; and
- clawback to any participant of the above plans and, in respect of Executive Directors and other members of the Executive Committee, to cash bonuses, for a period of three years post payment/vesting.

In addition to the changes set out above, following shareholder feedback, we have materially enhanced our disclosure around remuneration to demonstrate the clear link between Henderson's performance and remuneration out-turns.

## 2014 performance highlights and key pay outcomes

2014 has been an extremely positive first year of our five year growth and globalisation strategy and our achievements include:

- total AUM at 31 December 2014 up 8.0% to £81.2bn (31 December 2013: £75.2bn), including the net impact of disposals and acquisitions of £5.3bn;
- achievement of significant net inflows of £7.1 bn (increase of 140% vs 2013);
- underlying profit before tax from continuing operations up 13.5% to £187.8m (2013: £165.5m);
- diluted continuing underlying EPS up 13.0% to 14.7 pence per share (2013: 13.0 pence per share);
- the continuing diversification of our product range both in terms of capability and geographical coverage;
- further progress in terms of our client-focused service culture and investment in our operating platform and the efficiency of our business as evidenced by our stable operating margin and improving compensation ratio;
- the success of key strategic projects, including the completion of the TH Real Estate joint venture with TIAA-CREF and the acquisition of Geneva Capital Management in the US;
- the strengthening of our balance sheet and capital position; and
- total dividend up 12.5% at 9.00 pence per share (2013: 8.00 pence per share).

While the continuing success of the business has required a concerted and co-operative team effort across the Company,

this is due in no small part to the energy and strategic insight of our Executive Directors who continue to drive the Group with clarity, purpose and vision. The variable remuneration awarded to them reflects their strong contribution balanced against the desire to deliver attractive returns for our shareholders and increased operating leverage in our business as reflected in our stable operating margin and improvement in our compensation ratio whilst we continue to invest in the business.


Taking into account performance the performance highlighted above, I have summarised the key 2014 remuneration outcomes below:

- The Remuneration Committee (the Committee) awarded to the Chief Executive a performance related bonus of £1,650,000. This represents a payout of 393% of base salary (65% relative to the prevailing maximum Short-Term Incentive (STI) opportunity of 600% of base salary).
- The Committee awarded the Chief Financial Officer a performance related bonus of £650,000. This represents a payout of 197% of base salary (66% of the maximum STI opportunity).
- We have increased our disclosure around STI outcomes and further detail on the rationale for these awards can be found in the annual report on remuneration on pages 77 to 80.
- The performance period for the 2012 LTIP ended on 31 December 2014. Henderson's relative Total Shareholder Return (TSR) performance (accounting for 95% of the total award) was positioned at 55th percentile relative to the peer group. This resulted in a vesting level of 38% of the maximum. Taking into account performance against the additional risk and sustainability element (5% of outcome assessment), the overall vesting level for 2012 awards is 43% of the maximum.

## Key pay decisions for 2015

- No change is proposed to the Chief Executive's salary for 2015 although it should be noted that, as part of wider change to remove the internal earnings cap for all participants under the Henderson Group Pension Scheme, the defined contributions under this plan will now be based on full salary for all participants including our Executive Directors.
- The salary of the Chief Financial Officer will increase to £340,000 (an increase of 3%, which is in line with our approach for the wider employee population). This is reflective of our revised base salary policy for Executive Directors.
- There are no proposed changes to the annual fee levels of Non-Executive Directors.

As demonstrated during the course of 2014, we are committed to engaging openly with shareholders and actively incorporate feedback in our remuneration policies and practices. The Remuneration Committee would ask shareholders to consider and approve the Directors' remuneration policy and the annual report on remuneration set out in the following pages at our AGM on 30 April 2015.



**Tim How**  
Remuneration Committee Chairman

24 February 2015

# DIRECTORS' REMUNERATION POLICY

## Contents

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# Directors' remuneration policy

## Remuneration principles

Our remuneration policy remains focused on pay for performance and in driving shareholder returns over the long term, while prudently managing risk. In doing so, the Committee and the Board recognise that our remuneration policies and practices must enable us to attract, motivate and retain exceptional people, while aligning their interests with those of the shareholders. The Committee works closely with the Board Risk Committee to ensure that performance is not achieved by taking unnecessary risks that fall outside the Board's risk appetite.

The key drivers of our remuneration philosophy and strategy are to:

- attract and retain individuals critical to the long-term success of the Company by providing total reward opportunities which, subject to performance, are competitive within our defined markets both in terms of quantum and structure, and reflect individual contribution to business performance and sound risk management;
- maintain an appropriate balance between both fixed and variable pay, and short and long-term elements of remuneration, to minimise the probability of excessive risk taking and to align with the Company's strategic objectives and time horizons;
- reinforce a strong performance culture through rewards which are differentiated based on Company, division, team and individual performance;
- align management interests with those of the Company's shareholders and clients through building appropriate share and fund ownership over time; and
- ensure that reward related processes are compliant with industry regulations, legislation and market best practice and have effective risk management controls.

## How the views of shareholders are taken into account

Details of votes cast for and against the resolution to approve 2013's Directors' remuneration policy and annual report on remuneration are provided on page 86 within the 2014 annual report on remuneration.

The Committee uses shareholder feedback to help inform the Group's development of remuneration policy. The Committee actively engages with shareholders and investor bodies and welcomes the opportunity to discuss their views on relevant issues. As outlined in the Committee Chairman's letter earlier, the Committee undertook significant shareholder and proxy agency engagement activities between November 2014 and January 2015. This was both to confirm the Committee's understanding of the key remuneration issues which had contributed to the low favourable votes on remuneration at our 2014 AGM and to obtain shareholder feedback on a number of proposed changes and enhancements to the remuneration policy. The policy set out on the following pages takes into account the feedback we received during this consultation process.

## Remuneration policy for Executive Directors

The table on the following pages summarises the key elements of the Group's remuneration policy for Executive Directors which, if approved by shareholders, will apply from 30 April 2015.

## Directors' remuneration policy continued

Element	Purpose and link to strategy	Operation
<b>Fixed pay elements</b>		
Base salary	Core fixed pay element to attract and retain employees with the personal attributes, skills and experience required to deliver our strategy.	<p>Base salary levels are commensurate with the incumbent's role, responsibilities, skills and experience.</p> <p>Salaries are reviewed annually, taking account of Group and personal performance, the size and scope of the role, market reference points and levels of increase for the wider employee population.</p> <p>The Committee considers the impact of any base salary increase on total remuneration.</p>
Benefits	Provision of competitive, cost and tax effective benefits, geared towards the promotion of employee well-being, to attract and retain employees with the personal attributes, skills and experience required to deliver our strategy.	<p>The Group provides a range of benefits including private medical insurance, disability insurance, life insurance, and a lunch allowance in line with benefits offered to other employees. In addition, the Group offers, where appropriate, tax efficient benefits through a variety of salary sacrifice schemes. Specific benefits provision may be subject to change from time to time.</p> <p>Executive Directors are also able to participate in any all-employee share plans on the same basis as other eligible employees.</p> <p>Where the Committee considers it appropriate, other benefits may be provided on recruitment or relocation.</p>
Pension	Provide market competitive pension arrangements, in a way that does not create an unacceptable level of financial risk or cost to the Group, to assist with employee recruitment and retention, and to assist employees in building wealth for their retirement years.	<p>Executive Directors are auto-enrolled within the Company's defined contribution pension arrangements. Cash allowances may be provided where relevant pension legislative limits are exceeded.</p> <p>The Group also operates a Self-Invested Personal Pension (SIPP) that allows UK employees (including Executive Directors) to make voluntary contributions in a tax effective manner. The Group rebates an element of the national insurance savings to employees' SIPP accounts.</p>

## Maximum opportunity

## Performance metrics

No prescribed maximum salary levels or rates of increase. Salary increases for Executive Directors will typically be awarded in line with the average increase across the wider employee population.

None

Where the Committee considers it necessary and appropriate, larger increases may be awarded in exceptional circumstances. These may include changes in responsibilities, changes in regulation, or where a new recruit or promoted Executive Director's salary has been set at a lower rate initially.

Benefits are not generally subject to a specific cap. They are a small percentage of total remuneration and are set at an appropriate level for the specific nature of the role.

None

Costs associated with the provision of benefits are closely monitored and controlled.

Company contribution of up to 11.5% of base salary, or equivalent cash allowance in lieu. The contribution is determined on the same basis for all employees.

None

## Directors' remuneration policy continued

Element	Purpose and link to strategy	Operation
<b>Variable pay elements</b>		
<b>Short-term incentives</b>		
<p>Short-Term Incentive (STI) plan</p>	<p>Reward performance on an annual basis, by reference to company financial performance and individual strategic and personal contribution, thereby aligning Executive Directors' interests with the annual business plan and to the interests of shareholders.</p> <p>The deferred element satisfies regulatory requirements whilst aligning the interests of the Executive Director with shareholders and clients via mutual linkage to the Group share price and investment performance of selected Henderson funds.</p>	<p>Annual bonuses for Executive Directors are paid from the Group's bonus pool which is approved each year by the Committee.</p> <p>Overall pool funding is subject to risk adjustment by the Committee taking into account the recommendations of Board Risk Committee in relation to the nature and incidence of risk events, and an overall assessment of risk management relative to the risk appetite statement.</p> <p>The Committee exercises its judgement to determine awards at the end of the year to ensure that the outcome of the STI scorecard is fair in the context of overall Group performance, business performance and performance against individual strategic and personal objectives.</p> <p>All payments are at the discretion of the Committee who can adjust them to ensure they are reflective of performance.</p> <p>Mandatory deferral is operated with up to 50% of any variable incentive remuneration being deferred. Deferred awards are delivered in the form of Group shares or selected Henderson funds vesting in equal annual tranches over a three year period. The Committee retains the flexibility to change the terms of deferral to respond to regulatory or other changes as appropriate.</p> <p>Individuals are entitled to dividends on deferred share awards.</p>

## Maximum opportunity

The Chief Executive's annual bonus is capped at 500% of base salary at stretch performance. For other Executive Directors, including the Chief Financial Officer, the cap is 300% of base salary.

## Performance metrics

The measures which are used to determine STI outcomes (and associated weightings) are reviewed annually by the Committee and are aligned with the key strategic priorities of the Group.

No less than 50% of the STI will be dependent on financial measures and the remainder will be based on non-financial measures that are aligned to the strategic priorities of the Group.

## Directors' remuneration policy continued

Element	Purpose and link to strategy	Operation
<b>Variable pay elements</b>		
<b>Long-term incentives</b>		
Long-Term Incentive Plan (LTIP)	Supports superior business performance over the longer term and aligns Executive Directors' and shareholders' interests via the linkage to TSR and to other long-term performance measures which are aligned to the achievement of the Company's five year strategy.	LTIP awards are granted in the form of nil cost options or restricted shares with vesting of awards being conditional upon the achievement of performance hurdles over a performance period set by the Committee.  Vested awards: <ul style="list-style-type: none"> <li>▪ are subject to an additional holding period post vesting, typically until the 5th anniversary of grant; and</li> <li>▪ must be exercised within 10 years of the original award date otherwise they lapse.</li> </ul> LTI outcomes are subject to risk adjustment by the Committee taking into account the recommendations of the Board Risk Committee in relation to the nature and incidence of risk events, and an overall assessment of risk management over the vesting period.
Employee Share Ownership Plan (ESOP)	A legacy arrangement offered in February 2011, which provided an opportunity for eligible employees to increase their share ownership in the Group, with the potential for performance related matching shares to be awarded, thereby providing further alignment of interests between employees and shareholders.	A one-off opportunity was provided to eligible employees to be able to voluntarily defer annual bonus into the plan.  Depending on the achievement of prescribed TSR and Group share price hurdles over performance periods ending on 31 December 2013, 2014 and 2015 for each tranche respectively and continued employment over the relevant period, ESOP awards would attract a matching share element. The matching shares vest in three annual tranches in 2014, 2015 and 2016 respectively.

## Maximum opportunity

## Performance metrics

Chief Executive: annual award up to 500% of base salary.  
Other executives, including the Chief Financial Officer: annual award up to 300% of base salary.

At least 50% of the awards will be based on share price related measures, with the remaining 50% based on financial and strategic measures.

Employees could elect to defer an amount up to the value of their 2010 STI bonus into the plan.

The calculation of the appropriate number of matching shares at each vesting date is determined by reference to the relative ranking of the Henderson TSR compared to companies within the FTSE 350 General Financials Index in accordance with the following table:

Relative TSR ranking	Matching shares
90% – 100%	3 shares
80% – 90%	2 shares
66.6% – 80%	1.5 shares
50% – 66.6%	0.5 shares
Below 50th percentile	Nil

A further performance condition is that, for any matching shares to be awarded, the Company share price has to have grown at least in line with CPI over the relevant vesting period.

In addition, for the maximum 300% matching ratio to apply, the Company share price has to be equal to or greater than £3.00 at the relevant vesting date.

### Discretion

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the policy set out above where the terms of the payment were agreed:

- before the policy came into effect; or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, "payments" includes the Committee satisfying awards of variable remuneration and an award over shares is "agreed" at the time the award is granted. The Committee will operate the annual bonus and LTIP in accordance with the relevant plan rules.

### Minor changes

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

### Shareholding policy

The Company operates a mandatory shareholding policy under which Executive Directors are required to hold shares with a value at least equal to 300% of base salary.

For newly appointed Executive Directors, this may be achieved over a period of time, but unless and until the requirement is satisfied, they are required to retain at least 50% of any net shares (e.g. after disposals to satisfy tax obligations) that vest under any Company share plan.

### Choice of performance measures and approach to target setting

The Committee applies the principles set out in the FCA's Code on Remuneration.

#### Short-Term Incentive (STI)

The annual bonus is based on both financial and non-financial performance measures which are aligned with the Group's strategic plan. The targets are reviewed and set annually by the Committee, taking into account the forward-looking business plans which are set in the context of internal forecasts and performance aspirations agreed by the Board as part of the annual business planning cycle and taking into account prevailing market conditions and Company/shareholder expectations. The strategic and personal objectives are also agreed annually and are aligned with, and designed to reinforce, progress against the Company's strategic plans.

At the end of each year, the Committee considers what has been achieved. In doing so, it considers an assessment from the Board Risk Committee on the degree to which the Company has effectively managed its current and potential future business risks and has treated investors fairly.

### Long-Term Incentive Plan (LTIP)

The LTIP measures have been carefully chosen to maximise alignment with the Company's five year growth and globalisation strategy and will be subject to review (and possible amendment) in relation to future plan cycles. Targets are set taking into account a number of internal and external reference points including historic performance and internal expectations.

### Malus and clawback

All variable pay arrangements are subject to provisions which will enable the Committee to reduce vesting, or recover value delivered if certain circumstances occur. These circumstances include misconduct, a misrepresentation of performance, a misstatement of results, material downturn in performance (malus only) or a material failure of risk management. Value may be recovered for up to three years post payment or vesting.

### Differences in remuneration policy for Executive Directors compared to other employees

Executive Directors are remunerated broadly in line with the same remuneration policies and structures that apply across the wider employee population, although there are some material differences that reflect the different responsibilities employees have across the Group:

- for Executive Directors, there is a greater emphasis, in line with the FCA Code on Remuneration, on variable performance related pay and share-based long-term incentive plans. Our variable plans are designed to reward Executive Directors for the performance of the business as a whole and to align Executive Directors' pay closely to the interests of shareholders and clients. For other senior employees, the focus of their short-term variable pay is linked more closely to the achievement of specific business and sub-business objectives over which they have direct and close influence; and
- long-term incentives such as the LTIP are reserved for more senior executives with the greatest potential to influence Group levels of performance and business results, and whose contribution is, or is expected to be, critical to the long-term performance of the Company.

### External Non-Executive Director positions

Executive Directors are permitted to accept a limited number of directorships outside the Group, recognising that this can assist in their personal development. All such appointments are subject to approval, in advance, by the Board. Where the appointment is accepted in furtherance of the Group's business, any fees received are remitted to the Group. If the appointment is not connected to the Group's business, the Executive Director is permitted to retain any fees received. Details of outside directorships held by the Executive Directors and any fees that they received are provided in the annual report on remuneration. Details of outside directorships held by the Non-Executive Directors are provided in the relevant individuals' biographies as set out on page 49.

## Approach to remuneration for new Executive Director appointments

The remuneration package for a newly appointed Executive Director is set in accordance with the terms of the Group's approved remuneration policy in force at the time of appointment. The base salary will be guided by the nature and market value of the role, the incumbent's experience, skills and qualifications and may also take into account internal benchmarks. In certain circumstances, base salary may be set:

- above the market rate (or prior incumbent) in order to attract a candidate with the attributes, skills and experience required to deliver on our strategy, or where the individual had benefited from a higher annual salary at their previous employer; or
- below the prevailing market rate (or prior incumbent) with phased increases over the first few years to complement increased experience and progression in the role.

Pension and benefit provision will be in line with prevailing arrangements that apply more widely across the Group and, for the avoidance of doubt, pension provision will be on a defined contribution basis.

Variable remuneration for new Executive Directors is determined in the same way as for existing Executive Directors, and is subject to the maximum annual limit on aggregate variable pay referred to in the policy tables on pages 64 to 69 being:

	Maximum opportunity as a % of base salary	
	STI	LTI
Chief Executive	500%	500%
Other Executive Directors	300%	300%

The Committee may also award additional cash and share-based elements when it considers these to be in the best interests of the Group and shareholders, or to replace variable remuneration awards or arrangements that an individual has foregone in order to join the Company. Any such awards would only be made subject to the validation of the forfeiture of prior employer awards and would be set to mirror the nature, vesting dates and any performance requirements (taking into account performance achieved or likely to be achieved) in relation to the remuneration foregone.

In relation to LTIP participation, the Committee may decide to grant awards under prevailing LTIP cycles, with such awards being pro-rated to reflect the duration of the vesting period still to run at the time of the appointment. No such awards will be made in relation to LTIP cycles which have less than 24 months to run.

For an internal appointment, the policy will be consistent with that for external appointees as detailed above. Where an individual has contractual commitments made prior to being promoted to Executive Director, the Company will continue to honour these arrangements even in instances where they would not otherwise be consistent with the prevailing remuneration policy for Executive Directors at the time of appointment.

For both external and internal appointments, the Group may meet certain relocation expenses as appropriate.

## Service contracts and termination provisions

The Committee periodically reviews the contractual arrangements and terms for the Executive Directors to ensure that they reflect best practice and align to the interests of shareholders. Executive Directors have service agreements terminable on not less than 12 months' written notice by the Group or on not less than six months' written notice by the Executive Director. In exceptional circumstances on recruitment, longer initial terms of up to two years may be approved by the Committee provided this is phased out after an initial period. To date, the Committee has not exercised this discretion.

The dates of appointment of the current Executive Directors are:

Executive Director	Appointment
Andrew Formica	05/11/2008
Roger Thompson	26/06/2013

The Executive Directors' service agreements allow the Group to suspend Executive Directors from their duties at any time after notice has been given by either party, provided they continue to receive full pay. Under certain circumstances (such as serious misconduct), the Group may terminate employment immediately without any liability to make any further payment (other than amounts accrued to the date of termination). The agreement also permits the Company to terminate employment immediately by paying a sum equivalent to 12 months' base salary.

The service agreements contain no specific provision for enhancement to contractual terms in the event of a change of control. However, the Committee has some limited discretion over the outcome in the event of a change of control, for example, where discretion exists over the treatment of unvested share awards under Company share schemes.

## Directors' remuneration policy continued

In respect of their participation in all-employee and executive share schemes, Executive Directors are subject to the same scheme rules and leaver provisions, as approved by shareholders, as are applied to other participants. The treatment on leaving of any share-based entitlements granted to an Executive Director under the Company's share plans will be determined by reference to the reason for leaving and the relevant plan and, in relation to HMRC or IRS approved plans, the relevant HMRC or IRS rules. A summary of the leaver provisions in relation to the key remuneration elements is set out in the table below:

Reason for leaving	Salary and contractual benefits	Annual bonus	DEP/RSP	LTIP
'Good Leaver' status, including: <ul style="list-style-type: none"> <li>▪ ill health/injury/disability</li> <li>▪ redundancy</li> <li>▪ employing company leaving the Group</li> <li>▪ other reason at the discretion of the Committee</li> </ul>	Paid up to termination date  Pay in lieu of notice if applicable	Pro-rated award for year of termination  No accelerated payment  Standard deferral principles will apply	Will remain eligible for receipt with awards vesting on the scheduled vesting date  In respect of RSP awards, any performance conditions will be assessed in good faith in relation to the period since the date of grant	Will remain eligible for receipt and awards which will vest on the scheduled vesting date (but will remain subject to the additional holding period) and will be pro-rated for the proportion of the performance period during which the individual was employed
Death	Paid up to the date of death	Pro-rated award for the year of death; paid fully in cash; accelerated payment	The Committee has the discretion to accelerate the vesting of the award	The Committee has the discretion to accelerate the vesting of the award and to determine the percentage of award that should vest, taking into account the proportion of the vesting period that has elapsed and the extent to which performance conditions have been satisfied
Other reasons including: <ul style="list-style-type: none"> <li>▪ resignation</li> <li>▪ gross misconduct or cause</li> </ul>	Paid up to termination date	No award for the year of termination or for the prior year, if the resignation or termination occurs after the end of a performance year but before the award has been granted or paid	All outstanding unvested awards lapse	All outstanding unvested awards lapse. In the case of LTIP awards that have vested, but in respect of which the additional holding period has not been satisfied, these will only be forfeited in the case of gross misconduct or circumstances in which the Committee would otherwise be entitled to apply clawback

The Committee will, consistent with the best interests of the Group, seek to minimise termination payments. Service agreements are available for inspection at the Company's registered office.

### Legacy arrangements

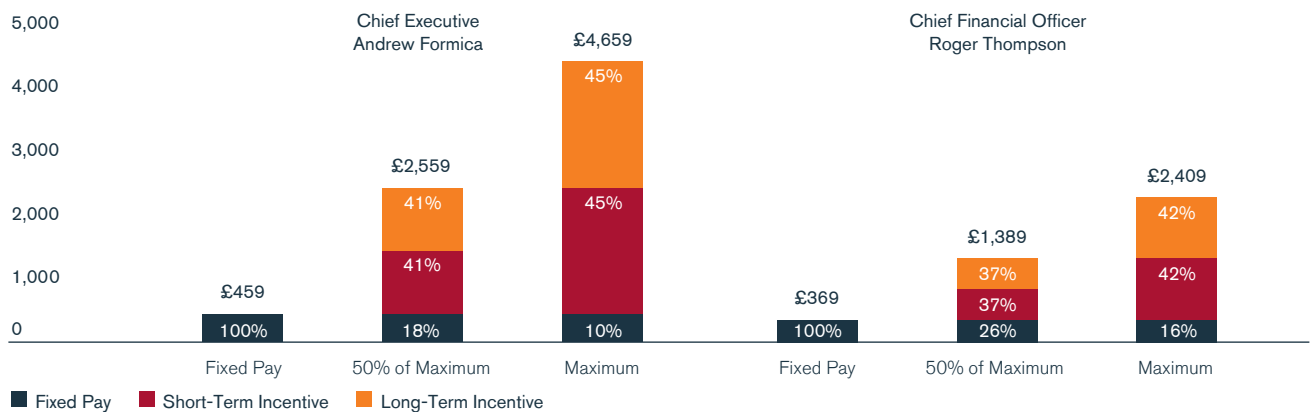
In approving this policy, authority is given to the Group to honour any commitments entered into with current or former Executive Directors (such as the payment of a pension or the unwind of legacy share schemes) that have been disclosed to shareholders in previous Directors' remuneration reports. Details of any payments to former Executive Directors will be set out in future annual reports on remuneration as they arise.

## Reward scenarios

The remuneration received by Executive Directors is primarily dependent on Group performance.

The graphs below illustrate the annual remuneration levels for the Chief Executive and the Chief Financial Officer at maximum and, for illustrative purposes, what their remuneration level would be at half the maximum variable award (short- and long-term incentives). Long-term incentive is based on value at date of award and ignores the impact of any share price movement post award, in line with the regulations.

### Reward scenarios (£'000)



## Key aspects of the remuneration policy for the Non-Executive Directors

This table reports the annual fee policy for the Board Chairman and other Non-Executive Directors which is in line with the Articles of Association as approved by shareholders at the 2014 AGM:

Role	Purpose and link to strategy	Methodology
Board Chairman	To attract and retain a high calibre Board Chairman by offering a market competitive fee level.	The Chairman is paid an annual fee that covers all his responsibilities. The fee is reviewed periodically by the Committee with reference to the time commitment of the role and comparable market data. There is no maximum level other than the collective cap. <sup>1</sup>
Other Non-Executive Directors	To attract and retain high calibre Non-Executive Directors by offering a market competitive fee level.	The Non-Executive Directors are paid a basic annual fee. The Committee Chairmen and other members of the main Board Committees (such as Audit, Remuneration, Board Risk, and Nomination) and the Senior Independent Director are paid a supplement to reflect their extra workload and responsibility. In addition, as each Non-Executive Director is required to attend each Committee meeting, irrespective of their primary Committee role, each Non-Executive Director (excluding the Board Chairman) receives an additional supplement, in addition to their basic annual fee, to reflect the associated additional workload and regulatory responsibilities.  The fee levels are reviewed periodically by the Board, by reference to the time commitment and responsibilities associated with the relevant Non-Executive Director role and the competitive rates of fees paid in comparable FTSE companies. There is no maximum level other than the collective cap.

Note 1: The Non-Executive Director fee policy includes a collective cap which limits the aggregate quantum of fees to £900,000 per annum.

Non-Executive Directors are engaged under letters of appointment. They do not have service contracts. A new Non-Executive Director would be paid in line with the prevailing fee(s) at the time of appointment. There would be no compensation or other awards for loss of compensation.

## How the views of employees are taken into account

All employees across the Group, including the Executive Directors, are remunerated under the same (or similar) remuneration structures, albeit that salary levels and maximum opportunities under bonus and other incentive plans will differ, reflective of market comparatives and the varying nature of roles across the Group. However, similar targets and performance conditions, which are carefully chosen to align with the Company's strategy, apply throughout the organisation. When considering remuneration arrangements for Executive Directors, the Committee takes into account, as a matter of course, the pay and conditions of employees throughout the Group.

Although the Company does not actively consult with employees in respect of the remuneration policy, employees are able to provide feedback on a wide range of issues, including the Group's remuneration framework, to line managers and to the Human Resources department, via annual staff surveys. In addition, employees are also able to offer specific feedback through a staff representative body which meets monthly.

This feedback is taken into account by the Committee as it reviews its current and proposed remuneration policies.

# ANNUAL REPORT ON REMUNERATION

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# Annual report on remuneration

## Role and membership of the Remuneration Committee

The Committee reviews and approves, where appropriate, the Group's remuneration plans and overall Human Resources (HR) policies and practices. Its duties are to:

- determine annually the remuneration of the Chairman, the Executive Directors and the direct reports of the Chief Executive;
- approve the policy and terms of the Group's employee and executive share incentive schemes;
- approve the Group's Remuneration Policy Statement and the remuneration terms and arrangements for Code Staff in accordance with the FCA and AIFMD Code on Remuneration; and
- consider pay levels and employment conditions for all employees.

The full terms of reference of the Committee are available on the Company's website.

The Committee consists entirely of independent Non-Executive Directors. In 2014, it consisted of Tim How (Committee Chairman), Sarah Arkle, Kevin Dolan and Angela Seymour-Jackson. However, in practice all Non-Executive Directors, including the Chairman, and the Chief Executive attend all Committee meetings, although they may not attend if their own remuneration is under consideration.

The Committee meets regularly and takes advice on a range of matters, including the scale and composition of total remuneration payable to executives with similar qualifications, skills and experience holding similar roles and with similar levels of responsibility in comparable FTSE companies. In addition to regular agenda items in 2014, the Committee took advice on the implementation of regulatory requirements in respect of AIFMD and the forthcoming UCITS V regulations and changes to applicable legislation and corporate governance guidance in the UK, to ascertain the impact on remuneration policies and practices.

In 2014, the Committee was supported by the Chief Financial Officer, the General Counsel, the Global Head of HR, the Head of Reward and the Chief Risk Officer. The Global Head of HR and Head of Reward attend all meetings, except when their own remuneration is under consideration.

The Committee Chairman and the Chief Executive make remuneration recommendations for the Executive Committee, members of which report to the Chief Executive. The Chairman is also consulted about the remuneration of the Executive Directors. The remuneration of the Chief Executive is recommended by the Committee Chairman and the Chairman, and approved by the Committee.

No Executive Director, other member of the Executive Committee or Non-Executive Director is involved in any decision on their own remuneration.

The Committee operates under formal terms of reference which are reviewed annually and held five meetings during the year. There was full attendance at all meetings.

## External advisers

The Committee appoints advisers following a panel selection process. During 2014, the Committee appointed Deloitte LLP (Deloitte), which abides by the Remuneration Consultants Code of Conduct, as its primary remuneration adviser. Deloitte have provided advice to the Committee on regulatory matters, competitive market benchmarking, emerging market practices, remuneration plan design and approach to shareholder engagement activities.

Deloitte have no other connection to the Company.

Adviser	Services provided	2014 fees
Deloitte	Regulatory advice	£63,060
	Market benchmarking	
	Emerging market practices	
	Remuneration plan design	
	Advice on shareholder engagement activities	

Deloitte's fees in respect of the advice provided to the Committee during 2014 were £63,060 and were charged on the basis of their standard terms of business. Deloitte have also provided advice on remuneration to management during 2014, as well as providing advice on taxation, financial matters and other miscellaneous consulting and assurance services.

# Annual report on remuneration continued

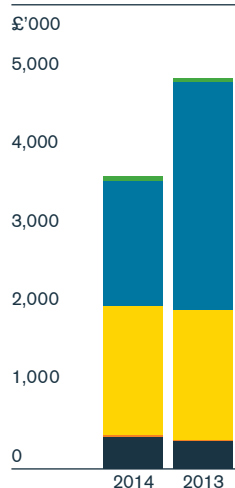
## Total remuneration

The tables below report the single figure remuneration for the years ended 31 December 2014 and 31 December 2013. The amounts shown represent earned remuneration in accordance with the Regulations.

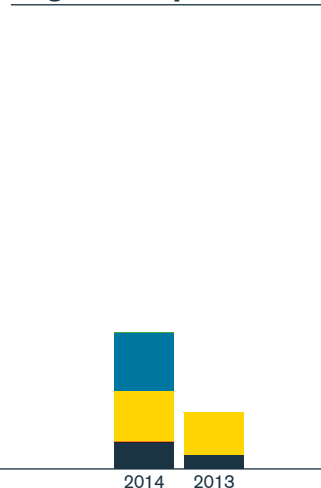
### Single total figure of remuneration – Executive Directors (audited information)

Executive Director	Base pay		Benefits		Pension		STI		LTI		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Andrew Formica	403	350	3	2	18	16	1,650	1,650	1,603	2,926	65	46	3,741	4,990
Roger Thompson	330	168	1	0	15	9	650	545	741	0	3	0	1,740	722

#### Andrew Formica



#### Roger Thompson



#### Notes:

- Remuneration of Executive Directors and Non-Executive Directors is for the calendar year or, if applicable, from the date of appointment or to the date of resignation.
- Pension includes any additional employer contribution in respect of a Self-Invested Personal Pension.
- STI is the gross annual discretionary award for the performance year before mandatory deferral is applied.
- The split of deferral between Group shares and fund interests is given on page 80 in the report.
- Benefits consist of the provision of life assurance and private medical insurance and lunch allowance.
- LTI includes LTIP awards vesting during the year (including dividend equivalents), CSOP, SAYE, RSP and ESOP matching shares which vested during the year.
- Other comprises amounts paid in relation to dividends earned on beneficial interests in Company share plans.
- The 2013 figures for Andrew Formica have been restated to reflect the actual share prices on vesting of both the LTIP and ESOP awards (£2.54/£2.51 for LTIP/ESOP respectively, versus a forecast price of £2.10).

### Single total figure of remuneration – Chairman and other Non-Executive Directors

Non-Executive Director	Fees		Benefits/Expenses	
	2014	2013	2014	2013
<b>Chairman</b>				
Richard Gillingwater	200	134	4	2
<b>Other Non-Executive Directors</b>				
Sarah Arkle	90	61	1	0
Kevin Dolan	70	60	7	5
Tim How	103	90	0	1
Robert Jeens	93	80	0	0
Angela Seymour-Jackson	66	n/a	1	n/a

- Angela Seymour-Jackson's fees reflect her service since appointment on 23 January 2014.

## Fixed pay and benefits

As set out in the 2013 report, the Chief Executive was awarded a salary increase to £420,000, effective 1 April 2014. The Chief Financial Officer's base pay remained unchanged throughout the year at £330,000. The fixed pay shown in the table represents the amounts paid during the year.

The benefits consist of private medical insurance, disability insurance, and life insurance, plus a lunch allowance in line with benefits provided to other employees.

## Pension entitlements and contributions

The Executive Directors participate in the non-contributory section of Henderson Group Pension Scheme that provides defined contribution benefits on the same basis as other employees. The Chief Executive and the Chief Financial Officer each receives a contribution, currently 10.5% of base pay, into the Group's defined contribution pension plan. The contributions are currently limited by the operation of the annual Scheme earnings cap which for 2014 was £143,600 (2013: £139,140). The annual Scheme earnings cap will be removed for all participants in the defined contribution plan (including Executive Directors) with effect from 1 April 2015.

In 2014, the Group contributed £14,961 to Andrew Formica's pension plan, and £14,961 to Roger Thompson's pension plan.

The Group also operates a Self-Invested Personal Pension (SIPP) that allows UK employees to make voluntary contributions into a range of funds and to transfer Company shares from maturing share plans into the SIPP. The Group rebates some of the national insurance savings to employees' SIPP accounts. In May 2014, the Group contributed £2,960 to Andrew Formica's SIPP account under this mechanism.

## STI for the year ended 31 December 2014

For the purpose of determining the 2014 bonus, the Committee assessed the performance of the business overall and of each of the individual Executive Directors.

### Financial performance

The Group delivered financial results which were an improvement on 2013 – which was in itself a record year – and exceeded those set out in the 2014 business plan. This was even in the context of mixed market conditions during the year. The key financial highlights are summarised in the Committee Chairman's letter earlier.

The overall assessment of financial performance under the STI scorecard is as set out below:

Measure	Weighting	Achievement (% vs stretch target)	Weighted achievement vs max <sup>1</sup>
Underlying profit	50%	54.6%	13.7%
One and three year investment performance	15%	92.0%	6.9%
Net flows	15%	71.7%	5.4%
Operating margin	10%	50.6%	2.5%
Return on equity (ROE)	10%	52.0%	2.6%
Overall financial			31.1%

Note:

1. This represents the contribution towards the maximum STI opportunity (out of a maximum 50% relating to financial measures) = weighting x achievement x 50%.

### Strategic and personal contributions

During the year, the progress on business strategy exceeded expectations with a number of strategic initiatives being driven by the Executive Directors including:

- the development, articulation and launch of the Company's ambitious five year growth and globalisation strategy and the positive progress in year one of that strategy including an increase in continuing AUM from £63.7bn to £75.5bn (19%) over the year;
- the completion of the Property transaction with the establishment of the TH Real Estate joint venture, which was completed in April 2014;
- the acquisition of Geneva and its successful integration within the Group, as a result of which Group AUM from US-domiciled clients has increased from £7bn to £11bn, or 15% of continuing Group AUM;
- continuing expansion in the US and Australia including the build out of the US credit offering and the integration of the H3 Global Advisors team in Australia respectively;
- the successful launch of our new brand around the *Knowledge. Shared* proposition; and
- further diversification of our product line including increasing the proportion of our Global Equities AUM from 31% to 36% of Group AUM.

The Executive Directors each exceeded their agreed personal objectives.

In particular, Andrew Formica has:

- significantly strengthened the executive management team through the recruitment of Rob Gambi as Chief Investment Officer and the integration of both Rob and Roger Thompson (who joined in mid 2013) into the core management team along with Phil Wagstaff;
- re-shaped the business through the TH Real Estate joint venture and Geneva acquisition;
- actively led the introduction/promotion of talent within the organisation, including new heads of Corporate Development and Human Resources, the Chief Risk Officer, and the Heads of Emerging Markets (Fixed Income and Equities);
- improved overall brand and client perceptions; and
- sponsored and spearheaded the Trainee Programme, which brings in nearly 40 trainees into the organisation each year, of which 90% go on to secure permanent roles in the industry.

Roger Thompson has:

- overseen the implementation of the first phase of a new global finance platform;
- introduced new practices and rigour into financial control, cost management and budgeting processes;
- increased the focus on Corporate Responsibility and community engagement globally; and
- driven strategy development in a number of areas and talent management across the organisation.

## Annual report on remuneration continued

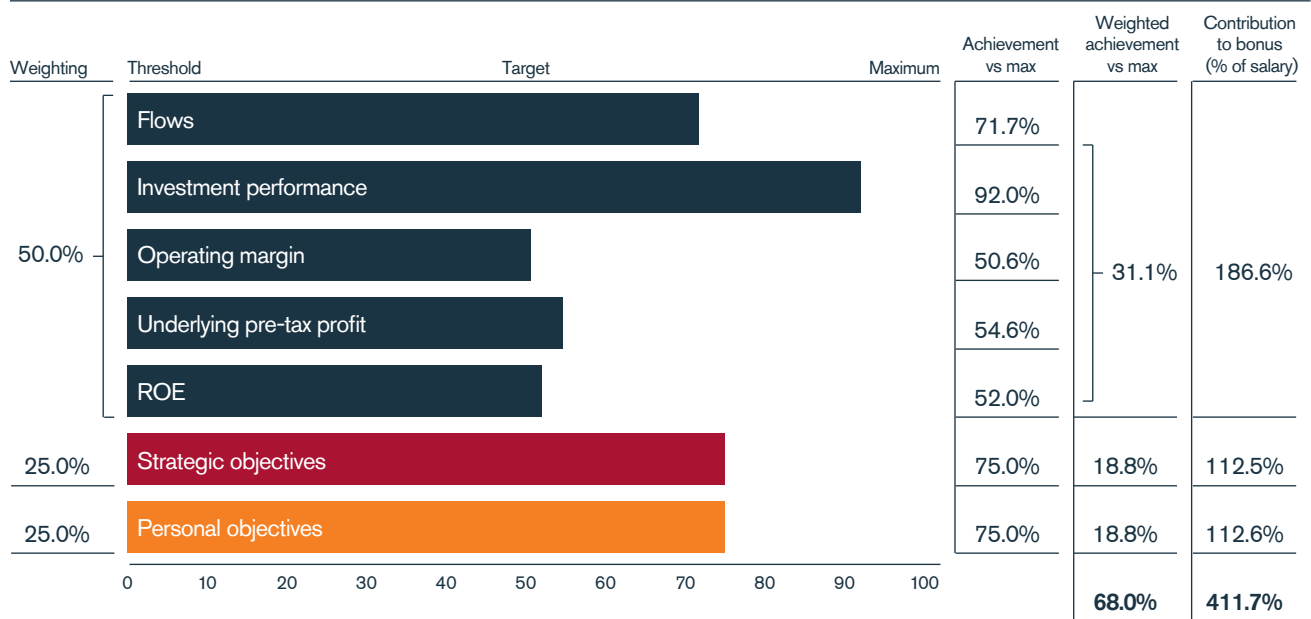
Chief Executive

Chief Financial Officer

<b>Strategic contribution</b>		<b>Achievement</b>	
	▪ Completion of TH Real Estate joint venture		Fully achieved
	▪ Acquisition of Geneva		Fully achieved
	▪ Development and launch of five year strategy		Fully achieved
	▪ Geographical expansion in North America/Australia		Partially achieved
	▪ Brand launch		Fully achieved
	▪ Diversification of product range		Partially achieved
Overall assessment	75%	Overall assessment	75%
Weighted assessment (out of 25%)	18.8%	Weighted assessment (out of 25%)	18.8%
<b>Personal contribution</b>		<b>Personal contribution</b>	
▪ Build out of senior management team	Largely achieved	▪ Implementation of new finance platform	Largely achieved
▪ Re-shaped business through TH Real Estate and Geneva	Partly achieved	▪ Financial control, cost management and budgeting processes	Largely achieved
▪ Stimulate flow of talent and ideas into Henderson	Largely achieved	▪ Corporate Responsibility and community engagement	Largely achieved
▪ Improved overall brand and client perceptions	Fully achieved	▪ Strategy development	Fully achieved
▪ Sponsorship of Trainee Programme	Fully achieved	▪ Talent management	Fully achieved
Overall assessment	75%	Overall assessment	80%
Weighted assessment (out of 25%)	18.8%	Weighted assessment (out of 25%)	20.0%

The individual STI outcomes, relative to the maximum STI opportunity (600%/300% of base salary for the Chief Executive and Chief Financial Officer respectively) are shown graphically on the facing page.

### Performance 2014 – Chief Executive



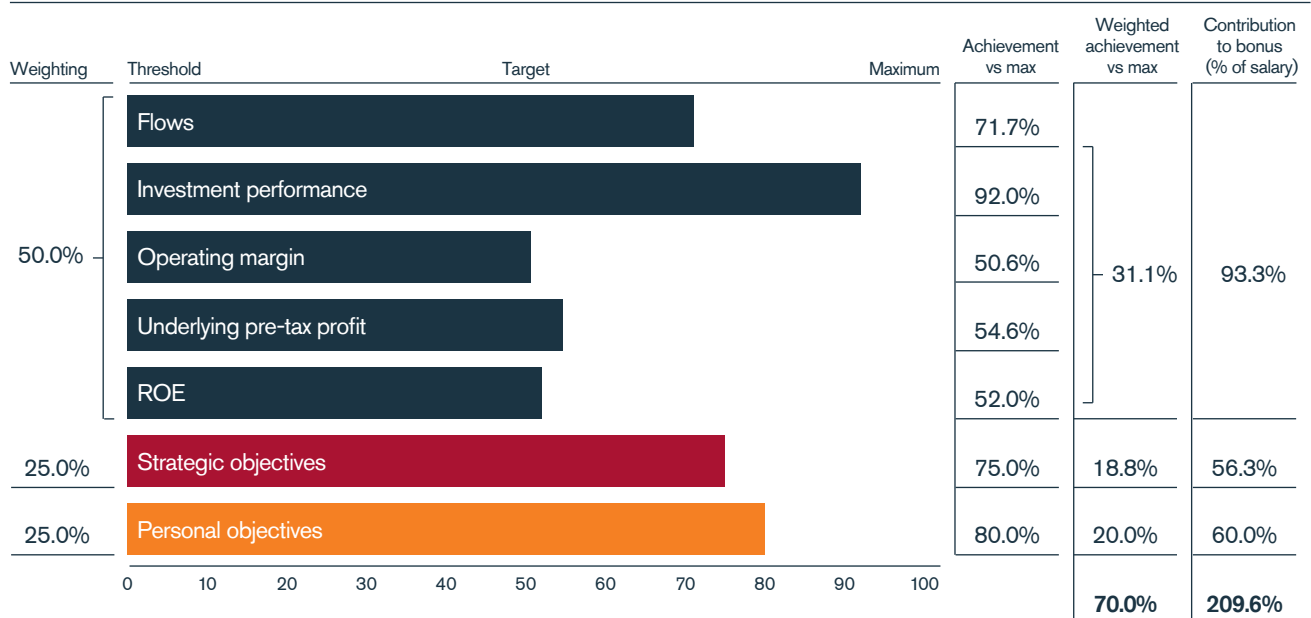
The Committee determined the Chief Executive's bonus against a balanced scorecard of:

- financial measures (flows, one and three year investment performance, operating margin, underlying profit before tax and ROE); and
- non-financial measures (strategic contribution and performance against personal objectives).

The targets are set as part of the annual planning process overseen and ultimately approved by the Board. The Target represents the planned outcome for the Group with Maximum aligned with the stretch target and Threshold representing a minimum requirement for any incentive bonus to be paid. The same process is used to guide incentive decisions more widely across the Executive Committee.

The performance against each of these measures is set out in the graphic above. The weighted outcome of these measures as a percentage of maximum bonus opportunity (600% x salary for 2014) resulted in an aggregate bonus equivalent to 412% of salary (i.e. £1.73m) prior to any adjustments determined by the Committee at its discretion.

### Performance 2014 – Chief Financial Officer



The Committee determined the CFO's bonus against a balanced scorecard of:

- financial measures (flows, one and three year investment performance, operating margin, underlying profit before tax and ROE); and
- non-financial measures (strategic contribution and performance against personal objectives).

The targets are set as part of the annual planning process overseen and ultimately approved by the Board. The Target represents the planned outcome for the Group with Maximum aligned with the stretch target and Threshold representing a minimum requirement for any incentive bonus to be paid. The same process is used to guide incentive decisions more widely across the Executive Committee.

The performance against each of these measures is set out in the graphic above. The weighted outcome of these measures as a percentage of maximum bonus opportunity (300% x salary for 2014) resulted in an aggregate bonus equivalent to 209% of salary (i.e. £692,000) prior to any adjustments determined by the Committee at its discretion.

## Annual report on remuneration continued

As part of the annual review process, the Committee considered the recommendations of the Board Risk Committee in relation to the nature, incidence and materiality of risk issues arising during the year and an overall assessment of risk management relative to the risk appetite statement. As a result of that review, the Committee determined that a negative adjustment of £1.0m should be made and the STI outcomes for the Chief Executive and Chief Financial Officer were amended accordingly to reflect a proportion of the above adjustment.

The Committee also has the discretion to adjust the final STI outcome (upwards or downwards at either an overall funding level and/or in respect of awards to specific Executive Directors) in the event that an exceptional event occurred outside of the Executive Directors' control which, in the Committee's opinion, may have materially affected the STI outcome. The Committee decided that there were no such events during 2014.

The awards for Executive Directors were subject to the Group's mandatory deferral policy.

The resulting STI awards (annual bonuses) for 2014 were as follows:

Executive Director	Total £'000	Cash £'000	Deferred £'000		As a % of base salary	As a % of maximum opportunity
			Group Shares	Funds		
Andrew Formica	1,650	895	0	755.0	393%	65%
Roger Thompson	650	395	127.5	127.5	197%	66%

Notes:

- The deferred Company shares referred to in the table above will be awarded at a price equal to the average closing share price over the five working days prior to the date of grant.
- The deferred Fund Interests referred to in the table above will be awarded at unit value of the relevant fund(s) at the date that the fund investment is made (expected 1 May 2015).

### LTI vesting in respect of performance periods ended in 2014

The performance period for the 2012 LTIP ended on 31 December 2014. The table below shows the calculation to determine the percentage vesting based on the TSR result over the performance period. This accounts for vesting of 95% of the award. The Committee was satisfied that this reflected the financial and operating performance of the business over the period. In addition, the Committee assessed performance against a range of risk and sustainability measures which account for the other 5% of the award and determined that this element should be awarded in full.

Metric	Condition	Threshold target	Stretch target	Actual	% vesting
Relative TSR	TSR vs FTSE	25% at	100% at	55th	38%
	General Financials	50th percentile	75th percentile	percentile	
Risk and sustainability	Subjective assessment by the Committee, taking in to account the recommendations of the Board Risk Committee, across a range of risk and sustainability metrics				5%
Total (% of maximum)					43%

The table below shows the vesting details of the 2012 LTIP for Andrew Formica. Roger Thompson was not employed by the Group in 2012 and hence was not granted an award under the 2012 LTIP. The awards vest on 6 April 2015. The value of the vested shares is based on a share price of £2.08, this being the average share price during the last quarter of 2014 in accordance with the regulations. Any material change to the valuation based on the actual share price as at 6 April 2015 will be disclosed in the Directors' remuneration report for 2015.

Executive Director	Number of options at grant	Number of options vested	Number of lapsed options	Vesting share price	LTIP value (£'000)	Value of dividends accrued on vested shares (£'000)	Total value (£'000)
Andrew Formica	1,400,000	602,000	798,000	£2.08	1,252	137	1,389

Note:

- In addition to the vested award under LTIP 2012, the single figure disclosure (£1,602,897) for Andrew Formica set out in page 76 in the annual remuneration report includes matching shares vesting under ESOP 2011 of £213,481, being 102,635 shares at a share price of £2.08.

### LTI awards made during 2014

Under the LTIP, the Committee may make awards to Executive Directors up to a maximum number of ordinary shares determined by the Committee at the date of grant. Vesting of awards is partly after three years (2/3 of initial award) and partly after four years (1/3 of initial award). Under the 2014 LTIP, the vesting of awards is subject to the achievement of relevant performance targets and risk and sustainability metrics over the measurement period, and continued employment. Vested awards must be exercised any time within the following five years, otherwise the award automatically lapses. The primary performance measure under the 2014 LTIP (95%) is relative TSR against a comparator group and the Committee must be satisfied that the Company's TSR performance reasonably reflects its underlying financial performance over the measurement period. In addition, a further element (5%) is assessed by reference to a range of risk and sustainability metrics. The Committee has the power to vary or lapse individual unvested awards in cases of poor risk management, or where results have been misstated or where there has been serious misconduct. The Committee also has the ability in certain cases to claw back vested awards. In 2014, the following LTI awards were granted to Executive Directors:

Executive Director	Type of award	Basis of award (% of salary)	Share price (£)	No. of options granted	Face value of award (£'000)	% of face value that would vest at threshold performance	Vesting determined by performance over
Andrew Formica	Nil priced options	500%	2.657	790,000	2,099	25%	2014-2016 (2/3) 2014-2017 (1/3)
Roger Thompson	Nil priced options	300%	2.657	372,500	990	25%	2014-2016 (2/3) 2014-2017 (1/3)

Notes:

- The face value of the award is based on the share price at the date of award (£2.657).
- The LTIP awards made to Andrew Formica and Roger Thompson on 1 April 2014 were in the form of nil priced options. This gives them rights over shares at the time of vesting subject to the satisfaction of relevant performance conditions over the plan measurement period.
- The resulting award will be based on the number of options that vest and the prevailing share price at the point of vesting.

### Year-on-year percentage increase in the remuneration of the Chief Executive

This table reports the year-on-year percentage change in the remuneration of the Chief Executive between 2014 and 2013 compared to that of the average employee. For comparative reasons, STI includes annual bonus, sales commission, performance fees and investment incentive schemes.

Employee	Salary	Benefits	STI
Andrew Formica	20%	2%	0%
Average employee	5%	2%	10%

Note:

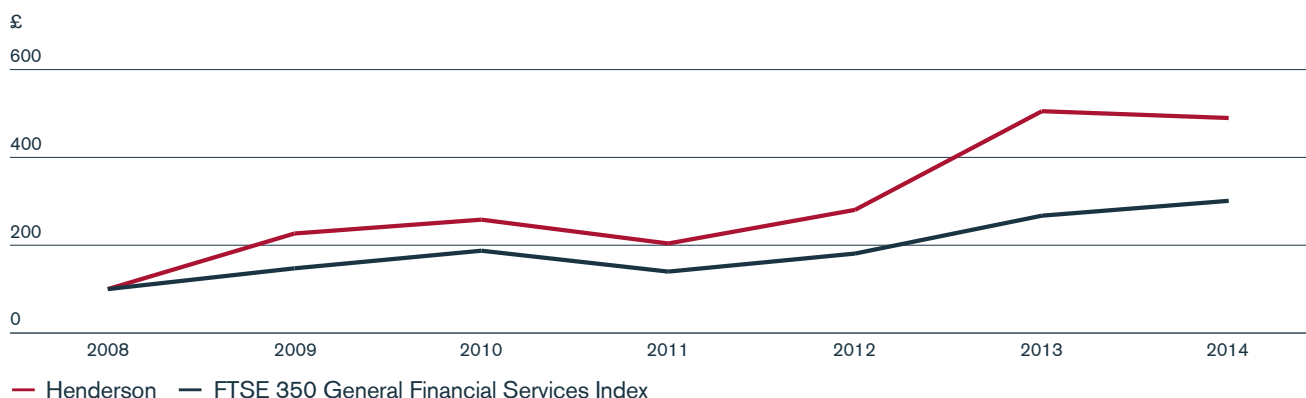
- Average employee data has been calculated by dividing the annual costs, excluding the Chief Executive, by the average number of staff employed during the year.

The Committee continues to believe that shareholders' interests are best served by ensuring that a significant proportion of variable pay is performance related. STI has marginally increased as a result of strong business performance in 2014 compared to that in 2013. Excluding performance fee bonuses, the average increase in STI across the Group would have been 15%. Andrew Formica does not receive performance fee bonuses.

### Total Shareholder Return (TSR) performance

This graph provided by Towers Watson (calculated using Datastream data and according to a methodology that is compliant with the UK Companies Act) shows Henderson's performance against the FTSE 350 General Financial Services Index over the last six years based on the change in the value of a hypothetical £100 holding since December 2008.

#### Total shareholder return



## Annual report on remuneration continued

### Chief Executive remuneration over last six years

The total remuneration of Andrew Formica as Chief Executive for the last six financial years is shown in the following table. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in each year. The LTIP vesting figures show the pay-out for each year as a percentage of the maximum.

	2009	2010	2011	2012	2013	2014
Total remuneration (£'000)	2,205	3,516	6,420	2,802	4,989	<b>3,741</b>
STI % maximum	50%	66%	71%	43%	79%	<b>65%</b>
LTIP % maximum vesting	100%	100%	100%	0%	78%	<b>43%</b>

### Relative importance of the spend on pay

The following table shows the year-on-year movement in total remuneration of all employees compared to the increase in dividends paid and declared on ordinary shares:

	2013 £m	2014 £m	% Change
Cost of remuneration of all employees (continuing operations)	214.5	<b>233.4</b>	8.8%
Dividends on ordinary shares	87.5	<b>101.8</b>	16.3%
Profit after tax attributable to ordinary shareholders	125.1	<b>258.5</b>	106.2%

Note:

- The figure for cost of employee remuneration for 2014 in the table above excludes remuneration for employees transferred to TH Real Estate on 1 April 2014 (£9.6m)
- For comparative purposes, the figure for 2013 has been restated to exclude the full year remuneration of TH Real Estate employees (£29.7m for full year 2013)

### How the policy will be applied in 2015

#### Base salary

The Committee has generally taken a restrained approach to base salary increases, and only made changes where it feels there is a material misalignment with the market, and in the context of good performance. The average percentage increase to base salaries across the Group which will be awarded as part of the 2015 compensation review is 3%.

There is no proposed change to the Chief Executive's salary which will remain unchanged at £420,000.

At the time of his appointment, the Chief Financial Officer's base salary was reduced compared to the level that he received at his previous employer and has remained at that level since his appointment in mid 2013. Considering the 'dual hat' nature of his role (Chief Financial Officer/Chief Operating Officer) within Henderson and performance to date, the Committee has proposed an increase to £340,000 (an increase of 3%, which is in line with the increase awarded across the general workforce), with an effective date of 1 April 2015.

The Committee takes the issue of pay discipline very seriously and firmly believes that while base pay should be set at a reasonable level, it takes equally seriously the need to retain high-performing executives by ensuring that their pay is competitive. Getting this balance right is clearly in the interests of shareholders.

	2014	2015	Increase
Executive Director			
Andrew Formica	£420,000	<b>£420,000</b>	0%
Roger Thompson	£330,000	<b>£340,000</b>	3%

#### Fees for the Board Chairman and other Non-Executive Directors

The table below shows the annualised fees payable to the Chairman and other Non-Executive Directors in 2014 and a forecast of annualised fees payable in 2015. No changes to the annual fee rates is currently proposed for 2015.

Non-Executive Directors (except the Board Chairman) that serve on one or more additional Committees receive an annual fee of £10,000 to compensate for the additional workload and regulatory responsibilities.

£	Board Chairman	Base fee	SID fee	Chair fee	Committee fee	Committee member fee	Total 2014	Total 2015	Increase
Richard Gillingwater	200,000						200,000	<b>200,000</b>	0%
Sarah Arkle		60,000			20,000	10,000	90,000	<b>90,000</b>	0%
Kevin Dolan		60,000				10,000	70,000	<b>70,000</b>	0%
Tim How		60,000	12,500		20,000	10,000	102,500	<b>102,500</b>	0%
Robert Jeens		60,000			22,500	10,000	92,500	<b>92,500</b>	0%
Angela Seymour-Jackson		60,000				10,000	70,000	<b>70,000</b>	0%
<b>Total</b>	<b>200,000</b>	<b>300,000</b>	<b>12,500</b>	<b>62,500</b>	<b>50,000</b>	<b>625,000</b>	<b>625,000</b>	<b>625,000</b>	0%

Note:

- The Chair of the Audit Committee's fee includes an additional fee of £2,500 for responsibility for the Conflicts of Interest Committee, a sub-committee of the Audit Committee.
- The figures for 2014 above are annualised – for Angela Seymour-Jackson (appointed 23 January 2014) the actual fees received during the year were £66,000.
- Non-Executive Directors' fees are scheduled for review in Autumn 2015. Any changes will be reported in the 2015 annual report on remuneration.

## Performance targets for STI and LTI awards to be granted in 2015

For 2015, the annual bonus will continue to be based on performance against a scorecard of financial targets and the achievement of non-financial objectives as detailed in the remuneration policy. The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive. Retrospective disclosure of performance will be disclosed in next year's annual remuneration report.

The main KPIs taken into account are:

- underlying profit, ROE and operating margin, indicative of meeting our shareholders' expectations for profitable growth and strong financial control;
- net new business growth, indicative of our success in delivering investment performance and service, but also in delivering appropriate products which meet our clients' long-term investment needs; and
- proportion of funds for which investment performance outperforms, indicative of our success in delivering excellent investment performance to our clients and a key driver in our objective of growing long-term, stable AUM and to grow sustainable revenues streams.

The Committee has decided to adopt the same measurement and vesting periods for the 2015 LTIP as applied to the 2014 LTIP, with:

- two thirds of the award being eligible to vest after three years subject to the plan performance over a three year measurement period; and
- one third of the award being eligible to vest after four years, subject to the plan performance over a four year measurement period.

However, each tranche of the award will be subject to additional holding periods (two years in respect of the first tranche and one year in respect of the second tranche) such that the period between award grant and ultimate release will increase to five years, thereby aligning participant and shareholder interest over a five year period.

In addition, the performance measures associated with the 2015 LTIP are set out below:

Measure	Weighting	Detail		Rationale
Relative TSR (measured equally against the FTSE 350 and the ASX 100)	50%	<50th percentile 50th percentile >75th percentile	0% 25% 100%	TSR remains a key measure of shareholder value creation. The choice of comparator indices seeks to encourage outperformance against the key indices relevant to our major UK and Australian shareholder base, accounting for 89% of our total shareholding. Previous practice of using a more bespoke comparator group has been replaced due the relatively small number of relevant listed peers which could result in outcomes being highly volatile by reference to under-/over-performance, or consolidation activities, of a small number of comparators in the peer group.  In addition, the Remuneration Committee must be satisfied that the TSR outcome reflects the Company's underlying financial performance.
Net fund flows	15%	Average annual flows between 3.5% (25% vest) and 7% (100% vest) over the relevant performance period.		Key component of our five year growth and globalisation strategy is to double AUM over that period – positive fund flows are integral to achievement of this objective.
Three year investment performance	15%	Performance relative to relevant benchmarks of 55% (25% vest) and 70% (100% vest) over the relevant performance period.		Long-term investment performance is key to increasing AUM and increasing profitability.

## Annual report on remuneration continued

### Strategic considerations

Measure	Weighting	Detail	Rationale
Growth in operating margin	10%	Average annual improvement by 0.5% (25% vest) and 1% (100% vest) over the relevant performance period.	Our five year strategy is focused on growth and globalisation and in addition to doubling AUM, requires us to:
People strategy	10%	Assessment by the Committee of performance against our objective of recruiting, retaining, incentivising and developing our key employees, including assessment of culture and conduct, retention and employee engagement metrics and strength of our succession planning and execution.	<ul style="list-style-type: none"> <li>increase efficiency (growth in operating margin); and</li> <li>maximise the retention, development and motivation of our people, who are the Company's greatest asset.</li> </ul> <p>The strategic measures have been chosen by the Committee as key elements in ensuring the success of the strategy.</p>

Note:

Between threshold and maximum performance, awards vest between 25% and 100% on a straight-line basis.

### Outstanding LTI and other share scheme awards

The table below shows the vesting results of LTIP awards for 2010 to 2012. The 2013 and 2014 plans may vest, depending on performance over the measurement period, in 2016 (2013 LTIP) and 2017 and 2018 (2014 LTIP) respectively. The table also shows the outstanding interests of Executive Directors in these plans.

	2010 LTIP	2011 LTIP	2012 LTIP	2013 LTIP	2014 LTIP
Awards made	March 2010	March 2011	March 2012	March 2013	May 2014
Performance period	2010-2012	2011-2013	2012-2014	2013-2015	2014-2016 (2/3) 2014-2017 (2/3)
Performance criteria	TSR vs FTSE General Financials Below 50th = zero At 50th = 25% Above 75th = 100% Straight line between these points		TSR vs FTSE General Financials (95%) Risk and sustainability (5%) Below 50th = zero At 50th = 25% Above 75th = 100% Straight line between these points		
Vesting dates	4 March 2013	1 March 2014	6 April 2015	6 April 2016	1 April 2017 (2/3) 1 April 2018 (1/3)
Exercise by	Awards lapsed	1 March 2019	6 April 2020	6 April 2021	1 April 2022 (2/3) 1 April 2023 (1/3)
Outcome	TSR of 7% 36th percentile 0% vested	TSR of 86% 68th percentile 78% vested	TSR of 115.5% 55th percentile 43% vested	Performance period not complete	Performance period not complete
Vesting date share price	£1.566	£2.54	£2.09	n/a	n/a

Executive Director	Plan	Type	2012 award vests 2015	2013 award vests 2016	2014 award vests 2017/18	Interest at 31 December 2014
Andrew Formica	LTIP	Options	1,400,000	1,050,000	790,000	3,240,000
Roger Thompson	LTIP	Options	–	350,000	372,500	722,500

Notes:

- The share price shown for the 2012 LTIP is the average share price during the last quarter of 2014.
- The 2012 LTIP will vest on 6 April 2015 a vesting percentage of 43%, and hence 798,000 of these options will lapse at that date.

The table overleaf shows the Executive Directors' outstanding interests in the Group share schemes at 31 December 2013 and 2014, together with the additional interests in shares held beneficially by the Executive Directors outside of the Group share schemes. It includes the movements in the employee and executive share plans during 2014.

Executive Director	Plan	Type	Interest at 31 December 2013	Movement during year					Interest at 31 December 2014
				Awarded	Vested 2014 not exercised	Vested 2014 and exercised	Vested in previous years and exercised	Lapsed	
Andrew Formica	SAYE	Options	9,736	4,205	–	–	–	–	13,941
	BAYE	Shares	53,324	4,153	–	–	–	–	57,477
	DEP/ESOP	Shares	615,812	307,905	–	513,175	–	–	410,542
	LTIP	Options	3,450,000	790,000	–	780,000	–	220,000	3,240,000
Total outstanding interests in Group share schemes									3,721,960
Total shares held outright outside of Group share schemes									6,721,249
<b>Total interests in Group shares</b>									<b>10,443,209</b>
Roger Thompson (appointed 26/06/13)	BAYE	Shares	714	2,247	–	–	–	–	2,961
	RSP	Shares	342,653	–	–	342,653	–	–	–
	LTIP	Options	350,000	372,500	–	–	–	–	722,500
	DEP	Shares	–	37,549	–	–	–	–	37,549
	SAYE	Options	–	8,411	–	–	–	–	8,411
Total outstanding interests in Group share schemes									771,421
Total shares held outright outside of Group share schemes									181,606
<b>Total interests in Group shares</b>									<b>953,027</b>

## Directors' personal shareholding and beneficial share interests

Over time, each Executive Director is required to maintain a personal target shareholding equivalent to 300% of base salary (excluding unvested interests in Company share schemes). Andrew Formica has achieved this target. Roger Thompson, who was appointed Chief Financial Officer on 26 June 2013, is expected to achieve the target over time.

The table below shows the financial value of the personal holding as a multiple of base salary as at 31 December 2014:

Executive Director	Value £'000	Multiple of base salary (rounded)
Andrew Formica	13,980	33x
Roger Thompson	378	1x

Note:

- Based on share price of £2.08 being the average over three months prior to the end of 2014.

There is no personal target shareholding requirement for Non-Executive Directors.

## Shares personally held

As at 24 February 2015, 31 December 2014 and 31 December 2013, the Directors had the following beneficial interests in shares in the Company:

	24 Feb 2015	31 Dec 2014 (or date of appointment)	31 Dec 2013 (or date of appointment)
<b>Executive Directors</b>			
Andrew Formica (Chief Executive)	6,721,249	<b>6,721,249</b>	6,035,867
Roger Thompson (Chief Financial Officer – appointed 26/06/2013)	181,606	<b>181,606</b>	–
<b>Chairman and Non-Executive Director</b>			
Richard Gillingwater	15,000	<b>15,000</b>	15,000
<b>Other Non-Executive Directors</b>			
Sarah Arkle	20,663	<b>20,663</b>	20,663
Kevin Dolan	3,083	<b>3,083</b>	3,083
Tim How	11,780	<b>11,780</b>	11,780
Robert Jeens	14,694	<b>14,694</b>	14,694
Angela Seymour-Jackson (appointed 23/01/2014)	11,082	<b>11,082</b>	–
<b>Total</b>	6,979,157	<b>6,979,157</b>	6,101,087

## Annual report on remuneration continued

### Payments within the year to past Directors

Payments made to past Directors during 2014, in relation to awards vesting under relevant Company share plans, are set out in the following table:

Executive Director	Plan	Type	Vested	Lapsed	Value vested £
Shirley Garrood	SAYE	Options	7,573	2,163	16,123
	BAYE	Shares	53,783	0	141,611
	ESOP	Shares	244,238	0	585,687
	LTIP	Options	312,000	88,000	705,275
David Jacob	BAYE	Shares	31,670	0	72,398
	DEP/ESOP	Shares	309,110	0	714,250
	DEP/ESOP	Fund units	2,587	0	82,885
	LTIP	Shares	292,500	82,500	702,995
James Darkins	BAYE	Shares	56,123	0	147,772
	SAYE	Options	6,220	3,516	14,990
	DEP/ESOP	Shares	134,720	0	324,733
	DEP/ESOP	Fund units	281	0	2,591
	LTIP	Options	234,000	66,000	586,467

### External directorships

Andrew Formica is a member of the Board of the Investment Association and of the Board of TIAA Henderson Real Estate Limited, for which he receives no remuneration.

### Statement of shareholder voting

At last year's AGM held on 1 May 2014, the Directors' remuneration report received the following votes from shareholders:

	Directors' remuneration policy		Prior year	Directors' remuneration report		Prior year	
Votes cast in favour	561,937,891	72.2%	n/a	698,574,933	89.7%	701,583,302	93%
Votes cast against	216,129,042	27.8%	n/a	79,883,565	10.3%	43,653,059	6%
Votes at proxy's discretion	–	–	n/a	–	–	6,781,740	1%
Total votes cast	778,066,933	100.0%	n/a	778,458,498	100.0%	752,018,101	100%
Abstentions	13,254,986	–	n/a	12,794,480	–	165,948	–

The Committee was disappointed with the voting outcomes on remuneration (especially in relation to the Directors' report on remuneration) at the 2014 AGM. As a result, the Committee has undertaken a thorough review of the policies and practices which it believes contributed to the low favourable vote and has carried out significant shareholder engagement discussions, as set out in this report, to address the issues of concern. This has resulted in a number of changes in relation to policies, practices and disclosures, which are reflected in this report.

# Directors' responsibilities statement

## In relation to the financial statements

The Directors are responsible for preparing the Annual Report and Accounts which includes the Directors' report, the Strategic report, the Directors' Remuneration Report and the financial statements. The Directors are required to prepare and approve the financial statements for the Group and Parent Company in accordance with Jersey law for each financial year which show a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period in accordance with generally accepted accounting principles. The Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

IAS 1 Presentation of Financial Statements requires that financial statements present fairly for each financial year the Group's and Company's financial position, financial performance and cash flows. In preparing the Group and Company financial statements, the Directors are also required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state that the Group and Company have complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions which disclose with reasonable accuracy, at any time, the financial position of the Group and the Company to ensure that the financial statements comply with Jersey law. They are also responsible for safeguarding the assets of the Group and the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that to the best of their knowledge:

- the financial statements have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company for the year ended 31 December 2014;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group for the year ended 31 December 2014 and a description of the principal risks and uncertainties faced by the Group;
- the Annual Report and Accounts, taken as a whole, provides the information necessary for shareholders to assess the Company's performance, business model and strategy and is fair, balanced and understandable; and
- the accounting records have been properly maintained.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website, [www.henderson.com/IR](http://www.henderson.com/IR). Legislation in Jersey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed in accordance with a resolution of the Directors:



**Andrew Formica**  
Chief Executive

24 February 2015



**Roger Thompson**  
Chief Financial Officer

24 February 2015

# Independent auditors' report

to the members of Henderson Group plc

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## Report on the financial statements

### Our opinion

In our opinion, Henderson Group plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's and the Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

### What we have audited

Henderson Group plc's financial statements comprise:

- the Consolidated and Company Statements of Financial Position as at 31 December 2014;
- the Consolidated and Company Income Statements and the Consolidated and Company Statements of Comprehensive Income for the year then ended;
- the Consolidated and Company Statements of Cash Flows for the year then ended;
- the Consolidated and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

### Our audit approach

Overview

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#### Materiality

- Overall Group materiality: £9.8 million which represents 5% of profit before tax, adjusted for the amortisation of intangible assets and the gain on disposal of the property business.
- 

#### Scope

- The Group comprises a number of subsidiaries, the majority of which are UK incorporated entities. The accounting for overseas entities is centralised, primarily in the UK. Therefore, the audit work performed by the UK Group engagement team included some testing relating to overseas entities.
  - The UK Group engagement team conducted all audit work in respect of the audit of the financial statements.
  - Taken together, the territories and functions in the scope of our audit work accounted for 97% of Group revenues, and 85% of net assets. Our work over the five principal subsidiaries accounted for 80% of Group profit before tax (adjusted for the amortisation of intangible assets and the gain on disposal of the property business) and we supplemented this with work over specific balances in other entities across the Group.
- 

#### Non-recurring areas of focus

- Disposal of the property business and recognition of the investment in the resulting property joint venture
  - Acquisition of Geneva Capital Management LLC
  - Migration of the accounting records to a new general ledger
  - Consolidation of funds
- 

#### Recurring areas of focus

- Recognition of management fees and performance fees
  - Goodwill and intangible assets impairment review
  - Recognition of share-based payments and the associated deferred tax
-

## The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the tables below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

## Non-recurring areas of focus

We have identified four areas of focus which relate to specific events or transactions which have taken place during the year ended 31 December 2014. We do not currently expect these matters to be areas of focus in future years.

Non-recurring area of focus

How our audit addressed the area of focus

### Disposal of the property business and recognition of the investment in the resulting property joint venture

➔ Refer to page 51 (Audit Committee report), notes 2.1 and 2.2 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and note 9.1 and 15.2 for further information

During the year the Group completed the disposal of the European, Asian and North American property business for a profit before tax and deal costs of £148.9 million:

- the European and Asian property business was acquired by a newly formed entity, TIAA Henderson Real Estate Limited ("TH Real Estate"), in which the Group obtained a 40% interest as part of the transaction; and
- the North American property business was sold to an independent third party in whom the Group has no remaining interest.

We focused on the accounting for this transaction due to the "one-off" nature of the transaction, the quantum of the gain, the complexities inherent in accounting for disposals and acquisitions of businesses, and the disclosures relating to such transactions.

We obtained and read the Sale and Purchase agreements for the transactions to understand the terms on which the disposals had been made. We also obtained the completion accounts, which have been agreed by the Group with the purchaser which state the net assets of the business disposed of at the date of disposal.

We independently recalculated the gain recognised on disposal by agreeing the Directors' calculation to the terms of the relevant agreements and other corroborative evidence, such as the completion accounts. We also traced the consideration received in cash to the bank statement and agreed a sample of disposal costs to supporting documentation such as invoices.

We obtained and read the agreements detailing the Group's 40% investment in TH Real Estate and recalculated the initial carrying value of this investment. We agreed the immaterial change in the carrying value of the investment between the investment date and 31 December 2014 to underlying unaudited financial information from TH Real Estate and other supporting documentation.

Based on the results of our audit work, the gain on disposal of the property business, the recognition of the investment in the joint venture and the year-end carrying value complied with the requirements of IFRSs as adopted by the European Union. We assessed the disclosures in the financial statements in respect of the transactions and did not identify any omissions or inaccuracies with the audit evidence obtained.

# Independent auditors' report to the members of Henderson Group plc continued

Non-recurring area of focus

How our audit addressed the area of focus

## Acquisition of Geneva Capital Management LLC

➔ Refer to page 51 (Audit Committee report), notes 2.1 and 2.2 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and note 32.1 for further information

The Group acquired 100% of the issued share capital of Geneva Capital Management LLC ("Geneva") on 1 October 2014 for a total consideration of £86.7 million.

Accounting for the Geneva acquisition is an area of focus due to the size of the transaction and the inherent complexities associated with business combinations, particularly the judgements involved in valuing intangible assets (investment management contracts) and deferred contingent consideration.

The key assumptions used by the Directors in valuing the investment management contracts and deferred contingent consideration relate to the expected movement in assets under management ("AUM") over the forecast periods since this drives the revenue and cash flows expected to be generated in future years.

When valuing the investment management contracts the Directors also estimated the period of time over which revenues are expected to be generated. The timeframes used for valuing the deferred contingent consideration is not judgemental as it is defined in the Sale and Purchase agreement.

We obtained and read the Sale and Purchase agreement to understand the terms of the acquisition. We re-performed the Directors' business combination calculations that resulted in the goodwill and other intangible assets balances.

In performing our work, we focused our testing on the following areas:

- Fair value of intangible assets – we obtained the Directors' valuation model, checked the mathematical accuracy and tested the inputs and assumptions to the calculation. We focused on the key assumptions in respect of AUM. This included assessing the attrition rate, the asset performance rate and the period of time over which revenue is expected to be generated against independent sources. We also considered the historical management information for Geneva including net flow and asset performance rates achieved in the past.
- Deferred contingent consideration – we obtained the Directors' assessment of the most likely outcome regarding future consideration which may become payable if Geneva meets certain revenue targets over the next six years. The range of possible payments is between US\$nil and US\$80 million. The Directors' assessment is based on forecast information and a probability assessment of different scenarios materialising. We obtained the valuation model used by the Directors and checked that it was mathematically accurate and that the methodology used was in accordance with the Sale and Purchase agreement. The model is primarily based on assumptions in respect of changes in AUM over the six year period to the date of final payment. The key judgements made by the Directors which impact AUM are in relation to net flows and asset performance rates. We considered these assumptions against independent sources and the historical results of Geneva in assessing the reasonableness of forecast flows.

For both of the above points, we challenged the assumptions used and, in doing so, we considered similarities and differences between the two valuation models to assess whether they were appropriate. We also performed sensitivity analysis to quantify the impact of changing the assumptions to reasonably possible alternatives. We discussed the likelihood of such changes in the assumptions with the Directors and the Audit Committee and concluded that the assumptions are within an acceptable range, although uncertainties always exist in respect of the accuracy of such assumptions when compared to the actual outcome.

We also evaluated the disclosures in the financial statements to check they included adequate information and met the requirements of accounting standards, particularly in respect of the areas of inherent estimation uncertainty.

Non-recurring area of focus

How our audit addressed the area of focus

### Migration of the accounting records to a new general ledger

During the year the Group implemented a new general ledger system. The accounting records from the previous system were migrated onto the new system, effective from 1 July 2014.

The one-off nature of the process, and the potential significance of an error if it were to occur, meant that we spent additional time on this as part of our audit to determine that the data had been completely and accurately migrated.

We understood, evaluated and tested the operating effectiveness of the key controls that management had put in place to ensure the complete and accurate transfer of data between the two general ledger systems. This included that appropriate testing had been performed on the system and appropriate approvals had been obtained prior to the system going live on 1 July 2014. We also performed testing in respect of the set-up and functioning of key automated processes such as the consolidation.

We tested key reconciliations between the two systems and, on a sample basis, agreed balances from the old system to the new system and vice versa.

Based on the above tests, the migration of accounting records was performed appropriately.

### Consolidation of funds

➔ Refer to page 51 (Audit Committee report), notes 2.1 and 2.2 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and note 33 for further information

A new accounting standard, IFRS 10 'Consolidated financial statements', was introduced during the year which changed the definition of control when determining which entities should be consolidated in the Group financial statements.

Due to the relationship between asset managers and the funds they manage, this is a complex and judgemental area, particularly where they are either seed capital investments or co-invested vehicles. Each situation needs to be individually assessed by the Directors and, given this is a significant change from previous years, means that we have placed additional focus on it in the current year.

As a result of the introduction of IFRS 10, the 2013 and 2012 Consolidated Statements of Financial Position have also been restated for comparability.

We obtained and evaluated the assessment performed by the Directors of all entities in which the Group has an economic interest and/or manages which might have required consolidation under IFRS 10. We agreed the data used in the assessment to relevant agreements and supporting evidence.

We gave particular consideration to funds where the Group is also exposed to returns from performance fees and assessed the reasonableness of the assumptions made by the Directors such as the thresholds at which control is deemed to exist. We considered these assumptions with reference to industry practice.

We obtained and read the relevant documents to check the Group's ownership in the fund identified for consolidation. We tested the consolidation of these funds by performing procedures over the assets and liabilities of the funds through a combination of agreeing figures to audited and unaudited financial statements, agreeing significant transactions to supporting documentation, independently re-pricing securities and testing asset position reconciliations. We also recalculated the non-controlling interest and, where the funds are classified as "Held for Sale", we tested that there was objective evidence to support this classification.

Based on the work performed, we determined that the Directors' assessment of those entities in which the Group has an economic interest and/or manages that were either included, or excluded, from the Group financial statements was in accordance with the requirements of IFRS 10. The consolidation accounting for these funds was also considered to be in accordance with IFRS 10.

We read the disclosures made in the financial statements for consistency with the work above and our understanding of the Group and assessed that they were appropriate and in compliance with IFRSs as adopted by the European Union.

# Independent auditors' report to the members of Henderson Group plc continued

## Recurring areas of focus

We identified three areas of focus which we expect to recur each year because they relate to significant balances in the financial statements and are an integral part of the business.

Recurring area of focus

How our audit addressed the area of focus

### Recognition of management fees and performance fees

➔ See notes 2.1 and 2.2 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and note 3 for further information

Management and performance fees drive the performance of the business and are disclosed within 'Gross fee and deferred income', which is the largest balance in the Consolidated Income Statement.

The recognition of management and performance fees is dependent on the terms of the underlying investment management contracts ("IMCs") between the Group and its clients and/or the funds it manages.

- **Management fees:** Calculated as a percentage of AUM and varies across different funds and products. Management fees are accounted for net of rebates.
- **Performance fees:** As is normal industry practice, the Group has a number of bespoke arrangements in place which generate additional fees once investment performance exceeds a certain predetermined level. The basis of calculating performance fees can therefore be complex and the timeframes over which performance is measured often run over more than one financial reporting period.

The components of management and performance fees described above create a risk that fees are calculated incorrectly and/or recognised in the wrong financial year.

We understood and evaluated the relevant controls, systems and processes and obtained sufficient audit evidence as to their operating effectiveness through controls testing. This included obtaining and reading the relevant controls reports for the Third Party Administrators ("TPAs") and the Transfer Agents ("TAs"), where activities are outsourced, issued by an independent auditor in accordance with generally accepted assurance standards for such work, to identify those key controls on which we could place reliance to provide audit evidence. Where the period covered by the controls reports differed to the Group's financial year-end, we assessed the gap period and obtained bridging letters where necessary.

Our audit approach incorporated the use of data auditing tools to test individual revenue streams. We independently recalculated certain management fees, rebates and performance fees based on the terms within the IMCs, a sample of which were agreed to original source documents. We used fund valuation and holdings data from the systems at Henderson and at the TPAs and TAs in our calculations. The controls testing we performed provided audit evidence over the integrity of this data. We then reconciled the output from our data auditing tools, and other testing, to the numbers included in the financial statements.

Our work also included the consideration of fees recognised either side of the year-end and we paid particular attention to the contractual terms of performance fees to test that they had been appropriately interpreted, calculated and recorded in the correct period.

Based on the controls and substantive testing performed, we found the recognition of management and performance fees to be appropriate and recorded in the correct period.

Recurring area of focus

How our audit addressed the area of focus

### Goodwill and intangible assets impairment review

➔ Refer to page 51 (Audit Committee report), notes 2.1 and 2.2 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and note 14 for further information

The Group's intangible assets consist of goodwill of £523.7 million and IMCs of £143.0 million from historic and current year acquisitions.

'Intangible assets' is the most significant asset balance in the Consolidated Statement of Financial Position and requires the Directors' to make judgements in determining whether intangible assets are impaired or not. The valuation model used to assess the carrying value of goodwill is based on a number of subjective judgements about future performance. The main assumptions are in respect of future cash flow forecasts and the discount rate applied.

In addition to the above, the subjective nature of impairment indicators makes this an area of focus.

We obtained, understood, evaluated and challenged the Directors' value in use calculation and methodology for valuing goodwill. The key assumptions made are in respect of future cash flow forecasts and the discount rate applied. Our work included evaluating the cash flow forecasts by agreeing the underlying data to supporting evidence and assessing the reasonableness of the underlying assumptions. In particular, we:

- compared the Directors' forecasts to the latest Board approved five year plans;
- challenged the Directors' key assumptions for long term growth rates by comparing them to economic and industry forecasts; and
- challenged the discount rate by assessing the cost of capital for the Company.

Our procedures also included considering whether there were any indicators that the IMCs were impaired with reference to recent performance.

We performed sensitivity analysis on the key assumptions to ascertain the extent to which, either individually or collectively, changes in assumptions would result in an impairment. We discussed the likelihood of such changes in the assumptions with the Directors and, although uncertainties always exist with regards to cash flow forecasts and the associated assumptions, the Directors' conclusion that there is no impairment of goodwill or intangible assets was consistent with the audit evidence obtained.

# Independent auditors' report to the members of Henderson Group plc continued

Recurring area of focus

How our audit addressed the area of focus

## Recognition of share-based payments and the associated deferred tax

➔ Refer to page 51 (Audit Committee report), notes 2.1 and 2.2 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and note 11 for further information

Share-based payments represent a material and judgemental expense in the Consolidated Income Statement.

The likelihood of an error occurring is increased by the number of schemes operated by the Group (each of which has its own scheme rules), the potential for misinterpreting the scheme rules, the judgements involved in calculating the fair value of the awards and the complexity of the accounting, including the associated deferred tax.

We obtained and read the documentation relating to each of the material employee incentive schemes in operation and assessed the Directors' accounting treatment with reference to the requirements of IFRS 2 'Share-based payment', the relevant accounting standard.

In relation to new awards granted during the year, we obtained the Directors' fair value calculations and:

- assessed the appropriateness of the valuation methodology with reference to generally accepted industry standards;
- agreed inputs, such as the number of awards and the exercise price on vesting, to source documentation;
- challenged the assumptions applied by the Directors, particularly the discount rate, hurdle rate, risk free rate, option life, dividend yield, market performance conditions and volatility. This included recalculating certain inputs based on market data and the terms of the options; and
- independently re-performed the fair value calculations.

We also evaluated and challenged the assumptions relevant to existing awards, namely the non-market performance conditions and service conditions assumptions by identifying reasonably possible alternative assumptions and quantifying the impact of them on the share-based payment expense, including assessing the likelihood of those alternatives actually occurring.

The results of our testing allowed us to conclude that the assumptions used were reasonable.

We re-performed the deferred tax calculation, paying particular attention to the accuracy of data used in the calculation, namely the exercise price and the share price for each of the schemes and awards made. The results of our testing allowed us to determine that the deferred tax was in line with the requirements of International Accounting Standard 12 'Income taxes'.

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's accounting process is structured around a primary finance function in the UK. The UK and overseas finance functions maintain their own accounting records but use the same, integrated general ledger system.

All audit work in relation to the financial statements was performed in the UK by the Group engagement team which involved, in this our first year as the Group's auditors, a review of the predecessor auditor working papers.

Taken together, the territories and functions in the scope of our audit work accounted for 97% of Group revenues, and 85% of net assets. Our work over the five principal subsidiaries accounted for 80% of Group profit before tax (adjusted for the amortisation of intangible assets and the gain on disposal of the property business) and we supplemented this with work over specific balances in other entities across the Group.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£9.8 million
<b>How we determined it</b>	5% of profit before tax adjusted for the amortisation of intangible assets and the non-recurring gain on the disposal of the property business.
<b>Rationale for benchmark applied</b>	We adjusted profit before tax to arrive at a profit measure which, in our judgement, is reflective of business performance for the current year by eliminating the impact the adjustments have on profit before tax and is therefore the profit measure against which the Group's performance is commonly measured.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.4 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

As noted in the Directors' report on page 59, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

### Other required reporting ISAs (UK & Ireland) reporting

**Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:**

Information in the Annual Report is:	We have no exceptions to report arising from this responsibility.
<ul style="list-style-type: none"> <li>materially inconsistent with the information in the audited financial statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul>	
The statement given by the Directors on page 87, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
The section of the Annual Report on page 51, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

## Propriety of accounting records and information and explanations received

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate governance statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## Other voluntary reporting

### Opinion on other matters

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibilities statement set out on page 87, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**Parwinder Purewal**  
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Recognized Auditors  
London, United Kingdom  
24 February 2015

- a. The maintenance and integrity of the Henderson Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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# FINANCIAL STATEMENTS

# Financial statements

## Consolidated Income Statement

For the year ended 31 December 2014

	Notes	2014			2013		
		Underlying profit £m	Acquisition related and non-recurring items (note 7) £m	Total £m	Underlying profit £m	Acquisition related and non-recurring items (note 7) £m	Total £m
<b>Income</b>							
Gross fee and deferred income	3	651.2	–	651.2	578.2	–	578.2
Commissions and deferred acquisition costs	3	(132.4)	–	(132.4)	(116.9)	–	(116.9)
Net fee income		518.8	–	518.8	461.3	–	461.3
Income/(loss) from associates and joint ventures	15.2	5.1	(7.2)	(2.1)	1.8	–	1.8
Finance income	3	10.1	11.5	21.6	10.2	–	10.2
Net income from continuing operations		534.0	4.3	538.3	473.3	–	473.3
<b>Expenses</b>							
Operating expenses	4.1	(329.9)	(1.3)	(331.2)	(293.4)	(5.1)	(298.5)
Amortisation and depreciation		(4.7)	(53.7)	(58.4)	(3.3)	(51.8)	(55.1)
Total operating expenses		(334.6)	(55.0)	(389.6)	(296.7)	(56.9)	(353.6)
Finance expenses	6	(11.6)	(1.5)	(13.1)	(11.1)	(1.3)	(12.4)
Total expenses from continuing operations		(346.2)	(56.5)	(402.7)	(307.8)	(58.2)	(366.0)
<b>Profit/(loss) before tax from continuing operations</b>		187.8	(52.2)	135.6	165.5	(58.2)	107.3
Tax (charge)/credit on continuing operations		(20.6)	11.9	(8.7)	(17.9)	17.8	(0.1)
<b>Profit/(loss) after tax from continuing operations</b>		167.2	(40.3)	126.9	147.6	(40.4)	107.2
<b>Discontinued operation</b>							
– Profit/(loss) before tax	9.1	7.6	140.2	147.8	24.6	(4.5)	20.1
– Tax (charge)/credit	9.1	(1.3)	(14.9)	(16.2)	(2.9)	0.7	(2.2)
– Profit/(loss) after tax from discontinued operation		6.3	125.3	131.6	21.7	(3.8)	17.9
<b>Profit/(loss) before tax from total operations</b>		195.4	88.0	283.4	190.1	(62.7)	127.4
Tax (charge)/credit on total operations	8	(21.9)	(3.0)	(24.9)	(20.8)	18.5	(2.3)
<b>Profit/(loss) after tax attributable to owners of the parent</b>		173.5	85.0	258.5	169.3	(44.2)	125.1
<b>Total profit attributable to owners of the parent arises from:</b>							
Continuing operations				126.9			107.2
Discontinued operation				131.6			17.9
				258.5			125.1
<b>Basic and diluted earnings per share from continuing operations</b>							
Basic	10.3			11.7p			10.1p
Diluted	10.3			11.1p			9.4p
<b>Basic and diluted earnings per share from total operations</b>							
Basic	10.4			23.8p			11.8p
Diluted	10.4			22.7p			11.0p

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

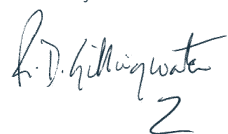
	Notes	2014 £m	2013 £m
<b>Profit after tax</b>		<b>258.5</b>	125.1
<b>Other comprehensive income/(expense)</b>			
<b>Items that may be reclassified to the Consolidated Income Statement</b>			
Exchange differences on translation of foreign operations		<b>0.1</b>	(5.6)
Exchange differences transferred to the Consolidated Income Statement on disposal of foreign operations		<b>(1.9)</b>	–
Available-for-sale financial assets:			
Net gains on revaluation		<b>3.5</b>	0.7
Reclassification to the Consolidated Income Statement on impairment due to distribution		<b>0.6</b>	–
Reclassification to the Consolidated Income Statement on disposal		<b>(6.7)</b>	–
Tax effect of revaluation	8	<b>0.1</b>	0.1
<b>Items that will not be reclassified to the Consolidated Income Statement</b>			
Actuarial gains/(losses):			
On defined benefit pension schemes (after tax deducted at source)	21.2	<b>17.6</b>	(26.4)
On other items		<b>0.1</b>	–
Tax effect of actuarial gains/(losses)	8	<b>0.1</b>	0.1
<b>Other comprehensive income/(expense) after tax</b>		<b>13.5</b>	(31.1)
<b>Total comprehensive income after tax</b>		<b>272.0</b>	94.0
<b>Attributable to:</b>			
Owners of the parent		<b>273.6</b>	94.0
Non-controlling interests		<b>(1.6)</b>	–
		<b>272.0</b>	94.0

## Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 £m	2013 (restated) £m	2012 (restated) £m
<b>Non-current assets</b>				
Intangible assets	14	677.9	637.9	717.7
Investments accounted for using the equity method		74.4	5.5	8.4
Property and equipment	16	15.1	17.0	18.0
Retirement benefit assets	21.2	128.1	104.4	130.2
Deferred tax assets	23	36.0	39.3	40.3
Trade and other receivables	18	1.3	37.0	29.6
		<b>932.8</b>	841.1	944.2
<b>Current assets</b>				
Available-for-sale financial assets	17	71.0	62.1	68.0
Financial assets at fair value through profit or loss	17	35.9	19.6	14.2
Current tax asset		2.3	2.1	2.0
Trade and other receivables	18	275.9	216.8	146.1
Cash and cash equivalents	19.1	234.5	217.0	197.5
		<b>619.6</b>	517.6	427.8
Assets classified as held for sale	9.2	84.8	105.8	–
<b>Total assets</b>		<b>1,637.2</b>	1,464.5	1,372.0
<b>Non-current liabilities</b>				
Debt instrument in issue	20	149.4	148.9	148.5
Trade and other payables	24	44.6	50.1	35.1
Retirement benefit obligations	21.2	8.5	7.9	7.2
Provisions	22	9.7	11.6	12.1
Deferred tax liabilities	23	38.9	49.4	69.1
		<b>251.1</b>	267.9	272.0
<b>Current liabilities</b>				
Trade and other payables	24	316.0	337.7	293.8
Provisions	22	3.1	6.0	9.9
Current tax liabilities		23.0	11.0	14.6
		<b>342.1</b>	354.7	318.3
Liabilities classified as held for sale	9.2	26.0	5.6	–
<b>Total liabilities</b>		<b>619.2</b>	628.2	590.3
<b>Net assets</b>		<b>1,018.0</b>	836.3	781.7
<b>Capital and reserves</b>				
Share capital	25.2	142.4	140.4	139.3
Share premium		743.9	708.6	693.8
Own shares held		(94.7)	(69.4)	(100.8)
Translation reserve		(1.7)	0.1	5.7
Revaluation reserve		9.8	10.7	9.9
Profit and loss reserve		216.4	41.9	29.7
<b>Equity attributable to owners of the parent</b>		<b>1,016.1</b>	832.3	777.6
Non-controlling interests		1.9	4.0	4.1
<b>Total equity</b>		<b>1,018.0</b>	836.3	781.7

The financial statements were approved by the Board of Directors and authorised for issue on 24 February 2015. They were signed on its behalf by:



**Richard Gillingwater**  
Chairman

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital £m	Share premium £m	Own shares held £m	Translation reserve £m	Revaluation reserve £m	Profit and loss reserve £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
<b>At 1 January 2013 (restated)</b>	139.3	693.8	(100.8)	5.7	9.9	29.7	777.6	4.1	781.7
Profit after tax	–	–	–	–	–	125.1	125.1	–	125.1
Other comprehensive (expense)/income after tax	–	–	–	(5.6)	0.8	(26.3)	(31.1)	–	(31.1)
Total comprehensive (expense)/income after tax	–	–	–	(5.6)	0.8	98.8	94.0	–	94.0
Dividends paid to equity shareholders	–	–	–	–	–	(78.6)	(78.6)	–	(78.6)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(0.1)	(0.1)
Purchase of own shares	–	–	(9.8)	–	–	–	(9.8)	–	(9.8)
Vesting of share schemes	–	–	56.4	–	–	(56.4)	–	–	–
Issue of shares for share schemes	1.1	14.8	(15.2)	–	–	–	0.7	–	0.7
Movement in equity-settled share scheme expenses	–	–	–	–	–	35.0	35.0	–	35.0
Tax on equity-settled share schemes	–	–	–	–	–	13.4	13.4	–	13.4
<b>At 31 December 2013 (restated)</b>	140.4	708.6	(69.4)	0.1	10.7	41.9	832.3	4.0	836.3
Profit after tax	–	–	–	–	–	<b>258.5</b>	<b>258.5</b>	–	<b>258.5</b>
Other comprehensive (expense)/income after tax	–	–	–	(1.8)	(0.9)	17.8	15.1	(1.6)	13.5
Total comprehensive (expense)/income after tax	–	–	–	(1.8)	(0.9)	<b>276.3</b>	<b>273.6</b>	(1.6)	<b>272.0</b>
Dividends paid to equity shareholders	–	–	–	–	–	(92.9)	(92.9)	–	(92.9)
Disposal of non-controlling interest	–	–	–	–	–	–	–	(0.5)	(0.5)
Purchase of own shares	–	–	(33.0)	–	–	–	(33.0)	–	(33.0)
Vesting of share schemes	–	–	44.2	–	–	(44.2)	–	–	–
Issue of shares for share schemes	2.0	35.3	(36.5)	–	–	–	0.8	–	0.8
Movement in equity-settled share scheme expenses	–	–	–	–	–	35.3	35.3	–	35.3
<b>At 31 December 2014</b>	<b>142.4</b>	<b>743.9</b>	<b>(94.7)</b>	<b>(1.7)</b>	<b>9.8</b>	<b>216.4</b>	<b>1,016.1</b>	<b>1.9</b>	<b>1,018.0</b>

## Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 £m	2013 (restated) £m
<b>Net cash flows generated from operating activities</b>	19.2	<b>123.0</b>	174.9
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired		<b>(76.1)</b>	(5.2)
Proceeds from:			
– disposal of Property business, net of cash disposed		<b>104.7</b>	–
– disposal of interests in associates		<b>13.7</b>	–
– disposal of seed capital investments		<b>37.9</b>	12.2
– disposal of plant and equipment		<b>0.4</b>	–
Dividends from associates and distributions from joint ventures		<b>3.8</b>	4.2
Purchases of:			
– seed capital investments		<b>(77.1)</b>	(42.6)
– property and equipment	16	<b>(1.6)</b>	(2.8)
– computer software intangible assets	14	<b>(4.1)</b>	(5.3)
– interests in associates and joint ventures		<b>(0.8)</b>	(2.2)
<b>Net cash flows generated from/(used in) investing activities</b>		<b>0.8</b>	(41.7)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		<b>7.3</b>	6.0
Purchase of own shares		<b>(33.0)</b>	(9.8)
Dividends paid to equity shareholders	12	<b>(92.9)</b>	(78.6)
Interest paid on debt instruments in issue		<b>(10.9)</b>	(10.9)
Recognition of non-controlling interests investments in consolidated funds		<b>28.8</b>	–
Payments to non-controlling interests on seed capital investments		<b>(12.2)</b>	–
<b>Net cash flows used in financing activities</b>		<b>(112.9)</b>	(93.3)
Effects of exchange rate changes		<b>(0.4)</b>	(5.1)
<b>Net increase in cash and cash equivalents</b>		<b>10.5</b>	34.8
Cash and cash equivalents at beginning of year		<b>232.3</b>	197.5
<b>Cash and cash equivalents at end of year</b>		<b>242.8</b>	232.3

### Reconciliation of cash and cash equivalents

	Notes	2014 £m	2013 (restated) £m
Cash and cash equivalents	19.1	<b>234.5</b>	217.0
Cash and cash equivalents classified as held for sale	9.2	<b>8.3</b>	15.3
<b>Total cash and cash equivalents</b>		<b>242.8</b>	232.3

### Cash flows from discontinued operation

	2014 £m	2013 £m
Net cash flows from operating activities	<b>0.2</b>	(0.7)
<b>Total cash flows from discontinued operation</b>	<b>0.2</b>	(0.7)

## Company Income Statement

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Dividends received		98.4	82.0
Administration expenses		(3.0)	(1.9)
<b>Profit before tax</b>		<b>95.4</b>	80.1
Tax	8	–	–
<b>Profit after tax</b>		<b>95.4</b>	80.1

## Company Statement of Comprehensive Income

For the year ended 31 December 2014

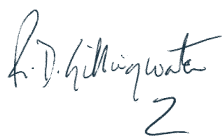
	2014 £m	2013 £m
Profit after tax	95.4	80.1
<b>Total comprehensive income after tax</b>	<b>95.4</b>	80.1

## Company Statement of Financial Position

As at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Investment in subsidiaries	15.1	1,030.8	1,002.0
		<b>1,030.8</b>	1,002.0
<b>Current assets</b>			
Trade and other receivables	18	2.6	–
Financial assets at fair value through profit or loss	17	34.6	18.7
Cash and cash equivalents	19.1	7.3	8.8
		<b>44.5</b>	27.5
<b>Total assets</b>		<b>1,075.3</b>	1,029.5
<b>Liabilities</b>			
Non-current trade and other payables	24	7.8	6.4
Current trade and other payables	24	147.4	108.6
<b>Total liabilities</b>		<b>155.2</b>	115.0
<b>Net assets</b>		<b>920.1</b>	914.5
<b>Capital and reserves</b>			
Share capital	25.2	142.4	140.4
Share premium		743.9	708.6
Own shares held		(94.7)	(69.4)
Profit and loss reserve		128.5	134.9
<b>Total equity</b>		<b>920.1</b>	914.5

The financial statements were approved by the Board of Directors and authorised for issue on 24 February 2015. They were signed on its behalf by:



**Richard Gillingwater**  
Chairman

## Company Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital £m	Share premium £m	Own shares held £m	Profit and loss reserve £m	Total equity £m
<b>At 1 January 2013</b>	139.3	693.8	(100.8)	154.8	887.1
Total comprehensive income after tax	–	–	–	80.1	80.1
Dividends paid to equity shareholders	–	–	–	(78.6)	(78.6)
Purchase of own shares	–	–	(9.8)	–	(9.8)
Vesting of share schemes	–	–	56.4	(56.4)	–
Issue of shares for share schemes	1.1	14.8	(15.2)	–	0.7
Movement in equity-settled share scheme expenses	–	–	–	35.0	35.0
<b>At 31 December 2013</b>	140.4	708.6	(69.4)	134.9	914.5
Total comprehensive income after tax	–	–	–	<b>95.4</b>	<b>95.4</b>
Dividends paid to equity shareholders	–	–	–	<b>(92.9)</b>	<b>(92.9)</b>
Purchase of own shares	–	–	<b>(33.0)</b>	–	<b>(33.0)</b>
Vesting of share schemes	–	–	<b>44.2</b>	<b>(44.2)</b>	–
Issue of shares for share schemes	<b>2.0</b>	<b>35.3</b>	<b>(36.5)</b>	–	<b>0.8</b>
Movement in equity-settled share scheme expenses	–	–	–	<b>35.3</b>	<b>35.3</b>
<b>At 31 December 2014</b>	<b>142.4</b>	<b>743.9</b>	<b>(94.7)</b>	<b>128.5</b>	<b>920.1</b>

## Company Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Cash flows generated from operating activities</b>			
Profit before tax		<b>95.4</b>	80.1
Changes in operating assets and liabilities	19.3	<b>21.7</b>	7.1
<b>Net cash flows generated from operating activities</b>		<b>117.1</b>	87.2
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		<b>7.3</b>	6.0
Purchase of own shares		<b>(33.0)</b>	(9.8)
Dividends paid to equity shareholders		<b>(92.9)</b>	(78.6)
<b>Net cash flows used in financing activities</b>		<b>(118.6)</b>	(82.4)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1.5)</b>	4.8
Cash and cash equivalents at beginning of year		<b>8.8</b>	4.0
<b>Cash and cash equivalents at end of year</b>	19.1	<b>7.3</b>	8.8

# Notes to the Financial Statements

## Group and Company

### 1. Authorisation of financial statements and statement of compliance with IFRS

The Group and Company financial statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors on 24 February 2015 and the respective statements of financial position were signed on the Board's behalf by the Chairman. Henderson Group plc is a public limited company incorporated in Jersey and tax resident in the United Kingdom. The Company's ordinary shares are traded on the LSE and CDIs are traded on the ASX.

The Group and Company financial statements have been prepared in accordance with IFRS as adopted by the European Union and the provisions of the Companies (Jersey) Law 1991.

### 2. Accounting policies

#### 2.1 Significant accounting policies

##### Basis of preparation

The Group and Company financial statements have been prepared on a going concern basis and on the historical cost basis, except for certain financial instruments that have been measured at fair value.

The Group and Company financial statements are presented in GBP and all values are rounded to the nearest one hundred thousand pounds (£0.1m), except when otherwise indicated.

See the glossary to the Annual Report for definitions of certain accounting terms used in these financial statements.

##### Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of Henderson Group plc and its interests in subsidiaries and consolidated structured entities (together, consolidated entities), associates and joint ventures as at 31 December each year.

The financial statements of all the Group's significant consolidated entities are prepared to the same year end date as that of the Company. The financial statements of all material consolidated entities are prepared under either IFRS or local GAAP. Where prepared under local GAAP, balances reported by consolidated entities are adjusted to meet IFRS requirements for the purpose of the consolidated financial statements.

The results of consolidated entities acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that the control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

The profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to any non-controlling interests. All intra-group assets

and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a consolidated entity, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a consolidated entity, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the Consolidated Income Statement. Any investment retained is recognised at fair value.

Interests in property closed-ended funds, private equity funds and open-ended pooled funds, such as OEICs and unit trusts, are accounted for as subsidiaries, consolidated structured entities or other financial investments depending on the economic interest of the Group assessed via fees earned and equity holdings and on the level of influence and control that the Group exercises through investment management and other contractual agreements. The Group's investment in associates, where the Group has the ability to exercise significant influence as well as joint ventures where there is joint control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Group presents its share of its economic interest in these investments in the financial statements.

##### Presentation of the Consolidated Income Statement

The Group maintains a columnar format for the presentation of its Consolidated Income Statement. The columnar format enables the Group to continue its practice of improving the understanding of its results by presenting profit for the year before certain acquisition related and non-recurring items. This is the profit measure used to calculate EPS on underlying profit (refer to note 10) and is considered to be the most appropriate as it better reflects the Group's underlying trading performance. Profit before acquisition related and non-recurring items is reconciled to profit before tax on the face of the Consolidated Income Statement.

The column 'Acquisition related and non-recurring items' comprises:

- acquisition related items: the amortisation of intangible assets, fair value changes and finance charges on contingent deferred consideration on business combinations, void property finance charges and costs in relation to pre-acquisition share awards; and
- non-recurring items: deemed to be one-off and material, when considering both size and nature.

These items are disclosed separately to give a clearer presentation of the Group's results and are analysed further in note 7.

##### Income recognition

###### Gross fee income

Fee income includes management fees and performance fees (including earned carried interest), net of rebates. Management fees are recognised in the accounting period in which the associated investment management service is provided. Performance fees are recognised when the prescribed performance hurdles are achieved and it is probable that a fee will crystallise as a result.

### Notes to the Financial Statements continued

#### Group and Company continued

#### 2.1 Significant accounting policies continued

##### Commissions

Commission and rebates on management fees are accounted for on an accruals basis and are recognised in the accounting period in which the associated management fee is earned.

##### Operating expenses

Operating expenses are accrued and recognised as incurred.

##### Finance income and expense

Interest income is recognised as it accrues using the effective interest rate method. Other net investment income is recognised on the date that the right to receive payment has been established. The net interest credit on the Group's retirement benefit asset has been recognised in finance income.

Finance expense is recognised on an accruals basis.

##### Post-employment retirement benefits

The Group provides employees with retirement benefits through both defined benefit and defined contribution schemes. The assets of these schemes are held separately, from the Group's general assets, in trustee administered funds.

Defined benefit obligations and the cost of providing benefits are determined annually by independent qualified actuaries using the projected unit credit method.

The obligation is measured as the present value of the estimated future cash outflows using a discount rate based on AA rated corporate bond yields of appropriate duration. The resulting surplus or deficit of defined benefit assets less liabilities is recognised in the Consolidated Statement of Financial Position, net of any taxes that would be deducted at source. The Group's expense related to the defined benefit schemes is recognised over the employees' service lives, based upon the actuarial cost for the accounting period, having considered the net interest credit or cost on the net defined benefit asset or liability. Recognised actuarial gains and losses are included in the Consolidated Statement of Comprehensive Income in the accounting period in which they occur, net of any taxes that would be deducted at source. Normal contributions to the defined contribution scheme are expensed in the Consolidated Income Statement as and when they become payable.

##### Share-based payment transactions

The Group issues share-based awards to employees, all of which are classified as equity-settled share-based payments. Equity-settled share-based payments are measured at the fair value of the shares at the grant date. The awards are expensed, with a corresponding increase in reserves, on either a straight-line basis or a graded basis (depending on vesting conditions) over the vesting period, based on the Group's estimate of shares that will eventually vest. Based on the Group's estimate, the determination of fair value, using the Black-Scholes model at the date of grant is adjusted for the effects of market performance and behavioural considerations.

##### Income taxes

The Group provides for current tax expense according to the tax laws in each jurisdiction in which it operates, using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are not recognised on goodwill but are recognised on separately identifiable intangible assets, where appropriate. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities are not recognised for taxable differences arising on investments in consolidated entities, branches, associates and joint ventures where the Group controls the timing of the reversal of the temporary differences and where the reversal of the temporary differences is not anticipated in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Income tax relating to items recognised in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Equity is also recognised in the respective statement and not in the Consolidated Income Statement.

##### Sales taxes

Income and expenses are recognised net of sales taxes, except where the sales tax is irrecoverable, in which case the sales tax is recognised as part of the cost of acquisition of an asset or as an expense. Receivables and payables are stated with the amount of sales taxes included. The net amount of sales tax recoverable from, or payable to, the tax authority, is included within receivables or payables in the Consolidated Statement of Financial Position.

##### Foreign currencies

The functional currency of the Company is GBP. Transactions in foreign currencies are recorded at the appropriate exchange rate prevailing at the date of the transaction. Foreign currency monetary balances at the reporting date are converted at the prevailing exchange rate. Foreign currency non-monetary balances carried at fair value or cost are translated at the rates prevailing at the date when the fair value or cost is determined. Gains and losses arising on retranslation are taken to the Consolidated Income Statement, except for available-for-sale financial assets where the unhedged changes in fair value are recognised in the Consolidated Statement of Comprehensive Income.

On consolidation, the assets and liabilities of the Group's overseas operations whose functional currency is not GBP are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at daily exchange rates for the accounting period. Exchange differences arising, if any, are taken through the Consolidated Statement of Comprehensive Income to the translation reserve. Where net investment hedge accounting is applied using forward foreign currency contracts, the fair value movement on these contracts is also recognised within the translation reserve. In the

period in which an operation is disposed of, translation differences previously recognised in the translation reserve are recognised in the Consolidated Income Statement.

### Business combinations

All business combinations are accounted for using the acquisition method. The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The fair value of a business combination is calculated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. The cost of a business combination in excess of fair value of net identifiable assets or liabilities acquired, including intangible assets identified, is recognised as goodwill. Any costs incurred in relation to a business combination are expensed as incurred.

Contingent consideration, resulting from business combinations, is recognised at fair value at the acquisition date as part of the business combination, and discounted where the time value of money is material. The determination of the fair value is based on discounted cash flows, with the key assumptions being the probability of meeting each performance target and the discount factor applied. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date through the Consolidated Income Statement, along with finance charges where discounting has been applied.

### Goodwill

Goodwill arising on acquisitions is capitalised in the Consolidated Statement of Financial Position. Goodwill on acquisitions prior to 1 January 2004 is carried at its value on 1 January 2004 less any subsequent impairments.

Goodwill arising on investments in associates and joint ventures is included within the carrying value of the equity accounted investments.

### Impairment of goodwill

Goodwill is reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired. For this purpose, management prepares a valuation for the Group's cash generating unit based on its value in use. The value in use is based on forecasts approved by the Board, extrapolated for expected future growth rates and discounted at a risk adjusted discount rate based on the Group's pre-tax weighted average cost of capital. Where the value in use is less than the carrying amount, an impairment is recognised. Any impairment is recognised immediately through the Consolidated Income Statement and cannot subsequently be reversed. Where goodwill forms part of an entity or sub-group and the entity or sub-group or part thereof is disposed of, the goodwill associated with the entity or sub-group disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal.

### Investment management contracts

Investment management contracts have been identified as a separately identifiable intangible asset arising on the acquisition of subsidiaries. Such contracts are recognised at the present value of

the expected future cash flows of the investment management contracts at the date of acquisition. The intangible asset is then amortised on a straight-line basis over the expected life of the contracts, currently estimated at between three and eight years.

### Computer software

The costs of purchasing and developing computer software are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. Computer software is subsequently measured at cost less accumulated amortisation. Computer software is amortised over a period of three to seven years.

### Investments in subsidiaries

Investments by the Company in subsidiary undertakings are held at cost less any impairment in value where circumstances indicate that the carrying value may not be recoverable.

### Equity accounted investments

The Group's investment in associates, where the Group has the ability to exercise significant influence as well as joint ventures where there is joint control, are accounted for using the equity method of accounting. Investments are recognised initially at cost where purchased for cash, or at the fair value of shares received where acquired as part of a wider transaction. The investments are subsequently carried at cost adjusted for the Group's share of profits or losses and other changes in comprehensive income of the associate or joint venture, less any dividends or distributions received by the Group. The Consolidated Income Statement includes the Group's share of profits or losses after tax for the year, or period of ownership, if shorter.

### Impairment of assets (excluding goodwill and financial assets)

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes an estimate of the recoverable amount, being the higher of an asset's fair value less costs to sell, and its value in use. In assessing value in use, the estimated future cash flows are discounted to their net present value using a risk adjusted discount rate based on the Group's post-tax weighted average cost of capital.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised in the Consolidated Income Statement.

### Held for sale classification

The Group classifies consolidated entities purchased exclusively with a view to resale, such as seed capital investments in funds, as held for sale, as their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

The Group classified its Property business as held for sale, as its carrying amount was expected to be recovered principally through a sale transaction rather than through continuing use.

Assets and liabilities held for sale are measured at the lower of their carrying amount, and fair value less costs to sell.

### Notes to the Financial Statements continued

#### Group and Company continued

##### 2.1 Significant accounting policies continued

The criteria for held for sale classification are regarded as met only when the sale is expected to be completed within one year of the date of classification. Where the Group does not sell assets classified as held for sale within a year of classification and the circumstances to extend the one year period have not occurred, the assets will be derecognised from held for sale and consolidated line by line in the Consolidated Statement of Financial Position.

##### Discontinued operation

The Group has presented its Property business as a discontinued operation with its results excluded from those of continuing operations in the Consolidated Income Statement. Transaction costs, net of tax, incurred by the Group due to the disposal of the Property business, are also included within the discontinued operation line in the Consolidated Income Statement. Management has determined that the Property business represented a major line of business and therefore should be reported as a discontinued operation.

##### Financial instruments

Financial assets and liabilities are recognised at fair value in the Consolidated Statement of Financial Position when the Group becomes party to the contractual provisions of an instrument. The fair value recognised is adjusted for transaction costs, except for financial assets classified at fair value through profit or loss, where transaction costs are immediately recognised in the Consolidated Income Statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all the risks and rewards of ownership. Financial liabilities cease to be recognised when the obligation under the liability has been discharged or cancelled or has expired.

##### Financial assets

Purchases and sales of financial assets are recognised at the trade date, being the date when the purchase or sale becomes contractually due for settlement. Delivery and settlement terms are usually determined by established practices in the market concerned.

Debt securities, equity securities and holdings in authorised collective investment schemes are designated as either fair value through profit or loss or available-for-sale and are measured at subsequent reporting dates at fair value. The Group determines the classification of its financial assets on initial recognition.

##### Financial assets at fair value through profit or loss

Financial assets classified as fair value through profit or loss comprise the Group's manager box positions in OEICs and unit trusts, investments in the Group's fund products held by employee benefit trusts and seed capital investments designated as fair value through profit or loss. Where securities are designated as fair value through profit or loss, gains and losses arising from changes in fair value are included in the Consolidated Income Statement. Where investments in the Group's fund products are held against outstanding deferred compensation liabilities, any movement in the fair value of these assets will be offset by a corresponding movement in the deferred compensation liability in the Consolidated Income Statement.

##### Available-for-sale financial assets

For available-for-sale financial assets, gains and losses arising from changes in fair value which are not part of a designated hedge relationship are recognised in the Consolidated Statement of Comprehensive Income. When an asset is disposed of, the cumulative changes in fair value, previously recognised in the Consolidated Statement of Comprehensive Income, are taken to the Consolidated Income Statement in the current accounting period.

Unrealised gains and losses on financial assets represent the difference between the fair value of financial assets at the reporting date and cost or, if these have been previously revalued, the fair value at the last reporting date. Realised gains and losses on financial assets are calculated as the difference between the net sale proceeds and cost or amortised cost.

Where a fall in the value of an investment is prolonged or significant, it is considered an indication of impairment. In such an event, the investment is written down to fair value and the amounts previously recognised in the Consolidated Statement of Comprehensive Income in respect of cumulative changes in fair value, are taken to the Consolidated Income Statement as an impairment charge.

##### Trade and other receivables and cash

Trade receivables, which generally have 30 day payment terms, are initially recognised at fair value, normally equivalent to the invoice amount. When the time value of money is material, the fair value is discounted. Provision for specific doubtful debts is made when there is evidence that the Group may not be able to recover balances in full. Balances are written off when the receivable amount is deemed irrecoverable.

Cash amounts represent cash in hand and on-demand deposits. Cash equivalents are short-term highly liquid government securities or investments in money market instruments with a maturity date of three months or less.

##### Financial liabilities

Financial liabilities, excluding deferred consideration, provisions and non-controlling interests in funds, are stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

##### Derivative financial instruments and hedging

The Group may, from time to time, use derivative financial instruments to hedge against price, interest rate, foreign currency and credit risk. Derivative financial instruments are classified as financial assets when the fair value is positive or as financial liabilities when the fair value is negative.

At the inception of a hedge, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they have been effective throughout the reporting periods for which they were designated and are expected to remain effective over the remaining hedge period.

Forward foreign currency contracts that are used to hedge the currency nominal value of certain non-GBP denominated financial assets and are classified as fair value hedges. The change in the fair value of a hedging instrument is recognised in the Consolidated Income Statement. The change in the fair value of the hedged item, attributable to the risk being hedged, is also recognised in the Consolidated Income Statement, offsetting the fair value changes arising on the designated hedge instrument.

### Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the reporting date. The quoted market price used for financial instruments is the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques commonly used by market participants, including the use of comparable recent arm's length transactions, discounted cash flow analysis and option pricing models.

### Provisions

Provisions which are liabilities of uncertain timing or amount, are recognised when: the Group has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount. In the event that the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting, the increase in the provision due to the passage of time is recognised as a finance charge.

### Equity shares

The Company's ordinary equity shares of 12.5 pence each are classified as equity instruments. Equity shares issued by the Company are recorded at the fair value of the proceeds received or the market price on the day of issue. Direct issue costs, net of tax, are deducted from equity through share premium. When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity.

### Own shares held

Own shares held are equity shares of the Company acquired by or issued to employee benefit trusts. Own shares held are recorded at cost and are deducted from equity. No gain or loss is recognised in the Consolidated Income Statement on the purchase, issue, sale or cancellation of the Company's own equity shares.

### Dividend recognition

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are paid and, in the case of final dividends, when these are approved by the Company's shareholders at the AGM. Dividend distributions are recognised in equity.

### Non-controlling interests in consolidated funds

For consolidated funds where a non-controlling interest is present, the non-controlling interest is presented as a liability where there is an obligation on the fund to repurchase units at the investor's request. Where the assets of the fund are presented as held for sale, the non-controlling interest is presented within held for sale liabilities. Where the assets of a fund are not classified as held for sale, the non-controlling interest is recognised in other creditors within trade and other payables.

## 2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made significant judgements involving estimations and assumptions which are summarised below:

### Geneva Capital Management LLC acquisition

The acquisition of Geneva Capital Management LLC (Geneva) has required certain judgements and estimates to be made around the future performance of the business when accounting for the investment management contracts acquired and contingent deferred consideration payable in the future. The key estimates applied in valuing the investment management contracts were market growth and attrition rates which have been based around industry data for US equities and US institutional clients. The contingent deferred consideration is calculated in two tranches and payable over six years on an annual basis if revenue retention and growth targets are achieved. Management has estimated the revenue of the business over the six year period to arrive at a discounted liability which is recognised in the Consolidated Statement of Financial Position. In arriving at the recognised liability, management has applied estimates, including market growth rates based on long-term US equity data, expectations about the product range and growth potential of the business post acquisition and net flow data using client specific information and other assumptions supported by management's industry knowledge. See note 32.1 for further details on this acquisition.

### Impairment of intangible assets

Goodwill and investment management contracts are reviewed for impairment annually or more frequently if there are indicators that the carrying value may be impaired.

The judgement exercised by management in arriving at these valuations includes the selection of market growth rates, fund flow assumptions, expected margins and costs. Further details on these assumptions are given in note 14.

### Share-based payment transactions

The Group measures the cost of equity-settled share schemes at fair value at the date of grant and expenses them over the vesting period based on the Group's estimate of shares that will eventually vest.

### Notes to the Financial Statements continued

#### Group and Company continued

#### 2.2 Significant accounting judgements, estimates and assumptions continued

##### Consolidation of seed capital investments

From time to time, the Group invests seed capital on the launch of products, such as OEICs, SICAVs, hedge funds, property and private equity funds and other investment vehicles. The seed capital investments vary in duration depending on the nature of the investment. The Group reviews the size and nature of these investments to consider its level of influence or control over the underlying funds to warrant accounting for them using the equity method, consolidating them into the Group's financial statements or classifying them as held for sale.

Where the Group does not control the fund it holds seed capital investments in, the Group is also not deemed to hold significant influence over these funds. As the seed capital investments are intended to help establish a fund track record and provide sufficient capital until a fund has sufficient external client capital, it is more appropriate for the Group's interest to be shown as either an available-for-sale financial asset or a financial asset carried at fair value through profit or loss.

##### Interests in other entities

The Group has assessed whether the funds it manages are structured entities. The Group has considered the voting rights and other similar rights afforded to other parties in these funds including the rights to remove the Group as fund manager, liquidate the funds or redeem holdings in the funds and has concluded as to whether these rights are the dominant factor in deciding who controls the funds.

The Group has judged that its pooled investment funds are structured entities unless substantive removal or liquidation rights exist. Further details are provided in note 15.

##### Impairment of available-for-sale financial assets

Available-for-sale financial assets are reviewed for impairment at each reporting date or more frequently if there are indicators that the carrying value is impaired. In specific cases, where a quoted market price or fair value is not available, significant judgement is exercised by management in determining the extent of impairment, taking into account other available market data. Management also exercises judgement in determining whether a decrease in the value of an asset meets the prolonged or significant tests.

##### Pension and other post-employment benefits

The costs of, and period end obligations under, defined benefit pension schemes are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. Further details are given in note 21.

##### Provisions

By their nature, provisions often reflect significant levels of judgement or estimates by management. The nature and amount of the provisions included in the Consolidated Statement of Financial Position are detailed in note 22 and contingencies not provided for are disclosed in note 31.

##### Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant judgement is required by management in determining the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits and the likely timing of deduction of the relevant expenses.

##### Held for sale classification

An assessment was made as at 31 December 2014 that certain seed capital investments controlled by the Group met the definition to be classified as held for sale in the Consolidated Statement of Financial Position. As at 31 December 2013, the Property business and certain seed capital investments controlled by the Group met the definition to be classified as held for sale in the Consolidated Statement of Financial Position. The Property business was disposed of on 1 April 2014.

#### 2.3 Changes in accounting policies

The accounting policies adopted in this Annual Report are consistent with those of the previous financial year with the following exceptions caused by the adoption of the following standards on 1 January 2014. The Group has also adopted any IFRS or IFRS IC interpretations that are effective for the first time for the financial year beginning on 1 January 2014.

IFRS 10 Consolidated Financial Statements has resulted in certain seed capital investments to be consolidated as structured entities, as they meet the definition of control under this standard. The adoption of IFRS 10 has been applied retrospectively and the impact of the restatement is set out in note 33.

IFRS 11 Joint Arrangements has not resulted in any changes to the consolidated financial statements for the current or previously reported periods.

IFRS 12 Disclosure of Interests in Other Entities is a disclosure only standard and is set out in note 15.

#### 2.4 Future changes in accounting policies

A number of new standards and amendments to standards and interpretations are effective for periods beginning on or after 1 January 2015. The following new standards are not applicable to these financial statements but are expected to have an impact when they become effective. The Group plans to apply these standards in the reporting period in which they become effective.

IFRS 9 Financial Instruments introduces new requirements for classification and measurement, impairment and hedge accounting. This standard is currently expected to become effective in 2018 or thereafter.

IFRS 15 Revenue from Contracts with Customers requires revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring services to a customer. This standard is currently expected to become effective in 2017.

Both IFRS 9 and IFRS 15 are subject to endorsement from the European Union.

The Group is assessing the impact of the above standards on the Group's future financial statements.

### 3. Income

#### Group

	Notes	2014 £m	2013 £m
<b>Gross fee and deferred income</b>			
Gross fee income		<b>648.9</b>	575.0
Amortisation of deferred income		<b>2.3</b>	3.2
		<b>651.2</b>	578.2
<b>Commissions and deferred acquisition costs</b>			
Commissions and fees payable		<b>(130.5)</b>	(114.3)
Amortisation of deferred acquisition and commission costs		<b>(1.9)</b>	(2.6)
		<b>(132.4)</b>	(116.9)
<b>Net fee income</b>		<b>518.8</b>	461.3
<b>(Loss)/income from associates and joint ventures</b>	15.2	<b>(2.1)</b>	1.8
<b>Finance income</b>			
Interest on cash and cash equivalents		<b>0.8</b>	0.5
Gain on disposal – ICICL	7	<b>11.5</b>	–
Seed capital investment gains		<b>3.6</b>	2.8
Other net investment income		<b>1.2</b>	0.5
Net interest credit on defined benefit pension schemes	21.2	<b>4.5</b>	6.4
		<b>21.6</b>	10.2
<b>Net income from continuing operations</b>		<b>538.3</b>	473.3

### 4. Expenses

#### 4.1 Operating expenses

#### Group

	Note	2014 £m	2013 (restated) £m
Employee compensation and benefits	5.2	<b>233.4</b>	214.5
Investment administration		<b>30.2</b>	24.4
Information technology		<b>17.6</b>	17.1
Operating leases		<b>6.9</b>	8.4
Office expenses		<b>8.1</b>	5.2
Foreign exchange gains		<b>(3.5)</b>	(3.1)
Other expenses		<b>38.5</b>	32.0
<b>Operating expenses from continuing operations</b>		<b>331.2</b>	298.5

Other expenses include marketing, travel and subsistence, legal and professional costs and irrecoverable sales taxes. Refer to note 33 for further detail on the restatement.

### Notes to the Financial Statements continued

#### Group and Company continued

#### 4.2 Auditors' remuneration

##### Group and Company

This note discloses the total remuneration payable to the Group's auditors. PwC replaced Ernst & Young as the Group's auditor on 1 May 2014 following shareholder approval at the Group's 2014 AGM.

	2014 £m
Fees payable to PwC for the audit of the Group's consolidated financial statements	0.1
Fees payable to PwC and their associates for other services:	
– statutory audit of the Group's subsidiaries	0.5
– audit related assurance services	0.2
– other assurance services	0.2
– tax services	0.1
<b>Total fees</b>	<b>1.1</b>

The above analysis reflects the amounts billed by PwC or accrued by the Group in 2014. Included in the fees payable to the Group's auditors for the audit of the Group's 2014 consolidated financial statements are fees of £28,544 for the audit of the Company's 2014 financial statements.

Audit related assurance services include the half year review of the Group's interim results and the auditors' engagement covering client money. Other assurance services primarily relate to the work on the Group's AAF controls report. Tax services include compliance services in several non-UK jurisdictions and some advisory work for which PwC was engaged prior to their appointment as corporate auditor. The Group has strict policies in place that restrict the use of the Group's auditors with respect to non-audit services and management expects the fees payable for tax advisory services to decrease in the future.

	2013 £m
Fees payable to Ernst & Young for the audit of the Group's consolidated financial statements	0.3
Fees payable to Ernst & Young and their associates for other services:	
– statutory audit of the Group's subsidiaries	0.7
– other services pursuant to legislation	0.2
<b>Total fees</b>	<b>1.2</b>

The above analysis reflects the amounts billed by Ernst & Young or accrued by the Group in 2013. Included in the fees payable to Ernst & Young for the audit of the Group's 2013 consolidated financial statements are fees of £30,000 for the audit of the Company's 2013 financial statements.

### 5. Employee compensation and benefits

#### 5.1 Number of employees

The number of full-time employees was as follows:

	Average <sup>1</sup>		As at 31 December <sup>1</sup>	
	2014 no.	2013 no.	2014 no.	2013 no.
<b>Number of employees relating to continuing operations</b>	<b>875</b>	812	<b>922</b>	831
<b>Number of employees relating to total operations</b>	<b>928</b>	1,009	<b>922</b>	1,029

1. Excluding those working on capitalised projects.

The number of employees relating to total operations in 2013 includes a full year of property staff in comparison to three months in 2014 as staff transferred with the Property business on 1 April 2014. The increase in the number of employees during the year includes 25 staff that joined the Group on the acquisition of Geneva on 1 October 2014.

The Company had no full-time employees during 2014 or 2013. Non-executive directors of the Company are not classified as full-time employees.

## 5.2 Analysis of employee compensation and benefits expense

Employee compensation and benefits expense comprises the following:

	Note	Group		Company	
		2014 £m	2013 (restated) £m	2014 £m	2013 £m
Salaries, wages and bonuses		175.3	152.6	0.3	–
Share-based payments	11.2	27.4	27.9	–	–
Social security costs		24.1	27.6	–	–
Pension service cost		6.6	6.4	–	–
<b>Employee compensation and benefits expense from continuing operations</b>		<b>233.4</b>	<b>214.5</b>	<b>0.3</b>	<b>–</b>

## 6. Finance expenses

Group

	Note	2014 £m	2013 £m
Debt instruments interest expense		11.3	11.3
Bank facility and arrangement fees		–	(0.2)
Void property finance charge	22	1.2	1.3
Geneva deferred consideration finance charge		0.3	–
Other		0.3	–
<b>Total finance expenses</b>		<b>13.1</b>	<b>12.4</b>

## 7. Acquisition related and non-recurring items from continuing operations

	Notes	2014			2013		
		Acquisition related items £m	Non-recurring items £m	Total £m	Acquisition related items £m	Non-recurring items £m	Total £m
<b>Loss from associates and joint ventures</b>							
Associate intangible amortisation		1.8	–	1.8	–	–	–
TH Real Estate establishment costs		–	5.4	5.4	–	–	–
		1.8	5.4	7.2	–	–	–
<b>Finance income</b>							
ICICL disposal		–	(11.5)	(11.5)	–	–	–
		–	(11.5)	(11.5)	–	–	–
<b>Operating expenses and amortisation</b>							
Intangible amortisation	14	53.7	–	53.7	51.8	–	51.8
FSCS refund		–	(2.9)	(2.9)	–	–	–
Geneva deal and integration costs		–	4.2	4.2	–	–	–
Gartmore related employee share award		–	–	–	5.1	–	5.1
		53.7	1.3	55.0	56.9	–	56.9
<b>Finance expenses</b>							
Void property finance charge	22	1.2	–	1.2	1.3	–	1.3
Geneva deferred consideration finance charge		0.3	–	0.3	–	–	–
		1.5	–	1.5	1.3	–	1.3
<b>Total loss/(profit) before tax from continuing operations</b>		<b>57.0</b>	<b>(4.8)</b>	<b>52.2</b>	<b>58.2</b>	<b>–</b>	<b>58.2</b>
Tax credit		(11.2)	(0.7)	(11.9)	(17.8)	–	(17.8)
<b>Total loss/(profit) after tax from continuing operations</b>		<b>45.8</b>	<b>(5.5)</b>	<b>40.3</b>	<b>40.4</b>	<b>–</b>	<b>40.4</b>

Non-recurring items relating to the discontinued operation are analysed in note 9.1.

## Notes to the Financial Statements continued

### Group and Company continued

#### 7.1 Non-recurring items

2014

##### TH Real Estate establishment costs

TH Real Estate incurred one-off establishment costs, of which £5.4m is the Group's share (after tax where applicable), for the year ended 31 December 2014.

##### Intrinsic Cirilium Investment Company Limited (ICICL) disposal

The Group completed the sale of its 50% stake in ICICL, resulting in an £11.5m gain.

##### FSCS refund

The Financial Services Compensation Scheme (FSCS) has made a partial refund to the Group of £2.9m relating to the 2010/2011 Keydata cross subsidy levy. This amount has been recognised as a credit in operating expenses to reflect the original treatment of the expense recognised in 2010 and 2012.

##### Geneva deal and integration costs

Deal and integration costs of £4.2m have been incurred by the Group during the year relating to the acquisition of Geneva.

2013

No non-recurring items relating to continuing operations were recognised in the year.

## 8. Tax

### Tax recognised in the income statement

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Current tax:				
– charge for the year	42.1	19.5	–	–
– prior year adjustments	(5.4)	(6.3)	–	–
Deferred tax:				
– credit for the year	(13.4)	(16.4)	–	–
– prior year adjustments	1.6	5.5	–	–
<b>Total tax charged to the income statement</b>	<b>24.9</b>	<b>2.3</b>	<b>–</b>	<b>–</b>

### Tax recognised in the statement of comprehensive income

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Deferred tax credit in relation to available-for-sale financial assets	(0.1)	(0.1)	–	–
Deferred tax credit in relation to actuarial gains/(losses)	(0.1)	(0.1)	–	–
<b>Total tax credited to the statement of comprehensive income</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>–</b>	<b>–</b>

### Reconciliation of profit before tax to tax charge

The tax charge for the year is reconciled to the profit before tax in the income statement as follows:

#### Group

	2014 £m	2013 £m
Profit before tax from total operations	283.4	127.4
Tax charge at the UK corporation tax rate of 21.5% (2013: 23.25%)	60.9	29.6
<i>Factors affecting the tax charge:</i>		
Non-taxable income and disallowable expenditure	(20.0)	(7.1)
Differences in effective tax rates on overseas profits	(11.2)	(9.8)
Prior period adjustments	(3.8)	(0.8)
Utilisation of previously unrecognised temporary difference	(2.2)	(6.1)
Changes in statutory tax rates	0.9	(3.4)
Other items	0.3	(0.1)
<b>Total tax charged to the Consolidated Income Statement</b>	<b>24.9</b>	<b>2.3</b>

## Company

	2014 £m	2013 £m
Profit before tax	95.4	80.1
Tax charge at the UK corporation tax rate of 21.5% (2013: 23.25%)	20.5	18.6
<i>Factors affecting the tax charge:</i>		
Non-taxable income and disallowable expenditure	(21.0)	(19.0)
Group relief surrender	0.5	0.4
<b>Total tax charged to the Company Income Statement</b>	<b>–</b>	<b>–</b>

## 9. Discontinued operation and assets and liabilities classified as held for sale

### 9.1 Discontinued operation

On 1 April 2014, the Group completed transactions which resulted in the disposal of the Property business and simultaneously recognised a 40% share in the newly formed joint venture – TH Real Estate. Prior to the disposal, the Group continued to consolidate the Property business and recognised a £6.3m underlying profit after tax from its operations in 2014. The Property business was classified as a discontinued operation in 2013 and 2014. The results of this business are presented below.

	2014 £m	2013 £m
Net fee income	19.3	62.4
Income from associates and joint ventures	0.1	1.6
Finance income	0.2	–
Net income	19.6	64.0
Operating expenses	(12.0)	(39.3)
Depreciation	–	(0.1)
<b>Underlying profit before tax from discontinued operation</b>	<b>7.6</b>	<b>24.6</b>
Tax on underlying profit	(1.3)	(2.9)
<b>Underlying profit after tax from discontinued operation</b>	<b>6.3</b>	<b>21.7</b>
Acquisition related items – intangible amortisation	–	(0.2)
Non-recurring items – profit on disposal of Property business	148.9	–
Non-recurring items – deal and separation costs	(8.7)	(4.3)
Tax (charge)/credit on acquisition related and non-recurring items	(14.9)	0.7
<b>Profit after tax from discontinued operation</b>	<b>131.6</b>	<b>17.9</b>

### Profit on disposal of Property business

	2014 £m
Cash consideration	114.2
40% contribution of TH Real Estate joint venture	74.8
Amounts receivable in respect of net assets sold at net book value	9.1
<b>Total consideration</b>	<b>198.1</b>
Disposal of:	
– goodwill and intangible assets allocated to Property business	(33.3)
– other net tangible assets	(15.9)
<b>Net assets disposed</b>	<b>(49.2)</b>
<b>Profit on disposal before tax and deal and separation costs</b>	<b>148.9</b>
Deal and separation costs	(8.7)
<b>Profit before tax on disposal</b>	<b>140.2</b>
Tax charge on profit on disposal	(14.9)
<b>Profit after tax on disposal</b>	<b>125.3</b>

## Notes to the Financial Statements continued

### Group and Company continued

#### 9.2 Assets and liabilities classified as held for sale

	2014			2013		
	Seed capital investments £m	Property business £m	Total £m	Seed capital investments £m	Property business £m	Total £m
Intangible assets	–	–	–	–	38.7	38.7
Investments accounted for using the equity method	–	–	–	–	4.3	4.3
Financial assets at fair value through profit or loss	71.7	–	71.7	–	–	–
Property and equipment	–	–	–	–	0.2	0.2
Available-for-sale financial assets	4.8	–	4.8	38.0	0.2	38.2
Trade and other receivables	–	–	–	–	9.0	9.0
Prepayments	–	–	–	–	0.1	0.1
Cash and cash equivalents	8.3	–	8.3	–	15.3	15.3
<b>Total assets classified as held for sale</b>	<b>84.8</b>	<b>–</b>	<b>84.8</b>	38.0	67.8	105.8
Trade and other payables	26.0	–	26.0	–	5.0	5.0
Current tax liabilities	–	–	–	–	0.6	0.6
<b>Total liabilities classified as held for sale</b>	<b>26.0</b>	<b>–</b>	<b>26.0</b>	–	5.6	5.6

## 10. Earnings per share

### Group

The weighted average number of shares for the purpose of calculating earnings per share is as follows:

	2014 no. (millions)	2013 no. (millions)
Issued share capital	1,130.9	1,117.7
Less: own shares held	(45.7)	(58.9)
<b>Weighted average number of ordinary shares for the purpose of basic earnings per share</b>	<b>1,085.2</b>	1,058.8
Add: potential dilutive impact of share options and awards	54.6	78.2
<b>Weighted average number of ordinary shares for the purpose of diluted earnings per share</b>	<b>1,139.8</b>	1,137.0

Basic and diluted earnings per share have been calculated on the profit attributable to equity holders of the parent. The difference between the weighted average number of shares used in the basic earnings per share and the diluted earnings per share calculations reflects the dilutive impact of options and awards of shares to employees, which are anticipated to be exercised based on market conditions as at 31 December 2014.

### 10.1 On continuing underlying profit after tax attributable to equity holders of the parent

#### Earnings

	2014 £m	2013 £m
Continuing profit after tax attributable to equity holders of the parent	126.9	107.2
Add back:		
Acquisition related and non-recurring items after tax (note 7)	40.3	40.4
<b>Earnings for the purpose of basic and diluted earnings per share</b>	<b>167.2</b>	147.6

#### Earnings per share

	2014 pence	2013 pence
Basic	15.4	13.9
Diluted	14.7	13.0

## 10.2 On total underlying profit after tax attributable to equity holders of the parent

### Earnings

	2014 £m	2013 £m
Total profit after tax attributable to equity holders of the parent	258.5	125.1
(Less)/add back:		
Acquisition related and non-recurring items after tax	(85.0)	44.2
<b>Earnings for the purpose of basic and diluted earnings per share</b>	<b>173.5</b>	<b>169.3</b>

### Earnings per share

	2014 pence	2013 pence
Basic	16.0	16.0
Diluted	15.2	14.9

## 10.3 On continuing profit after tax attributable to equity holders of the parent

### Earnings

	2014 £m	2013 £m
<b>Earnings for the purpose of basic and diluted earnings per share</b>	<b>126.9</b>	<b>107.2</b>

### Earnings per share

	2014 pence	2013 pence
Basic	11.7	10.1
Diluted	11.1	9.4

## 10.4 On total profit after tax attributable to equity holders of the parent

### Earnings

	2014 £m	2013 £m
<b>Earnings for the purpose of basic and diluted earnings per share</b>	<b>258.5</b>	<b>125.1</b>

### Earnings per share

	2014 pence	2013 pence
Basic	23.8	11.8
Diluted	22.7	11.0

## 10.5 On discontinued profit after tax attributable to equity holders of the parent

### Earnings

	2014 £m	2013 £m
<b>Earnings for the purpose of basic and diluted earnings per share</b>	<b>131.6</b>	<b>17.9</b>

### Earnings per share

	2014 pence	2013 pence
Basic	12.1	1.7
Diluted	11.5	1.6

### Notes to the Financial Statements continued

#### Group and Company continued

#### 11. Share-based payments

##### Group

##### 11.1 Share-based compensation plans

The Group operates a number of share-based compensation plans, being the Restricted Share Plan, Employee Share Ownership Plan, Long-Term Incentive Plan, Deferred Equity Plan, Buy As You Earn Share Plan, Company Share Option Plan, Executive Shared Ownership Plan and Sharesave Scheme. Further details of the material plans in operation during 2014 are set out below:

##### Deferred Equity Plan (DEP)

Employees who receive cash-based incentive awards over a preset threshold, have an element deferred. The deferred awards are deferred into the Company's shares, or into Group managed funds. The DEP trustee purchases Company shares and units or shares in Group managed funds and holds them in trust. Awards are deferred for up to three years and vest in three equal tranches. Those employees who elected to participate in the 2011 ESOP, have their restricted shares, upon vesting, automatically transfer into the 2011 ESOP as purchased shares. They will attract matching shares subject to the performance and employment conditions of that plan.

The 2012 and 2013 DEP have a matching share element where employees, excluding Executive Directors, are awarded one matching share for every three restricted shares held in trust on the third anniversary of the award. One third of the restricted shares will become unrestricted on each anniversary. If an employee requests to receive any of the unrestricted shares prior to the third anniversary, the related matching shares will be forfeited. Forfeiture conditions apply in the case of leavers.

The expense of deferred short-term incentive awards (including social security costs) is recognised in the Consolidated Income Statement over the period of deferral. As at 31 December 2014, £42.8m (2013: £29.4m) of the expense of deferred awards relating to continuing operations is to be recognised in future periods.

##### Employee Share Ownership Plan (ESOP)

The 2011 ESOP enabled all staff, including Executive Directors, to defer part of their cash-based incentive awards up to a specified limit through the purchase of Company shares. The 2011 ESOP awards up to three matching shares for every share purchased depending on the performance of the Group TSR and Company share price. The matching shares vest on the third, fourth and fifth anniversaries, if the conditions have been met on each anniversary. At the end of 2014, the TSR performance condition allows for 0.5 matching shares on one third of the purchased shares to vest in May 2015 (2013: 1.5 matching shares).

##### Restricted Share Plan (RSP)

The RSP allows employees to receive shares in the Company for £nil consideration at a future point, usually after three years. The awards are made typically for staff recruitment and retention purposes and larger awards generally have performance hurdles. The Remuneration Committee approves all awards and the vesting of awards over £50,000. On vesting, the employee must satisfy any employee tax and social security obligations.

## Long-Term Incentive Plan (LTIP)

The LTIP awards provide selected employees restricted shares or £nil cost options that have employment conditions and performance conditions attached as shown below. Employees who have been awarded such options have five years to exercise their options following the three year vesting period for LTIP 2012 and 2013 and five and four years to exercise their options following the three and four year vesting periods (respectively) for LTIP 2014.

Criteria	Amount vesting
Henderson Group TSR less than the 50th percentile of the FTSE 350 General Financial Services companies	nil%
Henderson Group TSR at the 50th percentile of the FTSE 350 General Financial Services companies	25%
Henderson Group TSR at or above the 75th percentile of the FTSE 350 General Financial Services companies	100%

If the Henderson Group TSR is between the 50th and 75th percentiles, the amount vesting will increase on a linear basis. The Remuneration Committee must also be satisfied the Henderson Group TSR reflects the underlying performance of the Group. For the 2012, 2013 and 2014 LTIP, the performance hurdle was 95% relative to Henderson Group TSR and 5% on risk and sustainability metrics.

Employees may be entitled to dividend equivalents, subject to approval by the Board, once the LTIP is vested based on the dividends declared during the three year vesting period in respect of the shares that vest. The dividend equivalents are payable in two equal tranches, one and two year(s) after vesting. However, employees are not entitled to vote or receive dividends in respect of these awards until the vesting conditions are met, nor are they allowed to pledge, hedge or assign the expected awards in any way.

The 2011 LTIP met its vesting conditions on 31 December 2013 and 78% of awards vested in April 2014. The 2012 LTIP met its vesting conditions on 31 December 2014 and 43% of awards will vest in April 2015.

## 11.2 Share-based payments through the Consolidated Income Statement from continuing operations

	2014 £m	2013 £m
DEP	12.5	10.4
RSP	5.4	3.5
LTIP	3.8	4.1
ESOP	2.7	3.4
CSOP	0.9	0.5
ExSOP	0.9	0.4
BAYE	0.8	1.3
SAYE	0.4	0.4
Gartmore related employee share award	–	3.9
<b>Share-based payments expense</b>	<b>27.4</b>	<b>27.9</b>

The total amount settled through the Consolidated Statement of Changes in Equity is analysed between:

	2014 £m	2013 £m
Share-based payments charged to the Consolidated Income Statement from continuing operations	27.4	27.9
Share-based payments charged to the Consolidated Income Statement from discontinued operation	1.4	1.7
Other equity-settled bonuses and other movements	6.5	5.4
<b>Amounts settled through equity</b>	<b>35.3</b>	<b>35.0</b>

All amounts above exclude Group related employment taxes which are recognised in the Consolidated Income Statement.

## Notes to the Financial Statements continued

### Group and Company continued

#### 11.3 Fair value of share-based compensation plans

The following share schemes involve the grant of shares and options for £nil consideration. The fair value of these grants is calculated using the share price at grant date, which is set out in the following table. LTIP fair values have been discounted on the basis that the option holder has no entitlement to dividends over the vesting period of the option. Dividend equivalents, should they be awarded, will be treated as separate, cash-settled awards. No adjustments have been made for dividends relating to the DEP, BAYE and RSP.

	2014		2013	
	Shares/ options granted no.	Average grant share price £	Shares/ options granted no.	Average grant share price £
LTIP	5,842,500	2.40	8,115,000	1.37
DEP	4,334,868	2.60	6,782,461	1.64
RSP	2,496,305	2.42	1,169,905	1.68

The fair value calculation for the LTIP includes a statistical assessment of the likelihood of the Company achieving performance targets as set out in the plan.

#### 12. Dividends paid and proposed

##### Company

	2014 £m	2014 pence per share	2013 £m	2013 pence per share
<b>Dividends on ordinary shares declared and paid in the year</b>				
Final dividend in respect of 2H13 (2H12)	64.0	5.85	55.1	5.05
Interim dividend in respect of 1H14 (1H13)	28.9	2.60	23.5	2.15
<b>Total dividends paid and charged to equity</b>	<b>92.9</b>	<b>8.45</b>	78.6	7.20

	2014 £m	2014 pence per share	2013 £m	2013 pence per share
<b>Dividends proposed on ordinary shares for approval by the shareholders at the AGM</b>				
Final dividend for 2H14 (2H13)	72.9	6.40	65.7	5.85

The Board is recommending a final dividend for 2H14 of 6.40 pence per share which, when added to the interim 1H14 dividend of 2.60 pence per share, results in a total dividend for 2014 of 9.00 pence per share. The final dividend proposed in respect of 2H14 of £72.9m is based on the total number of ordinary shares in issue at 31 December 2014. There was a £2.3m decrease between the proposed dividends (2H13 final: £65.7m and 1H14 interim: £29.5m), as reported in the 2013 Annual Report and the Interim Report for the six months ended 30 June 2014, versus the dividends paid out during the year (2H13 final: £64.0m and 1H14 interim: £28.9m). This represents dividends waived by employee benefit trust trustees on shares held in trust on behalf of Group employees. The amount waived in respect of the final dividend declared in respect of 2H14 will be established by the employee benefit trust trustees on 8 May 2015, being the dividend record date.

### 13. Segmental information

#### Group

Henderson is an investment manager, operating throughout Europe and with operations in North America, Asia and Australia. The Group manages a broad range of actively managed investment products for institutional and retail investors, across five capabilities, being European Equities, Global Equities, Global Fixed Income, Multi-Asset and Alternatives, including Private Equity and Property. Management operates across product lines, distribution channels and geographic regions. All investment product types are sold in most, if not all, of these regions and are managed in various locations.

Information is reported to the chief operating decision-maker, the Board, on an aggregated basis. Strategic and financial management decisions are determined centrally by the Board and, on this basis, the Group is a single segment investment management business.

#### Entity-wide disclosures

	2014 £m	2013 £m
<b>Revenues by product on continuing operations</b>		
UK OEICs/unit trusts	254.9	247.7
SICAVs	178.7	138.4
Offshore absolute return funds	63.3	61.9
US mutuals	57.1	37.0
Institutional segregated mandates and cash funds	51.8	46.9
Other	45.4	46.3
<b>Gross fee and deferred income</b>	<b>651.2</b>	578.2

#### Geographic information

	2014 £m	2013 £m
<b>Revenues from clients on continuing operations</b>		
UK	447.2	443.4
Luxembourg	132.3	83.1
Americas	66.5	44.1
Singapore	1.9	2.2
Australia	1.1	0.6
Japan	0.8	1.6
Other	1.4	3.2
<b>Gross fee and deferred income</b>	<b>651.2</b>	578.2

The geographical revenue information is split according to the country in which the revenue is generated, not necessarily where the client is based.

The Group does not have a single client which accounts for more than 10% of revenues.

	2014 £m	2013 £m
<b>Non-current assets</b>		
UK	670.4	653.2
Americas	88.3	3.8
Other	8.7	3.4
	<b>767.4</b>	660.4

Non-current assets for this purpose consist of intangible assets, investments accounted for using the equity method and property and equipment.

## Notes to the Financial Statements continued

### Group and Company continued

#### 14. Intangible assets

##### Group

Intangible assets are analysed as follows:

##### 2014

	Goodwill £m	Investment management contracts £m	Computer software £m	Total £m
<b>Cost</b>				
<b>At 1 January</b>	482.8	310.7	10.8	804.3
Additions	34.2	48.9	4.1	87.2
Adjustment to assets classified as held for sale	5.4	–	–	5.4
Impact of foreign exchange movement	1.3	1.9	–	3.2
<b>At 31 December</b>	<b>523.7</b>	<b>361.5</b>	<b>14.9</b>	<b>900.1</b>
<b>Accumulated amortisation</b>				
<b>At 1 January</b>	–	(164.8)	(1.6)	(166.4)
Charge	–	(53.7)	(2.1)	(55.8)
<b>At 31 December</b>	–	<b>(218.5)</b>	<b>(3.7)</b>	<b>(222.2)</b>
<b>Carrying value at 31 December</b>	<b>523.7</b>	<b>143.0</b>	<b>11.2</b>	<b>677.9</b>

##### 2013

	Goodwill £m	Investment management contracts £m	Computer software £m	Total £m
<b>Cost</b>				
<b>At 1 January</b>	515.6	310.9	5.5	832.0
Additions	5.5	0.5	5.3	11.3
Transferred to assets classified as held for sale	(38.3)	(0.7)	–	(39.0)
<b>At 31 December</b>	<b>482.8</b>	<b>310.7</b>	<b>10.8</b>	<b>804.3</b>
<b>Accumulated amortisation</b>				
<b>At 1 January</b>	–	(113.1)	(1.2)	(114.3)
Charge from continuing operations	–	(51.8)	(0.4)	(52.2)
Charge from discontinued operation	–	(0.2)	–	(0.2)
Transferred to assets classified as held for sale	–	0.3	–	0.3
<b>At 31 December</b>	–	<b>(164.8)</b>	<b>(1.6)</b>	<b>(166.4)</b>
<b>Carrying value at 31 December</b>	<b>482.8</b>	<b>145.9</b>	<b>9.2</b>	<b>637.9</b>

The Group considers itself to have one cash generating unit to which goodwill is allocated.

The recoverable value of goodwill for the Group at 31 December 2014 has been determined by a value in use calculation, using cash flows based on the Group's annual budget and five year forecasts approved by the Board and a terminal value for the period thereafter. The key assumptions applied to the Group's annual budget and five year forecast are market performance and net fund flows. Management determined these key assumptions by assessing current market conditions and through the utilisation of forward looking external evidence.

The terminal value has been calculated assuming a long-term growth rate of 2% per annum in perpetuity, based on the Group's view of long-term nominal growth, which does not exceed market expectations.

A pre-tax risk adjusted discount rate of 11.9% per annum has been applied. The resultant value in use calculation has been compared with the carrying value of the Group's goodwill to determine if any goodwill impairment arises. The calculation shows significant headroom in the recoverable value of goodwill. Sensitivities were performed by adjusting key assumptions for reasonable possible changes, with the model continuing to show significant headroom.

Recent market transactions and the Group's current market capitalisation provide additional evidence that the recoverable value of goodwill is in excess of the carrying value.

## 15. Interest in other entities

The Group operates as a global investment manager and reports its results to the Board on an aggregated basis. The Group manages its operations via investments in subsidiaries, associates and joint ventures and interests in structured entities.

The Group's interests in structured entities are through employee benefit trusts and seed capital investments in funds. Employee benefit trusts are consolidated and are for the purpose of administering the Group's share-based payment arrangements. Further details of the Group's share-based payment arrangements are set out in note 11. The Group holds interests in funds via seed capital investments and investment management agreements, for which it earns management fees and, in certain funds, performance fees. Segregated mandates and investment trusts do not give the Group any rights over the client or trust who have the right to remove the Group as manager, a right similar to a voting right. As such, segregated mandates and investment trusts are not structured entities. Management has determined that the Group acts as agent for unconsolidated funds due to its relatively low economic exposure and variability of returns.

The Group is exposed to structured entities via the risk that their AUM decreases which will cause a fall in the Group's income. Considering the potential for changes in the AUM of structured entities, management has determined that the Group's structured entities should be aggregated by the type of vehicle. As all of the Group's unconsolidated funds that meet the definition of a structured entity are in pooled investment funds, disclosures have been made on this basis. Refer to note 15.3.

### 15.1 Principal subsidiaries

#### Company

##### Investment in subsidiaries

	2014 £m	2013 £m
<b>At 31 December</b>	<b>1,030.8</b>	1,002.0

The wholly owned and directly held subsidiary of the Company is as follows:

	Country of incorporation and principal place of operation	Functional currency
Henderson Group Holdings Asset Management Limited	UK	GBP

#### Group

The principal subsidiaries of the Group, excluding the directly held subsidiary of the Company shown above, are as follows:

	Country of incorporation and principal place of operation	Functional currency
Geneva Capital Management LLC	USA	USD
Henderson Administration Limited	UK	GBP
Henderson Alternative Investment Advisor Limited	UK	GBP
Henderson Equity Partners Limited	UK	GBP
Henderson Fund Management Limited	UK	GBP
Henderson Global Investors (Australia) Limited	Australia	AUD
Henderson Global Investors Equity Planning Inc.	USA	USD
Henderson Global Investors (Holdings) Limited	UK	GBP
Henderson Global Investors (Japan) Limited	Japan	JPY
Henderson Global Investors Limited	UK	GBP
Henderson Global Investors (North America) Inc.	USA	USD
Henderson Global Investors (Singapore) Limited	Singapore	SGD
Henderson Investment Funds Limited	UK	GBP
Henderson Investment Management Limited	UK	GBP
Henderson Management SA	Luxembourg	USD
Henderson UK Finance plc	UK	GBP
HGI Group Limited	UK	GBP
HGI (Investments) Limited	UK	GBP

## Notes to the Financial Statements continued

### Group and Company continued

#### 15.1 Principal subsidiaries continued

The Group held 100% of the principal subsidiaries at 31 December 2014 and 31 December 2013 with the exception of Geneva Capital Management LLC which was acquired on 1 October 2014. The information disclosed in the table above is only in respect of those subsidiaries which principally affect the figures shown in the Group's consolidated financial statements. The Group has a number of regulated subsidiaries which are subject to the capital requirements of certain regulatory bodies which can restrict their ability to remit funds to an immediate, intermediate or ultimate holding company within the Group. There are a number of other subsidiaries which do not materially affect the Group's results or net assets. Particulars of these subsidiaries have been omitted for simplification purposes.

#### 15.2 Investments accounted for using the equity method

##### Group

The Group holds interests in the following associates and joint ventures managed through shareholder agreements with third party investors, accounted for under the equity method. The Group considers its investment in TH Real Estate, a property joint venture with TIAA-CREF, to be its only material holding.

	Country of incorporation and principal place of operation	Functional currency	Percentage owned 2014	Percentage owned 2013
Asia Real Estate Fund Management BVI	British Virgin Islands and Singapore	USD	–	50%
Asia Real Estate Fund Management Limited	Singapore	SGD	–	50%
Attunga Capital Pty Limited	Australia	AUD	–	30%
HGI Immobilien GmbH	Germany	EUR	–	50%
Intrinsic Cirilium Investment Company Limited	UK	GBP	–	50%
Northern Pines Henderson Capital GP LLC	USA	USD	50%	50%
Northern Pines Henderson Capital LLC	USA	USD	50%	50%
Optimum Investment Management Limited	UK	GBP	50%	50%
TIAA Henderson Real Estate Limited	UK	GBP	40%	–
Warburg-HendersonKapitalanlagegesellschaft für Immobilien mbH	Germany	EUR	–	50%
90 West Asset Management Limited	Australia	AUD	41%	32%

The Group's share of net income/(loss) after tax from associates and joint ventures is as follows:

	2014 £m	2013 £m
TH Real Estate underlying income	2.7	–
TH Real Estate acquisition related and non-recurring items	(7.2)	–
Total TH Real Estate share of loss	(4.5)	–
Income from other associates and joint ventures	2.4	1.8
Total share of (loss)/income	(2.1)	1.8

A summary of the total net assets and total profit and loss of TH Real Estate is provided below:

	As at 31 December 2014 £m	As at 31 December 2013 £m
Non-current assets	173.7	–
Current assets	50.9	–
Current liabilities	(51.2)	–
Non-current liabilities	(3.4)	–
Net assets	170.0	–

	For the 9 months ended 31 December 2014		
	Underlying profit £m	Acquisition related and non-recurring items £m	Total £m
Revenue	49.4	–	49.4
Operating expenses	(39.4)	(2.8)	(42.2)
Amortisation and depreciation	(1.2)	(5.6)	(6.8)
<b>Profit/(loss) before tax</b>	<b>8.8</b>	<b>(8.4)</b>	<b>0.4</b>
Tax (charge)/credit	(2.1)	1.6	(0.5)
<b>Profit/(loss) after tax</b>	<b>6.7</b>	<b>(6.8)</b>	<b>(0.1)</b>

Included in TH Real Estate's current assets is £21.7m of cash and cash equivalents. The Group is due £12.2m from TH Real Estate relating to trading and other assets and TH Real Estate has also issued a loan to the Group of £3.3m bearing annual interest at 4.0% above the Bank of England base rate. In addition to the £0.1m loss above, TH Real Estate also incurred establishment costs of £11.3m (Group's share after tax of £4.5m recognised in non-recurring items).

### 15.3 Interests in unconsolidated structured entities

A reconciliation of AUM reported by the Group to AUM in funds that meet the definition of an unconsolidated structured entity is as follows:

£bn	Total AUM	Less: segregated mandates and investment trusts	Less: consolidated pooled investment funds	Pooled investment funds AUM
<b>31 December 2014</b>	<b>81.2</b>	<b>(26.6)</b>	<b>(0.1)</b>	<b>54.5</b>

During the year, the Group recognised income of £575.4m from unconsolidated structured entities in the Consolidated Income Statement.

The Group has the following exposure to unconsolidated structured entities, which equates to the Group's maximum exposure to loss:

£m	Trade debtors	Accrued income	Seed capital investments	Total
<b>31 December 2014</b>	<b>7.6</b>	<b>127.5</b>	<b>3.5</b>	<b>138.6</b>

## 16. Property and equipment

Group

	2014 £m	2013 £m
<b>Cost</b>		
<b>At 1 January</b>	<b>32.1</b>	36.8
Additions	1.6	2.8
Disposals	(8.8)	(7.2)
Transferred to assets classified as held for sale	–	(0.3)
Impact of foreign exchange movement	0.1	–
<b>At 31 December</b>	<b>25.0</b>	32.1
<b>Accumulated depreciation</b>		
<b>At 1 January</b>	<b>(15.1)</b>	(18.8)
Charge	(2.6)	(3.0)
Disposals	7.8	6.6
Transferred to assets classified as held for sale	–	0.1
<b>At 31 December</b>	<b>(9.9)</b>	(15.1)
<b>Net book value at 31 December</b>	<b>15.1</b>	17.0

## Notes to the Financial Statements continued

### Group and Company continued

#### 17. Fair value of financial instruments

##### Group

##### Total financial assets and liabilities

The following table sets out the financial assets and liabilities of the Group:

	Notes	Carrying value		Fair value	
		2014 £m	2013 (restated) £m	2014 £m	2013 (restated) £m
Financial assets at fair value through profit or loss		<b>35.9</b>	19.6	<b>35.9</b>	19.6
Financial assets at fair value through profit or loss classified as held for sale	9.2	<b>71.7</b>	–	<b>71.7</b>	–
<b>Total financial assets at fair value through profit or loss</b>		<b>107.6</b>	19.6	<b>107.6</b>	19.6
Available-for-sale financial assets		<b>71.0</b>	62.1	<b>71.0</b>	62.1
Available-for-sale financial assets classified as held for sale	9.2	<b>4.8</b>	38.2	<b>4.8</b>	38.2
<b>Total available-for-sale financial assets</b>		<b>75.8</b>	100.3	<b>75.8</b>	100.3
Accrued income, OEIC and unit trust debtors and trade and other debtors		<b>267.6</b>	244.6	<b>267.6</b>	244.6
Accrued income, OEIC and unit trust debtors and trade and other debtors classified as held for sale	9.2	–	9.0	–	9.0
Cash and cash equivalents	19.1	<b>234.5</b>	217.0	<b>234.5</b>	217.0
Cash and cash equivalents classified as held for sale	9.2	<b>8.3</b>	15.3	<b>8.3</b>	15.3
<b>Total loans and receivables</b>		<b>510.4</b>	485.9	<b>510.4</b>	485.9
<b>Total financial assets</b>		<b>693.8</b>	605.8	<b>693.8</b>	605.8
Debt instrument in issue	20	<b>149.4</b>	148.9	<b>157.4</b>	159.5
Trade and other payables (excluding deferred income)		<b>327.0</b>	359.1	<b>327.0</b>	359.1
Trade and other payables (excluding deferred income) classified as held for sale		–	4.3	–	4.3
<b>Total loans and payables carried at amortised cost</b>		<b>476.4</b>	512.3	<b>484.4</b>	522.9
Trade and other payables at fair value through profit or loss		<b>31.1</b>	23.3	<b>31.1</b>	23.3
Trade and other payables at fair value through profit or loss classified as held for sale	9.2	<b>26.0</b>	–	<b>26.0</b>	–
Provisions		<b>12.8</b>	17.6	<b>12.8</b>	17.6
<b>Total financial liabilities at fair value through profit or loss</b>		<b>69.9</b>	40.9	<b>69.9</b>	40.9
<b>Total financial liabilities</b>		<b>546.3</b>	553.2	<b>554.3</b>	563.8

Financial assets at fair value through profit or loss mainly consist of seed capital investments and investments in the Group's fund products which are held, in employee benefit trusts, against outstanding deferred compensation arrangements. Any movement in the fair value of the assets held against deferred compensation liabilities is offset by a corresponding movement in the deferred compensation liability. Both movements are recognised through the Consolidated Income Statement. Available-for-sale financial assets consist of seed capital investments.

The Group enters into forward foreign exchange contracts to hedge seed capital investments classified as available-for-sale and as fair value through profit or loss financial assets denominated in foreign currency. Forward foreign exchange contracts are also used to hedge the translation of certain consolidated structured entities. In addition, the Group entered into a number of contracts for difference (CFDs), credit default indices (CDXs), futures and total return swaps (TRSs) to hedge the market movements of specific available-for-sale and fair value through profit or loss financial assets. The Group applies fair value hedge accounting in certain circumstances. Current loans and receivables and trade and other payables carried at amortised cost, included in the table above, represent balances mainly settling in a short timeframe, and accordingly, the fair value of these assets and liabilities is considered to be materially equal to their carrying value after taking into account any impairment.

##### Company

As at 31 December 2014, the Company held financial assets at fair value through profit or loss with a carrying and fair value of £34.6m (2013: £18.7m). These investments are classified as Level 1 and Level 2 using the hierarchy set out on the following page.

During 2014, there were no transfers in to or out of Level 1, Level 2 and Level 3 (2013: £nil).

## Group

### Fair value hierarchy

The following asset types are carried at fair value after initial recognition.

The Group uses the following hierarchy for determining and disclosing the fair value of financial assets and liabilities by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques where all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly; and
- Level 3: techniques where inputs which have a significant effect on the recorded fair value that are not based on observable market data. These are predominantly investments in property and private equity funds and valuations are derived by the relevant fund manager teams based on a variety of valuation techniques.

### At 31 December 2014

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	107.6	98.7	8.9	–
Available-for-sale financial assets	75.8	28.0	–	47.8
<b>Total financial assets measured at fair value</b>	<b>183.4</b>	<b>126.7</b>	<b>8.9</b>	<b>47.8</b>

### At 31 December 2013

	Total (restated) £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	19.6	15.0	4.6	–
Available-for-sale financial assets	100.3	38.9	–	61.4
<b>Total financial assets measured at fair value</b>	<b>119.9</b>	<b>53.9</b>	<b>4.6</b>	<b>61.4</b>

At 31 December 2014, the Group held £69.9m (2013: £40.9m) of Level 3 financial liabilities at fair value through profit or loss. These represent non-controlling interests in consolidated structured entities, contingent deferred consideration and provisions. With respect to non-controlling interests in structured entities the fair value movements are primarily driven by fair value changes in investments held in these funds. Details of the inputs used to calculate the fair value of contingent deferred consideration and provisions can be found in notes 32.1 and 22 respectively. Sensitivity analysis around likely possible changes to the inputs into the valuations of these liabilities has been performed and resulted in no significant difference to the fair values recognised that, if adjusted for, would impact the profit attributable to the owners of the parent.

During 2014, there were no transfers in or out of Level 1, Level 2 and Level 3 (2013: £nil).

The following is a reconciliation of the movements in the Group's financial assets classified as Level 3 during the year:

	2014 £m	2013 (restated) £m
<b>Fair value at 1 January</b>	<b>61.4</b>	62.5
Additions	1.9	0.7
Disposals	(22.8)	(2.2)
Transferred from Consolidated Statement of Comprehensive Income to Consolidated Income Statement	(0.6)	–
Fair value movements recognised in the Consolidated Statement of Comprehensive Income	7.9	0.4
<b>Fair value at 31 December</b>	<b>47.8</b>	61.4

Level 3 investments comprise private equity and property investments. Private equity investments are valued using a combination of the enterprise value/EBITDA multiple method and the discounted cash flow method. Significant unobservable inputs include long-term revenue growth rates and pre-tax operating margin, taking into account management's experience and knowledge of market conditions of the specific industries. Property investments apply the income capitalisation valuation technique by independent third party valuers. Significant unobservable inputs include capitalisation rate and monthly market rent, taking into account factors such as the capitalisation of rental income potential, nature of the property, prevailing market condition and differences in location. As the fair value measurement of the financial assets included in Level 3 is based on unobservable inputs, a change in one or more underlying assumptions could result in a significant change in fair value. However, due to the numerous different factors affecting the assets, the impact cannot be quantified.

The fair value of the Level 3 financial assets are based on 30 September 2014 valuations. The events between valuation date and reporting date have been considered with respect to the 30 September 2014 valuations and no adjustments were considered necessary.

## Notes to the Financial Statements continued

### Group and Company continued

#### 18. Trade and other receivables

	Group		Company	
	2014 £m	2013 (restated) £m	2014 £m	2013 £m
Accrued income	147.1	118.3	–	–
Other debtors	23.4	17.5	0.3	–
OEIC and unit trust debtors	87.1	98.0	–	–
Trade debtors	10.0	10.8	–	–
Prepayments	7.6	6.8	–	–
Deferred acquisition costs	2.0	2.4	–	–
Amounts owed by subsidiaries	–	–	2.3	–
	<b>277.2</b>	253.8	<b>2.6</b>	–
Non-current	1.3	37.0	–	–
Current	<b>275.9</b>	216.8	<b>2.6</b>	–
	<b>277.2</b>	253.8	<b>2.6</b>	–

#### 19. Cash and cash equivalents

##### 19.1 Cash at bank and in hand and cash equivalents

	Group		Company	
	2014 £m	2013 (restated) £m	2014 £m	2013 £m
Cash at bank and in hand	197.6	187.0	7.3	8.8
Cash equivalents	36.9	30.0	–	–
<b>Cash at bank and in hand and cash equivalents</b>	<b>234.5</b>	217.0	<b>7.3</b>	8.8

Cash and cash equivalents consist of cash at bank, cash in hand and short-term highly liquid government securities or investments in money market instruments with a maturity date of three months or less.

Included within cash and cash equivalents as at 31 December 2014 are £2.1m (2013: £25.4m) of cash at bank and in hand that was held in the Group's manager dealing accounts which represent payments due to and from OEICs and units trusts as a result of client trading, £0.2m (2013: £nil) rental guarantee deposits and £4.5m (2013: £0.6m) of cash held by consolidated structured entities. After deducting these restricted cash balances, total unrestricted cash is £227.7m (2013: £191.0m).

## 19.2 Net cash flows generated from operating activities

	Notes	2014 £m	2013 £m
<b>Net cash flows generated from operating activities</b>			
Profit before tax from total operations		<b>283.4</b>	127.4
Adjustments to reconcile profit before tax to net cash flows generated from operating activities:			
– debt instruments interest expense		<b>11.6</b>	11.1
– share-based payment charges		<b>28.8</b>	29.6
– intangible amortisation		<b>57.6</b>	52.4
– share of loss/(income) from associates and joint ventures		<b>0.3</b>	(3.4)
– property and equipment depreciation	16	<b>2.6</b>	3.0
– gain on disposal of seed capital investments		<b>(3.7)</b>	(1.8)
– loss on disposal of property and equipment		<b>0.8</b>	0.6
– contributions to Group pension schemes in excess of costs recognised		<b>(5.5)</b>	(6.7)
– return of pension surplus		<b>–</b>	6.8
– net movements on other provisions		<b>0.1</b>	(2.9)
– void property and deferred consideration finance charge	7	<b>1.5</b>	1.3
– seed capital investment impairment		<b>0.6</b>	–
– gain on disposal of associate	7	<b>(11.5)</b>	–
– profit on disposal of Property business before tax and deal and separation costs	9.1	<b>(148.9)</b>	–
<b>Net cash flows generated from operating activities before changes in operating assets and liabilities</b>		<b>217.7</b>	217.4
Changes in operating assets and liabilities	19.3	<b>(74.7)</b>	(32.2)
Net tax paid		<b>(20.0)</b>	(10.3)
<b>Net cash flows generated from operating activities</b>		<b>123.0</b>	174.9

Included within net cash flows generated from operating activities are cash outflows relating to non-recurring items of £11.3m (2013: £11.4m).

## 19.3 Changes in operating assets and liabilities

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Change in OEIC and unit trust debtors and creditors	<b>(9.7)</b>	(8.5)	<b>–</b>	–
Increase in other assets	<b>(31.5)</b>	(39.5)	<b>(18.5)</b>	(5.5)
(Decrease)/increase in provisions and other liabilities	<b>(33.5)</b>	15.8	<b>40.2</b>	12.6
<b>Changes in operating assets and liabilities</b>	<b>(74.7)</b>	(32.2)	<b>21.7</b>	7.1

### Notes to the Financial Statements continued

#### Group and Company continued

#### 20. Debt instrument in issue

##### Group

	<b>2014</b> <b>Carrying value</b> <b>£m</b>	<b>2014</b> <b>Fair value</b> <b>£m</b>	2013 Carrying value £m	2013 Fair value £m
Senior, unrated fixed rate notes due 24 March 2016 (2016 Notes)	<b>149.4</b>	<b>157.4</b>	148.9	159.5

On 24 March 2011, the Group issued, at par, £150.0m of 2016 Notes which are listed on the LSE, unsecured, unrated, repayable in full on 24 March 2016 and bear interest at a fixed rate of 7.25% per annum payable six monthly. The fair value of the 2016 Notes has been obtained applying a Level 1 valuation technique.

#### 21. Retirement benefits

##### 21.1 Characteristics and risks associated with the retirement benefit plans

The main defined benefit pension plan sponsored by the Group is the defined benefit section of Henderson Group Pension Scheme (HGPS), which closed to new members on 15 November 1999. The sponsor and principal employer of the HGPS is HGI Group Limited and the participating company is Henderson Administration Limited. The appointed investment manager for the final salary scheme is Henderson Global Investors Limited. The HGPS is funded by contributions to a separately administered fund. The actuarial advisers to the HGPS are Towers Watson.

Benefits in the HGPS are based on service and final salary. The plan is approved by HMRC for tax purposes, and is operated separately from the Group and managed by an independent Trustee board. The Trustee is responsible for payment of the benefits and management of the HGPS assets.

The HGPS is subject to UK regulations, which require the Group and Trustee to agree a funding strategy and contribution schedule for the scheme.

The triennial valuation of the HGPS as at 31 December 2011, carried out by the Trustee's independent actuarial advisers, revealed a surplus of £10.0m on a technical provisions basis. To the extent that future valuations reveal a funding deficit, additional contributions may be required from the Group.

The Group also has a contractual obligation to provide certain members of the HGPS with additional defined benefits on an unfunded basis.

The valuation of the HGPS under IAS 19 Employee Benefits is based on full membership data as at 31 December 2011 and updated to the accounting date by an independent actuary in accordance with IAS 19. The HGPS assets are stated at their fair values as at 31 December 2014.

The Group expects to contribute approximately £7.6m to the HGPS in the year ending 31 December 2015 (defined benefit and money purchase sections). Benefits paid via the unfunded arrangements are paid directly by the Group and are expected to be £0.2m in 2015.

As with the vast majority of similar arrangements in the United Kingdom, the Group ultimately underwrites the risks relating to these defined benefit plans. These risks include investment risks and demographic risks, such as the risk of members living longer than expected.

## 21.2 Amounts recognised in the financial statements

Retirement benefit assets and obligations recognised in the Consolidated Statement of Financial Position

	2014 £m	2013 £m
<b>Retirement benefit assets recognised in the Consolidated Statement of Financial Position</b>		
Henderson Group Pension Scheme	128.1	104.4
<b>Retirement benefit obligations recognised in the Consolidated Statement of Financial Position</b>		
Henderson Group unapproved pension scheme	(8.5)	(7.9)
<b>Net retirement benefit asset recognised in the Consolidated Statement of Financial Position</b>	<b>119.6</b>	96.5

Pension service cost recognised in the Consolidated Income Statement

	2014 £m	2013 £m
<b>Charges/(credits) relating to defined benefit and unapproved schemes</b>		
GPS administration expense in excess of reserve	–	0.3
Administration costs	0.8	1.0
Current service cost	1.1	1.8
Net interest credit	(4.5)	(6.4)
	<b>(2.6)</b>	(3.3)
<b>Contributions to money purchase members' accounts</b>	<b>5.1</b>	5.3
<b>Net charge to the Consolidated Income Statement</b>	<b>2.5</b>	2.0

Actuarial gains/(losses) recognised in the Consolidated Statement of Comprehensive Income

	2014 £m	2013 £m
Actuarial gains/(losses)	29.4	(36.9)
Tax at source	(11.8)	10.5
<b>Net gain/(loss) recognised in the Consolidated Statement of Comprehensive Income</b>	<b>17.6</b>	(26.4)

Reconciliation of present value of defined benefit obligations

	2014 £m	2013 £m
<b>At 1 January</b>	<b>414.9</b>	499.7
Current service cost	1.1	1.8
Interest cost	18.4	21.0
Actuarial (gains)/losses arising from:		
– experience	(3.8)	(3.3)
– demographic assumptions	–	8.5
– changes in financial assumptions	62.7	14.9
Benefit payments	(13.9)	(16.7)
Settlement on GPS wind-up	–	(111.0)
<b>At 31 December</b>	<b>479.4</b>	414.9

### Notes to the Financial Statements continued

#### Group and Company continued

#### 21.2 Amounts recognised in the financial statements continued

##### Reconciliation of fair value of defined benefit scheme assets

	2014 £m	2013 £m
<b>At 1 January</b>	<b>513.6</b>	639.1
Interest credit	<b>22.9</b>	27.4
Administration costs	<b>(0.8)</b>	(1.0)
GPS administration expense in excess of reserve	<b>–</b>	(0.3)
Actuarial gains/(losses) arising from scheme assets	<b>88.3</b>	(16.8)
Contributions	<b>2.8</b>	3.3
Benefit payments	<b>(13.8)</b>	(16.6)
Settlement on GPS wind-up	<b>–</b>	(111.0)
Refund on GPS wind-up (gross of tax at source)	<b>–</b>	(10.5)
<b>At 31 December</b>	<b>613.0</b>	513.6

##### Net retirement benefit asset recognised in the Consolidated Statement of Financial Position

	2014 £m	2013 £m
Present value of defined benefit obligations	<b>(479.4)</b>	(414.9)
Fair value of defined benefit scheme assets	<b>613.0</b>	513.6
Tax at source	<b>(14.0)</b>	(2.2)
<b>At 31 December</b>	<b>119.6</b>	96.5

##### Pension scheme assets

The major categories of assets in the HGPS are as follows:

	2014 £m	2013 £m
Growth portfolio		
– infrastructure	<b>5.5</b>	6.3
– diversified growth	<b>125.7</b>	126.8
Bond assets	<b>452.0</b>	353.4
Buy and maintain credit fund	<b>28.4</b>	25.1
Cash and cash equivalents	<b>1.4</b>	2.0
<b>At 31 December</b>	<b>613.0</b>	513.6

The assets of the HGPS are allocated to a growth portfolio and bond assets. The majority of the growth portfolio is invested in pooled diversified funds, with the objective of achieving a level of growth greater than the bond portfolio. A small proportion of the growth portfolio is invested in infrastructure investments. The bond portfolio is managed on a segregated basis, with the primary objective of meeting the cash flows as they mature.

The current strategic allocation is broadly 25% growth assets and 75% bond assets. For strategic purposes, the buy and maintain credit fund is split evenly between a growth portfolio and bond assets. The Trustee intends to increase the allocation to bond assets as the funding level of the HGPS (calculated on a 'self-sufficiency' basis) improves. With the exception of the infrastructure investments, all of the HGPS assets are quoted in active markets.

## 21.3 Actuarial assumptions

### Financial assumptions

For the purpose of the following disclosures, the retirement benefit arrangements have been combined on the grounds of materiality.

	<b>2014</b>	2013
	<b>% per annum</b>	% per annum
Discount rate	<b>3.6</b>	4.5
Rate of increase in pensionable salaries	<b>2.5</b>	2.5
Inflation (RPI)	<b>3.1</b>	3.5
Inflation (CPI)	<b>2.1</b>	2.5
Post-retirement mortality (expectancy of life):	<b>years</b>	years
Male currently aged 60	<b>28.3</b>	28.2
Female currently aged 60	<b>29.3</b>	29.7
Male aged 60 in 15 years	<b>29.7</b>	29.6
Female aged 60 in 15 years	<b>31.3</b>	31.2

### Amount, timing and uncertainty of future cash flows

The approximate impact of changing these main assumptions on the defined benefit obligation at 31 December 2014 is as follows:

- reducing the discount rate by 0.1% per annum would increase the IAS 19 defined benefit obligation by £9m (2013: £8m);
- increasing RPI inflation by 0.1% per annum would increase the IAS 19 defined benefit obligation by £3m (2013: £3m); and
- increasing the life expectancy of members by one year would increase the IAS 19 defined benefit obligation by £14m (2013: £14m).

There would also be an impact on the current service cost, but given the small active population in these plans this is likely to be immaterial.

The above sensitivity analysis may not be representative of the actual change as in practice the changes in assumptions may not occur in isolation. The weighted average duration of the defined benefit obligations is approximately 20 years (2013: 19 years).

## 22. Provisions

### Group

	Void properties £m	Other £m	Total £m
<b>At 1 January 2014</b>	14.2	3.4	17.6
Additions	–	0.3	0.3
Finance charge	1.2	–	1.2
Utilised	(3.8)	(2.3)	(6.1)
Released	–	(0.2)	(0.2)
<b>At 31 December 2014</b>	<b>11.6</b>	<b>1.2</b>	<b>12.8</b>
Non-current	8.6	1.1	9.7
Current	3.0	0.1	3.1
<b>At 31 December 2014</b>	<b>11.6</b>	<b>1.2</b>	<b>12.8</b>

**Void properties** The void properties provision reflects the net present value of the excess of lease rentals and other payments on New Star and Gartmore properties with onerous contracts, over the amounts expected to be recovered from subletting these properties. The discounting of expected cash flows will be unwound during the term of the underlying leases (maximum of 11 years) as a void property finance charge to the Consolidated Income Statement.

### Other

Other provisions relate to issues which have arisen as a result of litigation and obligations during the course of the Group's business activities.

All provisions reflect the Group's current estimates of amounts and timings.

## Notes to the Financial Statements continued

### Group and Company continued

#### 23. Deferred tax

##### Group

Deferred tax assets/(liabilities) recognised by the Group and movements therein are as follows:

	Accelerated capital allowances £m	Retirement benefits £m	Intangible assets £m	Compensation plans £m	Other temporary differences £m	Total £m
<b>At 1 January 2013</b>	2.4	(21.2)	(45.5)	19.3	16.2	(28.8)
Acquisitions through business combinations	–	–	(0.1)	–	–	(0.1)
(Charge)/credit to the Consolidated Income Statement	(0.5)	2.8	16.3	(0.5)	(7.2)	10.9
Credit to the Consolidated Statement of Comprehensive Income	–	0.1	–	–	0.1	0.2
Credit to the Consolidated Statement of Changes in Equity	–	–	–	7.9	–	7.9
Impact of foreign exchange movement	(0.1)	–	–	–	(0.1)	(0.2)
<b>At 31 December 2013</b>	1.8	(18.3)	(29.3)	26.7	9.0	(10.1)
Reclassification	–	–	–	1.5	(1.5)	–
Acquisitions through business combinations	–	–	0.1	–	–	0.1
(Charge)/credit to the Consolidated Income Statement	(0.8)	(0.2)	10.6	7.3	(5.1)	11.8
Credit to the Consolidated Statement of Comprehensive Income	–	0.1	–	–	0.1	0.2
Charge to the Consolidated Statement of Changes in Equity	–	–	–	(4.8)	–	(4.8)
Impact of foreign exchange movement	–	–	–	–	(0.1)	(0.1)
<b>At 31 December 2014</b>	<b>1.0</b>	<b>(18.4)</b>	<b>(18.6)</b>	<b>30.7</b>	<b>2.4</b>	<b>(2.9)</b>

Deferred tax assets and liabilities in the above summary represent gross assets and liabilities as follows:

	Assets £m	Liabilities £m	Total £m
At 31 December 2013	39.3	(49.4)	(10.1)
<b>At 31 December 2014</b>	<b>36.0</b>	<b>(38.9)</b>	<b>(2.9)</b>

Included within other temporary differences is deferred tax on losses of £nil (2013: £5.8m).

At the reporting date, the Group has unused capital losses in respect of which no deferred tax has been recognised as utilisation of the capital losses is dependent on future taxable capital gains. The unrecognised deferred tax asset in respect of capital losses carried forward is £10.9m (2013: £12.0m), of which £0.5m (2013: £1.3m) will expire in four years if unused. The remaining capital losses have no expiry date.

At the reporting date, the Group has, in respect of losses and other temporary differences, a deferred tax asset which has not been recognised of £6.9m (2013: £9.6m). The asset has not been recognised as the timing of its realisation remains uncertain or its use is dependent on the existence of future taxable profits against which the tax losses and other temporary differences can be utilised. The tax losses and other temporary differences have no expiry date.

Deferred tax is not recognised in respect of taxable temporary differences associated with the Group's investments in overseas subsidiaries, branches, associates and joint ventures where the Group controls the timing of the reversal of the temporary differences and where the reversal of the temporary differences is not anticipated in the foreseeable future (2013: £nil).

## 24. Trade and other payables

	Group		Company	
	2014 £m	2013 (restated) £m	2014 £m	2013 £m
OEIC and unit trust creditors	87.2	107.8	–	–
Other creditors	42.6	46.3	3.0	1.7
Accruals	228.3	228.3	26.3	13.9
Deferred income	2.5	5.4	–	–
Amounts owed to subsidiaries	–	–	125.9	99.4
	<b>360.6</b>	387.8	<b>155.2</b>	115.0
Non-current	44.6	50.1	7.8	6.4
Current	316.0	337.7	147.4	108.6
	<b>360.6</b>	387.8	<b>155.2</b>	115.0

## 25. Share capital

Group and Company

### 25.1 Authorised share capital

	2014 £m	2013 £m
2,194,910,776 ordinary shares of 12.5 pence each	274.4	274.4

### 25.2 Allotted share capital

Allotted, called up and fully paid equity shares:

Shares in issue	no.	£m
<b>At 1 January 2013</b>	1,114,485,160	139.3
Issue of shares for share schemes	8,937,126	1.1
<b>At 31 December 2013</b>	1,123,422,286	140.4
Issue of shares for share schemes	15,744,909	2.0
<b>At 31 December 2014</b>	<b>1,139,167,195</b>	<b>142.4</b>

All ordinary shares in issue carry the same rights to receive dividends and other distributions declared, made or paid by the Company.

The Directors consider equity attributable to the owners of the parent to represent Group capital. The Directors manage the Group's capital structure on an ongoing basis. Changes to the Group's capital structure can be affected by adjusting the dividend policy, returning capital to shareholders or issuing new shares and other forms of capital.

## Notes to the Financial Statements continued

### Group and Company continued

#### 26. Reserves

##### Group and Company

##### Nature and purpose of reserves

The Consolidated Statement of Changes in Equity and Company Statement of Changes in Equity provide details of movements in equity for the Group and Company respectively.

##### Share premium

Share premium records the difference between the nominal value of shares issued and the full value of the consideration received or the market price on the day of issue.

##### Own shares held

Total own shares held had a cost of £94.7m (2013: £69.4m) and a market value of £103.8m (2013: £108.6m) as at 31 December 2014 and constituted 4.3% (2013: 4.2%) of the Company's issued share capital as at that date.

	2014 no. of shares	2013 no. of shares
Henderson Employee Trust 2000	<b>316,941</b>	768,514
HHG plc Employee Trust 2004	<b>60,000</b>	215,000
Henderson Employee Trust 2009	<b>28,656,728</b>	29,651,640
Henderson Group plc Employee Trust 2009	<b>15,603,766</b>	14,000,712
ACS HR Solutions UK Limited	<b>931,116</b>	1,592,876
Henderson Employee Share Ownership Trust	<b>2,933,747</b>	1,267,944
	<b>48,502,298</b>	47,496,686

The above trusts are used by the Group to operate the share-based compensation schemes as set out in note 11.

Shares are distributed to employees as and when they vest, in line with the terms of each scheme, under the administration of the trustees. ACS HR Solutions Share Plan Services (Guernsey) Limited, a Xerox Company, administers all of the above trusts.

##### Translation reserve

The translation reserve comprises differences on exchange arising from the translation of opening statements of financial position of subsidiaries, whose functional currency is not GBP which are not part of a designated hedge relationship, and differences between the results of these subsidiaries translated at average rates for the reporting year and period end rates.

The translation reserve also includes unrealised foreign exchange gains and losses on available-for-sale financial assets which are not part of a designated hedge relationship. Upon disposal or impairment of these assets, amounts previously recognised in the translation reserve are recycled out and the cumulative amount of the gain or loss is recognised in the Consolidated Income Statement.

##### Revaluation reserve

The revaluation reserve comprises the amount of any unrealised gain or loss recognised in the Consolidated Statement of Comprehensive Income in relation to available-for-sale financial assets which are not part of a designated hedge relationship.

Upon disposal or impairment of these assets, amounts previously recognised in the revaluation reserve are recycled out and the cumulative amount of the gain or loss is recognised in the Consolidated Income Statement.

##### Profit and loss reserve

The profit and loss reserve comprises:

- results recognised through the Consolidated and Company Income Statement;
- actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income, net of tax;
- dividends paid to equity shareholders; and
- transactions relating to share-based payments.

## 27. Financial risk management

### Financial risk management objectives and policies

Financial assets principally comprise investments in equity securities, short-term investments, trade and other receivables and cash and cash equivalents. Financial liabilities comprise borrowings for financing purposes, trade and other payables and provisions. The main risks arising from financial instruments are price, interest rate, liquidity, foreign currency and credit. Each of these risks is examined in detail below. The Group monitors financial risks on a consolidated basis and intra-group balances are settled when it is deemed appropriate for both parties to the transaction. The Company is not exposed to material financial risk and separate disclosures for the Company have not been included.

The Group has designed a framework to manage the risks of its business and to ensure that the Directors have in place risk management practices appropriate for a listed company. The management of risk within the Group is governed by the Board and overseen by the Board Risk Committee.

### 27.1 Price risk

Price risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group.

The Group is exposed to price risk in respect of its direct investment in seed capital investments in Group funds (being available-for-sale financial assets, fair value through profit or loss financial assets and held for sale assets) and consolidated structured entities. Seed capital investments vary in duration, depending on the nature of the investment, with a typical range of less than one year for equity, fixed income and multi-asset products and between three and seven years for private equity and property products. The total market value of the Group's direct investment in seed capital investments at 31 December 2014, including those designated as held for sale, was £116.4m (2013: £77.2m).

Management monitors exposures to price risk on an ongoing basis. Significant movements in investment values are monitored on a daily basis. Where appropriate, management will hedge price risk. At 31 December 2014, investments with a carrying value of £80.0m (2013: £38.0m) were hedged against price risk through the use of CFDs, CDXs, futures and TRSs.

#### Price risk sensitivity analysis on seed capital investments

	2014		2013	
	Consolidated Income Statement £m	Consolidated Statement of Comprehensive Income £m	Consolidated Income Statement £m	Consolidated Statement of Comprehensive Income £m
Market value movement +/- 10%	–	3.6	–	3.9

### 27.2 Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest rates, either through a mismatch of interest-bearing assets and liabilities, or through the effect such movements have on the value of interest-bearing instruments.

The Group is exposed to interest rates on banking deposits held in the ordinary course of business. Seed capital investments are not currently exposed to interest rate risk. This exposure is monitored by management on a continuous basis.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on the debt instrument classified as fixed rate is fixed until the maturity of the instrument.

Included in the Group's total cash balance of £242.8m (2013: £232.3m), including held for sale, are cash balances that are held in floating rate deposits of £217.8m (2013: £217.9m). The Group's financial liabilities are not exposed to interest rate risk.

## Notes to the Financial Statements continued

### Group and Company continued

#### 27.3 Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due.

Group liquidity is managed on a daily basis by the Group's Finance function, to ensure that the Group has sufficient cash or highly liquid assets available to meet its liabilities. Finance also controls and monitors the use of the Group's non-operating capital resources. It is the Group's policy to ensure that it has access to funds to cover all forecast commitments for at least the next 12 months.

The maturity dates of the Group's financial liabilities and obligations, including those classified as held for sale, are as follows:

At 31 December 2014

	Within 1 year or repayable on demand £m	Within 2-5 years £m	After 5 years £m	Total £m	Carrying value in the Consolidated Statement of Financial Position £m
Debt instrument in issue (including interest)	10.9	155.4	–	166.3	152.4
Trade and other payables (excluding deferred income and accrued debt interest)	309.6	14.4	–	324.0	324.0
Trade and other payables (excluding deferred income and accrued debt interest) at fair value through profit or loss	29.0	32.8	1.9	63.7	57.1
Provisions	3.4	8.0	3.4	14.8	12.8
	<b>352.9</b>	<b>210.6</b>	<b>5.3</b>	<b>568.8</b>	<b>546.3</b>

At 31 December 2013

	Within 1 year or repayable on demand £m	Within 2-5 years £m	After 5 years £m	Total (restated) £m	Carrying value in the Consolidated Statement of Financial Position (restated) £m
Debt instrument in issue (including interest)	10.9	166.3	–	177.2	151.9
Trade and other payables (excluding deferred income and accrued debt interest)	335.0	25.4	–	360.4	360.4
Trade and other payables (excluding deferred income and accrued debt interest) at fair value through profit or loss	–	23.3	–	23.3	23.3
Provisions	7.3	7.8	6.7	21.8	17.6
	353.2	222.8	6.7	582.7	553.2

#### 27.4 Foreign currency risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in foreign currency exchange rates.

The Group is exposed to foreign currency risk through its exposure to non-GBP income, expenses, assets and liabilities of its overseas subsidiaries as well as net assets and liabilities denominated in a currency other than GBP. The currency exposure is managed by monitoring foreign currency positions. The Group uses forward foreign currency contracts to reduce or eliminate the currency exposure on certain individual transactions. The Group also seeks to use natural hedges to reduce exposure. Where there is a mismatch on material currency flows and the timing is reasonably certain, they are actively hedged. Where there is insufficient certainty, the currency is translated back into GBP on receipt. Foreign currency risk management is overseen by the Hedge Committee and hedge effectiveness is reported to the Board monthly.

A rolling programme of forward foreign currency contracts has been implemented to hedge the currency exposures arising from certain seed capital investments (being available-for-sale financial assets, fair value through profit or loss financial assets or held for sale assets) and consolidated structured entities with a year end notional value of USD80.2m, EUR10.9m and AUD30.0m (2013: USD84.7m, EUR8.9m and AUD5.0m) (refer to note 27.6).

### Foreign currency risk sensitivity analysis

Seed capital investments are either denominated in GBP or hedged back to GBP using forward foreign currency contracts based on the Group's hedging policy. However, there remain some seed capital investments which are not fully hedged as they fall below the policy level for implementing hedging arrangements. In addition, there are unhedged foreign currency cash balances and net trading receipts in subsidiaries of the Group.

The table below illustrates the impact of adjusting year end exchange rates on all unhedged financial assets and liabilities, including those classified as held for sale, denominated in currencies material to the Group other than GBP:

### Foreign currency sensitivity analysis

	2014		2013	
	Consolidated Income Statement £m	Consolidated Statement of Comprehensive Income £m	Consolidated Income Statement £m	Consolidated Statement of Comprehensive Income £m
US dollar +/- 10%	0.7	0.6	1.6	2.4
Singaporean dollar +/- 10%	2.1	1.0	0.9	0.2
Australian dollar +/- 10%	0.7	0.2	0.3	0.1
Japanese yen +/- 10%	0.1	0.1	0.1	0.4
Euro +/- 10%	3.3	3.8	–	1.3

## 27.5 Credit risk

Credit risk is the risk of a counterparty of the Group defaulting on funds deposited with it or the non-receipt of a trade debt.

The Group has an established credit policy to ensure that it only transacts with counterparties that are able to meet satisfactory rating requirements. Counterparty limits are reviewed and set centrally by the Credit Risk Committee. Management is responsible for ensuring that it remains within these limits and the Risk function monitors and reports any exceptions to the policy. The Group has not suffered any losses as a result of trade debtor or counterparty defaults during the year (2013: £nil).

The Risk function is also responsible for reporting credit exposures to the Board Risk Committee on a quarterly basis and for ensuring that any credit concerns are raised and actions taken to mitigate risks.

The table below contains an analysis of current and overdue trade debtors, including those classified as held for sale. All other financial assets are not past due.

### At 31 December 2014

	Not past due £m	0-3 months past due £m	3-6 months past due £m	6-12 months past due £m	Greater than 12 months past due £m	Total £m
Accrued income, OEIC and unit trust debtors and trade and other debtors	258.8	2.4	1.4	4.9	0.1	267.6

### At 31 December 2013

	Not past due £m	0-3 months past due £m	3-6 months past due £m	6-12 months past due £m	Greater than 12 months past due £m	Total £m
Accrued income, OEIC and unit trust debtors and trade and other debtors	247.0	4.2	0.8	0.6	1.0	253.6

Included within financial assets is £45.1m (2013: £35.7m) due from a single fund where the Group has a priority call on assets.

## Notes to the Financial Statements continued

### Group and Company continued

#### 27.5 Credit risk continued

The table below contains an analysis of cash and cash equivalents, including balances classified as held for sale, as rated by Fitch Ratings. All other financial assets of the Group are generally not rated.

At 31 December 2014

	AAA £m	AA £m	A £m	BBB/ not rated £m	Total £m
Cash and cash equivalents	<b>36.9</b>	<b>125.6</b>	<b>80.1</b>	<b>0.2</b>	<b>242.8</b>

At 31 December 2013

	AAA £m	AA £m	A £m	BBB/ not rated £m	Total (restated) £m
Cash and cash equivalents	40.9	104.2	86.8	0.4	232.3

#### 27.6 Hedging activities

At 31 December 2014, the Group held a number of derivative instruments, including CFDs, CDXs, futures and TRSs to hedge the price risk arising from the Group's direct investment in seed capital. These have been assessed as effective fair value hedges. The net realised and unrealised loss arising on these and other instruments entered into throughout the year amounted to £3.2m (2013: £0.3m loss) and has been offset in the Consolidated Income Statement by £2.0m (2013: £0.2m gain), being the net realised and unrealised gain on certain seed capital investments in designated hedging relationships during the year.

At 31 December 2014, the fair value of these derivatives was £0.8m asset (2013: £0.4m asset). At 31 December 2014, the Group held forward foreign currency contracts to hedge the foreign currency risk arising from certain seed capital investments denominated in US and Australian dollars and euros. Refer to note 27.4 for the year end notional value.

## 28. Leases

### Group

#### Operating leases

The Group is party to four material property leases. A 20.5 year operating lease was entered into during 2008 on 201 Bishopsgate, London, which provides for reviews to open market rent on every fifth anniversary of the lease and provided an initial rent-free period of 30 months. The rental expense on this lease is being recognised on a straight-line basis over the lease period.

On acquisition of New Star and Gartmore, the Group became party to three further material operating leases. These are in relation to 1 Knightsbridge Green, London, 8 Lancelot Place, London and Rex House, Queen Street, London. At the reporting date, the leases run for a period of two, eight and 11 years respectively. A void properties provision has been recognised for these leases at the net present value of the net expected future cash outflows (refer to note 22).

The future minimum lease payments under the four non-cancellable operating leases fall due as follows:

	2014 £m	2013 £m
Within one year	<b>15.1</b>	15.0
In two to five years inclusive	<b>52.9</b>	55.2
After five years	<b>84.0</b>	96.6
<b>Total</b>	<b>152.0</b>	166.8

The total future minimum sublease payments expected to be received under non-cancellable subleases within one year at the reporting date, were £6.1m (2013: £5.3m).

## 29. Capital commitments

### Group and Company

The amounts of capital expenditure contracted for but not provided for in the financial statements at 31 December 2014 amounted to £nil (2013: £nil).

## 30. Related party transactions

### Company

Details of transactions between the Company and its controlled entities, which are related parties, together with amounts due from and to these related parties at the reporting date, are disclosed below:

	2014 £m	2013 £m
<b>Transactions with related parties during the year</b>		
Capital contributions to indirect subsidiary companies	28.8	29.6
Dividends received	98.4	82.0
Funding from subsidiary companies	24.2	8.0
<b>Amounts owed by/(to) related parties at 31 December</b>		
Amounts owed by subsidiary companies	2.3	–
Amounts owed to subsidiary companies	(125.9)	(99.4)

### Group

Disclosures relating to investments accounted for using the equity method and Group pension schemes are covered under notes 15.2 and 21 respectively. Transactions between the Company and its controlled subsidiaries and between controlled subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### Compensation of key management personnel (including Directors)

The aggregate annual remuneration of Code Staff and all Directors, representing key management personnel, is disclosed below:

	2014 £m	2013 £m
Short-term employee benefits	15.0	12.7
Post-employment benefits	0.4	0.4
Share-based payments	5.9	7.8
	<b>21.3</b>	<b>20.9</b>

Share-based payments attributable to key management personnel are calculated based on the value of awards that have vested in the year.

As at 31 December 2014, there were 11.3m unvested £nil cost options (2013: 11.0m) and 2.2m unvested £nil cost shares outstanding (2013: 4.4m) for this population. In addition, the value of unvested units held in funds at 31 December 2014 was £2.7m (2013: £1.3m).

### Notes to the Financial Statements continued

#### Group and Company continued

#### 31. Contingent liabilities

##### Group

The following contingent liabilities existed or may exist at 31 December 2014:

- In the normal course of business, the Group is exposed to certain legal or tax matters, which could involve litigation and arbitration, and may result in contingent liabilities;
- In the normal course of business, the Group enters into derivative contracts for Group hedging purposes. Such contracts can give rise to contingent liabilities;
- Under the Implementation Agreement dated 6 July 2010 relating to the transfer of management responsibilities to Aviva Investors for the Henderson International Property Fund, the Group gave certain tax related warranties for a period of six years from the date of the agreement. These warranties are subject to certain exclusions and limitations, including a financial cap;
- Under the Facilitation Agreement dated 8 December 2010 relating to the merger of the assets of the Henderson Liquid Assets Fund (HLAF) into the Deutsche Managed Sterling Fund, the Group gave: (a) certain warranties relating to itself and HLAF; and (b) indemnities against certain losses arising from liabilities of HLAF existing prior to the effective date of the merger, certain warranted statements being untrue and any miscalculation of the net asset value of HLAF in the period prior to the effective date of the merger. These warranties and indemnities are subject to certain exclusions and limitations, including a financial cap. The warranties relating to taxation will expire on 28 February 2018 and all other warranties will expire on 28 February 2015; the indemnities will expire on 28 February 2017;
- Under the Share Purchase Agreement dated 13 May 2011 relating to the sale of the entire issued share capital of WorldInvest Management Ltd. to Connor, Clark & Lunn UK Limited (CC&L), the Group gave an indemnity against losses suffered by CC&L arising from prior acts, omissions, liabilities or obligations of New Star Institutional Managers Limited that do not relate to its business, with no expiry date;
- Under the Share Sale Agreement dated 1 November 2011 relating to the sale of the entire issued share capital of Gartmore JV Limited to Hermes Fund Managers Limited, the Group gave an indemnity against any liabilities of Gartmore JV Limited existing prior to, or arising as a result of, completion of the sale, subject to certain exceptions. The indemnity is subject to certain exclusions and limitations, including a financial cap, with no expiry date;
- Under the Joint Venture and Shareholder Agreement dated 17 May 2012 with Sesame Bankhall Group Limited (Sesame) relating to Optimum Investment Management Limited (OIML) which acts as authorised corporate director of an OEIC: (a) the Group gave to Sesame and OIML certain warranties relating to OIML; and (b) the Group gave to OIML certain indemnities in respect of losses that may be suffered by OIML and which arise from acts, omissions or circumstances occurring prior to completion of that agreement. Those warranties and indemnities are subject to certain exclusions and limitations and will expire on 17 May 2019;
- Under the Implementation Agreement dated 24 June 2013 relating to the contribution of the Henderson property business outside North America (the non-US Property Business) to a joint venture company (named TIAA Henderson Real Estate Limited) with TIAA-CREF Asset Management Inc., the Group gave: (a) certain warranties and tax covenants relating to itself and the non-US Property Business; and (b) certain indemnities against (i) certain losses that may be incurred by certain companies prior to completion of the transaction or that may arise as a result of completion, (ii) certain undertakings being breached and (iii) stamp duty being incurred in connection with the transfer of shares in certain companies to be transferred to the joint venture. These warranties, covenants and indemnities are subject to certain exclusions and limitations, including (other than in relation to certain of the indemnities referred to in (b)(i) above) a financial cap. The warranties relating to matters other than taxation will expire on the date being six months after delivery to the shareholders of TIAA Henderson Real Estate Limited of its audited consolidated financial statements for the year ended 31 December 2014. The tax warranties and tax covenant will expire on the seventh anniversary of completion of the transaction;
- Under the Asset Purchase Agreement dated 24 June 2013 relating to the sale and purchase of the Henderson property business in North America (the US Property Business) to Teachers Insurance and Annuity Association of America (TIAA), the Group gave: (a) certain representations and warranties relating to itself and the US Property Business; and (b) an indemnity against certain losses that may arise from (i) any inaccuracy in any representation or warranty given under the Asset Purchase Agreement, (ii) failure to perform any covenant or agreement under the Asset Purchase Agreement, (iii) any liabilities specifically excluded from the transaction, (iv) all taxes of the Group not relating to the US Property Business and any pre-completion taxes and (v) certain employee related liabilities other than any that may be assumed by TIAA under the Asset Purchase Agreement. These representations, warranties and indemnities are subject to certain exclusions and limitations, including a financial cap. The representations and warranties (other than those relating to authorisation, corporate status and taxes) will expire 18 months after completion of the transaction;

- Under the terms of the Gartmore Pension Scheme wind-up, the indemnity provided by the Group to the Trustee, covering all liabilities and expenses incurred by the Trustee, including actions against it, will continue for 12 years after the signing of the deed of termination on 10 February 2014; and
- Under the Share Sale Agreement dated 30 April 2014, and completed on 1 December 2014, relating to the acquisition of Henderson Global Investors (Holdings) Limited's 50% shareholding in Intrinsic Cirilium Investment Company Limited (ICICL) by its joint venture partner, Intrinsic Financial Services Limited, the Group provided certain warranties relating to its shareholding and the conduct of ICICL during the period during which it was a joint venture company and indemnified ICICL for (a) 39.7% of losses suffered post completion relating to its conduct during this period; and (b) all losses arising to it relating to the period before it became a joint venture company. The warranties (other than certain fundamental warranties) are subject to certain exclusions and limitations including a financial cap and will expire 18 months following completion.

As at the date of approval of the 2014 financial statements, the Group and Company neither foresee nor have they been notified of any material claims under outstanding warranties and indemnities from the above-mentioned agreements.

## 32. Movements in controlled entities

### Group

#### 32.1 Acquisitions

On 30 June 2014, the Group announced the purchase of the entire issued share capital of Geneva Capital Management LLC (Geneva) which will add to the Group's US equities capability and US institutional client base and is the main factor in the recognition of goodwill. The deal completed on 1 October 2014 with the Group making an initial cash payment of USD124.3m (£76.7m). Two tranches of deferred consideration, payable over six years if revenue retention and growth targets are achieved, are also potentially payable. The gross amount of deferred consideration potentially payable will be between USDnil and USD79.5m (£nil and £51.0m).

	Note	2014 £m
Cash		76.7
Present value of contingent deferred consideration recognised in other creditors		10.0
<b>Total consideration</b>		<b>86.7</b>
Less:		
Trade and other receivables recognised on acquisition		(3.2)
Other net assets recognised on acquisition (including £0.6m of cash)		(0.4)
Investment management contracts recognised on consolidation	14	(48.9)
<b>Identifiable net assets recognised on acquisition</b>		<b>(52.5)</b>
<b>Goodwill recognised</b>	14	<b>34.2</b>

The contingent deferred consideration is calculated in two tranches and payable over six years on an annual basis if revenue retention and growth targets are achieved. Management has estimated the revenue of the business over the six year period applying probability weightings to various possible scenarios to arrive at the discounted liability which is recognised in the Consolidated Statement of Financial Position. Likely changes to these scenarios have been considered and do not result in a material difference to the carrying value of the deferred consideration.

The acquisition of Geneva is treated as an asset purchase for US tax purposes and under US tax rules tax deductible amortisation is available over a 15 year period on the value of the intangible assets which under tax rules totals £73.0m.

Geneva has contributed income and profit after tax of £4.1m and £3.0m respectively between the acquisition date and 31 December 2014. Had Geneva been acquired on 1 January 2014, the business would have contributed income and profit after tax of £17.5m and £11.7m respectively to the 2014 Consolidated Income Statement.

### Notes to the Financial Statements continued

#### Group and Company continued

#### 32.2 Disposals

On 1 April 2014, the Group contributed its non-US property business to a new joint venture with TIAA-CREF. In addition, the Group sold its North American property business to TIAA-CREF. As part of these transactions, the Group disposed of its controlling interests in the following entities:

- CLOF II (No 1 Nominee) Limited
- Henderson Administration Services Limited
- Henderson Asia-Pacific Indirect Property Fund Management Sarl
- Henderson Beteiligung Verwaltungs GmbH
- Henderson CLOF II (GP) Limited
- Henderson CLOF II (No 1 GP) Limited
- Henderson CLOF II (No 2 GP) Limited
- Henderson CLOF II (No 3 GP) Limited
- Henderson European Retail Property Fund Management Sarl
- Henderson Funds Management Jersey Limited
- Henderson Funds Management Vanquish (Jersey) Limited
- Henderson Funds Management Vanquish II (Jersey) Limited
- Henderson Global Investors (France) SAS
- Henderson Global Investors GP LLC
- Henderson Global Investors GP II LLC
- Henderson Global Investors GP IV LLC
- Henderson Global Investors Immobilien Austria GmbH
- Henderson Global Investors SGR Spa
- Henderson Indirect Property Fund (Europe) Management Sarl
- Henderson Joint Ventures Property Funds Management Sarl
- Henderson Matador LP General Partner Limited
- Henderson OMP (GP) Limited
- Henderson Property Holdings LLC
- Henderson Property Management Company (Luxembourg) No. 1 Sarl
- Henderson Property Management (Jersey) Limited
- Henderson Property Nominees Limited
- Henderson Property UK AIFM Limited
- Henderson Real Estate Asset Management Limited
- Henderson Real Estate Singapore Pte Ltd
- Henderson Shopping Centre Verwaltungs GmbH
- Henderson UK OM (LP1) (GP) Limited
- Henderson UK OM (LP1) Limited
- Henderson UK OM (LP2) (GP) Limited
- Henderson UK OM (LP2) Limited
- Henderson UK OM (LP3) (GP) Limited
- Henderson UK OM (LP3) Limited.

### 33. Restatement

#### IFRS 10 restatement

As disclosed in note 2, the Group adopted IFRS 10 on 1 January 2014, which has led to the Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity to be restated to reflect the consolidation of certain structured entities previously not consolidated. The impact on the year ended 31 December 2013 is set out below.

#### Consolidated Statement of Financial Position

	As at 31 December 2013 Reported £m	Adjustments £m	Other £m	As at 31 December 2013 Restated £m
<b>Impact on line items</b>				
Available-for-sale financial assets	39.0	23.1	–	62.1
Financial assets at fair value through profit or loss	19.2	–	0.4	19.6
Current trade and other receivables	217.1	0.1	(0.4)	216.8
Cash and cash equivalents	216.4	0.6	–	217.0
Non-current trade and other payables	(26.8)	(23.3)	–	(50.1)
<b>Impact on net assets</b>				
Net assets	835.8	0.5	–	836.3

The same IFRS 10 adjustments were applied for the year ended 31 December 2012.

#### Consolidated Statement of Changes in Equity

	Share capital £m	Share premium £m	Own shares held £m	Translation reserve £m	Revaluation reserve £m	Profit and loss reserve £m	Non- controlling interests £m	Total equity £m
<b>As at 1 January 2013 – reported</b>	139.3	693.8	(100.8)	5.3	7.4	35.6	0.6	781.2
Adjustments	–	–	–	0.4	2.5	(5.9)	3.5	0.5
<b>As at 1 January 2013 – restated</b>	139.3	693.8	(100.8)	5.7	9.9	29.7	4.1	781.7

#### Employee compensation and benefits

The composition of employee compensation and benefits has been reviewed in the year and has resulted in certain items (including training and recruitment agency costs) being reclassified from employee compensation and benefits to other expenses, all within operating expenses. The prior year numbers have been restated to reflect this change resulting in employee compensation and benefits for the year ended 31 December 2013 decreasing by £2.8m, with the offsetting increase in other expenses, see notes 4 and 5. There is no impact on either the 2014 or 2013 profit.

### 34. Events after the reporting date

#### Group

The Board had not, as at 24 February 2015, being the date the financial statements were approved, received any information concerning significant conditions in existence at the reporting date, which has not been reflected in the financial statements as presented. The Board has, however, given due regard to the event described below which occurred after the reporting date.

On 17 February 2015, a fund managed by the Group received beneficial title to cash and shares in John Laing plc, a newly listed entity on the LSE. As a result of this transaction, net management fees owed to and recognised by the Group totalling c£42.0m as at 31 December 2014 are backed by cash and John Laing plc shares. The fund is restricted from trading in these shares until 30 September 2015 at which point the appropriate amount of shares will be distributed to the Group to satisfy all, or in part, fees still outstanding and owed to the Group.

# Glossary

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## 2016 Notes

Senior, unrated fixed rate notes due 24 March 2016

## AGM

Annual General Meeting

## AIFMD

EU Alternative Investment Fund Managers Directive

## ASX

Australian Securities Exchange

## AUM

Assets under management

## BAYE

Buy As You Earn Share Plan

## Board

The board of directors of Henderson Group plc

## bps

Basis points

## BRC

Board Risk Committee

## CDIs

CHESS Depository Interests

## CDP

Formerly known as Carbon Disclosure Project

## CDS

Credit Default Swap

## CDXs

Credit Default Indices

## CFDs

Contracts For Difference

## CFO

Chief Financial Officer

## CIO

Chief Investment Officer

## Code Staff

Employees who perform a significant influence function, senior management and risk takers whose professional activities could have a material impact on a firm's risk profile

## Company

Henderson Group plc

## compensation ratio

Employee compensation and benefits from continuing operations divided by net income from continuing operations

## CPI

Consumer Price Index

## CRO

Chief Risk Officer

## CSOP

Company Share Option Plan

## DEP

Deferred Equity Plan

## Directors

The directors of Henderson Group plc

## EAFE

Europe, Australasia and Far East

## EBITDA

Earnings before interest, tax, depreciation and amortisation

## EMEA

Europe, Middle East and Africa

## EMIR

European Market Infrastructure Regulation

## EPS

Earnings per share

## ESG

Environmental, Social and Governance

## ESOP

Employee Share Ownership Plan

## ExCo

Executive Committee

## Executive Directors

Being the Chief Executive and Chief Financial Officer

## ExSOP

Executive Shared Ownership Plan

## FCA

The UK Financial Conduct Authority

## FRC

Financial Reporting Council

## FSCS

Financial Services Compensation Scheme

## Fund II

Henderson PFI Secondary Fund II L.P.

## FX

Foreign Exchange

## GAAP

Generally accepted accounting principles

## Gartmore

Gartmore Group Limited and its controlled entities

## Gartmore acquisition

The acquisition of the entire share capital of Gartmore Group Limited

## Geneva

Geneva Capital Management LLC

## GHG emissions

Greenhouse Gas emissions

## GPS

Gartmore Pension Scheme

## Group

Henderson Group plc and its controlled entities

## hedge funds

Hedge funds including absolute return funds

## Henderson

Controlled entities of Henderson Group plc carrying out core investment management activities

## HGPS

Henderson Group Pension Scheme

## HIAF

Henderson Liquid Assets Fund

## HMRC

HM Revenue & Customs

## HR

Human Resources

## IAS

International Accounting Standard

## ICAAP

Internal Capital Adequacy Assessment Process

## ICICL

Intrinsic Cirilium Investment Company Limited

**IFRS IC**

International Financial Reporting Standards Interpretations Committee

**IFRS**

International Financial Reporting Standards as adopted by the European Union

**IPO**

Initial Public Offering

**IRR**

Internal Rate of Return

**IRS**

International Revenue Service

**ISG**

Investment Strategy Group

**KPI**

Key performance indicator

**LLC**

Limited Liability Company

**LLP**

Limited Liability Partnership

**LSE**

London Stock Exchange

**LTIP**

Long-Term Incentive Plan

**management fee margin**

Management fees divided by average assets under management

**net margin**

Underlying profit from continuing operations divided by average assets under management

**New Star**

New Star Asset Management Group PLC and its controlled entities

**OEIC**

Open-Ended Investment Company

**OIML**

Optimum Investment Management Limited

**operating margin**

Net fee income from continuing operations less total operating expenses from continuing operations divided by net fee income from continuing operations

**OTC**

Over The Counter

**PwC**

PricewaterhouseCoopers LLP

**RPI**

Retail Price Index

**RSP**

Restricted Share Plan

**SAYE**

Sharesave Scheme

**SICAV**

Société d'investissement à capital variable (collective investment scheme)

**TCF**

Treating Customers Fairly

**TH Real Estate**

The joint venture vehicle named TIAA Henderson Real Estate Limited into which the Group contributed its European and Asian property business

**TIAA-CREF transactions**

The agreement to sell the North American property business and to contribute the European and Asian property business into a newly formed joint venture TIAA Henderson Real Estate Limited

**total fee margin**

Net fee income from continuing operations divided by average assets under management

**TRSs**

Total return swaps

**TSR**

Total Shareholder Return

**UCITS**

Undertaking for Collective Investment in Transferable Securities

**UK/United Kingdom**

The United Kingdom of Great Britain and Northern Ireland

**UK Companies Act**

Companies Act 2006

**UNPRI**

United Nations Principles for Responsible Investment

# Shareholder information

As at 24 February 2015

## Total number of holders of shares and CDIs and their voting rights

The issued share capital of Henderson Group plc consisted of 1,140,046,526 shares held by 39,839 security holders. This included 740,966,891 shares, held by CHESSE Depository Nominees Pty Limited (CDN), quoted on the ASX in the form of CHESSE Depository Interests (CDIs) and held by 35,043 CDI holders. Each registered holder of shares present in person (or by proxy, attorney or representative) at a meeting of shareholders has one vote on a vote taken by a show of hands, and one vote for each fully paid share held on a vote taken on a poll. CDI holders can instruct CDN to appoint a proxy on their behalf and can direct the proxy how to vote on the basis of one vote per person taken by a show of hands, and one vote per CDI on a vote taken on a poll.

## Twenty largest share/CDI holders

		Shares/CDIs	% of issued capital
1	J P Morgan Nominees Australia Limited	156,894,251	13.76
2	National Nominees Limited	135,343,466	11.87
3	HSBC Custody Nominees (Australia) Limited	101,892,762	8.94
4	Citicorp Nominees Pty Limited	98,213,589	8.61
5	Vidacos Nominees Limited	89,171,586	7.82
6	Wealth Nominees Limited	67,105,144	5.89
7	State Street Nominees Limited	64,444,480	5.65
8	RBC Investor Services Australia Nominees Pty Limited	60,927,761	5.34
9	BNP Paribas Noms Pty Ltd	52,534,258	4.61
10	Chase Nominees Limited	21,560,882	1.89
11	HSBC Global Custody Nominee (UK) Limited	18,390,766	1.61
12	Hargreaves Lansdown (Nominees) Limited	18,337,840	1.61
13	Nutraco Nominees Limited	11,682,673	1.02
14	UBS Nominees Pty Limited	11,531,775	1.01
15	UBS Wealth Management Australia Nominees Pty Ltd	6,075,640	0.53
16	CS Fourth Nominees Pty Limited	5,495,811	0.48
17	AMP Life Limited	5,165,209	0.45
18	Bond Street Custodians Limited	4,243,254	0.37
19	Nortrust Nominees Limited	4,209,293	0.37
20	BNY (OCS) Nominees Limited	4,171,184	0.37
Top 20 total		937,392,024	82.22
Total shares		1,140,046,526	100.00

## Distribution of share/CDI holdings

Categories	Number of holders	% of issued capital
1 – 1,000	29,170	1.34
1,001 – 5,000	7,689	1.49
5,001 – 10,000	1,460	0.93
10,001 – 100,000	1,241	2.82
100,001 and over	279	93.42
Total	39,839	100.00

1,101 share/CDI holders held less than A\$500 worth of shares/CDIs i.e. fewer than 97 shares/CDIs.

## Stock exchange listings

Henderson Group plc is listed on the LSE and its CDIs are quoted on the ASX.

## Substantial shareholders

Details of the Company's substantial shareholders are set out in the Directors' report on page 58.

## Total number of options over unissued shares

There were 36,690,825 options over unissued ordinary shares in the Company held by 721 option holders.

## Restricted securities

There are no restricted securities in issue.

## Buy-back

There is no current on-market buy-back of CDIs on the ASX. The Company has authority to purchase ordinary shares on the LSE, although no buy-backs were made under this authority in 2014.

## Company Secretary

Jacqui Irvine

## Principal place of business in the United Kingdom

201 Bishopsgate, London EC2M 3AE  
Phone: +44 (0) 20 7818 1818

## Registered office in Jersey

47 Esplanade, St Helier, Jersey JE1 0BD

## Registered office in Australia

Level 5, Deutsche Bank Place, 126 Phillip Street, Sydney NSW 2000  
Phone: +61 (0) 2 9230 4000

## Share registry

### Australia

Henderson Group Share Registry, GPO Box 4578, Melbourne Victoria 3001  
Phone: 1300 137 981 or +61 (0) 3 9415 4081  
Fax: +61 (0) 3 9473 2500

### Jersey

Henderson Group Share Registry, Queensway House, Hilgrove Street, St Helier, Jersey JE1 1ES  
Phone: +44 (0) 1534 281842  
Fax: +44 (0) 870 8735851

### New Zealand

Henderson Group Share Registry, Private Bag 92119, Auckland 1142  
Phone: 0800 888 017  
Fax: +64 (0) 9 4888787

## Email

CDI holders: [henderson@computershare.com.au](mailto:henderson@computershare.com.au)  
Shareholders: [info@computershare.co.je](mailto:info@computershare.co.je)

## Website

[www.henderson.com/IR](http://www.henderson.com/IR)

# Summary of movements in AUM

£m	Opening AUM 1 Jan 2014	Net flows	Market/FX	Acquisitions and disposals <sup>1</sup>	Closing AUM 31 Dec 2014	Closing AUM average net management fee bps <sup>2</sup>
<b>Retail</b>						
UK OEICs/Unit Trusts/Other	18,706	2,764	1,120	(1,975)	20,615	
SICAVs	10,607	3,065	499	–	14,171	
US Mutuals	5,009	781	215	–	6,005	
Investment Trusts	4,931	200	85	–	5,216	
<b>Total Retail</b>	<b>39,253</b>	<b>6,810</b>	<b>1,919</b>	<b>(1,975)</b>	<b>46,007</b>	74
<b>Institutional</b>						
UK OEICs/Unit Trusts	7,736	787	570	–	9,093	
SICAVs	1,341	(65)	(10)	–	1,266	
Offshore Absolute Return Funds	2,466	(13)	43	17	2,513	
Managed CDOs	387	(117)	(19)	–	251	
Segregated Mandates and Property	23,158	(626)	1,359	(8,361)	15,530	
TIAA Henderson Real Estate (40% share)	–	414	180	5,056	5,650	
Private Equity Funds <sup>3</sup>	869	(54)	8	–	823	
Other <sup>4</sup>	26	2	1	–	29	
<b>Total Institutional</b>	<b>35,983</b>	<b>328</b>	<b>2,132</b>	<b>(3,288)</b>	<b>35,155</b>	32
<b>Group total</b>	<b>75,236</b>	<b>7,138</b>	<b>4,051</b>	<b>(5,263)</b>	<b>81,162</b>	57
<b>Total asset class</b>						
Equities <sup>5</sup>	42,204	4,891	2,180	1,431	50,706	68
Fixed Income <sup>6</sup>	19,090	823	1,513	(104)	21,322	30
Property <sup>7</sup>	13,055	1,482	348	(6,590)	8,295	n/a
Private Equity <sup>3</sup>	887	(58)	10	–	839	128
<b>Total Group</b>	<b>75,236</b>	<b>7,138</b>	<b>4,051</b>	<b>(5,263)</b>	<b>81,162</b>	n/a
<b>Absolute Return analysis</b>						
Retail	1,924	1,427	44	–	3,395	
Institutional	3,084	236	(115)	17	3,222	
<b>Total Absolute Return</b>	<b>5,008</b>	<b>1,663</b>	<b>(71)</b>	<b>17</b>	<b>6,617</b>	

- Acquisitions and disposals include the disposal of the Property business and recognition of the Group's share of TIAA Henderson Real Estate Limited on 1 April 2014; the Group's share of an increased holding in 90 West Asset Management Limited; the acquisition of Geneva Capital Management on 1 October 2014; and, the disposal of the Group's interest in Intrinsic Cirilium Investment Company Limited on 1 December 2014.
- Closing management fee bps excludes joint venture and associates AUM.
- Private Equity funds' closing AUM is based on 30 September 2014 valuations.
- Other includes US Mutuals together with Australian managed investment schemes.
- Equities asset class includes Multi-Asset and Commodities.
- Fixed income includes Cash.
- Includes AUM of the Henderson UK Property OEIC which remains with the Group following establishment of the TH Real Estate joint venture.
- Certain items (including training and recruitment agency costs) have been reclassified from employee compensation and benefits to other expenses. There is no impact on prior year profits. Prior year comparatives have been restated.
- Net fee income from continuing operations less total operating expenses from continuing operations divided by net fee income from continuing operations.
- Employee compensation and benefits from continuing operations divided by net fee income from continuing operations.
- Net margin calculated on underlying profit before tax from continuing operations.
- Based on underlying profit after tax attributable to equity owners of the parent.
- Underlying profit, while not a GAAP measure, in the opinion of the Directors, gives relevant information on the profitability of the Group and its ongoing operations.
- Asset-weighted performance of funds measured over one and three years to 31 December 2014. Performance for 2013 and 2014 includes Henderson UK Property OEIC – all prior periods include Property and Henderson UK Property OEIC performance.

# Five year financial summary

	FY14 (audited) £m	FY13 (audited & restated) <sup>8</sup> £m	FY12 (unaudited & restated) <sup>8</sup> £m	FY11 (unaudited & restated) <sup>8</sup> £m	FY10 (unaudited & restated) <sup>8</sup> £m
<b>Income</b>					
Management fees (net of commissions)	403.5	331.9	301.9	309.8	234.3
Other income	32.5	34.9	39.2	48.3	31.6
Performance fees	82.8	94.5	30.4	63.4	42.3
<b>Net fee income from continuing operations</b>	<b>518.8</b>	461.3	371.5	421.5	308.2
Income/(loss) from associates and joint ventures	5.1	1.8	–	(0.9)	0.1
Finance income	10.1	10.2	14.1	11.6	5.8
<b>Net income from continuing operations</b>	<b>534.0</b>	473.3	385.6	432.2	314.1
<b>Expenses</b>					
<i>Fixed employee compensation and benefits</i> <sup>3</sup>	<b>(88.4)</b>	(80.6)	(83.3)	(82.3)	(65.3)
<i>Variable employee compensation and benefits</i>	<b>(143.6)</b>	(128.8)	(70.6)	(96.5)	(74.4)
Employee compensation and benefits	<b>(232.0)</b>	(209.4)	(153.9)	(178.8)	(139.7)
Investment administration	<b>(30.2)</b>	(24.4)	(24.8)	(27.2)	(22.3)
Information technology	<b>(17.1)</b>	(17.1)	(14.4)	(13.5)	(12.3)
Office expenses	<b>(15.0)</b>	(13.7)	(13.3)	(13.3)	(12.7)
Depreciation	<b>(4.7)</b>	(3.2)	(2.8)	(2.9)	(3.1)
Other expenses <sup>8</sup>	<b>(35.6)</b>	(28.9)	(35.5)	(39.0)	(37.5)
<b>Total operating expenses from continuing operations</b>	<b>(334.6)</b>	(296.7)	(244.7)	(274.7)	(227.6)
Finance expenses	<b>(11.6)</b>	(11.1)	(14.3)	(17.2)	(8.7)
<b>Total expenses from continuing operations</b>	<b>(346.2)</b>	(307.8)	(259.0)	(291.9)	(236.3)
<b>Underlying profit before tax from continuing operations</b> <sup>13</sup>	<b>187.8</b>	165.5	126.6	140.3	77.8
Underlying profit before tax from discontinued operation	<b>7.6</b>	24.6	26.4	19.7	22.5
<b>Underlying profit before tax from total operations</b> <sup>13</sup>	<b>195.4</b>	190.1	153.0	160.0	100.3
Tax on underlying profit from continuing operations	<b>(20.6)</b>	(17.9)	(15.3)	(30.2)	(16.0)
Tax on underlying profit from discontinued operation	<b>(1.3)</b>	(2.9)	(4.2)	(3.4)	(4.6)
<b>Total underlying profit after tax</b> <sup>13</sup>	<b>173.5</b>	169.3	133.5	126.4	79.7
Acquisition related items	<b>(57.0)</b>	(58.4)	(64.1)	(77.0)	(13.7)
Non-recurring items	<b>145.0</b>	(4.3)	13.8	(69.2)	(10.5)
Tax on acquisition related items	<b>11.2</b>	17.9	18.5	19.4	4.5
Tax on non-recurring items	<b>(14.2)</b>	0.6	4.7	16.2	0.6
Non-recurring tax credit	<b>–</b>	–	–	18.9	16.4
<b>Total acquisition related and non-recurring items after tax</b>	<b>85.0</b>	(44.2)	(27.1)	(91.7)	(2.7)
<b>Total profit</b>	<b>258.5</b>	125.1	106.4	34.7	77.0
<b>Attributable to:</b>					
Equity owners of the parent	<b>258.5</b>	125.1	106.2	34.8	77.5
Non-controlling interests	<b>–</b>	–	0.2	(0.1)	(0.5)
<b>Continuing KPIs</b>					
Operating margin <sup>9</sup> (%)	<b>35.5</b>	35.7	34.1	34.8	26.2
Compensation ratio <sup>8, 10</sup> (%)	<b>44.7</b>	45.4	41.4	42.4	45.3
Average number of full-time employees	<b>875</b>	812	861	838	735
Assets under management (AUM) at year end (£bn)	<b>81.2</b>	63.7	53.9	52.7	51.6
Average AUM for the year (£bn) for margin calculations on continuing basis	<b>69.9</b>	59.0	53.4	56.2	47.7
Management fee margin (bps)	<b>57.8</b>	56.3	56.5	55.1	49.1
Total fee margin (bps)	<b>74.3</b>	78.2	69.6	75.0	64.6
Net margin <sup>11</sup> (bps)	<b>26.9</b>	28.1	23.7	25.0	16.3
<b>Basic and diluted earnings per share (EPS)</b>					
Weighted average number of ordinary shares for basic EPS (m)	<b>1,085.2</b>	1,058.8	1,034.0	954.1	788.4
Weighted average number of ordinary shares for diluted EPS (m)	<b>1,139.8</b>	1,137.0	1,082.0	1,012.7	849.2
Basic on total underlying profit <sup>12, 13</sup> (p)	<b>16.0</b>	16.0	12.9	13.3	10.2
Basic on continuing underlying profit <sup>12, 13</sup> (p)	<b>15.4</b>	13.9	10.8	11.6	7.9
Basic (p)	<b>23.8</b>	11.8	10.3	3.6	9.8
Diluted on total underlying profit <sup>12, 13</sup> (p)	<b>15.2</b>	14.9	12.3	12.5	9.4
Diluted on continuing underlying profit <sup>12, 13</sup> (p)	<b>14.7</b>	13.0	10.3	10.9	7.3
Diluted (p)	<b>22.7</b>	11.0	9.8	3.4	9.1
Dividend per share (p)	<b>9.00</b>	8.00	7.15	7.00	6.50
<b>Investment performance</b> <sup>14</sup>					
Funds at or exceeding benchmark over one year (%)	<b>66</b>	78	73	59	70
Funds at or exceeding benchmark over three years (%)	<b>83</b>	82	69	66	62

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For more information, please go to our website:  
[henderson.com/IR](http://henderson.com/IR)

For shareholder queries, please contact the Henderson Group Share Registry:

### Australia

GPO Box 4578  
Melbourne, Victoria 3001

T: 1300 137 981 or  
+61 (0) 3 9415 4081  
F: +61 (0) 3 9473 2500

[web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

### Jersey

Queensway House  
Hilgrove Street, St Helier  
Jersey JE1 1ES

T: +44 (0) 1534 281842  
F: +44 (0) 870 873 5851

[info@computershare.co.je](mailto:info@computershare.co.je)

### New Zealand

Private Bag 92119  
Auckland 1142

T: 0800 888 017  
F: +64 (0) 9 488 8787

[web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

### Registered office:

47 Esplanade, St Helier  
Jersey JE1 0BD

## Forward-looking statements

This Annual Report contains forward-looking statements with respect to the financial condition, results and business of the Group.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events, and depend on circumstances, that will occur in future.

The Group's actual future results may differ materially from the results expressed or implied in these forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.



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