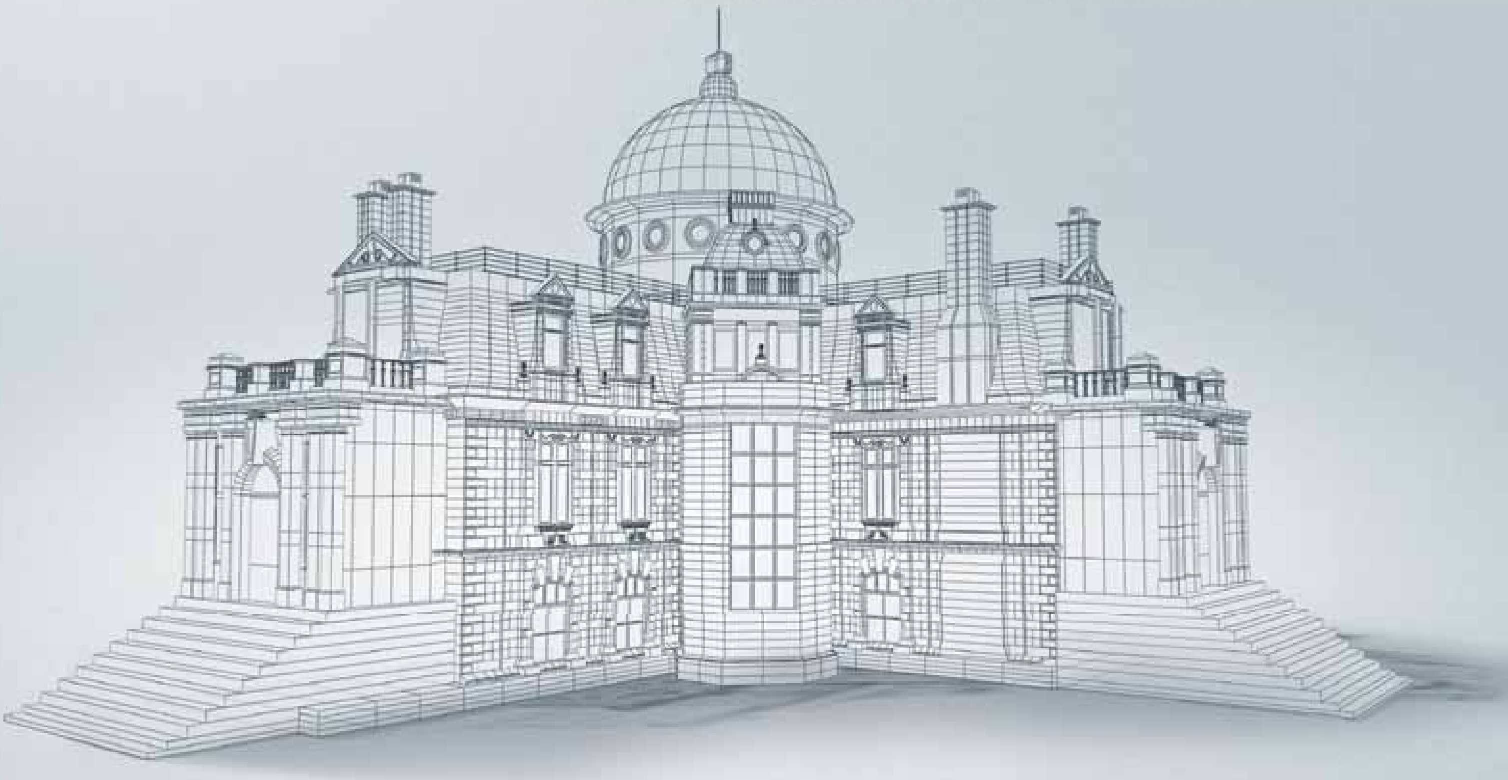
HENDERSON HIGH INCOME TRUST PLC

Annual Report 2018



INVESTMENT WEEK
INVESTMENT COMPANY OF THE YEAR AWARDS 2017
WINNER
UK EQUITY & BOND INCOME
HENDERSON HIGH INCOME

moneywise Investment Trust awards 2017
WINNER
UK EQUITY & BOND INCOME
Henderson High Income

MANAGED BY
Janus Henderson
INVESTORS

Contents

The image on the front cover is based on the Greenwich Royal Observatory, London.

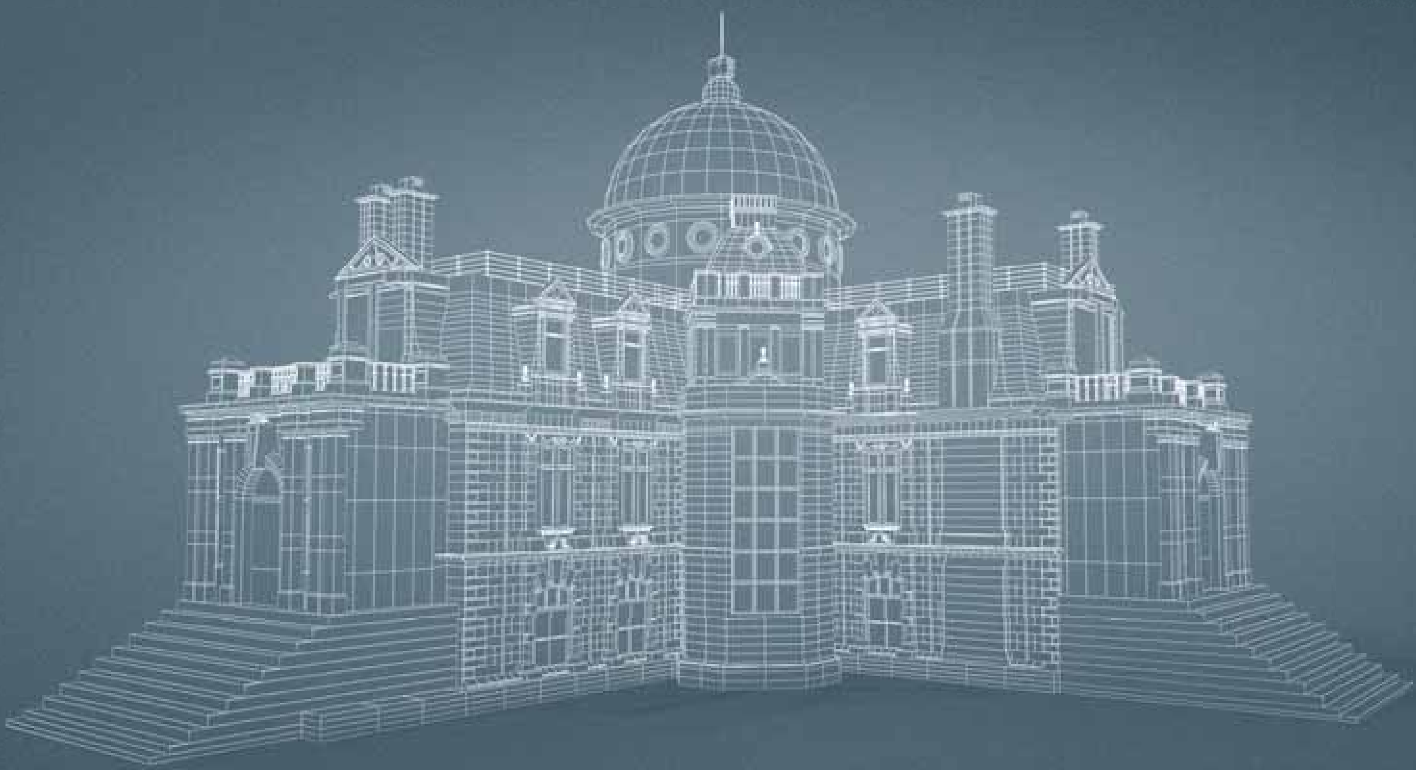
Strategic Report

Investment objective

The Company invests in a prudently diversified selection of both well-known and smaller companies to provide investors with a high dividend income stream while also maintaining the prospect of capital growth.

Investment strategy

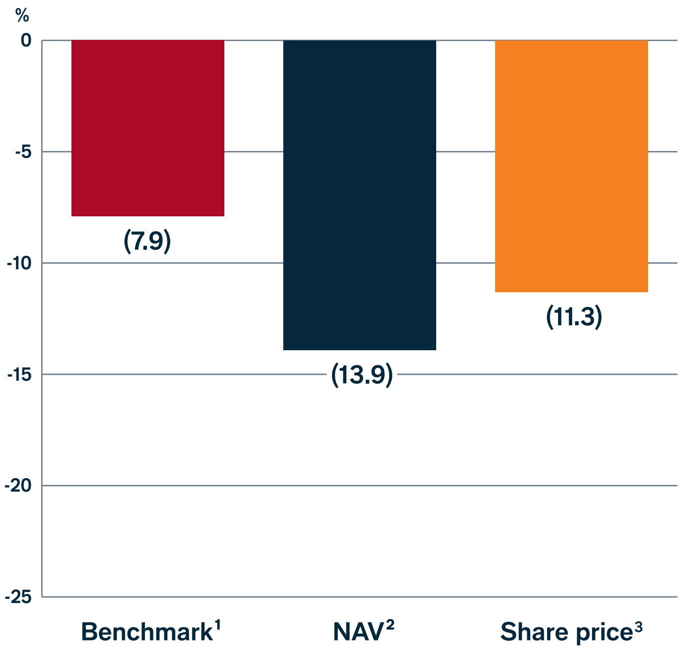
The selection process seeks to identify companies with strong balance sheets that are capable of paying dividends. There is a focus on well-managed companies whose qualities may have been temporarily overlooked and which offer potential for capital appreciation over the medium term.



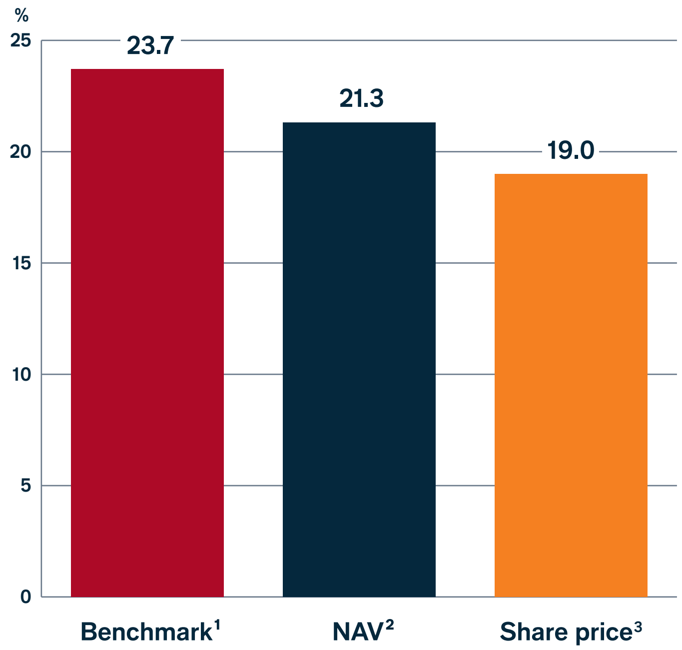
Strategic Report: Performance Highlights

Total return performance to 31 December 2018

One year

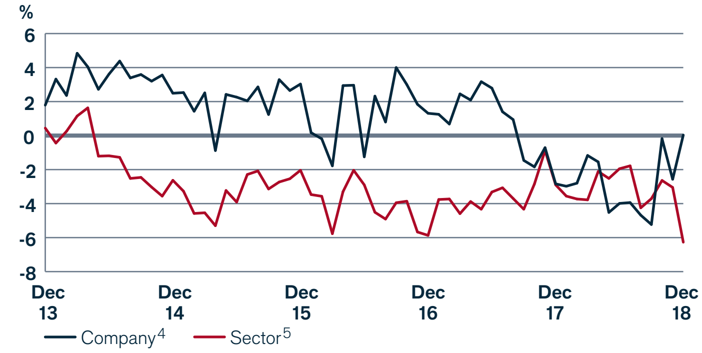


Five years

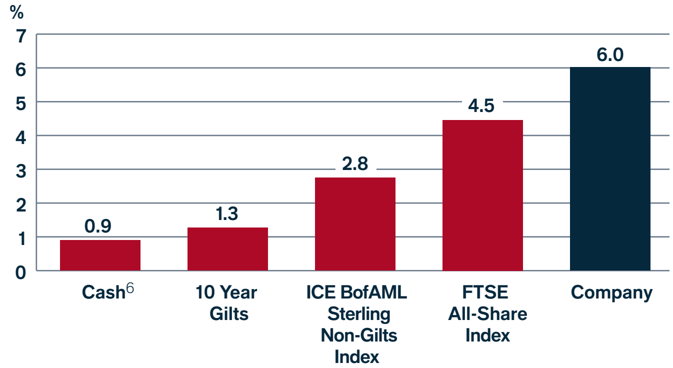


Premium/discount to 31 December 2018

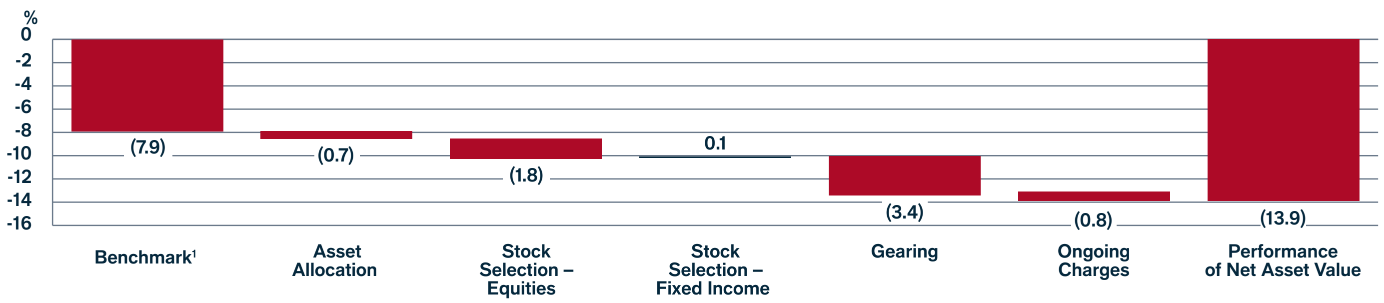
Five years



Income yield as at 31 December 2018



Attribution[7] – explanation of movement in net asset value (total return) in 2018



Strategic Report: Performance Highlights (continued)

NAV per share[8]

2018 **159.46p**

2017 **195.65p**

Mid-market price per share

2018 **159.50p**

2017 **190.00p**

Revenue return per share

2018 **10.06p**

2017 **10.13p**

Net assets

2018 **£210.8m**

2017 **£257.2m**

Dividend for the year

2018 **9.60p**

2017 **9.40p**

Dividend yield[9]

2018 **6.0%**

2017 **4.9%**

Ongoing charge for the year

2018 **0.80%**

2017 **0.75%**

Gearing

2018 **27.1%**

2017 **21.0%**

1 The benchmark is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return) rebalanced annually
2 Net asset value per share total return (including dividends reinvested and excluding transaction costs) with debt at fair value
3 Includes dividends reinvested
4 Premium/discount based on net asset value with debt at fair value
5 The AIC Equity and Bond Income sector
6 Cash based on 3 month LIBOR
7 Geometric returns
8 Net asset value with debt at fair value as published by the AIC
9 Based on the dividends paid or recommended for the year and the share price at the year end

A glossary of terms and alternative performance measures can be found on pages 21 and 22

Sources: Morningstar for the AIC, Janus Henderson, DataStream and AIC. All data is either as at 31 December 2018 or for the year ended 31 December 2018

Strategic Report: Business Model

Investment objective

The Company invests in a prudently diversified selection of both well-known and smaller companies to provide investors with a high dividend income stream while also maintaining the prospect of capital growth.

Investment policy

The majority of the Company's assets will be invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. In normal circumstances the Company will invest at least 80% of its gross assets in shares (equity securities) and fixed interest securities of companies of any size, that are either listed in, registered in, or whose principal business is in the UK. A maximum of 20% of gross assets may be invested outside of the UK.

No single investment will exceed 15% of total gross assets at the time of investment and no more than 15% of gross assets may be invested in other listed investment companies (including investment trusts) or collective investment schemes.

The Company may from time to time use financial instruments known as derivatives for the purpose of efficient portfolio management or to generate additional income while maintaining a level of risk consistent with the risk profile of the Company.

Gearing

The Company has an active policy of using appropriate levels of gearing, both in the form of bank and longer term borrowings, to enhance income returns and also to achieve capital growth over time. A portion of gearing is usually employed with respect to the Company's fixed interest securities to generate additional income. The Company can borrow up to 40% of gross assets. The drawdown of floating rate borrowings can be in non-sterling currencies, provided that these borrowings do not exceed the value of non-sterling assets.

Investment strategy

The selection process seeks to identify companies with strong balance sheets that are capable of paying dividends. There is a focus on well-managed companies whose qualities may have been temporarily overlooked and which offer potential for capital appreciation over the medium term.

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 has been effective from 22 July 2014 and is terminable on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited, which acts as Manager. Both entities are wholly owned subsidiaries of Janus Henderson Group plc, referred to as Janus Henderson. Both entities are authorised and regulated by the Financial Conduct Authority. References to Janus Henderson and the Manager within this Annual Report refer to the services provided by both entities.

The Fund Management Team is led by David Smith, a Fund Manager on the Global Equity Income Team at Janus Henderson, a position he has held since 2008. David has been the Company's Fund Manager since July 2015.

Janus Henderson and its subsidiaries provide accounting, company secretarial and general administrative services. Some of the administration, accounting and cash management services are carried out, on behalf of Janus Henderson, by BNP Paribas Securities Services. Hannah Gibson ACIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

The Investment Management Agreement with Janus Henderson to provide the services referred to above is reviewed by the Board annually and provides for both a base management fee and a performance fee. Performance is measured over a single financial year.

Management fee

The base management fee is charged at 0.50% of adjusted average gross assets under £250 million; a reduced management fee of 0.45% is applied to average adjusted gross assets above £250 million. This average value is calculated by using the values on the last day of each of the two calendar years preceding the reporting year.

Average adjusted gross assets are gross assets less current liabilities and less any Janus Henderson managed funds or Janus Henderson Group plc shares within the portfolio. Any debt used for investment purposes, including that recorded in current liabilities, is not deducted from gross assets.

The base management fee is payable quarterly in arrears.

In addition a supplemental base management fee is paid on any new funds in relation to share issues in the year they were raised, at the pro-rata annual rate. For the following year any funds raised are added to prior year assets for the purposes of calculating the base management fee.

Performance fee

Performance is measured by calculating the difference between the annual percentage change in net asset value per ordinary share and the benchmark equivalent. The benchmark is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return). A 1.0% hurdle is deducted from any relative outperformance before any performance fee can be paid.

A performance fee of 15.0% is awarded on this relative excess performance less the 1.0% hurdle and applied to the current year's average adjusted quarterly gross assets. The performance fee is subject to a cap of 0.40% of average adjusted gross assets in any one year calculated on a quarterly basis to determine the average. Any unrewarded outperformance above this cap is carried forward for a maximum of three years but may only be used to offset any underperformance and cannot in itself earn a performance fee.

Any underperformance relative to the benchmark will be carried forward and no performance fee will be payable until positive performance exceeds any past negative performance. The fees have been structured in this way so that shareholders will only pay a relatively low base management fee in any years of individual or cumulative underperformance.

Strategic Report: Chairman's Statement

The Chairman of the Board, Margaret Littlejohns, reports on the year to 31 December 2018

Performance

In last year's annual report, I anticipated that markets would continue to be volatile and capital returns more vulnerable in 2018. However, I had not foreseen the dramatic oscillations which occurred. The promising start to the year faltered quickly by the end of January as fears emerged that US interest rates would rise faster than expected. As I reported in my interim statement, the significant UK market falls recorded in the first quarter had reversed by the summer, with a return to positive territory. This trend, however, was short-lived. In the second half of the year attention turned to President Trump's trade war with China and the potential for increased monetary tightening in both the US and the UK. By the final quarter, the Federal Reserve had raised interest rates three times in the year and the Bank of England once, trade tariffs had been introduced by both China and the US and global growth expectations had reduced. This combination of factors resulted in a sharp sell-off in equity markets in the fourth quarter. 2018 ended as the worst year for global equities since the 2008 financial crisis and the FTSE All-Share Index fell by 9.5% on a total return basis. This was the fourth worst annual return for the UK market in 25 years.

As you would expect, given the Company's portfolio of predominantly UK equities, the Company has not been immune to these market gyrations. However, it is disappointing that the portfolio has declined by more than the Company's benchmark. For the full financial year ending 31 December 2018, the Company's net assets have fallen by 13.9% (with debt at fair value), compared to the 7.9% decline of the total annual return of the Company's benchmark. The year proved difficult for income fund managers to outperform with certain traditional income sectors, such as telecommunications, tobacco and financials, performing poorly, while the dramatic falls in the fourth quarter impacted the Company's medium and smaller sized companies. These factors, combined with the Company's gearing in a falling market, contributed substantially to the portfolio's underperformance in 2018. Encouragingly, the Company's net asset value has rebounded so far in 2019.

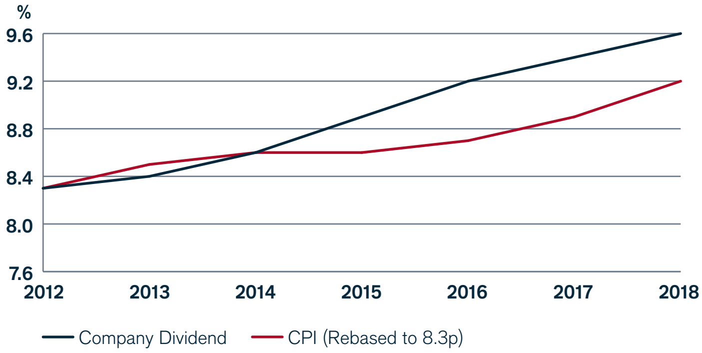
The Company's shares traded at a small discount to their net asset value (with debt at fair value) for most of the year as UK equities in general remained unloved by investors. The shares finished the year at par compared with the discount of 2.9% at the end of 2017, giving a share price total return of -11.3%.

Dividends

Despite the pessimistic market sentiment, 2018 was a record year for dividends from UK listed companies with nearly £100 billion of dividends (including specials) distributed to investors. Indeed the companies held within the portfolio continued for the most part to deliver solid financial performance and grow their profits, generating good underlying dividend growth. This resulted in healthy revenues for the Company with earnings per ordinary share totalling 10.06p compared to the previous year's 10.13p: the main cause of the difference in earnings per share was the slight drop in the receipt of special dividends from investments. The dividend yield on the Company's share price as at year end was 6.0%, considerably higher than the FTSE All-Share Index yield of 4.5%. We had sufficient confidence in the cash generation of the portfolio to increase the Company's third dividend for the financial year ending 31 December 2018 to 2.425p per share. We have announced the fourth dividend at the same level, making a total of 9.60p per share for 2018, representing growth of 2.1% on the previous year.

We have now steadily increased our annual total dividend for the last six years. Over this period the dividend growth has comfortably outstripped inflation (as measured by the Consumer Price Index ('CPI')).

The Company's dividend growth has been ahead of inflation



At the same time, we have managed to bolster our revenue reserves, thereby providing a cushion for more difficult periods that may lie ahead. It remains the Board's objective to increase the Company's dividend gradually, subject to investment conditions at the time and whether we determine such an increase to be sustainable in the future. To make this assessment, we monitor the level of income received by the Company, our investments' ability to grow dividends and the level of our own revenue reserves.

Investment portfolio

David Smith's Fund Manager Report provides more detail on the positioning of the portfolio and the various actions taken during the year. In light of the increased market volatility this year, the Board's strategy meeting in November focussed on different measures available to provide potentially greater protection from a fall in the capital value of the portfolio without significantly eroding future income. As a result of this assessment, the portfolio's allocation to fixed interest assets has been increased. At year end bonds had risen to 14% of the total portfolio from just over 10% at the end of

Strategic Report: Chairman's Statement (continued)

2017 and have since increased to about 15%. In particular, attractive opportunities have been identified from the higher quality investment grade borrowers of the US corporate bond market (BBB rated and above). The addition of such bonds further diversifies the Company's revenue stream and aims to reduce the overall risk in the portfolio. Half the purchases of US bonds were funded by borrowings in US dollars within the Company's existing multi-currency loan facility, thereby reducing an overall increase in the Company's exposure to the US dollar.

Gearing

Our policy on gearing is explained in our Investment Policy on page 4. We have in place a floating rate revolving credit facility of £45 million with Scotiabank with approximately £40 million currently utilised. The undrawn portion provides us with future flexibility should investment opportunities arise. This floating rate facility combined with the long term fixed rate unsecured note of £20 million helps to generate additional income and increase the Company's total return to shareholders. Our level of gearing has unusually risen to 27.1% as a result of the fall in capital value of the underlying assets during the market downturn in the fourth quarter. Although gearing has reduced so far in 2019, given the rise in the Company's assets, it is important to remember that nearly two thirds of the Company's borrowings now support the fixed interest holdings within the portfolio, with an average effective yield of 4.8%, well in excess of the Company's average cost of borrowing of 2.7%. The level of gearing allocated to equities is therefore considerably lower than the reported headline gearing figure.

Growth

We continue to believe that it is in the best interest of all our shareholders for the Company to increase and diversify its range of shareholders as this should with time increase the liquidity of the Company's shares and spread the Company's fixed costs over a larger capital base. As the Company's shares traded at a discount throughout most of 2018, we did not exercise the authority to allot shares at a premium to net asset value, as granted by shareholders at the last AGM. This authority is due to expire at the forthcoming AGM and we are therefore asking shareholders to renew this authority so that the Company can expand further if and when appropriate.

Succession planning

As I explained last year, the Board has already begun to execute its plan to refresh itself over the coming years, so that a younger Board (both in age and tenure) will be in place, with five new directors joining between 2016 and 2021. We have deliberately phased the introduction of new directors over this five-year time frame to ensure that the required mix of skills, experience and corporate knowledge is retained during this process and beyond. This succession plan complies with the new AIC Code of Corporate Governance issued in February 2019. Our succession plan includes five years of service by me as Chair, following my eight years as a non-executive director on the Board, with my retirement planned in May 2021, the year following the Company's continuation vote in 2020. The Board believes this plan continues to achieve a sensible balance between continuity and reinvigoration and is in the best interests of the Company.

Janet Walker who has served as Audit Committee Chair since June 2007 will be retiring from the Board at the forthcoming AGM. I would like to thank Janet for her significant contribution to the Board's discussions and for her wise counsel over the 12 years that she has been a member of the Board. She will be very much missed.

Janet will be succeeded by Jonathan Silver who was appointed to the Board from 2 January 2019. Jonathan, a Chartered Accountant, brings a wealth of financial and audit experience, having served as Chief Financial Officer of Laird plc for over 20 years until 2015 and currently as Chairman of the Audit Committee of Spirent Communications plc and Invesco Income Growth Trust plc.

Annual General Meeting

We look forward to seeing as many of you as possible at our AGM which will be held at 12 noon on 8 May 2019 at the offices of Janus Henderson at 201 Bishopsgate, London, EC2M 3AE. In addition to the formal business of the meeting, David Smith, our Fund Manager, will as usual give a presentation on the Company's portfolio and performance and you will have the opportunity to talk to the Board, David and other Janus Henderson representatives. We very much welcome your comments and questions. We encourage those of you who are unable to attend to use your proxy votes and to watch the Meeting live by logging on to **www.janushenderson.com/trustslive**. We will also be holding a similar presentation in Guernsey on 17 May 2019 to enable our newer Guernsey based shareholders to meet David and myself again.

Prospects and outlook

The global economic outlook is without doubt less optimistic than it appeared at the start of last year and recent news about China's dip in GDP growth in the fourth quarter of 2018 has cast longer shadows on the horizon. I have managed to avoid even mentioning Brexit so far and with good reason. It takes a braver, or more foolhardy, person than me to predict the outcome of the UK's potential withdrawal from the European Union or for that matter even its timing! Needless to say, domestic politics are adding to future uncertainty in the UK markets.

The shares of many companies with defensive characteristics are now trading on a low price to earnings ratio and some may provide appealing investment opportunities for the portfolio. There still exist high quality companies, with talented management teams that have the ability to generate consistently strong and dependable cash flows, resulting in healthy dividend pay-outs to investors regardless of these unpredictable times. We rely on David's research and active investment skills to select those investments that should provide capital appreciation over the long term and a high and sustainable income stream, valued understandably by our shareholders in this continuing low interest rate environment.

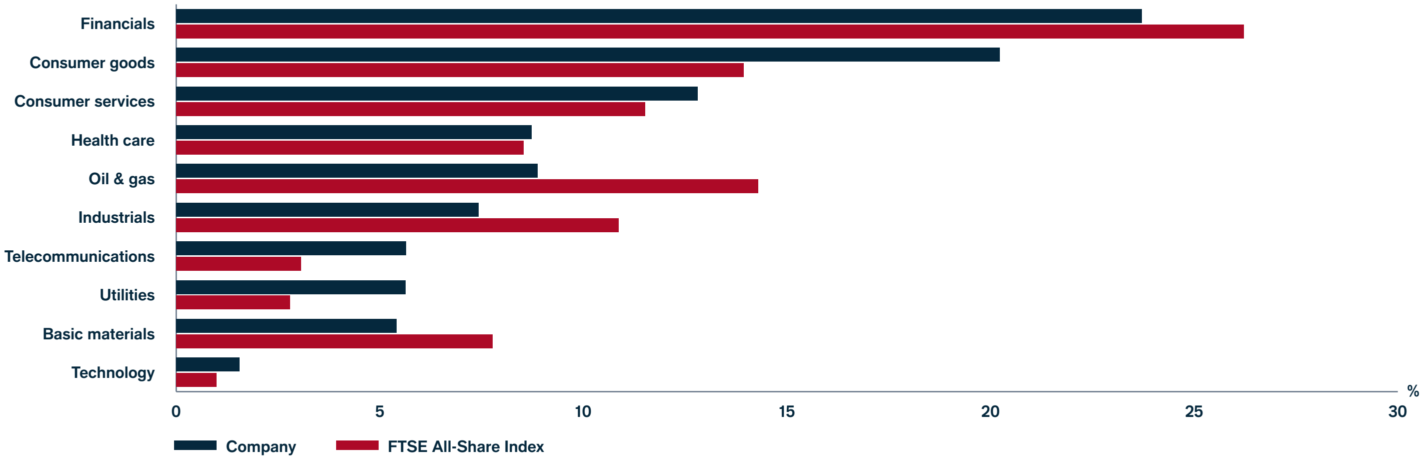
Strategic Report: Portfolio Information

Sector exposure at 31 December

Excluding cash

Sector	2018 £'000	2018 % of portfolio	2017 £'000	2017 % of portfolio
Preference shares	3,841	1.4	5,025	1.6
Other fixed interest	33,762	12.6	26,922	8.7
Total fixed interest	**37,603**	**14.0**	**31,947**	**10.3**
Financials	53,954	20.1	74,374	23.9
Consumer goods	48,166	18.0	56,670	18.2
Consumer services	29,483	11.0	41,039	13.2
Health care	20,094	7.5	16,590	5.3
Oil & gas	18,884	7.0	20,093	6.5
Industrials	17,788	6.7	17,526	5.6
Telecommunications	12,987	4.9	20,440	6.6
Utilities	12,963	4.8	15,068	4.8
Basic materials	12,469	4.7	14,433	4.6
Technology	3,575	1.3	3,115	1.0
Total equities	**230,363**	**86.0**	**279,348**	**89.7**
Total	**267,966**	**100.0**	**311,295**	**100.0**

Equity portfolio sector weightings at 31 December 2018



Ten largest investments at 31 December

Position	Company	Sector	2018 £'000	2018 % of portfolio	2017 £'000	2017 % of portfolio
1	Diageo	Consumer goods	10,687	4.0	10,923	3.5
2	Royal Dutch Shell	Oil & gas	10,545	3.9	11,304	3.6
3	GlaxoSmithKline	Health care	9,149	3.4	4,846	1.6
4	BP	Oil & gas	8,339	3.1	8,789	2.8
5	AstraZeneca	Health care	8,110	3.0	9,281	3.0
6	HSBC	Financials	6,709	2.5	8,943[1]	2.9
7	Imperial Brands	Consumer goods	6,557	2.5	7,910	2.6
8	Tesco	Consumer services	6,213[1]	2.3	5,669[1]	1.8
9	British American Tobacco	Consumer goods	6,201	2.3	12,446	4.0
10	Lloyds Banking	Financials	6,102[1]	2.3	7,556[1]	2.4
Total			**78,612**	**29.3**	**87,667**	**28.2**

[1] Includes fixed interest

Strategic Report: Investment Portfolio (continued)

Investments: Fixed Interest

PREFERENCE SHARES	Total 31 December 2018 £'000
General Accident 8.875%	1,040
Middlefield Canadian Income 7%	638
National Westminster Bank 9%	340
Nationwide Building Society 10.625%	1,823
Total preference shares	**3,841**
OTHER FIXED INTEREST	
Amazon.com 3.15% 2027 (USA)	455
American Tower Corp 3.6% 2028 (USA)	2,054
Aramark Services 5% 2028 (USA)	2,050
Ardagh Packaging Finance 4.75% 2027 (Ireland)	1,764
Aviva 6.125% Variable Perpetual	1,034
AXA 5.453% Variable Perpetual (France)	861
Barclays Bank 6.278% Perpetual	757
BUPA Finance 5% 2026	366
Cintas Corp No. 2 3.7% 2027 (USA)	1,304
Comcast 4.15% 2028 (USA)	1,714
Constellation Brands 4.75% 2024 (USA)	728
CPUK Finance 4.875% 2025	1,870
Crown Castle 3.2% 2024 (USA)	1,937
Deutsche Telekom 2.25% 2029 (Germany)	850
Elanco Animal Health 4.272% 2023 (USA)	1,961
HBOS 7.881% Perpetual	1,049
HCA 5% 2024 (USA)	1,640
Iron Mountain Europe 3.875% 2025 (USA)	880
Lockheed Martin 3.55% 2026 (USA)	468
McDonald's 3.8% 2028 (USA)	463
Prudential 6.125% 2031	617
RBS Capital Trust 6.425% Perpetual	314
Service Corp Intl 4.625% 2027 (USA)	1,236
Sysco 3.25% 2027 (USA)	2,062
Tesco 5.2% 2057	673
Tesco 5.5% 2033	1,257
Verizon Communications 3.376% 2025 (USA)	2,095
Virgin Media 6.25% 2029	1,303
Total other fixed interest	**33,762**
Total fixed interest	**37,603**

Investments: Equities

OIL & GAS	Total 31 December 2018 £'000
BP	8,339
Royal Dutch Shell	10,545
Total oil & gas	**18,884**
BASIC MATERIALS	
Chemicals	
Johnson Matthey	4,607
Victrex	2,499
Mining	
Rio Tinto	5,363
Total basic materials	**12,469**
INDUSTRIALS	
Aerospace & Defence	
BAE Systems	2,159
Senior	1,198
Construction & Materials	
Balfour Beatty[1]	710
Ibstock	2,085
General Industrials	
Smith (DS)	2,677
Smiths Group	2,989
Support Services	
Bunzl	3,790
Connect Group	451
Essentra	1,729
Total industrials	**17,788**
CONSUMER GOODS	
Automobiles & Parts	
TI Fluid Systems	1,567
Beverages	
Britvic	3,393
Coca-Cola HBC	3,035
Diageo	10,687
Food Producers	
Cranswick	2,601
Dairy Crest	1,179
Greencore	1,099
Hilton Food	5,153
Household Goods & Home Construction	
Galliford Try	2,909
Personal Goods	
Ted Baker	2,060
Unilever	1,725
Tobacco	
British American Tobacco	6,201
Imperial Brands	6,557
Total consumer goods	**48,166**

[1] Includes convertibles

Strategic Report: Investment Portfolio (continued)

Investments: Equities (continued)

HEALTH CARE	Total 31 December 2018 £'000
Pharmaceuticals & Biotechnology	
AstraZeneca	8,110
GlaxoSmithKline	9,149
Roche (Switzerland)	2,835
Total health care	**20,094**

CONSUMER SERVICES	
Food & Drug Retailers	
Tesco	4,283
General Retailers	
Next	1,905
Media	
Informa	3,592
ITV	2,274
RELX (Netherlands)	6,086
Travel & Leisure	
Compass	3,160
Go-Ahead	2,560
Greene King	2,154
Specialist Investment Property[2]	–
Whitbread	3,469
Total consumer services	**29,483**

TELECOMMUNICATIONS	
Fixed Line Telecommunications	
BT	5,128
Kcom	1,334
Manx Telecom	1,234
Mobile Telecommunications	
Vodafone	5,291
Total telecommunications	**12,987**

UTILITIES	
Electricity	
SSE	2,297
Gas Water & Multiutilities	
National Grid	4,937
Severn Trent	3,217
United Utilities	2,512
Total utilities	**12,963**

FINANCIALS	Total 31 December 2018 £'000
Banks	
Barclays	2,527
HSBC	6,709
Lloyds Banking	5,053
Equity Investment Instruments	
Carador Income Fund (Ireland)	2,052
Blackstone/GSO Loan Funding (Jersey)	1,271
Greencoat UK Wind	1,913
Tufton Oceanic Assets	1,762
Financial Services	
Intermediate Capital	2,500
Jupiter Fund Management	2,011
Schroders	2,493
Standard Life Aberdeen	3,530
Life Insurance	
Chesnara	2,921
Phoenix	4,363
St. James's Place	2,264
Nonlife Insurance	
Munich Re (Germany)	2,275
Sabre Insurance	2,262
Real Estate Investment Trusts	
Big Yellow	2,835
Hammerson	1,877
Land Securities	1,925
PRS REIT	1,411
Total financials	**53,954**

TECHNOLOGY	
Software & Computer Services	
Sage	3,575
Total technology	**3,575**
Total equities	**230,363**

[2] In liquidation, held at nil value

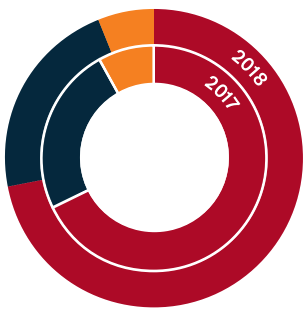
Strategic Report: Investment Portfolio (continued)

Percentage breakdown of investments by sector

	Total 31 December 2018 %	Total 31 December 2017 %
FIXED INTEREST		
Preference shares	1.4	1.6
Other fixed interest	12.6	8.7
Total fixed interest	**14.0**	**10.3**
EQUITIES		
Oil & gas		
Oil & gas producers	7.0	6.5
Total oil & gas	**7.0**	**6.5**
Basic Materials		
Chemicals	2.7	2.6
Mining	2.0	2.0
Total basic materials	**4.7**	**4.6**
Industrials		
Aerospace & defence	1.3	1.4
Construction & materials	1.1	0.2
General industrials	2.1	2.2
Support services	2.2	1.8
Total industrials	**6.7**	**5.6**
Consumer Goods		
Automobiles & parts	0.6	–
Beverages	6.4	4.5
Food producers	3.7	4.2
Household goods & home construction	1.1	1.5
Personal goods	1.4	1.5
Tobacco	4.8	6.5
Total consumer goods	**18.0**	**18.2**
Health Care		
Pharmaceuticals & biotechnology	7.5	5.3
Total health care	**7.5**	**5.3**
Consumer Services		
Food & drug retailers	1.6	1.1
General retailers	0.7	2.3
Media	4.5	6.0
Travel & leisure	4.2	3.8
Total consumer services	**11.0**	**13.2**
Telecommunications		
Fixed line telecommunications	2.9	3.4
Mobile telecommunications	2.0	3.2
Total telecommunications	**4.9**	**6.6**

	Total 31 December 2018 %	Total 31 December 2017 %
Utilities		
Electricity	0.8	0.9
Gas, water & multiutilities	4.0	3.9
Total utilities	**4.8**	**4.8**
Financials		
Banks	5.3	6.9
Equity Investment Instruments	2.6	2.9
Financial services	3.9	4.7
Life insurance	3.6	4.6
Nonlife insurance	1.7	2.3
Real Estate Investment Trusts	3.0	2.5
Total financials	**20.1**	**23.9**
Technology		
Software & computer services	1.3	1.0
Total technology	**1.3**	**1.0**
TOTAL INVESTMENTS	**100.0**	**100.0**

Distribution of the UK equity portfolio holdings at 31 December



	2018 %	2017 %
Large Companies	72	68
Medium-sized Companies	22	24
Small Companies	6	8

Strategic Report: Fund Manager's Report

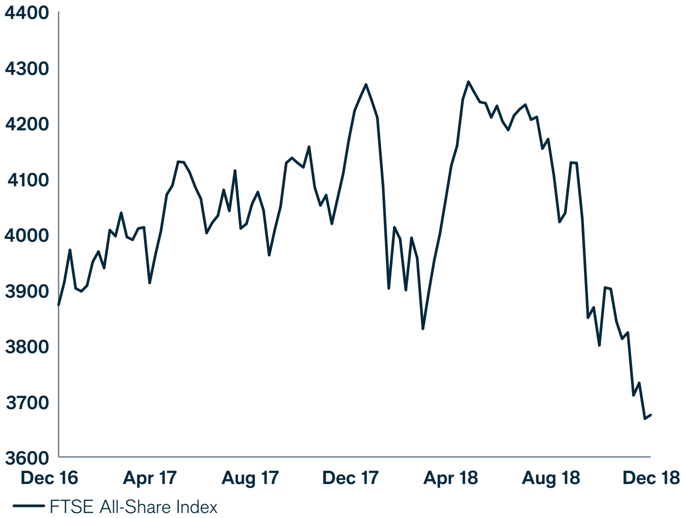
The Fund Manager of the portfolio, David Smith, reports on the year to 31 December 2018

Review of the year

Despite the UK stock market reaching all-time highs in May, share prices fell sharply in the second half of the year leading to a 9.5% decline in the FTSE All-Share Index on a total return basis in 2018. Concerns over a rise in wage growth and its subsequent impact on the pace of US monetary tightening, further fuelled by increased trade tensions between the US and China, led to a sharp sell-off in global equity markets. The Company's net asset value declined 13.9% in the year, underperforming the benchmark's fall of 7.9%. Although the weak market conditions made it difficult for the Company, stock selection within the equity portfolio was disappointing while gearing further detracted from returns.

Brexit uncertainties continued to weigh on UK consumer and business sentiment while economic growth remained subdued and below the historical average. Although Prime Minister Theresa May managed to agree a draft withdrawal agreement with the EU towards the end of the year, it provoked much criticism from both sides of the political divide. Its publication led, in quick succession, to further ministerial resignations, the postponement of the meaningful vote in Parliament and a no-confidence motion in Theresa May, which she survived. Sterling weakened further post this while UK equities lagged other developed market indices.

FTSE All-Share experienced a sharp sell-off in Q418



Source: DataStream

The equity portfolio fell 11.3% during the year, underperforming the FTSE All-Share Index return. Amid the weak market backdrop the Company's holdings in financials, such as Standard Life Aberdeen and Jupiter Fund Management were detrimental to performance. The companies were further impacted by weak fund flows and pressure on fee margins. Elsewhere, the holdings in Galliford Try and packaging company DS Smith were negative to performance. Despite trading at Galliford Try's main housebuilding division remaining robust, the company suffered from woes in its construction business which led to the company cutting its dividend and raising equity to strengthen its balance sheet. DS Smith continued to produce good results, however, the shares came under pressure towards the end of the year as investors feared that increased competition and a slowing global economy would impact profitability going forward. The portfolio's holding in tobacco company Imperial Brands also detracted from returns given the threat of increased US regulation and market share gains from vaping competitor JUUL.

On the positive side, the Company's holdings in Jardine Lloyd Thompson and John Laing Infrastructure Fund benefitted performance after both companies received bid approaches in the period. Whitbread's shares were also strong over the year, after the company announced the sale of its Costa Coffee division to Coca-Cola at a price significantly above expectations. Given the difficult market conditions, the Company's positions in more defensive holdings, such as Bunzl, RELX and Diageo, also aided performance.

The fixed income portfolio had a more stable year than equities, declining 0.7% but outperforming the 1.6% fall in the ICE BofAML Sterling Non-Gilts Index. The portfolio benefitted from its holdings in long dated Tesco bonds, given the company's solid deleveraging process, as well as the attractive coupons from high yield issuers such as Virgin Media and Service Corp International.

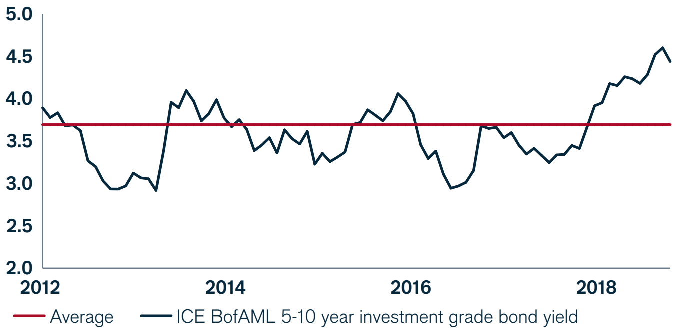
The revenue return over the year was robust at 10.06p per share, broadly in line with 2017 (10.13p per share). Good underlying dividend growth from the holdings in the portfolio was offset by a lower level of special dividends in the year. Despite the turbulent markets, certain mid-cap holdings produced strong growth in their dividends with Cranswick, Hilton Food and Victrex increasing their pay-outs by 21%, 12% and 11% respectively. The Company raised its own full year dividend for the sixth year in succession to 9.60p per share, an increase of 2.1%. Despite growing the dividend ahead of revenues, the Company finished the year with retained revenues of £656,000, thereby further strengthening the revenue reserves.

Strategic Report: Fund Manager's Report (continued)

Portfolio activity

Towards the end of the period the Company started to increase its exposure to bonds and move more defensively given the belief that equity markets were displaying late cycle characteristics. Utilising the Company's ability to own overseas assets, we took advantage of attractive yields on US investment grade corporate credit by buying bonds from the likes of Amazon, McDonald's and cable company Comcast. These are high quality companies with strong cash flows and should help reduce the credit risk within the fixed interest portfolio. Holdings in the bonds of US private hospital operator HCA and animal healthcare company Elanco were also purchased. Both are stable businesses with good cash flows that are expected to be upgraded to investment grade in the near future. Sales during the year included bonds in Orange, the French Telecom operator and RSA Insurance. As at the end of December, the bond weighting had risen to 14% of the investment portfolio and has subsequently increased a little further since year end.

Yields on US investment grade bonds now more attractive



Source: DataStream

Within the equity portfolio we initiated new positions in Coca-Cola HBC and Bunzl. Non-alcoholic beverage bottler Coca-Cola HBC owns the right to distribute Coca-Cola products in certain European and emerging markets. The company is expected to deliver resilient revenue growth and margin upside which should support attractive dividend growth. The strong balance sheet could also see further cash returns to shareholders. Bunzl is the market leader in supplying low value but essential non-food consumables to stable end markets such as food service and health care.

New holdings in St. James's Place and TI Fluid Systems were also purchased during the year. St. James's Place is the UK's leading wealth manager with a strong brand and distribution model. The business is highly cash generative and has an attractive dividend yield. TI Fluid Systems is a global market leading auto supplier operating in process and safety critical systems. The business is well diversified by geography and end customers and should benefit from the increased penetration of hybrid and electric vehicles. Elsewhere in the portfolio we added to our existing holdings of GlaxoSmithKline ('GSK') and Johnson Matthey. GSK owns a number of attractive assets within its vaccines and consumer health divisions while the new management team are becoming more focused on enhancing research and development productivity to improve returns in their pharmaceutical division. Although fears over the long term sustainability of diesel powered engines has impacted Johnson Matthey's share price in the short term, the company is investing in new long term growth markets such as battery technology for electric vehicles. The current valuation, in our view, has fallen to a very attractive level, given the quality of their industry leading science and technology.

During the year we reduced the portfolio's exposure to financials, selling European banks Swedbank and ING, given fears over the health of the European economy and the risk of rising loan impairments. We also sold out of utility company Centrica and wealth manager Brewin Dolphin. Profitability at Centrica is under pressure from competitive and political threats hence the dividend could be unsustainable given the stretched balance sheet. After a period of restructuring, Brewin Dolphin had reached their margin target with further upside more limited while the valuation was full, in our opinion. Post the takeovers of Jardine Lloyd Thompson and John Laing Infrastructure Fund we exited both positions.

Outlook

Equity markets in our view are starting to exhibit late cycle characteristics and with global growth slowing from its recent peak, volatility has increased. Certain US economic lead indicators are pointing to a slowdown while European industrial production and Chinese economic data are weak. With the US Federal Reserve now temporarily halting its rate hiking cycle and China increasing its stimulus plans, attention will focus on the US and China trade war, the other main risk to markets. However, after the significant falls in equities, valuations are much more attractive especially in the UK with the FTSE All-Share Index trading below its long term average.

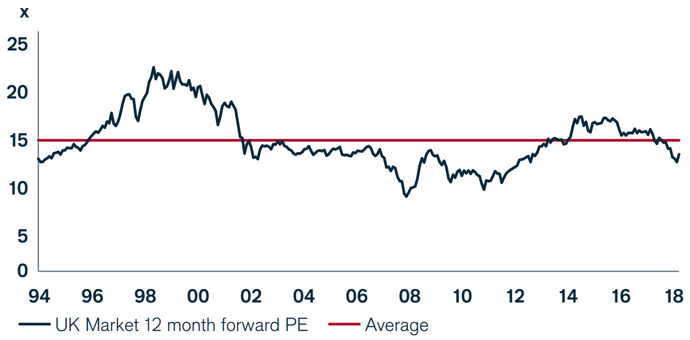
Global economic activity is starting to slow

Source: DataStream

Brexit continues to impact sentiment in the UK and despite Parliament voting against a no-deal Brexit, the method of leaving the EU and Britain's future trading relationship with the bloc currently remains unclear. Despite this uncertainty, valuations for domestic companies are historically low hence the portfolio maintains some exposure here but with a bias towards those with robust business models and balance sheets.

Strategic Report: Fund Manager's Report (continued)

UK equity valuations are below their long term average



Source: FactSet

While I do not believe we are at the end of the current cycle, I recognise that the outlook for economies in general has become less clear. With this in mind it seems prudent to favour those companies with defensive characteristics or a robust earnings profile. Where more cyclical companies are owned, these are typically in high quality businesses with attractive valuations. The Company remains well diversified owning good quality companies with strong cash flows and balance sheets which support their ability to pay and grow dividends over the long term.

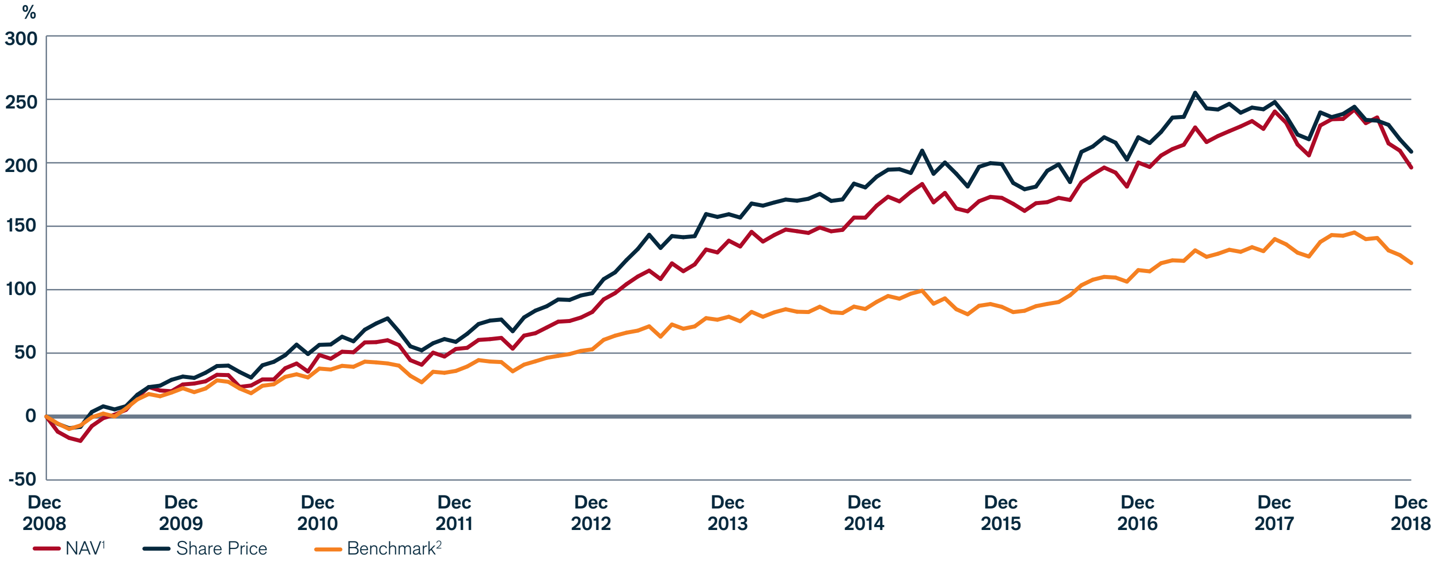
David Smith
Fund Manager
27 March 2019

Strategic Report: Historical Performance and Financial Information

Total return performance to 31 December

	1 year %	3 years %	5 years %	10 years %
NAV[1]	(13.9)	6.3	21.3	187.6
Share Price	(11.3)	3.2	19.0	208.7
Benchmark Index[2]	(7.9)	18.5	23.7	120.9
ICE BofAML Sterling Non-Gilts Index	(1.6)	13.6	28.5	89.4
FTSE All-Share Index	(9.5)	19.5	22.1	138.3

Total return performance over 10 years to 31 December 2018



[1] Net asset value total return (including dividends reinvested and excluding transaction costs) with debt at fair value
[2] A composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return) rebalanced annually. Prior to 31 December 2010 the benchmark was 75% of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index

Financial information

31 December	Net assets £m	NAV per ordinary share[3] p	Mid-market price per ordinary share p	Dividends per ordinary share p
2009	100.8	117.8	114.5	8.30
2010	112.7	124.7	124.8	6.23[4]
2011	108.9	119.3	118.5	8.30
2012	132.8	135.3	138.3	8.30
2013	175.3	167.7	172.8	8.40
2014	189.0	171.4	177.9	8.60
2015	197.1	175.3	180.5	8.90
2016	207.7	181.3	183.6	9.15
2017	257.2	195.7	190.0	9.40
2018	**210.8**	**159.5**	**159.5**	**9.60**

[3] Based on net assets with debt at fair value as published by the AIC
[4] Only three interim dividends were paid in respect of the year to 31 December 2010 as the fourth interim dividend was reclassified as the first interim dividend for the year to 31 December 2011 and paid in April 2011. However, the shareholders effectively received the same total dividend of 8.30p per ordinary share during 2010 as in the previous year

Sources: Janus Henderson, Morningstar for the AIC, DataStream, Bloomberg and Morningstar Direct

Strategic Report: Directors' Biographies

Directors

The directors appointed to the Board at the date of this Annual Report are:

Margaret Littlejohns

Position: Chairman of the Board and of the Nominations and Management Engagement Committees
Date of appointment: 1 July 2008 (Chairman on 3 May 2016)
Margaret spent the early part of her career with Citigroup, gaining 18 years' experience in both the commercial and investment banking divisions, latterly specialising in derivatives and market risk management. Between 2004 and 2006 she co-founded two start-up ventures providing self-storage facilities to domestic and business customers in the Midlands, acting as Finance Director and Company Secretary until the businesses were sold to a regional operator in 2016. She is a non-executive director and Chairman of the Audit Committee of JPMorgan Mid Cap Investment Trust plc. In 2017 she became a non-executive director of Foresight VCT plc and in 2018 she was appointed to the board of UK Commercial Property REIT Ltd, where she also serves as Chair of the Risk Committee. She is also a trustee of The Lymphoma Research Trust and a member of the Development Committee of Southern Housing Group.

Janet Walker

Position: Director and Chairman of the Audit Committee
Date of appointment: 1 June 2007 (Chairman of the Audit Committee on 1 October 2008)
Since the beginning of 2011 Janet has been the Bursar of Eton College. She was formerly the Commercial & Finance Director of Ascot Racecourse and a non-executive director of the Design Council, Royal Holloway College and the British Academy of Film and Television Arts (BAFTA). From 1980 until 2003 Janet was employed in broadcasting, including roles as Director of Finance and Business Affairs at Channel Four Television from 1998 to 2003, Director of Finance at Granada Media Group from 1996 to 1998, Financial Controller, Regional Broadcasting for the BBC from 1994 to 1996 and Deputy Director of Finance and Corporation Secretary at Channel Four Television from 1988 to 1994. She is currently a member of the Royal Horticultural Society's Audit Committee.

Zoe King

Position: Director
Date of appointment: 1 April 2016
Zoe is a director of Smith & Williamson Investment Management Limited, specialising in the management of private client portfolios. She also acts as an independent adviser to the Dunhill Medical Trust Investment Committee and is a Member of the Trinity College Oxford Investment Committee, the Carvetian Capital Fund Investment Committee and the Stramongate S.A Shareholder Advisory Committee. She was formerly a Vice President at Merrill Lynch Mercury Asset Management and a Fund Manager at Foreign & Colonial Investment Management. She graduated from Oxford University in 1994.

Anthony Newhouse

Position: Senior Independent Director
Date of appointment: 1 July 2008
Anthony is a solicitor who was a partner in Slaughter and May until 2008. He began his career in the City in banking and joined Slaughter and May in 1976, where he became a partner in 1984. He had a wide-based domestic and international corporate finance practice, advising many UK listed and other corporate entities. He has subsequently been a member of the PwC advisory board, a visiting professor at the London Metropolitan University Business School and is currently an honorary treasurer of the Royal Philharmonic Society.

Jeremy Rigg

Position: Director
Date of appointment: 1 April 2018
Jeremy has over 20 years' experience from the investment management industry having held roles as a director of Schroder Investment Management (UK) Ltd and as a senior investment manager at Investec Asset Management. In 2004, he was a founding partner of Origin Asset Management, a boutique equity investment manager which grew successfully and was acquired by Principal Global Investors in 2011. Jeremy is currently an independent investment consultant. He graduated from St Andrews University in 1989.

Jonathan Silver

Position: Director
Date of appointment: 2 January 2019
Jonathan has held various senior financial positions including 21 years as Chief Financial Officer on the main Board of Laird plc from 1994 until 2015. He is a non-executive director and Chairman of the Audit Committee of Spirent Communications plc, a position he has held since 2015. He is also the Chairman of the Audit Committee at Invesco Income and Growth Trust plc, having been appointed in 2007. Since 2017 he has been a non-executive director of East and North Hertfordshire NHS Trust. Jonathan is a member of the Institute of Chartered Accountants of Scotland.

All directors are non-executive and independent of Janus Henderson. All are members of the Audit, Nominations and Management Engagement Committees. Andrew Bell retired as a director on 9 May 2018.

Strategic Report: Corporate Information

Registered office

201 Bishopsgate
London
EC2M 3AE
Telephone: 020 7818 1818

Service providers

Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London
EC2M 3AE

Corporate Secretary

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

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Stockbrokers

JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Telephone: 0370 707 1039
Email: web.queries@computershare.co.uk

Investors with share certificates (i.e. not those in a share plan or ISA) can check their holdings at **www.computershare.com**.

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Financial calendar

First interim dividend	26 April 2019
Annual General Meeting[1]	8 May 2019
Guernsey Shareholder Event[2]	17 May 2019
Second interim dividend	26 July 2019
Half year results	July 2019
Third interim dividend	25 October 2019
Fourth interim dividend	31 January 2020
Unsecured loan note interest payments	8 July 2019
	8 January 2020

[1] At the Company's registered office at 12 noon
[2] At the Old Government House Hotel, St Peter Port, Guernsey at 11:45am

Information sources

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

HGi

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

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

Follow Janus Henderson Investment Trusts on Twitter, YouTube and Facebook

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on 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 0345 722 5525, email **customercare.HSDL@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.

Strategic Report: Corporate Information (continued)

Status

The Company is registered as a public limited company and is an investment Company as defined under section 833 of the Companies Act 2006 (the 'Act'). It has been approved as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'), as amended, and is a member of the Association of Investment Companies ('AIC').

The Company has obtained approval from HMRC of its status as an investment trust under Section 1158; the directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from tax on capital gains if it has complied at all times with Section 1158.

The Company maintains a premium listing on the London Stock Exchange and is subject to the Listing, Prospectus and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority ('FCA'). The Company is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a closed company.

Principal risks and uncertainties

The Board, with the assistance of Janus Henderson, has 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. In carrying out this assessment, the Board has considered the market uncertainty arising from the UK's negotiations to leave the European Union and as a result an additional risk relating to 'Brexit' has been included for the year under review. The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks. The principal risks which have been identified, and the steps taken by the Board to mitigate these as far as practicable, are as follows:

Risks	Controls and mitigation
Investment risk Risk of long term underperformance of the Company against the benchmark and/or peer group. This could result in the shares of the Company trading at a discount and reduced liquidity in the Company's shares. Risk that insufficient income generation could lead to a cut in the dividend.	Janus Henderson provides the directors with regular investment management information including investment performance statistics against the benchmark and the peer group. The implementation of investment strategy and results of the investment process for which the Fund Manager is responsible are discussed with Janus Henderson and reviewed at each Board meeting. The premium/discount and the trading volume of the Company's shares are also regularly reviewed, taking account of market conditions. The directors maintain close contact with the Company's brokers to understand and regulate the supply and demand of shares.
Market/financial risk Risk that market conditions lead to a fall in the value of the portfolio (magnified by any gearing) and/or a reduction of income. This could result in loss of capital value for shareholders and/or a cut in the dividend payment.	The directors review the portfolio regularly. The portfolio is diverse, containing a sufficient range of investments to ensure that no single investment puts undue risk on the sustainability of the income generated by the portfolio or indeed the capital value. Regard is also given to having a broad mix of companies in the portfolio, as well as a spread across a range of economic sectors. Janus Henderson operates within investment limits and restrictions set by the Board, including limits for gearing and derivatives. A monthly schedule of current positions against all established limits is reviewed by the directors and Janus Henderson confirms adherence to them each month. Any particularly high risks are highlighted and discussed. A detailed analysis of all financial risks for the Company can be found in note 15 of this report. The directors review the income statement and income forecasts at each Board meeting and monitor the Company's revenue reserves.

Strategic Report: Corporate Information (continued)

Risks	Controls and mitigation
Operational and cyber risk Risk of losses through inadequate or failed internal processes, systems, human error or external events. This includes the risk of loss arising from failing to manage key outsourced service providers properly, and the risk arising from major disruptions to their businesses and their markets, including cyber risks.	Control systems of Janus Henderson are designed and tested to ensure that operational risks are mitigated to an acceptable level. Business continuity plans are maintained and tested to ensure that, in the event of business disruption, operations can be maintained. Janus Henderson has cyber security controls in place to protect against attacks. Agreements are in place with all other key service providers and their controls are monitored by Janus Henderson's assurance functions. The directors receive a quarterly internal controls report from Janus Henderson to assist with the ongoing review of risks and control procedures used to manage those risks. More details on internal control and risk management can be found in the Corporate Governance Statement on pages 29 and 30.
Tax, legal and regulatory risk Risk that a breach of or a change in laws and regulations could materially affect the viability and appeal of the Company, in particular Section 1158 which exempts capital gains from being taxed within investment trusts.	Janus Henderson has been contracted to provide investment, company secretarial, administration and accounting services through qualified professionals. The Board receives internal control reports produced by Janus Henderson on a quarterly basis, which confirm tax, legal and regulatory compliance.
Risks associated with Brexit Risk that whatever the outcome of the UK Parliament's negotiations with the European Union over the terms of any Brexit deal, the portfolio will be subject to greater market price risk volatility and specific stock risk as a result. Risk that the Company's key service providers will be negatively impacted by the outcome.	It is difficult to evaluate all of the potential implications on the Company's business and the wider economy. However in light of the increased risk of market volatility, the portfolio's allocation to fixed interest assets has been increased and allocation to equities decreased. The addition of such bonds further diversifies the Company's revenue stream and aims to reduce the overall risk in the portfolio. Janus Henderson has a detailed Brexit plan in place. This plan has included assessing whether the Company's other key service providers will continue to operate and service the Company. The Board are confident that the Manager and its other key service providers will continue to operate for the foreseeable future whatever the outcome.

Other than the risks associated with Brexit, the Board considers these risks to have remained unchanged throughout the year under review.

Viability statement

The Company is a long term investor. The Board believes it is appropriate to assess the Company's viability over a five year period in recognition of our long term horizon and what we believe to be investors' time horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as documented in this Strategic Report.

The assessment has considered the impact and 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. The directors consider five years to be an appropriate period during which they do not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place, other than greater certainty on the outcome of Brexit. Also the directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period. The Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Despite the uncertainty in the UK regarding Brexit the Company is well positioned to withstand the potential volatile market conditions that any of the potential Brexit outcomes could create; it has a well-diversified portfolio and the underlying positions have been carefully selected by the Fund Manager to enhance the Company's revenue stream. Long term income prospects are a core part of the investment selection process.

The directors also took into account the liquidity of the portfolio, the gearing and the income stream from the portfolio in considering the viability of the Company over the next five years and its ability to meet liabilities as they fall due. This included consideration of the duration of the Company's long term borrowings, how a breach of the gearing covenants could impact on the Company's net asset value and share price and 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. Whilst detailed forecasts are only made over a shorter time frame, the nature of the Company's business as an investment trust means that such forecasts are equally valid to be considered over the longer five year period as a means of assessing whether the Company can continue in operation.

Strategic Report: Corporate Information (continued)

The directors recognise that there is a continuation vote due to take place at the AGM following the 31 December 2019 year end. The directors support the continuation of the Company and expect that the Company will continue to exist for the foreseeable future, at least for the period of the assessment.

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 next five year period.

Borrowings

At 31 December 2018 the Company had a committed loan facility with Scotiabank of £42 million which allows it to borrow as and when appropriate. On 20 February 2019 the Company increased the facility by £3 million. This will expire on 29 June 2020. The Company also has a £20 million fixed rate 19 year senior unsecured note with a sterling coupon rate of 3.67%. This will expire on 8 July 2034. Gearing as at 31 December 2018 was 27.1% (2017: 21.0%).

Key performance indicators

In order to measure the success of the Company in meeting its objective and to evaluate the performance of the Manager, the directors take into account the following key performance indicators ('KPI's'). The charts, tables and data on pages 2 and 3 show how the Company has performed against these KPI's:

KPI	Action
Dividend policy	The Board places a high level of importance on maintaining the Company's dividend payments. The aim is to maintain a suitable asset allocation that will permit a sustainable high level of dividend distributions to shareholders with the potential to grow in the longer term. The Board reviews the Company's revenue account at every Board meeting, along with the appropriateness of its dividend payments (see note 10). The Board also compares the yield on the Company's shares to other relevant sectors of the AIC. Shareholders must, however, recognise that dividend payments can never be guaranteed, and that circumstances could arise when it would be necessary to reduce or pass a dividend payment. The Board may from time to time decide to utilise some of the Company's reserves for dividends. Equally, there may be instances when the level of payment must be increased in order to comply with Section 1158 which requires an investment trust not to retain more than 15% of its total income. Where such instances would result in a payment going beyond the Board's policy, one-off 'special dividend' payments could be declared and paid.
Performance of the portfolio	At each Board meeting, the Board reviews the performance of the portfolio as well as the net asset value per share (with debt at par value and fair value) and share price of the Company (see pages 2, 3 and 7 to 10). The Board also compares the performance of the Company against its benchmark. The Board has determined that this measure be used to calculate whether a performance fee is payable to Janus Henderson. Further details of the fee arrangements with Janus Henderson are given on page 4.
Premium/discount to net asset value ('NAV')	At each Board meeting, the Board monitors the level of the Company's premium or discount to NAV per share and reviews the average premium or discount for other relevant sectors of the AIC. The Company publishes two NAVs per share on a daily basis through the official newswire of the London Stock Exchange; one with debt at par (calculated in accordance with the AIC formula) and the other with debt at fair value. Subsequent to the year end the Board reviewed the methodology for calculating inputs to the fair value of the debt to provide more transparency to shareholders and investors. The revised methodology will be implemented from 30 June 2019. Further details can be found on page 22 and in note 15.4 on page 56.
Ongoing charge	The Board regularly reviews the ongoing charge and monitors all Company expenses. For the year ended 31 December 2018 the ongoing charge (excluding performance fee) was 0.80% (2017: 0.75%). There was no performance fee payable this year or in the year ended 31 December 2017.

Strategic Report: Corporate Information (continued)

Future developments

While the future performance of the Company is mainly dependent on the performance of UK and international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and policy explained on page 4. The Chairman's Statement and Fund Manager's Report provide commentary on the outlook for the Company.

Corporate responsibility

Responsible investment

Janus Henderson is responsible for reporting on its work on corporate governance and corporate responsibility 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 Global Investors 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 ('ESG') issues into mainstream investment decision-making and ownership practices.

The way companies respond to ESG issues can affect their business performance, both directly and indirectly. ESG factors are considered by Janus Henderson investment teams but investments are not necessarily ruled out on ESG grounds only. Janus Henderson's responsible investment policy and further details of responsible investment activities can be found on the website **www.janushenderson.com**.

Voting policy and the UK stewardship code

The Manager has a responsible investment policy in place which 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 Janus Henderson implements the Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to the Manager. The Board receives an annual report on the voting undertaken by the Manager on behalf of the Company.

The Board and the Manager believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefore are given to the investee company prior to voting.

Practical difficulties may prevent voting in some markets. In particular, various factors, including restrictions on dealing and costs, may inhibit voting in some international markets and must be taken into account.

Employees, social, community, human rights and environmental matters

As an investment trust the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have any responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company's core activities are undertaken by Janus 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. Janus Henderson's corporate responsibility statement is included on its website.

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 Carbon Neutral®.

Modern Slavery Act 2015

As an investment company 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.

Board diversity and experience

It is the Company's aim to have an appropriate level of diversity in the boardroom. The directors consider diversity generally when making appointments to the Board, taking into account relevant skills, experience, knowledge and gender. The directors are diverse in their experience bringing knowledge of investment markets, legal and accounting expertise to discussions regarding the Company's business. The directors regularly consider the leadership needs and specific skills required to achieve the Company's investment objective, and are cognisant of diversity when making appointments to the Board. Further detail is provided in the Nominations Committee section on pages 31 to 32 in the Corporate Governance Statement. Currently, the Board comprises six directors, three male and three female. 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

Margaret Littlejohns
Chairman
27 March 2019

Strategic Report: Glossary

Alternative Investment Fund Managers Directive ('AIFMD')

Agreed by the European Parliament and the Council of the European Union and adopted into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ('AIFs') and requires them to appoint an Alternative Investment Fund Manager ('AIFM') and Depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the directors retain a fiduciary duty to shareholders.

Association of Investment Companies ('AIC')

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

Benchmark

An index against which performance is compared. For the Company this is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return) and is rebalanced annually.

Custodian

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

Depositary

As an AIF the Company is required to appoint a Depositary which has responsibility for overseeing the operations of the Company, including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings and is responsible for the appointment of a Custodian. The Depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The 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.

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 per share and share price will be disclosed ex-dividend

Dividend yield

The annual dividend (see note 10) expressed as a percentage of the share price at the year end (see page 3).

Effective interest method

The effective interest rate is a method used by a bond buyer to calculate the total yield to maturity including any capital loss if the bond is purchased above par, or capital gain if purchased at a discount to par.

Gearing

Gearing means borrowing money to buy assets with the expectation that the return on investments bought will exceed the interest cost of the borrowings. The gearing percentage reflects the amount of borrowings (e.g. bank loans, overdrafts and debt securities) the Company has used to invest in the market and also takes into account the exposure to hedging and derivatives which have a gearing effect. It is calculated by taking the difference between total investments (see note 11) and equity shareholders' funds (see Statement Of Financial Position) dividing by equity shareholders' funds and multiplying by 100.

Geometric returns

A method for aggregating percentage returns over a holding period to include the impact of compounding.

Investment trusts

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

Liquidity

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

Market capitalisation ('market cap')

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

Mid-market price

The middle (or mid) market price is the price between the best offered price and the best bid price. It can simply be defined as the average of the current bid and offer prices being quoted.

Treasury shares

Shares repurchased by the Company but not cancelled.

Strategic Report: Alternative Performance Measures

Capital return per share

The capital return per share is the capital return (see Income Statement) for the year divided by the weighted average number of ordinary shares (see note 9) in issue during the year.

Dividend growth

The amount by which the Company's annual dividend has increased compared to the previous year, expressed as a percentage of the previous year's annual dividend.

Net asset value ('NAV') per ordinary share

The value of the Company's assets (i.e. investments (see note 11)) and cash held (see Statement of Financial Position) less any liabilities (including bank borrowings (see note 13)) and the value of debt securities (see note 14) for which the Company is responsible, divided by the number of shares in issue (see note 16). The aggregate NAV is also referred to as shareholders' funds on the Statement of Financial Position. The Company currently publishes two NAVs, one with debt at par and the other with debt at fair value. Both are published daily. The NAV published to the London Stock Exchange and by the AIC will deduct interim dividends on the corresponding ex-dividend date. The NAV in the Company's accounts will deduct the interim dividends on the corresponding dividend payment date.

Net asset value ('NAV') with debt at fair value

The Company's debt (bank borrowings and senior unsecured notes, further details can be found in notes 13 and 14 on page 53) is valued in the Statement of Financial Position at amortised cost, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as 'debt at par'. The fair value of the debt, which assumes it is repaid under current market conditions, is referred to as 'debt at fair value'. The fair value methodology is detailed in note 15.4 on page 56. The difference between fair and par values of the debt is subtracted from or added to the Statement of Financial Position to derive the NAV with debt at fair value. The current estimated fair value of the senior unsecured note is calculated using a discount rate based on the redemption yield of the relevant existing reference UK Gilt plus a suitable estimated credit spread. As of 30 June 2019 the methodology for determining the credit spread will change and be based on the spread between the redemption yield of the ICE BofAML 10-15 Year A Sterling Non-Gilt Index and the redemption yield of the ICE BofAML 10-15 Year UK Gilt Index. The discount rate will be calculated and updated at each month end and applied daily to determine the Company's published fair value NAVs.

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, finance costs and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year (see notes 5 and 6 on page 50) as being the best estimate of future costs excluding any performance fee, in accordance with methodology prescribed by the AIC and is the annualised ongoing charge divided by the average net asset value in the period. An alternative ongoing charge can also be calculated including any performance fee.

Premium/discount

The amount by which the mid-market price per share (see page 3) of an investment company is either higher (premium) or lower (discount) than the NAV per share (see page 3), expressed as a percentage of the NAV per share. The premium/discount reported is based on the published NAV with debt at fair value. Both the mid-market share price and NAV per share in the calculation will have the dividend deducted when the shares are ex-dividend.

Revenue return per share

The revenue return per share is the revenue return for the year (see Income Statement) divided by the weighted average number of ordinary shares (see note 9) in issue during the year.

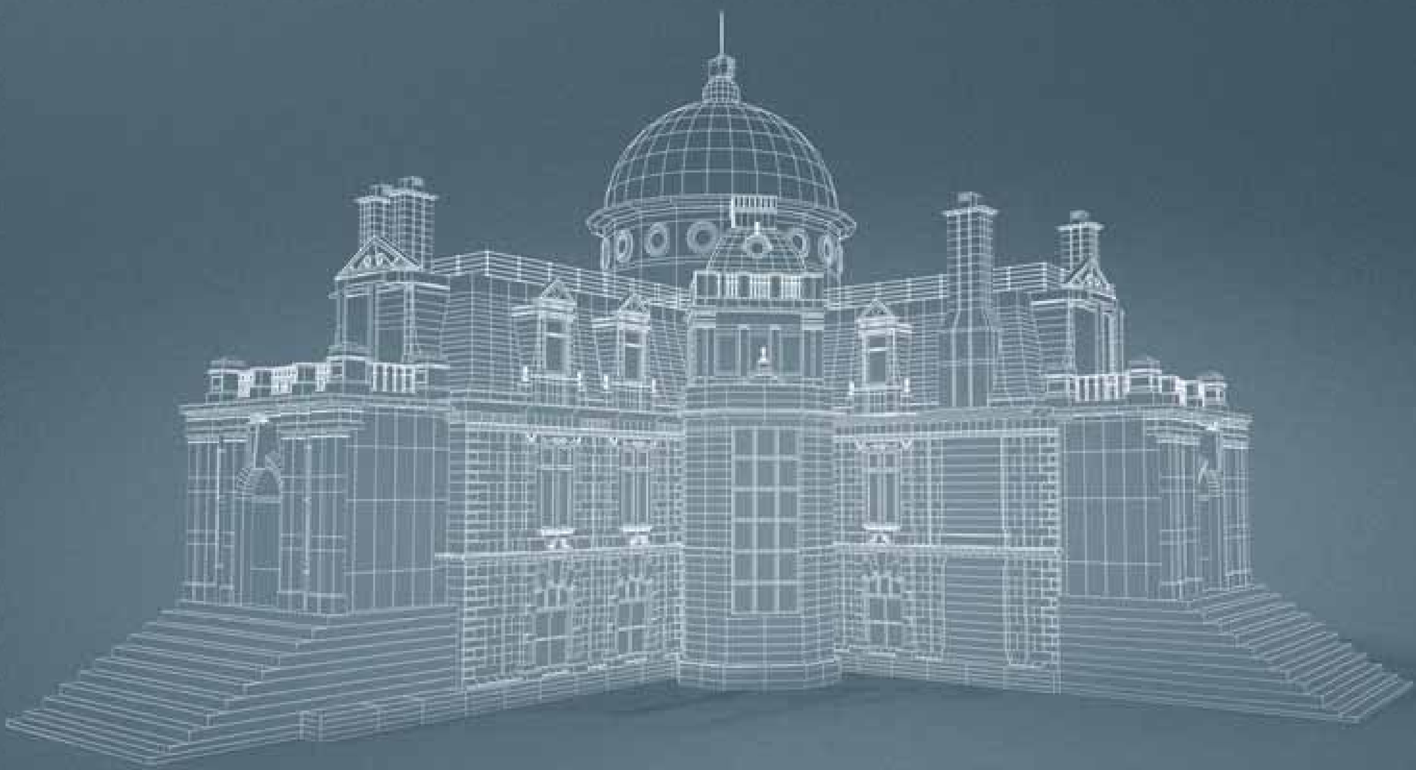
Total return performance

This is the return on the mid-market share price (see page 3) or NAV per share (see NAV per ordinary share) taking into account both the rise and fall of the share price or NAV respectively 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 per share total return). Dividends paid and payable are set out in note 10.

See page 19 for details of the Company's key performance indicators ('KPI's') and how the directors assess some of these alternative performance measures.

References to 'notes' refers to the notes to financial statements on pages 47 to 59 of the Annual Report.

Corporate Report



Report of the Directors

The directors present the audited financial statements of the Company and their report for the year from 1 January 2018 to 31 December 2018. The Company (registered in England & Wales on 21 March 1997 with company registration number 02422514) was active throughout the year under review and was not dormant.

The Investment Portfolio on pages 8 to 10, the Corporate Governance Statement on pages 29 to 33 and the Report of the Audit Committee on pages 34 to 36, form part of the Report of the Directors.

Directors

Details of the directors and their appointments can be found on page 15.

Directors' remuneration and shareholdings

The Directors' Remuneration Report on pages 27 and 28 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 meeting minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the system it has in place for reporting and considering situational conflicts continues to operate effectively.

Related party transactions

The Company's transactions with related parties in the year were with the directors and Janus Henderson. There have been no material transactions between the Company and its directors during the year. The only amounts paid to the directors were in respect of remuneration for which there were no outstanding amounts payable at the year end. In relation to the provision of services by the Manager, other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties, there have been no material transactions with the Manager affecting the financial position of the Company during the year under review. More details on transactions with the Manager, including amounts outstanding at the year end, are given in note 20 on page 59.

Share capital

The Company's share capital comprises ordinary shares with a nominal value of 5p. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, 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. To the extent that they exist, the revenue profits and capital of the Company (including accumulated revenue and capital reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro-rata to their holding of ordinary shares.

At the beginning of the year, there were 128,596,278 ordinary shares in issue. During the year and in the period to 27 March 2019 no shares were issued or bought back. Therefore at 31 December 2018 and 27 March 2019 the number of ordinary shares in issue with voting rights was 128,596,278

The Company will seek authority from its shareholders at the 2019 AGM to renew its authority to allot shares up to 10% of the issued share capital, as at the date of the 2019 AGM. Please refer to the Notice of Meeting that accompanies this Annual Report for further details. This can also be found on the Company's website at **www.hendersonhighincomecom**.

Holdings in the Company's shares

There were no declarations of interests in the voting rights of the Company as at 31 December 2018 in accordance with the Disclosure Guidance and Transparency Rules.

No changes have been notified in the period from 1 January 2019 to 27 March 2019.

Annual General Meeting

The AGM will be held on Wednesday 8 May 2019 at 12 noon at the Company's registered office. The Notice of Meeting and details of the resolutions to be put to the AGM are contained in the separate document being sent to shareholders with this Annual Report.

Guernsey Shareholder Event

The Board recognises that following the Company's participation in the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited, many of the shareholders who took up the option to acquire the Company shares are based in Guernsey. The Company has therefore arranged a Guernsey shareholder event to be held at The Old Government House Hotel, St. Peter's Port, Guernsey GY1 2NU on Friday 17 May 2019 at 11.45am. The event will provide the opportunity for the Fund Manager, David Smith, to give a presentation on the investment strategy and performance. The event will include light refreshments.

Report of the Directors (continued)

Directors' statement as to disclosure of information to the auditors

Each director who was a member of the Board at the date of approval of this Annual Report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's auditors are unaware and that 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.

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.

Corporate information

Disclosures in relation to the Company's status, principal risks and uncertainties, viability statement, key performance indicators, future developments, responsible investment, employee, social, community, human rights and environmental matters, voting policy and the UK stewardship code, Modern Slavery Act 2015 and board diversity and experience are provided in the corporate information section on pages 17 to 20.

Subsequent events

Since the year end, the Board has announced a first interim dividend of 2.425p per share in respect of the year ending 31 December 2019. The first interim dividend will be paid on 26 April 2019.

Furthermore, on 20 February 2019 the Company increased its committed loan facility with Scotiabank by a further £3 million, which allows it to borrow up to £45 million as and when appropriate.

By order of the Board

For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
27 March 2019

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standard, comprising FRS 102 the financial reporting standard applicable in the United Kingdom and Republic of Ireland, and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards 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 and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken advice from the Audit Committee, the directors consider that the Annual Report and financial statements taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statement of directors' responsibilities under Disclosure Guidance and Transparency Rule 4.1.12

Each of the directors, who are listed on page 15 confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 and applicable law) give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and financial statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Margaret Littlejohns
Chairman
27 March 2019

Directors' Remuneration Report

Report on implementation

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations'). The report also meets the relevant requirements of the Companies Act 2006 (the 'Act') and the Listing Rules of the UK Listing Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by section 439 of the Act, an ordinary resolution to approve the report will be proposed at the AGM to be held on Wednesday 8 May 2019.

The Company's auditors are required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All directors are non-executive and the Company has no chief executive officer or employees. As such some 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 established a remuneration committee to consider matters relating to 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 to the directors personally. In accordance with the Company's Articles of Association the aggregate remuneration of the directors may not exceed £250,000 per annum. Subject to this overall limit, the Board's policy is that remuneration should reflect the time spent on the Company's affairs and the responsibilities borne by the directors. They should be comparable to that of other investment trusts of a similar size and with a similar capital structure and investment objective and should be of a sufficient level to promote the long term success of the Company.

Shareholders last approved the Company's remuneration policy under section 439A of the Act at the AGM in 2017. No changes to the policy are proposed and therefore the current policy will continue in force until the AGM in 2020.

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. From time to time the Board may approve one-off payments to directors for specific work undertaken in addition to their regular 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 has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable.

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

Annual statement

As Chairman of the Board, Margaret Littlejohns, reports that directors' fees were increased on 1 July 2018 detailed on page 28. The increases were made after consideration of the fees paid by other investment trusts in the sector of an equivalent size, as well as taking account of available independent fee research from Trust Associates. These increases were to ensure that the directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new directors.

There have been no other major decisions on directors' remuneration or any other changes to the remuneration paid to each individual director in the year under review.

Directors' interests in shares (audited)

	Ordinary shares of 5p	
	31 December 2018	**1 January 2018**
Beneficial:		
Margaret Littlejohns	25,139	25,139
Andrew Bell[1]	n/a	30,000
Zoe King	9,000	9,000
Anthony Newhouse	20,000	20,000
Jeremy Rigg[2]	10,000	n/a
Janet Walker	6,000	6,000

[1] Retired on 9 May 2018
[2] Appointed on 1 April 2018

Jonathan Silver was appointed on 2 January 2019 and is therefore not included in the table above as he was not a serving director during the year under review.

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 preceding table. There have been no changes since the year end to the date of this Annual Report.

No director is required to hold shares of the Company by way of qualification.

Directors' Remuneration Report (continued)

Directors' remuneration (audited)

The remuneration paid to the directors who served during the years ended 31 December 2018 and 31 December 2017 was as follows:

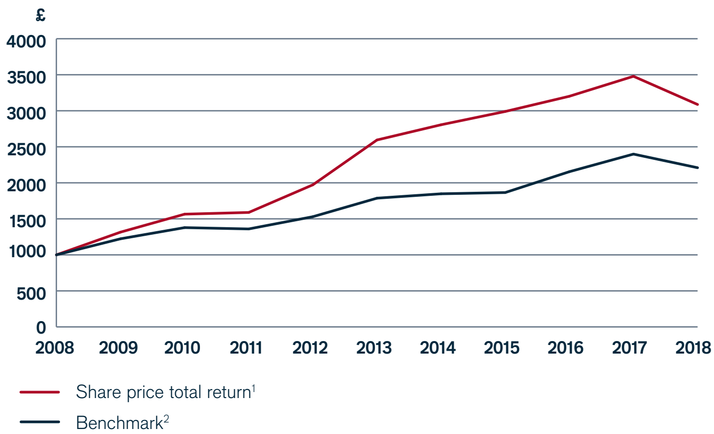
	Year ended 31 December 2018 Total salary and fees £	Year ended 31 December 2017 Total salary and fees £
Margaret Littlejohns[1]	35,625	34,875
Andrew Bell[2]	8,393	23,250
Zoe King	23,750	23,250
Anthony Newhouse	23,750	23,250
Jeremy Rigg[3]	17,875	–
Janet Walker[4]	28,500	27,900
Total	**137,893**	**132,525**

Notes:
Jonathan Silver was appointed on 2 January 2019 and is therefore not included in the table above as he was not a serving director during the year under review.
The table above omits other columns set out in the relevant regulations because no payments of other types such as taxable benefits, performance related pay, vesting performance related pay and pension related benefits, were made.
[1] Chairman and highest paid director
[2] Retired on 9 May 2018
[3] Appointed on 1 April 2018
[4] Chairman of the Audit Committee

From 1 July 2018 the fees were as follows (previous rates are shown in brackets): Chairman £36,000 (£35,250) per annum, Chairman of the Audit Committee £28,800 (£28,200) per annum and other directors £24,000 (£23,500) per annum.

Performance

The Company's performance has been measured against the benchmark for the ten year period ended 31 December 2018 on a total return basis in sterling terms. The graph compares the mid-market price of the Company's ordinary shares with the benchmark over the same period, assuming a notional investment of £1,000 on 31 December 2008 and the reinvestment of all dividends.



[1] The share price total return is sourced from the AIC except the 2009 returns which are from Morningstar

[2] The benchmark is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return) rebalanced annually. Prior to 31 December 2010 the benchmark was 75% of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index.

Source from AIC Report

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.

	2018 £	2017 £	Change £
Total remuneration paid to directors	137,893	132,525	5,368
Ordinary dividends paid during the year	12,280,945	10,862,142	1,418,803

Statement of voting at AGM

At the 2018 AGM 17,640,716 proxy votes (98.0%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 217,533 (1.2%) were against, 151,834 (0.8%) were discretionary and 220,047 were withheld. In relation to the approval of the remuneration policy at the 2017 AGM, 17,173,055 proxy votes (97.3%) were received voting for the resolution, 256,846 (1.4%) were against, 227,490 (1.3%) were discretionary and 181,154 were withheld. The percentage of votes excludes votes withheld.

For and on behalf of the Board

Margaret Littlejohns
Chairman
27 March 2019

Corporate Governance Statement

Applicable Corporate Governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, 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 considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in July 2016 ('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**.

The Board has noted that the FRC issued a revised Code in July 2018 ('2018 Code') and a revised AIC Code was published in February 2019 which the Company will be required to report against for the year ending 31 December 2020. It is not anticipated that this will result in any significant changes.

Statement of compliance

The directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the UK Code, except as noted below:

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

As the Company has no chief executive and it delegates its day-to-day operations to Janus Henderson as Manager (which has its own internal audit function), and it has no employees, the Board does not consider these provisions to be relevant to the Company and has not reported further in respect of these provisions.

The Board

Board composition

At the end of 2018, the Board consisted of five non-executive directors, who served throughout the year. Jonathan Silver was appointed as a director with effect from 2 January 2019. The biographies of those holding office at the date of this Annual Report are included on page 15. Those details demonstrate the breadth of investment, commercial, legal, financial and professional experience relevant to their positions as directors.

Responsibilities of the Board and its Committees

The Board's role is to provide leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board is responsible for setting the Company's standards and values and for ensuring that its obligations to its shareholders and others are understood and met. The Board sets the Company's strategic aims (subject to the Company's Articles of Association, and to such approval of the shareholders in General Meeting as may be required from time to time) and ensures that the necessary resources are in place to enable the Company's objectives to be met. The Board meets formally approximately six times a year, with additional Board or Committee meetings arranged when required. The directors have regular contact with the Fund Manager and representatives of the Corporate Secretary between formal meetings. The Chairman of the Board, Margaret Littlejohns, who is an independent non-executive director, is responsible for leading the Board and for ensuring that it continues to deal effectively with all aspects of its role. The Board has a formal schedule of matters specifically reserved for its decision, which include strategy and management.

The Board is responsible for the approval of the annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and performance.

At each meeting the Board reviews the Company's investment performance and considers financial analysis and other reports of an operational nature. The Board monitors performance against the Company's investment objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act and regularly reviews investment strategy.

The Board has adopted a procedure for directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information.

Internal controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The process accords with advice issued by the FRC and is subject to regular review by this Board. The system was in operation throughout the year and up to the date of this report. The system is designed to meet the specific risks faced by the Company and takes account of the nature of the Company's reliance on its service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute assurance against material misstatement or loss.

The key components of the internal control framework include:

- clearly defined investment criteria, specifying levels of authority and exposure limits. The Board reviews reports on investment performance against and compliance with the criteria at each meeting;

Corporate Governance Statement (continued)

- regular financial reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- contractual agreements with the Manager and all other third party service providers. The Board reviews performance levels and adherence to relevant provisions in the agreements on a regular basis through reporting to the Board and conducts a formal evaluation of the overall level of service provided at least annually;
- the review of controls at the Manager and other third party service providers. The Board receives quarterly reporting from the Manager and Depositary, and reviews annual assurance reports on the effectiveness of the control environments at the Company's key service providers; and
- review of additional reporting provided by:
  - the Manager's Operational Risk team on the control environment in operation at the Manager and their view of the control environments in place at the third party service providers used by the Company; and
  - the Manager's Internal Audit team on areas of operation which are relevant to the Company.

The Board noted the service auditors' qualification in respect of the internal controls report of the Manager which covered controls during the reporting period. As reported last year, the Audit Committee sought additional clarification in respect of the exceptions which resulted in the qualification and was satisfied that the matter has been considered in sufficient detail. In particular remedial action has been undertaken by Janus Henderson to address the exceptions identified within the assurance reports. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2018. 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.

Internal audit function

The Company's management functions are delegated to third parties and the Board monitors the controls in place with support from the Manager's internal audit department. 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 such the Board has determined that there is currently no need for the Company to have its own internal audit function.

Directors

The Board has set, and each director has agreed to adopt, generic terms and conditions of appointment of non-executive directors of the Company, a copy of which is available for inspection at the Company's registered office during business hours and at the Company's AGM.

Directors have no fixed tenure as the Board does not believe that length of service on the Board necessarily impacts a director's independence nor that it should disqualify a director from seeking reappointment. However, the Board takes into consideration the AIC Code and its requirement to refresh the Board, while also aiming to balance this with the need for some continuity and retention of experience.

Terms, appointment and retirement

The Board may appoint directors to the Board without shareholder approval. Any director so appointed must stand for election by the shareholders at the AGM following appointment in accordance with the Articles of Association.

Jonathan Silver has been appointed to the Board with effect from 2 January 2019 and will therefore stand for appointment by the shareholders at the 2019 AGM.

The Articles of Association state that any director who has served for more than nine years is subject to annual re-appointment. Margaret Littlejohns and Anthony Newhouse will therefore seek annual re-appointment to the Board and will do so at the 2019 AGM. Janet Walker will not be offering herself for re-appointment and will retire at the conclusion of the AGM. Jonathan Silver will assume the role of Audit Committee Chairman after the AGM. All the remaining directors, being eligible, will offer themselves for re-appointment at the AGM in accordance with the UK Code.

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

Independence

All directors have a wide range of other interests and are not dependent on the Company. At the Nominations Committee meeting in January 2019, the independence of the directors was reviewed and the Committee confirmed that all directors remain wholly independent of the Manager. There were no contracts in existence during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

Induction and ongoing training

When a new director is appointed he or she receives an induction seminar which is held by the Manager at the request of the Chairman. 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 able to attend external training courses and industry seminars at the expense of the Company. Each director's individual training requirements are considered as part of the annual performance evaluation.

Directors' insurance and indemnification

Directors' and officers' liability insurance and has been in place in the year under review and to the date of this report. Under provisions of the Company's Articles of Association and subject to the provisions of UK legislation, 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.

Corporate Governance Statement (continued)

Committees of the Board

The Board has three principal Committees: the Audit Committee, the Nominations Committee and the Management Engagement Committee. The terms of reference for these Committees are available on the website **www.hendersonhighincome.com** or via the Corporate Secretary. The Company has also established an Insider Committee to assist in meeting the disclosure requirements of the Market Abuse Regulations, which meets when required.

Audit Committee

The Audit Committee is chaired by Janet Walker. The Report of the Audit Committee, which forms part of the Corporate Governance Statement can be found on pages 34 to 36.

Nominations Committee

The Nominations Committee is responsible for ensuring the Board retains an appropriate balance of skills, experience and diversity, has a formal, rigorous and transparent approach to the appointment of directors and maintains an effective framework for succession planning.

The Committee is chaired by the Chairman of the Board. All of the independent non-executive directors are members of the Committee.

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

- the composition of the Board and each of its Committees, taking account of the skills, experience and knowledge of each director and whether the diversity of these continued to contribute to the success of the Company. However, given the size of the Board, it is not considered appropriate for the Company to have set targets in this regard; candidates will be assessed in relation to the relevant needs of the Company at the time of appointment. Once a decision is made to recruit additional directors to the Board, a formal job description will be drawn up. The Committee may use external agencies as and when the requirement to recruit an additional Board member becomes necessary;
- the outcomes of the Board performance evaluation with a view as to whether adjustments should be made to the number of directors or knowledge and skills represented on the Board. The results of the annual performance evaluation are detailed below;
- the tenure of each of the directors, giving consideration as to whether the Board retained a sufficient balance of length of service without becoming ossified;
- the independence of the directors taking account of the guidelines established by the UK Code and the AIC Code as well as the directors' other time commitments;
- the time commitment of the directors and whether this had been sufficient over the course of the year;
- the performance and contribution of the directors standing for re-election at the 2019 AGM;
- succession planning for appointments to the Board taking account of the provisions of the Articles regarding the retirement and rotation of directors and the tenure of the current directors and recommendations of the 2018 Code.

In this regard the Committee at its meeting in January 2019 acknowledged that three of the six current directors have served on the Board for more than nine years. The Committee intends to improve this balance over time with an orderly succession plan that recognises the gaps to be filled when seeking new appointments to the Board, including diversity and gender.

To this end, with the assistance of Odgers Berndtson, the Committee identified and reviewed a list of potential candidates and interviews were held with the directors. The Committee agreed to recommend the appointment of Jonathan Silver as a non-executive director to the Board with effect from 2 January 2019.

Odgers Berndtson has no other connection with the Company.

Furthermore the Committee recommended that the Board should appoint one of the independent non-executive directors to be the Senior Independent Director ('SID') to provide a sounding board for the Chair and to serve as an intermediary for shareholders. The SID should also evaluate with the non-executive directors the Chair's performance, without the Chair present, at least annually and on other occasions as necessary. Following discussion it was therefore agreed that the Board should appoint a SID and the Committee decided to recommend Anthony Newhouse to the Board for the position which was subsequently approved.

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 and each individual director, with the exception of Jonathan Silver as he did not serve on the Board in the year under review. This was conducted by the Chairman contacting each director about the Board's performance and each director's contribution. Janet Walker contacted each director about the performance of the Chairman.

Notwithstanding the progressive refreshment of the Board, the Committee considered the independence of the current directors and concluded that all directors continued to be independent of the Manager. In particular, the Committee was satisfied that the Chairman remained independent notwithstanding that she had been appointed as a non-executive director in 2008 and had therefore served on the Board for a period in excess of nine years. The Committee believes that directors with more than nine years' service can still form part of an independent majority and in particular their experience is beneficial to investment company boards.

The annual board evaluation addressed factors such as skills, diversity (including gender), experience and the independence and time commitment of the directors. The directors' tenure, breadth of experience and diversity in comparison to the AIC peer group and other Janus Henderson investment trust companies were considered. The Committee concluded that the current composition of the Board and its Committees remained appropriate with a suitable spread of investment, legal and financial experience.

Taking into account the AIC Code guidelines on the independence of directors and the schedule of directors' beneficial holdings and external appointments, it was concluded that all of the directors continued to be independent of the Manager.

Corporate Governance Statement (continued)

The Committee were of the view that the Chairman continued to lead the Company effectively, and demonstrated objective judgement throughout her tenure to promote a culture of openness and debate. She facilitated constructive board relations and the effective contribution of all of the non-executive directors, for example by openly asking each director for their input when making board decisions which created a clear and transparent atmosphere for each individual director to provide an opinion and created a healthy atmosphere for debate. By working alongside the Corporate Secretary and the Fund Manager, the Chairman ensured that the Board was provided with accurate, timely and clear information.

Over the year under review the Board decided that all directors will offer themselves for annual re-appointment by the shareholders. Accordingly, Margaret Littlejohns, Zoe King, Anthony Newhouse and Jeremy Rigg will offer themselves for re-appointment at the 2019 AGM. Jonathan Silver will offer himself for appointment by the shareholders at the 2019 AGM this being his first AGM since his appointment by the Board. He will offer himself for annual re-appointment thereafter. Janet Walker has advised the Nominations Committee that she intends to retire from the Board at the conclusion of the 2019 AGM.

The Committee concluded that the performance of each of the directors continued to meet expectations and the continued appointment of each director is recommended to shareholders.

Management Engagement Committee

The Management Engagement Committee is responsible for formally evaluating the overall performance of the Manager and other third-party service providers engaged by the Company to consider whether their continuing appointment is in the interest of shareholders as a whole. The Committee is chaired by the Chairman of the Board. All of the independent non-executive directors are members of the Committee. In discharging its duties over the course of the year, the Committee considered:

- the investment performance of the Company, taking account of the benchmark and performance of competitors in the closed-ended sector, the share price, level of premium/discount and gearing;
- the quality and experience of the team involved in managing all aspects of the Company's business;
- the fee structures of its closed-ended competitors and other, similar sized investment companies;
- the key clauses of the investment agreement, how the Manager had fulfilled these and whether these continued to be appropriate; and
- the performance and fees of the Company's other third-party service providers, including the brokers, depositary, registrar and the Company's accountants.

Meeting 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, with the exception of Jonathan Silver who was appointed to the Board on 2 January 2019, attended the AGM in 2018. The Insider Committee did not meet.

	Board	AC	MEC	NC
Number of meetings	**6**	**3**	**1**	**5**
Margaret Littlejohns	6	3	1	5
Andrew Bell[1]	2	1	–	–
Zoe King	6	3	1	5
Anthony Newhouse	6	3	1	4
Janet Walker	5	3	–	5
Jeremy Rigg[2]	4	2	1	2

AC: Audit Committee
MEC: Management Engagement Committee
NC: Nominations Committee

[1] Retired on 9 May 2018
[2] Appointed on 1 April 2018

The directors and Committees of the Board also met during the year as needed to undertake business such as the renewal of the Company's loan facility and the final approval of the annual results.

Accountability and relationship with Janus Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 26 of the Independent Auditor's Report on pages 37 to 42, and the Viability Statement on pages 18 to 19.

The Board has delegated contractually to external third parties, including Janus 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 as explained on page 21), the day-to-day accounting and cash management, 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 the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trusts and companies managed by Janus Henderson which provide a forum to discuss industry matters which are then reported to the Board.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting enabling the directors to probe further on matters of 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 Janus Henderson operate in a supportive, co-operative and open environment.

Corporate Governance Statement (continued)

The Corporate Secretary, Henderson Secretarial Services Limited, is a subsidiary of Janus Henderson with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the two entities particularly when dealing with any conflicts or issues between the Company and Janus Henderson. Any correspondence from shareholders addressed to the Chairman or the Company received at Janus Henderson's offices is forwarded to the Chairman of the Company in line with the audited procedure in place. Any correspondence is also submitted to the next Board meeting for discussion.

Janus Henderson and BNP Paribas Securities Services, which provides Janus Henderson with accounting and administration 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.

Continued appointment of the Manager

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 the Manager and the fees payable are contained on page 4.

The Board reviews investment performance at each Board meeting and a formal review of the Manager is conducted annually by the Management Engagement Committee. As part of the annual review in November 2018 the directors discussed the quality and continuity of the personnel assigned to handle the Company's affairs, with particular reference to performance and results achieved to date. In addition, they reviewed other services provided by the Manager to the Company, such as accounting, company secretarial and administration services and the Manager's activities in promoting and marketing the Company. The Board noted the Manager's resources and experience in managing and administering investment trust companies. As a result of their annual review it is the opinion of the directors that the continued appointment of the Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

Bribery Act 2010

The Company has no employees. The Board has reviewed the implications of the Bribery Act 2010 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, listed on page 16 that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Criminal Finances Act 2017

The Company maintains a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion. The Company has received assurances from the Company's main contractors and suppliers that they maintain a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

Share capital

Please see the Report of the Directors on page 24.

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 update 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 net asset value per share to a regulatory information service and a monthly factsheet which is available on the website.

Janus Henderson also provides information on the Company and Fund Manager through videos on the website, via various social media channels and on its HGi content platform, more details of which are included on page 16.

The Board considers that shareholders should be encouraged to attend and participate in the AGM. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other directors at the meeting and the Fund Manager who will make a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and notice of AGM be issued to shareholders so as to provide at least 20 working days' notice of the AGM. These documents are also included on the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Chairman via the Corporate Secretary at the registered office address given on page 16.

The Board recognises that following the Company's participation in the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited, many of the shareholders who took up the option to acquire the Company shares are based in Guernsey. Accordingly, a shareholder event will be held in Guernsey to give those shareholders the chance to meet the Chairman and to receive a presentation from the Fund Manager. Full details are set out on page 25.

General presentations to both shareholders and analysts follow the publication of the annual results and also take place throughout the year. Meetings between Janus Henderson, including our Fund Manager, and shareholders are reported to the Board. The Chairman is also available to meet with shareholders as appropriate.

By order of the Board

For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
27 March 2019

Report of the Audit Committee

In accordance with the September 2014 Competition and Markets Authority Order, the Audit Committee presents its report.

Composition

The membership of the Committee comprises all of the directors including the Chairman of the Board; the Committee believes that the Chairman of the Board should be a member of the Committee in line with the AIC Code. The Chairman of the Board was independent on appointment and is still considered independent by the Nominations Committee. Given the size of the Board it would be impractical to segregate the Chairman from Committee meetings; furthermore the nature of the Company as an investment trust means that there is unlikely to be a situation where the Chairman's decision making is compromised. The Committee is chaired by Janet Walker who is a Chartered Accountant. The other Committee members have a combination of financial, legal, investment and other experience gained throughout their careers and the Board is satisfied that at least one of the Committee's members has recent and relevant financial experience. All members of the Committee are independent and have competence relevant to the sector in which the Company operates. The biographies of the Audit Committee members are shown on page 15.

Meetings

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

Role and responsibilities

The role of the Audit Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Auditors. The Audit Committee formally reports to the Board after each meeting and its 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 statement, going concern and related parties and consideration of whether the Annual 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 in assessing whether the report is fair, balanced and understandable, each director reviewed the disclosures made, applying his or her respective knowledge and expertise. The internal controls over financial reporting were also considered, together with feedback from the Company's auditors, the Fund Manager and the Corporate Secretary;
- consideration of the Terms of Reference of the Audit Committee;
- 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 the Manager;
- consideration of the appropriate level of dividend to be paid by the Company for recommendation to the Board;
- consideration of the internal controls in place at Janus Henderson, BNP Paribas as administrator and HSBC Securities Services as Depositary and Custodian;
- consideration of the Manager's policies in relation to cyber risk and business continuity, meeting with representatives of the Manager's internal audit, risk and IT security departments periodically;
- consideration of the Company's third party service provides anti-tax evasion confirmations, the Company's anti-bribery policy and review of the Company's gifts and hospitality register (the Audit Committee was satisfied that the directors were in compliance) with the Company's policy;
- consideration of the management and performance fee calculations;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the nature and scope of the external audit and the findings therefrom;
- annual 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 30;
- consideration of the appointment of the external auditors, their effectiveness, performance, remuneration and tenure (see page 36);
- consideration of the external auditors' independence and objectivity and the policy on the provision of non-audit services (as explained further on page 36) and the reporting of the external auditors; and
- consideration of the whistleblowing policy that the Manager has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action.

Report of the Audit Committee (continued)

Annual Report for the year ended 31 December 2018

The following significant issues were considered by the Committee:

Significant issues and audit matters	How it was addressed
Valuation and ownership of the Company's investments	The directors have appointed Janus Henderson, who outsource some of the administration and accounting services to BNP Paribas, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Janus Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments is verified by reconciliation to the Custodian's records and the directors have received quarterly reports from the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation.
Recognition of income	Income received is accounted for in line with the Company's accounting policies (as set out in note 1e) on page 47) and is reviewed by the Committee at each meeting. The Board reviews the revenue forecast at every meeting in support of the Company's future dividend. In respect of special dividends where there is a requirement to allocate between revenue and capital, the Committee reviews the rationale provided by Janus Henderson and approves the relevant treatment.
Compliance with Section 1158 of the Corporation Tax Act 2010	The Committee has considered regularly the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving documentation from Janus Henderson and BNP Paribas.
Maintaining internal controls	The Committee receives regular reports on internal controls from Janus Henderson, BNP Paribas and HSBC Securities Services, and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The Committee noted the service auditor's qualifications in respect of the Janus Henderson assurance report which covered controls during the reporting period. The Committee sought additional clarification in respect of the reports and is satisfied that none of the exceptions impacted the Company for the year ended 31 December 2018 and that appropriate actions have been taken to address the issues identified.
Correct calculation of the performance fee	The year end performance fee calculation is prepared by BNP Paribas and reviewed by Janus Henderson. It is reviewed in depth by the Audit Committee, all with reference to the Investment Management Agreement.

Report of the Audit Committee (continued)

Audit tendering

As a Public Interest Entity listed on the London Stock Exchange, the Company is subject to the mandatory auditor rotation requirements of the European Union. It will put the external audit out to tender at least every ten years, and change auditor at least every 20 years. The last tender process concluded in November 2016 resulting in PricewaterhouseCoopers LLP ('PwC') being appointed as the auditor. The next tender will be required no later than 2026.

External audit, review and auditor reappointment

The Committee discusses the audit process with the auditor without representatives of the Manager present and considers the effectiveness of the audit process after each audit. This is the third year PwC have audited the Company's Annual Report during which Richard McGuire has been the audit partner.

During the audit, the Committee Chairman liaised with the audit partner to receive progress updates and reviewed PwC's audit results prior to the Committee meeting to consider the financial statements. PwC attended this meeting to present their report and observe the Committee's review of the financial statements and internal controls reporting by the Manager.

Based on the Committee's review of PwC's reporting, interactions with the audit team throughout the process and our discussions with representatives of the Manager, the Committee is satisfied with the effectiveness of the audit provided by PwC and that they are independent of the Company. The auditor is required to rotate partners every five years and it is proposed that the current audit partner will serve until the AGM in 2021.

Policy on non-audit services

The provision of non-audit services by the Company's auditor is considered and approved by the Committee on a case by case basis. The policy set by the 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 auditor:

- the level of non-audit fees paid to the audit firm in relation to the statutory audit fee;
- whether the audit firm is the most suitable supplier of the relevant non-audit services;
- the impact on the auditor's 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 auditor will not be considered for the provision of services related to accounting and preparation of the financial statements, internal audit and custody. There were no non-audit services in the year under review.

Janet Walker
Chairman of the Audit Committee
27 March 2019

Independent Auditors' Report to the Members of Henderson High Income Trust plc

Report on the audit of the financial statements

Opinion

In our opinion, Henderson High Income Trust plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall materiality: £2.1 million (2017: £2.6 million), based on 1% of net assets.

- The Company is a standalone Investment Trust Company and engages Henderson Investment Funds Limited (the "Manager") to manage its assets.
- We conducted our audit of the financial statements using information from BNP Paribas Securities Services (the "Administrator") to whom the Manager has, with the consent of the directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at both the Manager and the Administrator, and adopted a fully substantive testing approach using reports obtained from the Administrator.

- Valuation and existence of investments
- Accuracy, occurrence and completeness of income from investments
- Performance fee

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud
Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the ongoing qualification as an Investment Trust under the Corporation Tax Act 2010 and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and Chapter 15 of the UK Listing Rules applicable to Closed-Ended Investment Funds. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to increase income or to overstate the value of investments and increase the net asset value of the Company. We performed the following procedures in response to those risks:

- Discussions with management, the Manager and the Administrator, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the controls implemented by the Manager and the Administrator designed to prevent and detect irregularities;
- Assessment of the Company's compliance with the requirements of Section 1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions; and
- Identifying and testing journal entries, in particular any journal posted as part of the financial year end close process.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Key audit matter	How our audit addressed the key audit matter
Valuation and existence of investments Refer to page 35 (Report of the Audit Committee), page 47 (Accounting Policies) and page 52 (notes to the financial statements). The investment portfolio at the year end comprised listed equity investments and fixed interest investments valued at £268 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.	We tested the valuation of the listed equity investments and fixed interest investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing investment holdings to an independent custodian confirmation. No differences were identified which required reporting to those charged with governance.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Accuracy, occurrence and completeness of income from investments

Refer to page 35 (Report of the Audit Committee), page 47 (Accounting Policies) and page 50 (notes to the financial statements).

Income from investments comprised dividend income and fixed interest income. We focused on the accuracy, completeness and occurrence of investment income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover.

We also focused on the accounting policy for investment income recognition and the presentation of investment income in the Income Statement for compliance with the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"), as incorrect application could indicate a misstatement in income recognition.

</td><td>

We assessed the accounting policy for investment income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income from investments had been accounted for in accordance with this stated accounting policy.

We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income from investments has been accounted for in accordance with the stated accounting policy.

Dividend income

We tested accuracy of dividend receipts by agreeing the dividend rates from investments to independent market data. No misstatements were identified which required reporting to those charged with governance.

To test for completeness, we tested, for all investment holdings in the portfolio, that all dividends declared in the market by investment holdings had been recorded. Our testing did not identify any incorrectly recorded or omitted dividends.

We tested occurrence by tracing a sample of dividends received to bank statements. Our testing did not identify any misstatements which required reporting to those charged with governance.

We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions. Our procedures did not identify any misstatements which required reporting to those charged with governance.

Fixed interest income

We tested fixed interest income by recalculating the expected coupon interest and amortisation, using the opening and closing portfolios and coupon rates and maturity dates. We also agreed a sample of coupon rates and maturity dates to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance.

To test for completeness, for a sample of investment holdings in the portfolio, we tested that all fixed interest income earned by investment holdings had been recorded. Our testing did not identify any incorrectly recorded or omitted fixed interest income.

We tested occurrence by testing that all fixed interest income recorded in the year had been earned and by tracing a sample of fixed interest income received to bank statements. Our testing did not identify any misstatements which required reporting to those charged with governance.

</td></tr>
<tr><td>

Performance fee

Refer to page 35 (Report of the Audit Committee), page 47 (Accounting Policies) and page 50 (notes to the financial statements).

We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager. Based on the calculation performed by the Manager, no performance fee is payable for the year.

</td><td>

We tested the calculation of the performance fee to ensure that it complied with the methodology as set out in the Investment Management Agreement, and agreed the inputs to the calculation, including the net asset value and benchmark data, to independent third party sources, where applicable.

Based on our testing, we agreed that no performance fee is payable.

</td></tr>
</table>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company's accounting is delegated to the Administrator who maintains the Company's accounting records and who has implemented controls over those accounting records.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

We obtained our audit evidence from substantive tests. However, as part of our risk assessment, we understood and assessed the internal controls in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and analysing the relevant control reports issued by the independent service auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£2.1 million (2017: £2.6 million)
How we determined it	1% of net assets
Rationale for benchmark applied	We applied this benchmark, which is a generally accepted auditing practice for investment trust audits

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £105,000 (2017:£128,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	**Outcome**
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's business and the wider economy.
We are required to report if the directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Report of the Directors and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 ('CA06'), ISAs (UK) and the Listing Rules of the Financial Conduct Authority ('FCA') require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 29 to 33) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ('DTR') is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 29 to 33) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 17 of 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' explanation on pages 18 to 19 of 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.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

Other Code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 26, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 34 and 35 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 December 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2016 to 31 December 2018.

Richard McGuire (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2019

Income Statement

Notes		Year ended 31 December 2018 Revenue return £'000	Year ended 31 December 2018 Capital return £'000	Year ended 31 December 2018 Total £'000	Year ended 31 December 2017 Revenue return £'000	Year ended 31 December 2017 Capital return £'000	Year ended 31 December 2017 Total £'000
2	(Losses)/gains on investments held at fair value through profit or loss	–	(45,211)	(45,211)	–	17,779	17,779
3	Income from investments held at fair value through profit or loss	14,329	–	14,329	13,512	–	13,512
4	Other interest receivable and similar income	35	–	35	12	–	12
	Gross revenue and capital (losses)/gains	**14,364**	**(45,211)**	**(30,847)**	**13,524**	**17,779**	**31,303**
5	Management and performance fees	(590)	(885)	(1,475)	(532)	(798)	(1,330)
6	Other administrative expenses	(429)	–	(429)	(385)	–	(385)
	Net return before finance costs and taxation	**13,345**	**(46,096)**	**(32,751)**	**12,607**	**16,981**	**29,588**
7	Finance costs	(338)	(1,015)	(1,353)	(287)	(860)	(1,147)
	Net return before taxation	**13,007**	**(47,111)**	**(34,104)**	**12,320**	**16,121**	**28,441**
8	Taxation on net return	(71)	–	(71)	(119)	40	(79)
	Net return after taxation	**12,936**	**(47,111)**	**(34,175)**	**12,201**	**16,161**	**28,362**
9	Return per ordinary share	10.06p	(36.63p)	(26.57p)	10.13p	13.42p	23.55p

The total columns of this statement represent the Income Statement of the Company. All capital and revenue items derive from continuing operations. No operations were acquired or discontinued during the year. The Company has no other comprehensive income other than those items recognised in the Income Statement.

The notes on pages 47 to 59 form part of these financial statements

Statement of Changes in Equity

Notes	Year ended 31 December 2018	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 January 2018	6,430	126,783	26,302	88,818	8,910	257,243
	Net return after taxation	–	–	–	(47,111)	12,936	(34,175)
10	Dividends paid	–	–	–	–	(12,280)	(12,280)
	At 31 December 2018	**6,430**	**126,783**	**26,302**	**41,707**	**9,566**	**210,788**

	Year ended 31 December 2017	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 January 2017	5,597	95,595	26,302	72,657	7,572	207,723
	Net return after taxation	–	–	–	16,161	12,201	28,362
17	Issue of new shares	833	31,188	–	–	–	32,021
10	Dividends paid	–	–	–	–	(10,863)	(10,863)
	At 31 December 2017	**6,430**	**126,783**	**26,302**	**88,818**	**8,910**	**257,243**

The notes on pages 47 to 59 form part of these financial statements

Statement of Financial Position

Notes		At 31 December 2018 £'000	At 31 December 2017 £'000
	Fixed assets		
11	Investments held at fair value through profit or loss	267,966	311,295
	Current assets		
12	Debtors	1,767	1,680
	Cash at bank and in hand	2,581	1,245
		4,348	**2,925**
13	**Creditors: amounts falling due within one year**	(41,705)	(37,164)
	Net current liabilities	**(37,357)**	**(34,239)**
	Total assets less current liabilities	**230,609**	**277,056**
14	**Creditors: amounts falling due after more than one year**	(19,821)	(19,813)
	Net assets	**210,788**	**257,243**
	Capital and reserves		
16	Called up share capital	6,430	6,430
17	Share premium account	126,783	126,783
17	Capital redemption reserve	26,302	26,302
17	Other capital reserves	41,707	88,818
17	Revenue reserve	9,566	8,910
	Total shareholders' funds	**210,788**	**257,243**
18	**Net asset value per ordinary share (basic and diluted)**	163.91p	200.04p

The financial statements and corresponding notes on pages 43 to 59 were approved by the Board of directors on 27 March 2019 and signed on its behalf by:

Margaret Littlejohns
Chairman

The notes on pages 47 to 59 form part of these financial statements

Cash Flow Statement

	2018 £'000	2017 £'000
Cash flows from operating activities		
Net return before taxation	(34,104)	28,441
Add back: finance costs	1,353	1,147
Less: losses/(gains) on investments held at fair value through profit or loss	45,211	(17,779)
Withholding tax on dividends deducted at source	(71)	(79)
Taxation recovered	21	8
Decrease in prepayments and accrued income	(108)	(348)
Increase in accruals and deferred income	37	438
Net cash inflow[1]	**12,339**	**11,828**
Cash flows from investing activities		
Sales of investments held at fair value through profit or loss	56,765	46,265
Purchases of investments held at fair value through profit or loss	(58,316)	(71,289)
Net cash outflow from investing activities	**(1,551)**	**(25,024)**
Cash flows from financing activities		
Issue of ordinary share capital	–	16,516
Equity dividends paid	(12,280)	(10,863)
Drawdown of loans	4,159	8,078
Interest paid	(1,346)	(1,139)
Net cash flow from financing activities	**(9,467)**	**12,592**
Net increase/(decrease) in cash and cash equivalents	1,321	(604)
Cash and cash equivalents at beginning of year	1,245	1,742
Exchange movements	15	107
Cash and cash equivalents at end of year	**2,581**	**1,245**
Comprising:		
Cash at bank	**2,581**	**1,245**

[1] Cash inflow from dividends was £13,006,000 (2017: £12,050,000) and cash inflow from interest was £1,383,000 (2017: £1,141,000)

The notes on pages 47 to 59 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Company is a registered investment company as defined in Section 833 of the Companies Act 2006. It operates in England and Wales and is registered at the address on page 16.

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (the 'SORP') issued in November 2014 and updated in February 2018 for consequential amendments.

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost basis except for the measurement at fair value of investments. In applying FRS 102, financial instruments have been accounted for in accordance with Section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

The directors do not believe that any accounting judgments or estimates have been applied to this set of financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

b) Going concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The Company's shareholders are asked every five years to vote for the continuation of the Company. An ordinary resolution to this effect was passed by the shareholders at the AGM held on 5 May 2015. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's directors. Accordingly, upon initial recognition the investments are included initially at fair value, which is taken to be their cost. Subsequently, the investments are valued at fair value, which is deemed to be bid market prices or the last traded price depending on the convention of the exchange on which the investment is quoted.

All fair value movements in investments are taken to the Income Statement. In accordance with the SORP, the Company's profit and loss account is split between revenue and capital returns columns, as can be seen in the Income Statement. Fair value movements on investments are taken to the capital column in the Income Statement.

d) Capital gains and losses

Profits less disposal of investments and investment holding gains and losses are taken to the capital column in the Income Statement and transferred to other capital reserves.

e) Income

Dividends receivable on equity shares are taken to the revenue return of the Income Statement on an ex-dividend basis except where, in the opinion of the directors, the dividend is capital in nature in which case it is taken to the capital return. Income from fixed interest debt securities and preference shares with no fixed maturity date is recognised on a time-apportioned basis. Income from other fixed interest securities is recognised so as to reflect the effective interest rate on these securities.

f) Expenses

All expenses and finance costs are accounted for on an accruals basis. The Board's expectation is that over the long term three quarters of the Company's investment returns will be in the form of capital gains. The directors have determined that the proportion of the annual management fees that relates to the maintenance or enhancement of the value of investments is 80%. On this basis, the Company charges to capital 60% of total management fees (i.e. 75% of 80%) and 75% of its finance costs. The balance of the management fees is charged to revenue. All performance fees are charged to capital. Expenses which are incidental to the acquisition of an investment are charged to the Income Statement and included within gains/losses on investments. Expenses which are incidental to the disposal of an investment are deducted from sale proceeds and go to the Income Statement indirectly.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) Taxation

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

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

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

Deferred taxation is provided on all timing differences that have originated but not been reversed by the Statement of Financial Position date, other than those differences regarded as permanent. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money. The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

h) Foreign currency

The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company. Sterling is the functional currency because the Company is listed in the UK with a predominantly UK shareholder base.

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rate. Assets and liabilities denominated in overseas currencies at the Statement of Financial Position date are translated into sterling at the exchange rate ruling at that date. Differences arising from translation at this rate of exchange are included within the Income Statement as a capital item and then transferred to capital reserves.

i) Borrowings

Interest-bearing bank loans, overdrafts and the senior unsecured note are recorded as proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement, using the effective interest 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.

j) Derivative financial instruments

The Company does not use derivative financial instruments for speculative purposes. Derivative transactions which the Company may enter into comprise forward exchange contracts (the objective of which is to hedge foreign currency exposure) and futures contracts on indices appropriate to sections of the portfolio (one purpose of which may be to provide protection against falls in the capital values of the holdings). The Company may also write options on shares represented in the portfolio where such options are priced attractively relative to Janus Henderson's expectations for the relevant share prices and to generate additional return for shareholders. The use of financial derivatives is governed by the Company's polices as approved by the Board.

Changes in the fair value of derivative financial instruments are recognised in the Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Income Statement. There were no derivatives held during the year (2017: nil).

Where options are written for the purpose of generating revenue, applicable premiums are recognised evenly over the life of the option and shown in the revenue return, with the appropriate amount shown as a capital return such that the total return reflects the overall change in the fair value of the option.

k) Dividends payable to shareholders

Interim dividends payable to shareholders are recognised in the financial statements when they are paid. The Company does not pay a final dividend. Details of dividends provided are in the Statement of Changes in Equity.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

l) Capital and reserves

Share capital represents the nominal value of shares issued.

The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

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

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

Other capital reserves are split into two components, the capital reserve arising on investments sold and the capital reserve arising on investments held. The following analyses what is accounted for in each of these components.

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on disposals of investments;
- realised foreign exchange differences of a capital nature;
- cost of repurchasing ordinary share capital; and
- other capital charges and credits charged to this account in accordance with the above policies.

Capital reserve arising on investments held

The following are accounted for in this reserve:

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

m) Distributable reserves

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend.

2 (Losses)/gains on investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Gains on the sale of investments based on historical cost	1,800	9,638
Revaluation losses recognised in previous years	(4,515)	(6,265)
(Losses)/gains on investments sold in the year based on carrying value at previous Statement of Financial Position date	**(2,715)**	**3,373**
Net movement on revaluation of investments	(42,165)	14,403
Exchange (losses)/gains	(331)	3
	(45,211)	**17,779**

Notes to the Financial Statements (continued)

3 Income from investments held at fair value through profit or loss

	2018 £'000	2017 £'000
UK dividend income – listed	10,708	9,972
UK dividend income – special dividends	312	411
	11,020	**10,383**
Interest income – listed	1,291	1,208
Overseas and other dividend income – listed	2,018	1,921
	3,309	**3,129**
	14,329	**13,512**

4 Other interest receivable and similar income

	2018 £'000	2017 £'000
Deposit interest	3	–
Underwriting commission (allocated to revenue)	32	12
	35	**12**

5 Management and performance fees

	2018			2017		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Management fee	590	885	1,475	532	798	1,330
Performance fee	–	–	–	–	–	–
Total fee	**590**	**885**	**1,475**	**532**	**798**	**1,330**

A summary of the terms of the management agreement is on page 4 in the Strategic Report. An explanation of the split between revenue and capital is in accounting policy 1(f) on page 47. No performance fee was earned during the year (2017: £nil).

6 Other administrative expenses

	2018 £'000	2017 £'000
Directors' fees (see Directors' Remuneration Report on page 28)	138	133
Auditors' remuneration – for audit services	35	35
Depositary fees	27	28
Registrar fees	22	18
Sales and marketing expenses payable to the management company	66	68
Other expenses	141	103
	429	**385**

7 Finance costs

	2018			2017		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Interest on bank loans repayable within one year and on bank overdrafts	153	459	612	102	304	406
Interest on senior unsecured note	185	556	741	185	556	741
	338	**1,015**	**1,353**	**287**	**860**	**1,147**

Notes to the Financial Statements (continued)

8 Taxation on net return

a)

	2018			2017		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas withholding tax	71	–	71	79	–	79
Tax relief to capital	–	–	–	40	(40)	–
Total tax charge for the year	**71**	**–**	**71**	**119**	**(40)**	**79**

b) Factors affecting tax charge for year

The UK corporation tax rate is 19% (2017 – applicable rate 19.25%). The tax charge for the year is lower than the corporation tax rate. The differences are explained below:

	2018			2017		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net return before taxation	**13,007**	**(47,111)**	**(34,104)**	**12,320**	**16,121**	**28,441**
Corporation tax of 19% (2017: 19.25%)	2,471	(8,951)	(6,480)	2,372	3,103	5,475
Effects of:						
– UK dividends	(2,094)	–	(2,094)	(1,999)	–	(1,999)
– Non-taxable overseas dividends	(323)	–	(323)	(333)	–	(333)
– Utilised excess management expenses	(54)	361	307	(40)	319	279
– Tax relief to capital	–	–	–	40	(40)	–
– Irrecoverable income tax suffered at source	71	–	71	79	–	79
– Losses/(gains) on investments held at fair value	–	8,590	8,590	–	(3,422)	(3,422)
Total tax charge for the year	**71**	**–**	**71**	**119**	**(40)**	**79**

The Company is an investment trust and therefore its capital gains are not taxable.

c) Factors that may affect future tax charges

No provision for deferred taxation has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation and disposal of investments as it is exempt from tax on these items because of its investment trust status. The Company has not recognised a deferred tax asset totalling £2,937,000 (2017: £2,662,000) based on a prospective corporation tax rate of 17% (2017: 17%). These expenses will only be utilised, to any material extent, if changes are made either to the tax treatment of the capital gains made by investment trusts or the Company's investment profile which require them to be used.

9 Return/(loss) per ordinary share

The return per ordinary share figure is based on the loss attributable to the ordinary shares of £34,175,000 (2017 gain: £28,362,000) and on the 128,596,278 weighted average number of ordinary shares in issue during the year (2017: 120,429,018).

The Company had no securities in issue that could dilute the return per ordinary share.

The return per ordinary share can be analysed between revenue and capital as shown below:

	2018 £'000	2017 £'000
Net revenue return	12,936	12,201
Net capital return	(47,111)	16,161
Total return	**(34,175)**	**28,362**
Weighted average number of ordinary shares	128,596,278	120,429,018
Revenue return per ordinary share	10.06p	10.13p
Capital return per ordinary share	(36.63p)	13.42p
Total return per ordinary share	**(26.57p)**	**23.55p**

Notes to the Financial Statements (continued)

10 Dividends paid on ordinary shares

	Payment date	2018 £'000	2017 £'000
Fourth interim dividend (2.325p per share) for the year ended 31 December 2016	27 January 2017	–	2,603
First interim dividend (2.325p per share) for the year ended 31 December 2017	28 April 2017	–	2,603
Second interim dividend (2.325p per share) for the year ended 31 December 2017	28 July 2017	–	2,603
Third interim dividend (2.375p per share) for the year ended 31 December 2017	27 October 2017	–	3,054
Fourth interim dividend (2.375p per share) for the year ended 31 December 2017	26 January 2018	3,054	–
First interim dividend (2.375p per share) for the year ended 31 December 2018	27 April 2018	3,054	–
Second interim dividend (2.375p per share) for the year ended 31 December 2018	27 July 2018	3,054	–
Third interim dividend (2.425p per share) for the year ended 31 December 2018	26 October 2018	3,118	–
		12,280	**10,863**

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

	2018 £'000	2017 £'000
Revenue available for distribution by way of dividend for the year	12,936	12,201
First interim dividend of 2.375p (2017: 2.325p)	(3,054)	(2,603)
Second interim dividend of 2.375p (2017: 2.325p)	(3,054)	(2,603)
Third interim dividend of 2.425p (2017: 2.375p)	(3,118)	(3,054)
Fourth interim dividend of 2.425p (2017: 2.375p)	(3,118)	(3,054)
	592	**887**

All dividends have been paid or will be paid out of revenue profits.

11 Investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Valuation at 1 January	311,295	252,990
Investment holding gains at 1 January	(65,423)	(57,285)
Cost at 1 January	**245,872**	**195,705**
Purchases at cost	58,239	86,794[1]
Sales at cost	(54,887)	(36,627)
Cost at 31 December	**249,224**	**245,872**
Investment holding gains at 31 December	18,742	65,423
Valuation of investments at 31 December	**267,966**	**311,295**

Total transaction costs amounted to £168,000 (2017: £272,000) of which purchase transaction costs for the year ended 31 December 2018 were £149,000 (2017: £254,000). Sale transaction costs for the year ended 31 December 2018 were £19,000 (2017: £18,000). These comprise mainly stamp duty (purchases only) and commissions.

[1] 2017 includes £15,505,000 relating to the investments acquired following the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited

12 Debtors

	2018 £'000	2017 £'000
Taxation recoverable	79	37
Prepayments and accrued income	1,688	1,643
	1,767	**1,680**

Notes to the Financial Statements (continued)

13 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	40,468	35,964
Accruals and deferred income	1,237	1,200
	41,705	**37,164**

The Company has a two year multi-currency loan facility of £42 million with Scotiabank (2017: £42 million). On 20 February 2019 the Company increased the facility by £3 million. The total facility will expire on 29 June 2020. At 31 December 2018 the Company had short term multi-currency loans under the Scotiabank loan facility amounting to £40,468,000, repayable in January, February and March 2019 (2017: £35,964,000, repayable in January, February and March 2018). The average interest rate payable on these loans was 2.01% (2017: 1.35%). See page 16 for the unsecured loan note interest payment dates.

14 Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Senior unsecured note	19,821	19,813
	19,821	**19,813**

On 8 July 2015 the Company issued £20 million (nominal) 3.67% senior unsecured note due 2034, net of issue costs totalling £204,000. The issue costs will be amortised over the life of the senior unsecured note by way of an effective interest rate method. The fair value methodology of the senior unsecured note is detailed in note 15.4.

15 Financial risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective and policy as stated on page 4. In pursuing its investment objective and policy, 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 are: market risk (comprising market price risk, currency risk and interest rate risk), credit risk, liquidity risk and gearing. Details of these risks and of the directors' approach to the management of them, are set out below and have not changed from the previous accounting period. The Board receives regular financial and other reporting to enable it to measure these risks. The Board and Janus Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below.

- Listed securities, exchange-traded derivatives and over the counter ('OTC') derivatives contracts are processed, confirmed and reconciled using automated systems linked to counterparties and clearing houses;
- Portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, third-party software applications; and
- Fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services).

Janus Henderson risk, compliance and operations teams have access to and use a variety of in-house and third party databases and applications for independent monitoring and risk measurement and compliance purposes.

15.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 15.1.1), interest rate risk (see note 15.1.2) and other price risk (see note 15.1.3), in particular the risk of fluctuations in prices of securities. The Board reviews and agrees policies for managing these risks and agrees investment guidelines and restrictions for managing the portfolio; these have remained substantially unchanged from those applying in the previous year. The Fund Manager 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. This risk is mitigated through diversification of investments in the portfolio.

15.1.1 Currency risk

A proportion of the Company's assets and income is denominated in currencies other than sterling (the Company's functional currency and the one in which it reports its results). As a result, movements in exchange rates may affect the sterling value of these items. This may be partially offset by borrowing in foreign currencies. The Board regularly reviews currency risk; currently it is not deemed to be material given the level of foreign currency borrowing.

Notes to the Financial Statements (continued)

15 Financial risk management policies and procedures (continued)

15.1.2 Interest rate risk

Interest rate movements may affect:

- the fair value of investments in fixed interest securities;
- the level of income receivable from interest-bearing 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 of fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the multi-currency loan facility. The Company generally does not hold significant cash balances; short term borrowings are used when required. The Company finances part of its activities through borrowings at levels approved by the Board. Derivative contracts may sometimes be used to hedge against the exposure to interest rate risk.

Interest rate exposure

The exposure at 31 December 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. These dates are shown on page 53.

	2018			2017		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates:						
Cash at bank	2,581	–	2,581	1,245	–	1,245
Creditors – within one year:						
Borrowings under multi-currency loan facility	(40,524)	–	(40,524)	(36,008)	–	(36,008)
	(37,943)	**–**	**(37,943)**	**(34,763)**	**–**	**(34,763)**
Exposure to fixed interest rates:						
Investments held at fair value through profit or loss	–	37,603	37,603	–	31,947	31,947
Creditors – more than one year:						
Senior unsecured note[1]	(741)	(31,003)	(31,744)	(741)	(31,737)	(32,478)
Total exposure to interest rates	**(38,684)**	**6,600**	**(32,084)**	**(35,504)**	**210**	**(35,294)**

[1] The above figures show interest payable over the remaining term of the senior unsecured note. The figures in the 'more than one year' column also include the capital to be repaid. Details of the repayment are set out on page 53.

Interest receivable and finance costs are at the following rates:

- interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR or its foreign currency equivalent (2017: same);
- interest paid on borrowings under the multi-currency loan facility is at a margin over LIBOR or its foreign currency equivalent for the type of loan. The weighted average interest rate of these was 2.01% at 31 December 2018 (2017: 1.35%);
- interest paid on the senior unsecured note is at a rate of 3.67%; and
- the nominal interest rates on the investments held at fair value through profit and loss are shown on page 8. The weighted average interest rate on these investments is 4.85% (2017: 5.58%).

Interest rate risk sensitivity

The Company is primarily exposed to interest rate risk through its loan facility with Scotiabank, and its fixed interest investment portfolio. The sensitivity of each exposure is as follows:

- loan sensitivity: borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings at the year end were £40,468,000 (2017: £35,964,000) (see note 13) and if that level of borrowings were maintained for a full year, then a 100 basis points change in LIBOR (up or down) would decrease or increase total return after taxation by approximately £405,000 (2017: £360,000);
- senior unsecured note: the senior unsecured note is at a fixed rate of interest so will not be impacted by any changes in LIBOR or short term interest rates; and
- fixed interest investment sensitivity: the Company's fixed interest portfolio at the year end was valued at £37,603,000 (2017: £31,947,000), and it has a modified duration (interest rate sensitivity) of approximately 6.9 years (2017: 8.4 years). A 100 basis points change in short term interest rates (up or down), which is mirrored by an equivalent change in long term interest rates, would be expected to decrease or increase this portfolio's value by approximately £2,595,000 (2017: £2,684,000), all other factors being equal.

Notes to the Financial Statements (continued)

15 Financial risk management policies and procedures (continued)

15.1.3 Other price risk

Other price risks (changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of quoted and unquoted investments.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objective, and is directly responsible for investment strategy and ultimately for asset allocation.

When appropriate, the Company may buy/sell put or call options or futures on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. At 31 December 2018 the Company had no open positions (2017: no open positions).

Concentration of exposure to other price risks

An analysis of the Company's investment portfolio is shown on pages 8 to 10. The majority of the investments are in UK companies. Accordingly, there is a concentration of exposure to the UK, and particularly the financial sector (see page 10). It is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Other price risk sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the equity shareholders' funds to an increase or decrease in the fair values of the Company's investments. The level of change used in the table below is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities at each Statement of Financial Position date, with all other variables held constant.

	2018		2017	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement – net return after tax				
Revenue return	(43)	43	(50)	50
Capital return	26,706	(26,706)	31,025	(31,025)
Net return after tax for the year	**26,663**	**(26,663)**	**30,975**	**(30,975)**
Equity shareholders' funds	**26,663**	**(26,663)**	**30,975**	**(30,975)**

15.2 Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has a two year multi-currency loan facility of £42 million with Scotiabank (2017: £42 million). On 20 February 2019 the Company increased the facility by £3 million. The facility will expire on 29 June 2020. It also has an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of securities held by it on behalf of the Company.

Liquidity risk exposure

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

	2018 Due within three months £'000	2017 Due within three months £'000
Bank loans and overdrafts	40,468	35,964
Other creditors and accruals	1,237	1,200
	41,705	**37,164**

15.3 Credit and counterparty risk

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

Notes to the Financial Statements (continued)

15 Financial risk management policies and procedures (continued)

15.3 Credit and counterparty risk (continued)

Management of the risk

The risk is managed as follows:

- transactions involving derivatives are entered into only with investment banks, whose creditworthiness is carefully assessed 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 the Manager, and limits are set on the amount that may be due from any one broker;
- the Company's trades are usually on a delivery versus payment ('DVP') settlement basis. This process mitigates the risk of loss during the settlement process;
- the Board reviews the terms of the Depositary agreement. Janus Henderson monitors the Company's risk by reviewing the Depositary's annual internal controls report and reports to the Board on its findings;
- cash at bank is held only with banks considered to be credit worthy; and
- with regards to the corporate bonds in the portfolio, there is a credit risk that the borrowers do not repay principal or make interest payments. This is managed through careful selection, supported by monitoring of credit ratings, and is reviewed regularly.

The percentages below represent the value of fixed interest investments included in the Statement of Financial Position which are exposed to credit and counterparty risk by credit rating.

Rating of fixed interest investments	2018 %
A	5.8
BBB	39.5
BB	35.8
B	9.6
Not rated	9.3
Total	**100.0**

Source: Bloomberg composite rating.

None of the Company's financial assets or financial liabilities is secured by collateral or other credit enhancements. None of the Company's financial assets is past due or impaired.

15.4 Fair values of financial assets and financial liabilities

The fair values of the financial assets and liabilities are either carried in the Statement of Financial Position at their fair value (investments and derivatives) or the Statement of Financial Position amount is a reasonable approximation of fair value (due from brokers, dividends, and interest receivable, due to brokers, accruals, cash at bank, bank overdrafts and amounts due under the multi-currency loan facility). At 31 December 2018 the fair value of the senior unsecured note has been estimated to be £22,604,000 (2017: £22,727,000) and is categorised as level 3 (see note 15.5) in the fair value hierarchy.

The current estimated fair value of the senior unsecured note is calculated using a discount rate based on the redemption yield of the relevant existing reference UK Gilt plus a suitable estimated credit spread. As of 30 June 2019 the methodology for determining the credit spread will change and be based on the spread between the redemption yield of the ICE BofAML 10-15 Year A Sterling Non-Gilt Index and the redemption yield of the ICE BofAML 10-15 Year UK Gilt Index. The discount rate will be calculated and updated at each month end and applied daily to determine the Company's published fair value NAVs. To highlight the potential impact of the change in methodology, the new method of calculating the spread would increase the 31 December 2018 published fair value NAV (including current financial year revenue items) by 0.35p or 0.2% once applied. The actual impact on the published fair value NAV from 30 June 2019 onward could vary depending on the redemption yield of the above mentioned indices at month ends.

15.5 Fair value hierarchy disclosures

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:

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

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1; 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 note 1(c) on page 47.

There have been no transfers during the year between levels.

Notes to the Financial Statements (continued)

15 Financial risk management policies and procedures (continued)

15.5 Fair value hierarchy disclosures (continued)

The table below sets out fair value measurements using the FRS 102 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	229,653	–	–	229,653
Convertibles	710	–	–	710
Fixed interest instruments:				
Preference shares	3,841	–	–	3,841
Other	33,762	–	–	33,762
Total	**267,966**	**–**	**–**	**267,966**

Financial assets at fair value through profit or loss at 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	278,601	–	–	278,601
Convertibles	747	–	–	747
Fixed interest instruments:				
Preference shares	5,025	–	–	5,025
Other	26,922	–	–	26,922
Total	**311,295**	**–**	**–**	**311,295**

15.6 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to provide investors with a high dividend income while also maintaining the prospect of capital growth.

The Company's capital is its equity share capital, reserves and debt that are shown in the Statement of Financial Position at a total of £271,077,000 (2017: £313,020,000).

The Board, with assistance of the Manager, 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 Janus Henderson's view on the market;
- the need to buy back equity shares, either for cancellation or to hold in treasury, 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);
- the need for new issues of equity shares, including sales from treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to several externally imposed capital requirements:

- under the loan facility and the senior unsecured note agreement the total of these borrowings may not exceed one third of adjusted total assets (as defined in the facility agreement) and net assets must be more than £50 million;
- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital retention tests imposed on investment companies by company law and cannot retain more than 15% of income.

The Company has complied with these requirements.

16 Called up share capital

	Shares entitled to dividend	Total shares in issue	Nominal value in issue £'000
Issued ordinary shares of 5p each			
At 31 December 2017	128,596,278	128,596,278	6,430
Issued during the year	–	–	–
At 31 December 2018	**128,596,278**	**128,596,278**	**6,430**

During the year the Company issued nil shares (2017: 16,653,913 shares) for net proceeds of £nil (2017: £32,021,000). Since the year end no shares have been issued.

Notes to the Financial Statements (continued)

17 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve arising on investments sold £'000	Capital reserve arising on revaluation of investments held £'000	Revenue reserve £'000
At 1 January 2018	126,783	26,302	23,386	65,432	8,910
Transfer on disposal of investments	–	–	4,515	(4,515)	–
Net loss on investments	–	–	(2,715)	(42,165)	–
Foreign exchange losses	–	–	(331)	–	–
Management and performance fees and finance costs charged to capital	–	–	(1,900)	–	–
Net revenue after tax for the year	–	–	–	–	12,936
Dividends paid	–	–	–	–	(12,280)
At 31 December 2018	**126,783**	**26,302**	**22,955**	**18,752**	**9,566**

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve arising on investments sold £'000	Capital reserve arising on revaluation of investments held £'000	Revenue reserve £'000
At 1 January 2017	95,595	26,302	15,363	57,294	7,572
Transfer on disposal of investments	–	–	6,265	(6,265)	–
Net gains on investments	–	–	3,373	14,403	–
Foreign exchange gains	–	–	3	–	–
Issue of shares	31,188	–	–	–	–
Management and performance fees and finance costs charged to capital	–	–	(1,658)	–	–
Tax relief thereon	–	–	40	–	–
Net revenue after tax for the year	–	–	–	–	12,201
Dividends paid	–	–	–	–	(10,863)
At 31 December 2017	**126,783**	**26,302**	**23,386**	**65,432**	**8,910**

18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £210,788,000 (2017: £257,243,000) and on the 128,596,278 ordinary shares in issue at 31 December 2018 (2017: 128,596,278).

The movements during the year of the assets attributable to the ordinary shares were as follows:

	2018 £'000	2017 £'000
Net assets at start of year	257,243	207,723
Total net return after taxation	(34,175)	28,362
Dividends paid in the year	(12,280)	(10,863)
Issue of ordinary shares less issue costs	–	32,021
	210,788	**257,243**

19 Contingent liabilities

There were no partly paid shares or underwriting commitments or any other contingent liabilities at 31 December 2018 (2017: nil).

Notes to the Financial Statements (continued)

20 Transactions with Janus Henderson and related parties

Under the terms of an agreement effective from 22 July 2014 the Company has appointed wholly owned subsidiaries of Janus Henderson to provide investment management, accounting, administrative and company secretarial services. Janus Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services. Details of the management fee arrangements for these services are given in the Strategic Report on page 4.

The total fees paid or payable under this agreement to Janus Henderson in respect of the year ended 31 December 2018 were £1,475,000 (2017: £1,330,000), of which £731,000 was outstanding as at 31 December 2018 (2017: £697,000).

In addition to the above, Janus Henderson facilitates marketing activities with third parties which are recharged to the Company. Janus Henderson also provides sales and marketing services which until 31 December 2017 were charged to the Company at an annual cost of £24,000. Since 1 January 2018 there has been no separate charge for these services. Total amounts paid to Janus Henderson in respect of sales and marketing for the year ended 31 December 2018 amounted to £64,000 (2017: £68,000).

Details of fees paid to directors are included in the Directors' Remuneration Report on page 28 and in note 6 on page 50.

21 Subsequent events

Since the year end, the Board announced a first interim dividend of 2.425p per share, in respect of the year ending 31 December 2019. This will be paid on 26 April 2019 to holders registered at the close of business on 5 April 2019. This dividend is to be paid from the Company's revenue account. The Company's shares will become ex-dividend on 4 April 2019.

Furthermore, on 20 February 2019 the Company increased its committed loan facility with Scotiabank by a further £3 million, which allows it to borrow up to £45 million in sterling or the equivalent in US dollars or Euros, as and when appropriate.

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 Janus Henderson, as the Company's Alternative Investment Fund Manager ('AIFM') is required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document called 'AIFMD Disclosure' which can be found on the Company's website: **www.hendersonhighincome.com**.

BACS

Dividends can be paid by means of BACS ('Bankers' Automated Clearing Services'); mandate forms for this purpose are available from the Registrar, Computershare Investor Services PLC. Alternatively, shareholders can write to the Registrar (the address is given on page 16) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard

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

Equality Act 2010

Copies of this Annual 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, audio tape or larger type as appropriate.

You can contact the Registrar, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

Foreign Account Tax Compliance Act ('FATCA')

FATCA is a United States federal law enacted in 2010 whose intent is to enforce the requirement for United States persons (including those living outside the U.S.) to file yearly reports on their non-U.S. financial accounts. As a result of HMRC's change of interpretation on the meaning of shares and securities 'regularly traded on an established securities market', investment trusts now need to monitor each year the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company therefore needs to make an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, will need to identify and report U.S. reportable accounts to HMRC, as required.

General Data Protection Regulation ('GDPR')

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

ISA

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

Non-mainstream pooled investments ('NMPI') status

The Company currently conducts its affairs so that its ordinary shares of 5p each can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ('FCA') rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

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

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

Performance details/share price information

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

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

The market price of the Company's shares can be found in the London Stock Exchange Daily Official List.

Shareholder details

Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, 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.

General Shareholder Information (continued)

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 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 Investor Services PLC, would make unsolicited telephone calls to shareholders. Any such calls would relate only to official documentation already circulated to shareholders and would never offer 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 16.

Financial Statements on the website

The financial statements are published on the website, **www.hendersonhighincome.com** which is a website maintained by the Manager, Janus Henderson. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions. The maintenance and integrity of the website maintained by Janus Henderson or any of its subsidiaries is, so far as it relates to the Company, the responsibility of Janus Henderson. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the Annual Report since it was initially presented on the website.

Henderson High Income Trust plc
Registered as an investment company in England and Wales with registration number 02422514
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Legal Entity Identifier number (LEI): 213800OEXAGFSF7Y6G11

Telephone: **020 7818 1818**
Email: **support@janushenderson.com**

www.hendersonhighincome.com

MANAGED BY
Janus Henderson
INVESTORS

The Association of Investment Companies

PREMIUM MAIN MARKET
LONDON STOCK EXCHANGE

moneywise Investment Trust awards 2017
WINNER
INVESTMENT TRUST GROUP OF THE YEAR
Henderson Global Investors

aic Shareholder Communication Awards 2017 WINNER

aic Shareholder Communication Awards 2018 WINNER

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