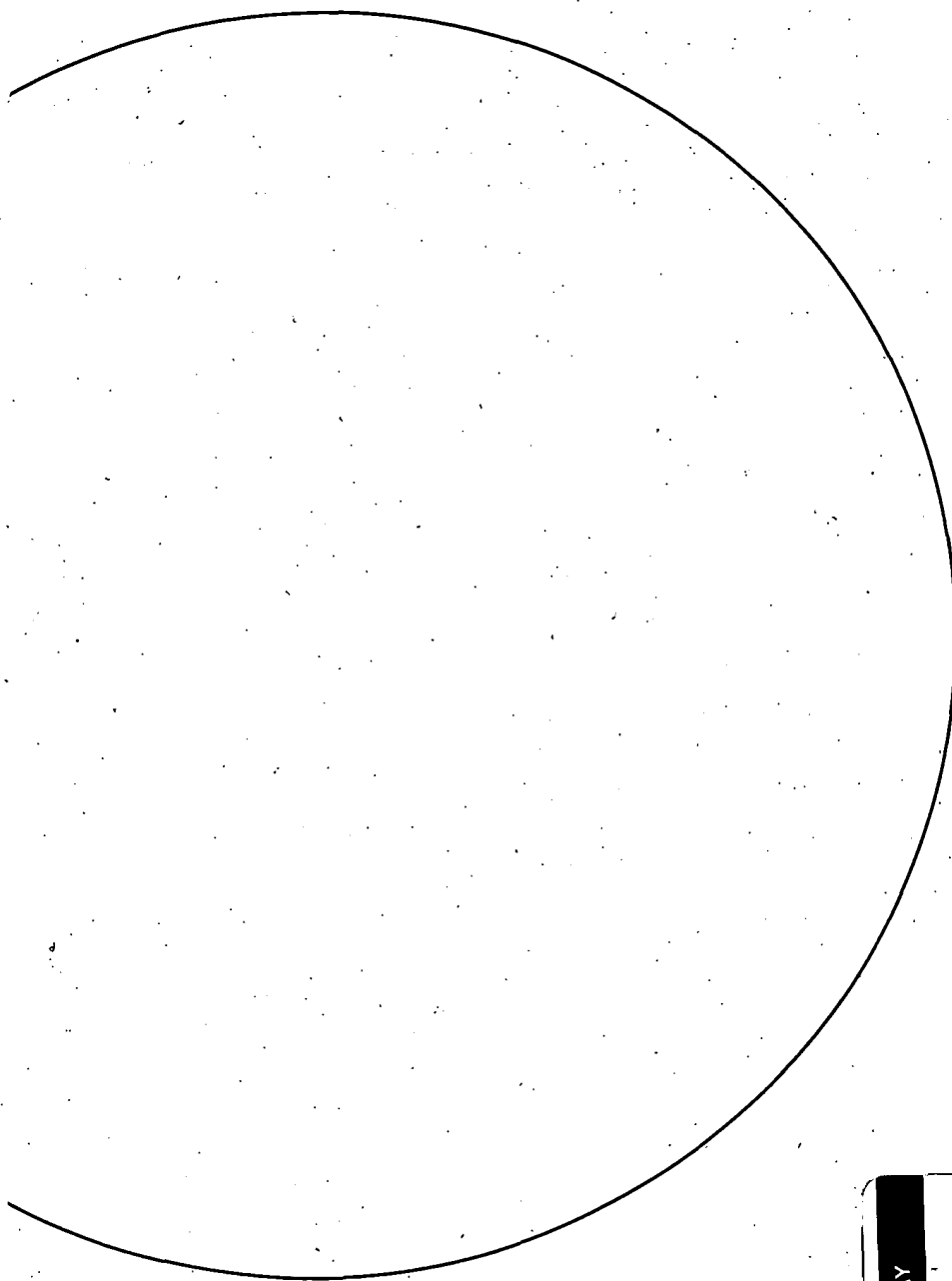
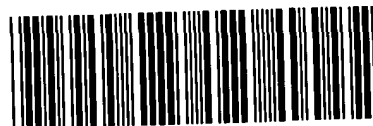


Annual Report 2020

The Henderson Smaller Companies Investment Trust plc



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Investment Objective

The Company aims to maximise shareholders' total returns (capital and income) by investing in smaller companies that are quoted in the United Kingdom.

Strategic Report

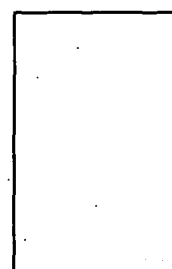
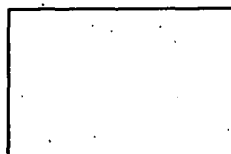
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Strategic Report

Performance

Total return performance to 31 May 2020⁶

Discount data to 31 May 2020

Total return performance to 31 May 2020

Dividends

Total return performance for the period ended 31 May 2020

	1 year %	3 years %	5 years %	10 years %
NAV ¹	-8.2	-0.4	27.2	281.0
Share price ²	-6.9	4.8	27.9	342.8
Benchmark ³	-15.9	-16.9	1.4	126.9
Average sector NAV ⁴	-11.3	-7.3	25.3	205.8
Average sector share price ⁵	-14.8	-10.1	17.9	215.7
FTSE All-Share Index	-11.2	-8.4	6.9	80.2

1 Net asset value ("NAV") per ordinary share total return with income reinvested

2 Share price total return using mid-market closing price with income reinvested

3 Numis Smaller Companies Index (excluding investment companies) total return

4 Average NAV total return of the AIC UK Smaller Companies sector

5 Average share price total return of the AIC UK Smaller Companies sector

6 NAV total return per ordinary share and share price total return compared to the total return of the benchmark over the year to 31 May 2020 rebased to 100

A glossary of terms and explanations of alternative performance measures are included on pages 76-78

Performance (continued)

Year to 31 May

NAV per share at year end

2020	2019
859.1p	958.7p

Share price at year end

2020	2019
777.0p	858.0p

Discount at year end¹

2020	2019
9.6%	10.5%

Gearing at year end

2020	2019
11.0%	8.4%

Dividend for year

2020	2019
23.5p²	23.0p

Revenue return per share

2020	2019
16.73p	23.59p

Dividend yield³

2020	2019
3.0%	2.7%

Total net assets

2020	2019
£642m	£716m

Ongoing charge excluding performance fee

2020	2019
0.42%	0.42%

Ongoing charge including performance fee

2020	2019
0.42%	0.42%

¹ Calculated using published daily NAVs with debt at par including current year revenue

² This represents an interim dividend of 7.0p and a proposed final dividend of 16.5p. See page 66 for more details

³ Based on the ordinary dividends paid and payable for the year and the mid-market share price at year end

A glossary of terms and explanations of alternative performance measures are included on pages 76-78

Sources: Morningstar for the AIC, Janus Henderson, Refinitiv Datastream

Chairman's Statement



Jamie Cayzer-Colvin
Chairman of the Board

“Over the last decade, the annualised NAV total return has been 14.3%, outperforming its benchmark by 5.8% per annum. The consistency of this outperformance reflects the quality of the investment style and approach of your Fund Manager and his team.

The Board recommends... a total dividend for the year of 23.5p, an increase of 2.2%. ”

Chairman's Statement

It is extraordinary how rapidly things can change. In my half-year report, my comments had an optimistic tone noting that the Conservative election victory had provided political clarity, removed the risk of a market-unfriendly Corbyn government and provided more certainty to our negotiations over Brexit, all of which would help UK smaller companies. All this changed in February and March as the market reacted negatively to the rapid spread of Covid-19 across the globe and both our net asset value ("NAV") and our share price fell sharply as global stock markets suffered a severe market correction.

Performance

During the year under review, your Company performed well in relative terms, outperforming its Numis Smaller Companies benchmark by 7.7% on a NAV total return basis, and its UK smaller companies investment trust peers by 3.1%. However, NAV total return fell by 8.2% and share price total return by 6.9%, reflecting a narrowing of the discount to NAV at which your Company's shares trade.

The Company has outperformed its benchmark in 15 of the 17 years in which Neil Hermon, your Fund Manager, has managed the investment portfolio, as well as outperforming over the last one, three, five and ten years. Over the last decade, the annualised NAV total return has been 14.3%, outperforming its benchmark by 5.8% per annum. The consistency of this outperformance reflects the quality of the investment style and approach of your Fund Manager and his team.

Revenue and dividend

There has been much press coverage about UK companies that are reducing or not declaring dividends. In line with most listed companies, your Company's revenues have been impacted by the economic downturn: the revenue return per share over the year under review was 16.7p, compared with 23.6p for the previous year. Your Company has a revenue reserve of £19.4 million at the year end, which can be used to smooth dividends in difficult years and your Board proposes using some of that this year. The Board therefore recommends a maintained final dividend of 16.5p per share, making a total dividend for the year of 23.5p (2019: 23.0p), an increase of 2.2%. The final dividend is subject to shareholder approval at the AGM.

Discount

Your Company's share price discount to NAV fluctuated widely over the year with highs and lows of -17.6% and a premium of +2.0% respectively, averaging -7.0%. This compares favourably with the sector average of -9.4%. The Company ended the year at a 9.6% discount compared with 10.5% on 31 May 2019. Your Board continues to monitor the discount and will consider the merits of buying back shares as markets evolve, though we do not currently believe that share buy-backs represent the most effective way of generating long-term shareholder value. During the reporting year, no shares in the Company were bought back.

Ongoing charge

The Board regularly reviews the ongoing charge and monitors the expenses incurred by the Company. For the year ended 31 May 2020, the base ongoing charge was 0.42%, with no performance fee payable. This charge was the same as in the previous year and remains well below the average ongoing charges ratio of the peer group. Further details of the ongoing charge are on page 22.

Board

As I reported in my statement last year, Beatrice Hollond retired from the Board at the 2019 AGM, with Alexandra Mackesy succeeding her as Audit Chairman and David Lamb as Senior Independent Director. I shall have completed nine years on the Board at this year's AGM. The Board has agreed a staggered succession plan, extending the length of my tenure by a year. Given the current difficult market conditions, this will ensure continuity and an orderly succession for the role of Chairman. I shall, therefore, stand down as a director and your Chairman at the conclusion of the 2021 AGM. David is overseeing the process of selecting my successor and I hope to be able to report progress at the half year. The succession plan means that there will now be a 15-month period where David and I overlap as directors at Polar Capital Holdings plc and your Company. The Board has discussed this carefully, and does not believe it will give rise to any conflicts, given the different nature of the companies and the directors' roles.

Annual General Meeting

The Company's AGM will be held at 4.00 pm on Monday, 21 September 2020. In view of the ongoing restrictions on public gatherings, we invite our shareholders to attend the AGM via a Zoom webinar, and urge shareholders to submit proxy forms to ensure their vote counts, as there will be no live voting. Your Fund Manager will present his review of the year and thoughts on the future during the webinar, and answer your questions, as will I and my fellow directors. Instructions on joining the meeting and further information on AGM arrangements are included in the Notice of AGM sent with this Annual Report and on our website at www.hendersonsmallercompanies.com.

We commit to holding physical meetings in future when this is legally allowed and can be accomplished safely. But in case of any further crises like the Covid-19 lockdown, we are putting to shareholders a proposed amendment to our Articles of Association to enable a combination of virtual and physical shareholder meetings.

Outlook

At the time of writing, your Fund Manager and support team are still working remotely, and doing this most effectively and efficiently. On behalf of the Board, I thank Janus Henderson and all our service providers for their hard work during the year and particularly over these last few months. I also wish our shareholders good health at this challenging time, and thank you for your continued faith in your Company.

Inevitably, the Covid-19 outbreak has changed expectations dramatically for both UK and global economic growth and this will have an impact on UK smaller companies. That said, UK companies generally entered this crisis in better shape than they did in the financial crisis of 2008/09 and I am optimistic that most will weather the storm successfully. Other uncertainties remain, including the prospects for agreeing a Brexit deal. As always in these times, it is reassuring to be able to rely on the experience and disciplined stock-picking approach of your Fund Manager.

Jamie Cayzer-Colvin
Chairman
30 July 2020

Performance attribution

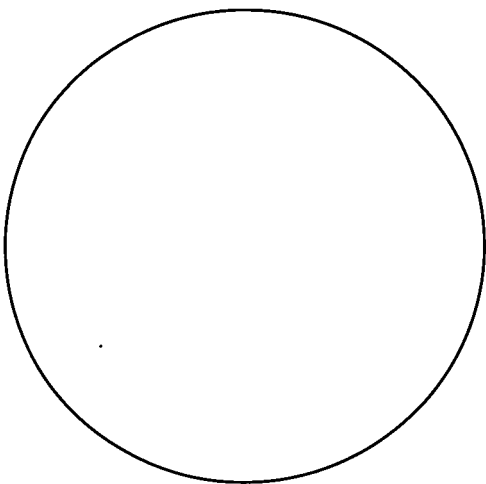
	Year ended 31 May	
	2020 %	2019 %
NAV total return	-8.2	-6.4
Benchmark total return	-15.9	-6.1
Relative performance	7.7	-0.3
Comprising:		
Stock selection	9.9	0.6
Gearing	-1.8	-0.5
Expenses	-0.4	-0.4

Ranking 2020	Ranking 2019	Company	Principal activities	Valuation 2020 £'000	Portfolio %
1	1	Intermediate Capital	Mezzanine finance	24,130	3.39
2	2	Bellway	Housebuilder	21,203	2.98
3	4	Clinigen	Pharmaceuticals	19,676	2.76
4	50	Team17	Games software developer	16,500	2.32
5	6	RWS	Patent translation services	15,576	2.19
6	28	Learning Technologies	E-learning	14,891	2.09
7	23	IntegraFin	B2B financial platform	14,579	2.05
8	18	Ultra Electronics	Defence and aerospace products	14,219	2.00
9	5	John Laing	Infrastructure investor	14,104	1.97
10	53	Avon Rubber	Defence and dairy industry products	13,898	1.95
				168,776	23.70

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Sources: Factset, Janus Henderson

Fund Manager's Report



Neil Harmon
Fund Manager

“The declines in equity markets have thrown up some fantastic buying opportunities and some companies will emerge stronger from the downturn. It is important to be selective...any recovery will be uneven and strength of franchise, market positioning and balance sheet will determine the winners from the losers in a post Covid-19 world.”

Fund Manager's Report

Fund performance

The Company had a mixed year in performance terms – falling in absolute terms but significantly outperforming its benchmark. The share price fell by 6.9% and the net asset value by 8.2% on a total return basis. This compared with a fall of 15.9% (total return) by the Numis Smaller Companies Index (excluding investment companies). The outperformance came from strong stock selection, partially offset by a negative contribution from gearing and expenses. This year marks the 15th year of outperformance of the benchmark in the 17 years in which I have managed the investment portfolio.

Market – year under review

The year under review was a volatile but ultimately negative one for equity markets. Notable market highlights included the Conservatives, under the new leadership of Boris Johnson, winning a resounding victory in the General Election which removed the spectre of a Corbyn-led “equity market unfriendly” government. Market relief was also found in the agreement of a trade deal between the US and China after protracted negotiations. Notable market lowlights included the spectre of Corbyn being replaced by the spectre of “no deal” as the Government has to date refused an extension to the 31 December 2020 deadline to agree a trade deal with the EU. However, by early 2020 such headlines were to become the sideshow of our financial year.

The impact of Covid-19 which spread from China to Western Europe before resulting in a global pandemic had profoundly negative repercussions for equity markets. In order to contain the outbreak, strict controls (including social distancing) were enforced to break human interactions and ultimately limit the movement of people. This resulted in a sharp drop in global economic activity as large parts of the global economy were shut down. To soften the impact of the virus, targeted fiscal and monetary measures were introduced in many countries including the UK where the Chancellor has put job retention schemes in place. These interventions, in conjunction with falling case numbers in Western Europe, contributed to markets rallying off their March 2020 lows.

Whilst the impact of the outbreak controls seems to have been effective, the short and long-term impact of Covid-19 on the global economy remains to be seen. Investors are rightly focused on how these controls will be reversed and when and by how much economic activity will resume. The economic impact of the much-used term “new normal” is something investors are still grappling to understand and quantify.

Smaller companies underperformed larger companies over the year. This is the fourth year in a row that the Numis Smaller Companies Index (excluding investment companies) has underperformed the FTSE All-Share Index, albeit by insignificant amounts.

Gearing

Gearing started the year at 8.4% and ended it at 11.0%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% and £60 million of short-term bank borrowings. As markets fell, the use of gearing was a negative contributor to performance in the year, a contrast with the significant positive contribution it has made over the 17 years I have managed the investment portfolio.

Attribution analysis

The tables below show the top five contributors to, and the top five detractors from, the Company's relative performance.

Principal contributors

	12 month return %	Relative contribution %
Team17	+126.5	+1.5
Learning Technologies	+53.8	+0.9
Avon Rubber	+148.6	+0.9
Intermediate Capital	-0.1	+0.7
Impax Asset Management	+39.4	+0.7

Team17 is a developer and publisher of video games for PC, console and mobile devices. The company focuses on the independent games market and selectively works with developers and third parties to launch new content on multiple platforms. The business listed in 2018 and has had a strong period of growth driven by well-received new games releases, the monetisation of new content and improved profitability as the portfolio expanded. With a balance sheet in a net cash position the company is well placed to acquire complementary assets in the sector.

Learning Technologies is a provider of e-learning services and learning software platforms. The company has grown strongly over the last few years through a combination of organic and acquisitive growth. The market it operates in is in a growth phase as corporate learning transitions from the classroom to online, a trend likely to accelerate post Covid-19. With an ambitious management team and strong balance sheet one can expect additional accretive M&A activity in the future.

Avon Rubber is a manufacturing business which specialises in the production of protection equipment, and ad-hoc products for the dairy industry. The company has a presence in the US, UK and Italy with long-term contracts with various military organisations globally. During 2019, the company undertook a large transaction acquiring Ceredyne, a designer and manufacturer of helmets and body plates for the US market. This deal has accelerated the company's earnings profile, provided an improved longer-term growth outlook and given further earnings upside potential from acquisition synergies.

Fund Manager's Report (continued)

Intermediate Capital is an alternative finance provider and asset manager. It is a leading provider of mezzanine finance to leverage buyout markets. It also owns a highly successful mezzanine, property lending and credit fund management operation. Its portfolio of investments is performing well but the primary growth engine of the business is the fund management operation. This division is having real success in asset gathering due to the strength of its performance track record, the quality of the team and underlying demand for its product in an income-hungry world.

Impax Asset Management is an environmental and socially responsible focused asset manager based in the UK. The company was formed in 1998 by the current CEO Ian Simm, and has several funds spanning public equities, bonds and infrastructure assets. 2019 was a period of strong growth for the business as a result of large mandate wins, stemming from the increased appetite of investors for this asset class, and enhanced profitability as the company scaled. Performance within the funds was also strong which benefited asset gathering during the period.

Principal detractors

	12 month return %	Relative contribution %
Cineworld	-64.4	-1.1
Burford Capital	-74.4	-1.1
Centamin ¹	+97.0	-1.0
Plus 500 ¹	+54.9	-0.8
Domino's Pizza ¹	+55.7	-0.6

¹ Not owned by the Company

Cineworld is an international cinema operator. The company has market leading positions in the UK, Israel, Eastern Europe and the USA. The company undertook significant expansion in 2018 by acquiring Regal Entertainment, a leading US cinema chain. Cineworld also agreed to buy Cineplex, a large Canadian cinema chain, in later 2019. The combination of the high leverage taken on to acquire Regal, the debt-funded acquisition of Cineplex, and the closure of its entire estate due to Covid-19 caused the share price to drop. Recently Cineworld has agreed an increase in its debt facilities and a relaxation on covenants as well as terminating the acquisition of Cineplex, meaning it is highly likely to survive the current downturn and emerge in a strong position to recover.

Burford Capital is a provider of litigation finance. After a number of years of strong growth and positive share price performance the company came under attack from a short seller who published a negative report citing issues on liquidity, solvency and corporate governance. This report has had a negative effect on the market's short-term perspective on Burford with the result that the company's share price has

fallen materially. We do not believe that most of the short report's arguments hold any merit and continue to hold a position in Burford, albeit materially lower than a year ago.

Centamin is an Egyptian gold miner. The company reported stronger production output after a period of disruption. In addition, the gold price rose as fears over Covid-19 led to investors buying perceived safe assets.

Plus 500 is a provider of CFD services for investors. The spike in market volatility resulted in increased volumes and profits for the business. Additionally, as Plus 500 does not hedge positions, they benefited from investor losses as markets fell. These factors are expected to fade over the course of the year.

Domino's Pizza holds the exclusive master franchise to own, operate and franchise Domino's Pizza stores in the UK and Ireland. Domino's also operates pizza delivery stores internationally. The business has been going through the process of management change and disposing of its loss-making international operations. In addition, the company has benefited from increased demand during the Covid-19 crisis.

Portfolio activity

Trading activity in the portfolio was consistent with an average holding period of six years. Our approach is to consider our investments as long term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise, we have been employing strong sell disciplines to cut out stocks that fail to meet these criteria.

During the year we have added a number of new positions to our portfolio. These include:

Chemring is a defence business which manufactures products and provides consultancy advice in the areas of countermeasures, defence security and safety markets. The company has a number of large-scale contracts with the US military and other governments globally. Our investment in Chemring provides us with exposure to a business which has increasing revenue visibility with the potential to improve profitability through tactical investments in manufacturing.

Frontier Developments is a developer and publisher of video games. Over the last few years the company has transformed from a work-for-hire business to a product-based company focusing on the development of simulation games which targets a range of audiences on multiple platforms. To date, the company has released four different titles and several expansion packs which has resonated well with consumers. Frontier is a company with high quality games, a rapidly expanding portfolio and the potential to expand further through tactical acquisitions.

Fund Manager's Report (continued)

Inspects is a manufacturer and distributor of eyewear frames. The business supplies both branded and non-branded frames through production facilities in China and Vietnam to opticians globally. The company has a strong outlook as a result of the potential to sign new licence agreements with brands, acquire other similar businesses in this fragmented industry and grow with their existing set of customers. Management has also stepped up capacity in their Vietnam facility to allow for the strong growth potential of the business.

Knights is a UK regional legal services company. The business listed in mid-2018 and has since shown strong growth through a combination of organic growth and selective acquisitions. These acquisitions have been integrated into the regional network, and with operational improvement, cost efficiencies and acceleration of revenue growth, have achieved excellent returns on investment for Knights. The ambition is to continue the successful strategy aided by a market that is rapidly moving to a corporate, limited liability model.

Liontrust Asset Management is an asset manager based in the UK. The company is segmented into large franchises including Economic Advantage, Sustainable Investments, Global Equity and Multi-Asset. To accelerate growth, the company has historically made acquisitions to add scale to their assets under management ("AUM"). Acquired AUM is integrated into the Liontrust network and sold through their highly effective sales network. Liontrust has a solid growth outlook with a good performance track record, significant capacity to grow their existing business and potential for further deals in the future.

Volution manufactures and distributes ventilation products. Around half its sales are in the UK with the other half across numerous overseas territories including the Nordics, Germany, Belgium, Australia and New Zealand. The business is capital light and strongly cash generative allowing surplus cash generation to fund acquisitions, a strategy which has driven geographic diversification. Ventilation is a growing market driven by higher building standards and a desire for clean air. The company is well positioned to continue to produce solid growth in the future.

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance. We sold our holding in **Lookers**, a car retailer, where the company was hit by a combination of the loss of its CEO and finance director, difficult trading, a FCA investigation into its credit finance operations and a fraud at one of its subsidiaries. We also disposed of our holding in **SIG**, a building materials distributor, as the company removed its executive management team after failure to hit financial targets. Other companies that we sold due to a belief that they were structurally challenged or suffering from poor operational performance included: **Costain**, a building contractor; **Xaar**, an ink jet technology business; **Jupiter Fund Management**, a fund manager; and **Ibstock**, a brick and concrete products producer. We also sold our positions, in line with our stated policy, in **Aveva**, an engineering design software company, as it was elevated to the FTSE 100.

There was a reduced level of takeover activity in the portfolio in the year. This was consistent with the wider mid and small cap equity market where merger and acquisition ("M&A") activity decreased due to election and Brexit uncertainty. A takeover bid was received for **Consort Medical**, a medical device company, from Recipharm.

Portfolio outlook

The following table shows the Company's top 10 stock positions and their active positions versus the Numis Smaller Companies Index (excluding investment companies) at the end of May 2020.

Top ten positions at 31 May 2020	Holding %	Index Weight %	Active Weight %
Intermediate Capital	3.4	–	3.4
Bellway	3.0	–	3.0
Clinigen	2.8	–	2.8
Team17	2.3	–	2.3
RWS	2.2	–	2.2
Learning Technologies	2.1	–	2.1
IntegraFin	2.1	1.7	0.4
Ultra Electronics	2.0	1.3	0.7
John Laing	2.0	–	2.0
Avon Rubber	2.0	0.9	1.1

A brief description of the largest active positions (excluding Intermediate Capital, Team17, Learning Technologies and Avon Rubber, which were covered earlier) follows:

Bellway is a national UK housebuilder. Before the Covid-19 pandemic, the UK new housing market was robust, due to low interest rates and Government initiatives, particularly the "Help to Buy" scheme. Although the housing market has slowed temporarily, underlying market conditions for Bellway remain strong aided by a benign land market, due to the reduction in competitors from the previous cycle, the structural under-supply of housing in the UK, and the capital discipline Bellway and its peers are displaying. Bellway is looking to exploit these conditions by expanding its national footprint, whilst maintaining a strong land-bank and balance sheet.

Clinigen is a global speciality pharmaceutical services business. Its core activity is providing comparator drugs and other services for clinical trials and providing market access for drugs that are difficult to obtain or yet to be licensed. It also has a speciality pharmaceutical division, which looks to acquire niche drugs from major pharmaceutical companies, where management thinks they can enhance performance through additional regulatory approval or increased targeted marketing. The company has seen strong growth since its initial public offering ("IPO") in 2012 and this is likely to continue given the positive structural growth of its end markets.

RWS is a translation services business with particular strengths in intellectual property, life sciences and technology. The company has demonstrated long-term sustainable

Fund Manager's Report (continued)

growth through a combination of organic and acquisitive expansion which has generated substantial shareholder returns over the long term.

IntegraFin provides an investment platform to independent financial advisers and their clients in the UK. The platform is designed as an aggregation tool to hold a range of different assets and tax wrappers in an easy-to-use format. The business has bespoke technology and is continually lowering fees which makes it a compelling proposition for users. The company has been through a period of consistent growth through the acquisition of new customers and clients which has translated to steady asset flows onto the platform. IntegraFin has a compelling long-term outlook with little capital required to grow; it is a high-returns business which should be able to consistently return cash to shareholders.

Ultra Electronics is a supplier of electronic equipment and systems which are primarily used for defence and security applications globally. The company has a unique set of products with high levels of intellectual property in the marine, aerospace and communications sectors. With significant exposure to the expanding US military budget, the business has a strong order book and good visibility as it is attached to long-term military programs. The company is also improving its earnings potential through a restructuring of the business and focusing on its core area of expertise. The outlook for Ultra Electronics is positive with upside from new contract wins, improving margins and a more flexible balance sheet.

John Laing is an international originator, active investor and manager of infrastructure projects. Its business is focused on major transport, social and environmental infrastructure projects awarded under governmental public-private partnership ("PPP") programmes and renewable energy projects. It does this across a range of international markets including the UK, Europe, Asia Pacific and North America. Our investment in the company provides us with exposure to growing infrastructure expenditure globally. The company has a large and growing pipeline of opportunities and raised further equity in 2018 to capitalise on these opportunities. The company is delivering healthy NAV growth, driven by new projects, the discount rate unwind and an ability to improve project returns throughout their life.

As at 31 May 2020, the portfolio was weighted by company size as follows:

	Weighting %	
	31 May 2020	31 May 2019
FTSE 100	3.7	0.0
FTSE 250	61.2	62.0
FTSE Small Cap	15.3	21.3
FTSE AIM	30.8	25.1
Gearing	11.0	8.4

Market outlook

The Covid-19 outbreak has dramatically changed expectations for global economic growth. The lockdown measures we are seeing across the globe are having a profound effect on economic growth and causing an unprecedented demand shock. Government actions to protect consumers and businesses from the worst impact of the shock will soften the blow but ultimately can only be short term in nature given the scale of the bail-out required.

The virus will pass and the global economy will start to see a recovery. However, the timing and magnitude of the recovery are, at this point, uncertain. In the UK there are encouraging signs that measures taken on social distancing and lockdown are having a positive impact on infection and death rates but as yet a comprehensive exit strategy has yet to be articulated by the Government.

Outside of Covid-19 there are a number of other issues for the UK and global economy. Brexit negotiations are making limited progress and the threat of a no-deal Brexit is rising. The US election outcome is becoming increasingly unclear and the Sino-American relationship has deteriorated once again, raising the prospect of a new trade war.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008/09. Balance sheets, in particular, are more robust. However, the scale of economic shock means that this 'strength' will be severely tested and key questions for investors today revolve around a company's available liquidity, leverage, bank covenants and ability to see through the economic downturn.

In terms of valuations, the equity market is now trading well below long-term averages if we apply historic earnings. However, corporate earnings will be sharply down in 2020 and the extent of recovery in 2021 and beyond is uncertain. Additionally, dividend support is illusory as the vast majority of corporates suspend or cancel dividends, preserving cash to shore up their balance sheets.

Although economic conditions are very difficult at this point the virus will pass and we will see a recovery. The declines in equity markets have thrown up some fantastic buying opportunities and some companies will emerge stronger from the downturn. However, it is important to be selective as any recovery will be uneven and strength of franchise, market positioning and balance sheet will determine the winners from the losers in a post Covid-19 world.

In conclusion, the year under review has been a mixed one for the Company. Absolute performance was negative but the Company materially outperformed its benchmark. Our portfolio companies have performed robustly, are soundly financed and attractively valued. Additionally, the smaller companies market continues to throw up exciting growth opportunities in which the Company can invest. We remain confident in our ability to generate significant value from a consistent and disciplined investment approach.

Neil Hermon
Fund Manager
30 July 2020

Investment Portfolio at 31 May 2020

Company	Principal activities	Valuation £'000	Portfolio %
Intermediate Capital	Mezzanine finance	24,130	3.39
Bellway	Housebuilder	21,203	2.98
Clinigen ¹	Pharmaceuticals	19,676	2.76
Team17 ¹	Games software developer	16,500	2.32
RWS ¹	Patent translation services	15,576	2.19
Learning Technologies ¹	E-learning	14,891	2.09
IntegraFin	B2B financial platform	14,579	2.05
Ultra Electronics	Defence and aerospace products	14,219	2.00
John Laing	Infrastructure investor	14,104	1.97
Avon Rubber	Defence and dairy industry products	13,898	1.95
10 largest		168,776	23.70
GB Group ¹	Data intelligence services	13,465	1.89
Renishaw	Precision measuring and calibration equipment	13,283	1.86
Gamma Communications ¹	Telecommunication	13,007	1.83
Oxford Instruments	Advanced instrumentation equipment	12,813	1.80
Paragon	Buy-to-let mortgage provider	12,663	1.78
Balfour Beatty	International contractor	12,654	1.78
Dechra Pharmaceuticals	Veterinary pharmaceuticals	12,324	1.73
Sanne	Investment management services	12,319	1.73
Victrex	Speciality chemicals	11,413	1.60
Impax Asset Management ¹	SRI investment management company	11,400	1.60
20 largest		294,117	41.30
Synthomer	Speciality chemicals	10,923	1.53
Softcat	Software reseller	10,749	1.51
TI Fluid Systems	Automotive supplier	10,741	1.51
Future	Specialist internet, website and magazine company	10,600	1.49
Ascential	Exhibition organiser and data services	10,328	1.45
OneSavings Bank	Banks	9,716	1.36
Vesuvius	Ceramic engineering	9,522	1.34
Savills	Property transactional consulting services	9,277	1.30
Codemasters ¹	Games software developer	8,540	1.20
Brewin Dolphin	Wealth management	8,400	1.18
30 largest		392,913	55.17
Computacenter	IT reseller	8,261	1.16
St Modwen Properties	Property investment and development	8,076	1.13
Cairn Energy	Oil and gas exploration and production	7,762	1.09
Cineworld	Cinema operator	7,755	1.09
Spectris	Electronic control and process instrumentation	7,692	1.08
Chemring	Technology products and services	7,542	1.06
Midwich ¹	Audio-visual equipment distributor	7,369	1.03
XP Power	Electrical power products	7,335	1.03
Countryside	Housebuilder	7,270	1.02
Grainger	Residential property investor	6,816	0.96
40 largest		468,791	65.82
CLS	Real estate investment and services	6,712	0.94
Just Group	Enhanced annuity provider	6,510	0.91
DFS	Furniture retailer	6,377	0.90
Coats	Global threads provider	6,333	0.89
Euromoney Institutional Investor	B2B information	6,047	0.85
Watches Of Switzerland	Luxury watch retailer	5,917	0.83
Liontrust Asset Management	Specialist fund management	5,880	0.83
Goco Group	Price comparison website	5,724	0.80
Rotork	Process control solutions	5,715	0.80
Howden Joinery	Kitchen manufacturer and retailer	5,601	0.79
50 largest		529,607	74.36

¹ Quoted on the Alternative Investment Market

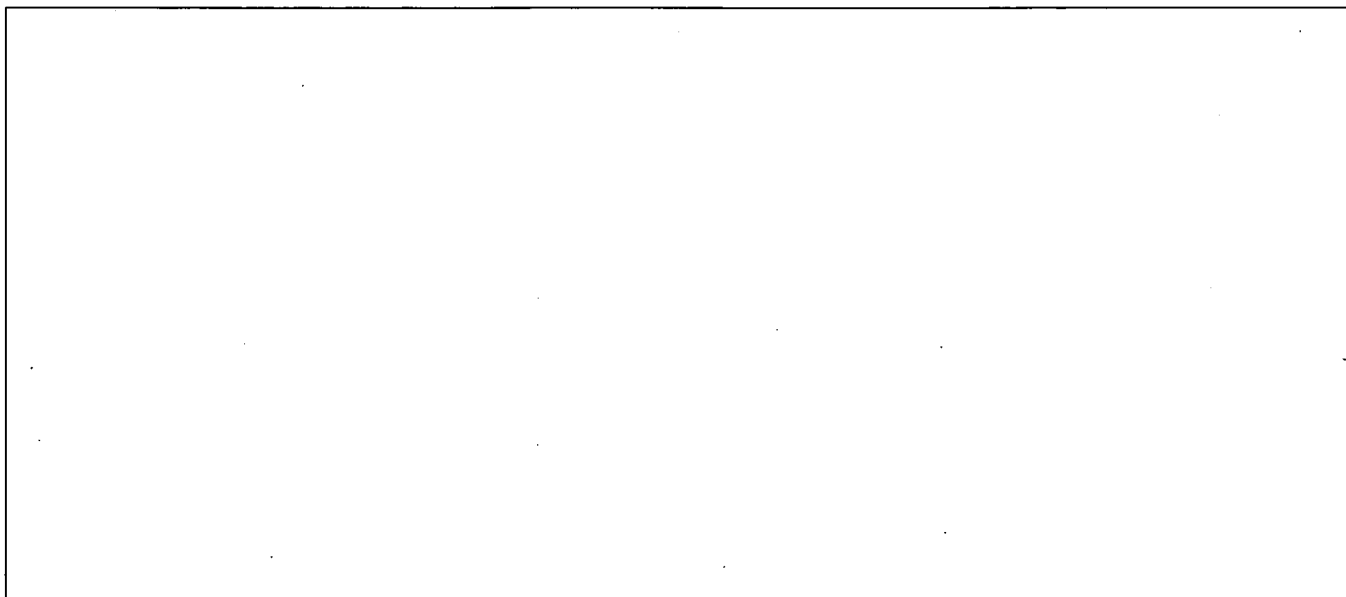
Investment Portfolio at 31 May 2020 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Frontier Developments ¹	Games software developer	5,332	0.75
Helical	Office property investor and developer	5,270	0.74
Bodycote	Engineering group	5,254	0.74
SDL	Language software service provider	5,186	0.73
Restore ¹	Office service provider	5,180	0.73
Vitec	Broadcast and camera systems	5,055	0.71
Hollywood Bowl Group	Ten pin bowling operator	4,956	0.70
Tyman	Building products	4,935	0.69
Alliance Pharma ¹	Pharmaceutical products	4,908	0.69
Gym Group	Gym operator	4,690	0.66
60 largest		580,373	81.50
Serica Energy ¹	Oil and gas exploration and production	4,618	0.65
Redde Northgate	Commercial vehicle hire	4,570	0.64
Mitchells & Butlers	Hospitality operator	4,525	0.64
Alpha Financial Markets ¹	Investment management consultancy	4,455	0.63
Crest Nicholson	Housebuilder	4,402	0.62
Smart Metering Systems ¹	Energy smart meters	4,369	0.61
Blanco Technology ¹	Data erasure software	4,314	0.61
Luceco	Electrical products	4,312	0.61
Polypipe	Building products	4,129	0.58
Eurocell	Building products	4,062	0.57
70 largest		624,129	87.66
SThree	Recruitment company	3,978	0.56
Inspects ¹	Eyewear maker and designer	3,938	0.55
Tribal Group ¹	Educational support services and software	3,774	0.53
Joules ¹	Clothing retailer	3,764	0.53
Hunting	Oil equipment and services	3,665	0.51
Safestore Holdings	Self storage operator	3,663	0.51
Volution	Producer of ventilation products	3,611	0.51
RM	Education software and services	3,603	0.50
Burford Capital ¹	Litigation finance	3,577	0.50
Aptitude Software	Software retailer	3,423	0.48
80 largest		661,125	92.84
AB Dynamics ¹	Automotive testing and measurement products	3,072	0.42
Urban & Civic	Real estate investment services	3,010	0.42
Next Fifteen Communications ¹	PR and media services	2,853	0.40
Fisher (James) & Sons	Marine, oil and gas specialised services provider	2,799	0.39
Advanced Medical Solutions ¹	Medical supplies manufacturer	2,766	0.39
Johnson Service ¹	Textile rental and related services	2,753	0.39
Safestyle ¹	Window replacement retailer	2,615	0.37
Knights ¹	Legal and professional services	2,554	0.36
Severfield	Industrial engineering	2,470	0.35
Capital & Regional	Retail property investor	2,450	0.34
90 largest		688,467	96.67
Tekmar ¹	Offshore wind protection systems	2,415	0.34
Marshall Motor ¹	Automotive retailer	2,375	0.33
Scapa ¹	Technical tapes	2,309	0.32
Premier Oil	Oil and gas exploration and production	2,269	0.32
Spire Healthcare	Hospital operator	2,019	0.28
Zotefoams	Advanced cellular materials manufacturer	1,957	0.27
Benchmark Holdings ¹	Pharmaceuticals and biotechnology	1,874	0.26
Sherborne Investors (Guernsey) C	Speciality finance	1,767	0.25
Hyve	Exhibition and conference organiser	1,759	0.25
AA	Roadside assistance	1,625	0.23
100 largest		708,836	99.52
Go-Ahead Group	Transport provider	1,600	0.22
Thruvision ¹	Detection technology	1,077	0.15
Gooch & Housego ¹	Optical components manufacturer	817	0.11
Total equity investments		712,330	100.00

There were no convertible or fixed interest securities at 31 May 2020 (2019: None).

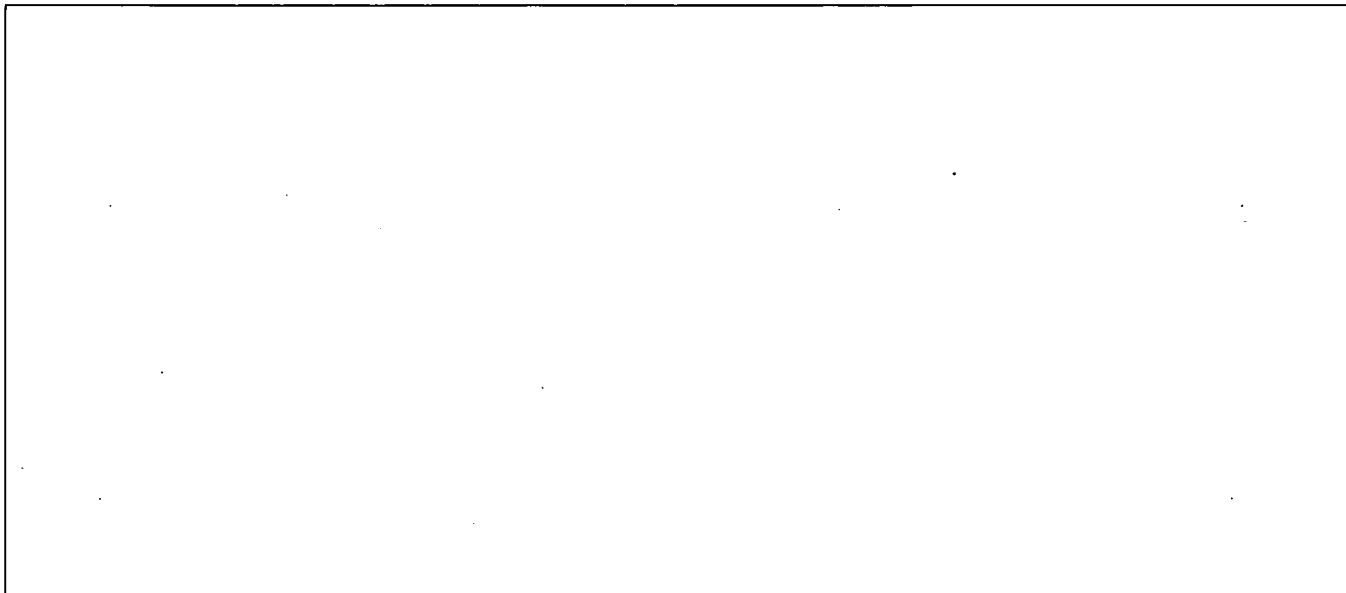
Historical Performance

Total return performance over the 10 years to 31 May 2020



Historical dividend growth

Annual income (without reinvestment) an investor would have received on an initial £1,000 investment in the Company compared to the FTSE All-Share Index on a calendar basis



See page 82 for further historical data.

- 1 Net asset value ("NAV") per ordinary share total return with income reinvested
- 2 Share price total return using mid-market closing price with income reinvested
- 3 Numis Smaller Companies Index (excluding investment companies) total return

Sources: Morningstar for the AIC, Janus Henderson, Refinitiv Datastream

Business model

Our purpose, culture and values

Our purpose is to provide our shareholders with long-term growth through investing in UK smaller companies and making this form of investment widely accessible to investors large and small. We do this by following a disciplined process of investment in a diversified portfolio of companies which benefit from sustainable growth trends, and by controlling costs and using borrowings to enhance returns.

Delivery of our investment objective and fulfilling our purpose has been achieved throughout our long history through both investment capability and values that centre around openness, challenge, diversity, adaptation and integrity. These factors remain core elements of our culture, and will continue to influence our long-term strategy.

Our strategy

We fulfil our purpose by operating as an investment company, enabling us to delegate operational matters to specialised service providers. Their performance is monitored and challenged by a board of independent non-executive directors (the "Board") which retains oversight of the Company's operations. The framework of delegation provides the Company with a cost-effective mechanism for delivering operations whilst allowing us to benefit from capital gains treatment afforded to investment trusts under the Corporation Tax Act 2010. The closed-ended nature of the Company permits the Fund Manager to hold a longer-term view on investments and remain fully invested while taking advantage of illiquidity in normal and volatile market conditions, as redemptions do not arise. The Company may use leverage to increase returns for shareholders, which provides us with a significant advantage over other investment fund structures.

The Board is directly accountable to the shareholders, who have the ability to remove a director from office where they deem it to be in the interests of the Company. The Company is governed by its articles of association, amendments to which must be approved by shareholders through a special resolution. The Company is listed on the Main Market of the London Stock Exchange and is subject to the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority ("FCA"). The Company is a member of the Association of Investment Companies ("AIC").

Status

The Company is registered as a public limited company, founded in 1887, and is an investment company as defined in section 833 Companies Act 2006. The Company operates as an investment trust in accordance with section 1158 Corporation Tax Act 2010 ("s1158") as amended and has obtained approval from HMRC for its status. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with s1158, and is not a close company. The directors are of the opinion that the Company has conducted its affairs in compliance with s1158 since approval was granted and intends to continue to do so.

Investment objective

The Company aims to maximise shareholders' total returns (capital and income) by investing in smaller companies that are quoted in the United Kingdom.

Investment policy

Smaller companies are defined as any company outside the FTSE 100 Index. Once a portfolio company enters the FTSE 100 Index the Fund Manager has, in normal circumstances, six months to sell the position.

Investments may include shares, securities and related financial instruments, including derivatives. The following investment ranges apply:

- Equities: 80% – 100% of total gross assets
- Fixed Income and Cash: 0% – 20%

The Company maintains a diversified portfolio and cannot:

- Invest more than 5% of its total gross assets in any one holding; or
- Hold more than 10% of an investee company's equity,

in each case measured at the time of investment (or additional investment). The Board may give approval to the Manager to exceed these limits to as far as 10% and 20% respectively but only in exceptional circumstances.

It is the stated investment policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

Business model (continued)

Derivatives

The Company may use financial instruments known as derivatives for the purpose of efficient portfolio management.

Gearing

Net gearing (defined as all borrowings less cash balances and investments in cash funds) is limited by the Board to a maximum of 30% of shareholders' funds.

Management

The Company qualifies as an 'alternative investment fund' in accordance with the Alternative Investment Fund Managers Directive ("AIFMD").

The Board has appointed Henderson Investment Funds Limited ("HIFL") to act as its alternative investment fund manager ("AIFM"). HIFL delegates investment management services to Henderson Global Investors Limited ("HGIL") in accordance with an agreement which was effective from 22 July 2014. The management agreement with HIFL is reviewed annually by the Management Engagement Committee (see pages 33-34), and can be terminated on six months' notice. Both HIFL and HGIL are authorised and regulated by the FCA. References to the 'Manager' within this Annual Report refer to the services provided by both entities, both of which are wholly owned subsidiaries of Janus Henderson Group plc and are referred to as 'Janus Henderson'.

The fund management team is led by Neil Hermon, who was appointed as the Company's Fund Manager with effect from November 2002. Neil's team receives a proportion of any performance fee paid by the Company to the Manager and a proportion of that is deferred into further shares in the Company. Indriatti van Hien was appointed Deputy Fund Manager with effect from 1 June 2016. Both Neil and Indriatti have a shareholding in the Company.

The Company does not have employees, premises or operations. Janus Henderson and its subsidiaries provide accounting, company secretarial, sales, marketing and general administrative services. Some of the administration and accounting services are carried out, on behalf of the Manager, by BNP Paribas Securities Services. Henderson Secretarial Services Limited acts as corporate secretary.

Investment selection

The Fund Manager uses rigorous research to identify high-quality smaller companies with strong growth potential. The benchmark is the Numis Smaller Companies Index (excluding investment companies). Generally, new investments are made in constituents of the benchmark index but they may continue to be held when the underlying companies grow out of the smaller companies sector. Our Fund Manager's investment approach is selective, aiming to deliver higher returns than our equity benchmark. The Manager is not a passive or indexed investor. Reflecting this, our portfolio's active share as at 31 May 2020 was 72.3% vs 74.7% as at 31 May 2019.

Borrowings

The Company has access to borrowings up to £90 million (2019: £90 million), comprising £30 million unsecured loan notes and a £60 million committed bank facility with Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"). In addition, the Company has a small amount of preference stock in issue (see page 44 for more details).

Section 172 statement

The directors act to promote the success of the Company for the benefit of its shareholders as a whole. In so doing, we have regard to the matters set out in section 172(1) Companies Act 2006 (the "Act"). This includes the likely consequences of our decisions in the longer term and how we have taken wider stakeholders' needs into account. We manage shareholders' assets with constant awareness of our stakeholders and their interests. We use a map to support us in identifying and understanding our stakeholders and fostering the appropriate level and form of interaction with them. We regard our key stakeholders as our shareholders and service providers.

Business model (continued)

Interaction with stakeholders

Set out below are examples of the way the Board and the Company have interacted with stakeholders in the year under review.

Stakeholders	Engagement	Outcome
Shareholders and potential investors	<p>Key mechanisms of engagement included:</p> <ul style="list-style-type: none"> encouraging investors to attend and vote at annual general meetings ("AGMs"). Shareholders have the opportunity to address questions to all directors, the Fund Manager and the company secretary; the Company's website which hosts annual and half-year reports, the daily NAV per share calculation, monthly fact sheets, press releases, key information documents, website and videos recorded by the Fund Manager, proxy voting results after our shareholder meetings, and other information on governance and decision making. Other social media channels and the HGi platform are also used (see Corporate Information on page 81); providing regular market commentary; investor meetings with directors in attendance, one-to-one investor meetings with the Fund Manager, presentations to investors and analysts following the publication of annual results, and a programme of events to foster understanding and good relations with wealth managers and underlying investors; promoting the Company through marketing and public relations initiatives, as we believe that the Company provides a credible investment choice for all types of investors. <p>Feedback on all meetings with shareholders and contact with investors is reported to the Board.</p>	<p>Shareholders make informed decisions about their investments. Clear communication of our strategy and the Company's performance against our objective can help the share price trade at a narrower discount or a wider premium to its net asset value which benefits shareholders.</p> <p>The shares traded at an average discount through the financial year 7.1% and reached a premium of 1.8% after the General Election in December 2019. We did not issue shares at that level as we did not wish to exploit a short-term advantage at the cost of shareholders. We would only buy back shares to moderate share price variances and volatility against the NAV per share, if accretive to NAV per share and provided liquidity for existing and new shareholders alike.</p> <p>The Chairman and all the directors invite shareholders to make contact with them directly. Shareholders are welcome to write to the Chairman or Senior Independent Director at the registered office (see page 81), or by email to itsecretariat@janushenderson.com with any feedback, queries, or concerns.</p> <p>The Board is pleased to invite shareholders to attend a virtual Fund Manager's presentation for the year ended 31 May 2020 which will be held at 4 pm on Monday, 21 September 2020 as part of this year's AGM. More details are on page 5, page 45 and in the AGM Notice.</p>

Business model (continued)

Stakeholders	Engagement	Outcome
Janus Henderson as Manager	We believe that the best way to promote the success of the Company and to achieve our objective is to have an effective and strong working relationship with our appointed Manager. Within policies set and overseen by the board of directors, our Manager has been given overall responsibility for the management of the Company's assets, including asset allocation, gearing, stock and sector selection as well as risk management. We hold our Manager to account in managing the Company's assets.	The portfolio activities undertaken by our Manager and the impact of decisions taken are set out in the Fund Manager's Report on pages 8-11.
<ul style="list-style-type: none"> ▪ Fund Manager ▪ Sales and marketing ▪ Company secretarial ▪ Financial reporting ▪ Internal controls functions ▪ Internal audit ▪ Investment accounting and administration (outsourced by Janus Henderson to BNP Paribas). 	<p>Recognising that sustainability is fundamental to achieving longer term success, we have continued to work closely with our Manager to achieve the Company's investment objective in an effective, responsible and sustainable way in the interests of shareholders, future investors and society at large. We include information on our approach towards responsible investment and ESG matters on pages 23-24. We support the Manager's approach, which focuses on engagement with investee companies on ESG issues and empowers each investment team to define the ESG considerations pertinent to their own investment approach.</p> <p>The Board ensures that Janus Henderson attracts and retains talent so that the Company has the resources to implement its strategy and manage third-party relationships successfully.</p> <p>The Fund Manager attends the Company's AGM and provides a presentation on the Company's performance and the future outlook (see pages 5 and 45 for this year's AGM arrangements).</p>	<p>The Board stays in close contact with representatives of the Manager throughout the year and receives monthly performance and compliance reporting, against a schedule of investment limits and restrictions determined by the Board and Fund Manager. This provides the opportunity for both the Manager and directors to explore and understand performance and what may be expected in the future.</p> <p>Representatives of all relevant functions of the Manager present at least annually to the Board, providing the opportunity for the Manager and Board to reinforce further their mutual understanding of what is expected from all parties. Directors also meet with key representatives of the Manager between meetings throughout the year to develop strategy including sales and marketing activities, to promote the success of the Company and raise its profile, and to discuss stakeholder engagement and governance matters.</p> <p>The Board's engagement with the Manager is necessary to evaluate our portfolio's performance against the stated strategy and benchmark and to understand any risks or opportunities this may present to the Company. This also helps ensure that investment management costs are closely monitored and remain competitive. The Board ensures that the Manager is paid in accordance with its terms of trade.</p> <p>Throughout the course of the Covid-19 pandemic the Board has been in regular contact with the Manager, receiving updates in the form of regular video conference calls, emails on matters including portfolio activity, gearing and covenant levels, assurances on the resilience of service-providers, health of the staff, etc.</p> <p>The Board monitors the Manager's culture and values each year to ensure that Janus Henderson's values, expectations and aspirations remain aligned with the Board's own culture and values.</p>

Business model (continued)

Stakeholders	Engagement	Outcome
Third-party service providers	<p>The Company contracts with third parties for other services, including the depositary, registrar and broker. Monitoring and ensuring these third parties undertake their roles diligently and correctly is necessary for the Company's success.</p> <p>The Management Engagement Committee considers the relationship the Company has with its third-party suppliers at least annually. The Board relies on the Manager to provide regular reports on the Company's third-party suppliers' performance although the directors remain responsible for assessing each suppliers' internal controls and risk management systems, ESG matters, information security and business continuity plans. This is achieved through the assessment of suppliers' assurance reports (see the Report of the Audit Committee on pages 37-40) and feedback from the Manager to identify any issues or concerns.</p>	<p>This regular interaction provides an environment where topics, issues and business development needs can be dealt with efficiently and collegiately.</p> <p>The corporate secretary contacted all key third-party suppliers in the wake of the Covid-19 pandemic to seek clarification that the Company would continue to receive a 'business as usual' service, in order for the Manager to work collaboratively with them to find solutions in the event of any service disruption. The secretary received assurances that there would be no service disruption.</p>
Investee Companies	<p>The Board sets the investment objective and discusses stock selection, asset allocation, and engagement on ESG issues with investee companies with the Fund Manager at each board meeting.</p> <p>The Manager has a dedicated Governance and Responsible Investment Team which supports the Fund Manager in the investment process.</p> <p>The Manager engages with the investee companies on behalf of the Company to exercise good stewardship practices including on ESG matters.</p>	The Manager is a responsible investor.
Lenders	<p>The Company employs gearing to enhance shareholder returns and confirms compliance with the loan covenants of both its short-term and long-term gearing facilities on a monthly basis.</p> <p>The Company maintains long-term borrowings at low rates through the use of loan notes and the SMBC loan facility.</p> <p>Our strategic gearing (11.0% at 31 May 2020) positions us well to continue to enhance long-term returns over many years to come.</p>	<p>Janus Henderson provides the Board with regular financial covenant compliance validation and financial reports.</p> <p>The Company maintains a good relationship with its lenders and is well positioned to raise financing to operate effectively as an investment trust.</p>

Business model (continued)

Stakeholders	Engagement	Outcome
Auditors	The auditor attends at least two audit committee meetings each year and maintains regular contact with the corporate secretary, the Manager and the Audit Committee Chairman between meetings.	Shareholders, potential investors and wider stakeholders place reliance on the Company's audited annual report and financial statements.
The Association of Investment Companies (AIC)	The Company is a member of the AIC which is an organisation that looks after the interests of investment trusts.	The Board chooses to report under the AIC Code of Corporate Governance as this better reflects the unique aspects of an investment trust in the context of good corporate governance.

Principal risks and uncertainties

The Board, with the assistance of the Manager, regularly carries out a robust assessment of the principal risks facing the Company which relate to the activity of investing in the shares of smaller companies that are listed (or quoted) in the United Kingdom.

The Board has drawn up a risk matrix which identifies the substantial risks to which the Company is exposed and methods of mitigating against them as far as practicable. It does not consider the principal risks to have changed during the course of the reporting period and up to the date of the report, other than through the new 'Investment activity and strategy' and 'Operational' risks caused by pandemics and geo-political events.

The Board has met frequently during the Covid-19 crisis to monitor and manage risks related to the Covid-19 pandemic and considers it to be a major event with an ongoing impact on the likelihood and severity of the Company's principal risks. Covid-19 will continue to affect the value of the Company's investments due to the disruption of supply chains and demand for products and services, increased costs and cash flow problems, and changed legal and regulatory requirements for companies. The pandemic has triggered a sharp fall in global stock markets and created uncertainty around future dividend income. The Board notes that the Fund Manager's investment process remains unchanged by the Covid-19 pandemic and he continues to focus on long-term company fundamentals and detailed analysis of current and future investments. In light of current circumstances, Covid-19 is specifically referred to in 'Investment activity and strategy' and 'Operational' risks.

The principal risks fall broadly under the following categories:

Risk	Controls and mitigation
Investment activity and strategy	The Board reviews investment strategy at each board meeting. An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may lead to underperformance against the Company's benchmark and the companies in its peer group; it may also result in the Company's shares trading at a wider discount to NAV per share.
Poor long-term investment performance (significantly below agreed benchmark or market/industry average)	The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with investment limits and restrictions determined by the Board; these include limits on the extent to which borrowings may be used. The Board reviews its investment limits and restrictions regularly and the Manager confirms its compliance with them each month. The Manager provides the directors with management information, including performance data and reports and shareholder analysis. The Board monitors the implementation and results of the investment process with the Fund Manager, who attends all board meetings, and regularly reviews data that monitor portfolio risk factors.
Loss of the Fund Manager or management team	The performance of the Company relative to its benchmark and its peers and the discount/premium to NAV per share are key performance indicators measured by the Board on a continual basis and are reported on pages 2, 3 and 82. During the year, the Fund Manager managed the investment portfolio in accordance with a schedule of investment limits and restrictions determined by the Board and the Manager, appropriate to the Company's investment objective and policy, and on which the Fund Manager reports at each board meeting.
The impact of global health, environmental, military or other emergencies such as the Covid-19 pandemic on the Company's investments	Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly and it may not be possible to realise an investment at the Manager's assessment of its value. The companies in which investments are made may operate unsuccessfully, or fail entirely, such that shareholder value is lost.
	The Board obtains assurances from the Manager that the UK Smaller Companies team is suitably resourced, and the Fund Manager is appropriately remunerated and incentivised in this role. The Board also considers the succession plan for the Fund Management team on an annual basis.

Business model (continued)

Risk	Controls and mitigation
Accounting, legal and regulatory	<p>In order to qualify as an investment trust the Company must comply with s1158 Corporation Tax Act 2010. A breach of s1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to corporation tax. The s1158 criteria are monitored by the Manager and the results are reported to the directors at each board meeting. The Company must comply with the provisions of the Companies Act 2006 (the "Act") and, as the Company has a premium listing on the London Stock Exchange, the Company must comply with Listing, Prospectus and Disclosure Guidance and Transparency Rules of the FCA.</p> <p>The Board reviews the impact of Brexit and other fundamental political infrastructure change as an integral part of investment risks and will continue to assess the portfolio on this basis.</p> <p>A breach of the Act could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. A breach of the FCA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of s1158. The Board relies on its corporate secretary and its professional advisers to ensure compliance with the Act and FCA Rules.</p>
Operational	<p>Disruption to, or failure of, the Manager's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Manager has contracted some of its operational functions, principally those relating to trade processing, investment administration and accounting, to BNP Paribas Securities Services. Details of how the Board monitors the services provided by Janus Henderson and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the Management Engagement Committee Report on pages 33-34 and in the Audit Committee Report on pages 37-40.</p> <p>Cyber security is closely monitored by the Audit Committee as part of quarterly internal controls reports, and the Audit Committee receives an annual presentation from Janus Henderson's Head of Information Security.</p> <p>The Board monitors effectiveness and efficiency of service providers' processes through ongoing compliance and operational reporting. There were no disruptions to the services provided to the Company in the year under review.</p> <p>Covid-19 affected the Company's service providers, which have implemented business continuity plans and are working almost entirely remotely. The Board continues to receive regular reporting on operations from the Company's major service providers and does not anticipate a fall in the level of service.</p>
Financial instruments and the management of risk	<p>By its nature as an investment trust, the Company is exposed in varying degrees to market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk. An analysis of these financial risks and the Company's policies for managing them are set out in note 15.</p>

Emerging risks

The Board also considers regularly potential emerging risks which it defines as potential trends, sudden events or changing risks which are characterised by a high degree of uncertainty in terms of occurrence probability and possible effects on the Company. Once emerging risks become sufficiently clear, they may be treated as specific risks and enter the Company's matrix of significant risks. During the year, Covid-19 was identified initially as an emerging risk, but quickly moved to become a current significant risk (see page 20).

The Board receives reporting on risks from the Manager and other service providers, in addition to any ad hoc reports on specialist topics from professional advisors. Reports to the Board at its regular meetings, ad hoc reporting as required between board meetings, and external insights gained from directors' attendance at and feedback from industry and shareholder events, as well as drawing upon their own experience, enable the Board to monitor effectively the changing risk landscape and potential threats to the Company on an ongoing basis. Moreover, the directors ensure that the culture of the Board supports and encourages constant horizon scanning and sharing of information and challenge, to identify and manage risks.

Business model (continued)

Viability statement

The Company is a long-term investor. The Board believes it is appropriate to assess the Company's viability over a five-year period in recognition of the Company's long-term horizon and what the Board believes to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as documented in the Strategic Report. The assessment has considered the impact of the likelihood of the principal risks and uncertainties facing the Company, in particular investment strategy and performance against benchmark, whether from asset allocation or the level of gearing, and market risk, in severe but plausible scenarios, and the effectiveness of any mitigating controls in place.

The Board took into account the liquidity of the portfolio and the borrowings in place when considering the viability of the Company over the next five years and its ability to meet liabilities as they fall due. This included consideration of the duration of the Company's loan and borrowing facilities and how a breach of any covenants could impact on the Company's NAV and share price. The Board does not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place, and nor does the Board envisage any change in strategy or objective or any events that would prevent the Company from continuing to operate over that period – the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Only a sustained financial crisis affecting the global economy could have an impact on this assessment. In coming to this conclusion, the Board has considered the current Covid-19 pandemic and the UK's ongoing negotiations having left the European Union. The Board does not believe that they will have a long-term impact on the viability of the Company and its ability to continue in operation, notwithstanding the short-term uncertainty they have caused in the markets.

Based on this assessment, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five-year period.

Fee arrangements with the Manager

Management fee

The management agreement provides for the payment of a composite management fee. The fee is charged at 0.35% of net assets per annum, payable quarterly in advance at a rate of 0.0875% based on net assets at the end of the previous quarter. Any holdings in funds managed by Janus Henderson, of which there were none, would be excluded from calculation of the management fee.

Performance fee

The management agreement also provides for payment of a performance fee, calculated as 15% of any outperformance of the benchmark index, on a total return basis, over the Company's accounting year. This is subject to a limit on the total management fee and performance fee payable in any

one year of 0.9% of the average value of the net assets of the Company during the year.

There is a further cap to the effect that any enhancement to NAV resulting from share buy-backs in excess of 5% of the opening issued share capital is excluded from the calculation of the performance fee for the year. No performance fee is payable if on the last day of the Company's accounting year the Company's share price is lower than the share price as at the preceding year end. If on the last day of the Company's accounting year the NAV per share, calculated in accordance with the Company's accounting policies, net of costs (including any performance fee), is equal to or lower than the NAV per share as at the preceding year end, the performance fee payable will be restricted to such amount, if any, as will result in the NAV per share being higher than the NAV per share at the preceding year end.

No performance fee is payable for the year ended 31 May 2020 (2019: £nil).

Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of a cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years.

Ongoing charge

The Board believes that the ongoing charge during the year represented good value for money for shareholders. Below is a breakdown of the main cost headings in monetary terms and as a percentage of average net assets. The numbers reported below will differ from those in the Company's PRIIPs KID (see page 80). The ongoing costs in the KID include finance costs, the performance fee is based on an average over a five-year period, and the transaction costs are based on an average over a three-year period and also include an implicit 'market slippage' cost.

Category of cost	2020 £'000	2020 % of average net assets ¹	2019 £'000	2019 % of average net assets ¹
Management fee ²	2,437	0.35	2,455	0.34
Other expenses ³	525	0.07	537	0.08
Ongoing charge (excl performance fee)	2,962	0.42	2,992	0.42
Performance fee	–	–	–	–
Ongoing charge (incl performance fee)	2,962	0.42	2,992	0.42
Transaction costs ⁴	512	0.07	537	0.08

1 Calculated on average daily net assets in accordance with the AIC methodology

2 The management fee in the ongoing charge is calculated based on the average daily net assets, as opposed to the quarter-end net assets to which the 0.35% fee rate applies

3 Expenses which are non-recurring have been removed from this calculation in accordance with the AIC methodology

4 Transaction costs are the costs of buying and selling investments in the Company's portfolio; they comprise mainly stamp duty and commission. Further details regarding ongoing charges and gearing are included on pages 77-78 as alternative performance measures

Business model (continued)

Performance measurement and key performance indicators

To measure the success of the Company in meeting its objective and to evaluate the performance of the Manager, the directors take into account the following key performance indicators ("KPIs"). The charts, tables and data on pages 2, 3 and 82 show how the Company has performed against those KPIs, and a glossary of terms and alternative performance measures is included on pages 76-78.

KPI	Action
Performance measured against the benchmark	At every meeting, the Board reviews and compares the performance of the portfolio as well as the NAV and share price for the Company and compares them with the performance of the Company's benchmark.
Performance against the Company's peer group	The Company is included in the AIC's UK Smaller Companies sector, which represents the Company's peer group. In addition to comparison against the stated benchmark, the Board also considers the Company's performance against the peer group. Page 2 includes peer group information for reference.
Discount/premium to NAV	The Board monitors the level of the discount to the NAV at which the Company's shares trade and reviews the average discount for the AIC UK Smaller Companies sector at each meeting. The Board considers whether to use share buy-backs to enhance shareholder value. Shares are only bought back at a price below the prevailing NAV, thereby increasing the NAV for the remaining shareholders. The Company publishes a NAV per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula.
Ongoing charge	The Board reviews the costs of running the Company calculated using the AIC methodology for the ongoing charge.

Our ESG approach

Responsible ownership

Responsible investment is the term used to cover the Manager's work on environmental, social and corporate governance ("ESG") issues in the Company's investee companies. Janus Henderson supports the UK Stewardship Code 2020 (the "Stewardship Code"), and seeks to protect and enhance value for our shareholders through active management and integration of ESG factors into investment decision making, voting and company engagement. The Board has reviewed the Janus Henderson Stewardship Statement. Janus Henderson is a signatory to the United Nations Principles of Responsible Investment and an active member of a wide range of organisations and initiatives that work to promote ESG integration and responsible investment.

Integrated approach to ESG

The Fund Manager's UK Smaller Companies team (the "Team") uses a combination of bottom-up and top-down approaches to find companies that have undervalued long-term growth potential. ESG issues are identified as part of the Team's well-established "4Ms" process to analyse investee companies' model, management, money and momentum. A key part of the philosophy is focused on the sustainability of business models, and the Team's core belief is that the most successful management teams over time will be those which score well on ESG, have a long-term focus, a good track record of shareholder alignment and an understanding of industry themes. The conviction and focus on the long term are reflected in the Company's average holding period of approximately six years.

Sustainability themes regularly inform capital allocation decisions. Companies offering goods and services which address issues such as aging populations, urbanisation, cyber-crime and the savings gap have all been attractive propositions from a growth perspective. The Team is also cognisant of the risks accompanying ESG-themed investing: policy instability, uncertainty around customer adoption and technological obsolescence.

Company engagement

The Team's combined experience in the UK market has created a deep knowledge base. Management analysis is further supplemented by a body of increasingly sophisticated ESG-related data, broker research and company meetings. The Team is wary of the fact that individual ESG data points are not always material to company performance or even comparable between peers. However, the Team is conscious that management's overall attention to a collection of impactful ESG or sustainability issues can be interpreted as a leading indicator of quality long-term oriented leadership and so impacts the ability to deliver enduring success.

The general level of corporate governance at listed companies in the UK is of a very high standard in terms of best practice principles. The Team makes strong use of this market feature to augment traditional corporate governance and company research. As active managers in the UK marketplace, the Team is committed to the principles of good stewardship, and attends in excess of 300 company meetings per year. These opportunities are used to challenge strategy and hold management to account where issues have occurred.

Business model (continued)

The UK Smaller Companies team collaborates closely with Janus Henderson's in-house governance and responsible investment ("GRI") team, as a specialist resource on ESG issues. The GRI team screens portfolios for major ESG issues and highlights important ESG engagement topics ahead of company meetings. In addition, the GRI and UK Smaller Companies teams work together to coordinate a pipeline of proactive engagement with companies on a range of ESG themes.

Voting and the Stewardship Code

The Board believes that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. We have chosen to delegate voting responsibility to the Manager for the rights attached to the shares held in the Company's portfolio, and the Manager votes actively at shareholder meetings and engages with companies as part of the voting process. Janus Henderson is committed to becoming a signatory of the Stewardship Code and, as required by the FRC, will report on how they have applied the provisions in their annual Responsible Investment Review in early 2021.

Voting decisions are guided by the best interests of the investee companies' shareholders and made in consultation with the Fund Manager, who has an in-depth understanding of the respective companies' operations. Voting decisions are taken in keeping with the provisions of the Manager's ESG Principles which set out the Manager's approach to corporate governance and compliance with the Stewardship Code, and are publicly available on the Manager's website at www.janushenderson.com. To retain oversight of the process, the directors receive reporting at each board meeting on how the Manager has voted the shares held in the Company's portfolio, and they review the ESG Investment Principles at least annually.

The UK Smaller Companies team has a strong focus on good governance practice and an active approach to voting. Through the proxy engagement and voting process, the team aims to ensure that management is aligned with its long-term expectations. The Manager will vote against resolutions at general meetings, but engagement and consultation prior to general meetings is the preferred course of action.

During the year to 31 May 2020, the UK Smaller Companies team met with directors of various investee companies to discuss corporate governance issues and help to shape their policies on such matters. In addition to remuneration, a broad range of topics was tackled, including board composition, workforce engagement, stakeholder relationships, diversity, strategy, and health and safety issues.

The key issues against which the Fund Manager voted concerned director remuneration, director overboarding and director independence. Votes cast against management in respect of remuneration were generally either in light of concerns over the structure of incentive schemes and performance targets, lack of share deferral or insufficient justification for significant pay increases.

In total, the Company voted at 114 shareholder meetings during the year to 31 May 2020, being 100% of portfolio companies' general meetings.

The environment

As an investment company, the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The UK Smaller Companies team engages with investee companies on environmental matters where they arise. The Company's indirect impact occurs through the investments it makes, and the Fund Manager monitors the carbon footprint of the portfolio as a measure of its carbon intensity.

Business ethics

As the Company's operations are delegated to service providers, the Board seeks assurances, at least annually, from its service providers, that they comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Finances Act 2017. The Company has received assurances from its main suppliers that they maintain a zero-tolerance policy towards the provision of illegal services.

Diversity policy

The Company's affairs are overseen by a Board comprising five non-executive directors – three females and two males. In terms of progress in achieving diversity, the Board's gender balance of two men (40%) and three women (60%) directors not only exceeds the gender diversity target set by the Hampton-Alexander Review, but ranked the Company at the top of the FTSE 250 for female leadership in their November 2019 Review Report.

The directors are broad in their experience and skills bringing knowledge of investment markets, business, financial services, stakeholder and governance expertise to discussions on the Company's business. The directors regularly consider the leadership needs and specific skills required to achieve the Company's investment objective. Whilst appointments are based on skills and experience, the Board is cognisant of diversity of gender, social and ethnic

Business model (continued)

backgrounds, cognitive and personal strengths and experience. All appointments are based on objective criteria and merit, and are made following a formal, rigorous and transparent process. Further detail is provided on pages 34-35 in the Nomination Committee section.

The Board takes an interest in the diversity initiatives in place at its service providers and in particular, the Manager. The Manager fosters and maintains an environment that values the unique talents and contributions of every individual. The Manager strives to cultivate and practise inclusiveness for the long-term success of the business and for the benefit of its employees, clients, investors and shareholders.



Alexandra Mackesy

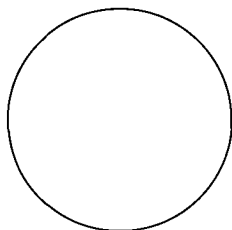
Director

30 July 2020

Corporate Governance Report

Board of Directors

The directors appointed to the Board at the date of this Annual Report are set out below.



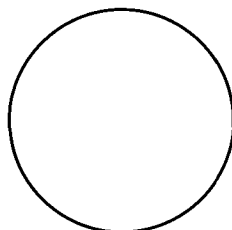
Jamie Cayzer-Colvin

Position: Chairman of the Board

Date of appointment: 13 May 2011
(Chairman in September 2011)

Experience and contribution: Jamie brings leadership and much in-depth knowledge, expertise and experience in investment management at a senior level, as well as expertise in marketing, branding and business development.

Other appointments: Jamie is an executive director of Caledonia Investments plc, where he is Head of the Funds Pool, and a non-executive director of Polar Capital Holdings plc. Jamie chairs the Royal Horticultural Society pension scheme, the Heritage of London Trust and a number of other charities. He also sits on the board of a number of private companies. Jamie has previously served as a non-executive director on the boards of Close Brothers plc, Rathbone Brothers plc and Amber Industrial Holdings Plc. Prior to joining Caledonia, he was a commissioned officer in the British Army, and held roles as brand manager with the Whitbread Beer Company and as business development manager at GPT.



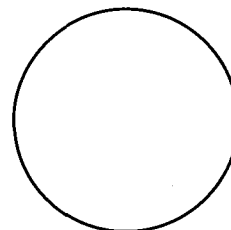
Penny Freer

Position: Director

Date of appointment: 14 September 2018

Experience and contribution: Penny is an experienced corporate adviser, finance professional and board director, who brings in-depth investment knowledge, expertise and experience to the Board.

Other appointments: Penny is a partner at London Bridge Capital Partners LLP, which provides corporate finance advice to private companies. She holds non-executive directorships at Empresaria Group plc, Advanced Medical Solutions Group plc¹ and Crown Place VCT PLC. From 2000 to 2004 Penny led Robert W Baird's UK equities division; prior to this Penny spent eight years at Credit Lyonnais Securities where she headed the small and mid-cap equities business.



David Lamb

Position: Senior Independent Director
(from 4 October 2019)

Date of appointment: 1 August 2013

Experience and contribution: David brings in-depth knowledge, leadership skills, expertise and experience in investment management. He provides guidance to the Manager's investment trust marketing team in establishing the necessary infrastructure and initiatives for effective delivery of the Company's investment proposition and access to its shares.

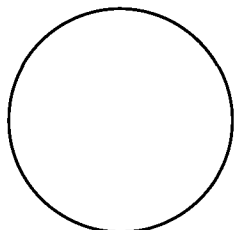
Other appointments: David is chairman of the board of Polar Capital Holdings plc and deputy chairman of the University of the West of England (chairman from 1 August 2020). David held senior executive roles at St James's Place plc for nearly 30 years, notably as managing director, group business development director and board member until 2019. He continues his involvement with St James's Place as chairman of the investment committee. Before joining St James's Place, David was investment manager at Friends Life and chief research actuary at Allied Dunbar.

All the directors are independent and non-executive. All directors are members of the Management Engagement Committee and the Nomination Committee, both of which are chaired by Jamie Cayzer-Colvin. The Audit Committee is chaired by Alexandra Mackesy, the other members of which are David Lamb, Victoria Sant and Penny Freer. Beatrice Hollond retired as a director on 4 October 2019.

¹ The Company has a holding in Advanced Medical Solutions Group plc, as set out on page 13 in the investment portfolio listing

Corporate Governance Report (continued)

Board of Directors



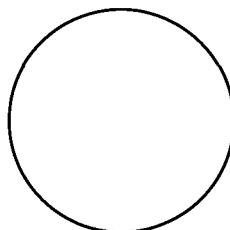
Alexandra Mackesy

Position: Chairman of the Audit Committee

Date of appointment: 14 September 2018 (Audit Committee Chairman since 4 October 2019)

Experience and contribution: Alexandra has over 30 years' experience in the investment industry. Since retiring from full-time employment as an investment analyst in 2000, and relocating from Asia to the UK in 2002, she has focused on a portfolio of UK-based non-executive directorships, as well as acting as a consultant to a number of Asian-based business groups. Alexandra is an experienced investment professional and investment trust director, with particular experience of global smaller companies, who brings a specialist governance perspective to the Board. She has a strong financial background, and substantial experience in chairing investment trust audit committees.

Other appointments: Alexandra is currently a non-executive director on the boards of Murray International Trust plc and JPMorgan China Growth & Income Investment Trust plc. In addition, Alexandra works as a consultant, providing external board evaluation services. She was previously a non-executive director of Schroder Asian Total Return Investment Company plc, Empiric Student Property plc, The Scottish Oriental Smaller Companies Trust plc and RENN Universal Growth Investment Trust plc.



Victoria Sant

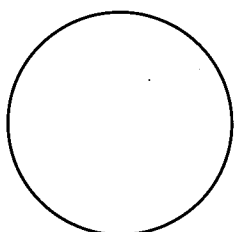
Position: Director

Date of appointment: 23 September 2016

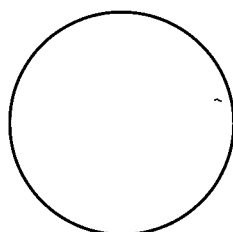
Experience and contribution: Victoria brings a wider stakeholder perspective to the Board, with her in-depth ESG/SRI knowledge and experience, particularly through her roles at the Investor Forum and an endowment asset owner.

Other appointments: Victoria is a senior adviser at the Investor Forum, with an active role engaging with UK-listed companies on long-term strategic and governance issues. Prior to this, she was an investment manager at the Wellcome Trust, where she was responsible for the outsourced long-only equity portion of the £18bn investment portfolio, and a trustee director of the pension scheme. She is currently a member of the advisory board of Ownership Capital B.V., a Dutch equity manager focused on active ownership and ESG integration, a member of the investment committee of the National Trust endowment, and a member of finance and investment committee of the Crop Trust endowment.

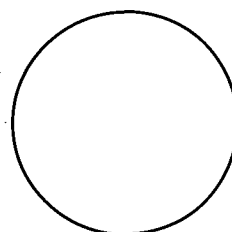
Fund Management team



Neil Hermon
Fund Manager



Indriatti van Hien
Deputy Fund Manager



Shivam Sedani
Analyst

Corporate Governance Report (continued)

Chairman's statement on corporate governance

I am pleased to report below on the Board's approach to the governance of your Company. On pages 27-28, you will find details of the directors, including mine as your Chairman. As a Board, we believe that good governance creates value and we are committed to high standards of corporate governance, business ethics and transparency.

Governance overview

The Board has three principal committees: the Audit Committee, the Management Engagement Committee and the Nomination Committee, as set out in the governance structure chart on page 36. The terms of reference for these committees are available on the website www.hendersonsmallercompanies.com or via the corporate secretary. Committee membership is noted under the directors' biographies on pages 27-28. A separate remuneration committee has not been established as the Board consists of only five non-executive directors and the Company has no employees. The Board has expanded the remit of the Nomination Committee to include responsibility for remuneration (see the Nomination Committee Report on pages 34-35). Remuneration arrangements for each director can be found in the Remuneration Report on pages 41-43 and in note 5 to the financial statements on page 64.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information.

Representatives of the Manager attend each board meeting enabling the directors to probe further on matters of interest or concern. The Board has direct access to the advice and services of the company secretary, who has been appointed by Henderson Secretarial Services Limited. The company secretary is responsible to the Board for ensuring compliance both with Board and committee procedures and applicable rules and regulations. The proceedings at all board and other meetings are fully minuted through a process that allows any director's concerns to be recorded. The Board has the power to appoint or remove the company secretary in accordance with the terms of the management agreement. The Board and the Manager operate in a supportive, co-operative and open environment.

Compliance with Corporate Governance Codes

By virtue of the Company's premium listing on the London Stock Exchange, the Board is required to report on how the principles of the 2018 UK Corporate Governance Code (the "UK Code") have been applied. The 2019 AIC Code of Corporate Governance (the "AIC Code") addresses the principles and provisions of the UK Code as well as additional provisions of specific relevance to investment companies, and has been endorsed by the Financial Reporting Council, enabling investment company boards to report against the AIC Code and still meet their obligations under the UK Code and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules. The Board has chosen to report under the AIC Code, as it considers reporting against the AIC Code provides more relevant information to the Company's shareholders about its governance arrangements.

The AIC Code includes a significant departure from that of the UK Code in the removal of the nine-year limit on chair tenure, and requires that the Board should determine and disclose a policy on the tenure of the chair. As Chairman, I have now served on the Board for nine years in total since appointment as director in May 2011. As I explain in my Chairman's Statement, the Board has proposed that I continue as Chairman for one additional year, and this should support the smooth transition of chairmanship and continuity on the Board. The tenure policy relating to the directors, including the chairmanship, is set out on pages 34-35.

The AIC Code and the UK Code can be found on the respective organisations' websites: www.theaic.co.uk and www.frc.org.uk.

We believe that we have applied the principles and adhered to the provisions of the AIC Code in the year under review and up to the date of this report.

Jamie Cayzer-Colvin
Chairman
30 July 2020

Corporate Governance Report (continued)

Directors

The Board comprises five non-executive directors, whose biographies are included on pages 27-28. These biographies demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors. All current directors served throughout the year and are resident in the UK.

Applying the principles of the AIC code

Board leadership and purpose

The Board is collectively responsible for the success of the Company. Its role is to provide leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board is responsible for setting the Company's standards and values and for ensuring that its obligations to its shareholders and others are understood and met. The Board sets the Company's strategic aims (subject to the Company's articles of association, and to such approval by shareholders in general meeting as may be required from time to time) and ensures that the necessary resources are in place to enable the Company's objectives to be met. Information relating to the Company's purpose, values and culture can be found on page 15.

The Board meets formally at least five times a year, with additional board or committee meetings arranged when required. The directors have regular contact with the Fund Manager, Deputy Fund Manager and representatives of the corporate secretary between formal meetings.

Division of responsibilities

The Chairman, Jamie Cayzer-Colvin, is responsible for leading the Board and ensuring that it continues to deal effectively with all aspects of its role, promoting a culture of openness, challenge and robust debate. Jamie leads the Board's relationship and engagement with the Manager, shareholders and other stakeholders. The Board has a formal schedule of matters reserved for its decisions (available at www.hendersonsmallercompanies.com) which include strategy and management, structure and capital, financial reporting and controls, internal controls and risk management, contracts, communications, board membership and other appointments, delegation of authority, remuneration and other matters.

A formal agenda is set by the Chairman in conjunction with the company secretary, using a regular matrix of items. This agenda includes a review of the Company's net asset value ("NAV"), share price, discount, financial position, peer group performance, investment performance, asset allocation and transactions and any other relevant business matters to ensure that control is maintained over the affairs of the Company.

The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act and regularly reviews investment strategy. It has adopted a procedure for directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information.

The Board has engaged third-party service providers to deliver the operations of the Company. Management of the investment portfolio has been delegated contractually to Janus Henderson, which also provides the day-to-day accounting, company secretarial, administrative, sales and marketing activities. The Company has appointed a depositary, who in turn appoints the custodian who is responsible for the safe custody of the Company's assets. The Company has appointed a registrar to maintain the register of members and assist shareholders with queries in respect of their holdings. The Company entered into each of these principal contracts after full and proper consideration of the quality and cost of the services offered, including the operation of their control systems in relation to the affairs of the Company. The Board and its Committees maintain oversight of the third-party service providers through regular and ad hoc reporting. The Board meets annually with representatives from HSBC Securities Services as depositary and custodian to discuss, amongst other matters, performance, service levels, their value for money, information security and business continuity plans.

The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provide a forum to discuss industry matters which are then reported to the Board as necessary. A fundamental consideration in the Board's decision-making is its awareness of shareholders and other key stakeholders, and their interests, as explained on pages 16-20.

The Board is responsible for the approval of annual and half-year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects. The directors confirm that they are satisfied that the Annual Report for the year ended 31 May 2020, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The corporate secretary, Henderson Secretarial Services Limited, is a subsidiary of Janus Henderson with its own reporting lines and audited internal controls. There are

Corporate Governance Report (continued)

processes and controls in place to ensure that there is a clear distinction between the two entities, particularly when dealing with any conflicts or issues between the Company and Janus Henderson. Any correspondence from shareholders addressed to the Chairman or the Company received at Janus Henderson's offices is forwarded to the Chairman of the Board in line with the audited procedures in place. Any correspondence is provided to the full Board at the next meeting. Any urgent or important correspondence would be circulated promptly at the request of the Chairman.

Janus Henderson has arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters. These arrangements are reviewed at least annually by the Audit Committee.

Composition and succession

The Report of the Nomination Committee on pages 34-35 explains the changes planned in respect of the longer serving directors, being the Chairman and Senior Independent Director, and sets out the Company's diversity policy. The initial phase of the plan is focused on ensuring the continuity of knowledge and expertise of the investment management sector on the Board. The composition of the Board and committee members is set out on pages 27-28.

Board evaluation and effectiveness

The Nomination Committee met in January 2020 and considered the results of the internal Board evaluation. This was carried out during the year via questionnaires about the performance of the Board, its committees, individual directors and the Chairman, and was followed up with one-to-one conversations between each director and the Chairman, and between the Chairman and the Senior Independent Director. The evaluation addressed Board and committee composition including knowledge, skills, diversity, experience, independence, the time commitment of the directors, and relationship with the Manager. The appraisal concluded that the Board oversees the management of the Company effectively and has the skills and expertise to safeguard shareholders' interests. Each director made a valuable contribution to the Board and its discussions, challenged the Manager constructively, remained independent in character and judgement, and dedicated sufficient time to their respective role on the Board. Board composition, dynamics and structure worked well. The appraisal did not identify any areas of material weakness or concern, but found areas for enhancement, including succession planning with recruitment of a new non-executive director during 2020. The Board will also continue strengthening the Company's investment and marketing strategies in annual strategy sessions.

The committees were found to be operating effectively, with the right balance of membership, experience and skills, and it was noted that the members of the Audit Committee continued to undertake training in the technical and regulatory areas relevant to its work.

The Chairman's performance was considered by all directors to be uniformly excellent. Ensuring open, robust and fair debate at meetings, and working alongside the company secretary and the Fund Manager, the Chairman ensured that the Board was provided with accurate, timely and clear information, and ensured objective oversight of the business and challenge to service providers. It was agreed that the Chairman's performance continued to meet expectations and that his continued appointment was in the best interests of the Company and its long-term sustainable success.

David Lamb, as Senior Independent Director, acts as an experienced sounding board for the Chairman and an intermediary for other directors and shareholders. He is also the director nominated to lead the dialogue with the Manager on marketing and promotional matters, due to his experience managing operations at St James' Place. David led the annual evaluation of the Chairman in 2020. In 2021, the Chairman's evaluation will be led by Penny Freer, thereby avoiding any potential, albeit temporary, conflict of interests with David's directorship of Polar Capital Holdings plc.

Every three years the appraisal process is carried out with the support of an independent external facilitator. The last external board evaluation was carried out during the 2019 financial year.

Directors' appointment, tenure and retirement

The Board may appoint directors at any time during the year. Any director so appointed will stand for election by shareholders at the following annual general meeting in accordance with the provisions of the Company's articles of association. Each director receives a letter of appointment that sets out, amongst other matters, what is expected of them in terms of time commitment.

Directors are generally expected to serve two terms of three years, which may be extended to a third term at the discretion of the Board and subject to satisfactory performance evaluation and annual re-election by shareholders. Given the entirely non-executive nature of the Board and the fact that the Chairman may not be appointed as such at the time of their initial appointment as a director, the Chairman's tenure may be longer where this is considered by the Board to be in the best interests of the Company. As explained on pages 5 and 34-35, an additional tenth year of service is proposed for the Chairman at this time for this reason. As with all directors, the continuing appointment of the Chairman

Corporate Governance Report (continued)

is subject to satisfactory performance evaluation and annual re-election by shareholders and may be further subject to the particular circumstances of the Company at the time he intends to retire from the Board. The directors are cognisant of the benefits of regularly refreshing Board membership and seek to do so while retaining a balance of knowledge of the Company and the key relationship with the Fund Manager.

All directors stand for re-election by shareholders annually. The articles permit shareholders to remove a director before the end of his or her term by passing a special resolution at a general meeting. An appointment may be terminated by either party giving written notice without compensation payable.

Following the Nomination Committee's review of the contribution and performance of each director, as explained on the previous page, the continuing appointment of all directors was recommended.

Contribution and directors' independence

All directors have a wide range of other interests and are not dependent on the Company itself. At the Nomination Committee meeting in January 2020, the directors reviewed their independence and confirmed that all directors remain wholly independent of the Manager. The Board believes that length of service does not diminish the contribution from a director, as experience and knowledge of the Company are positive factors and should not impact a director's independence. The Board has concurred with the Nomination Committee's assessment that its long-serving directors are independent in character and judgement, and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders. For these reasons, the Chairman's tenure of just over nine years does not compromise his independence. Nevertheless, the role and contribution of any longer serving director are subject to particularly rigorous review every year.

There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No director has a service contract with the Company and there are no agreements between the Company and its directors concerning compensation for loss of office.

Directors' conflicts of interest

The Company's articles of association permit the Board to consider and, if it sees fit, authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to

authorise a situational conflict, the non-conflicted directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes and the register of interests. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the system it has in place for reporting and considering situational conflicts continues to operate effectively.

On appointment, and throughout the Chairman's tenure, it is confirmed that he has had no relationships that may have created a conflict between his interests and those of the Company's shareholders. In April 2020, David Lamb informed the Board that he had been offered the role of non-executive director, with the expectation that he would become non-executive chairman in due course, at Polar Capital Holdings plc where Jamie Cayzer-Colvin also serves as a current non-executive director. The other directors discussed the potential for conflicts of interest and agreed that this was minimal and could be effectively managed, and that Penny Freer will be conducting the Chairman's evaluation in 2021. After due consideration, the directors felt that the shared directorship would not compromise the independence of either Jamie or David.

Board attendance

The table below sets out the number of scheduled board and committee meetings held during the year under review and the number of meetings attended by each director. All directors, other than Beatrice Hollond and David Lamb, attended the AGM in October 2019. The directors and committees of the Board also met during the year to undertake business such as the approval of the Company's results and dividends, as well as holding weekly investment and operational update calls at the peak of the Covid-19 crisis.

	Board	AC	MEC	NC
Number of meetings				
Jamie Cayzer-Colvin ¹	5	3	1	1
Penny Freer	5	3	1	1
David Lamb ²	4	3	1	1
Alexandra Mackesy	5	3	1	1
Victoria Sant	5	3	1	1
Beatrice Hollond ³	1	1	–	–

Notes:

- Attendance at AC meetings by invitation only
 - David was unable to attend the board meeting and AGM in October 2019 due to attendance at a funeral
 - Retired on 4 October 2019
- AC: Audit Committee
MEC: Management Engagement Committee
NC: Nomination Committee

Corporate Governance Report (continued)

Audit, risk and internal control

The Board has established an Audit Committee, whose report is on pages 37-40. The report explains why the Company does not have its own internal control function, how the independence and effectiveness of the external auditor is assessed, and how the Board satisfies itself on the integrity of the financial statements. The report covers the process by which the Board satisfied itself that the Annual Report presents a fair, balanced and understandable assessment of the Company's position and prospects. The procedures to manage risk are described, as well as how the Board oversees the internal control framework and determines the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.

Directors' insurance and indemnification

Directors' and officers' liability insurance cover was in place in respect of the directors throughout the financial year and remains in place at the date of this report. The Company's articles of association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising from their positions as directors, in which they are acquitted, or judgment is given in their favour by the Court.

Remuneration

The remuneration policy is explained on page 41-43. Being non-executive, the directors' fees are set at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the contribution towards the delivery of the investment objective. In view of the loss in shareholder value and share price in the wake of Covid-19 related market disruption, and the challenges facing many shareholders, the directors deferred their previously agreed fee increase of £500 per annum.



By order of the Board
For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
30 July 2020

Report of the Management Engagement Committee

Role of the Committee

The primary role of the Management Engagement Committee is to review the management agreement and monitor the performance of the Manager for the investment, company secretarial, financial reporting, administration, sales, marketing and support services that it provides under that agreement. Its review of the terms of the agreement include the level and structure of fees payable, the length of notice period and best practice provisions generally. The fees paid to the Manager are aligned with the Company's purpose, values and the successful delivery of its long-term strategy. The Committee is also responsible for formally evaluating the overall performance of third-party service providers engaged by the Company, to consider whether their continuing appointment is in the interests of the Company and its long-term sustainable success.

Membership and meetings

All directors are members of the Committee. The Chairman of the Board is the Chairman of the Committee. The Committee met once during the year. All the Committee's responsibilities have been carried out over the course of the financial year and to date.

Role and responsibilities

In discharging its duties over the course of the period, the Committee considered:

- the investment performance of the Company, taking account of the benchmark and performance of competitors in the closed-ended sector, the share price, level of premium/discount and gearing;
- the management of the portfolio's risk profile and the use of gearing;
- the fee structures of the Company's competitors in the AIC peer group and other Janus Henderson-managed investment companies;
- the quality and experience of the team involved in managing all aspects of the Company's business;
- the key clauses of the management agreement, how the Manager had fulfilled these and whether these continued to be appropriate;
- the performance and fees of the Company's other service providers, including the Company's broker (Numis Securities), depositary (HSBC Securities Services) and registrar (Computershare);
- the Company's service providers in their role as stakeholders and whether there is an appropriate level of engagement with them; and
- any points of conflict which may arise between the providers of services to the Company.

Corporate Governance Report (continued)

Continued appointment of the Manager

The Committee's evaluation of the Manager included consideration of the quality of the team involved in all aspects of servicing the Company, including company secretarial, financial reporting, administration, sales and marketing and included a review of the stability of the management group and its business priorities. Following completion of the review, the Committee recommended to the Board that the continued appointment of the Manager on the terms agreed was in the interests of the Company's shareholders as a whole and its long-term sustainable success.

Committee evaluation

The activities of the Management Engagement Committee were considered as part of the internal board evaluation, completed in accordance with standard governance arrangements as summarised on page 34.

Jamie Cayzer-Colvin
Management Engagement Committee Chairman
30 July 2020

Report of the Nomination Committee

Role of the Committee

The primary role of the Nomination Committee is to review and make recommendations with regard to Board structure, size and composition, the balance of knowledge, experience, skill ranges and diversity, and to consider succession planning, for the whole board, but focusing particularly on the longer serving directors. The Committee met on one occasion during the year and specifically considered, monitored and reviewed the following matters:

- the structure and size of the Board and its composition, particularly in terms of succession planning and the experience and skills of the individual directors and diversity across the Board as a whole;
- the directors' and the Chairman's tenure policy;
- the criteria for future Board appointments and the methods of recruitment, selection and appointment, including for the successor of the Chairman;
- reappointment of directors standing for re-election at annual general meetings;
- the attendance and time commitment of the directors in fulfilling their duties, including the extent of their other directorships;
- each director's independence;
- directors' fees for the financial year ahead with a recommendation to the Board.

Following completion of its reviews, the Committee concluded that the Board, its committees, the individual directors and the Chairman, continued to operate effectively. Taking into account the FRC's guidance, the Committee considered that no director was 'overboarded'. Taking account of the performance of the individual directors, the Committee recommended to the Board that it should support the re-appointment of all directors at the 2020 AGM. All the Committee's responsibilities have been carried out over the course of the financial year and to date.

Membership and meetings

All directors are members of the Committee. The Chairman of the Board is the Chairman of the Committee but does not chair meetings when the Committee is dealing with the Chairman's fees, performance or successor. The Committee met once during the year under review.

Diversity and tenure policies

All Board appointments are subject to a formal, rigorous and transparent procedure. The Company seeks to ensure that any Board vacancies are filled by the most qualified candidates based on objective criteria and merit and in the context of the skills, knowledge and experience that are needed for the Board to be effective.

Corporate Governance Report (continued)

When considering succession planning and tenure, the Nomination Committee bears in mind the balance of skills, knowledge, experience, gender, backgrounds and diversity on the Board, the achievement of the Company's investment objective and compliance with the Company's articles of association and the AIC Code. Individual performance and the contribution of each director remain an integral element of the Company's approach. The Nomination Committee considers diversity as part of the annual performance evaluation, and the directors believe that diversity is important to ensure that the Company can draw on a broad range of backgrounds, skills, knowledge, experience and perspectives to achieve effective stewardship of the Company. The Nomination Committee will ensure that long lists of potential non-executive directors should include diverse candidates of appropriate experience and merit.

The directors confirm that, in all the Nomination Committee's activities, there will be no discrimination on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability.

The Nomination Committee also reviews and recommends to the Board the directors seeking re-appointment. Recommendation is not automatic and will follow a process of evaluation of each director's performance and consideration of the director's independence. The Nomination Committee also considers the mix of skills and experience of the current Board members. Any director serving for longer than six years is subject to particularly rigorous assessment of his or her contribution.

Succession planning and recruitment

While no new appointments were made to the Board during the year, the Committee put in place a succession plan in respect of the longer-serving directors and made recommendations to the Board in respect of recruitment. A formal job description was drawn up to ensure the search for new directors took place under clearly defined candidate criteria produced by the Committee, which focused on maintaining the knowledge and expertise of the investment management sector on the Board. The Committee completed a skills matrix for each director to ensure that the candidate criteria incorporated the desired qualities. At a meeting in May 2020, Odgers Berndtson was chosen as the recruitment firm to assist with the recruitment of new directors. The Board will make the final decision on appointing a new director or directors by Q1 2021.

The services provided by Odgers Berndtson are for the sole purpose of recruiting the eventual appointees. Odgers Berndtson has not provided any other services to the Company.

Committee evaluation

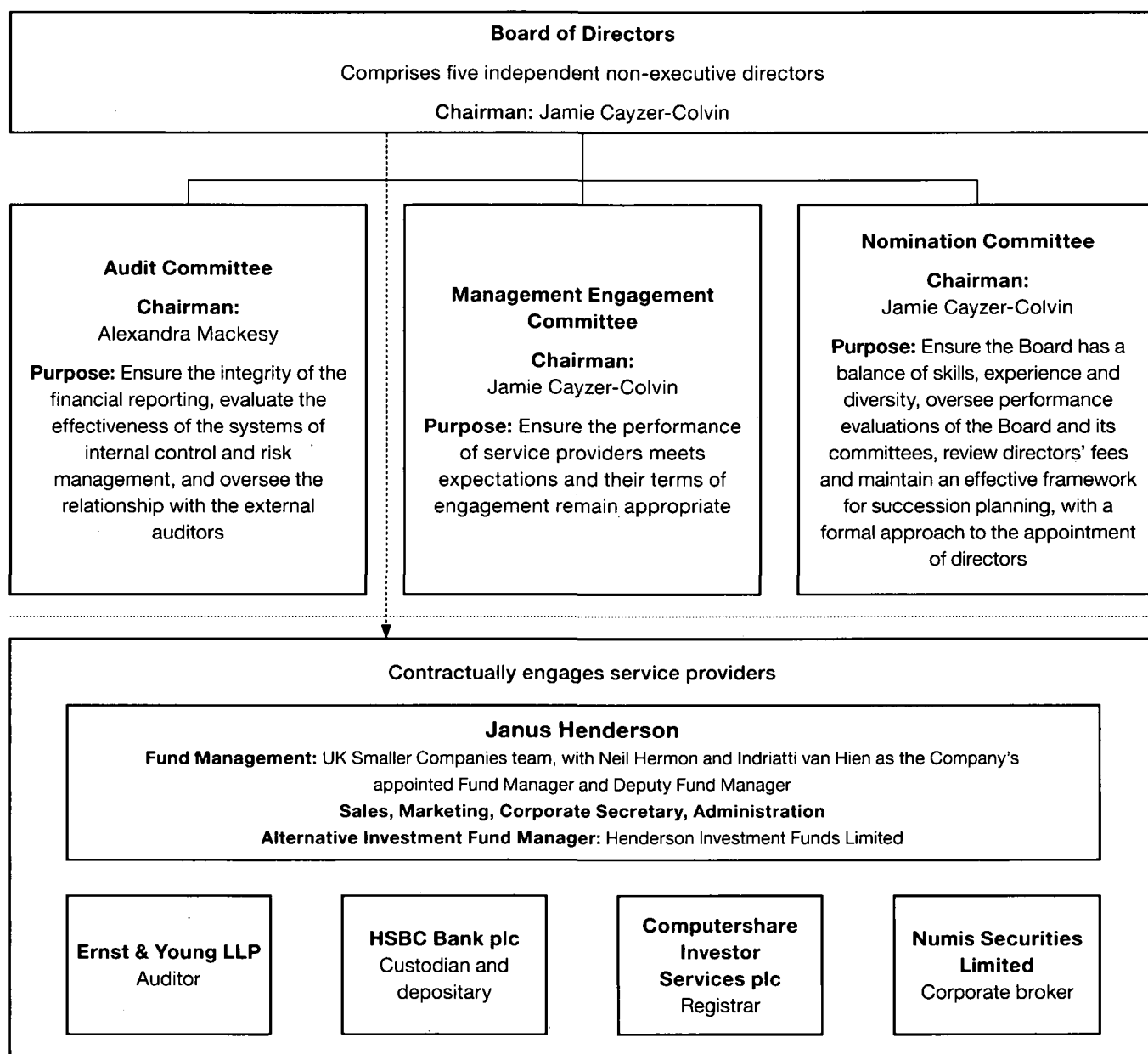
The activities of the Nomination Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as reported on page 34.

Jamie Cayzer-Colvin
Nomination Committee Chairman
30 July 2020

Corporate Governance Report (continued)

The Board's committees

The Board has three principal committees: the Audit Committee, the Management Engagement Committee and the Nomination Committee.



The terms of reference for each of the committees of the Board are kept under regular review and are available on the website: www.hendersonsmallercompanies.com

Audit Committee Report

I am pleased to present my formal report to shareholders as Chairman of the Audit Committee for the year ended 31 May 2020.

Membership

The members of the Audit Committee (the "Committee") during the year were myself as Chairman, David Lamb, Penny Freer and Victoria Saint. Jamie Cayzer-Colvin attends the Committee's meetings by invitation. This is in accordance with the AIC Code. Although the members of the Committee are not accountants by profession, the Board considers that several of the members, including myself as Chairman, have recent and relevant financial experience from their senior management roles elsewhere.

Meetings

The Committee met three times in the year under review: in advance of the publication of the annual and of the half-year results and on one other occasion to focus on its broader responsibilities. The Company's external auditor Ernst & Young LLP ("EY"), the Fund Manager, Deputy Fund Manager and the Manager's Financial Reporting Manager for investment trusts are invited to attend meetings of the Committee on a regular basis. Other representatives of the Manager (including representatives of the Enterprise Risk, Internal Audit, Business Continuity functions, and the Chief Information Security Officer) also attend meetings at least on an annual basis, and more frequently as deemed necessary by the Committee.

Role and responsibilities

The primary responsibilities of the Committee are to ensure the integrity of the Company's financial reporting and the appropriateness of internal controls and risk management systems in place at the Manager and the Company's other service providers. The Committee also makes recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor. The Committee formally reports to the Board after each meeting and its responsibilities are set out in terms of reference which are reviewed at each meeting and available on the Company's website. In the year under review the Committee has considered, monitored and reviewed the following matters:

- the appropriateness of the Company's accounting policies and the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Janus Henderson;
- the half year results and the Annual Report, in order to make recommendations to the Board. This includes disclosures on internal controls, risk management, viability,

going concern and related parties, and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;

- dividends to be paid by the Company for recommendation to the Board;
- internal controls in place at Janus Henderson, BNP Paribas Securities Services as administrator, HSBC Bank plc as depositary and custodian and Computershare as registrar;
- Janus Henderson's policies and activities in relation to information security and business continuity, meeting with representatives of Janus Henderson's internal audit, information security and risk departments;
- the key risks, risk management systems in place and the Company's risk map;
- the Company's Anti-Bribery Policy and the policies and procedures in place to prevent tax evasion;
- the nature and scope of the external audit and its findings;
- whether there is a need for an internal audit function;
- the appointment of the auditor, their performance, remuneration and tenure of appointment, their independence, objectivity and effectiveness, and the reporting of the external auditor;
- the audit plan, including the principal areas of focus;
- the Manager's whistleblowing policy for staff to raise concerns about possible improprieties, including in relation to the Company, in confidence;
- the management fee and performance fee calculations;
- the annual confirmation from the Company's depositary;
- the allocation of expenses between capital and revenue to ensure the appropriate split was in place; and
- liquidity analysis of cross-holdings across the Manager's funds and challenge to the auditor of appropriate scrutiny.

Internal control and risk management

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, as set out in the chart "System of Internal Controls" on page 40. The Committee supports the Board in the continuous monitoring of the Company's internal control and risk management framework and that of its key service providers.

The Committee has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company (see pages 20-21). The process accords with the FRC's Guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in September 2014. The system was in operation throughout the year under review and up to the date of this report. The system is designed to meet the specific risks faced by the

Audit Committee Report (continued)

Company and takes account of the nature of the Company's reliance on its service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

The key components of the internal control framework include:

- clearly defined investment criteria which specify levels of authority and exposure limits. The Board reviews reports on compliance with the criteria at each meeting;
- regular reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- the contractual agreements with the Manager and other service providers. The Board reviews performance levels and adherence to relevant provisions of the agreements on a regular basis. The Management Engagement Committee conducts a formal evaluation of the overall level of services from third-party providers at least annually (see pages 33-34);
- the review of controls (including financial, operational and compliance) at the Manager and other service providers; and
- the Board receives quarterly internal controls reports from the Manager and a quarterly report from the depositary.

The Committee reviews the assurance reports of Janus Henderson, BNP Paribas Securities Services, HSBC Bank plc, and Computershare, which report on the effectiveness of their respective control environments. These reports are produced at least annually and are subsequently reviewed by the Committee.

The Committee also meets with representatives of the Manager's Internal Audit function at least annually to obtain comfort that the high standards of internal control and the risk management systems in place at the Manager are satisfactory. In particular, the Committee asks questions relating to areas of the Manager's business that affect investment trusts directly or indirectly. In the year under review the Committee has not identified or been advised of any failings or weaknesses relating to the Company's portfolio that have been determined as significant. The Committee is therefore satisfied that the internal control and risk management systems in place at the Manager and its key service providers are effective.

Internal audit function

Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable.

The Company is an investment company, has no employees and delegates all executive activities to third-party service providers, principally among them, the Manager. The Board relies on the Company's framework of internal control and the Committee's view on reporting received from specific teams at the Manager.

The Manager's Enterprise Risk Team supports the Committee in considering the independently audited reports on the effectiveness of internal controls in place at the Company's third-party service providers. The Manager's Internal Audit Team provides regular reporting to the Board on the operations at the Manager and presents to the Committee at least annually. The Committee therefore concluded that it is not necessary at the present time for the Company to have its own internal audit function.

Appointment, review and tenure of the external auditor

Regulations currently in force require the Company to rotate audit firms after a period of ten years, which may be extended where audit tenders are carried out or where more than one audit firm is appointed to carry out the audit. The Committee last carried out an audit tender process in 2018 and EY have held office as auditor since the year ended 31 May 2019. The Committee is satisfied that the auditor is independent of the Company. The auditor is required to rotate partners every five years, and this is the second year the current audit partner has been in place. The Committee discusses the audit process with the auditor without representatives of the Manager present and considers the effectiveness of the audit process after each audit. Fees paid or payable to the auditor are detailed in Note 5.

Policy on non-audit services

The Committee keeps under regular review its policy on the provision of non-audit services by the auditor. The policy sets out that the Company's auditor will only be considered for non-audit work where this is not prohibited by current regulations and where it does not appear to affect the independence and objectivity of the auditor. Any provision of non-audit services by the auditor is not permitted to exceed 70% of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period to which the cap applies. Such services would require approval in advance by the Committee or the Audit Committee Chairman.

No fees were paid or payable to the auditor for non-audit services in the year under review or since their appointment.

Audit Committee Report (continued)

Annual Report for the year ended 31 May 2020

The following significant matters were considered by the Committee in relation to the Annual Report for the year ended 31 May 2020:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The directors have appointed the Manager to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, the Manager has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments is verified by reconciliation to the custodian's records.
Correct calculation of the performance fee	The performance fee calculation is prepared by BNP and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the management agreement.
Compliance with section 1158 Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving supporting documentation from the Manager and BNP.
Maintaining internal controls	The Committee receives regular reports on internal controls from Janus Henderson, BNP, Computershare and HSBC and its delegates and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The assurance reports for two of the Company's service providers were qualified by the respective service auditor. The Committee reviewed the instances giving rise to the qualification and received confirmation that the exceptions identified had no impact on the Company.
Recognition of dividend income	Income received is accounted for in line with the Company's accounting policies (as set out on page 61) and is reviewed by the Committee at each meeting. For special dividends Janus Henderson is required to allocate between revenue and capital, the Committee reviews the rationale provided and approves the treatment.

Effectiveness and independence of the external auditor

The Committee monitors the auditor's independence and objectivity through three aspects of its work: approval of the non-audit services policy (see page 38); assessing the appropriateness of the fees paid to the auditor for all work undertaken by them and by reviewing the information and assurances provided by the auditor on their compliance with the relevant ethical standards.

For the year ended 31 May 2020 EY confirmed that all partners and staff involved with the audit were independent of any links to the Company, and that these individuals had complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standards. EY has confirmed to the Committee its policy on independence, which stipulates that all of its partners and staff involved with the audit of the Company are not permitted to have any direct or materially indirect interest in the Company. Adherence to this policy of independence is reaffirmed in writing by each member of professional staff involved in the Company's audit annually at EY.

Due to the relatively recent appointment of EY as the Company's auditor, this being the second year Matthew

Price has been Audit Partner and the fact that EY does not provide any non-audit services to the Company, the Committee is satisfied that auditor independence and objectivity are safeguarded.

The Committee's process for evaluating the effectiveness of the external audit comprises two components: firstly, consideration is given to the findings of the FRC's Audit Quality Inspection Report and secondly, a post-audit assessment is carried out, led by the Committee Chairman.

In assessing the effectiveness of the audit process, the Committee discussed the service provided by EY with Janus Henderson's Financial Reporting Manager for Investment Trusts and the company secretary, who have the most hands-on involvement in the audit each year. The Committee also reviewed and assessed the robustness of the audit, level of challenge offered by the audit team, the quality of the audit team and timeliness of delivering the tasks required for the audit and reporting for the Committee, benchmarking EY's performance against their recent experience with other firms gained through their other commitments. The Committee also met privately with the Audit Partner to discuss how the audit operated from his perspective.

Audit Committee Report (continued)

Overall the Committee considers that the audit quality for the year ended 31 May 2020 has been high and that the Manager alongside EY have worked together to enhance and improve reporting to shareholders.

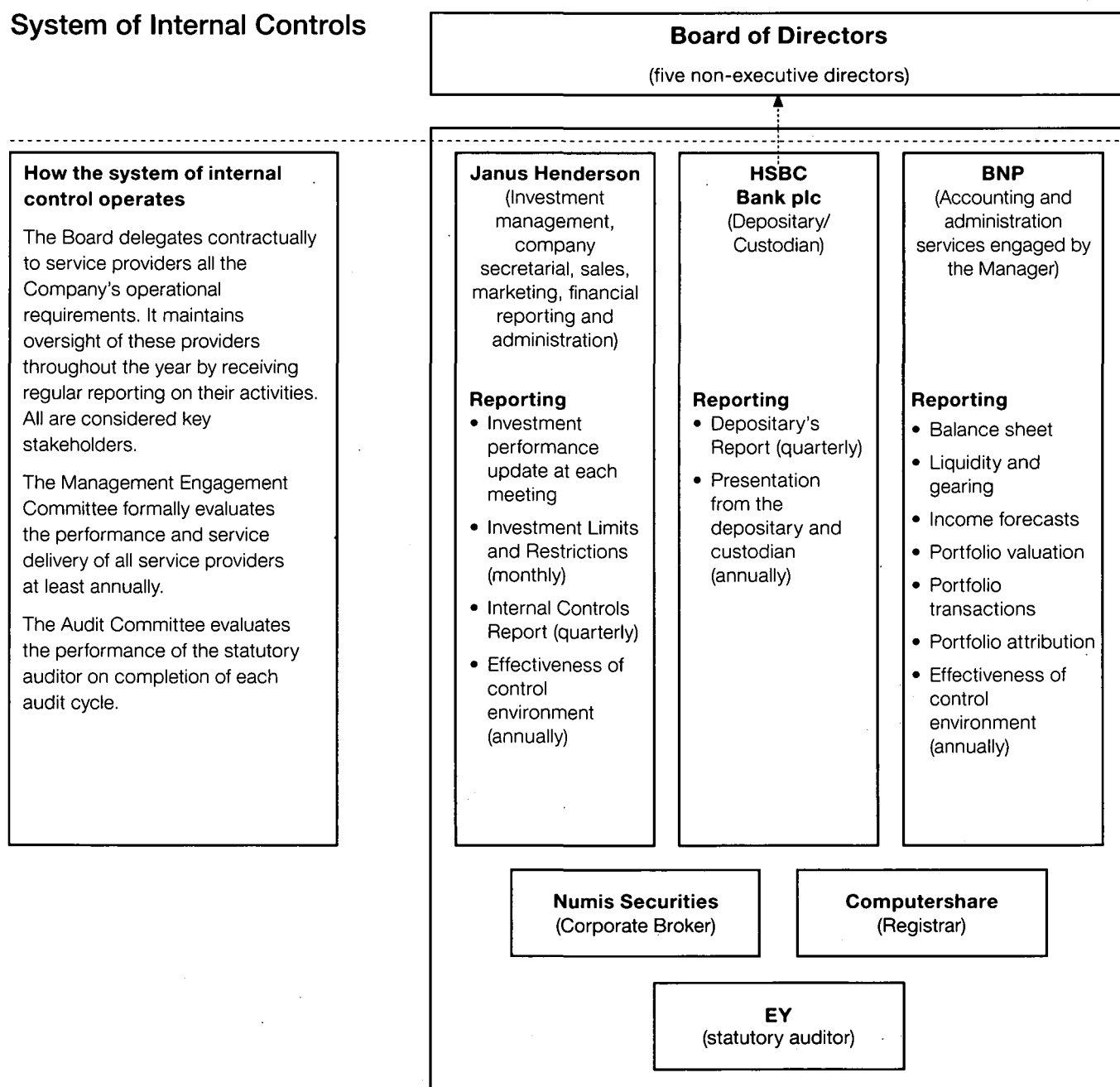
Following completion of the assessment, the Committee remain satisfied with the effectiveness of the audit provided by EY and have recommended their continuing appointment to the Board. The auditor has indicated its willingness to continue in office. Accordingly, resolutions re-appointing

EY as auditor to the Company and authorising the Audit Committee to determine their remuneration will be proposed at the forthcoming AGM.



Alexandra Mackesy
Chairman of the Audit Committee
30 July 2020

System of Internal Controls



Directors' Remuneration Report

Report on implementation

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"). This report also meets the relevant requirements of the Companies Act 2006 (the "Act") and the Listing Rules of the FCA and describes how the Board has applied the principles relating to directors' remuneration. The Company's auditor is required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All directors are non-executive and the Company has no chief executive officer or employees; as such some reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by individual directors. The directors believe that all relevant information is disclosed within this report in an appropriate format. The Nomination Committee considers directors' fees and makes recommendations to the Board for its determination, and there is therefore no separate remuneration committee to consider such matters (see page 29). While the directors review annually the fees paid to the directors of comparable investment trust companies, the Board has not been provided with advice or services by any person in respect of its consideration of the directors' remuneration.

Remuneration policy

Shareholders last approved the Remuneration Policy at the AGM in 2017. In accordance with section 439A of the Act, shareholders will be asked to approve the Remuneration Policy at the 2020 AGM. No changes to the Remuneration Policy are proposed. The Board may amend the level of remuneration paid to individual directors within the parameters of the Policy. Further details can be found in the Notice of AGM and on the website:

www.hendersonsmallercompanies.com. In determining the Remuneration Policy, the Board takes into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the AIC Code.

The objective of the Remuneration Policy is to attract, retain and motivate non-executive directors of the quality required to manage the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The Board obtains up-to-date information about remuneration in other companies of comparable scale and complexity in order to avoid and manage conflicts of interest in determining remuneration levels. The

appropriateness and relevance of the Remuneration Policy is reviewed at least annually, particularly in terms of whether the policy supports the Company's long-term sustainable success.

Directors are remunerated in the form of fees, payable quarterly in arrears. The Company's articles of association limit the fees payable to the directors in aggregate to £250,000 per annum. Subject to the overall limit, the Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors and should be sufficient to promote the long-term success of the Company.

All directors, including those newly appointed, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee who are paid a higher fee in recognition of their additional responsibilities. The policy is to review fee rates annually, although such review will not necessarily result in any change to the rates. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties. No director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable. No director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

Annual statement

As Chairman of the Board, Jamie Cayzer-Colvin reports that directors' fees were last increased with effect from 1 June 2019 (see current fees on page 42). The increases were agreed in the previous financial year after consideration of the fees paid to directors of investment trusts in the peer group and the other Janus Henderson-managed investment trusts. The Board continues to believe that the directors are properly remunerated for their services to the Company and fees paid to directors should be commensurate with the need to attract and retain candidates of a suitable calibre to govern the Company effectively.

In view of the loss in shareholder value and share price in the wake of Covid-19 related market disruption, and the challenges facing many shareholders, the directors deferred their previously agreed fee increase of £500 per annum. There have been no other major decisions on directors' remuneration in the year under review.

Directors' Remuneration Report (continued)

Directors' interests in shares (audited)

The interests of the directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table below.

	Ordinary shares of 25p	
	31 May 2020	1 June 2019
Jamie Cayzer-Colvin	12,000	12,000
Penny Freer	1,400	0
David Lamb	5,802	5,802
Alexandra Mackesy	1,000	0
Victoria Sant	640	500
Beatrice Hollond ¹	n/a	5,700

1 Retired on 4 October 2019

No director has an interest in the preference stock of the Company. There have been no other changes to any of the directors' interests since the year end to the date of this report.

Under the Company's articles of association, no director is required to hold shares in the Company by way of qualification. However, to reflect the governance standards expected in investee companies, the Board requests each director to invest in the Company's shares and to retain those shares for as long as they remain on the Board. The overarching aim is for each director's holding to equate to 25% of their fees earned by the end of their projected nine-year tenure.

Spend on pay

As the Company has no employees, the directors do not consider that it is relevant to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to directors are shown in the table below.

Directors' remuneration (audited)

The remuneration paid to the directors who served during the years ended 31 May 2020 and 31 May 2019 was as follows:

	Year ended 31 May 2020 Total salary and fees £	Year ended 31 May 2019 Total salary and fees £	Year ended 31 May 2020 Expenses and taxable benefits £	Year ended 31 May 2019 Expenses and taxable benefits £	Year ended 31 May 2020 Total £	Year ended 31 May 2019 Total £
Jamie Cayzer-Colvin ¹	35,000	34,500	–	–	35,000	34,500
Penny Freer	24,000	16,753	–	–	24,000	16,753
Beatrice Hollond ²	9,560	27,500	–	–	9,560	27,500
David Lamb ³	24,000	23,500	–	–	24,000	23,500
Alexandra Mackesy ⁴	26,633	16,753	–	–	26,633	16,753
Victoria Sant	24,000	23,500	–	–	24,000	23,500
Mary Ann Sieghart ⁵	–	6,811	–	–	–	6,811
Total	143,193	149,317	–	–	143,193	149,317

Notes:

The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made

1 Chairman and highest paid director

2 Retired from the Board on 4 October 2019

3 Senior Independent Director

4 Chairman of the Audit Committee

5 Retired from the Board on 14 September 2018

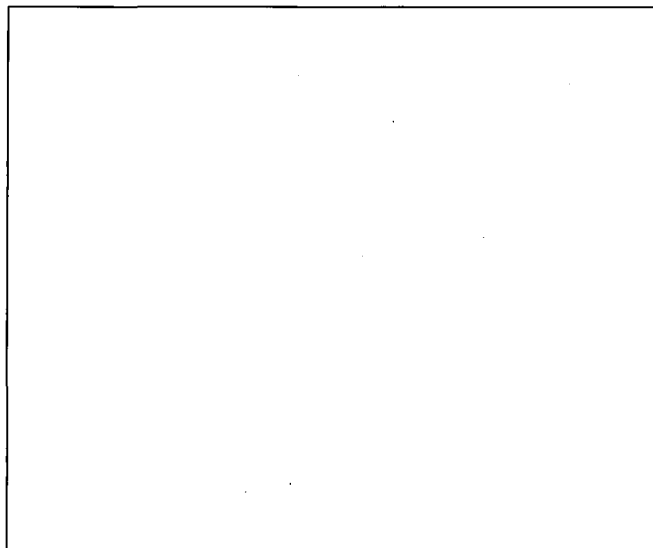
The fees payable to the directors are as follows: Chairman £35,000, Audit Committee Chairman £28,000 and director £24,000. Fees were last changed with effect from 1 June 2019.

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors or third parties specified by any of them.

Directors' Remuneration Report (continued)

Performance

The graph below compares the mid-market price of the Company's ordinary shares over the ten-year period ended 31 May 2020 with the benchmark return over the same period.



Statement of voting at AGM

At the 2019 AGM, 28,987,320 votes in favour of the resolution to approve the Directors' Remuneration Report were received (99.58%), 31,656 (0.11%) were against, 91,845 (0.31%) were discretionary and 33,295 were withheld. All percentages of votes exclude those withheld. In relation to the approval of the Company's Remuneration Policy, last voted at the 2017 AGM, 34,888,365 votes (99.64%) were received in favour of the resolution, 52,722 (0.15%) were against, 72,844 (0.21%) were discretionary and 35,405 were withheld.

For and on behalf of the Board



Alexandra Mackesy
Director
30 July 2020

Report of the Directors

The directors who are listed on pages 12-13, present the audited financial statements of The Henderson Smaller Companies Investment Trust plc (the "Company") and their report for the year ended 31 May 2020. The Company (registered and domiciled in England & Wales with registration number 00025526) was active throughout the year under review and was not dormant.

The Investment Portfolio on pages 12-13, Corporate Governance Report on pages 27-36, Audit Committee Report on pages 37-40, Statement of Directors' Responsibilities on page 46, and the glossary, alternative performance measures and other information on pages 76-82, all form part of the Report of the Directors.

Share capital

The Company's share capital comprises:

Ordinary shares of 25p nominal value each ("shares"):

The voting rights of the shares on a poll are one vote for each share held. At 31 May 2020 and 31 May 2019 the number of shares in issue, and thus the number of voting rights, was 74,701,796. This represents 99.98% of the Company's share capital. There are no restrictions on the transfer of the Company's shares or voting rights, no shares which carry specific rights with regard to the control of the Company and no agreement to which the Company is party that affect its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue and capital reserves) are available for distribution by way of dividends to the holders of the shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holdings of shares.

Preference stock units of £1 each ("preference stock units"): Preference stockholders have no rights to attend and vote at general meetings (except where the dividend is six months in arrears or on a resolution to wind up the Company). At 31 May 2020 and 31 May 2019 there were 4,257 preference stock units in issue. This represents 0.02% of the Company's share capital. Further details are in Note 14.

The directors seek annual authority from the shareholders to allot new shares, to disapply pre-emption rights of existing shareholders and to buy back shares for cancellation or to be held in Treasury. The Company's articles of association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital reserves. No shares or preference stock units were issued or bought back during the year.

At the annual general meeting ("AGM") held in October 2019, the directors were granted authority to buy back 11,197,799 shares (being 14.99% of the issued ordinary share capital as at 1 August 2019). In the period from 1 June 2019 to 30 July 2020, being the latest practicable date prior to publication of this Annual Report, the Company did not buy back any

shares, and total voting rights were 74,701,796. There remained 11,197,799 shares available within the buy-back authority granted in 2019. This authority will expire at the conclusion of the 2020 AGM. The directors intend to renew this authority subject to shareholder approval. Shares are not bought back unless the result is an increase in net asset value per share.

Holdings in the Company's shares

Declarations of interests in the voting rights of the Company as at 31 May 2020 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

Shareholder	% voting rights
Tilney Group Limited	5.0
1607 Capital Partners	5.0
Lazard Asset Management LLC	4.9
Standard Life Aberdeen	4.9
Newton Investment Management Limited	4.9
Royal London Asset Management	3.9
East Riding of Yorkshire	2.9

No changes have been notified since 31 May 2020 to the date of this Report.

Donations

The Board supports a number of UK-focused charities, all of which are personally selected on an annual basis by the directors. These charities span a variety of different causes including food poverty, literacy, and education for children excluded from school. In respect of the year under review, the Company will make charitable donations totalling £5,000 (2019: £6,000). The Company does not make political donations (2019: £nil).

Disclosure of information to the auditor and Listing Rule 9.8.4

Each director who is a member of the Board at the date of approval of this Report confirms that, to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's auditor is unaware, and he or she has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross-reference table indicating where the information is set out. The directors confirm that there are no disclosures to be made in this regard. For details of the Company's responsibilities in respect of global greenhouse gas emissions, see page 24.

Report of the Directors (continued)

Related-party transactions

The Company's transactions with related parties in the year were with the directors and the Manager. There were no material transactions between the Company and its directors, and the only amounts paid to them were in respect of remuneration, for which there were no outstanding amounts payable at the year end. The directors did not claim any expenses during the years to 31 May 2020 or 31 May 2019. Directors' shareholdings are listed on page 42.

In respect of the Manager's service provision during the year, other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties, there were no material transactions with the Manager affecting the financial position of the Company. More details on transactions with the Manager, including amounts outstanding at the year end, are on page 74.

Future developments

The future success of the Company is dependent primarily on the performance of its investment portfolio, which will to a significant degree reflect the performance of the stock market and the Manager. While the Company invests in companies that are listed (or quoted) in the United Kingdom, the underlying businesses of those companies are affected by various external factors, many of an international nature, and including the Covid-19 related disruption to the global economy. The Board's intention is that the Company will continue to pursue its stated investment objective and strategy as explained on page 15. The Chairman's Report and the Fund Manager's Report on pages 5 and 8-11 give commentary on the outlook for the Company. Other information on recommended dividends and financial risks is detailed in the Strategic Report.

Annual general meeting ("AGM")

The Company's AGM will be held at 4.00 pm on Monday, 21 September 2020. In view of the ongoing restrictions on public gatherings, the Board invites shareholders to attend the AGM via a Zoom webinar. Shareholders are strongly encouraged to submit their proxy forms ahead of the proxy-voting deadline at 4.00 pm on 17 September 2020 to ensure their vote counts, as there can be no live voting. The statutory business of the AGM will be conducted on a poll, counting the directors in the quorum, and the Chairman will hold the proxy votes. Your Fund Manager will present his review of the year and thoughts on the future during the webinar, and will be pleased to answer your questions, as will your Board.

We commit to holding physical meetings in future when this is legally allowed and can be safely accomplished, but in case of any further extraordinary crises like the Covid-19 lockdown, we are putting to shareholders a proposed amendment to our articles of association to enable us to hold a combination of virtual and physical shareholder meetings in the future.

Instructions on joining the meeting and details of resolutions to be put to the AGM are included in the Notice of AGM sent with this Annual Report and are on our website at www.hendersonsmallercompanies.com. If shareholders would like to submit any questions in advance of the AGM, they are welcome to send these to the corporate secretary at itsecretariat@janushenderson.com.

Voting recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of the shareholders as a whole. The Board therefore recommends that shareholders vote in favour of each resolution, as the directors intend to do in respect of their own beneficial holdings.



By order of the Board
For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
30 July 2020

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, a strategic report and a directors' remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statement under Disclosure Guidance and Transparency Rule 4.1.12

Each director, who is listed on pages 27-28, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and financial statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board



Alexandra Mackesy
Director
30 July 2020

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc

Opinion

We have audited the financial statements of Henderson Smaller Companies Investment Trust plc ("the Company") for the year ended 31 May 2020 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes 1-22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and is in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 May 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the annual report set out on pages 20-21 that describe the principal risks and explain how they are being managed or mitigated;
- The directors' confirmation set out on pages 20-21 in the annual report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The directors' statement set out on page 46 in the annual report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- Whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The directors' explanation set out on pages 45-46 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Incomplete or inaccurate income recognition through incorrect classification of special dividends in the Statement of Comprehensive Income (fraud risk and key audit matter). • Incorrect calculation and allocation of performance fees. • Incorrect valuation and/or defective title of the investment portfolio held at fair value through profit or loss. • Impact of Covid-19 on the Company and its operations.
Materiality	<ul style="list-style-type: none"> • Overall materiality of £6.42m which represents 1% of net assets as at 31 May 2020.

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Incomplete or inaccurate income recognition through incorrect classification of special dividends in the Statement of Comprehensive Income £0.65m (2019: £1.83m)</p> <p>(as described on page 39 in the Report of the Audit Committee and as per the accounting policy set out on page 61).</p> <p>The income receivable by the Company during the year directly affects the Company's revenue return. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or applying appropriate accounting treatment.</p> <p>The revenue column of the Statement of Comprehensive Income is the main driver of the minimum dividend calculation. There is therefore a risk that an incorrect classification could potentially result in an under distribution of income and put the Company's investment trust status at risk. There is also a risk that the revenue column is overstated to increase the dividend paid to shareholders.</p> <p>In addition to the above, the Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'. This manual and judgmental element in allocating special dividends between revenue and capital can lead to the risk of incorrect allocation.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> • We obtained an understanding of BNP Paribas Securities (the 'Administrator') and Janus Henderson's (the 'Manager') processes and controls surrounding revenue recognition and allocation of special dividends and performed a walkthrough to evaluate the design and effectiveness of controls. • We reviewed the income and capital reports to identify special dividends, above our testing threshold, that have been received and accrued during the period. • The Company received 6 special dividends during the year and there were no dividends that were individually above our testing threshold. We tested all four dividends classed as revenue (£0.65m) as well as the two dividends classed as capital (£1.73m) and confirmed that the classification was consistent with the underlying nature of the payment. • We agreed a sample of dividends (including all of the special dividends) received from the income report to an independent pricing source, recalculated the dividend amount receivable and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount. • We selected a sample of investments from the Company's valuation report, checked to an independent source for any dividends (including special dividends) declared by those securities and agreed the recognition of such dividends to the income report. • To test for the risk of management override, we tested a sample of journal entries and other adjustments made in the preparation of the financial statements relating to special dividends. 	<p>The results of our procedures are:</p> <p>We have no matters to communicate with respect to the procedures in response to the risk of incorrect or inaccurate income recognition.</p>

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Incorrect calculation and allocation of performance fees £nil (2019: £nil)</p> <p>(as described on page 39 in the Report of the Audit Committee and as per the accounting policy set out on page 61).</p> <p>The Company pays performance fees to the Manager. There is a risk that performance fees are not calculated correctly, in line with the underlying agreements or that the methodology is open to misinterpretation. No performance fees were payable in the year to 31 May 2020.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> • We obtained an understanding of the Administrator's processes and controls surrounding the performance fee calculation and allocation and performed a walkthrough to evaluate the design and effectiveness of controls. • We reviewed the Management Agreement ('MA') to assess the conditions of the MA that result in a performance fee payable. • We reviewed the Administrator's calculation of performance fees for the year ended 31 May 2020 and recalculated the performance fees payable. 	<p>The results of our procedures are:</p> <p>We concur that no performance fees are payable in the year and have no matters to communicate with respect to the calculation and allocation.</p>
<p>Incorrect valuation and/or defective title of the investment portfolio held at fair value through profit or loss £712.33m (2019: £776.23m)</p> <p>(as described on page 39 in the Report of the Audit Committee and as per the accounting policy set out on page 61).</p> <p>In accordance with IFRS, the Company's listed investments have been designated as 'fair value through profit or loss'.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at the close of business on the year-end date.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> • We performed our walkthrough procedures to obtain an understanding of the Administrator's processes for investment pricing. • We agreed 100% of the listed investment valuations and exchange rates to an independent pricing vendor. • We obtained confirmation from the HSBC custodian and depositary companies of all investments held by the Company at the year-end and agreed those to the Company's records. • We reviewed any price exception and stale pricing reports to identify any prices that have not changed and test whether the listed price is a valid fair value. 	<p>The results of our procedures are:</p> <p>We have no matters to communicate with respect to the procedures that we performed in response to the risk of incorrect valuation and/or defective title of the investment portfolio held at fair value through profit or loss.</p>

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Impact of Covid-19 on the Company and its operations</p> <p>(as described on pages 20-21 in the Business Model section and as per the accounting policy set out on page 61).</p> <p>The Covid-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in global equity and debt markets, but as of the date of our audit report, the precise extent of that impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of the financial statements.</p> <p>The Covid-19 pandemic and resultant uncertainties had the most significant impact on our audit of the financial statements in the following areas:</p> <p>Going concern and the viability statement</p> <p>There is increased risk due to the degree of uncertainty in the assumptions underlying management's assessment of future prospects, including the impact of Covid-19 on the Company continuing to meet its stated objective.</p> <p>Revenue recognition</p> <p>There is a risk that revenue could be incorrectly stated due to fixed income payments accrued at the year-end on underlying investments being subsequently defaulted upon.</p> <p>Financial statement disclosures</p> <p>There is a risk that the impact of Covid-19 is not adequately disclosed in the financial statements.</p>	<p>We performed the following procedures:</p> <p>Going concern and the viability statement</p> <ul style="list-style-type: none"> ⌘ We obtained and reviewed the assessment of going concern which includes consideration of the impact of Covid-19. The assessment took into consideration stressed scenarios including a reverse stress test which calculated what fall in net asset value would be required to cause a covenant breach of the most restrictive covenant. We reviewed the revenue and cash flow forecasts which take account of the impact Covid-19 may have on the Company and which will support the Directors' assessment of going concern. ⌘ We reviewed the business continuity plan and the supporting documentation from underlying service providers that was contained within the Audit Committee and Board packs. We further noted no material issues with service providers from our audit procedures. ⌘ We performed procedures over the liquidity of the portfolio through reviewing management's assessment of how quickly the portfolio could be liquidated if required. ⌘ We considered the exposure of the investment portfolio to sectors heavily impacted by Covid-19, including travel, leisure, energy and resources. <p>Revenue recognition</p> <ul style="list-style-type: none"> ⌘ In response to the increased likelihood that companies fail to make dividend payments due because of Covid-19, we monitored the recoverability of accrued income up to the date of the approval of the Annual Report and Financial Statements. ⌘ We have confirmed that all accrued income scheduled to be received has been as at the date of this report, by agreeing payments to post year-end bank statements. <p>Financial statement disclosures</p> <ul style="list-style-type: none"> ⌘ We reviewed the disclosures contained within the Annual Report and Financial Statements, including the going concern and viability statements and the commentary in the Fund Manager's review, to ensure that the impact of Covid-19 has been included as appropriate and we have provided our comments to the company secretary for consideration. 	<p>Based on the procedures performed, we are satisfied that the directors have appropriately considered the impact of Covid-19 on the operations and financial outlook of the Company and the appropriate disclosures has been made in the financial statements.</p>

We have included a risk in relation to the impact of Covid-19 which was not included in our prior year audit report. This has been included to set out our approach in addressing this new and developing risk.

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £6.42 million (2019: £7.16 million), which is 1% (2019: 1%) of net assets. We have derived our materiality calculation based on a proportion of net assets as we consider it to be the most important financial metric on which shareholders would judge the performance of the Company.

During the course of our audit, we reassessed initial materiality and found no reason to alter the basis of calculation at year-end.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2019: 50%) of our planning materiality, namely £4.81m (2019: £3.58m). We have used a higher threshold than in our first-year audit because we now have prior experience as to the likelihood of misstatements and the effectiveness of the control environment and accounting processes.

Given the importance of the distinction between revenue and capital for the Company, we have also applied a separate testing threshold of £0.63m (2019: £1.66m) for the revenue column of the Statement of Comprehensive Income being 5% of revenue profit before tax.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.32m (2019: £0.36m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information in the annual report set out on pages 2-46, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 46** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 37-40** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 29** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and company secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to management override in relation to inappropriate journals pertaining to special dividends. We noted no issues in agreeing a sample of special dividend journal entries back to the audited income report or through to the corresponding announcements prepared by the Company.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- We have reviewed that the Company's control environment is adequate for the size and operating model of such a listed investment Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address:

- We were appointed by the Company on 17 April 2018 to audit the financial statements for the year ending 31 May 2019 and subsequent financial periods. We were engaged as auditor by the Audit Committee and signed an engagement letter on 22 November 2018.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 May 2019 to 31 May 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Price (Senior statutory auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

London

30 July 2020

Notes:

1. The maintenance and integrity of The Henderson Smaller Companies Investment Trust plc page of the Janus Henderson website is the responsibility of Janus Henderson; 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.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

Statement of Comprehensive Income

Notes		Year ended 31 May 2020			Year ended 31 May 2019		
		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	14,194	–	14,194	19,431	–	19,431
3	Other income	37	–	37	80	–	80
10	Losses on investments held at fair value through profit or loss	–	(66,571)	(66,571)	–	(64,758)	(64,758)
	Total income	14,231	(66,571)	(52,340)	19,511	(64,758)	(45,247)
	Expenses						
4	Management fees	(731)	(1,706)	(2,437)	(736)	(1,719)	(2,455)
5	Other expenses	(560)	–	(560)	(723)	–	(723)
	Profit/(loss) before finance costs and taxation	12,940	(68,277)	(55,337)	18,052	(66,477)	(48,425)
6	Finance costs	(438)	(1,019)	(1,457)	(431)	(1,006)	(1,437)
	Profit/(loss) before taxation	12,502	(69,296)	(56,794)	17,621	(67,483)	(49,862)
7	Taxation	(5)	–	(5)	–	–	–
	Profit/(loss) for the year and total comprehensive income	12,497	(69,296)	(56,799)	17,621	(67,483)	(49,862)
8	Earnings per ordinary share – basic and diluted	16.73p	(92.76p)	(76.03p)	23.59p	(90.34p)	(66.75p)

The total column of this statement represents the Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union.

The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

Statement of Changes in Equity

		Retained earnings				
Notes	Year ended 31 May 2020	Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
	Total equity at 1 June 2019	18,676	26,745	646,305	24,419	716,145
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(69,296)	12,497	(56,799)
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(17,550)	(17,550)
	Total equity at 31 May 2020	18,676	26,745	577,009	19,366	641,796

		Retained earnings				
		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
Notes	Year ended 31 May 2019					
	Total equity at 1 June 2018	18,676	26,745	713,788	22,859	782,068
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(67,483)	17,621	(49,862)
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(16,061)	(16,061)
	Total equity at 31 May 2019	18,676	26,745	646,305	24,419	716,145

Balance Sheet

Notes		At 31 May 2020 £'000	At 31 May 2019 £'000
	Non current assets		
10	Investments held at fair value through profit or loss	712,330	776,233
	Current assets		
12	Receivables	3,120	3,215
	Tax recoverable	16	19
	Cash and cash equivalents	4,741	872
		7,877	4,106
	Total assets	720,207	780,339
	Current liabilities		
13	Payables	(3,481)	(5,284)
	Bank loans	(45,107)	(29,087)
		(48,588)	(34,371)
	Total assets less current liabilities	671,619	745,968
	Non current liabilities		
14	Financial liabilities	(29,823)	(29,823)
	Net assets	641,796	716,145
	Equity attributable to equity shareholders		
16	Share capital	18,676	18,676
17	Capital redemption reserve	26,745	26,745
	Retained earnings:		
17	Capital reserve	577,009	646,305
18	Revenue reserve	19,366	24,419
	Total equity	641,796	716,145
19	Net asset value per ordinary share	859.1p	958.7p

These financial statements on pages 56-74 were approved and authorised for issue by the board of directors on 30 July 2020 and were signed on its behalf by:



Alexandra Mackesy
Director

Statement of Cash Flows

Notes	For the year ended	
	31 May 2020 £'000	31 May 2019 £'000
Operating activities		
Loss before taxation	(56,794)	(49,862)
Add back interest payable	1,457	1,437
10 Losses on investments held at fair value through profit or loss	66,571	64,758
10 Purchases of investments	(125,705)	(135,343)
10 Sales of investments	123,037	142,682
(Increase)/decrease in receivables	(26)	207
Increase in amounts due from brokers	(2,530)	(14)
Decrease/(increase) in accrued income	2,651	(74)
Decrease in payables	(127)	(3,646)
(Decrease)/increase in amounts due to brokers	(1,672)	323
Net cash inflow from operating activities before interest and taxation¹	6,862	20,468
Interest paid	(1,463)	(1,432)
Net cash inflow from operating activities	5,399	19,036
Financing activities		
9 Equity dividends paid	(17,550)	(16,061)
Drawdown/(repayment) of bank loans	16,020	(6,992)
Net cash outflow from financing activities	(1,530)	(23,053)
Increase/(decrease) in cash and cash equivalents	3,869	(4,017)
Cash and cash equivalents at the start of the year	872	4,889
Cash and cash equivalents at the end of the year	4,741	872

¹ In accordance with IAS 7.31 cash flow from dividends was £16,852,000 (2019: £19,357,000) and cash flow from interest was £4,000 (2019: £6,000)

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Henderson Smaller Companies Investment Trust plc (the "Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The financial statements of the Company for the year ended 31 May 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the IFRS Interpretations Committee ("IFRS IC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice (the "SORP") for investment trusts issued by the Association of Investment Companies (the "AIC") in October 2019 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

Accounting standards

- i) The following new and amended standards are relevant and applicable to the Company and have been adopted. There has been no impact on the financial statements as a result of these new and amended standards.

Standards		Effective for annual periods beginning on or after
IAS 12 Amendment (AI 2015-17)	Income tax consequences of payments on financial instruments classified as equity	1 January 2019
IAS 23 Amendment (AI 2015-17)	Borrowing costs eligible for capitalisation	1 January 2019
IFRS 9 Amendment	Prepayment Features with Negative Compensation	1 January 2019
Interpretations		Effective for annual periods beginning on or after
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

- ii) Relevant new standards, amendments and interpretations issued but not effective for the current financial year and not early adopted by the Company:

Standards		Effective for annual periods beginning on or after
IAS 1 Amendments	Classification of Liabilities as current or non-current	1 January 2022
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IAS 1, 8, 34, 37, 38 and IFRS 2, 3, 6, 14	Amendment to references to the conceptual framework	1 January 2020
IFRS 3 Amendment	Definition of a Business	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform	1 January 2020
Interpretations		Effective for annual periods beginning on or after
IFRIC 12, 19, 20, 22 and SIC 32	Amendment to references to the conceptual framework	1 January 2020

It is expected that these new standards, amendments and interpretations will have no impact on the financial statements.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

b) Going concern

The Company's shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was put to the annual general meeting ("AGM") held on 4 October 2019 and passed by a substantial majority of the shareholders. The assets of the Company consist of securities that are readily realisable and, accordingly, the directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The directors have also considered the impact of Covid-19, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio. They have concluded that they are able to meet their financial obligations, including the repayment of the bank loan, as they fall due for a period of at least twelve months from the date of issuance. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

c) Investments held at fair value through profit or loss

All investments are classified upon initial recognition as held at fair value through profit or loss, and are measured initially and subsequently at fair value. Investment transactions are accounted for on a trade date basis. Assets are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price or the last traded price depending on the convention of the exchange on which the investment is quoted at the balance sheet date, without deduction of the estimated future selling costs. There were no unquoted investments during the current year or prior year.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as "Gains or losses on investments held at fair value through profit or loss". Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

d) Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns are no longer prohibited to be distributed by way of dividend where authority is given within the Company's articles of association. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Interest is recognised on an accruals basis.

Income distributions from UK Real Estate Investment Trusts ("UK REITs") will be split into two parts, a Property Income Distribution ("PID") made up of rental revenue and a non-PID element, consisting of non-rental revenue. The PID element is subject to corporation tax as schedule A revenue, while the non-PID element will be treated as franked revenue.

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, commission income is allocated to the Revenue Return. Gain or losses arising from the take up of shares are allocated to the capital return.

f) Expenses

All expenses are accounted for on an accruals basis. The Board has determined that the capital return should reflect the indirect costs of earning capital returns. Since 1 June 2013, the Company has allocated 70% of its management fees and finance costs to the capital return of the Statement of Comprehensive Income with the remaining 30% being allocated to the revenue return.

All other administrative expenses are charged to the revenue return of the Statement of Comprehensive Income.

Any performance fees are charged wholly to the capital return. Expenses which are incidental to the purchase or sale of an investment are recognised immediately in the capital return of the Statement of Comprehensive Income, and are included within the gains or losses on investments held at fair value through profit or loss.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

The tax effect of different items of expenditure is allocated between the capital and the revenue using the Company's effective rate of tax for the year. In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

h) Foreign currency

For the purposes of the financial statements, the results and financials position are expressed in pounds sterling, which is the functional currency and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and investments held at fair value through profit or loss which are denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Gains and losses arising on the retranslation of investments held at fair value through profit or loss are included within the "Gains or losses on investments held at fair value through profit or loss".

i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

j) Borrowings

Interest-bearing bank loans, overdrafts, unsecured loan notes and Preference Stock are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The Preference Stock has been classified as a liability as it represents a contractual obligation on behalf of the Company to deliver to the stockholders a fixed and determinable amount at the date of redemption.

k) Operating segments

The directors consider that the Company has one operating segment, being the activity of investing in shares and securities primarily for capital appreciation in accordance with the Company's published investment objective. The Company operates within the United Kingdom.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

l) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid or, in the case of final dividends, when they are approved by shareholders. Dividends are recorded in the Statement of Changes in Equity.

m) Capital and reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposals of investments;
- expenses and finance costs allocated to capital net of tax relief;
- realised foreign exchange differences of a capital nature; and
- costs of repurchasing ordinary share capital.

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

Revenue reserve

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

Capital redemption reserve

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled.

n) Distributable reserves

The Company's capital reserve arising on investments sold (i.e. realised capital profits) and revenue reserve may be distributed by way of a dividend.

o) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable Preference Stock is classified as a liability. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

Share capital represents the nominal value of ordinary shares issued.

p) Key estimates and assumptions

Estimates and assumptions used in preparing the financial statements are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these estimates and assumptions form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

There are no estimates and assumptions that may cause material adjustment to the carrying value of assets and liabilities. There are no significant judgements made in the preparation of these financial statements.

Notes to the Financial Statements (continued)

2 Investment income

	2020 £'000	2019 £'000
Income from companies listed or quoted in the United Kingdom:		
Dividends	13,202	17,154
Special dividends	651	1,827
Property income distributions	341	450
Total investment income	14,194	19,431

3 Other income

	2020 £'000	2019 £'000
Bank and other interest	4	6
Underwriting income (allocated to revenue) ¹	33	74
	37	80

¹ None of the income receivable from sub-underwriting commitments was allocated to capital during the year (2019: £nil)

4 Management and performance fees

	Revenue return £'000	2020 Capital return £'000	Total return £'000	Revenue return £'000	2019 Capital return £'000	Total return £'000
Management fee	731	1,706	2,437	736	1,719	2,455
Performance fee	–	–	–	–	–	–
	731	1,706	2,437	736	1,719	2,455

A summary of the management agreement is given on pages 16 and 22.

5 Other expenses

	2020 £'000	2019 £'000
Directors' fees (see the Directors' Remuneration Report on pages 41-43)	143	149
Auditors' remuneration for the audit of the Company and the financial statements	30	29
Other professional fees	50	125
FCA and London Stock Exchange fees	45	44
Registration costs	23	23
Annual and half year reports and shareholder circulars: printing and distribution	11	15
Insurances	6	4
AIC subscriptions	22	21
Custody and other bank charges	37	36
Bank facilities: commitment fees	35	121
Charitable donations	5	6
Depository charges	47	48
Other expenses payable to the management company ¹	84	77
Share price listings in newspapers and websites	7	7
Other expenses	15	18
	560	723

¹ Other expenses payable to the management company ("Janus Henderson") relate to sales and marketing services as described in Note 21

All transactions with directors are disclosed in the Directors' Remuneration Report and are related party transactions. All the above expenses include VAT where VAT is applied to them. There were no non-audit services in the period (2019: nil).

Notes to the Financial Statements (continued)

6 Finance costs

	Revenue return £'000	2020 Capital return £'000	Total return £'000	Revenue return £'000	2019 Capital return £'000	Total return £'000
Bank overdraft and loan interest	138	320	458	128	299	427
Interest on unsecured loan notes ¹	300	699	999	303	707	1,010
Total	438	1,019	1,457	431	1,006	1,437

1 Includes amortisation of issue costs and will therefore vary from year to year

7 Taxation

a) Analysis of charge for the year

	Revenue return £'000	2020 Capital return £'000	Total return £'000	Revenue return £'000	2019 Capital return £'000	Total return £'000
Overseas tax suffered	5	–	5	–	–	–
Current and total tax charge for the year	5	–	5	–	–	–

b) Factors affecting the tax charge for the year

UK corporation tax is charged at 19% (2019: 19%). Approved investment trusts are exempt from corporation tax on chargeable gains made by the investment trust.

The tax assessed for the year is lower than the average standard rate of corporation tax in the UK of 19% (2019: 19%) for the year ended 31 May 2020.

	Revenue return £'000	2020 Capital return £'000	Total return £'000	Revenue return £'000	2019 Capital return £'000	Total return £'000
Profit/(loss) before taxation	12,502	(69,296)	(56,794)	17,621	(67,483)	(49,862)
Corporation tax at 19.00% (2019: 19.00%)	2,375	(13,166)	(10,791)	3,348	(12,822)	(9,474)
Effects of:						
Non-taxable UK dividends	(2,554)	–	(2,554)	(3,467)	–	(3,467)
Non-taxable overseas dividends	(78)	–	(78)	(139)	–	(139)
Expenses not deductible for tax purposes	1	–	1	–	–	–
Excess management expenses and loan deficits	256	518	774	258	518	776
Overseas withholding tax	5	–	5	–	–	–
Capital losses not subject to tax	–	12,648	12,648	–	12,304	12,304
Current and total tax charge for the year	5	–	5	–	–	–

c) Provision for deferred taxation

No provision has been made for deferred tax on income.

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to maintain approval of such status in the foreseeable future, the Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments.

d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £18,327,000 (2019: £15,705,000) arising as a result of having unutilised management expenses and deficits on loan relationships. These expenses will only be utilised if the tax treatment of the Company's income and chargeable gains changes or if the Company's investment profile changes.

Notes to the Financial Statements (continued)

8 Earnings per ordinary share

The earnings per ordinary share figure is based on the net loss for the year of £56,799,000 (2019: net loss of £49,862,000) and on 74,701,796 (2019: 74,701,796) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The earnings per ordinary share figure detailed above can be further analysed between revenue and capital, as below:

The Company has no securities in issue that could dilute the return per ordinary share. Therefore the basic and diluted earnings per ordinary share are the same.

	2020 £'000	2019 £'000
Net revenue profit	12,497	17,621
Net capital loss	(69,296)	(67,483)
Net total loss	(56,799)	(49,862)
Weighted average number of ordinary shares in issue during the year	74,701,796	74,701,796

	2020	2019
Revenue earnings per ordinary share	16.73p	23.59p
Capital earnings per ordinary share	(92.76p)	(90.34p)
Total earnings per ordinary share	(76.03p)	(66.75p)

9 Ordinary dividends

	Record Date	Pay Date	2020 £'000	2019 £'000
Final dividend 16.5p (2019: 15.0p) for the year ended 31 May 2019	9 August 2019	8 October 2019	12,326	11,205
Interim dividend of 7.0p (2019: 6.5p) for the year ended 31 May 2020	14 February 2020	9 March 2020	5,229	4,856
Unclaimed dividends over 12 years old			(5)	–
			17,550	16,061

Subject to approval at the AGM, the proposed final dividend of 16.5p per ordinary share will be paid on 12 October 2020 to shareholders on the register of members at the close of business on 28 August 2020. The shares will be quoted ex-dividend on 27 August 2020.

The proposed final dividend for the year ended 31 May 2020 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by the shareholders. All dividends have been paid or will be paid out of revenue profits.

The total dividends payable in respect of the financial year which form the basis of the test under section 1158 of the Corporation Tax Act 2010 are set out below:

	2020 £'000	2019 £'000
Revenue available for distribution by way of dividends for the year	12,497	17,621
Interim dividend for the year ended 31 May 2020 of 7.0p (2019: 6.5p) per ordinary share	(5,229)	(4,856)
Final dividend for the year ended 31 May 2019 16.5p (based on the 74,701,796 shares in issue at 1 August 2019)	–	(12,326)
Proposed final dividend for the year ended 31 May 2020 16.5p (based on 74,701,796 shares in issue at 30 July 2020)	(12,326)	–
Transfer (from)/to revenue reserve	(5,058)¹	439

¹ The excess will be paid from the revenue reserve

Notes to the Financial Statements (continued)

10 Investments held at fair value through profit or loss

	2020 £'000	2019 £'000
Cost at start of year	555,748	542,533
Investment holding gains at start of year	220,485	305,797
Valuation at start of year	776,233	848,330
Movements in the year:		
Acquisitions at cost	125,705	135,343
Disposals at cost	(100,480)	(122,128)
Movement in investment holding gains	(89,128)	(85,312)
Valuation at year end	712,330	776,233
Cost at the end of the year	580,973	555,748
Investment holding gains	131,357	220,485
Valuation at year end	712,330	776,233

The Company received £123,037,000 (2019: £142,682,000) from investments sold in the year. The book cost of these investments when they were purchased was £100,480,000 (2019: £122,128,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Purchase and sale transaction costs for the year ended 31 May 2020 were £461,000 and £51,000 respectively (2019: transaction costs of purchases £469,000; transaction costs of sales £68,000). These comprise mainly stamp duty and commission.

Analysis of investments at fair value

	2020 £'000	2019 £'000
Equity investments:		
Listed on the London Stock Exchange	516,198	597,057
Quoted on the Alternative Investment Market ("AIM")	196,132	179,176
	712,330	776,233

All the investments are listed in the United Kingdom. The above categories are based on information obtained from the Stock Exchange Daily Official list.

Total capital (losses)/gains from investments

	2020 £'000	2019 £'000
Gains on the sale of investments based on historical cost	22,557	20,554
Revaluation gains recognised in previous years	(31,773)	(52,135)
Losses on investments sold in the year based on the carrying value at the previous balance sheet date	(9,216)	(31,581)
Net movement in investment holding losses	(57,355)	(33,177)
Losses on investments held at fair value through profit or loss	(66,571)	(64,758)

All capital gains/(losses) are from investments that are listed (or quoted on AIM) in the United Kingdom.

Notes to the Financial Statements (continued)

11 Substantial interests

The Company held interests of 3% or more of any class of share capital in five investee companies (2019: six investee companies). These investments are not considered by the directors to be significant in the context of these financial statements.

	Valuation £'000	% of voting rights
Blanco Technology	4,314	3.1
Tribal Group	3,774	3.1
Safestyle	2,615	6.6
Tekmar	2,415	4.5
Thruvision	1,077	4.1

12 Receivables

	2020 £'000	2019 £'000
Securities sold for future settlement	2,739	209
Prepayments and accrued income	381	3,006
	3,120	3,215

13 Payables

	2020 £'000	2019 £'000
Securities purchased for future settlement	3,001	4,673
Management fee	304	393
Accruals and deferred income	176	218
	3,481	5,284

14 Financial liabilities

	2020 £'000	2019 £'000
Unsecured Loan Notes:		
3.33% Unsecured Loan Notes 2036 (redeemable at par on 23 May 2036)	29,819	29,819
Preference Stock:		
4,257 Preference Stock units of £1 each (2019: 4,257)	4	4
	29,823	29,823

The Preference Stock units carry the right to receive a non-cumulative dividend at a final rate of 0.001% payable on 1 June each year. On a winding-up of the Company, preference stockholders are entitled to repayment of the capital paid up thereon. The Preference Stock does not entitle the holder to attend or vote at any general meeting of the Company except where the dividend is six months in arrears or on a resolution to liquidate the Company.

On 23 May 2016, the Company issued £30,000,000 (nominal) 3.33% unsecured loan notes, net of issue costs totalling £213,000. The issue costs will be amortised over the life of the notes. The loan notes do not carry voting rights and the 3.33% interest rate would be cumulative if unpaid in any period.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures

The directors manage investment risk principally through setting an investment policy, approved by shareholders, which incorporates risk parameters (see pages 20-21), by contracting management of the Company's investments to an investment manager (Janus Henderson) under a contract which incorporates appropriate duties and restrictions and by monitoring performance in relation to these. The Board's relationship with Janus Henderson is discussed in the Strategic Report. Internal control and the Board's approach to risk are also on pages 37-40. There have been no material changes to the management or nature of the Company's investment risks from the prior year.

The main risks arising from the Company's pursuit of its investment objective are market risk, credit risk and liquidity risk. The effects of these can also be increased by gearing.

The Board and Janus Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below:

- Straight-through processing via a deal order and management system ("OMS") is utilised for listed securities.
- Portfolio modeling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third-party software applications: Charles River Development OMS and/or Imagine.
- Fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services) which utilises HiPortfolio software.
- The IT tools to which the Janus Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
 - Charles River Compliance module for investment restrictions monitoring;
 - Nasdaq BWISE operational risk database;
 - RiskMetrics, UBS Delta, Style Research, Cognition and Barra for market risk measurement;
 - Bloomberg for market data and price-checking; and
 - HiPortfolio for portfolio holdings and valuations.

a) Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 15 (b)), currency risk (see note 15 (c)) and interest rate risk (see note 15 (d)). The Board reviews and agrees policies for managing these risks. Janus Henderson assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

b) Market price risk

Market price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of the investments. The Company's investments are susceptible to market price risk arising from uncertainties about the future prices of the investments.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board regularly reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objectives and is directly responsible for investment strategy.

The Company's exposure to changes in market prices at 31 May 2020 on its equity investments was £712,330,000 (2019: £776,233,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 12-13 and a sector analysis is set out on page 6. At 31 May 2020 all the investments were in companies listed or quoted in London, most of them being companies established in and operating from the United Kingdom. Accordingly, there is a concentration of exposure to the UK, although it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

b) Market price risk (continued)

Market price risk sensitivity

The sensitivity of (a) the return after taxation for the year and (b) the Company's net assets to an increase or decrease of 25% in the fair values of the Company's investments at each balance sheet date is given below. This level of change is considered to be reasonably possible, based on observation of current market conditions.

The impact of a 25% increase in the value of the investments on the revenue return as at 31 May 2020 is a decrease of £187,000 (2019: £204,000) and on the capital return is an increase of £177,646,000 (2019: £193,583,000). Accordingly, the total impact on shareholders' funds is an increase of £177,459,000 (2019: £193,379,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2020 is an increase of £187,000 (2019: £204,000) and on the capital return is a decrease of £177,646,000 (2019: £193,583,000). Accordingly, the total impact on shareholders' funds is a decrease of £177,459,000 (2019: £193,379,000).

c) Currency risk

The Company is not itself materially exposed to currency risk, although some of the investments will be in companies that have operations that involve currency risk.

As at 31 May 2020, the Company did not hold any non-sterling denominated investments (2019: nil).

d) Interest rate risk

Interest rate movements may affect:

- the level of income receivable from cash at bank and on deposit; and
- the interest payable on the Company's short-term borrowings.

Interest rate changes may also have an impact on the market value of the Company's equity investments. In particular, the effect of the interest rate changes on the earnings of companies held within the portfolio may have a significant impact on the valuations of those companies.

Management of the risk

The possible effects on the fair value of the investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. At 31 May 2020 the Company had committed bank borrowing facilities for a total of £45.1 million (2019: £29.1 million); borrowings are drawn down for short periods at rates of interest that are determined by reference to the market rates applicable at the time of borrowing.

Interest rate exposure

The Company's financial liabilities at 31 May 2020 that give exposure to fixed interest rate risk are set out in note 14.

The exposure to floating interest rates can be found on the Balance Sheet (cash and cash equivalents and bank loans).

These amounts are not necessarily representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down or repaid, and the mix of borrowings subject to floating or to fixed interest rate changes.

Interest rate sensitivity

The Company is not materially exposed to changes in interest rates. As at 31 May 2020 the Company's two-year revolving loan facility provided by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC") allowed borrowings to a maximum of £60 million, the interest rate exposure on which is 0.65% plus LIBOR (2019: 0.65% plus LIBOR); the interest payable on the Company's £30 million issue of unsecured loan notes is fixed at 3.33%.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

e) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities.

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £30 million by its issue in 2016 of 3.33% unsecured loan notes 2036. The Company is able to draw short-term borrowings of up to £60 million from its committed borrowing facility with SMBC. There were borrowings of £45,107,000 drawn down under the facility at 31 May 2020 (2019: £29,087,000).

Accordingly, the Company has access to borrowings of up to £90 million: the £30 million of fixed debt represented by the issue of unsecured loan notes and a committed bank facility of £60 million.

The Board gives guidance to the Manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should remain fully invested in normal market conditions and that short-term borrowings should be used to fund short-term cash requirements.

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 May 2020, based on the earliest date on which payment could be required, was as follows:

	2020			2019		
	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000
Preference Stock ¹	–	–	–	–	–	–
Unsecured loan notes ²	999	3,996	40,989	999	3,996	41,988
Bank loans and interest	45,136	–	–	29,127	–	–
Payables	3,443	–	–	5,224	–	–
	49,578	3,996	40,989	35,350	3,996	41,988

¹ See also note 14. The Company has in issue Preference Stock without a set redemption date with a total par value of £4,000 (2019: £4,000) which has a negligible ongoing finance cost

² The amounts due include unsecured loan notes interest

f) Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Management of the risk

The risk is not significant, and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed regularly by Janus Henderson, and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings.

None of the Company's financial assets are past, due or impaired.

In summary, the maximum exposure to credit risk at 31 May 2020 was to cash and cash equivalent of £4,741,000 (2019: £872,000), and to receivables of £3,120,000 (2019: £3,215,000) (see note 12).

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

g) Fair values of financial assets and financial liabilities

The investments are held at fair value through profit or loss. All the net current liabilities are held in the Balance Sheet at a reasonable approximation of fair value. At 31 May 2020 the fair value of the Preference Stock was £4,000 (2019: £4,000). The fair value of the Preference Stock is estimated using the prices quoted on the exchange on which the investment trades. The Preference Stock is carried in the Balance Sheet at par.

The unsecured loan notes are carried in the Balance Sheet at par less the issue costs which are amortised over the life of the notes. In order to comply with fair value accounting disclosures only, the fair value of the unsecured loan notes has been estimated to be £37,244,000 (2019: £33,607,000) and is categorised as Level 3 in the fair value hierarchy as described below. However, for the purpose of the daily NAV announcements, the unsecured loan notes are valued at par in the fair value NAV because they are not traded and the directors have assessed that par value is the most appropriate value to be applied for this purpose.

The fair value of the unsecured loan notes is calculated using a discount rate which reflects the yield of a UK Gilt of similar maturity plus a suitable credit spread.

h) Fair value hierarchy disclosures

The table below sets out fair value measurements using the IFRS 13 fair value hierarchy.

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset, as follows:

Level 1: valued using quoted prices in active markets for identical assets.

Level 2: valued by reference to valuation techniques using observable inputs other than quoted prices.

Level 3: valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in note 1(c).

Fair value hierarchy – 2020

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	712,330	–	–	712,330
	712,330	–	–	712,330

Fair value hierarchy – 2019

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	776,233	–	–	776,233
	776,233	–	–	776,233

There have been no transfers during the year between any of the levels.

i) Capital management policies and procedures

The Company's capital management objectives are:

- * to ensure that it will be able to continue as a going concern; and
- * to secure long-term capital growth for the shareholders by investment in quoted securities in the UK.

This is to be achieved through an appropriate balance of equity capital and gearing. The Company's policy is that its borrowings must not exceed 30% of the shareholders' funds.

The Company's total capital at 31 May 2020 was £716,907,000 (2019: £775,236,000) comprising £45,107,000 (2019: £29,087,000) of unsecured bank loans, £30,000,000 (2019: £30,000,000) of Unsecured Loan Notes, £4,000 (2019: £4,000) of Preference Stock and £641,796,000 (2019: £716,145,000) of equity share capital and reserves.

The Company has a £60m revolving credit facility with SMBC Bank. The Company had drawn down £45,107,000 under these facilities as at 31 May 2020 (2019: £29,087,000). The Company was fully compliant with the terms of the facility, as it existed, for the period 1 June 2019 to the date of this Annual Report.

Notes to the Financial Statements (continued)

16 Share capital

	2020 £'000	2019 £'000
Allotted, issued, authorised and fully paid:		
74,701,796 ordinary shares of 25p each (2019: 74,701,796)	18,676	18,676

During the year the Company made no purchases of its own issued ordinary shares (2019: nil). Since 31 May 2020 the Company has not purchased any ordinary shares.

17 Capital redemption reserve and capital reserve

2020	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2019	26,745	220,485	425,820	646,305
Transfer on disposal of investments (see note 10)	–	(31,773)	31,773	–
Net capital losses for the year	–	(57,355)	(9,216)	(66,571)
Expenses charged to capital	–	–	(2,725)	(2,725)
At 31 May 2020	26,745	131,357	445,652	577,009

2019	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2018	26,745	305,797	407,991	713,788
Transfer on disposal of investments (see note 10)	–	(52,135)	52,135	–
Net capital losses for the year	–	(33,177)	(31,581)	(64,758)
Expenses charged to capital	–	–	(2,725)	(2,725)
At 31 May 2019	26,745	220,485	425,820	646,305

18 Revenue reserve

	2020 £'000	2019 £'000
As at beginning of year	24,419	22,859
Ordinary dividend paid (Note 9)	(17,550)	(16,061)
Revenue profit for the year	12,497	17,621
At 31 May	19,366	24,419

19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £641,796,000 (2019: £716,145,000) and on the 74,701,796 ordinary shares in issue at 31 May 2020 (2019: 74,701,796).

The Company has no securities in issue that could dilute the net asset value per ordinary share.

The movement during the year of the net assets attributable to the ordinary shares was as follows:

	2020 £'000	2019 £'000
Net assets attributable to the ordinary shares at 1 June	716,145	782,068
Net losses for the year	(56,799)	(49,862)
Ordinary dividend paid in the year	(17,550)	(16,061)
Net assets attributable to the ordinary shares at 31 May	641,796	716,145

Notes to the Financial Statements (continued)

20 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 31 May 2020 (2019: £nil).

Contingent liabilities

At 31 May 2020, there existed a contingent liability in respect of the sub-underwriting participation of the Hyve rights issue amounting to £2,104,000 (2019: £nil).

The rights issue was fully subscribed and as a result no liability crystallised.

21 Transactions with the Manager and related parties

Under the terms of an agreement effective from 22 July 2014, the Company has appointed a wholly owned subsidiary of Janus Henderson Group plc ("Janus Henderson") to provide investment management, accounting, secretarial and administrative services. Janus Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given on page 22. The management fees payable to Janus Henderson under the agreement in respect of the year ended 31 May 2020 were £2,437,000 (2019: £2,455,000). The amount outstanding at 31 May 2020 was £304,000 payable to Janus Henderson (2019: £393,000).

The performance fee payable to Janus Henderson in respect of the year ended 31 May 2020 is £nil (2019: £nil).

In addition to the above services, Janus Henderson facilitates marketing activities with third parties which are recharged to the Company. Total amounts paid to Janus Henderson in respect of marketing, including VAT, for the period ended 31 May 2020 amounted to £84,000 (2019: £77,000).

Fees paid to the directors are considered to be related party transactions. Details of the amounts paid are included in note 5. These amounts do not include national insurance contributions on the directors' fees of £14,000 (2019: £13,000) which are included in other expenses. Directors' shareholdings are shown on page 42.

22 Changes in financial liabilities

The following table shows the movements during the period of net debt in the Balance Sheet:

Notes	Non-cash changes				
	At 1 June 2019 £'000	Cash flows £'000	Fair value changes £'000	Foreign exchange movement £'000	At 31 May 2020 £'000
Financing Activities					
Bank loans	(29,087)	(16,020)	–	–	(45,107)
14 Financial liabilities	(29,823)	–	–	–	(29,823)
	(58,910)	(16,020)	–	–	(74,930)
Non-financing Activities					
Cash and cash equivalents	872	3,869	–	–	4,741
	872	3,869	–	–	4,741
Total	(58,038)	(12,151)	–	–	(70,189)

Notes	Non-cash changes				
	At 1 June 2018 £'000	Cash flows £'000	Fair value changes £'000	Foreign exchange movement £'000	At 31 May 2019 £'000
Financing Activities					
Bank loans	(36,079)	6,992	–	–	(29,087)
14 Financial liabilities	(29,813)	–	(10)	–	(29,823)
	(65,892)	6,992	(10)	–	(58,910)
Non-financing Activities					
Cash and cash equivalents	4,889	(4,017)	–	–	872
	4,889	(4,017)	–	–	872
Total	(61,003)	2,975	(10)	–	(58,038)

Other Information

Glossary

Alternative Investment Fund Managers Directive ("AIFMD")

Agreed by the European Parliament and the Council of the European Union and adopted into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as alternative investment funds ("AIFs") and requires them to appoint an alternative investment fund manager ("AIFM") and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the directors retain a fiduciary duty to shareholders.

Association of Investment Companies ("AIC")

The Company is a member of the AIC, which is the trade body for investment companies and represents the industry in respect of various matters which impact the regulation of such entities. The Company is a constituent of the AIC's UK Smaller Companies sector.

Benchmark

An index against which performance is compared. For the Company this is the Numis Smaller Companies Index (excluding investment companies).

Custodian

The Custodian is responsible for ensuring the safe custody of the Company's assets and that all transactions in the underlying holdings are transacted in an accurate and timely manner.

Depositary

As an AIF, the Company is required to appoint a depositary who has responsibility for overseeing the operations of the Company, including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings, and is responsible for the appointment of a custodian. The depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The Company's depositary has confirmed that it has not discharged liability in relation to any of the Company's assets. The depositary further confirms that, in all material respects, the Company has been managed in accordance with the FCA's Investment Funds Sourcebook, the Company's articles of association and as required by the AIFMD.

Dividend dates

When declared or announced, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's registrar to know which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value and share price will be disclosed ex-dividend.

Gearing

Gearing is the borrowing of money to buy assets in the expectation that the return on investments bought will exceed the interest cost of the borrowing. The net gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company has used to invest in the market. It is calculated by taking the difference between total investments (see note 10) and equity shareholders' funds (see Balance Sheet), dividing this by the equity shareholders' funds and multiplying by 100. The Company can also use synthetic gearing through derivatives and foreign exchange hedging.

Investment trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as 'liquid', that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is 'illiquid', the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

Market capitalisation

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

Ongoing charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The ongoing charge is based on the premise that actual costs incurred in the year (see notes 4 and 5) are the best estimate of future costs, excluding any performance fees, in accordance with the AIC methodology. The ongoing charge is the annualised charge expressed as a percentage of the average aggregate NAV in the period (see pages 22 and 77). Management fees and other administrative expenses are included in the calculation, such as directors' fees and the auditor's fees, and the figure therefore exceeds the rate of the management fee paid to Janus Henderson. The cap of 0.90% relates only to management fees and performance fees under the Company's management agreement, and excludes any other expenses. Total expenses for periods where a performance fee is payable can therefore be greater than 0.90%. The AIC's ongoing charge methodology differs from the PRIIPs methodology for ongoing costs which are disclosed in the KID.

Alternative Performance Measures

The Company uses the following alternative performance measures ("APMs") throughout the annual report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders to help assess the Company's performance against its peer group.

Capital return per share

The capital return per share, is the capital profit for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year (see note 8).

Discount or Premium

The amount by which the market price per share of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per ordinary share.

	NAV pence	Share price pence	Premium/ (discount) to NAV %
At 31 May 2019	958.7	858.0	(10.5)
At 31 May 2020	859.1	777.0	(9.6)

Gearing/(net cash)

Gearing represents the excess amount above shareholders' funds of total investments, expressed as a percentage of the shareholders' funds. If the amount calculated is negative, this is a 'net cash' position and no gearing.

		2020	2019
Investments held at fair value through profit or loss (£'000) (page 58)	(A)	712,330	776,233
Net assets (£'000) (page 58)	(B)	641,796	716,145
Gearing (A/B)/B - 1 (%)	(C)	11.0	8.4

Net asset value ("NAV") per ordinary share

The value of the Company's assets (i.e. investments held at fair value through profit or loss (see note 10) and cash held (see Balance Sheet)) less any liabilities (i.e. financial liabilities (see note 13)) for which the Company is responsible divided by the number of ordinary shares in issue (see note 16). The aggregate NAV is also referred to as Total equity in the Balance Sheet. The NAV per ordinary share is published daily and the year end NAV can be found on page 3 and further information is available in note 19 within the notes to the financial statements.

Ongoing charge

The ongoing charge has been calculated in accordance with the guidance issued by the AIC as the total investment management fees and administrative expenses expressed as a percentage of the average net asset value throughout the year.

	2020 £'000	2019 £'000
Management fees (note 5)	2,437	2,455
Other administrative expenses (note 6)	560	723
Less: non-recurring expenses	(35)	(184)
Ongoing charges	2,962	2,994
Average net assets¹	699,474	712,193
Ongoing charge	0.42%	0.42%

1 Calculated using the average daily net assets

The ongoing costs provided in the Company's Key Information Document ("KID") are calculated in line with the PRIIPs regulations. The ongoing costs in the KID include finance costs, and so differ from the ongoing charge shown in the above table.

Alternative Performance Measures (continued)

Revenue return per share

The revenue return per share is the revenue return for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year (see note 8).

Total Return

The return on the share price or NAV taking into account both the rise and fall of NAV/share prices and dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return). Dividends paid and payable are set out in note 9.

NAV per share at 31 May 2019 and 31 May 2018 (p)	958.7	1,046.9
NAV per share at 31 May 2020 and 31 May 2019 (p)	859.1	958.7
	2020	2019
Change in the year (%)	(10.4)	(8.4)
Impact of dividends reinvested (%)	2.5	2.2
NAV total return for the year (%)	(8.2)	(6.4)
Share price per share at 31 May 2019 and 31 May 2018 (p)	858.0	966.0
Share price per share at 31 May 2020 and 31 May 2019 (p)	777.0	858.0
	2020	2019
Change in the year (%)	(9.4)	(11.2)
Impact of dividends reinvested (%)	2.8	2.5
Share price total return for the year (%)	(6.9)	(9.0)

Yield

The yield is the annual dividend expressed as a percentage of the year end share price.

		31 May 2020	31 May 2019
Annual dividend (p)	(A)	23.5	23.0
Share price (p)	(B)	777.0	858.0
Yield (C=A/B) (%)	(C)	3.0	2.7

Warning to shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call the corporate secretary at the number provided on page 81.

General Shareholder Information

AIFMD disclosures

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), information in relation to the Company's leverage and remuneration of Henderson Investment Funds Limited, as the Company's alternative investment fund manager ("AIFM") is required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document entitled AIFMD Disclosure which can be found on the Company's website

www.hendersonsmallercompanies.com.

BACS

Dividends can be paid by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the registrar. Alternatively, shareholders can write to the registrar (the address is given on page 81) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard ("CRS")

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced with effect from 1 January 2016. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information is provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Equality Act 2010

Copies of this report and other documents issued by the Company are available from the corporate secretary. If needed, copies can be made available in a variety of formats, including Braille or larger type as appropriate.

You can contact the registrar, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator, by dialling 0370 702 0005. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People), dial 18001 followed by the number you wish to dial.

Foreign Account Tax Compliance ("FATCA")

FATCA is a United States federal law enacted in 2010 whose intent is to enforce the requirement for United States persons (including those living outside the USA) to file yearly reports on their non-USA financial accounts. Each year investment trusts need to monitor the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company makes an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, identify and report USA reportable accounts to HMRC, as required.

General Data Protection Regulation ("GDPR")

GDPR came into force on 25 May 2018. A privacy statement can be found on the website www.janushenderson.com.

History

The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name of The Trustees, Executors and Securities Insurance Corporation, Limited. The name was changed in August 1917 to The Trustees Corporation Limited, in April 1982 to TR Trustees Corporation PLC, in October 1990 to TR Smaller Companies Investment Trust PLC and in September 1997 to The Henderson Smaller Companies Investment Trust plc.

ISA

The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

Non-mainstream pooled investments ("NMPI") status

The Company currently conducts its affairs so that its ordinary shares of 25p each can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

General Shareholder Information (continued)

Packaged Retail and Insurance-based Investment Products Regulation (“PRIIPs”)/Key Information Document (“KID”)

Investors should be aware that the PRIIPs Regulation requires the Manager, as the PRIIPs manufacturer, to prepare a key information document in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by legislation. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

Performance details/share price information

The Company's NAV is published daily. Details of the Company's share price and NAV per share can be found on the website **www.hendersonsmallercompanies.com** and in the London Stock Exchange Daily Official List.

The market price of the Company's ordinary shares is also published daily in the Daily Telegraph and on Trustnet.

Shareholder details

Shareholders who hold their shares in certificated form can check their shareholding with the registrar via **www.computershare.com**. To gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

Corporate Information

Registered office

201 Bishopsgate
London EC2M 3AE

Service providers

Alternative Investment Fund Manager
Henderson Investment Funds Limited
201 Bishopsgate
London EC2M 3AE

Corporate Secretary
Henderson Secretarial Services Limited
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818
Email: support@janushenderson.com

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1057
Email: web.enquiries@computershare.co.uk

Depository and Custodian
HSBC Bank plc
8 Canada Square
London E14 5HQ

Broker
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Independent Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Financial calendar

Annual results	30 July 2020
Ex-dividend date	27 August 2020
Dividend record date	28 August 2020
Annual general meeting	21 September 2020
Final dividend payable	12 October 2020
Half year results	January 2021
Interim dividend payable	March 2021

Information sources

For more information about the Company, visit the website at
www.hendersonsmallercompanies.com

HGi

HGi is a content platform provided by Janus Henderson that offers online personalisation where you can follow investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Janus Henderson's investment expertise.

Scan the QR code or use this short URL to register for HGi.
<http://HGi.co/rb>



Follow Investment Trusts on Twitter, YouTube and Facebook



Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on our website.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman.

Historical Record

At 31 May	Net assets £'000	NAV per ordinary share with debt at par p	Mid-market price per ordinary share p	Discount with debt at par %	Revenue return p	Capital return p	Total return p	Dividends ¹ p	Expenses ¹ %	
2011	298,184	398.1	319.4	(19.8)	4.91	119.70	124.61	4.20	0.50	(1.16)
2012	279,926	374.5	284.3	(24.1)	6.07	(25.62)	(19.55)	5.50	0.50	(0.50)
2013	403,420	540.0	454.0	(15.9)	6.24	164.72	170.96	6.50	0.47	(1.07)
2014	476,281	637.6	547.0	(14.2)	12.67	94.37	107.04	11.00	0.44	(0.56)
2015	563,321	754.1	686.0	(9.0)	15.04	112.98	128.02	13.50	0.46	(0.88)
2016 ²	546,080	731.0	616.5	(15.7)	15.92	(25.00)	(9.08)	15.00	0.44	(0.44)
2017	688,460	921.6	799.0	(13.3)	19.57	187.03	206.60	18.00	0.43	(1.01)
2018	782,068	1,046.9	966.0	(7.7)	22.79	121.52	144.31	21.00	0.42	(0.99)
2019	716,145	958.7	858.0	(10.5)	23.59	(90.34)	(66.75)	23.00	0.42	(0.42)
2020	641,796	859.1	777.0	(9.6)	16.73	(92.80)	(76.00)	23.50	0.42	(0.42)

1 Using total expense ratio methodology for 2011, ongoing charge methodology thereafter, figures excluding performance fee (figures in brackets including performance fee)

2 Since the redemption of the debenture stock on 31 May 2016, the Company's NAV and discount with debt at par or market value are identical because there is no difference in the values of the remaining debt liabilities

Sources: Morningstar for the AIC, Janus Henderson, Refinitiv Datastream

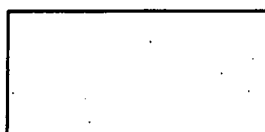
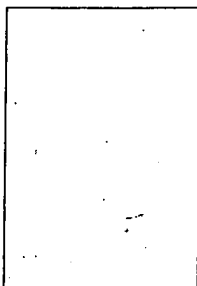
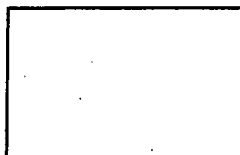
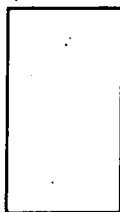
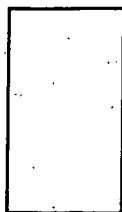
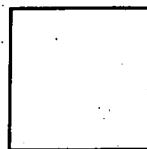
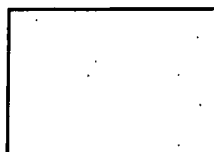
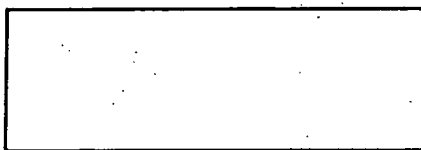
The Henderson Smaller Companies Investment Trust plc
Registered as an investment company in England and Wales
Registration number: 00025526
Registered office: 201 Bishopsgate, London EC2M 3AE

ISIN number/SEDOL Ordinary Shares: GB0009065060/0906506
London Stock Exchange (TIDM) Code: HSL
Global Intermediary Identification Number (GIIN): WZD8S7.99999.SL.826
Legal Entity Identifier (LEI): 213800NE2NCQ67M2M998

Telephone: **0800 832 832**

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www.hendersonsmallercompanies.com



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