

HENDERSON DIVERSIFIED INCOME LIMITED

Annual Report 2016



MANAGED BY

Henderson
GLOBAL INVESTORS

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Strategic Report

“I am pleased to report a positive year for your Company notwithstanding the continued volatility in markets particularly early in 2016.

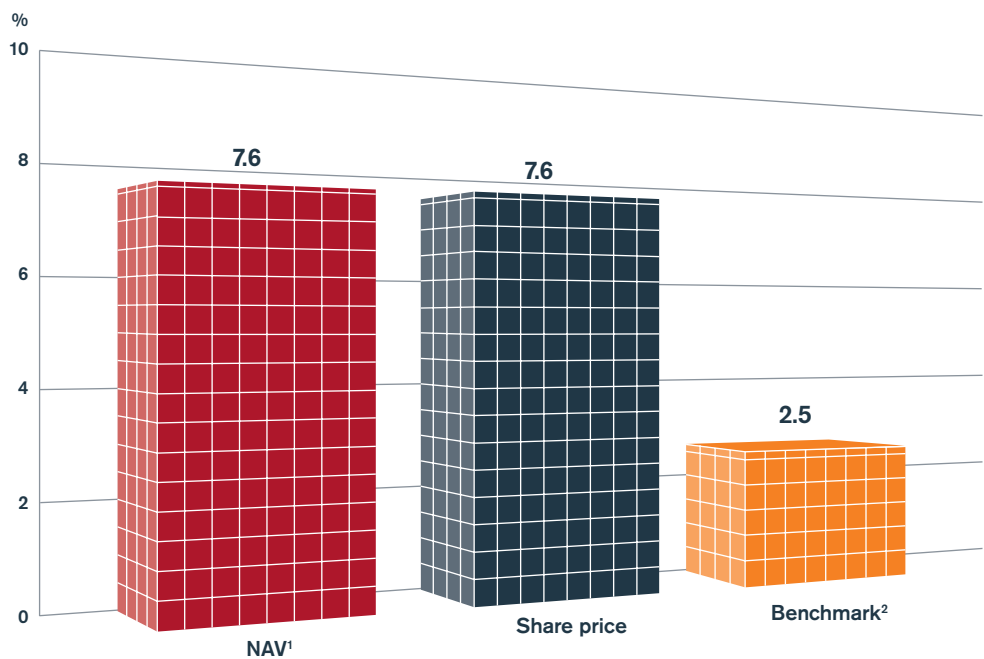
We have concluded that it would be in the best interests of shareholders to simplify the tax structure by electing to join the UK investment trust company tax regime, including changing its place of incorporation to the United Kingdom.”

Paul Manduca, Chairman

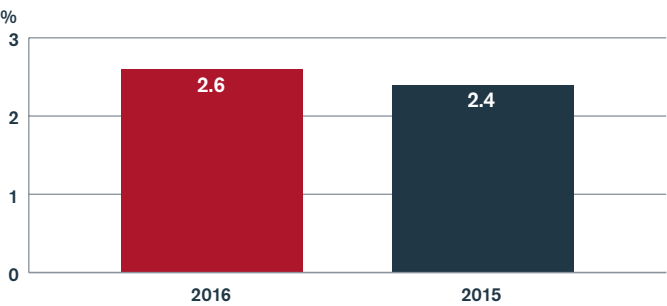


Strategic Report: Performance Highlights

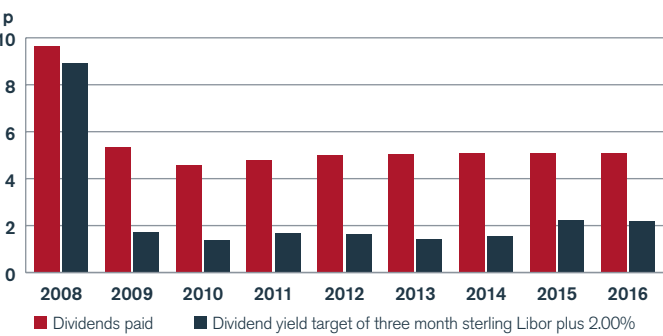
Total return performance for year to 31 October 2016



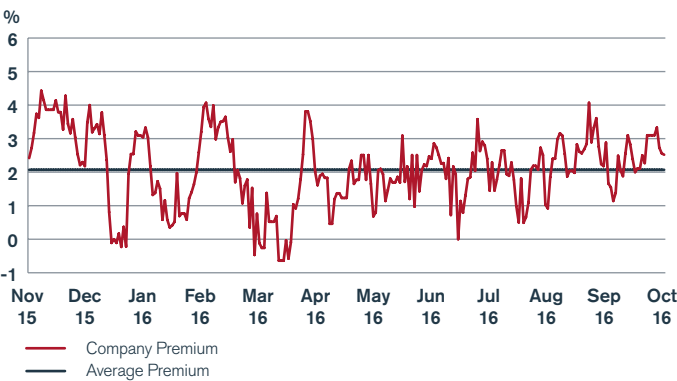
Premium to NAV at year end³



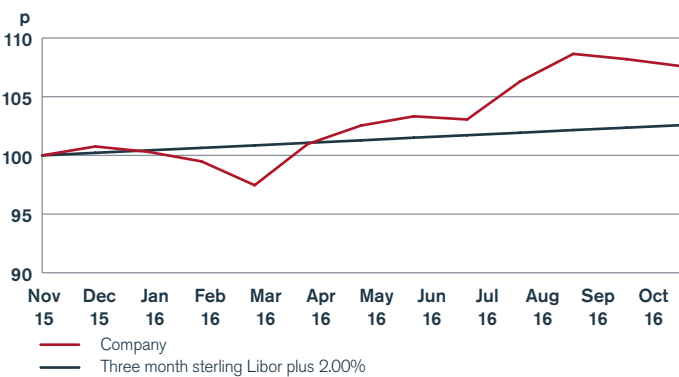
Dividend per share⁴



(Discount)/premium to NAV for the year³



Total return share price performance⁵

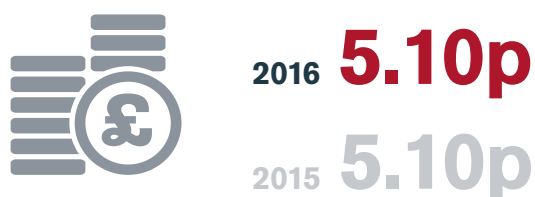


Strategic Report: Performance Highlights (continued)

NAV per share at year end³



Dividend for the year⁴



Ongoing charge for the year⁷



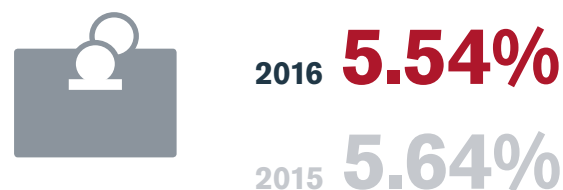
Number of portfolio investments held at year end



Share price at year end⁶



Dividend yield



Total gearing at year end



Performance fee⁸



1 Net asset value total return (including dividends reinvested and excluding transaction costs)

2 Total return against three month sterling Libor plus 2.00%

3 Calculated using published daily net asset values including current year revenue

4 Ordinary dividends paid per share for each financial year ended 31 October (includes dividends declared but not yet paid)

5 Rebased to 100p

6 Mid-market closing price

7 The ongoing charge excludes the performance fee. The ongoing charge including the performance fee was 1.58% (2015: 1.39%)

8 The 2015 performance fee was paid in the financial year ended 31 October 2016. The 2016 performance fee will be paid in the financial year ending 31 October 2017

Strategic Report: Business Model

Investment objective

The Company's investment objective is to provide shareholders with a high level of income and capital growth over the longer term. The Company aims to deliver these outcomes by investing selectively across the full spectrum of fixed income asset classes including secured loans, high yield corporate bonds and investment grade corporate bonds.

Portfolio

The portfolio is managed by reference to a benchmark of three month sterling Libor plus 2.00%. The portfolio is therefore not constrained by concepts such as the size, sector or domicile of the issuer.

Derivatives and gearing

The Company and its wholly-owned subsidiary, Henderson Diversified Income Luxembourg S.a.r.l. (the 'Group') uses synthetic gearing in the form of credit default swaps which are a credit derivative, to enable it to earn additional income by taking the default risk on certain bonds.

The Group may use credit derivatives (including credit default swaps) in addition to interest rate futures and interest rate swaps. Both the credit derivatives and the interest rate futures and swaps are used in order to take a synthetic exposure to, or to hedge, an investment position where the derivative contract is more efficient or cost effective than a position in the underlying physical asset.

The Group's exposure to credit derivatives is capped at a maximum net long or short position of 40% of their net assets. It may employ financial gearing to enhance investment returns but total gearing (both financial gearing and synthetic gearing combined) may not exceed 40% of net assets. The current borrowing facility is for a maximum of £45.5 million.

The interest rate exposure of the Company is currently managed in a range of between 0 and 8 years.

Risk

For more information about the Company's principal risks please see pages 16 to 19.

Management

The Company qualifies as an Alternative Investment Fund in accordance with the Alternative Investment Fund Managers Directive. The Company has appointed Henderson Investment Funds Limited ('HIFL') to act as its Alternative Investment Fund Manager in accordance with an agreement which was effective from 22 July 2014 and which is terminable on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA'). References to Henderson within this Annual Report refer to the services provided by both entities.

The fund management team is led by John Pattullo and Jenna Barnard who have been in place since incorporation.

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Securities Services S.C.A. Jersey Branch. BNP Paribas Securities Services acts as depositary to the Company's assets. Registrar services are provided by Computershare Investor Services (Jersey) Limited.

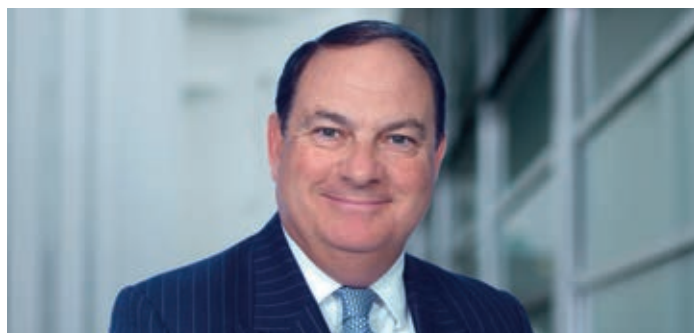
Henderson receives a management fee of 0.60% per annum, calculated and paid quarterly in arrears on the value of the Company's net chargeable assets. An additional fee based on performance is payable if Henderson meets certain targets for the year. The performance fee is charged when the Company's total return in that year exceeds the hurdle return for the year at a rate of 15% of such excess. The overall annual cap on total fees (base fee and performance fee) is 1.20% of net chargeable assets in any financial year. The performance fee hurdle is reviewed annually by the Management Engagement Committee and any recommendations are made to the Board for approval.

Subsidiary

The subsidiary was consolidated into the Company's financial statements but following changes to accounting standards during the year ended 31 October 2015, it is held at fair value and disclosed as 'investment in subsidiary at fair value through profit or loss' on the Company Balance Sheet.

Once again a summary of key financial information based on fully aggregated accounts on pages 36 and 37, provides the key financial information from the fully aggregated accounts and enables a fair comparison to be made with earlier periods.

Strategic Report: Chairman's Statement



The Chairman of the Company, Paul Manduca, reports on the year to 31 October 2016

Introduction

I am pleased to report a positive year for your Company notwithstanding the continued volatility in markets particularly early in 2016. The net asset value per ordinary share rose 1.50% and the total dividend for the year has been maintained. Demand for the Company's shares was strong and we have continued our policy of issuing new shares at a premium to net asset value where there is demand.

In October 2016 we announced that we had undertaken a full review of the structure of your Company noting that the existing structure may involve increased complexity and risk. We have since concluded that it would be in the best interests of shareholders to simplify the tax structure by electing to join the UK investment trust company tax regime, including changing its place of incorporation to the United Kingdom. Details of the proposals to effect this are given below and in the Circular you will have received with these accounts.

Proposals to re-domicile the business of the Company

It is proposed that the re-domicile of the business of your Company to the United Kingdom will be effected by way of a scheme of reconstruction and winding up of the existing Company. Under the scheme the assets and liabilities of the existing Company will be transferred to a newly incorporated, closed-ended, UK resident investment company in consideration for the issue of shares in the new company to shareholders. Shareholders will be issued one share in the new Company for each share they hold in the existing Company. Therefore, the shareholders in the new company will be the same as the shareholders in the existing Company and will each hold the same number of shares in the new Company as they held in the existing Company immediately prior to the completion of the scheme.

The scheme is subject to, amongst other conditions, approval by shareholders at the EGM of the Company to be held immediately following the AGM on Wednesday 26 April 2017 further details below. If the scheme becomes effective the newly incorporated UK resident investment company will be in essence a continuation of the existing portfolio and management arrangements whilst implementing a lower running cost corporate structure.

Dividends and dividend policy

On 31 December 2016 a fourth interim dividend of 1.35p per share for the year ended 31 October 2016 was paid. In this financial year, your Board also paid three interim dividends of 1.25p per share making 5.10p for the financial year under review, which is the same as the prior year.

On 23 February 2017 a first interim dividend of 1.25p per share was declared for the year ending 31 October 2017. The dividend will be paid on 31 March 2017 to shareholders on the register as at 3 March 2017. The shares will be quoted ex-dividend on 2 March 2017.

Performance

Your Company's net asset value per ordinary share rose from 88.36p to 89.71p over the year as did the share price from 90.50p to 92.00p.

Gearing

Your Board maintains an active gearing policy given the attractive arbitrage between the cost of debt and the yields that can be achieved in the portfolio and the desire to at least maintain the dividend at the current level. This is delivered through a combination of traditional financial gearing, which is funded using a loan facility provided by Scotiabank, and synthetic gearing, being the gearing effect of investing in credit derivatives. Over the year under review total gearing rose from 16.90% to 19.30% with the emphasis shifting from synthetic gearing to financial gearing, reflecting the lower risk reward profile of credit derivatives at this point in the cycle.

Share issues

In the year under review your Company issued 11,350,000 shares. A further 3,700,000 shares have been issued between 1 November 2016 and 23 February 2017.

Strategic Report: Chairman's Statement (continued)

Aggregate financial information

Your Board has once again included a summary of key financial information based on fully aggregated accounts of the Company and its subsidiary on pages 36 and 37 which provides the key financial information from the fully aggregated accounts and enables a fair comparison to be made with earlier periods.

Board

In view of the proposal to change your Company's place of incorporation to the UK, your Board's succession plan has been accelerated. Helen Green will retire as a Director on 28 February 2017 whilst Nigel Parker and myself will retire at the 2017 AGM, which is also the proposed impact day of the proposals. I am very pleased that Angus Macpherson has agreed to succeed me as your Chairman following the AGM. Ian Wright has agreed to succeed Helen Green as Chairman of the Audit Committee following her departure at the end of February 2017. Three new UK based directors have agreed to join the new company Board, alongside Angus Macpherson and Ian Wright – Stewart Wood, Denise Hadgill and Roderick Davidson.

I should like to thank my fellow Directors for their diligence and wise counsel over the last nine years and wish the new Board every success in the future.

Annual General Meeting

Our ninth AGM will be held on Wednesday 26 April 2017 at 8.30 a.m. at our registered office in Jersey. Your Board recommends unanimously to shareholders that they vote in favour of each of the resolutions, as the Directors intend to do in respect of their own beneficial holdings.

As in previous years a shareholder event, which includes the opportunity to meet the Fund Managers, will be held on Thursday 27 April 2017 at 11.00 a.m. at Henderson's offices in London and will be followed by light refreshments. For those that cannot attend in person the shareholder event will be available to watch online at www.henderson.com/trustslive

Extraordinary General Meeting

As mentioned above an EGM will be convened immediately following the AGM on Wednesday 26 April 2017 at our registered office in Jersey. This is when shareholders will be formally asked to vote on the proposals to re-domicile the business of the Company to the United Kingdom by way of a scheme of reconstruction and winding up of the existing Company.

The EGM will follow the AGM because if shareholders decide to vote against the EGM proposals and winding up of the existing Company, it will then be able to continue in operation for the year ending 31 October 2017 with the usual shareholder approvals obtained.

Outlook

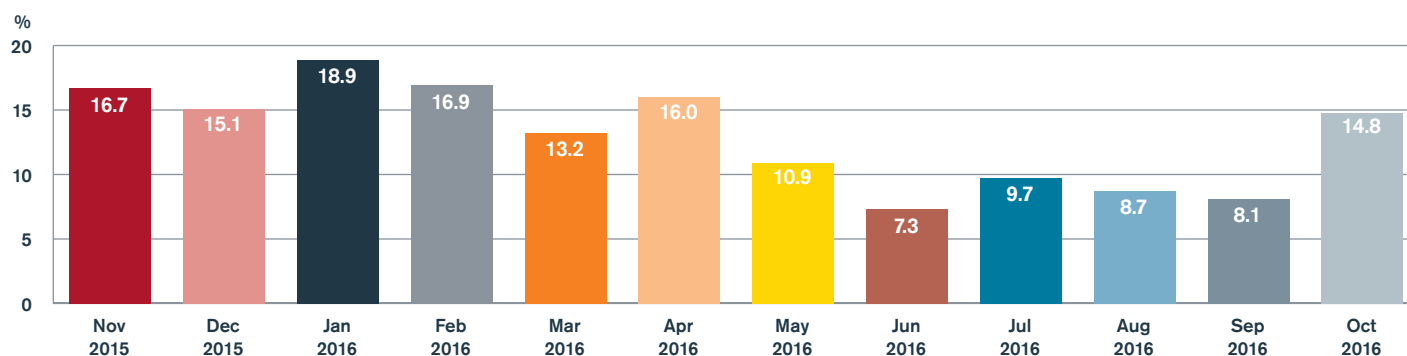
While the Brexit result of the EU referendum last year may yet be a big political crisis in the UK it is not yet a financial crisis. Credit markets are not currently suggesting systemic risk in the banking sector or a move to a higher default rate regime for corporates. Indeed, banks are in a relatively healthy place due to additional regulation and stress testing over the last few years. It would appear that Donald Trump's presidency and politics in Europe, particularly the German and French elections, are going to be key themes in 2017. If Trump cannot invigorate the US economy meaningfully to justify the very large price moves that have been seen in both the equity and bond markets, there is a risk that this would mark a return to secular stagnation. The European elections could threaten the whole European project resulting in increased volatility. In the short term, it looks like a tough outlook for bond managers, but that said there will be opportunities for our Fund Managers.

Strategic Report: Portfolio Information

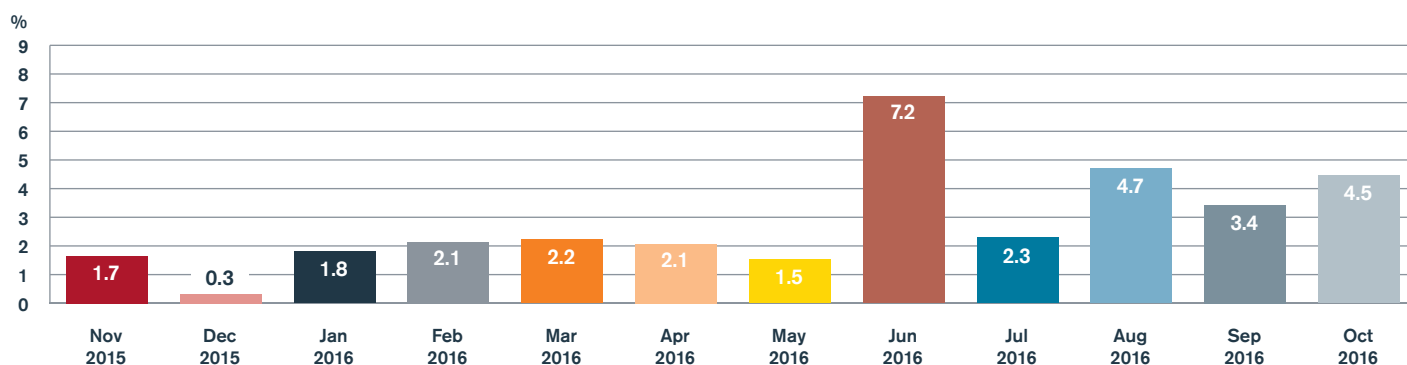
Ten largest investments at 31 October 2016

Ranking 2016	Ranking 2015	Investment	Principal activities	Type of investment	Geographical area	Valuation 2016 £'000	Percentage of portfolio
1	61	Verizon Communications	Telecommunications	Investment grade bond	US	4,239	2.31
2	1	Lloyds Group	Banks	High yield bond/ Investment grade bond	UK	3,930	2.15
3	4	Virgin Media	Media	High yield bond	UK	3,711	2.03
4	36	Kloeckner Pentaplast	Packaging & containers	Secured loan	Germany	3,629	1.98
5	6	Orange	Telecommunications	Investment grade bond	France	3,529	1.93
6	29	Ardagh	Packaging & containers	High yield bond	Ireland	3,424	1.87
7	20	Co-Operative Group	Food	High yield bond	UK	3,369	1.84
8	3	Nationwide Pref	Banks	Preference stock	UK	3,343	1.83
9	19	BNP Paribas	Banks	Investment grade bond	France	3,318	1.81
10	–	Aramark	Food service	High yield bond	US	3,257	1.78

Financial gearing levels over the year to 31 October 2016



Synthetic gearing levels over the year to 31 October 2016



Strategic Report: Fund Managers' Report



The Fund Managers' of the portfolio, John Pattullo and Jenna Barnard report on the year to 31 October 2016

Portfolio performance

The year under review will be remembered primarily for the rising tide of populist politics that caught many market participants, we included, unawares. The votes for Brexit and uncertainty in the US elections had significant repercussions for interest rate sensitive markets specifically currencies and government bonds. However, for credit markets and default risk, which represent the primary exposure in your Company's portfolio, they were essentially non-events. Neither created a fear of systemic failures via the banking sector nor worries about a severe recession which could trigger a traditional default cycle. For your Company the most volatile period of the year proved to be January/February 2016. At this time corporate bond and loan markets experienced a severe sell-off triggered firstly, by concerns about a global economic slowdown (specifically China and emerging markets); secondly, by plummeting commodity prices; and finally, by worries about the health of the global banking system, particularly in Europe. It was a perfect storm that made the political events of 2016 pale in comparison.

Your Company returned 7.6% total return per ordinary share over the course of the year. From a credit selection perspective, the portfolio weathered the challenges of the commodity downturn well, reflecting our aversion to highly cyclical corporate bonds and loans. We are naturally wary of lending to traditional industrial or consumer cyclical sectors where cash flow and leverage are relatively unpredictable. However, we do hold a significant number of financial bonds predominantly issued by UK banks and insurers. The concerns about the financial sector in Europe caused significant volatility in the capital value of our portfolio particularly during the height of the concerns about this sector in early 2016 but ultimately did not result in any real default risk.

Asset allocation

Three broad opportunities presented themselves over the year given the events mentioned above. Firstly, in early 2016 following a significant widening in credit spreads, we found a number of attractive yield opportunities in ten and thirty year maturity quality investment grade corporate bonds in the US. Yields of between 4.0% and 5.5% were on offer in US and other corporate bonds issued by companies such as Walgreens, Sky, Reynolds, Deutsche Telekom, Verizon and AT&T, which we bought and locked in. The next

significant move was reducing the holdings in insurance bonds in July 2016 following the Brexit vote and concerns about lower interest rates for longer. These bonds tend to be relatively illiquid and have caused us concern in the past so the price rise post the Brexit vote provided an opportunity to reduce exposure. Finally, the equity holdings of the Company were sold down in their entirety in October 2016 with the UK stock market approaching a record high.

Stock selection

In addition to asset allocation, the constant stream of new issues coming to market continued to provide a healthy choice of potential investments for the Company to supplement those from existing issuers. Our long term RAC secured loan holding was refinanced into bonds with attractive coupons of 4.50% and 4.87%. UBS also issued a deeply subordinated AT1 bond with a coupon of 6.875% which we participated in and Eircom, the incumbent Irish telecom provider, also issued Euro bonds at 4.50%. Perhaps the stand out new issue opportunity of the year was the jumbo bond issue from Dell being an 8.10% coupon twenty year secured investment grade bond; we built up a moderate sized position in the new issue and increased it shortly after.

Secured loans

The European secured loan market has delivered strong returns in the last twelve months despite significant periods of volatility in fixed income markets. The market return based on the CS Western European Leveraged Loan Index (hedged to GBP) equated to 5.90%, albeit this has been earned towards the end of the period under review as the return was mildly negative through the first four months as a result of declining loan prices. From March 2016 there has been a significant rally with all three major players back in buying mode (banks, collateralized loan obligations ('CLO') and institutional investors). This has given rise to a significant proportion of the market trading above par and resulted in repricing activity from May 2016 (given the lack of call protection on most loans, borrowers can seek to reprice their loans down in periods of market strength). After a slow start, new loan issuance in Europe has recovered strongly since the Spring and is now tracking marginally ahead of the prior year (+1%) with there being €56bn of issuance year-to-date (source S&P LCD).

Strategic Report: Fund Managers' Report (continued)

The portfolio has experienced a reasonable degree of turn over the period through:

- (i) early redemptions from successful IPOs or refinancing's (loans that were repaid in full included RAC, Brake Bros and Polyconcept) and;
- (ii) sales of loans that had experienced some volatility in secondary trading price including BMC Software, Formula One and ERM (a global environmental consultancy business impacted by lower oil and gas and commodity related revenues).

Our strategy over the period has been to recycle proceeds into primary loans, with new additions including Tele Columbus (Germany, cable) and Diebold (US, technology), as well as adding to existing positions that have proven resilient. As a consequence of this and the exits from the portfolio mentioned above, the number of loan holdings had reduced from 35 to 29 at the end of the financial year. The secured loan portfolio did not suffer any defaults over the year.

We consider that the portfolio is now more defensively positioned with all of the holdings being first lien senior secured following the exit or early redemptions of a modest number of higher yielding second lien loans. The running yield on the portfolio has reduced to 4.70% from 5.20% compared to the prior period given the above and the repricing activity noted.

Looking forward, we expect loans to deliver a return of 4.0-5.0% over the next twelve months, broadly in line with the coupon in view of the limited scope for capital appreciation and reflective of an ongoing benign default environment.

Outlook

Our primary concern for 2017 is European politics, which carries the potential for significant systemic risk and a genuine credit market event. This is different to the events of 2016 which, as mentioned earlier, were not. The reason Europe provides such risk is the specifically anti-Euro messaging from candidates in core Europe such as Marine Le Pen in France. Should she be elected as President of France we would expect something worse than the vicious sell-off that we saw during the peripheral crises of 2010-2012. Indeed, in this event, we would be discussing the mechanics of a break-up of the Euro area from the core outwards and the ongoing solvency of the European banking system as a result. Absent this severe political crisis, the outlook for your Company remains relatively benign. We still have not seen the kind of business cycle excesses that sow the seeds for a major default cycle. European companies particularly are being remarkably disciplined in their use of debt. In essence, we have a fundamental environment of low growth, low inflation and low default rates which provides a supportive backdrop for investors in credit markets albeit with the potential for a total meltdown of the European political system. It should be an interesting year ahead.

Strategic Report: Investment Portfolio as at 31 October 2016

High yield bonds

These bonds are considered more risky than investment grade bonds and as a result have to pay much higher coupons to attract investors. They generally mature in ten years or less and are less sensitive to interest rate changes than other bonds. They are rated below BBB- (by Standard & Poor's, Moody's or a similar recognised rating agency). This rating signifies a higher risk of default compared to an investment grade bond.

Investment	Currency	Country	Industry	Market value £'000	% of portfolio
Virgin Media	£	UK	Media	3,711	2.03
Lloyds Group	\$/£	UK	Banks	3,426	1.87
Ardagh	Euro/\$	Ireland	Packaging & containers	3,424	1.87
Co-Operative Group	£	UK	Food	3,369	1.84
Aramark	\$	US	Food service	3,257	1.78
Unity Media	Euro/\$	Germany	Media	3,218	1.76
UBS	\$	Switzerland	Banks	2,846	1.55
Iron Mountain	£/\$	US	Commercial services	2,781	1.52
First Data	\$	US	Software	2,693	1.47
International Game Technology	\$	US	Gaming	2,550	1.39
Sirius	\$	US	Media	2,507	1.37
AA	£	UK	Commercial services	2,340	1.28
Arqiva	£	UK	Telecommunications	2,315	1.26
T-Mobile	\$	US	Telecommunications	2,195	1.20
Barclays	£/\$	UK	Banks	2,133	1.16
Galaxy	£	UK	Insurance	2,115	1.15
Credit Suisse	\$	Switzerland	Banks	1,976	1.08
Arrow	£	UK	Diversified financial services	1,964	1.07
Royal Bank of Scotland	\$	UK	Banks	1,937	1.06
BBVA	\$	Spain	Banks	1,755	0.96
CSC	\$	US	Media	1,731	0.95
Ephios	Euro	France	Healthcare services	1,729	0.94
Altice	\$	Netherlands	Telecommunications	1,671	0.91
Ball	\$	US	Packaging & containers	1,655	0.90
Credit Agricole	\$	France	Banks	1,636	0.89
Crown	\$	US	Packaging & containers	1,632	0.89
RAC	£	UK	Commercial services	1,433	0.78
Post	\$	US	Food	1,425	0.78
Enel	£	Italy	Utilities	1,421	0.78
Tesco	£	UK	Food	1,385	0.76
TMF	Euro	Netherlands	Commercial services	1,282	0.70
ADT	\$	US	Commercial services	1,214	0.66
Constellation	\$	US	Beverages	1,165	0.64
Oberthur	Euro	France	Computers	1,027	0.56
Dresdner	\$	Germany	Banks	943	0.51
Telenet Finance	Euro	Luxembourg	Telecommunications	936	0.51
Reynolds	\$	New Zealand	Packaging & containers	893	0.49
Serv Corp	\$	US	Commercial services	860	0.47
Service Charter	\$	US	Media	841	0.46
ING	\$	Netherlands	Banks	825	0.45
AMC	\$	US	Entertainment	740	0.40
Eircom	Euro	Ireland	Telecommunications	739	0.40
Lock	Euro	Norway	Diversified financial services	739	0.40
Spectrum	Euro	US	Housewares	738	0.40
Trionista	Euro	Germany	Electronics	615	0.34
Sealed Air	\$	US	Packaging & containers	516	0.28
Citigroup	\$	US	Banks	210	0.11
Total High Yield Bonds				82,513	45.05

Strategic Report: Investment Portfolio

as at 31 October 2016 (continued)

Investment grade bonds

These bonds pay a higher rate of interest than government bonds, known as the spread, to reflect the higher risk. Investment grade bonds are at the lower risk/lower return end of the corporate bond market and are typically issued by blue chip companies. They are rated BBB- and above (by Standard & Poor's, Moody's or a similar recognised rating agency). This rating signifies that historically such bonds suffer relatively low rates of default.

Investment	Currency	Country	Industry	Market value £'000	% of portfolio
Verizon Communications	\$	US	Telecommunications	4,239	2.31
Orange	£	France	Telecommunications	3,529	1.93
BNP Paribas	\$	France	Banks	3,318	1.81
Phoenix	£	UK	Insurance	3,134	1.71
Charter Communications	\$	US	Media	2,927	1.60
Aviva	£	UK	Insurance	2,802	1.53
Axa	£	France	Insurance	2,553	1.39
CPUK Finance	£	Ireland	Diversified financial services	2,534	1.38
Wachovia	\$	US	Banks	2,354	1.29
Dell	\$	US	Computers	2,288	1.25
Standard Life	£	UK	Insurance	2,079	1.14
Kraft	\$	US	Food	1,811	0.99
AT&T	\$	US	Telecommunications	1,691	0.92
BUPA	£	UK	Insurance	1,638	0.89
Swiss Re	£	Switzerland	Insurance	1,519	0.83
Scottish Widows	£	UK	Insurance	1,318	0.72
Deutsche Telekom	\$	Germany	Telecommunications	925	0.50
Rabobank	£	UK	Banks	920	0.50
Reynolds	\$	New Zealand	Tobacco	855	0.47
Friends Life	£	UK	Insurance	840	0.46
HSBC	£	UK	Banks	835	0.46
Zoetis	\$	US	Pharmaceuticals	732	0.40
Walgreen	\$	US	Retail	632	0.35
Newell	\$	US	Housewares	618	0.34
Bank of Scotland	£	UK	Banks	504	0.28
National Grid	£	UK	Utilities	400	0.22
Vodafone	£	UK	Telecommunications	194	0.11
Total Investment Grade Bonds				47,189	25.76

Asset backed securities

Investment	Currency	Country	Industry	Market value £'000	% of portfolio
Tesco Property Finance	£	UK	Food	1,322	0.72
Total Asset Backed Securities				1,322	0.72

Preference stock

Investment	Currency	Country	Industry	Market value £'000	% of portfolio
Nationwide Pref	£	UK	Banks	3,343	1.83
Total Preference Stock				3,343	1.83
Total Investments				134,367	73.36

Strategic Report: Investment Portfolio

as at 31 October 2016 (continued)

Investments held in subsidiary

The following investment portfolio analysis is provided on a look through basis to provide shareholders with information regarding the investments held by the subsidiary.

Secured loans

These are loans entered into by companies and are typically at the most senior level of the capital structure, and are often secured by specific collateral including, but not limited to, trademarks, patents, accounts receivable, stock, equipment, buildings, real estate, franchises and the ordinary and preferred shares of the obligor and its subsidiaries. They are generally issued to finance internal growth, acquisitions, mergers, or share purchases. As a result of the additional debt incurred by the borrower in the course of the transactions, the borrower's creditworthiness would be judged by the rating agencies to be below investment grade. Some secured loans may be subordinated to other obligations of the borrower. Secured loans are not listed, but are, in normal market conditions, readily bought and sold. In periods of market turbulence, however, the liquidity of the market for such investments may be reduced.

Investment	Currency	Country	Industry	Market value £'000	% of portfolio
Kloekner Pentaplast	\$	Germany	Packaging & containers	3,629	1.98
Diebold	\$	US	Computers	2,908	1.59
Gala	£	UK	Entertainment	2,855	1.56
Douglas	Euro	Germany	Retail	2,828	1.54
Travelport	\$	Luxembourg	Commercial services	2,700	1.47
Pret A Manger	£	UK	Food	2,397	1.31
Eircom	Euro	Ireland	Telecommunications	2,316	1.26
Evry	Euro	Norway	Computers	2,300	1.26
Orion	Euro	Germany	Chemicals	2,032	1.11
Formula One	\$	UK	Entertainment	1,918	1.05
Keurig	Euro	US	Beverages	1,849	1.01
Mediq	Euro	Netherlands	Pharmaceuticals	1,842	1.01
Springer	Euro	Germany	Media	1,747	0.95
Oberthur	Euro	France	Computers	1,737	0.95
Equinix	£	US	REITS	1,709	0.93
Scandlines	Euro	Denmark	Transportation	1,517	0.83
Chesapeake	£	USA	Packaging & containers	1,464	0.80
BVD	£	Netherlands	Diversified financial services	1,417	0.77
Airbus	Euro	Germany	Aerospace	1,401	0.76
Delek	Euro	Netherlands	Retail	1,346	0.73
Numericable	Euro	France	Media	1,252	0.68
Exopack	Euro	US	Packaging & containers	1,206	0.66
Delachaux	£/\$	France	Industrials	1,138	0.62
Jacobs Douwe Egberts	Euro	Netherlands	Beverages	1,062	0.58
Wind	Euro	Italy	Telecommunications	519	0.28
TMF	Euro	Netherlands	Commercial services	463	0.25
Unilabs Diagnostics	Euro	Sweden	Healthcare services	455	0.25
La Seda	Euro	Spain	Chemicals	386	0.21
Sam Finance	£/Euro	Spain	Diversified financial services	267	0.15
Total Secured Loans				48,660	26.57

Equities

Investment	Currency	Country	Industry	Market value £'000	% of portfolio
British Vita	Euro	UK	Chemicals	144	0.08
Total Equities				144	0.08
Total Investments Held in Subsidiary				48,804	26.64
Total Aggregate Investments				183,171	100.00

Strategic Report: Historical Performance and Financial Information

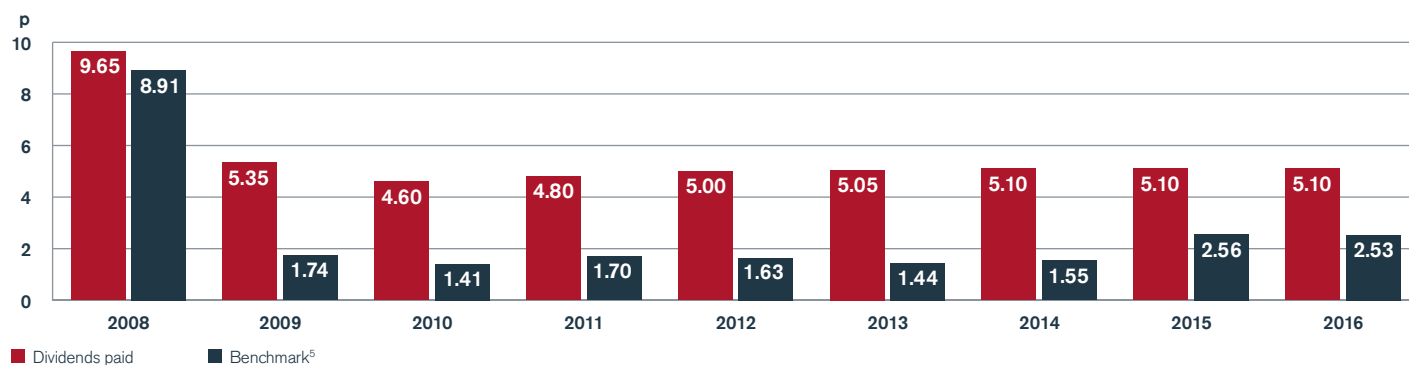
Total return performance

	1 year %	3 years %	5 years %	Since launch %
NAV ¹	7.6	21.2	54.0	65.3
Share price ²	7.6	18.8	59.9	65.2

Financial information as at 31 October

Date	Net assets £'000	NAV p	Share price p	Premium/ (discount) %	Profit/(loss) for year £'000	Total return p	Expenses ³ %
2008	50,700	60.6	68.0	12.2	(23,279)	(42.56)	–
2009	62,236	74.4	69.5	(6.6)	16,638	19.89	1.75
2010	69,483	83.1	79.3	(4.6)	11,149	13.33	1.71
2011	65,446	78.2	76.8	(1.8)	(105)	(0.13)	1.55
2012	69,647	83.3	80.2	(3.7)	8,384	10.02	1.46
2013	80,889	87.9	91.5	4.1	8,214	9.52	1.40
2014	124,604	88.8	91.3	2.8	6,579	5.47	1.08
2015	145,369	88.4	90.5	2.7	6,586	4.23	1.10
2016	157,767	89.7	92.0	2.6	10,513	6.27	0.98

Dividend history⁴



¹ Including dividends reinvested and excluding transaction costs

² Mid-market closing price

³ Using total expense ratio methodology for 2010 and previous years; ongoing charge methodology thereafter

⁴ Ordinary dividend paid per share. In the 2008 financial period, five interim dividends were paid over a 15 month period totalling 9.65p

⁵ The Company's benchmark since launch was three month sterling Libor plus 1.25%. With effect from 1 November 2014 the Company's benchmark changed to three month sterling Libor plus 2.00%

Sources: Henderson, Morningstar for the AIC, Datastream, Bloomberg, Morningstar Direct

Strategic Report: Director Biographies

Directors

The Directors appointed to the Board at the date of this report are:

Paul Manduca

Position: Chairman of the Board and of the Nominations and Management Engagement Committees

Date of appointment: 5 June 2007

Following a long career in asset management as both a fund manager and Chief Executive Officer of fund management groups including Threadneedle Asset Management, Rothschild Asset Management and Deutsche Asset Management Europe, Paul is now Chairman of Prudential Group plc and Chairman of Templeton Emerging Markets Investment Trust plc. He is also a former Chairman of Aon UK and of Bridgeway Group plc, a former Senior Independent Director of Wm Morrison Supermarkets plc and of Development Securities plc and was also previously Chairman of JPMorgan European Smaller Companies Investment Trust plc. He is a past Chairman of the Association of Investment Companies.

Nigel Parker

Position: Director

Date of appointment: 5 June 2007

Nigel has over 35 years' experience in the Jersey finance industry and in 2004 was appointed Chief Executive Officer of Gartmore Fund Managers International Limited. He has held a number of positions with Jersey trust companies but specialises in compliance and regulation. In 2002 he was appointed Head of European Compliance for the Gartmore Group with compliance responsibility for all offices, services and products within Europe. Nigel is a registered Trust and Estate Practitioner ('TEP') and a former committee member of the Jersey Funds Association. He is a member of the Jersey Compliance Officers' Association.

Helen Green

Position: Chairman of the Audit Committee

Date of appointment: 5 June 2007

Helen is a chartered accountant and has been employed by Saffery Champness, a UK top 20 firm of accountants, since 1984. She became a partner in 1997. Since 2000 she has been based in the Guernsey office where she is Client Liaison Director responsible for trust and company administration. Helen serves as a Non-Executive Director on the boards of a number of companies in various jurisdictions, including Landore Resources Limited, John Laing Infrastructure Fund Limited, City Natural Resources High Yield Trust plc, UK Mortgages Limited, Aberdeen Emerging Markets Investment Trust Limited and Acorn Income Fund Limited, of which she is Chairman.

Ian Wright

Position: Director

Date of appointment: 23 November 2015

Ian is a Commissioner of the Jersey Financial Services Commission and Chairman of its Audit Committee. He is also a Panel Member of the Financial Reporting Review Panel which is part of the UK Financial Reporting Council, a Member of the States of Jersey Audit Committee and a Policeman in the Parish of St Brelade. He is a Chartered Accountant.

Previously he was an audit partner in Price Waterhouse and then PriceWaterhouseCoopers including serving as the Senior Partner of the firm's international accounting consulting group. A founder member of the IFRS Interpretations Committee he has also served on professional committees of the ICAEW and FEE.

Ian is resident in Jersey having previously worked in the Channel Islands, London and Bahrain.

Angus Macpherson

Position: Director

Date of appointment: 18 January 2016

Angus is Chief Executive of Noble & Company (UK) Limited. He is also Chairman of JP Morgan Elect PLC, Chairman of the Belhaven Hill School Trust Ltd, a Director of Pacific Horizon Investment Trust plc and a Member of the Scottish Government's Financial Services Advisory Board. Previously he worked for Merrill Lynch in London, New York, Singapore and Hong Kong, latterly as Head of Capital Markets and Financing in Asia.

All Directors are independent of Henderson and are members of the Nominations, Management Engagement and Audit Committees. Helen Green and Nigel Parker are also Directors of Henderson Diversified Income Luxembourg S.à.r.l.

Strategic Report: Corporate Information

Registered office

Liberté House
19-23 La Motte Street
St Helier
Jersey
JE2 4SY

Service providers

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

Depository and Custodian
BNP Paribas Securities Services (London)
10 Harewood Avenue
London
NW1 6AA

Stockbrokers
JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

Corporate Secretary
BNP Paribas Securities Services S.C.A. Jersey Branch
Liberté House
19-23 La Motte Street
St Helier
Jersey
JE2 4SY
Telephone: 01534 813800

Registrar
Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St. Helier
Jersey
JE1 1ES
Telephone: 0370 707 4040
info@computershare.co.je

Independent auditors

Grant Thornton Limited
Kensington Chambers
46/50 Kensington Place
St. Helier
Jersey JE1 1ET

Financial calendar

Financial year end	31 October 2016
Annual General Meeting ¹	26 April 2017
Extraordinary General Meeting ²	26 April 2017
Shareholder event ³	27 April 2017

Information sources

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

HGi

HGi is a content platform provided by 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 Henderson's investment expertise.

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



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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 the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 225 525, email **Henderson@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

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 back 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. Investors via Halifax Share Dealing receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

¹ At the registered office, Liberté House, 19-23 La Motte Street, St Helier, Jersey JE2 4SY at 8:30 a.m.

² At the registered office, Liberté House, 19-23 La Motte Street, St Helier, Jersey JE2 4SY at 8:35 a.m.

³ At the offices of Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE at 11:00 a.m.

Strategic Report: Corporate Information (continued)

Status

The Company is registered with limited liability in Jersey as a closed-ended investment company under the Companies (Jersey) Law 1991 with registered number 97669. In addition, the Company constitutes and is certified as a Collective Investment Fund under the Collective Investment Funds (Jersey) Law 1988 (‘Jersey Funds Law’). The Company has obtained a Fund Certificate under Article 7 of the Jersey Funds Law from the Jersey Financial Services Commission to operate as a Certified Fund within the Island of Jersey.

The Company is a member of the Association of Investment Companies (‘AIC’).

The Company intends to continue to manage its affairs so that its investments fully qualify for a stocks and shares component of an Individual Savings Account (‘ISA’).

Principal risks and uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Company. They have subsequently drawn up a matrix of risks facing the Company and put in place a schedule of investment limits and restrictions appropriate to the Company’s investment objective and policy, in order to mitigate risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are set out below.

The Board has considered these principal risks in light of the proposals to re-domicile the business of the Company to the United Kingdom by way of a scheme of reconstruction. It has therefore included re-domiciling risk to the matrix from its assessment of the year under review. The Board considers the other principal risks to have remained unchanged throughout the year under review. These principal risks will continue to apply if the proposals to re-domicile the business of the Company are not approved by shareholders.

Risks	Controls and mitigation	Board action/consideration
<p>Market and financial</p> <p>Market risk arises from uncertainty about the future prices of the Company’s investments.</p> <p>The fair value or future cash flows of a financial instrument held by the Company may fluctuate due to changes in market prices.</p> <p>The financial risks faced by the Company include currency risk, market price risk, interest rate risk, liquidity risk and credit risk.</p>	<p>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.</p> <p>Henderson and BNP Paribas Securities Services provide an annual ISAE 3402 and AAF 01/06 Report respectively to the Board. The Board also receives quarterly internal controls reports from these service providers as well as the monthly investment limits and restrictions schedule, detailed in investment strategy above.</p> <p>For further details about these risks please see Note 14 on pages 51 to 57 of the Annual Report.</p>	<p>The Board reviews and agrees policies for managing these risks.</p>

Strategic Report: Corporate Information (continued)

Risks	Controls and mitigation	Board action/consideration
<p>Credit risk including credit default risk</p> <p>The Company will be exposed to credit risk, both with counterparties with which it trades and issuers of financial instruments, if the issuer fails to fulfil its obligations or commitments that it has entered into.</p> <p>The Company's investments expose it to the risk of default on the Company's investments by counterparties and the risk of loss of principal and accrued interest. For example, a bond issuer may fail to meet its operating projections and this could lead to the issuer defaulting interest and/or capital payments. There is also a default risk for any derivative contracts that the Company enters into should the counterparty to the derivative default on its obligations under the contract.</p>	<p>The Fund Managers consider credit risk and credit default risk as part of their assessment of an investment before the time of transaction and also as part of their monitoring of the portfolio.</p> <p>They may also invest in credit default swaps and certain other derivative instruments in order to enhance and protect the Company's income and total returns. Credit derivatives are used as a way of managing the aggregate credit exposure of the Company without buying or selling a physical bond/loan. To the extent that the credit derivative exposure is not covered by cash held by the Company then any net long exposure would act as synthetic gearing.</p> <p>By selling protection (going long risk) the Fund Managers can increase the Company's exposure to a particular reference entity. In return for taking this credit risk the Company will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract in the intervening period.</p> <p>Transactions involving derivatives are only entered into with investment banks, the credit ratings of which are taken into account so as to minimise the risk to the Company of default.</p> <p>For further details about credit risk please refer to Note 14.6 on page 55.</p>	<p>The Board has set a maximum aggregate exposure of 5% of the Company's net assets to any counterparty that has a rating below a single A equivalent from a number of ratings agencies. Where the counterparty's credit rating is downgraded, this would lead to this exposure limit being breached, the position will be corrected within a timeframe that is in the best interest of shareholders.</p> <p>The Board has set a maximum net exposure to credit derivatives which may not at any time exceed 40% of the Company's net assets. It may employ financial gearing to enhance investment returns but total gearing (both financial and synthetic gearing combined) may not exceed 40% of net assets. Adherence to these limits is reviewed at each Board meeting.</p>
<p>Currency hedging/foreign exchange</p> <p>The Company accounts for its activities and reports its results in sterling while investments may be made and realised in other currencies. In any instances where the Company does not hedge its currency exposure, the movement of exchange rates between sterling and the other currencies in which the Company's investments are denominated or its borrowings are drawn down, may have a material effect, unfavourable as well as favourable, on the returns otherwise experienced on the investments made by the Company.</p> <p>Although the Fund Managers seek to manage any foreign exchange exposure in relation to the Company, there is no assurance that this can be performed effectively. Any currency hedging may force the Fund Managers to realise underlying investments, as well as adversely affecting the overall value of the portfolio and the net asset value per share of the Company.</p> <p>Movements in the foreign exchange rate between sterling and the currency applicable to a particular shareholder may have an impact upon such shareholder returns in their own currency of account.</p>	<p>The Company engages in currency hedging of capital risk but not income risk. It does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.</p> <p>For further details about currency risk please refer to Note 14.2 on page 52.</p>	<p>The Board has assessed the Company's income and equity and concluded that neither is materially sensitive to changes in exchange rates.</p> <p>The Board reviews the currency exposure of the portfolio at each meeting.</p>

Strategic Report: Corporate Information (continued)

Risks	Controls and mitigation	Board action/consideration
Interest rates In the event of a significant rising interest rate environment and/or economic downturn, loan defaults may increase and such an increase could result in losses that may adversely affect the Company's operating results. In the event of a general rise in interest rates, the value of certain investments that may be contained in the Company's investment portfolio, particularly those which are not at floating rates may fall, reducing the net asset value per share of the Company.	As the Company's dividend yield target is three month sterling Libor plus 2.00%, shareholders' income should not be diminished should interest rates rise. Likewise, if interest rates fall, the Company's income will fall. For further details about interest rate risk please refer to Note 14.3 on page 53.	The Company remains committed to the three-month sterling Libor plus 2.00% target yield on net assets. This is reviewed at each Board meeting.
Borrowing As an investment company, the Company uses borrowing to enhance returns to shareholders. Failure to maintain the loan facility because of a breach of agreed covenants, or inability to renew the loan facility because of the bank's unwillingness to lend could cause possible loss of shareholders' assets because of forced sales at short notice at a disadvantageous price.	The Board relies on its Corporate Secretary to adhere to the terms of the loan facility. For further details about the loan facility please refer to the liquidity risk Note 14.5 on page 54.	The Corporate Secretary has responsibility for the ongoing monitoring of the bank covenants and reports to the Board at each meeting adherence to these as part of the monthly investment limits and restrictions schedule.
Tax Any change in the Company's tax status or in taxation legislation in Jersey, Luxembourg, the United Kingdom or any other tax jurisdiction relevant to the Company, could adversely affect the value of the investments held by the Company, affect the Company's ability to achieve its investment objective or alter the post-tax returns to shareholders.	Under current double tax treaty legislation the Company's subsidiary is able to secure withholding tax at source on loan interest payments due to the subsidiary. The future implementation in Luxembourg of the Organisation for Economic Co-operation and Development Base Erosion and Profit Sharing programme could impact the efficiency of this structure.	Over the year under review the Board engaged Ernst & Young LLP ('E&Y') to conduct a review of the Company's tax structure. This has ultimately led to the recommendation to shareholders to re-domicile the business of the Company to the UK.

Strategic Report: Corporate Information (continued)

Risks	Controls and mitigation	Board action/consideration
<p>Re-domiciling risk</p> <p>Having considered the advice of the Company's professional advisors the Board has decided put forward proposals to re-domicile the business of the Company. The most efficient way to do this is to transfer existing shareholdings and assets and liabilities across to a new UK company and place the existing company into a Jersey Summary Winding Up ('JSWU').</p> <p>The proposals will be voted on by shareholders at the EGM in April 2017.</p> <p>There is a risk that shareholders do not vote in favour of the proposals.</p> <p>If shareholders do decide to vote in favour of the proposals, this will attract risk associated with the re-domiciling of the business of the Company.</p>	<p>If the proposals are not voted for in favour by the shareholders the Company would continue to exist in its current legal form.</p> <p>In this scenario the Company will be left with two independent non-executive directors and will need to recruit additional directors to ensure a good mix of skills and experience on the Board.</p> <p>The Directors have considered the re-domiciling project including forecast costs and concluded that in the medium-term the new company will recover the costs associated with the transaction. The Directors concluded that re-domiciling the business of the Company is in the best interests of the Company and its shareholders.</p> <p>The Directors also considered the overall project management of the re-domiciliation. They are satisfied that their professional advisors have appropriate skills to ensure a smooth transition to the new UK company.</p>	<p>The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due if the proposals are not voted for in favour. The Directors intend for the Company to continue to exist and do not envisage any other changes in strategy or objectives or any events that would prevent the Company from continuing to operate in the event that the proposals are not passed. The Board would consider its options in this scenario and the Directors remain committed to their duties.</p> <p>A new company will be incorporated in anticipation of the proposals being passed by shareholders. The Directors have been working closely with its professional advisors and the new company directors to ensure a smooth transition. In addition Angus Macpherson will become Chairman of the Board and Ian Wright will become the Audit Committee Chairman of the new company, to ensure continuity.</p>
<p>Operational</p> <p>Disruption to, or the failure of Henderson or BNP Paribas Securities Services accounting, dealing, or payment systems, or the custodian's, depositary's or other counterparty records could prevent the accurate reporting or monitoring of the Company's financial position.</p> <p>BNP Paribas Securities Services S.C.A (Jersey) sub-contracts some of the operational functions (principally relating to trade processing, investment administration and accounting) to BNP Paribas Securities Services.</p>	<p>The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the Financial Reporting Council and is subject to regular review by the Board.</p> <p>The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.</p> <p>The Board has delegated responsibility to the depositary to appoint a custodian under the terms of the depositary agreement.</p>	<p>The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 October 2016. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant.</p> <p>All business risks faced by the Company are recorded in a risk map which is reviewed periodically by the Audit Committee which also annually reviews the Company's third party service provider's assurance reports to provide comfort that these companies have appropriate controls in place to manage risk.</p> <p>The Board receives periodic reports from, and has meetings with, the depositary as appropriate.</p>
<p>Accounting, legal and regulatory</p> <p>The Company is regulated by the Jersey Financial Services Commission and must comply with the regulatory requirements in Jersey.</p> <p>The Company must comply with the provisions of the Companies (Jersey) Law 1991 and since its shares are listed on the London Stock Exchange, the UK Listing Authority ('UKLA') Rules.</p> <p>A breach of company law could result in the Company and/or the Directors being fined or the subject of criminal proceedings, all with the potential for financial and reputational damage. A breach of the UKLA Rules could result in the suspension of the Company's shares.</p>	<p>The Company's legal and regulatory obligations are delegated to its Corporate Secretary BNP Paribas Securities Services S.C.A Jersey Branch and are monitored by BNP Paribas Securities Services compliance function. The Board relies on its Corporate Secretary and advisors to ensure adherence to Jersey and UK Company Law and the UKLA Rules. However the responsibility to comply remains with the Board.</p> <p>BNP Paribas Securities Services actively and constructively engages with regulators, tax and industry bodies in order to understand and influence future developments.</p>	<p>The Board receives periodic reports from the Corporate Secretary. The Board receives periodic reports from the BNP Paribas Securities Services and Henderson compliance teams.</p> <p>The key legal and regulatory requirements are captured in a procedures manual which is subject to periodic testing by BNP Paribas Securities Services and Henderson.</p>

The Board consider these risks to have remained unchanged throughout the year under review.

Strategic Report: Corporate Information (continued)

Viability statement

The Directors have assessed the viability of the Company taking account of the Company's current position and the potential impact of the principal risks and uncertainties documented in this Strategic Report.

In assessing viability, the Directors have considered the proposal to liquidate the Company in its current form, establish a new UK company and transfer the existing assets to the new UK company. The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due until such date that the Company is put into liquidation and the restructure is implemented.

The Directors have also considered that if the proposal was not voted for in favour by the shareholders, the Company would continue to exist in its current legal form. Were this to be the case, then the Directors consider that a three year period would be an appropriate period over which they would not expect there to be any significant changes in the current principal risks and adequacy of the mitigating controls in place. Also the Directors do not envisage any other changes in strategy or objectives or any events that would prevent the Company from continuing to operate over that period.

The assessment has considered the impact of the likelihood of the principal risks and uncertainties facing the Company in severe but reasonable scenarios, and the effectiveness of any mitigating controls in place, over the relevant period.

The Directors also took into account the liquidity and maturity of the portfolio and the income stream from the portfolio in considering the viability of the Company and its ability to meet liabilities as they fall due. This included consideration of how the forecast income stream, expenditure and levels of reserves could impact on the Company's ability to pay dividends to shareholders over that period in line with its current dividend policy.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the assessment period.

Borrowing

The Board has in place a loan facility which allows it to borrow up to £45.5 million (£30.5 million with an additional £15.0 million commitment being available) for periods of one, two, three or six months. The facility was renewed in August 2016. Borrowing is regularly reviewed by the Board. At 31 October 2016 the Company had drawn down £24.7 million (2015: £19.2 million). The maximum amount drawn down in the period was £30.4 million, with borrowing costs including interest for the year totalling £0.4 million. At 31 October 2016, the ratio of borrowings under the facility to net assets was 15.7% (2015: 13.2%).

Future developments

The Directors have put forward proposals to re-domicile the business of the Company to the UK by way of a scheme of reconstruction. Should the shareholders decide to not vote in favour of the proposals it is the Board's intention that the Company will continue to pursue its stated investment objective as set out on page 4. Further commentary on the outlook for the Company can be found in the Chairman's Statement and the Fund Managers Report.

The future performance of the Company to continue in its current form will depend to some degree on macro-economic factors and on the performance of international financial markets, which in turn, are subject to many external factors.

Key performance indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of Henderson, the Directors take into account the following key performance indicators ('KPI'):

KPI	Action
Discount/premium to net asset value ('NAV')	At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV per share (including income). The Board considers the use of share buy-backs to enhance shareholder value where appropriate. Shares would only be purchased at a price below the prevailing NAV per share, thereby increasing the NAV per share of the remaining shares. The Board also considers the issuance of new shares, but only when there is unfulfilled demand, they trade at a premium to NAV, and the cost of such issuance is included in the price paid for the new shares, such that there is no detriment in terms of total return to existing 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 and since 1 June 2008 includes current financial year revenue items.
Dividend yield	At each Board meeting, the Directors examine the revenue forecast and consider yield on the portfolio and the amount available for distribution.
Total return performance	The Board reviews and compares the performance of the portfolio as well as the NAV, income and share price of the Company at each Board meeting.

The charts and tables on pages 2 and 3 show how the Company has performed against these KPIs.

Strategic Report: Corporate Information (continued)

Corporate responsibility

Responsible investment

Henderson is responsible for reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical issues) in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance issues into mainstream investment decision-making and ownership practices.

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is considered by Henderson's risk team but investments are not ruled out on social and environmental grounds only.

Voting policy and the UK stewardship code

Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the UK stewardship code. The Board has reviewed the policy and has delegated responsibility for voting to Henderson. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution the Fund Managers will give specific instructions on voting non-routine and unusual or controversial resolutions.

The Henderson responsible investment policy and further details of Henderson's responsible investment activities can be found on the Henderson website, www.henderson.com.

Employees, social, community, human rights and environmental matters

The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues here; Henderson's policies are included in its Annual Report which can be found on its website www.henderson.com.

Henderson's corporate responsibility statement is included on its website stated above. In 2012 it was granted CarbonNeutral® Company status which it has committed to maintain at least until the end of 2018.

The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as CarbonNeutral®.

Modern Slavery Act 2015

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

Continued appointment of Henderson

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with Henderson are contained on page 4.

In addition to the monitoring of investment performance at each Board meeting, through the Management Engagement Committee, an annual review of the Company's investment performance over both the short and longer terms, together with the quality of other services provided by BNP Paribas Securities Services, including company secretarial and accounting, is undertaken.

It is the Directors' opinion that the continuing appointment of Henderson and BNP Paribas Securities Services on the existing terms are in the interests of the Company and its shareholders as a whole.

Board diversity

Currently, four of the Company's Directors are male and one is female. The Directors consider diversity when making appointments to the Board, taking into account skills, experience, knowledge and gender. The Company has no employees and, therefore, there is nothing further to report in respect of gender representation within the Company.

For and on behalf of the Board

Ian Wright
Director
23 February 2017

Strategic Report: Glossary

Aggregated financial information

Aggregated accounts represent the accounts of the Company and its subsidiary as a single economic entity. These have been prepared to allow comparison to the consolidated accounts that the Company prepared prior to changes in accounting standards that prevented these from being presented for the year ended 31 October 2015.

Alternative Investment Fund Managers Directive ('AIFMD')

Issued by the European Parliament and written into UK and Jersey 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'). As the Company's AIFM is based in the European Union ('EU') and as the Company intends to market itself in the EU, a depositary must be appointed to carry out the duties of cash flow monitoring, safe keeping of assets and oversight. The Board retains responsibility for strategy, operations and compliance.

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 relation to various matters which impact the regulation of such entities.

Benchmark

An index against which performance is compared. The Company's benchmark is three month sterling Libor plus 2.00%.

Credit default swaps

A financial contract whereby a buyer of corporate or sovereign debt in the form of bonds attempts to eliminate possible loss arising from default by the issuer of the bonds. The swap agreement is such that the seller of the agreement will compensate the buyer in the event of a loan default. The buyer does not need to hold the loan instrument to buy the swap.

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

With effect from 22 July 2014 all AIFs were required to appoint a depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings. 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 depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts.

Dividend dates

When declared or recommended, 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 registrars 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 will be disclosed ex-dividend.

Euribor

Euro Interbank Offered Rate – is a daily reference rate, published by the European Banking Federation, based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the Euro wholesale money market (or interbank market).

Financial gearing

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company and its subsidiary has used to invest in the market and also takes into account the exposure to hedging and derivatives which have a gearing effect. This figure indicates the extra amount by which total equity would move if the Company's and its subsidiary's investments were to rise or fall. This is calculated by taking the difference between quoted and unquoted investments and total equity divided by total equity and multiplied by 100.

Floating rate asset

Bonds that have a variable coupon, equal to a money market reference rate, like Libor, plus a quoted spread. The spread is a rate that remains constant.

High yield bonds

These bonds are considered more risky than investment grade bonds and as a result have to pay much higher coupons to attract investors. They generally mature in ten years or less and are less sensitive to interest rate changes than other bonds. They are rated below BBB- (by Standard & Poor's, Moody's or a similar recognised rating agency). This rating signifies a higher risk of default compared to an investment grade bond.

Strategic Report: Glossary (continued)

Interest rate futures

A financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. They are used to hedge against the risk that interest rates will move in an adverse direction.

Interest rate swaps

A contract to exchange fixed payments for floating payments linked to an interest rate, and is generally used to manage exposure to fluctuations in interest rates.

Investment companies

Investment companies are limited companies, listed on a stock exchange, which provide shareholders with a professionally managed portfolio of investments.

Investment grade bonds

These bonds pay a higher rate of interest than government bonds, known as the spread, to reflect the higher risk. Investment grade bonds are at the lower risk/lower return end of the corporate bond market and are typically issued by blue chip companies. They are rated BBB – and above (by Standard & Poor's, Moody's or a similar recognised rating agency). This rating signifies that historically such bonds suffer relatively low rates of default.

Jersey Summary Winding Up ('JSWU')

Winding up is the process of selling all the assets of a business, paying off creditors, distributing any remaining assets to the shareholders and then dissolving the business.

Libor

London Interbank Offered Rate – the inter-bank lending rate in the UK which is a market standard reference rate used by many bond fund managers.

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.

Net asset value ('NAV') per share

The value of the Company's assets (e.g. investments and cash held) less any liabilities (e.g. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the balance sheet. The NAV per share is published daily.

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 charges and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year as being the best estimate of future costs, excluding performance fees, in accordance with the AIC methodology.

Premium/discount

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

Secured loans

These are loans entered into by companies and are typically at the most senior level of the capital structure, and are often secured by specific collateral including, but not limited to, trademarks, patents, accounts receivable, stock, equipment, buildings, real estate, franchises and the ordinary and preferred shares of the obligor and its subsidiaries. They are generally issued to finance internal growth, acquisitions, mergers, or share purchases. As a result of the additional debt incurred by the borrower in the course of the transactions, the borrower's creditworthiness would usually be judged by the rating agencies to be below investment grade.

Some secured loans may be subordinated to other obligations of the borrower. Secured loans are not listed, but are, in normal market conditions, readily bought and sold. In periods of market turbulence, however, the liquidity of the market for such investments may be reduced.

Synthetic gearing

Synthetic gearing is the gearing effect of investing in credit derivatives.

Total gearing

Total gearing is the total of financial gearing and synthetic gearing.

Total return performance

This is the return on the share price or NAV taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders during a given period. 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).

Treasury shares

Shares repurchased by the Company but not cancelled.

Yield

The annual dividend expressed as a percentage of the share price.

Corporate Report



Report of the Directors

The Directors present the audited financial statements of the Company and the Directors Report for the year from 1 November 2015 to 31 October 2016. The Company was active throughout the year under review and was not dormant. Further Company information is provided on page 16 of the Annual Report in the status section.

Directors' remuneration and shareholdings

The Directors' Remuneration Report on pages 28 and 29 provides information on the remuneration and share interests of the Directors.

Directors' conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to 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. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continue to operate effectively.

Related party transactions

The Company's transactions with related parties in the year were with its Directors, its subsidiary and Henderson. The material transactions between the Company and its subsidiary during the year and the amount due from the subsidiary are given in Note 11 on page 50. There have been no material transactions between the Company and its Directors during the year other than the amounts paid to them in respect of fees for which there were no outstanding amounts payable at the year end. In relation to the provision of services by Henderson, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services there have been no transactions with Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in Note 22 on page 59.

Stated capital

As at 31 October 2016 the Company's stated capital consisted of 175,868,240 ordinary shares. There are no restrictions concerning the transfer of securities in the Company, no special rights with regards to control attached to securities, no restrictions on voting, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is

party to that affects its control following a takeover bid. The holders of ordinary shares are entitled to all capital growth in the Company and all the income from the Company that is resolved by the Directors to be distributed. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holding of ordinary shares unless otherwise provided for under a scheme of reconstruction and winding up of the Company.

The voting rights of the shares on a poll are one vote for every one share held. At the beginning of the year, there were 164,518,240 shares in issue. During the year, 11,350,000 shares (representing 6.90% of the number of shares in issue at the beginning of the year) were issued to J.P. Morgan Cazenove (the Company's broker) at a price range of 88.25p to 93.50p for total proceeds (net of commissions) of £10,390,000. At 31 October 2016 the number of shares in issue with voting rights was 175,868,240.

Since 1 November 2016 and up to 23 February 2017 a further 3,700,000 shares have been issued for a total consideration of £3,371,955. The number of shares in issue as at 23 February 2017 was 179,568,240.

Subject to annual shareholder approval, the Company may purchase its own shares at a discount to net asset value per share. At the AGM in April 2016 shareholders gave the Board authority to buy back 24,953,589 ordinary shares during the following 15 months for cancellation. To date this authority has not been used.

Holdings in the Company's shares

Declarations of interests in the voting rights of the Company as at 31 October 2016 in accordance with the disclosure and transparency rules were as follows:

	% of voting rights
Brewin Dolphin Limited	14.99

At 31 October 2016, 3.1% of the issued ordinary shares were held on behalf of participants in Halifax Share Dealing products run by Halifax Share Dealing Limited ('HSDL').

In accordance with the arrangements made between HSDL and Henderson, the participants in this scheme are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. The nominees have undertaken to exercise the voting rights of any shares held through the schemes that have not been exercised by the individual participants. It will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) on a one to one voting instruction basis for each resolution received from those participants who have chosen to exercise their voting rights.

Report of the Directors (continued)

Annual General Meeting

The AGM will be held on Wednesday 26 April 2017 at 8.30am, at the registered office, Liberté House, 19-23 La Motte Street, St Helier, Jersey JE2 4SY. The notice of meeting is contained in a separate document which has been sent to shareholders with this Annual Report.

Shareholder event

All general meetings of the Company are held in Jersey. The Board recognises that many shareholders are unable to travel to Jersey, but would like to meet a member of the Board and hear from the Fund Managers on a regular basis.

Henderson has therefore arranged a shareholder event to be held at Henderson's offices at 201 Bishopsgate, London EC2M 3AE on Thursday 27 April 2017 at 11.00am. The event will provide the opportunity for the Fund Managers, John Pattullo and Jenna Barnard, to give a presentation on investment strategy and performance. Angus Macpherson, who will succeed Paul Manduca as Chairman following the AGM, will also be present. Angus Macpherson will be appointed as Chairman of the new UK Company. The event will include light refreshments. If you wish to attend, please return the yellow attendance card which is enclosed with this Annual Report.

The Board considers that shareholders should be encouraged to attend and participate at the shareholder event, which will be available to watch live by visiting www.henderson.com/trustslive

Directors' statement as to disclosure of information to Auditors

Each of the Directors who were members 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 which the Company's Auditors are 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 Auditors are aware of that information.

Corporate governance

The Corporate Governance Statement on pages 30 to 33 forms part of the Report of the Directors.

Listing Rule 9.8.4

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 other than in accordance with Listing Rule 9.8.4(7) which is disclosed on page 25 of the Annual Report in the stated capital section.

For and on behalf of the Board

Ian Wright
Director
23 February 2017

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.

The Companies (Jersey) Law 1991 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 ('IFRSs') as adopted by the European Union. Under the Companies (Jersey) Law 1991 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 at the end of the year 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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. 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 DTR 4.1.12

Each of the Directors, who are listed on page 14, confirms that, to the best of his or her knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report, Report of the Directors, Directors' Remuneration Report, Corporate Governance Statement, Report of the Audit Committee 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

Ian Wright
Director
23 February 2017

The financial statements are published on **www.hendersondiversifiedincome.com** which is a website maintained by Henderson.

The maintenance and integrity of the website is the responsibility of 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 Annual Report since it was initially presented on the website.

Legislation in Jersey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ Remuneration Report

Introduction

This report is submitted on a similar basis to provide shareholders with the same information as would be required by Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the ‘Regulations’). The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors’ remuneration. An ordinary resolution to approve the report will be proposed at the annual general meeting on Wednesday 26 April 2017. The Company’s remuneration policy was approved by shareholders at the AGM in March 2014 and is due for renewal at the AGM in April 2017.

All Directors are non-executive and the Company has no chief executive officer or employees; as such some of the 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 each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

The Board as a whole considers the Directors’ remuneration. The Board has not been provided with advice or services by any person in respect of its consideration of the Directors’ remuneration (although the Directors review annually the fees paid to the boards of directors of other comparable investment companies).

Remuneration policy

Directors are remunerated in the form of fees, payable quarterly in arrears. In accordance with the Company’s Articles of Association the aggregate remuneration of the Directors may not exceed £200,000 per annum. Subject to this overall limit, the Board’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 any new appointments to the Board, 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 level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in any change to the rate; any feedback from shareholders would be taken into account when setting remuneration levels. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long term incentive schemes are in place.

No Director has a service contract with the Company. Directors’ appointments may be terminated at any time by written notice with no compensation payable.

This remuneration policy has been in place since 1 November 2013 and was approved by shareholders at the AGM in March 2014 and will be due for renewal at the AGM in April 2017. The Board may amend the level of remuneration paid to individual Directors within the parameters of the remuneration policy.

Annual statement

As Chairman, Paul Manduca reports that with effect from 1 January 2016 the remuneration paid to Directors increased from £22,000 per annum to £24,000 per annum, to bring the Director’s remuneration in line with other comparable investment companies. There was no change to the remuneration for the Chairman of the Board or Chairman of the Audit Committee.

Directors’ interests in shares

	Ordinary shares of no par value	
	31 October 2016	1 November 2015
Paul Manduca	100,000	150,000
Helen Green	10,000	10,000
Nigel Parker	20,000	20,000
David Smith ¹	n/a	10,000
Ian Wright ²	–	–
Angus Macpherson ³	100,000	–

1 Retired on 12 April 2016
2 Appointed on 23 November 2015
3 Appointed on 18 January 2016

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 above. On 4 January 2017 Angus Macpherson reinvested his dividend and purchased 1,488 ordinary shares bringing his total beneficial holding in the Company to 101,488 ordinary shares. There have been no changes to any of the other Directors’ holdings in the period 1 November 2016 to 23 February 2017.

In accordance with the Company’s Articles of Association, no Directors are required to hold shares of the Company by way of qualification.

Directors' Remuneration Report (continued)

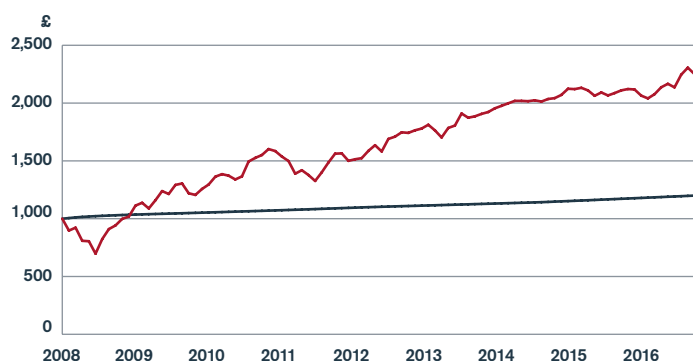
Performance

The graph illustrates the total shareholder return as compared to the total return objective of 1.25% over three month sterling Libor for the six year period to 31 October 2014 and 2.00% over three month sterling Libor from the year to 31 October 2015 onwards.

Source: Trust – Morningstar Direct, Benchmark – BNP IRP Service/HEDS, rebased to 1,000

— Company's share price total return, assuming the investment of £1,000 on 31 October 2008 and the reinvestment of all dividends (excluding dealing expenses) (Source: Morningstar Direct)

— Total return over three month sterling Libor plus 1.25% & 2.00% assuming the notional investment of £1,000 on 31 October 2008 and the reinvestment of all income (excluding dealing expenses) (Source: BNP IRP Service/HEDS)



Directors' fees

The fees paid to the Directors who served during the years ended 31 October 2016 and 31 October 2015 were as follows:

	Year ended 31 October 2016 Total salary and fees £	Year ended 31 October 2015 Total salary and fees £
Paul Manduca ¹	37,500	37,500
Helen Green ^{2,3}	35,000	35,000
Ian Wright ⁴	22,353	—
Angus Macpherson ⁵	18,913	—
Nigel Parker ³	31,168	29,500
David Smith ⁶	10,468	22,000
Total	155,402	124,000

Notes:

- Chairman and highest paid Director
- Chairman of the Audit Committee
- Director of Henderson Diversified Income Luxembourg s.a.r.l and receives an additional £7,500 per annum (net of Luxembourg tax) for this appointment included in the totals above. These fees are paid by the subsidiary
- Appointed 23 November 2015
- Appointed 18 January 2016
- Retired 12 April 2016

No taxable benefits have been paid or are payable nor has any other remuneration or compensation been paid or was payable by the Company during the year to any of the current Directors or third parties specified by any of them.

Relative importance of spend on pay

In order to show the relative importance of spend on pay, the table below sets out the total level of remuneration compared to the distributions paid to shareholders by way of dividends. There were no share buybacks or other significant distributions, payments or other uses of the Company's profit or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2016 £	2015 £	Change £
Total remuneration	155,402	124,000	31,402
Ordinary dividend paid	8,505,193	7,865,012	640,181

Statement of voting at annual general meeting

At the 2016 annual general meeting 33,221,280 votes (99.2%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 148,541 votes (0.4%) were against, 74,490 votes (0.2%) were discretionary and 37,729 votes were withheld.

For and on behalf of the Board

Ian Wright
Director
23 February 2017

Corporate Governance Statement

Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment company, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code ('UK Code') issued by the Financial Reporting Council ('FRC') in April 2016 are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in July 2016 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

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

Statement of compliance

The Directors believe that the Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this report and thereby the provisions of the UK Code except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive Directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company, for the reasons outlined above.

Directors

Terms of appointment

The Board has set, and each Director has agreed to adopt, generic terms and conditions of appointment of non-executive directors of the Company.

Directors' reappointment and retirement

As per the Company's Articles of Association at every annual general meeting, any Director shall retire from office who has been a Director at each of the preceding two annual general meetings and who was not appointed or re-appointed by the Company in general meeting at, or since, either such meeting.

The Board has considered its succession plans this year in light of the proposals to re-domicile the business of the Company by way of a scheme of reconstruction, which will be put to shareholders at the 2017 AGM.

Helen Green has indicated her willingness to retire from the Board on 28 February 2017 following the release of the Annual Report for the year ended 31 October 2016. Helen has been the Chairman of the Audit Committee since launch and has made a significant contribution to the success of your Company. The Directors thank her for her service to the Company and wish her well for the future.

Paul Manduca and Nigel Parker will both retire from the Board at the conclusion of the 2017 AGM. Both Directors were appointed to the Board at launch in 2007. The Directors are grateful to Paul for his guidance and leadership as Chairman of the Board and his investment management expertise that has contributed enormously to the Company's success. Likewise the Directors would like to thank Nigel for his enthusiasm, professionalism and compliance expertise.

Angus Macpherson and Ian Wright will therefore offer themselves for re-appointment at the 2017 AGM. Both Directors are eligible for re-appointment under the Company's Articles of Association.

For more information about the Nominations Committee assessment of Angus Macpherson and Ian Wright please see pages 31 and 32.

Under the Articles of Association, shareholders may remove a Director before the end of his or her term by passing an ordinary resolution at a general meeting. An ordinary resolution is passed if a majority of votes are cast either in person or by proxy, in favour of the resolution.

Board independence

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nominations Committee meeting in October 2016, the Directors reviewed their independence through a formal board evaluation process and concluded that all Directors remain wholly independent of Henderson. The Board has determined that all 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.

A Senior Independent Director has not been identified as the Board considers that all the Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

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

Directors' professional development

When a new Director is appointed, he or she is invited to attend a thorough induction training which includes a series of one-to-one meetings with key personnel from both Henderson and BNP Paribas Securities Services. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are also able to attend external training events and industry seminars at the expense of the

Corporate Governance Statement (continued)

Company and each Director's individual training requirements are considered as part of the annual performance evaluation.

Directors' insurance and indemnification

Directors' and officers' liability insurance cover is in place which indemnifies the Directors against certain liabilities arising from the carrying out of their duties. Under this cover a qualifying third party provision indemnity may be provided to Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court. No indemnity was given during the year or up to the date of this report.

Board

Board composition

The Board currently consists of five non-executive Directors and the biographies of those holding office at the date of this report are included on page 14. Those details demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors. All Directors served throughout the year, with the exception of Ian Wright who joined the Board on 23 November 2015, Angus Macpherson who joined the Board on 18 January 2016 and David Smith who retired on 12 April 2016.

Responsibilities of the Board and its Committees

The Board, which is chaired by Paul Manduca, who is an independent non-executive Director, meets formally at least four times a year, with additional Board or Committee meetings arranged when required. The Directors have regular contact with the Fund Managers and representatives of the Corporate Secretary between formal meetings. The Board has a formal schedule of matters specifically reserved for its decision. The Board is responsible for the approval of annual and half year results and other public documents.

The Directors confirm that they are satisfied that the Annual Report for the year ended 31 October 2016, 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.

At each meeting the Directors follow a formal agenda, which includes a review of the Company's net asset value, share price, premium/discount, financial position, gearing levels, 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 Henderson 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, the Chairman ensures that all Directors have full and timely access to relevant information.

Committees of the Board

The Board has three Committees: the Audit Committee, the Management Engagement Committee and the Nominations

Committee. The terms of reference for these Committees are available on the website www.hendersondiversifiedincome.com or via the Corporate Secretary.

A separate Remuneration Committee has not been established. Instead the whole Board is responsible for setting Directors' fees in line with the remuneration policy set out on page 28, which is subject to periodic shareholder approval. This does not comply with the UK Code or AIC Code provisions on Remuneration Committees however the Board feel that given the small size of the Company, the fact that there are no executive Directors and the simple remuneration policy in place, it is appropriate not to establish a separate Remuneration Committee. This decision is reviewed on an annual basis by the Nominations Committee.

Audit Committee

The Audit Committee is chaired by Helen Green. The Report of the Audit Committee which forms part of this Corporate Governance Statement can be found on pages 34 and 35.

Nominations Committee

All Directors are members of the Nominations Committee, which is chaired by the Chairman of the Board (who would not chair the Committee when the Chairman's successor was being considered). The Nominations Committee is responsible for reviewing Board succession planning and tenure policy, the performance of the Board as a whole and the Board Committees and the recommendation to the Board on the appointment of new Directors through an established formal procedure.

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the Board. The Nominations Committee considers diversity as part of the annual performance evaluation and it is felt that the current Board composition offers a range of backgrounds, and each Director brings different qualities to the Board and its discussions.

Given the small size of the Board, it is not considered appropriate for the Company to have set targets in relation to diversity; candidates will be assessed in relation to the relevant needs of the Company at the time of appointment. When the recruitment of additional non-executive Directors are required the Nominations Committee will recommend such to the Board. A formal job description would be drafted.

At its meeting in October 2016 the Nominations Committee held an in depth discussion with regards to the Board's succession plans, following the proposals to re-domicile the business of the Company by way of a scheme of reconstruction.

Helen Green expressed her wish to retire from the Board on 28 February 2017 following nine years of service to the Company. Helen has been the Chairman of the Audit Committee during that time. The Nominations Committee recommended to the Board that Ian Wright succeed her as Chairman of the Audit Committee, noting that he has recent and relevant financial experience and is therefore well placed to take on this role and the responsibilities going forward.

Furthermore Paul Manduca and Nigel Parker will retire from the Board at the conclusion of the 2017 AGM. The Nominations Committee recommended to the Board that Angus Macpherson succeed Paul Manduca as Chairman of the Board.

Corporate Governance Statement (continued)

The Committee considered the impact of the retirement of these Directors on the overall composition and size of the Board, including how the Board would continue to effectively lead the Company if shareholders do not vote to support its winding up. It concluded that in that scenario Angus Macpherson and Ian Wright would be able to make decisions in accordance with the Company's Articles of Association and could between them, in the interim, function as an effective Board to support the long-term success of the Company. The Committee would be called upon immediately following the 2017 AGM if the resolution to re-domicile the business of the Company by way of a scheme of reconstruction does not pass, to assist in the recruitment of two new Directors to join the Board. This would be to ensure there is sufficient skill, experience and diversity on the Board.

The Committee also reviews and recommends to the Board, the Directors seeking re-appointment at the forthcoming AGM. Recommendation is not automatic and follows a process of evaluation of each Director's performance and consideration of the Director's independence. The Committee also takes into account the mix of skills and experience of the current Board members to meet the requirements of the Company. In accordance with the UK Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his or her contribution. The Committee met in October 2016 to carry out its annual review of the Board, its composition and size and its Committees. The Committee recommended the re-appointment of Angus Macpherson and Ian Wright to the Board. Proposals to this effect will be put to shareholders at the 2017 AGM.

Performance evaluation

The performance of the Company is considered in detail at each Board meeting. In the year under review the Board has conducted a review of its own performance, together with that of its Committees, the Chairman and each individual Director. This was conducted by each Director anonymously completing a performance questionnaire and the non-executive Directors also anonymously completing a questionnaire on the performance of the Chairman. The findings of both questionnaires were reviewed and discussed by the Committee which concluded that the Board has a good balance of skills and experience. In particular, it is considered that each of the Directors makes a significant contribution to the affairs of the Company, the Chairman continues to display effective leadership and that Angus Macpherson and Ian Wright who are seeking re-appointment at the Company's AGM in 2017 merit re-appointment by shareholders.

Management Engagement Committee

All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board. The Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders and also for reviewing the performance and cost effectiveness of the Company's other service providers. The Committee met in October 2016 to carry out its annual review of Henderson, the results of which are detailed on page 21 of the Annual Report in the continued appointment of Henderson section.

Board attendance

The following table sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in April 2016.

	Board	AC	MEC	NC
Number of meetings	4	2	1	1
Paul Manduca	4	2	1	1
Helen Green	4	2	1	1
Nigel Parker	4	2	1	1
David Smith ¹	2	1	–	–
Angus Macpherson ²	4	2	1	1
Ian Wright ³	4	2	1	1

¹ Retired on 12 April 2016

² Appointed 18 January 2016

³ Appointed 23 November 2015

AC: Audit Committee

MEC: Management Engagement Committee

NC: Nominations Committee

The Directors and Committees of the Board also met during the year to undertake business such as the approval of the Company's results, dividends and documentation in connection with the Prospectus issued with the Annual Report.

Internal controls

Both Henderson and BNP Paribas Securities Services have established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by Henderson's and BNP Paribas Securities Services compliance, internal audit and risk departments on a continuing basis. The Board receives a formal report on a quarterly basis which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of Henderson or BNP Paribas Securities Services, and which reports the details of any known internal control failures. The Board receives a report on Henderson's and BNP Paribas Securities Services internal controls each year which includes a report from Henderson's and BNP Paribas Securities Services auditors on the control policies and procedures in operation.

The ongoing process for identifying, evaluating and managing significant risks faced by the Company has been in place throughout the year under review and up to the date of this report. 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.

As all of the Company's management functions are delegated to third parties, and the Board monitors the controls in place through Henderson's internal audit department, the Board feels that there is currently no need for the Company to have its own internal audit function.

Corporate Governance Statement (continued)

Accountability and relationship with Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 27, the Independent Auditors' Report on pages 38 to 40 and the statement of going concern on page 45. The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the depositary the day-to-day accounting, company secretarial and administration requirements and registration services.

Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from Henderson. 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 companies managed by Henderson which provides a forum to discuss industry matters which would then be reported to the Board.

Henderson takes decisions as to the purchase and sale of individual investments. Henderson also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of Henderson including the Fund Managers attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Corporate Secretary, through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes.

The Board and Henderson operate in a supportive, co-operative and open environment. Henderson and BNP Paribas Securities Services have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

The Board has reviewed the implications of the Bribery Act 2010, which came into force on 1 July 2011, and Corruption (Jersey) Law 2006, and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents. The Directors have adopted a procedure whereby they are required to report any potential acts of bribery and corruption in respect of the Company to the duly appointed Money Laundering Reporting Officer.

Stated capital

Please see the Report of the Directors on page 25 of the Annual Report.

Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the Company's website www.hendersondiversifiedincome.com. Henderson also provides information on the Company and Fund Manager videos on the website, via social media channels and through its HGi content platform.

The Board considers that shareholders should be encouraged to attend and participate at the annual general meeting where shareholders will have the opportunity to address questions to the Chairman of the Board and the Fund Managers. However, it does recognise that not all shareholders wish to travel to Jersey therefore a shareholder event will be held in London on Thursday 27 April 2017 at 11.00am at Henderson Global Investors' office, 201 Bishopsgate, London EC2M 3AE where shareholders will have the opportunity to address questions to the Chairman of the Board and the Fund Managers who will make a presentation to shareholders. The Board considers that shareholders should be encouraged to attend and participate at the shareholder event, which will be available to watch live as it happens by visiting www.henderson.com/trustslive

The results of the AGM will be announced through a regulatory information service on the same day with a summary of the proxy votes received on the resolutions. It is the intention of the Board that the Annual Report and notice of meeting will be issued to shareholders so as to provide at least 20 working days' notice of meeting. These documents are also included on the Company's website at www.hendersondiversifiedincome.com. Shareholders wishing to lodge questions in advance of the annual general meeting or shareholder event, or raise issues or concerns at any time are invited to do so by writing to the Chairman at the registered office address given on page 15 of this report. General presentations to both shareholders and analysts follow the publication of the annual results. All communications between Henderson, BNP Paribas Securities Services and shareholders are reported to the Board.

For and on behalf of the Board

Ian Wright
Director
23 February 2017

Report of the Audit Committee

Meetings

The Audit Committee met twice during the year under review. The Company's Auditors are invited to attend meetings as necessary. Representatives of Henderson and BNP Paribas Securities Services may also be invited.

Role and responsibilities

The role of the Audit Committee is to assist the Board in applying financial reporting and internal controls principles and to maintain an appropriate relationship with the Auditors. The responsibilities are set out in formal terms of reference which are regularly reviewed. In the year under review the main duties undertaken were:

- consideration of the appropriateness of the Company's accounting policies;
- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and 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 in order to make recommendations to the Board;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the internal controls in place at Henderson and BNP Paribas Securities Services as administrator;
- consideration of the performance fee calculation;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board, as described on page 32;
- consideration of the appointment of the Auditors and its effectiveness, and its performance and remuneration (see page 35);
- consideration of the Auditors' independence and objectivity and the provision of any non-audit services including the level of non-audit fees paid to the audit firm in relation to the statutory audit fee (as explained further on page 35) and reporting of the external Auditor;
- in assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying their respective knowledge and experience. The internal controls over financial reporting were also considered, together with feedback from the Company's Auditors, management and the Corporate Secretary; and
- consideration of the whistle blowing policies that Henderson and BNP Paribas Securities Services have put in place for their staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policies include the necessary arrangements for independent investigation and follow up action.

Annual Report for the year ended 31 October 2016

In relation to the Annual Report for the year ended 31 October 2016 the following significant issues and audit matters were considered by the Committee:

Significant issues and audit matters	How it was addressed
Valuation and ownership of the Company's investments	Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments are verified by reconciliation to the custodian's records.
Recognition of income	Income received is accounted for in line with the Company's accounting policies (as set out on page 46 in Note (2f)) and is reviewed by the Committee at each meeting.
Internal controls	The Committee receives regular reports on internal controls from Henderson and BNP Paribas Securities Services and has access to the relevant personnel of Henderson and BNP Paribas Securities Services who have a responsibility for risk management and internal audit.
Correct calculation of the performance related fee	The year end performance related fee calculation is prepared by the Administrator (BNP Paribas Securities Services) and reviewed by Henderson and reviewed in depth by the Committee, all with reference to the management agreement.

Report of the Audit Committee (continued)

Significant issues and audit matters	How it was addressed
Accounting treatment of subsidiary	<p>For the year ended 31 October 2015 the Audit Committee discussed in detail the conditions necessary to qualify as an Investment Entity for the purposes of IFRS10, particularly the requirement that to qualify, a parent company is obliged to measure and account for substantially all of its investments, which include investments in subsidiaries, at fair value.</p> <p>The Audit Committee reviewed its position on this matter for the year ended 31 October 2016. It concluded and subsequently recommended to the Board that it continues to prepare its half year accounts and annual audited accounts going forward presenting the Company as a separate entity. The Company's interest in the subsidiary is therefore accounted for at fair value.</p>
Going concern	<p>The Directors are recommending that the Company be liquidated, with assets transferred to a new UK company. The Committee therefore believes that shareholders will voluntarily resolve to wind up the Company during 2017. As a consequence of this, the financial statements have been prepared on a non-going concern basis. The effect of this is explained in Note 2(a) to the financial statements.</p>

Policy on non-audit services

The provision of non-audit services by the Company's Auditors is considered and approved by the Audit Committee on a case by case basis. The policy set by the Audit Committee, which is kept under review, ensures that consideration is given to the following factors when considering the provision of non-audit services by the Auditors:

- whether the audit firm is the most suitable supplier of non-audit services;
- the impact on the Auditors' independence and objectivity and what safeguards can be put in place to eliminate or reduce any threat in this regard; and
- the cost-effectiveness of the services.

The Board has determined that the Auditors will never be considered for the provision of services related to accounting and preparation of the financial statements, internal audit and custody.

No non-audit services were provided by the Auditors during the year under review.

Auditors' appointment

Grant Thornton Limited has been the Company's Auditors since the Company was launched on 5 June 2007. The appointment of the Auditors is not regularly put out to tender. However, performance is regularly reviewed by the Audit Committee including the Audit Committee Chairman completing an Auditor effectiveness questionnaire on an annual basis to review performance during the audit process which is fed back through discussion at a pre year-end audit planning meeting at which the Auditors, the Audit Committee Chairman and representatives from BNP Paribas Securities Services and Henderson attend.

The Audit Committee remains satisfied with the effectiveness of the audit provided by Grant Thornton Limited. On the basis of the Auditors' performance the Audit Committee recommended their continuing appointment to the Board. The Auditors have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of Grant Thornton Limited as Auditor to the Company and to authorise the Directors to determine their remuneration will be proposed at the annual general meeting.

As a Public Interest Entity listed on the London Stock Exchange, the Company is subject to the mandatory rotation requirements of the European Union. This is likely to mean that the Company will be required to put its audit contract out to tender at least every 10 years and change auditor at least every 20 years. The Auditor is required to rotate partners every five years and this is the fourth year that the current partner has been in place.

Following the proposals to enter the Company into a JSWU the Audit Committee concluded that Grant Thornton Limited should be re-appointed as Statutory Auditor for the year ended 31 October 2017. If shareholders decide to not vote in favour of the proposals to wind up the Company, the Audit Committee will commit to undertake an audit tender process for the year ending 31 October 2017.

Fees paid or payable to the Auditors are detailed in Note 6 on page 48.

For and on behalf of the Board

Helen Green
Audit Committee Chairman
23 February 2017

Aggregated Income Statement

	Year ended 31 October 2016			Year ended 31 October 2015		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Gains/(losses) on investments held at fair value through profit or loss	–	24,740	24,740	–	(3,498)	(3,498)
(Losses)/gains on foreign exchange transactions at fair value through profit or loss	–	(21,730)	(21,730)	–	3,117	3,117
Investment income	10,355	–	10,355	9,320	–	9,320
Other operating income	4	–	4	2	–	2
Total income	10,359	3,010	13,369	9,322	(381)	8,941
Expenses						
Management and performance fees	(449)	(1,331)	(1,780)	(514)	(924)	(1,438)
Other expenses	(623)	–	(623)	(562)	–	(562)
Profit/(loss) before finance costs and taxation	9,287	1,679	10,966	8,246	(1,305)	6,941
Finance costs	(173)	(173)	(346)	(139)	(139)	(278)
Profit/(loss) before taxation	9,114	1,506	10,620	8,107	(1,444)	6,663
Taxation	(108)	–	(108)	(77)	–	(77)
Profit/(loss) for the year	9,006	1,506	10,512	8,030	(1,444)	6,586
Earnings/(loss) per ordinary share	5.37p	0.90p	6.27p	5.16p	(0.93)p	4.23p

The aggregated information is derived from the separate accounts of the Company and its subsidiary, individually prepared in accordance with the IFRS accounting policies and after eliminating intra group transactions and balances. This statement is supplemental to the financial statements and unaudited.

Aggregated Balance Sheet

	At 31 October 2016 £'000	At 31 October 2015 £'000
Non current assets		
Investments designated at fair value through profit or loss	–	167,963
Current assets		
Investments designated at fair value through profit or loss (analysed on pages 10 to 12)	183,170	–
Other receivables	4,485	4,756
Cash and cash equivalents	1,169	1,131
	188,824	5,887
Total assets	188,824	173,850
Current liabilities		
Other payables	(6,336)	(9,304)
Bank loan (net of issue costs)	(24,721)	(19,177)
Total assets less current liabilities	157,767	145,369
Net assets	157,767	145,369
Equity attributable to equity shareholders		
Stated capital	120,281	109,891
Distributable reserve	39,862	39,862
Retained earnings:		
Other capital reserves	(6,174)	(7,683)
Revenue reserve	3,798	3,299
Total equity	157,767	145,369
Net asset value per ordinary share	89.71p	88.36p

The aggregated information is derived from the separate accounts of the Company and its subsidiary, individually prepared in accordance with the IFRS accounting policies and after eliminating intra group transactions and balances. This statement is supplemental to the financial statements and unaudited.

Independent Auditors' Report to the Members of Henderson Diversified Income Limited

Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- comply with the requirements of the Companies (Jersey) Law 1991.

Emphasis of matter – Basis of preparation of the financial statements

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2(a) to the financial statements concerning the basis of preparation of the financial statements. As described in that note, it was announced in December 2016 that the Directors will put forward to shareholders a proposal to place the Company into a Jersey Summary Winding Up (JSWU) and transfer existing shareholders and assets across to a new UK domiciled company. The proposals will be voted on by shareholders in April 2017. The Directors are confident that shareholders will resolve to pass the appropriate resolutions to place the Company into a JSWU at this point. Accordingly, the Directors have prepared the financial statements on a non-going concern basis.

Who we are reporting to

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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.

What we have audited

Henderson Diversified Income Limited's financial statements for the year ended 31 October 2016 comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes.

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

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit.

Recognition of Income

The risk: Investment income from fixed interest securities and equity securities is the Company's major source of revenue and is a significant material item in the Income Statement. Under International Standards on Auditing (ISA) (UK and Ireland) 240 there is a

presumed risk that revenue may be misstated due to fraud. Accordingly, the recognition of income was identified as a risk that required special audit attention.

Our response: Our audit work included, but was not restricted to, assessing whether the Company's accounting policy on income, including its recognition, as stated in Note 2 (f) of the financial statements is in accordance with IFRSs as adopted by the European Union, understanding management's process to recognise revenue in accordance with the stated accounting policy and testing whether a sample of income transactions has been recognised in accordance with the policy. Furthermore, for a sample of investments held in the year, we tested whether that income was correctly received and recorded and assessed whether any of the interest income and dividends should have been treated as capital receipts.

The Company's accounting policy on income is shown in Note 2 (f) and related disclosures are included in Note 3. The Audit Committee identified Recognition of Income as a significant issue in its report on page 34, where the Committee also described the action that it has taken to address this issue.

Ownership and Valuation of Investments designated at fair value through profit or loss

The risk: The Company's investment objective is to provide shareholders with a high level of income and capital growth over the longer term, principally through investing selectively across the full spectrum of fixed income asset classes, including secured loans, high yield corporate bonds and investment grade corporate bonds. Therefore, the Company has a significant exposure to fluctuations in investments, which are the main drivers of returns. The investments designated at fair value through profit or loss, and the interests in subsidiary at fair value through profit or loss, at 31 October 2016 were valued at £134.4m and £45.9m respectively. There is a risk that the investments shown in the Balance Sheet may not be owned by the Company, or are incorrectly valued. Accordingly, ownership and valuation of investments designated at fair value through profit or loss were identified as risks that required particular audit attention.

Our response on ownership: Our audit work on ownership included, but was not restricted to, understanding management's process to recognise and measure investments including ownership of those investments, obtaining a confirmation of investments held by the Company at 31 October 2016 directly from the independent custodian or agreeing to share register of investee company, testing the reconciliation of the custodian records to the records maintained by the Company's administrator, and testing a sample of investment additions and disposals shown in the Company's records to supporting documentation.

Our response on valuation: Our audit work on valuation of the listed investments included, but was not restricted to, understanding management's process to value quoted investments, agreeing the valuation of 100% of the actively traded investments to an independent source of market prices, and in order to confirm investments are actively traded we obtained trading volumes of listed investments held at the year end. Our work on valuation of the interests in subsidiary included, but was not restricted to, assessing measurement of subsidiary at fair value by agreeing to the net asset value of the subsidiary as disclosed in the subsidiary's separate financial statements and assessing the reasonableness of the

Independent Auditors' Report to the Members of Henderson Diversified Income Limited (continued)

valuation of underlying investment portfolio held by the subsidiary. The subsidiary's investment portfolio primarily consists of secured loans, 100% of which were agreed to an independent source of market prices.

The Company's accounting policies on investments designated at fair value through profit or loss and interests in subsidiary are shown in Notes 2(d) and 2(e) respectively, and related disclosures are included in Notes 11(a) and 11(d). The Audit Committee identified valuation and ownership of the Company's investments as a significant issue in its report on page 34, where the Committee also described the action that it has taken to address this issue.

Valuation and Completeness of Derivative Financial Instruments

The risk: The Company has entered into over the counter derivative contracts which include forward foreign exchange contracts and credit derivatives. In accordance with IFRSs as adopted by the European Union, they should be classified as held for trading and measured at fair value. Measurements of the value of a derivative includes significant assumptions and judgements. Accordingly, the valuation and completeness of derivative and financial instruments were identified as risks that required particular audit attention.

Our response on valuation: Our audit work included, but was not restricted to, obtaining an understanding management's process to value derivatives and recalculating the fair value of the derivatives by agreeing to an independent source of pricing. We scrutinised off balance sheet exposures and the related income or expenses, to ensure the revaluation gains or losses had been correctly accounted for and evaluated the adequacy of disclosures of derivatives in the financial statements.

Our response on completeness: Our audit work included, but was not restricted to, obtaining an understanding the nature and extent to which the Company uses derivatives and understanding the Company's objectives in using derivatives. We scrutinised settled transactions subsequent to 31 October 2016 to determine whether any related to previously unrecorded derivatives. In addition, we examined contracts and agreements for any embedded derivatives that require separate accounting from the host contract.

The Company's accounting policy on derivative financial instruments is shown in Note 2(m) and related disclosures are included in Notes 12, 13 and 14.

Non-compliance with debt covenants

The risk: The Company has a multicurrency revolving credit facility in place with Scotiabank. The facility renewed in August 2016 and is due to expire on 14 August 2018. At 31 October 2016 the total commitment amount was £45.5m (£30.5m with an additional £15.0m commitment being made available) and the total drawdown amount was £24.7m. The ability of the Company to operate as a going concern will be dependent on whether the Company could meet the debt obligations as and when they fall due, and whether debt covenants have been complied with. Accordingly, non-compliance with debt-covenants was identified as a risk that required particular audit attention.

Our response: Our audit work included, but was not restricted to, inspecting the covenant certificates and re-performing covenant

calculations prepared monthly to determine if any debt covenant violations arose during the year.

The Company's accounting policy on bank borrowings is shown in Note 2(k) and related disclosures are included in Note 14.5.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £928,000 which is 0.5% of the Company's total assets. This benchmark is considered the most appropriate because the users of the financial statements are primarily concerned with the capital appreciation of the assets under management and the level of income distribution.

Materiality for the current year is higher than the level that we determined for the year ended 31 October 2015 to reflect the increased size and value of the Company's total assets.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 60% of financial statement materiality for the audit of the financial statements. We also determine a lower level of specific materiality for certain areas such as the income statement and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £46,000. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

We conducted our audit in accordance with ISAs (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' Report to the Members of Henderson Diversified Income Limited (continued)

We are independent of the Company in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Company's business and is risk based. The day-to-day management of the Company's investment portfolio, the maintenance of accounting records, the custody of investments and administrative and Company secretarial services are outsourced to third-party service providers. Accordingly, our audit work included obtaining an understanding of, and evaluating, relevant internal controls at third-party service providers. This included obtaining and reading an internal controls report commissioned by the Investment Manager on the description, design and operating effectiveness of the controls put in place to cover its business operations conducted through the Investment Manager. In addition, we reviewed controls reports prepared by third party auditors on the description, design and operating effectiveness of controls in respect of both the independent custodian and the fund administration services provided by the Company's administrator. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment and the design and implementation of controls and the management of specific risks.

Matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's financial statements are not in agreement with the accounting records and returns; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Under the Listing Rules we are required to review:

- the Directors' statements in relation to going concern and longer-term viability, set out on page 45 and page 19 respectively; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.
- Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the audit committee which we consider should have been disclosed.

We have nothing to report in respect of the above.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the annual report as to how they have assessed the prospects of the Company, 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 Company 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.

Responsibilities for the financial statements and the audit

What the Directors are responsible for:

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements which give a true and fair view.

What are we responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Alexander Langley
For and on behalf of Grant Thornton Limited
Chartered Accountants
St Helier, Jersey, Channel Islands
23 February 2017

Company Income Statement

Notes		Year ended 31 October 2016			Year ended 31 October 2015		
		Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
11(b)	Gains/(losses) on investments held at fair value through profit or loss	–	18,807	18,807	–	(452)	(452)
17	(Losses)/gains on foreign exchange transactions at fair value through profit or loss	–	(14,362)	(14,362)	–	1,338	1,338
3	Investment income	7,764	–	7,764	6,865	–	6,865
3	Investment income from subsidiary	1,061	–	1,061	1,088	–	1,088
4	Other operating income	2	–	2	1	–	1
	Total income	8,827	4,445	13,272	7,954	886	8,840
	Expenses						
5	Management and performance fees	(449)	(1,331)	(1,780)	(514)	(924)	(1,438)
6	Other expenses	(547)	–	(547)	(488)	–	(488)
	Profit/(loss) before finance costs and taxation	7,831	3,114	10,945	6,952	(38)	6,914
7	Finance costs	(173)	(173)	(346)	(139)	(139)	(278)
	Profit/(loss) before taxation	7,658	2,941	10,599	6,813	(177)	6,636
8	Taxation	(86)	–	(86)	(50)	–	(50)
	Profit/(loss) for the year	7,572	2,941	10,513	6,763	(177)	6,586
9	Earnings/(loss) per ordinary share	4.52p	1.75p	6.27p	4.34p	(0.11)p	4.23p

The total column of this statement represents the Company's Income Statement, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All income is attributable to the equity shareholders of Henderson Diversified Income Limited.

The Company does not have any income, or expenses that is not included in the profit for the year and therefore the 'profit for the year' is also 'total comprehensive income for the year'.

Company Statement of Changes in Equity

Notes	Year ended 31 October 2016	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2015	109,891	39,862	528	(4,912)	145,369
	Total comprehensive income:					
	Profit from ordinary activities after taxation	–	–	2,941	7,572	10,513
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(8,505)	(8,505)
15	Issue of shares	10,390	–	–	–	10,390
	Total equity at 31 October 2016	120,281	39,862	3,469	(5,845)	157,767
Notes	Year ended 31 October 2015	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2014	87,847	39,862	705	(3,810)	124,604
	Total comprehensive income:					
	(Loss)/profit from ordinary activities after taxation	–	–	(177)	6,763	6,586
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(7,865)	(7,865)
15	Issue of shares	22,044	–	–	–	22,044
	Total equity at 31 October 2015	109,891	39,862	528	(4,912)	145,369

The notes on pages 45 to 59 form part of these financial statements.

Company Balance Sheet

Notes		At 31 October 2016 £'000	At 31 October 2015 £'000
	Non current assets		
11(a)	Investments designated at fair value through profit or loss	–	117,940
	Investment in subsidiary at fair value through profit or loss	–	44,598
		–	162,538
	Current assets		
11(a)	Investments designated at fair value through profit or loss	134,367	–
	Investment in subsidiary at fair value through profit or loss	45,911	–
12	Other receivables	4,291	4,095
	Cash and cash equivalents	951	350
		185,520	4,445
	Total assets	185,520	166,983
	Current liabilities		
13	Other payables	(3,032)	(2,437)
	Bank loan (net of issue costs)	(24,721)	(19,177)
	Total assets less current liabilities	157,767	145,369
	Net assets	157,767	145,369
	Equity attributable to equity shareholders		
15	Stated capital	120,281	109,891
16	Distributable reserve	39,862	39,862
	Retained earnings:		
17	Other capital reserves	3,469	528
	Revenue reserve	(5,845)	(4,912)
	Total equity	157,767	145,369
18	Net asset value per ordinary share	89.71p	88.36p

The financial statements were approved by the Board of Directors and authorised for issue on 23 February 2017 and were signed on its behalf by:

Ian Wright
Director

Nigel Robert Parker
Director

Company Cash Flow Statement

	At 31 October 2016 £'000	At 31 October 2015 £'000
Operating activities		
Net profit before tax	10,599	6,636
Interest payable	346	278
(Gains)/losses on investments held at fair value through profit or loss	(18,807)	452
Losses/(gains) on foreign exchange transactions at fair value through profit or loss	14,362	(1,338)
Payments on settlement of forward foreign exchange contracts	(13,531)	–
Amortisation of loan expenses	–	10
Increase in prepayments and accrued income	(618)	(1,338)
Increase/(decrease) in other creditors	605	(355)
Purchases of investments	(78,471)	(97,956)
Sales of investments	79,011	60,999
Drawdown of loan to subsidiary	(22,050)	(12,850)
Repayments of loan to subsidiary	23,300	21,151
Interest from subsidiary	(1,061)	(1,088)
Decrease/(increase) in sales for settlement debtor	424	(414)
(Increase)/decrease in purchase settlement creditor	(503)	1,543
Net cash outflow from operating activities before finance costs	(6,394)	(24,270)
Interest paid	(346)	(278)
Taxation on investment income	(66)	(65)
Net cash outflow from operating activities	(6,806)	(24,613)
Financing activities		
Equity dividends paid	(8,505)	(7,865)
Issue of ordinary shares	10,390	22,044
Net drawdown of loans	5,544	9,220
Net cash inflow from financing	7,429	23,399
Increase/(decrease) in cash and cash equivalents	623	(1,214)
Cash and cash equivalents at start of the year	350	482
Exchange movements	(22)	1,082
Cash and cash equivalents at the year end	951	350

The notes on pages 45 to 59 form part of these financial statements.

Notes to the Financial Statements

1 General information

The entity is a closed-ended company, registered as a no par value company under the Companies (Jersey) Law 1991, with its shares listed on the London Stock Exchange.

The Company was incorporated on 5 June 2007.

As reported in the previous year these Company only financial statements have been presented because the Company is at present, assessed to meet the definition of an Investment Entity and accordingly it is prohibited from consolidating the subsidiary in order to produce International Financial Reporting Standard ('IFRS') compliant consolidated accounts.

2 Accounting policies

a) Basis of preparation

This financial information for the year ended 31 October 2016 has been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. 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 International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRSs have been adopted by the European Union ('EU').

As announced in December 2016, the Directors will put forward to shareholders a proposal to place the Company into a Jersey Summary Winding Up ('JSWU') and transfer existing shareholdings and assets across to a new UK domiciled company. The proposals will be voted on by shareholders in April 2017. The Directors believe that shareholders will resolve to pass the appropriate resolutions to place the Company into a JSWU at this point. Therefore these financial statements have been prepared on a non-going concern basis.

The principal accounting policies adopted are set out below. Where consistent with IFRSs the financial statements have also been prepared in accordance with the guidance set out in the Statement of Recommended Practice ('SORP') for the Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued in November 2014.

Standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted by the Company are:

IFRS 9: Financial Instruments – Classification and Measurement (effective for annual financial periods beginning on or after 1 January 2018)

IFRS 15: Revenue from Contracts with Customers (effective for annual financial periods beginning on or after 1 January 2018)

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Company in future periods.

b) Application of IFRS 10 Consolidated Financial Statements ('IFRS 10')

From 1 January 2014 entities that meet the definition of an Investment Entity within IFRS 10 are required to account for most investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. Subsidiaries that provide investment related services or engage in permitted investment related activities continue to be consolidated. The criteria which define an Investment Entity are as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

Further narrow scope amendments were issued in December 2014, Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 Disclosures of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures), to clarify the application of the standard in respect of Investment Entities. The amendments which clarify the initial standard are effective for annual periods beginning on or after 1 January 2016, with early application being permitted.

It was concluded in the previous year that the Company meets the definition of an Investment Entity and that the subsidiary should be excluded from consolidation to comply with IFRS 10. The Company has no other subsidiaries so it no longer prepares consolidated accounts. These accounts now represent company only financial statements.

c) Significant accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements; however, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future. As the majority of the Company's financial assets are quoted securities, in the opinion of the Directors, the amounts included as assets and liabilities in the financial statements are not subject to significant judgements, estimates or assumptions other than explained below.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

As set out on the previous page, the Directors have considered that the financial statements should be prepared on a non-going concern basis. The costs anticipated with the liquidation and reconstruction are expected to total approximately £570,000. A significant proportion of these costs relate to the start up costs of the new UK company and only approximately £150,000 relate to the Company. It has therefore been considered that the costs associated directly with the Company are not material to the financial statements and no provision has been made in these financial statements for these costs. Any costs associated directly with the reconstruction will be charged to capital reserves.

The Directors consider that the proposed wind up of the Company has no material impact on the valuation of the Company's investments or other assets and liabilities and therefore the assets are measured in the Balance Sheet at fair value and liabilities are measured at amounts expected to be paid.

As the financial statements are prepared on a non-going concern basis, all assets and liabilities have been classified as current assets and liabilities in the current year.

d) Investments designated at fair value through profit or loss

All investments are designated upon initial recognition as held at fair value through profit or loss. This is consistent with the Company's investment strategy and fair value information about these investments is provided to the Board. Assets are recognised at the trade date of acquisition and 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 at the Company Balance Sheet date, without deduction of the estimated future selling costs.

Fair value for quoted investments represents the bid-market value as at the close of business on the Company Balance Sheet date. Fair value for unquoted investments or where a market value is not readily available is based on Henderson's assessment of the value of the investment. Overseas investments are translated into sterling at the exchange rate ruling at the year end.

Changes in the fair value of investments designated at fair value through profit or loss and gains and losses on disposal are recognised in the profit or loss as 'Gains/(losses) on investments designated 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.

e) Interest in subsidiary

Interest in the subsidiary is accounted for at fair value through profit or loss. Fair value is estimated based on the fair value of the net assets held by the subsidiary adjusted where market evidence exists that a different value should be used such as a substantial discount or premium between the Company's share price and the aggregate net asset value of the Group.

f) Income

Income from fixed interest securities is recognised using the effective interest rate method. Income from equity securities is recognised on an ex-dividend basis. Bank interest and premiums on credit default swaps are recognised on an accruals basis within the revenue return column of the Company Income Statement. In the event of a default, the income for the relevant period is allocated to capital to reduce the capital loss arising. The interest rates differential contained within currency forward exchange contracts that hedge investment positions against currency risk are recognised within the revenue return, to the extent they are material, over the life of the contract.

g) Expenses

All administration expenses and interest payable are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are charged to the capital column of the Company Income Statement and allocated to capital reserves. On the basis of the Board's expected long term split of returns equally between capital gains and income, the Company charges 50% of investment management fees and finance costs to capital. Any performance fees payable are allocated wholly to capital.

h) Taxation

The Company is subject to income tax at a rate of 0%. The States of Jersey introduced a Goods and Services Tax ('GST') with effect from 6 May 2009. The Company does not suffer any irrecoverable GST as it has applied to the Comptroller of Income Tax for inclusion on the list of 'International Services Entities' of its administrator pursuant to the Goods and Services Tax (Jersey) Law 2007 and payment of the relevant application fees. The tax expense represents irrecoverable withholding tax suffered.

In Luxembourg the subsidiary suffers taxation on net gains on investments and on income.

i) Foreign currency

The results and financial position of the Company is expressed in pounds sterling, which is the functional currency of the Company because it is the currency of the primary economic environment in which the Company operates. Sterling is the currency by which dividends are returned to shareholders, share buy-backs and share issues are conducted and is the cost base of the Company.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Transactions recorded in overseas currencies during the period are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the Company Balance Sheet date are translated into sterling at the exchange rates ruling at that date.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits excluding bank loans. Cash equivalents have a term of three months or less, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risks of changes in value.

k) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds are received, net of direct issue costs. After initial recognition bank loans and overdrafts are subsequently measured at amortised cost. Finance costs, including direct issue costs and interest payable on settlement or redemption, are accounted for on an accruals basis in the Company Income Statement 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.

Gains and losses are recognised through profit or loss when the loans are derecognised, as well as through the amortisation process. The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

l) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business.

Under IFRS 8 Operating Segments, operating segments are considered to be the components of an entity, about which separate financial information is available, which are evaluated regularly by the chief operating decision-maker (the Fund Managers, with oversight from the Directors) in deciding how to allocate resources and in assessing performance. The Directors meet regularly to consider investment strategy and to monitor the Company's performance. The Fund Managers, who have been appointed to manage the Company's investments, attend all Board meetings at which investment strategy and performance are discussed.

The Directors consider that the Company is organised into one operating segment which invests in equity securities, debt instruments and related derivatives. All of the Company's activities are interrelated and each activity is dependent on the others.

m) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Changes in the fair value of derivative financial instruments are recognised in the Company Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Company Income Statement.

n) Equity and reserves

Stated capital represents the total proceeds of shares that have been issued net of issue costs. The distributable reserve was created by a reduction in the stated capital as explained in more detail on page 57. Retained earnings includes all current and prior period retained profits.

The following are accounted for in the 'Capital reserve arising on investments sold':

- Expenses and finance costs charged to capital net of tax relief;
- Gains and losses on the disposal of investments;
- Realised foreign exchange differences of a capital nature; and
- Costs of repurchasing ordinary share capital.

The following are accounted for in the 'Capital reserve arising on revaluation of investments held':

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

o) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid. Dividends paid are disclosed in the Statement of Changes in Equity.

Notes to the Financial Statements (continued)

3 Investment income

	2016 £'000	2015 £'000
Income from investments:		
Dividend income	615	521
Bond and loan interest	6,972	5,991
Premiums on credit default swaps	177	353
	7,764	6,865
Investment income from subsidiary	1,061	1,088
	8,825	7,953

4 Other operating income

	2016 £'000	2015 £'000
Bank and other interest	2	1
	2	1

5 Management and performance fees

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Investment management fee	449	449	898	514	514	1,028
Performance fee	–	882	882	–	410	410
	449	1,331	1,780	514	924	1,438

A summary of the terms of the management agreement is given in the Strategic Report on page 4.

6 Other expenses

	2016 £'000	2015 £'000
Directors' fees	140	109
Auditors remuneration*	35	32
Bank and custody charges	12	12
Administration and company secretarial services	113	120
Registrars' fees	37	24
Stock exchange fees	37	17
Printing and stationery	30	14
Other expenses	143	160
	547	488

*In addition, the Company's Auditors are paid £5,000 for the audit of the subsidiary (2015: £5,000) and £nil for tax services for the subsidiary (2015: £2,000). These are recognised as an expense in the subsidiary's financial statements.

7 Finance costs

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
On bank loans and overdrafts payable within one year	173	173	346	139	139	278

Notes to the Financial Statements (continued)

8 Taxation

	2016			2015		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
The taxation charge for the year is comprised of the following:						
Foreign withholding tax suffered	86	–	86	50	–	50
	86	–	86	50	–	50

Profits arising in the Company for the year ended 31 October 2016 are subject to Jersey income tax at the rate of 0% (2015: 0%).

9 Earnings/(loss) per ordinary share

The earnings per ordinary share figure is based on the net profit for the year after taxation of £10,513 million (2015: profit of £6,586 million) and on 167,684,633 (2015: 155,631,014) 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.

	2016 £'000	2015 £'000
Net revenue profit	7,572	6,763
Net capital profit/(loss)	2,941	(177)
Net total profit	10,513	6,586
Weighted average number of ordinary shares in issue during the year	167,684,633	155,631,014
Revenue earnings per ordinary share	4.52p	4.34p
Capital earnings/(loss) per ordinary share	1.75p	(0.11)p
Total earnings per ordinary share	6.27p	4.23p

10 Dividends

Dividends on ordinary shares	Record date	Payment date	2016 £'000	2015 £'000
Fourth interim dividend – 1.35p	5 December 2014	31 December 2014	–	1,940
First interim dividend – 1.25p	6 March 2015	31 March 2015	–	1,909
Second interim dividend – 1.25p	5 June 2015	30 June 2015	–	2,002
Third interim dividend – 1.25p	4 September 2015	30 September 2015	–	2,014
Fourth interim dividend – 1.35p	4 December 2015	31 December 2015	2,247	–
First interim dividend – 1.25p	4 March 2016	31 March 2016	2,081	–
Second interim dividend – 1.25p	3 June 2016	30 June 2016	2,081	–
Third interim dividend – 1.25p	2 September 2016	30 September 2016	2,096	–
			8,505	7,865

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 October 2016.

The table below sets out the total dividends paid and to be paid in respect of the financial year and previous year. The revenue available for distribution by way of dividend for the year is £7,572 million (2015: £6,763 million).

	2016 £'000	2015 £'000
First interim dividend for 2016 – 1.25p (2015: 1.25p)	2,081	1,909
Second interim dividend for 2016 – 1.25p (2015: 1.25p)	2,081	2,002
Third interim dividend for 2016 – 1.25p (2015: 1.25p)	2,096	2,014
Fourth interim dividend for 2016 – 1.35p (paid 31 December 2016 with a record date of 2 December 2016) (2015: 1.35p)	2,374	2,247
	8,632	8,172

Notes to the Financial Statements (continued)

11 (a) Investments designated at fair value through profit or loss and interests in subsidiary

	Listed Investments £'000	Interests in subsidiary £'000	2016 Total £'000	2015 Total £'000
Cost at beginning of the year	116,952	46,435	163,387	133,621
Holding gains/(losses) at the beginning of the year	988	(1,837)	(849)	(1,204)
Valuation at the beginning of the year	117,940	44,598	162,538	132,417
Movements in the year				
Purchases at cost/drawdowns	76,851	22,050	98,901	110,407
Sales – proceeds/repayments	(77,547)	(23,300)	(100,847)	(81,307)
Accrued interest in subsidiary	–	1,061	1,061	1,088
Realised (gains)/losses on sales of investments designated at fair value through profit or loss	2,722	–	2,722	(422)
Movement in holding (gains)/losses	14,401	1,502	15,903	355
Closing valuation at the end of the year	134,367	45,911	180,278	162,538
Cost at the end of the year	118,978	46,246	165,224	163,387
Holding gains/(losses)	15,389	(335)	15,054	(849)
Closing valuation of investments at the end of the year	134,367	45,911	180,278	162,538

(b) Gains/(losses) on investments held at fair value through profit or loss and interests in subsidiary

	2016 £'000	2015 £'000
Realised gains/(losses) on sales of investments designated at fair value through profit or loss	2,722	(422)
Movement in investment holdings gains designated at fair value and interests in subsidiary	15,903	355
Gains/(losses) on credit default swaps held at fair value through profit or loss	182	(385)
	18,807	(452)

(c) Transaction costs

During the year expenses amounting to £20,000 (2015: £21,000) were incurred in acquiring or disposing of investments designated at fair value through profit or loss. These have been expensed through capital and are included within gains on investments at fair value through profit or loss in the Statement of Comprehensive Income.

(d) Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Diversified Income Luxembourg s.a.r.l. This is a limited liability company, registered under the laws of the Grand Duchy of Luxembourg and was incorporated on 1 August 2007.

In addition, the Company has provided the subsidiary with a revolving credit facility of £200 million up to 2030 with interest on the facility set at Libor plus 2.00%. There are no restrictions on cash and no commitments unless otherwise disclosed.

The Company allocates a portion of its net assets so the subsidiary can take advantage of opportunities to invest in secured loans to predominantly European issuers that would attract withholding taxes if held by the Company.

12 Other receivables

	2016 £'000	2015 £'000
Amounts due from brokers	221	645
Prepayments and accrued income	3,562	2,944
Withholding tax recoverable	–	20
Credit default swaps held at fair value through profit or loss	508	173
Currency forward exchange contracts held at fair value through profit or loss	–	313
	4,291	4,095

Notes to the Financial Statements (continued)

13 Other payables

	2016 £'000	2015 £'000
Amounts due to brokers	1,040	1,543
Other payables	1,499	894
Currency forward exchange contracts held at fair value through profit and loss	493	–
	3,032	2,437

14 Risk management policies and procedures

As an investment company, the Company invests in equities and other investments for the long term so as to secure its investment objective as stated on page 4. In pursuing its investment objective, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks: market risk (comprising market price risk, currency risk and interest rate risk), credit risk, liquidity risk and gearing, and the Directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board and Henderson coordinate 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, exchange-traded derivatives and over the counter ('OTC') derivatives contracts with connectivity to third party affirmation and trade repository services;
- Portfolio modelling 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; and
- The IT tools to which the Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
 - Charles River Compliance module for investment restrictions monitoring;
 - Arc Logics operational risk database;
 - Riskmetrics for VaR statistics, stress-testing and back-testing;
 - UBS Delta, Style Research, Finanalytica and Barra Aegis for market risk measurement;
 - Bloomberg for market data and price-checking;
 - HiPortfolio for portfolio holdings and valuations; and
 - Markit system for secured loans.

These are supplemented by in-house systems: derivatives risk and compliance database ('DRAC') and counterparty exposure ('CER') reports.

14.1 Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises currency risk (see Note 14.2), interest rate risk (see Note 14.3) and other price risk (see Note 14.4). The Board reviews and agrees policies for managing these risks. 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.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.2 Currency risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the functional currency of the Company, and in which the Company reports its results). As a result, movements in exchange rates may affect the sterling value of those items.

Management of the risk

Forward currency contracts are used to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are used to achieve the portfolio characteristics that assist the Company in meeting its investment objective. These contracts are limited to currencies and amounts equivalent to the asset exposure to those currencies.

Income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Foreign currency exposure

The currency exposure of the Company's monetary items at 31 October are shown below. Where the Company's investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure. The subsidiary carries no significant foreign currency exposure.

	2016		2015	
	US\$ £'000	Euro £'000	US\$ £'000	Euro £'000
Investments designated at fair value through profit or loss	68,908	11,147	30,798	13,089
Receivables (due from brokers, dividends and other income receivables)	1,350	693	603	742
Cash at bank and on deposit	16	17	29	31
Payables (due to brokers, accruals and other creditors)	(1,399)	(134)	(1,393)	–
Forward currency sales	(69,922)	(11,660)	(29,945)	(13,429)
Credit default swaps	4	504	7	166
Total net foreign currency exposure	(1,043)	567	99	599

The above amounts are not necessarily representative of the exposure to risk during the year as levels of monetary foreign currency exposure change significantly throughout the year.

Foreign currency sensitivity

A 10% increase or decrease in the Euro/Sterling exchange rate would increase or decrease total equity by £0.057 million. A 10% increase or decrease in the US/Sterling exchange rate would increase or decrease total equity by £0.104 million.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.3 Interest rate risk

Interest rate movements may affect:

- the fair value of fixed interest securities (bonds, loans and interest rate futures);
- the level of income receivable from fixed interest securities and cash at bank and on deposit; and
- the interest payable on the Company's variable rate borrowings.

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

The Company, generally, will not hold significant cash balances, with short term borrowings being used when required.

The Company had no interest rate futures in place at 31 October 2016 (2015: none).

Interest rate exposure

The exposure at 31 October 2016 of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates – when the interest rate is due to be re-set; and
- fixed interest rates – when the financial instrument is due for repayment.

	2016				2015			
	Within one year £'000	One to five years £'000	More than five years £'000	Total £'000	Within one year £'000	One to five years £'000	More than five years £'000	Total £'000
Exposure to floating interest rates:								
Investments designated at fair value through profit or loss	37,101	–	–	37,101	48,812	–	–	48,812
Interests in subsidiary	45,911	–	–	45,911	44,598	–	–	44,598
Interest on intercompany loan	1,061	–	–	1,061	1,088	–	–	1,088
Cash and cash equivalents	951	–	–	951	350	–	–	350
Bank loan	(24,721)	–	–	(24,721)	(19,177)	–	–	(19,177)
	60,303	–	–	60,303	75,671	–	–	75,671
Exposure to fixed interest rates:								
Investments held at fair value through profit or loss	–	11,314	85,952	97,266	–	13,791	42,829	56,620
	–	11,314	85,952	97,266	–	13,791	42,829	56,620

At 31 October 2016, the Company had gross nominal exposure to interest rate futures and swaps to the value of £nil (2015: £nil).

Interest receivable is at the following rates:

- Interest received on cash balances, or paid on bank overdrafts and loans, is at margin over Libor or its foreign currency equivalent; and
- The weighted average effective interest rate of the Company's investments is 6.4% (2015: 6.7%).

Interest rate sensitivity

The Company's investment portfolio (excluding equities) at 31 October 2016 including those held through the subsidiary, was valued at £179.684 million (2015: £155.721 million) and has a modified duration (interest rate sensitivity) of approximately 5.8 years (2015: 4.6 years). A 100 basis point change in short term interest rates (up or down), which is mirrored by an equivalent change in long term rates, would be expected to decrease or increase this portfolio's return by approximately £10.422 million (2015: £7.163 million) in total over the remaining years, all other factors being equal.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.4 Other price risk

In addition to foreign currency and interest rate risk, the Company is also exposed to other price risk due to short term market price changes and default risk. A 10% increase or decrease in market prices would increase or decrease total return net profit after tax and shareholders' funds by £17.920 million (2015: £16.148 million) (equivalent to an increase or decrease in net asset value per share of 11.4% (2015: 11.1%)).

	2016 £'000	2015 £'000
Increase by 10%		
Market value	18,028	16,254
Management fee	(108)	(106)
	17,920	16,148
Decrease by 10%		
Market value	(18,028)	(16,254)
Management fee	108	106
	(17,920)	(16,148)
	11.4%	11.1%

14.5 Liquidity risk

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

Management of the risk

Liquidity risk is monitored by Henderson on a daily basis to ensure financial liabilities can be paid as they fall due. Both the corporate bond portfolio and the loan portfolio although traded over the counter, should be able to be realised at or around the prevailing bid prices. The corporate bond portfolio is generally considered more liquid than the loan portfolio. The Company also has a multicurrency loan facility with Scotiabank of £45.5 million (£30.5 million with an additional £15.0 million commitment being available) (2015: £30.5 million with an additional £15.0 million commitment being available), of which £24.721 million was drawn down at 31 October 2016 (2015: £19.177 million). This facility was renewed in August 2016 and is due to expire on 14 August 2018. The interest rate currently charged on the loan is 0.925% above Libor. The facility between Scotiabank and the Company is secured by a first priority security interest over all the assets of the Company. Scotiabank is aware of the proposals to enter the Company into a JSWU and transfer existing shareholdings and assets across to a new UK company. As the Company's lender it has agreed in principle to transfer the existing loan facility to the new company once the necessary shareholder approvals have been obtained. In the event that the proposals are not passed by shareholders there will be no change to the existing Scotiabank loan facility.

The Board gives guidance to Henderson 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 be used to manage short term cash requirements.

Liquidity risk exposure

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

	At 31 October 2016				At 31 October 2015			
	3 months or less £'000	More than 3 months, less than one year £'000	More than one year £'000	Total £'000	3 months or less £'000	More than 3 months, less than one year £'000	More than one year £'000	Total £'000
Current liabilities								
Amounts due to brokers, accruals and tax payable	3,032	–	–	3,032	2,437	–	–	2,437
Interest accrual on Bank Loan	24	–	–	24	22	–	–	22
Interest accrual on maturity of credit default swaps	–	5	1,608	1,613	–	–	474	474
Bank loan	–	24,721	–	24,721	–	19,177	–	19,177
	3,056	24,726	1,608	29,390	2,459	19,177	474	22,110

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

The asset maturity of the bond portfolio as at 31 October was as follows:

	Value as at 31 October 2016					
	Less than 5 years £'000	More than 5 years, less than 10 years £'000	More than 10 years, less than 20 years £'000	More than 20 years £'000	Perpetuity £'000	Total £'000
High yield bonds	7,823	49,143	8,765	1,630	15,152	82,513
Investment grade bonds	3,492	3,397	2,288	22,640	15,372	47,189
Asset backed securities	–	–	–	1,322	–	1,322
Interests in subsidiary	–	–	45,911	–	–	45,911
Total	11,315	52,540	56,964	25,592	30,524	176,935

	Value as at 31 October 2015					
	Less than 5 years £'000	More than 5 years, less than 10 years £'000	More than 10 years, less than 20 years £'000	More than 20 years £'000	Perpetuity £'000	Total £'000
High yield bonds	15,950	26,163	8,779	1,597	22,488	74,977
Investment grade bonds	–	2,110	–	18,122	9,414	29,646
Asset backed securities	–	–	–	1,190	–	1,190
Interests in subsidiary	–	–	44,598	–	–	44,598
Total	15,950	28,273	53,377	20,909	31,902	150,411

Please refer to Note 11d) on page 50 for details on the interests in the subsidiary.

14.6 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 significant, and is managed as follows:

- where Henderson makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to determine the risk to the Company of default;
- investments in bonds and loans are made across a variety of industry sectors and geographical markets, so as to avoid concentrations of credit risk;
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by 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 (currently BNP Paribas Securities Services (London) and Scotiabank Europe PLC whose credit ratings are A1 and Aa2 respectively).

Credit derivatives are used as a way of managing the aggregate credit exposure of the Company without buying or selling a physical bond/loan. The primary credit derivatives used are credit default swaps.

To the extent that the credit derivative exposure is not covered by cash held by the Company then any net long exposure would act as synthetic gearing. Credit default swaps are used by Henderson for two purposes. By selling protection (going long risk) Henderson can increase the Company's exposure to a particular reference entity. In return for taking this credit risk the Company will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract (e.g. default) in the intervening period. This reference entity may be a specific company, or in the case of ITRAXX indices, a basket of credit exposures, for example senior financials. At 31 October 2016, the gross exposure to single name credit default swaps and ITRAXX indices was £0.127 million and £7.013 million respectively (2015: £0.104 million and £1.954 million respectively).

The Company also has exposure of £7.140 million (2015: £2.058 million) in respect of credit default swaps where protection has been sold.

By contrast Henderson may buy protection (take a short risk position) on a reference entity to reduce the overall credit exposure. This would involve the payment of premium in order to protect against possible capital losses in the future. At 31 October 2016 the protection purchased was £nil (2015: £nil).

The credit quality of bonds and secured loans is reviewed in the Fund Managers' Report and Investment Portfolio on pages 8 and 9 and pages 10 to 12 respectively. None of the Company's financial assets are past due.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.7 Fair values of financial assets and financial liabilities

Financial assets and financial liabilities, are either carried in the Company Balance Sheet at their fair value (investments, interests in subsidiary and derivatives) or the Company Balance Sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals and cash at bank).

Current assets and current liabilities: forward currency sales are valued on the basis of exchange rates for a similar contract for the same residual duration, as provided by the counterparty. The amount of change in fair value for such forward exchange contracts recognised in the Company Income Statement for the year was a loss of £0.806 million (2015: gain of £1.280 million). The forward currency transactions serve to hedge back the value of Euro and US Dollar denominated securities to sterling.

Credit default swaps are fair valued. The amount of change in fair value recognised in the Company Income Statement for the year for credit default swaps was a gain of £0.032 million (2015: £0.224 million).

14.8 Fair value hierarchy disclosures

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

2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Investments	134,367	–	–	134,367
Interests in subsidiary	–	45,911	–	45,911
Credit default swaps	–	508	–	508
	134,367	46,419	–	180,786
Financial liabilities at fair value through profit or loss:				
Currency forward exchange contracts	–	(493)	–	(493)
	–	(493)	–	(493)
2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Investments	117,940	–	–	117,940
Interests in subsidiary	–	44,598	–	44,598
Credit default swaps	–	173	–	173
Currency forward exchange contracts	–	313	–	313
	117,940	45,084	–	163,024

There have been no transfers between levels of the fair value hierarchy during the period. Transfers between levels of fair value hierarchy are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

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

Level 1 – value using quoted prices in active markets for identical assets;

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1. The Company's interests in the subsidiary and holdings in credit default swaps are included within Level 2. Also included here are forward exchange contracts which have resulted in unrealised losses of £493,000 (2015: unrealised gains of £313,000); and

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 the accounting policies note on pages 45 to 47.

There were no transfers to or from Level 3 during the year.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.9 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it has sufficient capital to operate until the voluntary winding up; and
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The policy is that debt should be between 0% and 40% of equity.

The Company had borrowings totalling £24.721 million at 31 October 2016 (2015: £19.177 million).

As at 31 October 2016, the ratio of borrowings under the facilities was 15.7% (2015: 13.2%).

The Board with the assistance of Henderson monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing which takes into account the Fund Managers view on the market;
- the need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);
- the need for new issues of equity shares; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to the following externally imposed capital requirement:

- Under the multicurrency facility now in place, borrowings shall be repaid at any time the adjusted asset coverage falls below 3.3 times (as defined in the agreement) or the borrowings exceed such limits as prescribed in the Company's original prospectus.

The Company has complied with these requirements during the year.

15 Stated capital

	Authorised	2016		2015	
		Issued and fully paid	£'000	Issued and fully paid	£'000
Ordinary shares of no par value					
Opening balance at 1 November	Unlimited	164,518,240	109,891	140,281,726	87,847
Issued during the year		11,350,000	10,390	24,236,514	22,044
Closing balance at 31 October		175,868,240	120,281	164,518,240	109,891

The holders of ordinary shares are entitled to all the capital growth in the Company and all the income from the Company that is resolved by the Directors to be distributed. Each shareholder present at a general meeting has one vote on a show of hands and on a poll every member present in person or by proxy has one vote for each share held.

During the year, the Company issued 11,350,000 (2015: 24,236,514) shares for proceeds of £10,390,000 (2015: £22,044,000) net of costs.

16 Distributable reserve

	2016 £'000	2015 £'000
As at 31 October	39,862	39,862

The reserve was created by the reduction in stated capital which was confirmed by the Royal Court of Jersey on 11 October 2007. The reserve may be used for all purposes permitted by the Companies (Jersey) Law 1991, including the purchase of shares and the payment of dividends.

Notes to the Financial Statements (continued)

17 Capital reserves

2016	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 31 October 2015	(523)	1,051	528
Exchange movements	(809)	(13,553)	(14,362)
Movement in unrealised depreciation	15,903	–	15,903
Gains on investments	–	2,722	2,722
Costs charged to capital	–	(1,504)	(1,504)
Movement in credit default swaps	34	148	182
At 31 October 2016	14,605	(11,136)	3,469

2015	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 31 October 2014	(749)	1,454	705
Exchange movements	256	1,082	1,338
Movement in unrealised depreciation	355	–	355
(Losses) on investments	–	(422)	(422)
Costs charged to capital	–	(1,063)	(1,063)
Movement in credit default swaps	(385)	–	(385)
At 31 October 2015	(523)	1,051	528

18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net asset value attributable to ordinary shareholders at the 2016 year end of £157,767 million (2015: £145,369 million) and on 175,868,240 (2015: 164,518,240) ordinary shares, being the number of ordinary shares in issue at the year end.

19 Related party transactions

Directors' fees of £140,000 relating to the Company were paid during the year (2015: £109,000). A further £15,000 was paid in fees to the Directors of the subsidiary (2014: £15,000). Further details are given in the Directors' Remuneration Report on pages 28 to 29.

20 Contingent liabilities

There were no contingent liabilities as at 31 October 2016 (2015: none).

21 Subsequent events

Since the year end the Company has issued 3,700,000 shares for net proceeds of £3,371,955. As at 23 February 2017 the total number of shares in issue is 179,568,240. The Directors have evaluated the period since the year end and have not noted any other subsequent events.

The fourth interim dividend of 1.35p per share for the year-ended 31 October 2016 was declared on 24 November 2016. The dividend was paid on 31 December 2016 to shareholders on the register as at 2 December 2016. The shares were quoted ex-dividend on 1 December 2016.

On 23 February 2017 a first interim dividend of 1.25p per share was declared for the year ending 31 October 2017. The dividend will be paid on 31 March 2017 to shareholders on the register as at 3 March 2017. The shares will be quoted ex-dividend on 2 March 2017.

On 5 December 2016 the Company announced its intention to re-domicile subject to the necessary shareholder approval being obtained.

Notes to the Financial Statements (continued)

22 Transactions with Henderson

Under the terms of an agreement effective from 22 July 2014 (which replaced the agreement dated 15 June 2007 in order to reflect the appointment of an Alternative Investment Fund Manager in accordance with the requirements of the Alternative Investment Fund Managers Directive), the Company has appointed wholly owned subsidiaries of Henderson Group plc ('Henderson') to provide investment management services.

Details of the arrangements for these services are given on page 4 in the Strategic Report. The total of the fees paid or payable to Henderson under this agreement in respect of the year ended 31 October 2016 was £898,000 (2015: £1,028,000), of which £493,000 was outstanding at 31 October 2016 (2015: £350,000).

A performance fee is also payable to Henderson. The performance fee payable for the year ended 31 October 2016 amounted to £882,000 (2015: £410,000). This amount was outstanding at 31 October 2016 (2015: £410,000).

Henderson also provides the Company with sales and marketing services. The total fee payable for their services for the year ended 31 October 2016 amounted to £56,000 (2015: £66,500). As at 31 October 2016, £19,000 was outstanding (2015: £23,000).

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, as the Company's Alternative Investment Fund Manager ('AIFM') are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a Key Investor Information Document ('KIID') which can be found on the Company's website.

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 15) 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.

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 707 4040. Specially trained operators are available during normal business hours to answer queries via this service.

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 status

The Company currently conducts its affairs so that its ordinary shares of par value 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 as the Company's portfolio is wholly or predominantly made up of shares, debentures or government and public securities which are not themselves issued by other investment funds.

Performance details/share price information

Details of the Company's share price and NAV per share can be found on the website (www.hendersondiversifiedincome.com). The Company's NAV is published daily.

Shareholder details

Shareholders who hold their shares in certificated form can check their shareholding with the registrar, Computershare Investor Services (Jersey) Limited, via www.computershare.com. Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

Share price listings

The market price of the Company's ordinary shares is published daily in The Financial Times, which also shows figures for the estimated net asset value ('NAV') per share and discount.

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 very 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, Computershare, 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 15.

Henderson Diversified Income Limited
Registered as a closed-ended company under the Companies (Jersey) Law 1991
Registered Number 97669.
Registered Office: Liberté House,
19-23 La Motte Street, St Helier, Jersey JE2 4SY

SEDOL number: B1Y1NS4
ISIN number: Ordinary Shares: JE00B1Y1NS49
London Stock Exchange (TIDM) Code: HDIV
Global Intermediary Identification Number (GIIN): MAZ4WI.999999.SL.832
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