# HENDERSON DIVERSIFIED INCOME TRUST PLC

## Annual Report for the year ended 30 April 2019

MANAGED BY
Janus Henderson
INVESTORS

# Contents



**The image on the front cover is based on St Pancras Railway Station, London**

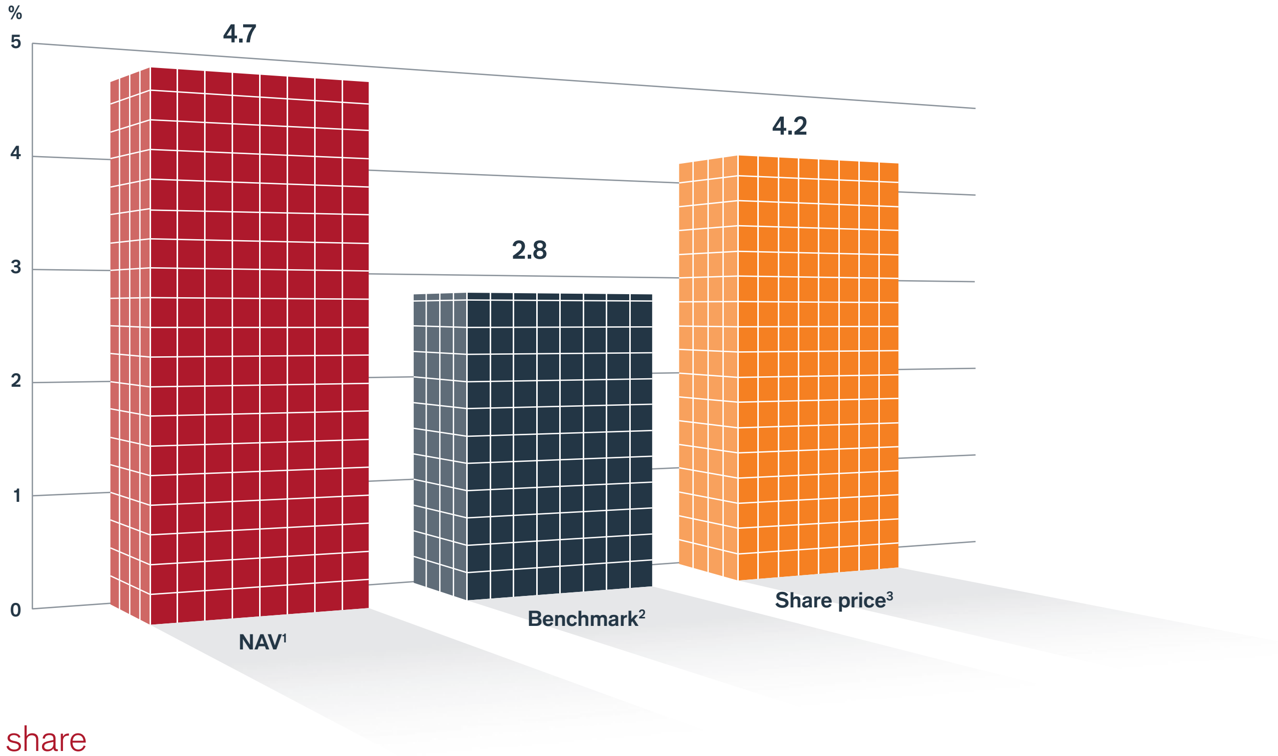
# Strategic Report

**"Notwithstanding the dislocation of the market at the end of 2018, the Company generated a positive net asset value total return of 4.7% for the year. This reflected the active management of the portfolio during the period and the Managers' long held view that global interest rates had peaked."**

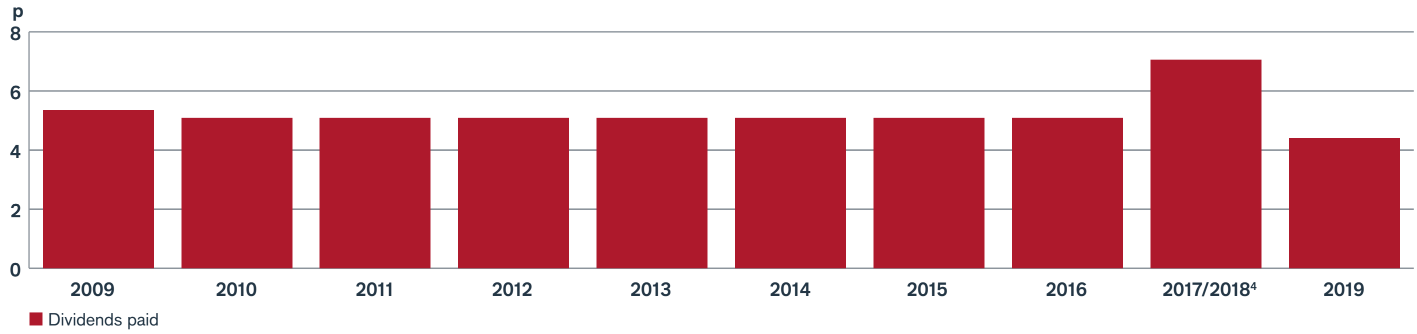
Angus Macpherson, Chairman

# Strategic Report: Performance Highlights

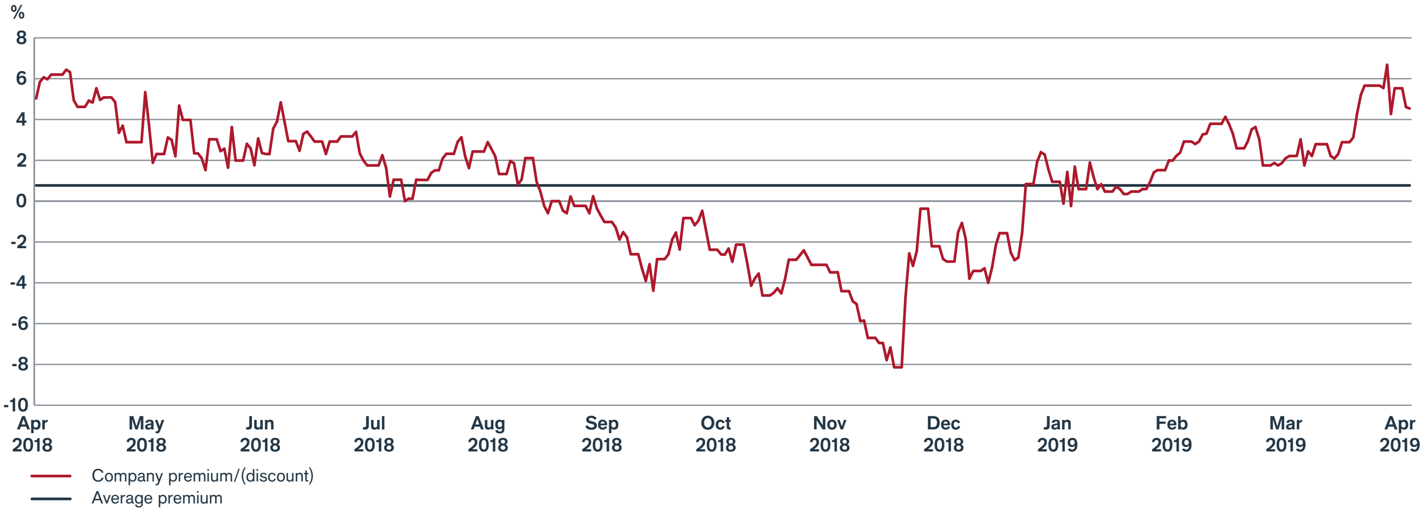
## Total return performance for year to 30 April 2019




## Dividend per share




## Premium/(discount) to net asset value for the year



# Strategic Report: Performance Highlights (continued)

## NAV per share

**2019 86.82p**

2018 87.44p

## Share price

**2019 90.80p**

2018 91.80p

## Revenue return per share

**2019 4.47p**

2018 4.19p

## Net assets

**2019 £164.6m**

2018 £165.8m

## Dividend

**2019 4.40p**

2018 4.55p

## Dividend yield

**2019 4.85%**

2018 4.96%

## Ongoing charge[5]

**2019 0.89%**

2018 1.48%

## Gearing

**2019 9.8%**

2018 19.1%

1 Net asset value ('NAV') total return (including dividends reinvested and excluding transaction costs)
2 The benchmark is the average return on a rolling annual basis of three month sterling Libor + 2%
3 The share price total return using mid-market closing price
4 During 2017/2018, the Company changed its year end to 30 April (from 31 October) following the redomicile to the United Kingdom. Six dividends were paid in the 18 month period from 1 November 2016 to 30 April 2018, comprising two dividends totalling 2.50p from Henderson Diversified Income Limited and four interest distributions from Henderson Diversified Income Trust plc totalling 4.55p
5 The ongoing charge for 2018 included a performance fee. The Board agreed with the Manager to remove the performance fee with effect from 1 November 2017. The ongoing charge excluding the performance fee for the period ended 30 April 2018 was 0.90%

A glossary of terms and alternative performance measures can be found on pages 20 to 22

Sources: Morningstar for the AIC, Janus Henderson and DataStream.

# Strategic Report: Business Model

## Investment objective and policy

The Company's investment objective is to seek income and capital growth such that the total return on the net asset value of the Company exceeds the average return on a rolling annual basis of three month sterling Libor + 2%.

The Company aims to deliver this outcome by investing in a diversified portfolio of global fixed and floating rate income asset classes including secured loans, government bonds, high yield (sub-investment grade) corporate bonds, unrated corporate bonds, investment grade corporate bonds and asset backed securities. The Company may also invest in high yielding equities and derivatives.

The Company uses a dynamic approach to portfolio allocation across asset classes and is permitted to invest in a single asset class if required. The Company seeks a sensible spread of risk at all times. It can invest in assets of any size, sector, currency or issued from any country.

The Company has adopted the following allocation limits:

- secured loans 0 to 100% of gross assets
- government bonds 0 to 100% of gross assets
- investment grade bonds 0 to 100% of gross assets
- high yield corporate bonds 0 to 100% of gross assets
- unrated corporate bonds 0 to 10% of gross assets
- asset backed securities 0 to 40% of gross assets
- high yielding equities 0 to 10% of gross assets

As a matter of policy, the Company will not invest more than 10% in aggregate of its net assets in a single corporate issue or issuer.

The Company may use financial instruments known as derivatives to enhance returns. They may also be used to reduce risk or to manage the Company's assets more efficiently. The use of derivatives may include credit derivatives (including credit default swaps) in addition to interest rate futures, interest rate swaps and forward currency contracts. The credit derivatives, interest rate futures and swaps are used to take a synthetic exposure to, or to hedge, an investment position where the derivative contract is more efficient or cost effective than a position in the underlying physical asset. The Company's exposure to derivatives is capped at a maximum net long or net short position of 40% of net assets. The Company may also employ financial gearing for efficient portfolio management purposes and to enhance investment returns but total gearing (both financial gearing and synthetic gearing combined) may not exceed 40% of net assets. Forward currency contracts are used to hedge other currencies back to sterling.

Any material change to the investment policy of the Company will only be made with the approval of shareholders.

## Risk

For more information about the Company's principal risks please see pages 17 to 19.

## Management

The Company qualifies as an Alternative Investment Fund in accordance with the Alternative Investment Fund Managers Directive ('AIFMD'). The Company has appointed Henderson Investment Funds Limited ('HIFL') to act as its Alternative Investment Fund Manager in accordance with an agreement which was effective from 3 March 2017 and may be terminated on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA'). References to Janus Henderson and the Manager within this report refer to the services provided by both entities.

## Management fee

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

Janus Henderson receives a management fee of 0.65% per annum, calculated and paid quarterly in arrears on the value of the Company's net assets.

# Strategic Report: Chairman's Statement

**The Chairman of the Company, Angus Macpherson, reports on the year to 30 April 2019**

Notwithstanding the dislocation of the market at the end of 2018, the Company generated a positive net asset value total return of 4.7% for the year. This reflected the active management of the portfolio during the period and the Managers' long held view that global interest rates had peaked.

## Performance

The net asset value total return per ordinary share for the year ended 30 April 2019 was 4.7% whilst the share price total return per ordinary share was 4.2%.

In the interim report the Managers reported on 'the nasty concoction of late cycle conditions' that had led to your Company incurring a total return loss of 1.2% in the period. In light of market uncertainty the Board took the unusual step of agreeing with the Managers that as a temporary measure they could ignore the objective to generate sufficient income to cover the dividend, allowing them to reduce exposure to the market and hence gearing.

As you will see from page 6, they took advantage of this, reducing exposure into the New Year before adding risk in the balance of the financial year. The table below demonstrates how the full year result obscures the underlying variation during the year:

| | NAV total return % | Share price % | Revenue per share p |
|---|---|---|---|
| Six months to 31 October 2018 | (1.2) | (8.2) | 2.39 |
| Six months to 30 April 2019 | 6.0 | 13.5 | 2.08 |
| Year to 30 April 2019[1] | 4.7 | 4.2 | 4.47 |

1 The full year returns are geometric so do not equal the total of the two half year results

I highlighted to shareholders in both the interim report and last years' Annual Report the Manager's scepticism about the return of inflation. At the time, this was not a consensus view. During the second half of the financial year the market and Central Banks increasingly coalesced around a similar outlook. This favoured the positioning of the portfolio and also the decision to add both duration and risk around the end of the calendar year. Pleasingly, notwithstanding the measures described above the income of the portfolio was sufficient to cover the dividend for the full year. The full year results also benefited from the revised fee arrangements put in place on 1 November 2017.

The Board is of the view that in the long term increasing the size of the Company is for the benefit of shareholders, since it should increase liquidity of the shares and spread costs across a wider base. Expansion has typically been achieved through issuance of new equity when the Company's share price has traded at a sufficient premium to net asset value to cover the costs of issuance. Since the start of the last financial year the Managers have not been comfortable that capital raised from such new issuance could be invested at the same yield as the existing portfolio. The Board concluded that in the short term issuance would not be in the interests of shareholders and therefore has not approved the issuance of new equity during the period. This position is monitored regularly and we hope that further issuance to grow the size of the Company will be possible soon.

## Dividends

For the year ended 30 April 2019, a third interim dividend of 1.10p per ordinary share was paid on 29 March 2019 and a fourth interim dividend of 1.10p per ordinary share was paid on 28 June 2019 making a total of 4.40p per ordinary share for the year, in line with our expectations. These dividends have been paid as interest distributions for UK tax purposes. More information about interest distributions can be found on the Company's website at **www.hendersondiversifiedincome.com**.

The Managers view is that the current dividend level is consistent with their risk appetite. The Board have agreed that they would be willing to support the dividend with reserves in the short term if it allowed the Managers' greater flexibility to reduce risk in volatile markets. This view takes into account the Managers' view of the economic cycle, however should significant systematic or secular risk emerge the dividend will need to be reviewed.

## Board change

I am delighted that Win Robbins was appointed to the Board on 28 May 2019. Win has extensive investment management experience having held various senior positions including eight years as Director of Credit Suisse Asset Management Limited from 1996 until 2004 and Managing Director and Head of Non-US Fixed Income at Citigroup Asset Management from 2004 to 2006. Win is a non-executive Director of Polar Capital Holdings plc, a position she has held since 2017 and was a non-executive director of City Merchants High Yield Trust Limited until March 2019. She is also a non-executive member of the Investment Committee of St. James Place Partnership plc and an Independent Trustee of the Institute of Cancer Research Pension Fund. Win holds the Diploma in Investment Management from the London Business School.

## Annual General Meeting ('AGM')

The Company's second AGM will be held at Janus Henderson's offices, 201 Bishopsgate, London EC2M 3AE on Tuesday 3 September 2019 at 2.30 pm. Full details of the business to be conducted at the meeting are set out in the Notice of Meeting which has been sent to shareholders with this report. Directions and a map showing the location of the AGM can also be found in the Notice of Meeting. At the AGM, John Pattullo and Jenna Barnard will present their investment views and how these are reflected in the portfolio. Following the formal business of the meeting light refreshments will be served. The Board looks forward to seeing many of you at the AGM. For those that cannot attend in person the AGM will be live streamed on the internet at **www.janushenderson.com/trustslive**.

## Outlook

Benjamin Graham observed of bond investment that 'since the chief emphasis must be on the avoidance of loss, bond selection is primarily a negative art. It is a process of exclusion and rejection, rather than of search and acceptance'. This was written in an era prior to the inflationary challenge of the seventies and eighties, the conquest of which has shaped the market experience of most investors.

The market has now moved to a belief that interest rates will normalise around low levels for a prolonged period, similar to the period in which Graham was writing. The portfolio is being positioned by the Managers to capture what they describe as 'sensible income'. This involves the exclusion of illiquid, small capitalisation issuers, those with low returns on capital or cash flow and the avoidance of heavily cyclical industries and those sectors facing structural or disruptive challenge. Reflecting this, the majority of the portfolio is invested in US assets with very little exposure to Continental Europe.

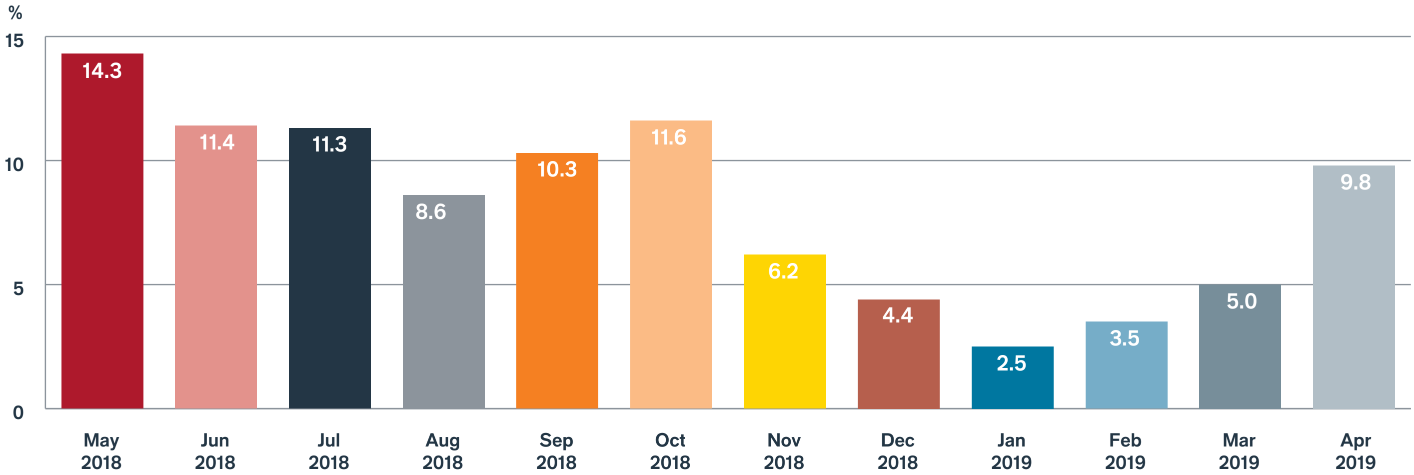
In such markets there is limited potential for significant asset appreciation and a balance found between finding yield which has acceptable risk. Should asset appreciation occur, it will make it even harder to find assets to invest in which provide good yield with reasonable risk. While it increasingly appears the Managers have been proved correct in their view of the market, it is a market that does not offer easy opportunities for income investors.

# Strategic Report: Portfolio Information

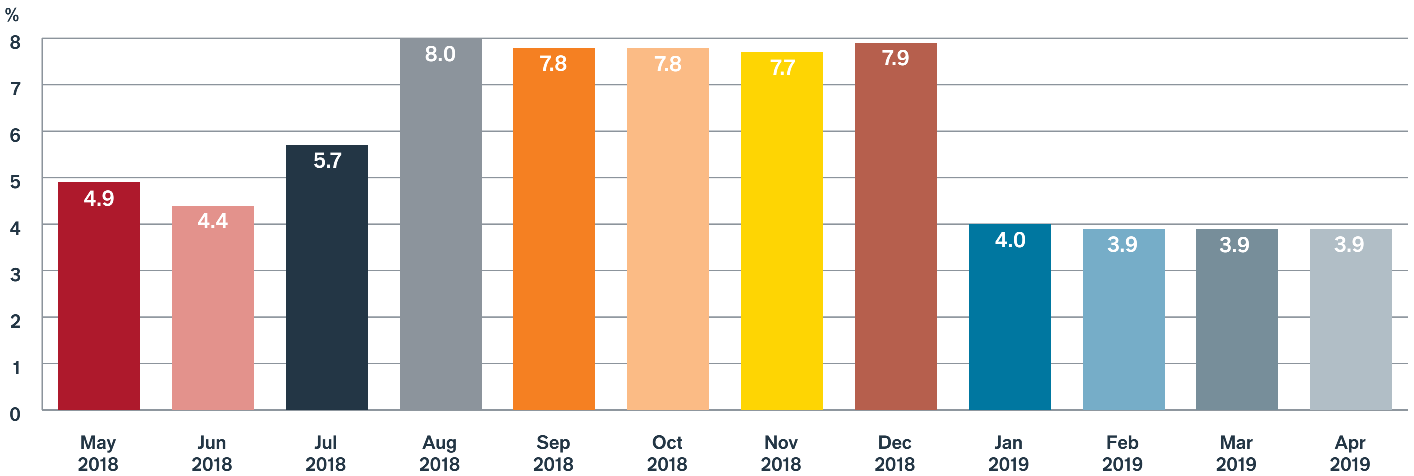
## Ten largest investments at 30 April 2019

| Ranking 2019 (2018) | Investment | Country | Industry | Market value £'000 | % of portfolio |
|---|---|---|---|---|---|
| 1 (3) | Aramark | US | **Consumer cyclical** | 4,566 | 2.53 |
| 2 (1) | Tesco | UK | **Consumer non-cyclical** | 4,541 | 2.51 |
| 3 (47) | Service Corp | US | **Consumer non-cyclical** | 4,531 | 2.51 |
| 4 (24) | Sirius | US | **Communications** | 4,453 | 2.46 |
| 5 (-) | Constellation Brands | US | **Consumer non-cyclical** | 4,440 | 2.46 |
| 6 (15) | Virgin Media | UK | **Communications** | 4,415 | 2.44 |
| 7 (37) | Equinix | US | **Financials** | 4,293 | 2.37 |
| 8 (12) | IMS | US | **Technology** | 4,152 | 2.30 |
| 9 (8) | Center Parcs | UK | **Consumer cyclical** | 4,029 | 2.23 |
| 10 (53) | Crown Castle | US | **Industrials** | 4,028 | 2.23 |

## Financial gearing levels over the year to 30 April 2019




## Synthetic gearing levels over the year to 30 April 2019




Source: Janus Henderson

# Strategic Report: Fund Managers' Report

**The Fund Managers of the portfolio, John Pattullo and Jenna Barnard report on the year to 30 April 2019**

## Background

The twelve months under review were exceptionally volatile for equity and credit markets with records tumbling in both a downward and upward direction. Most notable for bond investors was the dramatic shift in both the market and Central Bank views surrounding the outlook for inflation and future interest rate rises. It was a seminal shift in mind-set which culminated in the US Federal Reserve acknowledging that for the last ten years, there has been a continual undershooting of inflation relative to target.

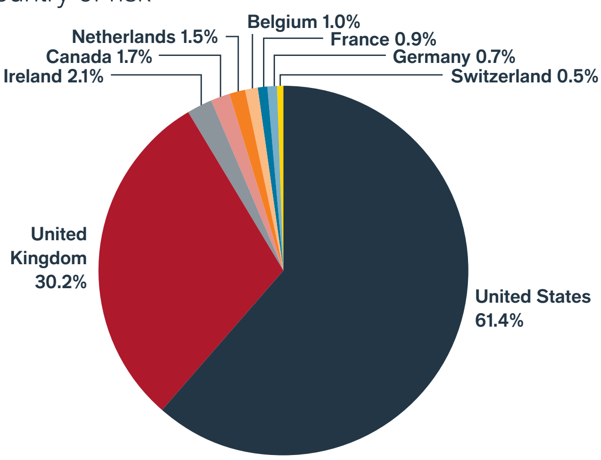
It may seem obvious today but if one casts their mind back to mid-2018 there was an emotive tone to the debate surrounding the inflation outlook, US fiscal deficits and of course, the level to which long term bond yields could rise. The mind-set of observers, and their orthodox economic models, was squarely rooted in the upside risks to inflation and the end of the long term decline in bond yields. Luminaries such as Jamie Dimon, CEO of JPMorgan, fell into the trap of misforecasting bond yields in an ever higher direction. Dimon settled upon a 5% US ten year bond yield in October having earlier forecast 4%. In reality yields could not sustain a level over 3% for more than two months proving that even this threshold was not a sustainable equilibrium for the US economy. We disagreed with this consensus narrative, believing the experience of 2018 replicated and accentuated a pattern of overforecasting of bond yields which has been repeating for at least 26 years (based on our reading of the data). The failure in our view has always been the economic models.

## Portfolio review

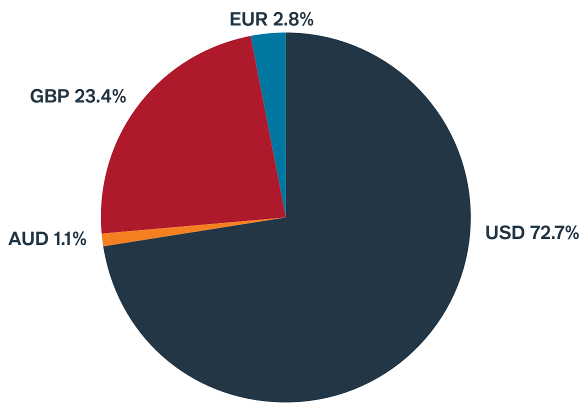
The portfolio as a whole continues to adhere to our style of what we call 'sensible income' investing. This avoids heavily cyclical industries (airlines, commodities etc) and remains shy of structurally challenged areas of the market, not least Italian bonds. Instead we focus on locking in reliable yields from strong stable large cap non-cyclical companies.

The net asset value per ordinary share ended the year under review almost unchanged at 86.82p compared to a starting level of 87.44p. Dividends paid were 4.40p per ordinary share in total. The movement in the net asset value over the year under review reflected the inherent risk and sensitivities of the portfolio. For most of 2018 the average price of the assets in the portfolio drifted lower as both US government bond yields and credit spreads moved higher in tandem (lower in price). By December however, risk assets were in a tailspin and government bond prices moved substantially higher as bond yields tumbled. This combination of factors was a classic indication of risk. Our net asset value per ordinary share was relatively resilient. This serves to highlight that the addition of quality longer dated investment grade bonds and interest rate futures can help stabilise and diversify the portfolio in the most challenging of times. In our view, generating a steady income from a bond portfolio is well served by this barbell of lower quality credit risk (high yield bonds) and longer dated investment grade bonds which have more interest rate risk inherent in their structure as opposed to investing in more illiquid areas of the credit market to generate a desirable yield which are heavily exposed in risk off environments.

### Country of risk




### Pre-hedging currency breakdown*




*Pre-hedging. The portfolio is typically fully hedged back to sterling. Post-hedging portfolio is 99.5% hedged back to sterling. Cash & derivatives excluded from above breakdowns

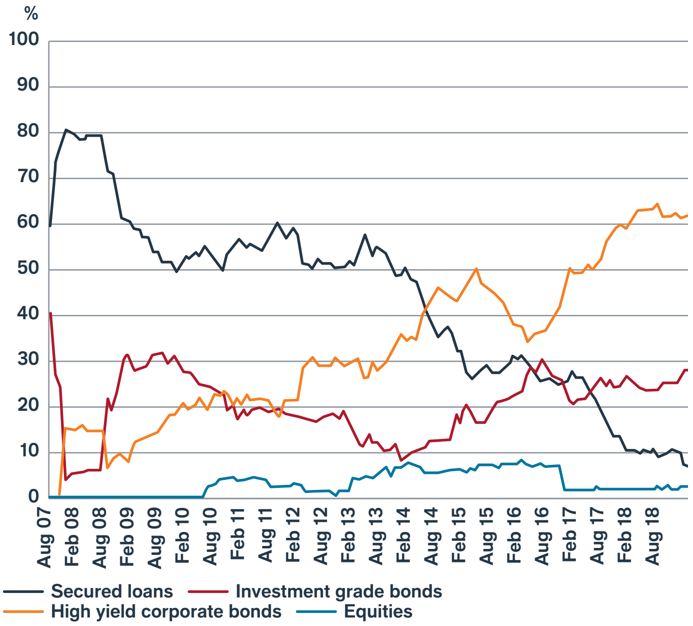
Source: Janus Henderson Investors, desk classifications, as at 30 April 2019

# Strategic Report: Fund Managers' Report (continued)

In late 2018 we began to use interest rate futures to tactically add duration (measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates) to the portfolio to reflect our view that government bond yields were likely to fall. We executed this strategy by purchasing five and ten year US bond futures from late November into early December and have subsequently made use of UK and Australian futures. This proved beneficial for Company performance.

Other than the addition of interest rate futures, the evolution of the Company's asset allocation changed relatively little over the course of the year. This reflects the fact that we have continued to favour fixed rate bonds (both high yield and investment grade) over the illusory attraction of floating rate assets which factored in interest rate increases that we did not think would happen. Consequently, the only minor change was a further reduction in the allocation to secured loans where we remain concerned about the quality of lending in this market as well as the floating rate nature of the asset class where income will fall as and when interest rates fall.

### Asset allocation over time




Source: Janus Henderson Investors, as at 31 January 2019

## Outlook

Our outlook for bond markets has long been driven by the structural and thematic factors which have served to shape our expectation of continued low inflation and low interest rates. Some may view this as complacent and reference the experience of the 1980s as a counterpoint to which we do not attach enough weight. We can assure you that this is not the case. Rather we have taken a longer term perspective and a more internationalist one than our critics would imply. The most common equilibrium in the long and broad sweep of bond market history is one of low yields and a low if not outright deflationary environment. The recent experiences of Japan and Europe also serve to highlight how difficult it is for Central Bankers to escape the curse of adaptive expectations and zero or negative interest rate policy. Even the US is beginning to exhibit the tell-tale signs of inflation expectations becoming unanchored to the downside i.e. the public incrementally reducing their expectation of future inflation year by year. This is a most unusual and foreboding development which should be close to a peak in the cyclical recovery juiced by fiscal spending.

The outlook for default rates is one which feels more uncertain to us. We have been firmly entrenched in a low default regime since 2009 in developed credit markets. One which was only briefly interrupted by commodity defaults in the US in 2015-16 when the oil price crashed. This feels less sustainable as markets turn down. We continue to favour lending to companies with proven defensive business models which still exhibit structural growth, an increased proportion of which are now situated in the United States. The benefits of buying these quality US dollar bonds comes of course with associated currency hedging costs, which are accounted via the capital account. Our style of credit investing with added diversification from longer dated investment grade bonds, should help us weather any coming storm as well as possible for a Company whose target is income. As always, we remain focused on delivering a reliable, dependable and consistent dividend stream for shareholders.

John Pattullo and Jenna Barnard
Fund Managers
11 July 2019

# Strategic Report: Investment Portfolio as at 30 April 2019

## High yield bonds

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

| Investments by value | Currency | Country | Industry | Market value £'000 | % of portfolio |
|---|---|---|---|---|---|
| Aramark | $ | US | Consumer cyclical | 4,566 | 2.53 |
| Service Corp | $ | US | Consumer non-cyclical | 4,531 | 2.51 |
| Sirius | $ | US | Communications | 4,453 | 2.46 |
| Virgin Media | £ | UK | Communications | 4,415 | 2.44 |
| Equinix | Euro/$ | US | Financials | 4,293 | 2.37 |
| IMS | $ | US | Technology | 4,152 | 2.30 |
| CPUK Finance | £ | UK | Consumer cyclical | 4,029 | 2.23 |
| Elanco | $ | US | Consumer non-cyclical | 3,997 | 2.21 |
| Lamb | $ | US | Consumer non-cyclical | 3,979 | 2.20 |
| Barclays | £/$ | UK | Financials | 3,881 | 2.15 |
| Arqiva | £ | UK | Communications | 3,868 | 2.14 |
| Phoenix | £ | UK | Financials | 3,861 | 2.14 |
| Ardagh | Euro/$ | Ireland | Industrials | 3,790 | 2.10 |
| Co-Operative Group | £ | UK | Consumer non-cyclical | 3,682 | 2.04 |
| Lloyds Group | $/£ | UK | Financials | 3,598 | 1.99 |
| Reynolds | $ | New Zealand | Industrials | 3,299 | 1.82 |
| Boyd | $ | US | Consumer cyclical | 3,179 | 1.76 |
| Tesco | £ | UK | Consumer non-cyclical | 2,927 | 1.62 |
| Crown | $ | US | Industrials | 2,803 | 1.55 |
| Bacardi | $ | Bermuda | Consumer non-cyclical | 2,796 | 1.55 |
| TransDigm | $ | US | Industrials | 2,584 | 1.43 |
| Infor | $ | US | Technology | 2,561 | 1.42 |
| Post | $ | US | Consumer non-cyclical | 2,544 | 1.41 |
| Lions Gate | $ | US | Financials | 2,497 | 1.38 |
| T-Mobile | $ | US | Communications | 2,291 | 1.27 |
| HCA | $ | US | Consumer non-cyclical | 2,283 | 1.26 |
| Catalent | $ | US | Consumer non-cyclical | 2,238 | 1.24 |
| Cott | $ | Canada | Consumer non-cyclical | 2,197 | 1.22 |
| CyrusOne | $ | US | Financials | 2,120 | 1.17 |
| Royal Bank of Scotland | $ | UK | Financials | 1,981 | 1.10 |
| Charter Communications | $ | US | Communications | 1,951 | 1.08 |
| Match | $ | US | Communications | 1,935 | 1.07 |
| Interxion | Euro | Netherlands | Technology | 1,927 | 1.06 |
| Silgan | $ | US | Industrials | 1,619 | 0.89 |
| CCO | $ | US | Communications | 1,388 | 0.77 |
| First Data | $ | US | Technology | 1,360 | 0.75 |
| Iron Mountain | $ | US | Financials | 1,214 | 0.67 |
| WMG | $ | US | Consumer cyclical | 1,176 | 0.65 |
| Diamond | $ | US | Technology | 1,159 | 0.64 |
| UBS | $ | Switzerland | Financials | 824 | 0.45 |
| Santander | £ | UK | Financials | 781 | 0.43 |
| EMC | $ | US | Technology | 614 | 0.34 |
| Citigroup | $ | US | Financials | 603 | 0.33 |
| Hilton | $ | US | Consumer cyclical | 449 | 0.25 |
| Zayo | $ | US | Communications | 312 | 0.17 |
| Ball | $ | US | Industrials | 147 | 0.08 |
| **Total High Yield Bonds** | | | | **116,854** | **64.64** |

# Strategic Report: Investment Portfolio as at 30 April 2019 (continued)

## Investment grade bonds

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

| Investments by value | Currency | Country | Industry | Market value £'000 | % of portfolio |
|---|---|---|---|---|---|
| Constellation Brands | $ | US | Consumer non-cyclical | 4,440 | 2.46 |
| Crown Castle | $ | US | Industrials | 4,028 | 2.23 |
| Verizon Communications | $/AUD | US | Communications | 3,274 | 1.81 |
| Cintas | $ | US | Consumer cyclical | 3,143 | 1.74 |
| American Tower | $ | US | Financials | 2,867 | 1.58 |
| Aviva | £ | UK | Financials | 2,590 | 1.43 |
| IHS | $ | US | Consumer non-cyclical | 2,577 | 1.42 |
| Comcast | $ | US | Communications | 2,459 | 1.36 |
| Sysco | $ | US | Consumer non-cyclical | 2,122 | 1.18 |
| Diamond | $ | US | Technology | 1,928 | 1.07 |
| Relx | $ | US | Consumer non-cyclical | 1,906 | 1.06 |
| Prudential | $ | UK | Financials | 1,754 | 0.97 |
| Anheuser | $ | US | Consumer non-cyclical | 1,725 | 0.95 |
| Axa | £ | France | Financials | 1,694 | 0.94 |
| Priceline | $ | US | Consumer cyclical | 1,624 | 0.90 |
| Scottish Widows | £ | UK | Financials | 1,500 | 0.83 |
| Salesforce | $ | US | Technology | 1,486 | 0.82 |
| Boston Scientific | $ | US | Consumer non-cyclical | 1,270 | 0.70 |
| BUPA | £ | UK | Financials | 1,114 | 0.62 |
| Becton Dickson | $ | US | Consumer non-cyclical | 993 | 0.55 |
| Verisk Analytics | $ | US | Consumer non-cyclical | 800 | 0.44 |
| McCormick | $ | US | Consumer non-cyclical | 795 | 0.44 |
| HSBC | $ | UK | Financials | 768 | 0.42 |
| Heinekin | $ | US | Consumer non-cyclical | 764 | 0.42 |
| Total System | $ | US | Consumer non-cyclical | 644 | 0.36 |
| Digital Reality | $ | US | Financials | 642 | 0.35 |
| VMware | $ | US | Technology | 425 | 0.23 |
| Zoetis | $ | US | Consumer non-cyclical | 139 | 0.08 |
| **Total Investment Grade Bonds** | | | | **49,471** | **27.36** |

## Asset backed securities

| Investments by value | Currency | Country | Industry | Market value £'000 | % of portfolio |
|---|---|---|---|---|---|
| Tesco Property Finance | £ | UK | Consumer non-cyclical | 1,614 | 0.89 |
| **Total Asset Backed Securities** | | | | **1,614** | **0.89** |

## Preference stock

| Investments by value | Currency | Country | Industry | Market value £'000 | % of portfolio |
|---|---|---|---|---|---|
| Nationwide Building Society VAR Perpetual | £ | UK | Financials | 3,834 | 2.12 |
| **Total Preference Stock** | | | | **3,834** | **2.12** |

# Strategic Report: Investment Portfolio as at 30 April 2019 (continued)

## Secured loans

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

| Investments by value | Currency | Country | Industry | Market value £'000 | % of portfolio |
|---|---|---|---|---|---|
| McAfee | Euro/$ | US | Technology | 2,438 | 1.35 |
| Warner | $ | US | Consumer cyclical | 2,090 | 1.16 |
| Hensoldt | Euro | Germany | Industrials | 1,294 | 0.72 |
| Stars | $ | Canada | Consumer cyclical | 944 | 0.52 |
| First Data | $ | US | Technology | 817 | 0.45 |
| Froneri | £ | UK | Consumer non-cyclical | 746 | 0.41 |
| ZPG | £ | UK | Communications | 690 | 0.38 |
| SS&C | $ | US | Technology | 5 | – |
| **Total Secured Loans** | | | | **9,024** | **4.99** |
| **Total Investments** | | | | **180,797** | **100.00** |

## Credit default swaps

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

| Investments by value | Currency | Market value £'000 |
|---|---|---|
| CDX REC 20/06/2021 JP C0DK – 4.9333% EUR CDSIndex.ITR | Euro | 822 |
| CDX REC 20/12/2022 CS C1X1 – 4.9333% EUR CDSIndex.ITR | Euro | 5,595 |
| CDX PAY 20/06/2021 JP C0DK – CDSIndex.ITR EUR SELL PROT | Euro | (774) |
| CDX PAY 20/12/2022 CS C1X1 – CDSIndex.ITR EUR SELL PROT | Euro | (5,185) |
| **Total Credit Default Swaps** | | **485** |

# Strategic Report: Historical Performance and Financial Information

The year end of your Company is 30 April, which is different to the predecessor company which had a year end of 31 October.

The directors believe that it is important to report the long term historic performance of the predecessor company alongside the Company's performance. As at 27 April 2017 the shareholders in the Company were the same as the shareholders in the predecessor company and each held the same number of ordinary shares in the Company as they held in the predecessor company as at 25 April 2017.

The data reported below for periods prior to 27 April 2017 is in respect of the predecessor company.

## Total return performance

| | 1 year % | 3 years % | 5 years % |
|---|---|---|---|
| NAV | 4.7 | 16.1 | 28.0 |
| Share price | 4.2 | 19.4 | 29.1 |
| Benchmark[1] | 2.8 | 7.9 | 13.0 |

Source: Morningstar Direct

[1] The benchmark is the average return on a rolling annual basis of three months sterling Libor + 2%

## Financial information[2]

| Date | Net assets £'000 | NAV p | Share price p | Premium/(discount) % |
|---|---|---|---|---|
| 30 April 2015 | 145,398 | 90.8 | 94.0 | 3.5 |
| 30 April 2016 | 146,367 | 87.9 | 89.0 | 1.2 |
| 30 April 2017 | 162,768 | 89.3 | 91.3 | 2.2 |
| 30 April 2018 | 165,799 | 87.4 | 91.8 | 5.0 |
| 30 April 2019 | 164,618 | 86.8 | 90.8 | 4.6 |

[2] Financial information for all previous periods is sourced from the half year updates of the predecessor Company, with the exception of 30 April 2017 which is sourced from the Association of Investment Companies

## Dividend history

| Date | Pence per share |
|---|---|
| Year ended 31 October 2015 | 5.10 |
| Year ended 31 October 2016 | 5.10 |
| Period 1 November 2016 to 30 April 2018[3] | 7.05 |
| Year ended 30 April 2019 | 4.40 |

[3] During 2017/2018, the Company changed its year end to 30 April (from 31 October) following the redomicile to the United Kingdom. Six dividends were paid in the 18 month period from 1 November 2016 to 30 April 2018, comprising two dividends totalling 2.50p from Henderson Diversified Income Limited and four interest distributions from Henderson Diversified Income Trust plc totalling 4.55p

# Strategic Report: Director Biographies

## Directors

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

### Angus Macpherson

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

**Date of appointment:** 23 February 2017

Angus is Chief Executive of Noble & Company (UK) Limited. He is also a Director of Pacific Horizon Investment Trust plc, a Director of Southern Pentland Shooting Club Limited and Trustee of The Scottish Policy Foundation. Previously he worked for Merrill Lynch in London, New York, Singapore and Hong Kong, latterly as Head of Capital Markets and Financing in Asia. He was also Chairman of JP Morgan Elect PLC until January 2018, Chairman of the Belhaven Hill School Trust Ltd and a Member of the Scottish Government's Financial Services Advisory Board.

### Ian Wright

**Position:** Chairman of the Audit Committee

**Date of appointment:** 23 February 2017

Ian is Deputy Chairman of the Jersey Financial Services Commission, a Director of the Jersey Heritable Property Company Limited and a Policeman in the Parish of St. Brelade. He is a Chartered Accountant. Previously he was an audit partner in Price Waterhouse and then PricewaterhouseCoopers including serving as the Senior Partner of the firm's international accounting consulting group. A founder member of the IFRS Interpretations Committee he has also served on professional committees of the ICAEW and FEE. He was also a Panel Member of the Financial Reporting Review Panel which is part of the UK Financial Reporting Council. He is resident in Jersey having previously worked in the Channel Islands, London and Bahrain.

### Denise Hadgill

**Position:** Director

**Date of appointment:** 23 February 2017

Denise was, until 2015, Managing Director and Head of the UK Product Strategy Group at BlackRock and was responsible for delivering the firm's investment message and economic outlook to an extensive range of UK pension fund and charity trustee boards. Prior to this she spent 14 years at Schroder Investment Management Limited where she was UK Equity Fund Manager and Director responsible for the firm's relationship with 21 UK pension fund and charity clients with multi asset portfolios valued at £2 billion.

### Stewart Wood

**Position:** Director

**Date of appointment:** 23 February 2017

Stewart became a Labour member of the House of Lords in 2011. He was Shadow Minister without Portfolio and a strategic adviser to Ed Miliband, Leader of the Labour Party, from 2010 to 2015. Prior to that he was a special adviser to the Chancellor of the Exchequer on the UK Treasury's Council of Economic Advisers from 2001 to 2007, during which time he led on the assessment for UK entry into the Euro. He then served as Senior Special Adviser on foreign affairs, culture and media policy, and Northern Ireland between 2007 and 2010. After the 2010 General Election, he led Ed Miliband's successful campaign for the Labour leadership. In 2016, he was named as the new Chair of the United Nations Association (UK), appointed to the Board of the Marshall Scholarships Commission, and is a Director of the Good Law Project. Since 2019 he has been a member of the House of Lords' Select Committee on the European Union, and frequently gives talks to companies and conferences on topics including Brexit, the Future of the EU and German politics. He has been a Fellow at Magdalen College, Oxford University since 1995, and is a Professor of Practice at the Blavatnik School of Government in Oxford University.

### Win Robbins

**Position:** Director

**Date of appointment:** 28 May 2019

Win has extensive investment management experience having held various senior positions including eight years as Director of Credit Suisse Asset Management Limited from 1996 until 2004 and Managing Director and Head of Non-US Fixed Income at Citigroup Asset Management from 2004 to 2006. Win is a non-executive Director of Polar Capital Holdings plc, a position she has held since 2017. She is also a non-executive member of the Investment Committee of St. James Place Partnership plc and an Independent Trustee of the Institute of Cancer Research Pension Fund. She holds the Diploma in Investment Management from the London Business School. Win was a non-executive director on the Board of City Merchants High Yield Trust Limited until she retired in March 2019, having held that position since 2009.

All directors are independent of Janus Henderson and are members of the Nominations, Management Engagement, Insider and Audit Committees.

# Strategic Report: Corporate Information

## Registered office

201 Bishopsgate
London
EC2M 3AE

## Service providers

### Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London
EC2M 3AE

### Depositary and Custodian

BNP Paribas Securities Services (London Branch)
10 Harewood Avenue
London
NW1 3AE

### Stockbrokers

JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

### Corporate Secretary

Henderson Secretarial Services Limited
201 Bishopsgate
London
EC2M 3AE

### Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

## Independent auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

## Financial calendar

| | |
|---|---|
| Annual results | Announced in July 2019 |
| Annual General Meeting[1] | 3 September 2019 |
| 1st interim dividend payable on | 30 September 2019 |
| Half year results | Announced December 2019 |
| 2nd interim dividend payable on | 31 December 2019 |
| 3rd interim dividend payable on | 31 March 2020 |
| 4th interim dividend payable on | 30 June 2020 |

1 At the Company's registered office at 2.30 pm

## Information sources

For more information about the Company, visit the website at **www.hendersondiversifiedincome.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 trust as defined under section 833 of the Companies Act 2006 ('Act'). It has been approved as an investment company under sections 1158/1159 of the Corporation Tax Act 2010 ('Section 1158'), as amended, and is a member of the Association of Investment Companies ('AIC').

The directors are of the opinion that the Company continues to conduct its affairs as an Approved Investment Trust under the Investment Trust (Approved Company) (Tax) Regulations 2011. The Company maintains a primary listing on the London Stock Exchange and is subject to the Listing, Prospectus and Disclosure Guidance and Transparency Rules published by the 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 close company.

## Ongoing charge and other costs

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The ongoing charge for the year ended 30 April 2019 was 0.89% (2018: 1.48% including performance fee; 0.90% excluding performance fee). The Board agreed with the Manager to remove the performance fee with effect from 1 November 2017.

The Board believes that the ongoing charge during the year represented good value for money for shareholders. There is, however, some debate over the most appropriate measure of investment company costs to enable shareholders to assess value for money and to make comparisons between companies. Whilst industry agreement on how best to present a single figure for costs remains elusive, the Company will continue to focus on the ongoing charge (which is prepared in accordance with the AIC's recommended methodology) as a readily-understood measure of the underlying expenses of running the business.

## Borrowing

The Board has in place a loan facility which allows it to borrow up to £45.5 million (£35.5 million with an additional £10.0 million commitment being available). This facility expires in August 2020. Borrowing is regularly reviewed by the Board. At 30 April 2019 the Company had drawn down £18.5 million (2018: £26.8 million). The maximum amount drawn down in the year was £34.8 million (2018: £34.5 million), with borrowing costs including interest for the year totalling £369,000 (2018: £419,000). Under the facility at 30 April 2019 the ratio of borrowings to net assets was 11.3% (2018: 16.2%).

## Future developments

While the future performance of the Company is mainly dependent on the performance of global financial markets which are subject to various external factors, the Boards intention is that the Company will continue to pursue its stated investment objective and policy explained on page 4. The Chairman's Statement (page 5) and the Fund Managers' Report (pages 7 and 8) 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 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.

### 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 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. The Manager actively votes at shareholder meetings and engages with companies as part of the voting process.

The responsible investment policy and further details of the Manager's responsible investment activities can be found on the website **www.janushenderson.com**.

### 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 responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

# Strategic Report: Corporate Information (continued)

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 CarbonNeutral®.

## 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 receives assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

## 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.

## 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.

## Board diversity and experience

The Company's affairs are overseen by a Board comprising five non-executive directors – two female and three male. The directors are diverse in their experience bringing knowledge of investment markets, accounting and foreign affairs and politics 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. The Company has no employees and therefore has no further disclosures to make in respect of gender representation within the Company.

## Promoting the success of the Company

When making decisions the directors' consider the long term consequences of those choices, the Company's key stakeholders and business relationships with its third party suppliers, and maintaining a reputation for high standards of business conduct (including those of its third party suppliers) within the context of promoting the success of the Company for the benefit of its Members as a whole. Please see the principal risks and uncertainties (pages 17 to 19) and the viability statement (page 19) for further details.

## Performance measurement and 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 ('KPIs').

The performance highlights on pages 2 and 3 and the historical performance and financial information on page 12 show how the Company has performed against these KPIs.

| KPI | Action |
|---|---|
| **Total return performance** | The Board reviews and compares the performance of the portfolio as well as the net asset value ('NAV'), income and share price of the Company at each Board meeting. |
| **Income** | At each Board meeting, the directors examine the revenue forecast and consider yield on the portfolio and the amount available for distribution. It also monitors the level of net income received in support of the Company's future interest distributions. |
| **Discount/premium to NAV** | At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV per share (including income). The Board considers the use of share buybacks to enhance shareholder value where appropriate. Shares would only be purchased at a price below the prevailing NAV per share, thereby increasing the NAV per share of the remaining shares. The Board also considers the issuance of new shares, but only when there is unfulfilled demand, they trade at a premium to NAV, and the cost of such issuance is included in the price paid for the new shares, such that there is no detriment in terms of total return to existing shareholders. The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula. |
| **Ongoing charge** | The Board regularly reviews the ongoing charge and monitors costs that impact the Company's distributable revenue. During the current year the Company benefitted from the removal of the performance fee in the previous year. Details of the impact of this can be found in the ongoing charge performance highlights on page 3. |

# Strategic Report: Corporate Information (continued)

## Principal risks and uncertainties

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. The Board has considered the impact of Brexit on the Company and concluded that the current portfolio is suitably diversified and will therefore not be significantly affected by the outcome of Brexit. The Board will continue to monitor this position. The following summary identifies those risks and uncertainties that the Board believes are the most significant and explains whether, and if so how, they are mitigated.

The Company is an investment trust and the Board is wholly non-executive. The Board has delegated many of its functions to third party service suppliers including Janus Henderson and BNP. However, certain risks and functions cannot be delegated and are retained by the Board.

The Board has analysed risk from the perspectives of the markets in which it invests and its operations.

### Principal market risks

The Board has agreed with the Manager that it seeks an average total return on a rolling three month basis of Libor + 2%. To achieve a return over Libor + 2% the Managers identify risk assets that they believe adequately compensate the Company for the risks that arise.

The Board has set limits on the class of debt and equity assets that may be utilised by the Manager and given permission for the Manager to leverage the portfolio through significant on balance sheet and synthetic gearing. As a result investors are exposed to a number of risks which are not mitigated and may give rise to gains and losses which may be significant.

The Board is conscious that predictable dividend distributions are particularly important to shareholders. Dividends are principally declared from net revenue income although the Board does have the power to declare dividends out of capital.

Net revenue income arises in the main from seeking interest rate and credit returns from investments. The selection of such investments is based on the judgment of the Managers as to current and expected market conditions. The Board believes that the principal market risks faced by the Company and its shareholders arise from interest rate, credit and currency risks.

| Market risk | Mitigation |
|---|---|
| **Interest rate risk**<br>The Company takes on interest rate risk so as to deliver portfolio returns.<br>Reductions in market interest rates will reduce gross and net revenue income and this effect may be amplified by the use of leverage.<br>Such falls may be mitigated for a period if the Company has invested in longer term fixed rate assets prior to such market movements.<br>The Company invests in secured loans. Whilst such secured loans may contain fixed interest rates, they may also contain prepayment provisions that reduce their effectiveness at mitigating interest rate risk.<br>Increases in market interest rates can reduce net asset value if interest rates rise whilst holding fixed rate assets of longer duration.<br>Interest rate risk also arises from an investment in credit derivatives and the use of rolling forward foreign exchange contracts. | The Board has not set any limits on the amount of interest rate risk that may be taken by the Manager other than to limit the gross on balance sheet and synthetic leverage to 40% of net assets.<br>The Board discusses interest rate risk with the Managers at each Board meeting and probes their assessment of market conditions and their judgment as to the direction of interest rates and speed of development.<br>The Board receives a projection of net income on a monthly basis and probes the income realised to date and forecast to the financial year end.<br>The Board receives a list of the assets in the portfolio which contains details of interest rates and periods to maturity at each Board meeting.<br>The Board receives analysis of duration at over time at each meeting to seek to capture the current interest rate risks in the portfolio, but is discussing additional reporting in this regard.<br>During the year the Board supported the Managers use of interest rate derivatives to mitigate interest rate risk and manage duration.<br>The interest rate risk profile of the portfolio as at the year end is set out in note 14 to the financial statements on page 54. |
| **Credit risk**<br>The Company takes on credit risk so as to deliver portfolio returns.<br>Investing in debt securities and secured loans exposes the Company to credit risk from company defaults and restructurings.<br>Whilst it may be possible to hold a debt instrument to maturity, and be paid out in full, the Manager has discretion to sell a distressed asset which would give rise to realised losses without a default having occurred.<br>Reductions in credit spreads will reduce gross and net income and this effect may be amplified by leverage.<br>Reductions in spreads may also reduce the availability of assets which the Manager believes would appropriately compensate the Company and its shareholders for the credit risk assumed leading to reduced flexibility if the portfolio needs to be repositioned.<br>The Company is also exposed to counterparty credit risk through the use of derivatives. | The Board has not set any limits on the credit quality of the portfolio other than to limit asset backed securities to 40% of gross assets and high yielding equities to 10% of gross assets. Further, the Company will not, as a matter of policy, invest more than 10% in aggregate of its net assets in any single corporate issue or issuer.<br>The Board receives a report of the assets held in the portfolio at each Board meeting and discusses credit quality and default trends with the Managers.<br>The credit rating table for the portfolio at the year end is disclosed in note 14 to the financial statements on page 57. |

# Strategic Report: Corporate Information (continued)

| Market risk | Mitigation |
|---|---|
| **Currency risk**<br>The Company invests in assets of fixed amounts denominated in currencies other than sterling which give rise to currency risk.<br>Significant gains and losses would likely be incurred on the liquidation of such assets when repatriating capital to sterling. Less significant gains and losses are incurred on repatriating interest and other income to sterling.<br>The custodian undertakes a rolling programme of forward sales of foreign currency which gives rise to elements of interest rate risk and credit default risk with the counterparty. | The Board has set a requirement that the capital amount of any investment denominated in a foreign currency be hedged to sterling so as to mitigate currency gains and losses.<br>The Board receives a report of gross and hedged currency positions at each Board meeting so it can monitor the level of hedging actually undertaken.<br>Gross and net hedging currency exposures are set out in note 14 to the financial statements on page 54. |

## Principal operational risks

In terms of operational risk the Board has determined that the principal risks arise from its relationship and management of third party service suppliers and from the nature of the activities of the Company to the degree that they are unusual when compared to other investment trusts.

| Operational risk | Mitigation |
|---|---|
| **Continued interest and commitment of Jenna Barnard and John Pattullo as Fund Managers**<br>Jenna and John have directed the portfolio since its launch and the portfolio reflects their assessment of current economic conditions and likely market opportunities and developments.<br>It may prove difficult to replace either or both of them should they decide to step down or if Janus Henderson allocates them to alternative funds under management. Any replacements may have a different style and different view of how the benchmark return may best be met. | The Board has an extensive and ongoing dialogue with Jenna and John on a quarterly basis and seeks to ensure that they remain interested and committed to the portfolio.<br>The Board discusses this risk regularly with Janus Henderson management and seeks to ensure that Jenna and John remain allocated to the portfolio and are appropriately rewarded for their services. |
| **Continued interest and commitment of Janus Henderson as Manager and its operation of effective systems of internal control and management reporting (and execution and settlement of secured loans)**<br>The Board appointed Janus Henderson as its Manager at inception and the group has supported shareholders since listing the predecessor company.<br>The Board benefits from the extensive knowledge and experience of Janus Henderson who manage a substantial portfolio of investment trusts and the economies of scale from contracting with other investment trusts for services.<br>The Board relies on the knowledge and expertise of Janus Henderson in ensuring that the Company complies with all relevant laws and regulations which include company law, securities legislation, data protection, anti-bribery and corruption and anti-tax evasion legislation.<br>It may prove difficult to replace the Manager with an alternative provider that would bring the same knowledge, experience and economies of scale should Janus Henderson decide to exit the investment trust business or to cease trading. | The Board has a regular dialogue with representatives of Janus Henderson about their support for the Company and annually assesses their performance to ensure that economies of scale and other benefits from the relationship are in fact being delivered.<br>The Board receives regular reports on compliance with laws and regulations and receives regular updates as new legislation is enacted.<br>The Board receives an annual report on internal controls in operation at Janus Henderson and is promptly made aware of any compliance failings and how they are remediated.<br>On an annual basis the Board reviews the quality of the service it has received and any issues and provides feedback to Janus Henderson. |

# Strategic Report: Corporate Information (continued)

| Operational risk | Mitigation |
|---|---|
| **Reliance on credit standing and quality of service of BNP as the appointed depositary and custodian of assets and their execution and settlement of transactions (other than secured loans)**<br>The Board has appointed BNP as its depositary. As depositary BNP acts as the Company's investment custodian, with responsibility for transaction execution and settlement.<br>The Company is reliant on BNP operating effective systems to ensure the Company's transactions are undertaken promptly, that they are properly recorded, that assets are kept segregated from those of other clients, and that BNP's credit rating does not deteriorate or the custodian fails such that assets are not immediately recoverable. | The Board assesses the credit standing of BNP on a regular basis and keeps aware of market commentary should adverse events and circumstances begin to appear.<br>The Board receives an annual report on internal controls in operation at BNP (fund accounting, global custody and middle office functions) and would be made aware promptly of any compliance failings and how they are remediated.<br>On an annual basis the Board reviews the quality of the service received by BNP depositary and custodian and discusses any issues. |
| **Reliance on service providers to manage and control certain features of the portfolio**<br>The investment portfolio contains certain assets and liabilities (that are not present in most investment trusts) that require specific procedures and internal controls to be present for the Company as follows:<br>The Company invests in secured loans which are individually documented and require additional systems and controls to manage.<br>The Company uses forward foreign exchange contracts to hedge currency exposure and uses future interest rate agreements to manage interest rate risk which require specialised reports to be produced to monitor net risks.<br>The Company has borrowed funds and given covenants to the lender regarding certain ratios which require monitoring to ensure they are met. | The Board receives a regular report on net income earned to date and a projection of net income to the end of the year. The Board uses this to obtain comfort that the portfolio and its risks are being managed as intended. It also receives a monthly investment limits and restrictions schedule that confirms that the Manager has complied with the Board set investment limits and restrictions each month that includes borrowing covenants.<br>On a quarterly basis the Board receives and reviews detailed reports with Janus Henderson including:<br>– balance sheet<br>– income statement<br>– asset listing including purchases and sales<br>– revenue forecast<br>– gross and net currency position |

## Viability statement

The directors have assessed the viability of the Company over a three year period taking account of the Company's current position and the potential impact of the principal risks and uncertainties documented in this Strategic Report.

The directors consider this to be an appropriate period over which they do not expect there to be any significant changes in the current principal risks and adequacy of the mitigating controls in place.

In assessing viability, the directors have considered the impact of the likelihood of the principal risks and uncertainties facing the Company in severe but reasonable scenarios, and the effectiveness of any mitigating controls in place, over the relevant period.

The directors also took into account the liquidity and maturity of the portfolio and the income stream from the portfolio in considering the viability of the Company and its ability to meet liabilities as they fall due. This included consideration of how the forecast income stream, expenditure, gearing and levels of reserves could impact on the Company's ability to pay dividends to shareholders over that period in line with its current 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 three year period as a means of assessing whether the Company can continue in operation.

Based on their 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 three year period. Only a substantial financial crisis affecting the global economy could have an impact on this assessment.

For and on behalf of the Board

Angus Macpherson
Chairman
11 July 2019

# Strategic Report: Glossary

## Alternative Investment Fund Managers Directive ('AIFMD')

Agreed by the European Parliament and the Council of the European Union and transposed 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. The Company's benchmark is the average return on a rolling annual basis of three month sterling Libor + 2%.

## Credit default swaps

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

## Custodian

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

## Depositary

From 22 July 2014 all AIFs were required to appoint a depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings. The depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

## Derivative

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

## Dividend dates

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

## Floating rate asset

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

## High yield bonds

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

## Interest rate futures

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

## Interest rate swaps

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

## Interest streaming

An investment company may elect to pay distributions to shareholders as interest in order to reduce the taxable profits of the investment company, known as 'interest streaming'. An interest distribution still has the status of a dividend as a matter of company law and is paid in cash in the same way that a dividend is paid. The receipt of interest distributions by a shareholder who is resident in the UK will be taxed as though that shareholder received interest income and not at the rates that would be applied to dividends. Investors who have invested through a tax exempt wrapper (e.g. ISA or SIPP) should be exempt from tax on both dividends and interest distributions.

## Investment grade bonds

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

# Strategic Report: Glossary (continued)

## 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.

## Libor

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

## Liquidity

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

## Market capitalisation

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

## Retail price index

An inflationary indicator that measures the change in the cost of a fixed basket of retail goods.

## Secured loans

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

# Strategic Report: Alternative Performance Measures

## Dividend yield

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

## Financial gearing

The financial gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) 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. This figure indicates the extra amount by which total equity would move if the Company's investments were to rise or fall. This is calculated by taking the difference between total investments (see note 11) and total equity (see Statement of Financial Position) divided by total equity and multiplied by 100.

## 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 Statement of Financial Position)) and other payables (see note 13) for which the Company is responsible, divided by the number of shares in issue (see note 15). The aggregate NAV is also referred to as shareholders' funds on the Statement of Financial Position. 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.

## 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) as being the best estimate of future costs in accordance with methodology prescribed by the AIC and is the annualised ongoing charge divided by the average net asset value in the period. It can be calculated including or excluding the performance fee.

## Premium/discount

The amount by which the market price per share (see 'financial information' table on page 12) of an investment company is either higher (premium) or lower (discount) than the NAV per ordinary share, expressed as a percentage of the NAV per ordinary share.

## Synthetic gearing

Synthetic gearing is the gearing effect of investing in credit derivatives including interest rate derivatives. This is calculated as the gross market value of the exposure to derivatives divided by total equity and multiplied by 100 (page 6).

## Total gearing

Total gearing is the total of financial gearing and synthetic gearing, both of which are on page 6.

## Total return performance

This is the return on the share price (page 12) or NAV (see 'NAV per ordinary share') taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders during a given period. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return).

See page 16 for details of the Company's key performance indicators and how the directors assess some of these Alternative Performance Measures.

# Corporate Report

# Report of the Directors

The directors present the audited financial statements of the Company and their report for the year from 1 May 2018 to 30 April 2019. Henderson Diversified Income Trust plc (the 'Company') (registered and domiciled in England & Wales with company registration number 10635799) was active throughout the year under review and was not dormant.

The Investment Portfolio on pages 9 to 11, the Corporate Governance Statement on pages 28 to 32 and the Report of the Audit Committee on pages 33 to 35 form part of the Report of the Directors.

## Related party transactions

The Company's transactions with related parties in the year were with the directors and the Manager. There have been no material transactions between the Company and its directors during the year and the only amounts paid to them were in respect of fees and expenses for which there were no outstanding amounts payable at the year end. Directors' shareholdings are disclosed on page 26.

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 provision of sales and marketing services 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 22 on page 62.

## Share capital

The Company's share capital comprises ordinary shares with a nominal value of 1p. The voting rights of the shares on a poll are one vote for every ordinary share of 1p. 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 30 April 2019 there were 189,618,240 ordinary shares in issue (30 April 2018: same). No shares were issued during the year. In the period from 1 May 2019 to 11 July 2019 no shares have been issued.

The directors seek annual authority from the shareholders to allot new ordinary shares, to dis-apply pre-emption rights of existing shareholders and to buyback shares for cancellation or to be held in treasury. At the AGM held on 21 August 2018 the directors were granted authority to buyback 28,423,774 shares (being 14.99% of the issued ordinary share capital). In the period from 1 May 2019 to 11 July 2019 no shares have been bought back. As at 11 July 2019 the total voting rights were 189,618,240. There remained 28,423,774 ordinary shares available within the buyback authority granted in 2018. This authority will expire at the conclusion of the AGM in 2019 and the directors intend to renew this authority subject to shareholder approval.

## Holdings in the Company's shares

Declarations of interest in the voting rights of the Company as at 30 April 2019 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

| | % of voting rights |
|---|---|
| Brewin Dolphin Limited | 9.92 |
| Transact Nominees Limited | 8.01 |
| Canaccord Genuity Group Inc. | 3.40 |

No changes have been notified in the period 1 May 2019 to 11 July 2019.

## Annual General Meeting

The AGM will be held on Tuesday 3 September 2019 at 2.30 pm 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 circular being sent to shareholders with this report.

## Other information

Information on dividends, future developments and financial risks are detailed in the Strategic Report.

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

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

## Global greenhouse gas emissions

Information of the Company's greenhouse gas emissions can be found in the Strategic Report on pages 15 and 16 in the 'employees, social, community, human rights and environmental matters' section.

## 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.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
11 July 2019

# Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

## Statement under Disclosure Guidance and Transparency Rule 4.1.12

Each of the directors, who are listed on page 13, confirms that, to the best of his or her knowledge:

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

Angus Macpherson
Chairman
11 July 2019

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

The maintenance and integrity of the website is the responsibility of the Manager. The work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

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

# Directors' Remuneration Report

## Remuneration policy

Directors are remunerated in the form of fees, payable quarterly in arrears. The Company's Articles of Association limit the fees payable to the directors in aggregate to £300,000 per annum. Subject to the overall limit, the Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors and should be sufficient to promote the long term success of the Company. All directors, including any new appointments to the Board, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee who are paid a higher fee in recognition of their additional responsibilities. The policy is to review fee rates annually, although such review will not necessarily result in any change to the rates, and account is taken of fees paid to the directors of other investment trust companies. 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.

## 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 ('Regulations').

The report also meets the relevant requirements of the Companies Act 2006 ('Act') and the Listing Rules of the FCA and describes how the Board has applied the principles relating to directors' remuneration. The Company's remuneration policy has been in place since 23 February 2017 and was approved by shareholders at the AGM on 21 August 2018 in accordance with section 439A of the Act. The policy will remain in place until the AGM in 2021, unless amended by way of an ordinary resolution put to shareholders at a general meeting. No changes to the policy are currently proposed.

The Board may amend the level of remuneration paid to individual Directors within the parameters of the remuneration policy. 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 of the 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 appointed a separate Remuneration Committee as it is considered unnecessary: as an investment trust board comprising only independent non-executive directors, no director is eligible to receive bonuses, pension benefits, share options or other benefits and no long term incentive schemes are in place. In the year under review the Board has not been provided with advice or services by any person in respect of its consideration of directors remuneration. The directors review annually the fees paid to the other Janus Henderson managed investment trust boards and the fees paid to the other investment trusts boards in the Company's AIC peer group (Debts – Loans and Bonds sector) when assessing directors' fees.

## Annual statement

The Chairman of the Board reports that there were no changes to the directors remuneration in the year under review. The fees for directors and the Chairman of the Audit Committee were increased with effect from 1 July 2019 as detailed on page 27. The increases were made after consideration of the fees paid by other investment trusts in the sector as well as taking account of available independent fee research from Trust Associates. The Board was also mindful that there had been no change to fees since the Company was incorporated on 23 February 2017. These increases were to ensure that the directors and the Chairman of the Audit Committee are properly remunerated for their services to the Company and so that the Company can remain competitive when recruiting for new directors. There was no change to the fee of the Chairman of the Board.

## Directors' interests in shares (audited)

| | Ordinary shares of 1p | |
|---|---|---|
| | 30 April 2019 | 1 May 2018 |
| **Beneficial interest:** | | |
| Angus Macpherson | 101,488 | 101,488 |
| Denise Hadgill | – | – |
| Stewart Wood | – | – |
| Ian Wright | 30,000 | 30,000 |

Win Robbins was appointed on 28 May 2019 and is therefore not included in the table above as she 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.

In accordance with the Company's Articles of Association, no director is required to hold shares of the Company by way of qualification.

## 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 to shareholders by way of dividends. There were no share buybacks or other significant distributions, payments or other uses of the Company's net return or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

| | 2019 £ | 2018 £ | Change £ |
|---|---|---|---|
| Total remuneration paid to directors | 119,406 | 169,306 | (49,900) |
| Ordinary dividends[1] paid during the year | 8,343,203 | 8,627,630 | (284,427) |

[1] Includes dividends declared but not yet paid

# Directors' Remuneration Report (continued)

## Directors' fees and expenses (audited)

The fees and expenses paid to directors who served during the period ended 30 April 2018 and year ended 30 April 2019 was as follows:

| | Year ended 30 April 2019 Total fees £ | Period 23 February 2017 to 30 April 2018 Total fees £ | Year ended 30 April 2019 Total expenses including taxable benefits £ | Period 23 February 2017 to 30 April 2018 Total expenses including taxable benefits £ | Year ended 30 April 2019 Total £ | Period 23 February 2017 to 30 April 2018 Total £ |
|---|---|---|---|---|---|---|
| Angus Macpherson[1] | 37,500 | 44,540 | 5,768 | 2,831 | 43,268 | 47,371 |
| Roderick Davidson[2] | – | 28,506 | – | 924 | – | 29,430 |
| Denise Hadgill | 24,000 | 28,506 | 175 | 88 | 24,175 | 28,594 |
| Stewart Wood | 24,000 | 28,506 | – | – | 24,000 | 28,506 |
| Ian Wright[3] | 27,500 | 32,664 | 463 | 2,741 | 27,963 | 35,405 |
| **Total** | **113,000** | **162,722** | **6,406** | **6,584** | **119,406** | **169,306** |

[1] Chairman of the Board [2] Resigned as a director of the Company on 30 April 2018 [3] Chairman of the Audit Committee

Win Robbins was appointed on 28 May 2019 and is therefore not included in the table above as she was not a serving director during the year under review.

HMRC view certain director expenses (primarily travel to/from Board meetings) as a taxable benefit. The Board has decided that with effect from the 2019/2020 tax year onwards director's expenses in relation to travel to/from Board meetings will be reimbursed as a 'grossed up' amount to compensate the affected directors for the additional tax cost that is incurred as a result of HMRC's decision.

**Notes:**
The table above omits other columns because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made. Taxable benefits: Article 89 of the Company's Articles of Association provides that directors are entitled to be reimbursed for reasonable expenses incurred by them in connection with the performance of their duties and attendance at Board and general meetings.

No other fees, compensation or expenses were paid or payable by the Company during the year to any of the directors or third parties specified by any of them. The fees paid to the directors in the year under review were: Chairman £37,500, Chairman of the Audit Committee £27,500 and Directors £24,000. With effect from 1 July 2019 the fees paid will be: Chairman £37,500, Chairman of the Audit Committee £29,000 and Directors £25,000.

## Performance

The graph below measures the Company's performance against total shareholder return as compared to the total return objective of 2% over three month sterling Libor over the two year period ended 30 April 2019.


Source: Trust – Morningstar Direct, Benchmark – BNP IRP Service/HEDS, rebased to 100

— Company's share price total return, assuming the investment of £100 on 27 April 2017 and the reinvestment of all dividends (excluding dealing expenses)

— Cumulative total return on a rolling annual basis of three months sterling Libor + 2% assuming a notional investment of £100 on 27 April 2017

## Statement of voting at Annual General Meeting

At the AGM on 21 August 2018 20,884,349 votes (97.0%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 599,842 (2.8%) were against, 36,343 (0.2%) were discretionary and 69,119 were withheld; the percentage of votes excludes votes withheld. In relation to the approval of the remuneration policy at the 2018 AGM 20,891,889 votes (97.2%) were received voting for the resolution, 552,302 (2.6%) were against, 36,343 (0.2%) were discretionary and 109,119 were withheld; the percentage of votes excludes votes withheld.

For and on behalf of the Board

Angus Macpherson
Chairman
11 July 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 therefore 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 investment companies. The FRC has confirmed that, by following the AIC Code, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

The FRC published an updated UK Code in July 2018, which was followed by the publication of an updated AIC Code in February 2019. The 2019 AIC Code continues to be endorsed by the FRC and is applicable to financial reporting periods commencing on or after 1 January 2019.

Copies of the AIC Code and the UK Code can be found on the respective organisations' websites: **www.theaic.co.uk** and **www.frc.org.uk**. The AIC Code includes an explanation of how it adapts the principles and provisions set out in the UK Code to make them relevant for investment companies.

### Statement of compliance

The Board has considered the principles and provisions of the AIC Code, which address those set out in the UK Code, as well as additional provisions that are of specific relevance to investment companies. The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the FRC, provides more relevant information to the Company's shareholders in terms of its governance arrangements.

The Company has complied with the principles and provisions of the AIC Code throughout the period. As the Company is an investment company, it has no chief executive or other executive directors and therefore has no need to consider the remuneration of executive directors. In addition, the Company does not have any internal operations and therefore does not maintain an internal audit function. However, the Audit Committee considers the need for such a function at least annually (see page 33) for further information.

All of the directors are non-executive, and as there is a Chairman and a Chairman of the Audit Committee amongst them, the appointment of a Senior Independent Director is considered to be superfluous at this time

## 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 normal business hours and at the Company's AGM.

### Directors' appointment and retirement

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

Win Robbins will stand for appointment at the AGM in September 2019, following her appointment to the Board on 28 May 2019.

The Company's Articles of Association and also the AIC Code require all directors to retire at intervals of not more than three years however the Board have decided to follow the UK Code and all the directors shall therefore offer themselves for annual re-appointment.

More detail regarding the performance evaluation of each of the directors can be found in the Nominations Committee section on page 31.

### Directors' independence

All directors have a wide range of other interests and are not dependent on the Company itself. The Board considers that all of the directors including the Chairman of the Board are independent of the Manager when assessed against the criteria set out in the AIC Code. Furthermore the Board has determined that all directors are independent in character and judgement and that their individual skills, broad business experience and level of knowledge and understanding of the Company are of great benefit to shareholders. There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No director has a service contract with the Company and there are no agreements between the Company and its directors concerning compensation for loss of office.

### Directors' induction and ongoing training

When a new director is appointed he or she is offered 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 also able to attend external training facilities and industry seminars at the expense of the Company and each director's individual training requirements are considered as part of the annual performance evaluation.

### Directors' insurance and indemnification

Directors' and Officers' liability insurance cover was in place in respect of the directors throughout the financial year and remains in place at the date of this report. The Company's Articles of

# Corporate Governance Statement (continued)

Association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the Court. No indemnity was given during the year under review or up to the date of this report.

### 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'). Situational conflicts include those resulting from significant shareholdings (if appropriate) and aim to ensure that the influence of third parties does not compromise or override independent judgment. The Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes and the register of interests. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the system it has in place for reporting and considering situational conflicts continues to operate effectively.

## The Board

### Board composition

The Board currently consists of five non-executive directors and the biographies of those holding office at the date of this report are included on page 13. Those details demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors. All directors served throughout the year with the exception of Win Robbins who was appointed to the Board on 28 May 2019. All directors are resident in the UK with the exception of Ian Wright who resides in Jersey.

### Responsibilities of the Board and its Committees

The Board is collectively responsible for the success of the Company. Its role is to provide leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board is responsible for setting the Company's standards and values and for ensuring that its obligations to its shareholders and others are understood and met. The Board sets the Company's strategic aims (subject to the Company's Articles of Association, and to such approval 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 at least four times a year, with additional Board or Committee meetings arranged when required. The directors have regular contact with the Fund Managers and representatives of the Corporate Secretary between formal meetings.

The Chairman, Angus Macpherson 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, structure and capital, financial reporting and controls, internal controls, contracts, communications, Board membership and other appointments, delegation of authority, remuneration and corporate governance. This is available to view on the Company's website in the 'key documents' section (**www.hendersondiversifiedincome.com**).

The Board is responsible for the approval of annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects. The directors confirm that they are satisfied that the Annual Report for the year ended 30 April 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

At each meeting the directors follow a formal agenda, which includes a review of the Company's net asset value, share price, premium/discount, financial position, gearing levels, peer group performance, investment performance, asset allocation and transactions and any other relevant business matters to ensure that control is maintained over the affairs of the Company. The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act and regularly reviews investment strategy. It has adopted a procedure for directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information.

## Committees of the Board

The Board has three principal Committees: the Audit Committee, the Management Engagement Committee and the Nominations Committee. The terms of reference for these Committees are available on the website **www.hendersondiversifiedincome.com** or via the Corporate Secretary. The Company also has an Insider Committee to deal with the obligations of the Market Abuse Regulations. A separate remuneration committee has not been established as the Board consists of only non-executive directors. The whole Board is responsible for setting directors' fees in line with the remuneration policy set out on page 26, which is subject to periodic shareholder approval.

### Audit Committee

The Audit Committee comprises all of the directors and is chaired by Ian Wright, who is a Chartered Accountant. The other Audit Committee members have a combination of investment and other experience gained throughout their careers and the Board is satisfied that at least one of the Audit Committee's members has recent and relevant financial experience. The Audit Committee as a whole is considered to have competence relevant to the sector. All members of the Audit Committee are independent. The Report of the Audit Committee can be found on pages 33 to 35.

# Corporate Governance Statement (continued)

## Management Engagement Committee

All directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board who was considered independent on appointment and continues to be independent of the Manager when assessed against the criteria set out in the AIC Code. The Board has decided that all of its members should fulfil the role of the Management Engagement Committee due to the fact that as an investment trust all of the members are independent non-executive directors and the size of the Board does not justify a separate configuration of members. The Management Engagement Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders and also for reviewing the performance and cost effectiveness of the Company's other service providers. The Management Engagement Committee met in March 2019 to carry out its annual review of the Manager, results of which are detailed on page 32 in the 'continued appointment of the Manager' section.

## Nominations Committee

The Board has established a Nominations Committee to lead the process for appointments and ensure plans are in place for orderly succession to the Board and to oversee the development of a diverse pipeline for succession. The Board has decided that all of the directors should fulfil the role of the Nominations Committee: as an investment trust all of the members are independent non-executive directors and the size of the Board does not justify a separate configuration of members. The Chairman of the Board is the Chairman of the Committee but will not act as Chair if his performance or successor is being considered.

The Nominations Committee is responsible for regularly reviewing the size, structure and composition of the Board (including the skills, knowledge, experience and diversity of the Board), giving full consideration to succession planning taking into account the challenges and opportunities facing the Company and keeping under review the leadership needs of the organisation with a view to ensuring the continuing ability of the organisation to compete effectively in the marketplace.

The Board does not have a set policy on diversity and inclusion. This is because the Company has no employees: instead there is a Board of five independent non-executive directors. It is considered to be in the best interests of the Company and its shareholders that Board appointments and succession plans are based on merit and objective criteria. Within this context the Company promotes diversity of gender, social and ethnic backgrounds, cognitive and personal strengths alongside meeting the needs of the Company and addressing any skills gaps on the Board. The Board may appoint directors to the Board at any time during the year. Any director so appointed should stand for appointment by shareholders at the next AGM in accordance with the provisions of the Company's Articles of Association.

When making new appointments, the Board takes into account the other demands on potential candidates' time and prior to appointment any significant commitments are disclosed with an indication of the time involved. In the year under review the Board decided to recruit a director specifically with experience in fixed income to enhance expertise in this area following the resignation of Roderick Davidson. The Board prepared a draft job description and used the services of an external recruitment agency, Odgers Berndtson, to assist with the recruitment of a new director. The recruitment search concluded in the appointment of Win Robbins on 28 May 2019. Her biography can be found on page 13. Odgers Berndtson did not provide any other services to the Company and is considered independent.

In the year under review the Nominations Committee assessed the time commitment of each individual director. All directors are considered to have satisfactory time to commit to their role on the Board including those with other appointment commitments. In particular the Board are cognisant that the Chairman holds various other appointments but consider that this is beneficial to the Company and its members as it brings a different perspective to Board discussions and encourages diversity of thought. The Nominations Committee are satisfied that he commits sufficient time to the role as Chairman of the Board and his additional appointments complement the knowledge, skills and expertise he brings to the role. If any director wishes to obtain an additional external appointment they cannot be undertaken without prior approval from the Board at which point the time commitment of that individual director would be evaluated and the advantages and disadvantages of the additional appointment considered before a decision was made. Biographical details for each of the directors including their other appointment commitments can be found on page 13.

The responsibilities of the Chairman, the Board (schedule of matters reserved for the Board) and its Committees (terms of reference) are available on the Company's website: **www.hendersondiversifiedincome.com** in the 'key documents' section.

All directors stand for re-appointment by shareholders annually. The Articles permit shareholders to remove a director before the end of his term by passing an ordinary resolution at a general meeting. An appointment may be terminated by either party giving written notice without compensation payable. Directors are generally expected to serve two terms of three years, which may be extended to a third term at the discretion of the Board and subject to satisfactory performance evaluation and annual re-appointment by shareholders. Please refer to the Notice of Meeting (available on the Company's website: **www.hendersondiversifiedincome.com**) for the specific reasons why each of the directors contribution is and continues to be important to the Company's long term sustainable success. This includes details about Win Robbins who will stand for appointment by the shareholders at the 2019 AGM.

## Policy on the tenure of the Chairman

Given the entirely non-executive nature of the Board and the fact that the Chairman may not be appointed as such at the time of their initial appointment as a director, the Chairman's tenure may be longer where this is considered by the Board to be in the best interests of the Company however it is not anticipated that any of the directors will serve in excess of nine years'. As with all directors, the continuing appointment of the Chairman is subject to satisfactory performance evaluation, annual re-appointment by shareholders and may be further subject to the particular circumstances of the Company at the time he

# Corporate Governance Statement (continued)

intends to retire from the Board. The directors are cognisant of the benefits of regularly refreshing Board membership and seek to do so while retaining a balance of knowledge of the Company and the key relationship with the Fund Managers.

### Performance evaluation

The performance of the Company is considered in detail at each meeting.

The Nominations Committee met in March 2019 to discuss amongst other matters the performance evaluation for the year under review. It was noted that a new director would likely join the Board later in the year and it was therefore agreed that the performance evaluation would be conducted later in the year to give the new director time to settle in and attend some meetings. Noting the UK Code and AIC Code recommendations that an external performance evaluation should be conducted at least every three years it was agreed, after a thorough review of the proposals submitted by external evaluation agencies, that Board Alpha should be appointed to carry out an external performance evaluation of the Board later in 2019. The results would then be discussed at the Nominations Committee meeting in March 2020; a summary of the results will be disclosed in next year's Annual Report.

### Insider Committee

All the directors are members of the Insider Committee, which is chaired by the Chairman of the Board and meetings are held as and when necessary. The Committee is responsible for overseeing the disclosure of information by the Company to meet its obligations under the Market Abuse Regulations and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules. No meetings were held during the year.

## Meeting attendance

The table below sets out the number of scheduled Board and Committee meetings held during the year under review and the number of meetings attended by each director. With the exception of Win Robbins all directors attended the AGM in August 2018. The directors and Committees of the Board also met during the year to undertake business such as the approval of the Company's results and the approval of a new loan facility. There were four dividend committee meetings held in the year under review in addition to those detailed below.

| | Board | AC | NC | MEC |
|---|---|---|---|---|
| **Number of meetings** | **4** | **2** | **1** | **1** |
| Angus Macpherson | 4 | 2 | 1 | 1 |
| Denise Hadgill | 4 | 2 | 1 | 1 |
| Stewart Wood | 4 | 2 | 1 | 1 |
| Ian Wright | 4 | 2 | 1 | 1 |

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

Win Robbins was appointed on 28 May 2019 and is therefore not included in the table above as she was not a serving director during the year under review.

## Internal control

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 the 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;
- 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;
- 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 assurance reports of Janus Henderson during the reporting period.

The Audit Committee noted the service auditors' qualifications in respect of the Janus Henderson assurance report which covered controls during the reporting period. The Committee anticipated this qualification following its inclusion in the previous year and sought additional clarification in respect of its resolution. The Committee understands from Janus Henderson that the project put in place to remediate the exception that caused the qualification was completed during the period covered by the report. The Committee is satisfied that none of the exceptions identified impact the Company for the year ended 30 April 2019 and that appropriate actions have been taken to address the issues identified.

# Corporate Governance Statement (continued)

### Internal audit function

Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable. The Company'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. As such the Board has determined that there is currently no need for the Company to have its own internal audit function. The Board will continue to review this on an annual basis.

## Accountability and relationship with the Manager

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 25, the Independent Auditors Report on pages 36 to 40 and the viability statement on page 19. The Board has delegated contractually to external third parties, including the Manager, 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 20), 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 invited to attend meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provide a forum to discuss industry matters which would then be 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 Janus Henderson 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 the Manager operate in a supportive, co-operative and open environment. 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 the Manager. Any correspondence from shareholders addressed to the Chairman or the Company received at the Manager's offices is forwarded to the Chairman of the Company in line with the audited procedures in place. Any correspondence is submitted to the next Board meeting. Janus Henderson and BNP, which acts for Janus Henderson, 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 are contained on page 4. In addition to the monitoring of investment performance at each meeting, through the Management Engagement Committee, an annual review of the Company's investment performance over both the short and longer terms, together with the quality of other services provided by the Manager, including company secretarial and accounting is undertaken. Following an annual review, it is the directors' opinion that the continuing appointment of the Manager on the terms set out on page 4 is in the interests of the Company and its shareholders as a whole.

## Relations with Shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the website. Janus Henderson also provides information on the Company and Fund Manager videos on the website, via various social media channels and through its HGi content platform, more details of which are included on page 14. In addition to formal general meetings the Board seeks to engage with major shareholders in order to understand their views as and when it is appropriate to do so.

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 Managers 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 meeting. 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 14 of this report. General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

## Share capital

Please see the Report of the Directors on page 24.

By order of the Board

For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
11 July 2019

# Report of the Audit Committee

## Role

The Audit Committee is responsible for ensuring the integrity of the Company's financial reporting, evaluating the effectiveness of the systems of internal control and risk management and monitoring the effectiveness and objectivity of its External Auditor.

All directors are members of the Committee, including the Chairman of the Board. The Committee considered the provisions of the revised AIC Code issued in February 2019, and those of the UK Code issued in July 2018 from which it stems, relating to the membership of the Audit Committee. Taking account of the size of the Board as a whole (five in total), the absence of any executive directors and the collaborative manner in which the Board and its Committees work, it was not considered practical or constructive to exclude the Chairman from the membership of the Committee. The Chairman of the Board was determined to be independent at the time of his appointment.

The Board is satisfied that at least one member has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates.

## Meetings

The Committee meets at least twice a year. The Company's Auditors, the Fund Managers and the Manager's Financial Reporting Manager are invited to attend meetings of the Committee on a regular basis. Other representatives of the Manager and BNP may also be invited to attend if deemed necessary by the Committee.

## Responsibilities

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

- a review of the Half Year Results and the Annual Report, including the disclosures made therein in relation to internal control and risk management, viability, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board. In assessing whether the report is fair, balanced and understandable, each director reviewed the disclosures made, applying their respective knowledge and expertise. The internal controls over financial reporting were also considered, together with feedback from the Company's Auditors, the Manager and the Corporate Secretary;
- 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 as administrator, depositary and custodian;
- consideration of the Manager's policies in relation to information security and business continuity, meeting with representatives of the Manager's internal audit and risk departments periodically;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy and gifts & hospitality register (the Committee was satisfied that the Company was in compliance in the year under review);
- consideration of the Bribery Act 2010 and Criminal Finances Act 2017 disclosures from the Company's third party suppliers confirming that they comply with the legislation;
- consideration of whether there is a need for an internal audit function;
- consideration of the appointment of the Auditors and their performance, remuneration and tenure of appointment;
- consideration of the audit plan, including the principal areas of focus;
- consideration of the Auditor's independence, objectivity and effectiveness and the provision of any non-audit services (as explained further on page 35) and the Auditor's year end reporting;
- 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;
- consideration of the management fee;
- consideration of the allocation of fees and finance costs between capital and revenue; and
- consideration of the use of and accounting for interest rate derivatives.

## Effectiveness of the external audit

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

The Auditors are able to present and discuss the findings of the latest Audit Quality Inspection Report and report on the progress made by the firm in terms of addressing the areas identified for improvement in the prior year's report. In assessing the effectiveness of the audit process, the Committee Chairman invites views from the directors, Fund Managers and other members of the Manager's staff in assessing the robustness of the audit, level of challenge offered by the audit team, the quality of the audit team and timeliness of delivering the tasks required for the audit and reporting for the Committee. Following completion of the assessment, the Audit Committee remained satisfied with the effectiveness of the audit provided by Ernst & Young LLP and therefore recommended their continuing appointment to the Board. The Auditors have indicated their willingness to continue in office. Accordingly, resolutions reappointing Ernst & Young LLP as Auditors to the Company and authorising the directors to determine their remuneration will be proposed at the upcoming AGM.

# Report of the Audit Committee (continued)

## Report for the year ended 30 April 2019

In relation to the report for the year ended 30 April 2019 the following significant issues were considered by the Committee:

| Significant issues | How the issue was addressed |
|---|---|
| **Valuation and ownership of the Company's investments** | The directors have appointed Janus Henderson, who outsources some of the administration and accounting services to BNP 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 are verified by reconciliation to the custodian's records and the directors have received quarterly reports and an annual confirmation from the depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation. |
| **Recognition of income** | Income received has been accounted for in line with the Company's accounting policies (as set out on page 46) and was reviewed by the Committee at each meeting to confirm it is in compliance with IFRSs.<br><br>The Board reviews Janus Henderson's revenue forecasts on a quarterly basis in support of the Company's future dividends. |
| **Maintaining internal controls** | The Committee has received regular reports on internal controls from Janus Henderson and BNP and their respective delegates and has had access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit.<br><br>The Committee noted the service auditors' qualifications in respect of the Janus Henderson assurance report which covered controls during the reporting period. The Committee anticipated this qualification following its inclusion in the previous year and sought additional clarification in respect of its resolution. The Committee understands from Janus Henderson that the project put in place to remediate the exception that caused the qualification was completed during the period covered by the report. The Committee is satisfied that none of the exceptions identified impact the Company for the year ended 30 April 2019 and that appropriate actions have been taken to address the issues identified.<br><br>The Committee noted the service auditors' qualification in respect of the BNP middle office outsourcing assurance report which covered controls during the reporting period. The Committee is disappointed in the qualification but does not consider that the issue identified will impact the Company. It is also satisfied that BNP have put remedial actions in place to rectify the issues and that the Manager will track progress on these remedial actions and report back to the Committee at the appropriate time. |
| **Maintaining investment trust status** | 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 supporting documentation from Janus Henderson and BNP. |

# Report of the Audit Committee (continued)

## Appointment and tenure of the Auditors

Regulations currently in force require the Company to rotate audit firms after a period of ten years, which may be extended where audit tenders are carried out or where more than one audit firm is appointed to carry out the audit. Ernst & Young LLP were appointed as the Auditors in 2017 when the Company was incorporated and presented their first report in respect of the period 23 February 2017 to 30 April 2018. This is the second year they have acted as the Auditors and the second year the current audit partner has been in place. Subject to the audit remaining effective and the continuing agreement from shareholders on the appointment of the Auditor, the Committee envisages carrying out an audit tender process towards the end of the current partner's tenure.

## Auditor's independence

The Committee monitors the Auditor's independence through three aspects of its work; the approval of a policy regulating the non-audit services that may be provided by the Auditor to the Company, assessing the appropriateness of the fees paid to the Auditors and by reviewing the information and assurances provided by the Auditors on their compliance with the relevant ethical standards.

Ernst & Young LLP confirmed that all of its partners and staff involved with the audit were independent of any links to the Company, and that these individuals had complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standards.

## Policy on the provision of non-audit services

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

Ernst & Young LLP have not provided any non-audit services to the Company in the year under review.

Ian Wright
Chairman of the Audit Committee
11 July 2019

# Independent Auditor's Report to the Members of Henderson Diversified Income Trust plc

## Opinion

We have audited the financial statements of Henderson Diversified Income Trust plc ('Company') for the year ended 30 April 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Cash Flow Statement and the related notes to the financial statements 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 April 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

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

## Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the Annual Report set out on pages 17 to 19 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 17 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 45 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 19 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

| | |
|---|---|
| Key audit matters | Incorrect or inaccurate recognition of investment income.<br>Incorrect valuation and/or defective title of the investment portfolio held at fair value through profit and loss. |
| Materiality | Overall materiality of £1.65mn which represents 1% of net assets. |

# Independent Auditor's Report to the Members of Henderson Diversified Income Trust plc (continued)

## Key audit matters

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

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Incorrect or inaccurate recognition of investment income**<br>Investment income predominantly consists of bond and loan interest income from quoted fixed income securities and secured loans totalling £8.87mn (2018: £8.99mn). The remaining balance consists of premiums on credit default swaps of £0.42mn (2018: £0.31mn) and dividend income of £0.26mn (2018: £0.27mn).<br>The Company's accounting policy is to recognise bond and loan interest income based on the coupon payable by the instrument adjusted to spread any premium or discount on purchase or redemption over the instrument's remaining life, while dividend income is recognised on an ex-dividend basis. Fixed income interest, secured loan interest and premiums on credit default swaps are all recognised on an accruals basis to the revenue return column.<br>If the Company is not entitled to receive the bond and loan interest, premiums on credit default swaps or dividend income recognised in the financial statements, or, if the income recognised does not relate to the current financial period, this will impact the extent of the profits available to fund dividend distributions to shareholders.<br>The bond and loan interest is adjusted for amortisation. This amounted to £0.46mn for the current year (2018: £0.65mn). Calculation of the amortisation amounts on fixed interest investments and secured loans involves a manual element and therefore the opportunity to manipulate this arises.<br>Given this, we considered there to be a fraud risk, in accordance with Auditing Standards. | **We have performed the following procedures:**<br>• We performed a walkthrough to understand the design effectiveness of BNP Paribas Securities Services' ('Administrator', 'Depositary' and 'Custodian') processes and controls surrounding revenue recognition.<br>• We agreed, for a sample of quoted fixed income bonds, the coupon rates to an independent source and recalculated the interest income based on the holdings of the securities. We agreed the cash receipts to the bank statements.<br>• For a sample of quoted fixed income bonds, we compared the interest received against any coupon payments due to the Company to ensure that income has been recognised in the correct period or appropriately accrued.<br>• We agreed, for a sample of secured loans, the income receipts to agent notices.<br>• We agreed, for a sample of credit default swaps, the premiums received to broker statements.<br>• We recalculated, for a sample of investments, the amortisation amounts.<br>• We analysed the credit ratings of the debt securities in the portfolio for evidence of any distressed securities for which income should not be recognised.<br>• We compared the foreign exchange rates used to an independent source to ensure the rates used were reasonable for all income testing procedures. | **The results of our procedures are:**<br>• We have no matters to communicate with respect to the procedures in response to the risk of incorrect or inaccurate recognition of investment income. |

# Independent Auditor's Report to the Members of Henderson Diversified Income Trust plc (continued)

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Incorrect valuation and/or defective title of the investment portfolio held at fair value through profit and loss**<br>The Company holds a significant fixed income portfolio amounting to £180.8mn (2018: £197.4mn), of which £9.0mn (2018: £19.7mn) relates to secured loans.<br>There is a risk of incorrect valuation of the investment portfolio, including incorrect application of exchange rate movements which could result in the Statement of Financial Position and Statement of Comprehensive Income being materially misstated.<br>The secured loans within the portfolio are held by the Company while all quoted fixed income securities are held by the Custodian. There is a risk of misappropriation of assets and unsecured ownership of the entire investment portfolio<br>. | **We have performed the following procedures:**<br>• We performed a walkthrough to understand the design effectiveness of the Administrator's processes and controls surrounding investments pricing.<br>• We re-priced 100% of the quoted investment portfolio to an independent pricing vendor and compared these against the Company records.<br>• For the quoted fixed income portfolio, we independently obtained confirmation from the Custodian and the Depositary of the number of units of each security held as at 30 April 2019 and agreed these to the Company records.<br>• For the secured loans where legal title is held by the Company, we verified the legal ownership the loan agreements and to the Depositary confirmation.<br>• We used an independent pricing source to recalculate the foreign exchange translation on all non-sterling securities in the investment portfolio. | **The results of our procedures are:**<br>• We have no matters to communicate with respect to the procedures that we performed in response to the risk of incorrect valuation and/or defective title of the investment portfolio held at fair value through profit and loss. |

## An overview of the scope of our audit

### Tailoring the scope

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

## Our application of materiality

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

### Materiality

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

We determined materiality for the Company to be £1.65mn (2018: £1.66mn), which is 1% (2018: 1%) of net assets. We believe that net assets is the most appropriate measure as it is the primary measure that investors use to assess the performance of the Company.

During the course of our audit, we reassessed initial materiality and made no changes to the basis of calculation from our original assessment at the planning stage.

# Independent Auditor's Report to the Members of Henderson Diversified Income Trust plc (continued)

### Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £1.23mn (2018: £1.24mn). We have set performance materiality at this percentage due to the absence of significant errors noted in the current and prior year audits.

Given the importance of the distinction between revenue and capital for the Company we also apply a separate, lower performance materiality of £0.42mn (2018: £0.39mn) for the revenue column of the Statement of Comprehensive Income being 5% of the revenue return on ordinary activities before taxation.

### Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.08mn (2018: £0.08mn), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

## Other information

The other information comprises the information included in the Annual Report is set out on pages 1 to 35 other than the financial statements and our Auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable** set out on page 25 – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** set out on page 33 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 28 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Report of the Directors have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Report of the Directors.

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

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

# Independent Auditor's Report to the Members of Henderson Diversified Income Trust plc (continued)

## Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the AIC SORP and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary in combination with a review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. Given the activities of the Company, we consider management override as being most likely to occur in the first key audit matter being 'Incorrect or inaccurate recognition of investment income'. Our procedures stated above are designed to address this risk.
- Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- We have reviewed that the Company's control environment and concluded it is adequate for the size and operating model of such a listed investment company.

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

## Other matters we are required to address

- We were appointed by the Company on 11 December 2017 to audit the financial statements for the period ending 30 April 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is approximately two years, covering the periods ending 30 April 2018 to 30 April 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

### Use of our report

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

Matthew Price (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 July 2019

**Notes:**

1. The maintenance and integrity of the Henderson Diversified Income Trust plc website is the responsibility of the directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Statement of Comprehensive Income

| Notes | | Year ended 30 April 2019 Revenue return £'000 | Year ended 30 April 2019 Capital return £'000 | Year ended 30 April 2019 Total return £'000 | Period ended 30 April 2018 Revenue return £'000 | Period ended 30 April 2018 Capital return £'000 | Period ended 30 April 2018 Total return £'000 |
|---|---|---|---|---|---|---|---|
| 11 | Gains/(losses) on investments held at fair value through profit or loss | – | 8,943 | 8,943 | – | (8,322) | (8,322) |
| 18 | (Losses)/gains on foreign exchange transactions at fair value through profit and loss | – | (9,541) | (9,541) | – | 5,724 | 5,724 |
| 3 | Investment income | 9,558 | – | 9,558 | 9,570 | – | 9,570 |
| 4 | Other operating income | 27 | – | 27 | 5 | – | 5 |
| | **Total income** | **9,585** | **(598)** | **8,987** | **9,575** | **(2,598)** | **6,977** |
| | **Expenses** | | | | | | |
| 5 | Management and performance fees | (520) | (519) | (1,039) | (1,037) | (1,036) | (2,073) |
| 6 | Other expenses | (426) | – | (426) | (471) | – | (471) |
| | **Profit before finance costs and taxation** | **8,639** | **(1,117)** | **7,522** | **8,067** | **(3,634)** | **4,433** |
| 7 | Finance costs | (184) | (185) | (369) | (210) | (209) | (419) |
| | **Profit before taxation** | **8,455** | **(1,302)** | **7,153** | **7,857** | **(3,843)** | **4,014** |
| 8 | Taxation | 15 | – | 15 | 40 | – | 40 |
| | **Profit after taxation** | **8,470** | **(1,302)** | **7,168** | **7,897** | **(3,843)** | **4,054** |
| 9 | **Earnings per ordinary share** | 4.47p | (0.69p) | 3.78p | 4.19p | (2.04p) | 2.15p |

The total columns of this statement represents the Statement of Comprehensive Income, prepared in accordance with IFRSs as adopted by the European Union. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. The Company had no other comprehensive income. The profit after taxation is also the total comprehensive income for the year.

The notes on pages 45 to 62 form part of these financial statements

# Statement of Changes in Equity

| Notes | | Year ended 30 April 2019<br>Called-up share capital £'000 | Share premium £'000 | Distributable reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| | Total equity at 1 May 2018 | 1,896 | – | 165,538 | (3,843) | 2,208 | 165,799 |
| | Total comprehensive income: | | | | | | |
| | Profit after taxation | – | – | – | (1,302) | 8,470 | 7,168 |
| | Transactions with owners, recorded directly to equity: | | | | | | |
| | Expenses incurred in cancelling share premium | – | – | (5) | – | – | (5) |
| 10 | Dividends paid | – | – | – | – | (8,344) | (8,344) |
| | **Total equity at 30 April 2019** | **1,896** | **–** | **165,533** | **(5,145)** | **2,334** | **164,618** |

| Notes | | Period ended 30 April 2018<br>Called-up share capital £'000 | Share premium £'000 | Distributable reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| | Total equity at 23 February 2017 | – | – | – | – | – | – |
| | Proceeds from issue of shares on 27 April 2017 | 1,822 | 159,596 | – | – | – | 161,418 |
| | **Total equity at 27 April 2017** | **1,822** | **159,596** | **–** | **–** | **–** | **161,418** |
| | Total comprehensive income: | | | | | | |
| | Profit after taxation | – | – | – | (3,843) | 7,897 | 4,054 |
| | Transactions with owners, recorded directly to equity: | | | | | | |
| 15 & 16 | Proceeds from issue of shares | 74 | 6,795 | – | – | – | 6,869 |
| | Transfer for cancellation of share premium | – | (166,391) | 166,391 | – | – | – |
| 10 | Dividends paid | – | – | (853) | – | (5,689) | (6,542) |
| | **Total equity at 30 April 2018** | **1,896** | **–** | **165,538** | **(3,843)** | **2,208** | **165,799** |

The notes on pages 45 to 62 form part of these financial statements

# Statement of Financial Position

| Notes | | At 30 April 2019 £'000 | At 30 April 2018 £'000 |
|---|---|---|---|
| | **Non current assets** | | |
| 11 | Investments at fair value through profit or loss | 180,797 | 197,439 |
| | | **180,797** | **197,439** |
| | **Current assets** | | |
| 12 | Other receivables | 2,949 | 5,737 |
| | Cash and cash equivalents | 525 | 370 |
| | | **3,474** | **6,107** |
| | **Total assets** | **184,271** | **203,546** |
| | **Current liabilities** | | |
| 13 | Other payables | (1,126) | (10,937) |
| 14.2 & 23 | Bank loan | (18,527) | (26,810) |
| | **Total assets less current liabilities** | **164,618** | **165,799** |
| | **Net assets** | **164,618** | **165,799** |
| | **Equity attributable to equity shareholders** | | |
| 15 | Called-up share capital | 1,896 | 1,896 |
| 17 | Distributable reserve | 165,533 | 165,538 |
| 18 | Capital reserve | (5,145) | (3,843) |
| | Revenue reserve | 2,334 | 2,208 |
| | **Total equity** | **164,618** | **165,799** |
| 19 | Net asset value per ordinary share | 86.82p | 87.44p |

The financial statements were approved by the Board of Directors and authorised for issue on 11 July 2019 and were signed on its behalf by:

Angus Macpherson
Chairman

The notes on pages 45 to 62 form part of these financial statements

# Cash Flow Statement

| | Year ended 30 April 2019 £'000 | Period ended 30 April 2018 £'000 |
|---|---|---|
| **Operating activities** | | |
| Net profit before tax | 7,153 | 4,014 |
| Interest payable | 369 | 419 |
| (Gains)/losses on investments held at fair value through profit or loss | (8,943) | 8,322 |
| Losses/(gains) on foreign exchange transactions at fair value through profit and loss | 9,541 | (5,724) |
| (Receipts)/payments on settlement of forward foreign exchange contracts | (13,887) | 10,484 |
| Decrease in prepayments and accrued income | 229 | 120 |
| (Decrease)/increase in other creditors | (34) | 491 |
| Purchases of investments | (92,729) | (145,430) |
| Sales of investments | 115,907 | 125,642 |
| **Net cash inflow/(outflow) from operating activities before finance costs[1]** | **17,606** | **(1,662)** |
| Interest paid | (398) | (372) |
| Tax recovered | 58 | 54 |
| Taxation on investment income | (43) | (5) |
| **Net cash inflow/(outflow) from operating activities** | **17,223** | **(1,985)** |
| **Financing activities** | | |
| Equity dividends paid | (8,344) | (6,542) |
| Issue of ordinary shares | – | 6,869 |
| Cash received from Henderson Diversified Income Limited | – | 5,324 |
| Expenses incurred in cancelling share premium | (5) | (361) |
| Loans repaid | (8,283) | (3,125) |
| **Net cash (outflow)/inflow from financing** | **(16,632)** | **2,165** |
| **Increase in cash and cash equivalents** | 591 | 180 |
| | | |
| Cash and cash equivalents at start of year/period | 370 | – |
| Exchange movements | (436) | 190 |
| **Cash and cash equivalents at 30 April** | **525** | **370** |

[1] Cash inflow from interest income was £9,827,000 (2018: £9,733,000) and cash inflow from dividends was £264,000 (2018: £267,000).

The notes on pages 45 to 62 form part of these financial statements

# Notes to the Financial Statements

## 1 General information

The Company was incorporated on 23 February 2017. On 26 April 2017, the directors of its predecessor company, Henderson Diversified Income Limited ('Jersey Company'), placed the Jersey domiciled company into a Jersey Summary Winding Up and transferred the shareholdings and assets and liabilities of the Jersey Company to the Company.

## 2 Accounting policies

### a) Basis of preparation

The Company is a registered investment company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The comparative figures are in respect of the period from incorporation to 30 April 2018. As the Company did not hold any assets prior to 27 April 2017 when its shares were admitted for trading, they principally reflect the period 27 April 2017 to 30 April 2018. The financial statements for the year ended 30 April 2019 have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the IFRS Interpretations Committee that remain in effect, to the extent that IFRSs have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the period. Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trusts issued by the Association of Investment Companies ('AIC') in November 2014 and updated in February 2018 with consequential amendments is consistent with the requirements of IFRSs, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

The assets of the Company consist mainly of securities that are listed and readily realisable and, accordingly, the directors believe that the Company has adequate financial resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement (see page 19), the directors have decided that it is appropriate for the financial statements to be prepared on a going concern basis.

i) The following new and amended standards are applicable and relevant to the Company and have been adopted.

| Standards | | Effective for annual periods beginning on or after |
|---|---|---|
| IFRS 1 Amendment (AI 2014-16) | Deletion of short-term exemptions for first-time adopters | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 15 Amendment | Effective date of IFRS 15 | 1 January 2018 |
| IFRS 15 Amendment | Clarifications | 1 January 2018 |
| **Interpretations** | | **Effective for annual periods beginning on or after** |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |

These standards have not had a material impact on the Company. In particular for the implementation of IFRS 9 under the new standard, the Company has continued to classify, and account for, all investment assets at fair value through profit or loss. IFRS 15 has not had any impact because the Company's business is that of investing in financial instruments and receiving investment income which is outside the scope of IFRS 15.

# Notes to the Financial Statements (continued)

## 2 Accounting policies (continued)

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

| Standards | | Effective for annual periods beginning on or after |
|---|---|---|
| IAS 12 Amendment (AI 2015-17) | Income Tax Consequences of Payments on Financial Instruments Classified as Equity | 1 January 2019 |
| IAS 23 Amendment (AI 2015-17) | Borrowing Costs Eligible for Capitalisation | 1 January 2019 |
| IFRS 9 Amendment | Prepayments Features with Negative Compensation | 1 January 2019 |
| IAS 1, 8, 34, 37, 38 and IFRS 2, 3, 6, 14 | Amendment to References to the Conceptual Framework | 1 January 2020 |
| **Interpretations** | | **Effective for annual periods beginning on or after** |
| IFRIC 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| IFRIC 12 ,19 ,20, 22 and SIC 32 | Amendment to References to the Conceptual Framework | 1 January 2020 |

These standards are not expected to have a material impact on the Company.

### b) Significant accounting judgements and estimates

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

### c) Investments at fair value through profit or loss

The investments are managed as a portfolio on a fair value basis. All investments are accounted for upon initial recognition at fair value through profit or loss. This is consistent with the Company's investment strategy and fair value information on these investments which is provided to the Board. Assets are recognised at the trade date of acquisition and are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs.

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

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

### d) Income

Income from fixed interest securities is recognised based on the coupon payable by the instrument adjusted to spread any premium or discount on purchase or redemption over the instrument's remaining life. Bank interest and premiums on credit default swaps are recognised on an accruals basis within the revenue return column of the Statement of Comprehensive Income. In the event of a default of the investment, the income for the relevant period is allocated to capital to reduce the capital loss arising.

### e) Expenses

All administration expenses and interest payable are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are charged to the capital column of the Statement of Comprehensive Income and allocated to capital reserves. On the basis of the Board's expected long term split of returns equally between capital gains and income, the Company charges 50% of investment management fees and finance costs to capital and the other 50% to revenue. The performance fee was removed with effect from 1 November 2017.

# Notes to the Financial Statements (continued)

## 2 Accounting policies (continued)

### f) 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 profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using the effective rate of corporation tax for the accounting period.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

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

The carrying amount of deferred tax assets is reviewed at each 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.

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

Investments that were held through the subsidiary in Luxembourg suffered taxation on net gains on investments and on income.

### g) Foreign currency

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

Transactions recorded in overseas currencies during the period are translated into sterling at the appropriate daily exchange rates.

Assets and liabilities denominated in overseas currencies at the Company's Statement of Financial Position date are translated into sterling at the exchange rates ruling at that date.

### h) Cash and cash equivalents

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

### i) Bank borrowings

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

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

# Notes to the Financial Statements (continued)

## 2 Accounting policies (continued)

### j) Segmental reporting

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

### k) Derivative financial instruments

Derivative financial instruments, including credit default swaps and interest rate derivatives, are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. All gains or losses resulting from forward currency exchange contracts are allocated to the capital return.

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

### l) Equity and reserves

Called up share capital represents the nominal value of ordinary 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 the shareholders as a dividend.

The distributable reserve was created on cancellation of the share premium account on 20 September 2017.

The following are accounted for in the 'capital reserve':

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

Dividends can be paid from the revenue reserve, the distributable reserve and realised capital reserves.

### n) Dividends payable to shareholders

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

## 3 Investment income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Income from investments: | | |
| Dividend income | 264 | 267 |
| Bond and loan interest | 8,870 | 8,998 |
| Premiums on credit default swaps | 424 | 305 |
| | **9,558** | **9,570** |

# Notes to the Financial Statements (continued)

## 4 Other operating income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Bank and other interest | 17 | 5 |
| Other income | 10 | – |
| | **27** | **5** |

## 5 Management and performance fees

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total £'000 | Revenue return £'000 | Capital return £'000 | Total £'000 |
| Investment management fee | 520 | 519 | 1,039 | 540 | 539 | 1,079 |
| Performance fee | – | – | – | 497 | 497 | 994 |
| | **520** | **519** | **1,039** | **1,037** | **1,036** | **2,073** |

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

## 6 Other expenses

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Directors' fees and expenses | 119 | 169 |
| Auditors remuneration – for audit services | 36 | 36 |
| Auditors remuneration – for non-audit services | – | –[1] |
| Other expenses payable to the management company (marketing) | 55 | 93 |
| Bank and custody charges | 14 | 13 |
| Depositary fees | 35 | 26 |
| Registrar's fees | 20 | 17 |
| AIC subscriptions | 13 | 13 |
| Printing expenses | 11 | 17 |
| Listing fees | 17 | 16 |
| Other expenses | 106 | 71 |
| | **426** | **471** |

[1]Additional non-audit expenses of £20,000 were paid to Ernst & Young LLP, the Company's Auditors as part of the reconstruction in the prior period. These expenses were capitalised and charged to share premium.

## 7 Finance costs

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total £'000 | Revenue return £'000 | Capital return £'000 | Total £'000 |
| On bank loans and overdrafts payable within one year | 184 | 185 | 369 | 210 | 209 | 419 |

# Notes to the Financial Statements (continued)

## 8 Taxation

In the opinion of the directors, the Company has complied with the requirements of Section 1158 and Section 1159 of the Corporation Tax Act 2010 and will therefore be exempt from corporation tax on any capital gains reflected in the capital return during the year. The Company has elected to designate all of the proposed and paid dividends as an interest distribution to its shareholders. This distribution is treated as a tax deduction against taxable income in the revenue return and results in a reduction of corporation tax being payable by the Company at 30 April 2019.

The standard rate of corporation tax in the UK was 19% for the year. However, the tax charge in the current year was lower than the standard corporation tax rate, largely due to the reduction in corporation tax from the interest distribution noted below. The effect of this and other items affecting the tax charge is shown in note 8(b) below.

### a) Analysis of charge in the year/period

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total £'000 | Revenue return £'000 | Capital return £'000 | Total £'000 |
| Current tax: | | | | | | |
| UK corporation tax | – | – | – | – | – | – |
| Overseas withholding tax | 43 | – | 43 | 6 | – | 6 |
| Tax recovered from dissolved subsidiary | (58) | – | (58) | (46) | – | (46) |
| **Total tax charge for the year/period** | **(15)** | **–** | **(15)** | **(40)** | **–** | **(40)** |

### b) Factors affecting the tax charge for the year/period

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total £'000 | Revenue return £'000 | Capital return £'000 | Total £'000 |
| Net return before taxation | 8,455 | (1,302) | 7,153 | 7,857 | (3,843) | 4,014 |
| UK corporation tax charge at 19% (2018: 19%) | 1,606 | (247) | 1,359 | 1,493 | (730) | 763 |
| Effects of: | | | | | | |
| UK dividends | (50) | – | (50) | – | – | – |
| Other non-taxable income | – | (88) | (88) | (5) | – | (5) |
| Non-taxable gains on investments | – | 201 | 201 | – | 493 | 493 |
| Excess not deductible for tax purposes | – | – | – | 4 | – | 4 |
| Income being paid as interest distribution | (1,585) | – | (1,585) | (1,477) | – | (1,477) |
| Excess management expenses and loan relationships | 29 | 134 | 163 | (15) | 237 | 222 |
| Irrecoverable overseas withholding tax | 43 | – | 43 | 6 | – | 6 |
| Tax recovered | (58) | – | (58) | (46) | – | (46) |
| **Total tax charge for the year/period** | **(15)** | **–** | **(15)** | **(40)** | **–** | **(40)** |

### c) Provision for deferred taxation

No provision for deferred taxation has been made in the current year or prior period.

The Company has not provided for deferred taxation on capital gains or losses arising on the revaluation of investments as it is exempt from tax on these items because its status as an investment trust company, which it intends to maintain for the foreseeable future.

### d) Factors that may effect future tax charges

The Company has not recognised a deferred tax asset totalling £490,000 (2018: £413,000) based on the prospective corporation tax rate of 17%. The deferred tax asset arises as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised, to any material extent, if the Company has profits chargeable to corporation tax in the future because changes are made either to the tax treatment of the capital gains made by investment trusts or to the Company's investment profile which require them to be used.

# Notes to the Financial Statements (continued)

## 9 Earnings per ordinary share

The total earnings per ordinary share figure is based on the net profit attributable to the ordinary shares of £7,168,000 and on 189,618,240 ordinary shares (2018: £4,054,000 on 188,686,956 ordinary shares) being the weighted average number of ordinary shares in issue during the year.

The total earnings can be further analysed as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Revenue profit | 8,470 | 7,897 |
| Capital loss | (1,302) | (3,843) |
| **Profit for the year/period** | **7,168** | **4,054** |
| Weighted average number of ordinary shares | 189,618,240 | 188,686,956 |
| Revenue earnings per ordinary share | 4.47p | 4.19p |
| Capital earnings per ordinary share | (0.69p) | (2.04p) |
| **Earnings per ordinary share** | **3.78p** | **2.15p** |

The Company does not have any dilutive securities therefore basic and diluted earnings are the same.

## 10 Dividends

| Dividends on ordinary shares | Record date | Payment date | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|
| First interim dividend (1.25p) for the period ended 30 April 2018 | 15 September 2017 | 29 September 2017 | – | 2,370 |
| Second interim dividend (1.10p) for the period ended 30 April 2018 | 8 December 2017 | 29 December 2017 | – | 2,086 |
| Third interim dividend (1.10p) for the period ended 30 April 2018 | 9 March 2018 | 29 March 2018 | – | 2,086 |
| Fourth interim divided (1.10p) for the period ended 30 April 2018 | 8 June 2018 | 29 June 2018 | 2,086 | – |
| First interim dividend (1.10p) for the year ended 30 April 2019 | 7 September 2018 | 28 September 2018 | 2,086 | – |
| Second interim dividend (1.10p) for the year ended 30 April 2019 | 7 December 2018 | 28 December 2018 | 2,086 | – |
| Third interim dividend (1.10p) for the year ended 30 April 2019 | 8 March 2019 | 29 March 2019 | 2,086 | – |
| | | | **8,344** | **6,542** |

The 2019 fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 30 April 2019.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Revenue available for distribution by way of dividends for the year/period | 8,470 | 7,897 |
| First interim dividend (1.10p) (2018: 1.25p) | (2,086) | (2,370) |
| Second interim dividend (1.10p) (2018: 1.10p) | (2,086) | (2,086) |
| Third interim dividend (1.10p) (2018: 1.10p) | (2,086) | (2,086) |
| Fourth interim dividend (1.10p) paid on 28 June 2019 (2018: 1.10p paid on 29 June 2018) | (2,086) | (2,086) |
| Dividends paid from distributable capital reserve | – | 853 |
| | **126** | **122** |

# Notes to the Financial Statements (continued)

## 11 Investments at fair value through profit and loss

| | 2019 Total £'000 | 2018 Total £'000 |
|---|---|---|
| Cost at beginning of the year/period | 204,017 | – |
| Holding losses | (6,578) | – |
| **Valuation at beginning of the year/period** | **197,439** | **–** |
| Movements: | | |
| Assets received from Henderson Diversified Income Limited | – | 180,302 |
| Purchases at cost | 87,763 | 149,690 |
| Sales – proceeds | (113,756) | (123,481) |
| Realised losses on sales of investments at fair value through profit and loss | (1,890) | (2,494) |
| Movement in holding gains/(losses) | 11,241 | (6,578) |
| **Valuation at end of year/period** | **180,797** | **197,439** |
| Cost at end of year | 176,134 | 204,017 |
| Holding gains/(losses) | 4,663 | (6,578) |
| **Valuation at end of year/period** | **180,797** | **197,439** |

| Gains/(losses) on investments held at fair value through profit and loss | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Realised losses on sales of investments at fair value through profit and loss | (1,890) | (2,494) |
| Movement in investment holdings gains/(losses) at fair value through profit and loss | 11,241 | (6,578) |
| Realised (losses)/gains on sales of credit default swaps at fair value through profit and loss | (489) | 647 |
| Gains on credit default swaps held at fair value through profit and loss | 81 | 103 |
| | **8,943** | **(8,322)** |

During the year expenses amounting to £2,000 (2018: £4,000) were incurred in acquiring or disposing of investments at fair value through profit or loss. These have been expensed through capital and are included within gains on investments at fair value through profit or loss in the Statement of Comprehensive Income.

## 12 Other receivables

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts due from brokers | – | 2,151 |
| Prepayments and accrued income | 2,464 | 2,960 |
| Credit default swaps held at fair value through profit and loss | 485 | 626 |
| | **2,949** | **5,737** |

## 13 Other payables

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts due to brokers | – | 4,966 |
| Interest payable | 18 | 47 |
| Other payables | 481 | 515 |
| Currency forward exchange contracts held at fair value through profit and loss | 627 | 5,409 |
| | **1,126** | **10,937** |

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures

### 14.1 Market risk

Janus Henderson assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

### 14.1.1 Market price risk

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

**Management of the risk**

The Board manages the risk inherent in the investment policy by setting asset allocation limits (page 4) and monitoring this asset allocation in the portfolio through regular and timely reporting of relevant information from Janus Henderson. Investment performance is reviewed at each Board meeting. The Board monitors Janus Henderson's compliance with the Company's objectives and is directly responsible for investment strategy and asset allocation.

The Company's exposure to changes in market prices on its investments was as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| High yield bonds | 116,854 | 125,989 |
| Investment grade bonds | 49,471 | 46,186 |
| Secured loans | 9,024 | 19,677 |
| Preference stock | 3,834 | 4,043 |
| Asset backed securities | 1,614 | 1,544 |
| | **180,797** | **197,439** |

The following table illustrates the sensitivity of the profit after taxation for the year/period and the Company's net assets to an increase or decrease of 10% in the fair values of the Company's investments at each statement of financial position date. This level of change is considered to be reasonably possible based on observation of current market conditions.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Increase in fair value £'000 | Decrease in fair value £'000 | Increase in fair value £'000 | Decrease in fair value £'000 |
| Statement of Comprehensive Income – profit after tax | | | | |
| Revenue return | (48) | 48 | (62) | 62 |
| Capital return | 18,032 | (18,032) | 19,682 | (19,682) |
| **Change to profit after tax for the year/period and net assets** | **17,984** | **(17,984)** | **19,620** | **(19,620)** |

### 14.1.2 Currency risk

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

**Management of the risk**

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

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

**Foreign currency exposure**

The currency exposure of the Company's monetary items at 30 April is shown on page 54. Where the Company's investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

### 14.1.2 Currency risk (continued)

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | AUD | US$ | EURO | AUD | US$ | EURO |
| Investments at fair value through profit or loss | 1,930 | 131,701 | 4,986 | 1,275 | 125,984 | 11,833 |
| Receivables (due from brokers, dividends and other income receivables) | 16 | 1,640 | 105 | 11 | 1,638 | 1,146 |
| Cash at bank and on deposit | – | 18 | – | – | 18 | 14 |
| Payables (due to brokers, accruals and creditors) | – | – | – | – | (2,376) | (1,396) |
| Forward currency sales | (1,939) | (132,603) | (5,562) | (1,274) | (124,493) | (12,204) |
| Credit default swaps | – | – | 485 | – | (57) | 683 |
| | **7** | **756** | **14** | **12** | **714** | **76** |

**Foreign currency sensitivity**
A 10% increase or decrease in the Euro/Sterling exchange rate would increase or decrease total equity by £1,000 (2018: £8,000).
A 10% increase or decrease in the US/Sterling exchange rate would increase or decrease total equity by £76,000 (2018: £71,000).
A 10% increase or decrease in the AUD/Sterling exchange rate would increase or decrease total equity by £1,000 (2018: £1,000).

10% has been used for illustrative purposes and does not reflect the actual movement in currency rates during the year/period.

The above percentages are deemed reasonably possible based on the average market volatility in exchange rates in recent years. The sensitivity analysis is based on the Company's foreign currency financial assets and financial liabilities held at the Statement of Financial Position date, with all other variables held constant.

### 14.1.3 Interest rate risk

Interest rate movements may affect:

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

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

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

The Board supports the Fund Managers' use of interest rate derivatives to mitigate interest rate risk and manage duration.

The Company, generally, will not hold significant cash balances, with short term borrowings being used when required. The Company had no interest rate futures in place at 30 April 2019 (2018: £nil).

**Interest rate exposure**
The exposure at 30 April 2019 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.

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

### 14.1.3 Interest rate risk (continued)

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Within one year £'000 | One to five years £'000 | More than five years £'000 | Total £'000 | Within one year £'000 | One to five years £'000 | More than five years £'000 | Total £'000 |
| Exposure to floating interest rates: | | | | | | | | |
| Investments at fair value through profit and loss | – | 4,201 | 10,271 | 14,472 | – | 1,963 | 23,301 | 25,264 |
| Cash and cash equivalents | 525 | – | – | 525 | 370 | – | – | 370 |
| Bank loan | (18,527) | – | – | (18,527) | (26,810) | – | – | (26,810) |
| | **(18,002)** | **4,201** | **10,271** | **(3,530)** | **(26,440)** | **1,963** | **23,301** | **(1,176)** |
| Exposure to fixed interest rates: | | | | | | | | |
| Investments held at fair value through profit or loss | – | 15,164 | 151,161 | 166,325 | – | 10,025 | 162,150 | 172,175 |
| | **–** | **15,164** | **151,161** | **166,325** | **–** | **10,025** | **162,150** | **172,175** |

At 30 April 2019 and 30 April 2018, the Company had no exposure to interest rate futures and swaps, other than the credit default swaps.

Interest receivable is at the following rates:

- interest received on cash balances, or paid on bank overdrafts and loans, is at margin over Libor or its foreign currency equivalent; and

- the weighted average effective interest rate of the Company's investments is 5.4% (2018: 5.7%).

**Interest rate sensitivity**
The Company is primarily exposed to interest rate risk through cash balances and fixed income investments. The sensitivity of each exposure is as follows:

- cash – cash balances vary throughout the period. Cash balances at the period end were £525,000 (2018: £370,000) and, if that level of cash was maintained for a full year, a 100 basis points change in Libor (up or down) would increase or decrease total return on activities after taxation by approximately £5,000 (2018: £4,000).

- fixed income investment sensitivity – the Company's investment portfolio at 30 April 2019 was valued at £176,963,000 (2018: £193,396,000) and has a modified duration (interest rate sensitivity) of approximately 5.6 years (2018: 6.9 years). A 100 basis point change in short term interest rates (up or down), which is mirrored by an equivalent change in long term rates, would be expected to decrease or increase this portfolio's return by approximately £9,910,000 (2018: £13,344,000).

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

**Management of the risk**
Liquidity risk is monitored by Janus Henderson on a daily basis to ensure financial liabilities can be paid as they fall due. Both the corporate bond portfolio and the loan portfolio although traded over the counter, should be able to be realised at or around the prevailing bid prices. The corporate bond portfolio is generally considered more liquid than the loan portfolio. The Company also has a multicurrency loan facility with Scotiabank of £45,500,000 (£35,500,000 with an additional £10,000,000 commitment being available), of which £18,527,000 was drawn down at 30 April 2019 (2018: £26,810,000). This facility was renewed on 14 August 2018 and is due to expire on 14 August 2020. The interest rate currently charged on the loan is 0.875% above Libor (2018: 0.925% above Libor). The facility between Scotiabank and the Company is secured by a first priority security interest over all the assets of the Company. The Board gives guidance to the Manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should remain fully invested in normal market conditions and that short term borrowings be used to manage short term cash requirements at the Manager's discretion.

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

### 14.2 Liquidity risk (continued)

**Liquidity risk exposure**

The remaining contractual maturities of the financial liabilities at 30 April, based on the earliest date on which payment can be required was as follows:

| | Value at 30 April 2019 | | | | Value at 30 April 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | 3 months or less £'000 | More than 3 months, less than one year £'000 | More than one year £'000 | Total £'000 | 3 months or less £'000 | More than 3 months, less than one year £'000 | More than one year £'000 | Total £'000 |
| Current liabilities: | | | | | | | | |
| Amounts due to brokers, accruals and tax payable | 1,108 | – | – | 1,108 | 10,890 | – | – | 10,890 |
| Interest accrual on bank loan | 18 | – | – | 18 | 47 | – | – | 47 |
| Bank loan | 18,527 | – | – | 18,527 | 26,810 | – | – | 26,810 |
| | **19,653** | **–** | **–** | **19,653** | **37,747** | **–** | **–** | **37,747** |

The asset maturity of the bond portfolio as at 30 April was as follows:

| | Value at 30 April 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 5 years £'000 | More than 5 years, less than 10 years £'000 | More than 10 years, less than 20 years £'000 | More than 20 years £'000 | Perpetuity £'000 | Total £'000 |
| High yield bonds | 13,561 | 88,701 | 1,661 | 1,265 | 11,666 | 116,854 |
| Investment grade bonds | 1,603 | 36,219 | 2,454 | 4,083 | 5,112 | 49,471 |
| Secured loans | 4,201 | 4,823 | – | – | – | 9,024 |
| Preference stock | – | – | – | – | 3,834 | 3,834 |
| Asset backed securities | – | – | – | 1,614 | – | 1,614 |
| | **19,365** | **129,743** | **4,115** | **6,962** | **20,612** | **180,797** |

| | Value at 30 April 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 5 years £'000 | More than 5 years, less than 10 years £'000 | More than 10 years, less than 20 years £'000 | More than 20 years £'000 | Perpetuity £'000 | Total £'000 |
| High yield bonds | 9,216 | 85,082 | 5,695 | 2,691 | 23,305 | 125,989 |
| Investment grade bonds | 809 | 15,748 | 2,078 | 13,423 | 14,128 | 46,186 |
| Secured loans | 1,963 | 17,714 | – | – | – | 19,677 |
| Preference stock | – | – | – | – | 4,043 | 4,043 |
| Asset backed securities | – | – | – | 1,544 | – | 1,544 |
| | **11,988** | **118,544** | **7,773** | **17,658** | **41,476** | **197,439** |

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

### 14.3 Credit risk

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

**Management of the risk**

This risk is managed as follows:

- where Janus Henderson makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to determine the risk to the Company of default;
- investments in bonds and loans are made across a variety of industry sectors and geographical markets, so as to avoid concentrations of credit risk;
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by Janus Henderson and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings (currently BNP Paribas Securities Services (London) and Scotiabank Europe PLC whose credit ratings are A1 and Aa2 respectively).

Credit derivatives are used as a way of enhancing income without buying or selling a physical bond/loan. The primary credit derivatives used are credit default swaps.

To the extent that the credit derivative exposure is not covered by cash held by the Company then any net long exposure would act as synthetic gearing. Credit default swaps are used by Janus Henderson for two purposes. By selling protection (going long risk) Janus Henderson can increase the Company's exposure to a particular reference entity. In return for taking this credit risk the Company will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract (e.g. default) in the intervening period. This reference entity may be a specific company, or in the case of ITRAXX indices, a basket of credit exposures, for example senior financials. At 30 April 2019, the Company had gross exposure of nil (2018: £448,000) to a single named credit default swap. At 30 April 2019, the gross exposure to ITRAXX indices was £6,417,000 (2018: £6,736,000) and exposure of £6,417,000 (2018: 6,736,000) where protection has been sold.

By contrast Janus Henderson may buy protection (take a short risk position) on a reference entity to reduce the overall credit exposure. This would involve the payment of premium in order to protect against possible capital losses in the future. At 30 April 2019 the protection purchased was nil (2018: £448,000).

The credit quality of bonds and secured loans is reviewed in the Fund Managers' Report on pages 7 and 8 and Investment Portfolio on pages 9 to 11. None of the Company's financial assets are past due or impaired.

The credit ratings of the investment portfolio are detailed in the table below:

| Rating | 2019 Market value £'000 | 2019 % of portfolio £'000 | 2018 Market value £'000 | 2018 % of portfolio £'000 |
|---|---|---|---|---|
| A | 8,713 | 4.8 | 2,645 | 1.3 |
| BBB | 40,758 | 22.6 | 44,196 | 22.4 |
| BB | 73,363 | 40.6 | 87,586 | 44.4 |
| B | 31,702 | 17.5 | 33,252 | 16.8 |
| CCC | 5,860 | 3.2 | 5,323 | 2.7 |
| Non-rated | 11,377 | 6.3 | 4,760 | 2.4 |
| Secured loans | 9,024 | 5.0 | 19,677 | 10.0 |
| | **180,797** | **100.0** | **197,439** | **100.0** |

The Company is exposed to credit risk on debt instruments and derivative assets. These classes of financial assets are not subject to IFRS 9's impairment requirements as they are measured at fair value through profit and loss. The carrying value of these assets under both IAS 39 (2018) and IFRS 9 (2019) represent the Company's maximum exposure to credit risk on financial instruments not subject to the IFRS 9 impairment requirements on the respective reporting dates. Therefore no separate maximum exposure to credit risk disclosure is provided for these instruments.

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

### 14.4 Fair values of financial assets and financial liabilities

Financial assets and financial 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, bank loans, due to brokers, accruals and cash at bank).

Current assets and current liabilities: forward currency sales are valued on the basis of exchange rates for a similar contract for the same residual duration, as provided by the counterparty. The amount of unrealised change in fair value for such forward exchange contracts recognised in the Statement of Comprehensive Income for the year/period was a loss of £627,000 (2018: loss of £5,409,000). The forward currency transactions serve to hedge back the value of AUD Dollar, Euro and US Dollar denominated securities to sterling.

Credit default swaps are fair valued. The amount of unrealised change in fair value recognised in the Statement of Comprehensive Income for the year/period for credit default swaps was a gain of £185,000 (2018: gain of £103,000).

### 14.5 Fair value hierarchy disclosures

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

| 2019 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss: | | | | |
| Investments | 171,773 | 9,024 | – | 180,797 |
| Credit default swaps | – | 485 | – | 485 |
| | **171,773** | **9,509** | **–** | **181,282** |
| Financial liabilities at fair value through profit or loss: | | | | |
| Currency forward exchange contracts | – | 627 | – | 627 |
| | **–** | **627** | **–** | **627** |

| 2018 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss: | | | | |
| Investments | 177,762 | 19,677 | – | 197,439 |
| Credit default swaps | – | 626 | – | 626 |
| | **177,762** | **20,303** | **–** | **198,065** |
| Financial liabilities at fair value through profit or loss: | | | | |
| Currency forward exchange contracts | – | 5,409 | – | 5,409 |
| | **–** | **5,409** | **–** | **5,409** |

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

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

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

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1. Secured loans are valued taking into account latest dealing prices, broker quotes and valuations from independent valuation providers; and

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data. There were no transfers to or from Level 3 during the year/period.

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

### 14.6 Capital management policies and procedures

The Company's capital management objectives are:

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

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

The Company had borrowings totalling £18,527,000 at 30 April 2019 (2018: £26,810,000).

As at 30 April 2019, the ratio of borrowings to net assets under the facility was 11.3% (2018: 16.2%).

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

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

The Company is subject to the following externally imposed capital requirement: – as a public company, the Company has a minimum share capital of £50,000;

- 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 capital restrictions tests imposed on investment companies by law and its Articles of Association; and
- under the multicurrency facility now in place, borrowings shall be repaid at any time the adjusted asset coverage is not less than 3.30 to 1.00 times (as defined in the agreement) or the borrowings exceed such limits as prescribed in the Company's original prospectus.

The Company has complied with these requirements during the year.

# Notes to the Financial Statements (continued)

## 15 Share capital

| | 2019 | | |
|---|---|---|---|
| | Number of shares entitled to dividend | Total number of shares | Nominal value of shares £'000 |
| Ordinary shares of 1p each | | | |
| At start of year | 189,618,240 | 189,618,240 | 1,896 |
| **Closing balance at 30 April** | **189,618,240** | **189,618,240** | **1,896** |

| | 2018 | | |
|---|---|---|---|
| | Number of shares entitled to dividend | Total number of shares | Nominal value of shares £'000 |
| Ordinary shares of 1p each | | | |
| At start of period | – | – | – |
| Issued on 27 April 2017 | 182,193,240 | 182,193,240 | 1,822 |
| Shares issued subsequent to 27 April 2017 | 7,425,000 | 7,425,000 | 74 |
| **Closing balance at 30 April** | **189,618,240** | **189,618,240** | **1,896** |

There were no shares issued in the year ended 30 April 2019. During the period ended 30 April 2018 the Company issued 189,618,240 shares for net proceeds of £168,287,000. On 27 April 2017, 182,193,240 shares were issued when Henderson Diversified Income Limited, a closed-ended company registered under the Companies (Jersey) Law 1991 was subject to a scheme of reconstruction. All assets and liabilities were transferred to the Company and investors in the predecessor company had their shares transferred to the Company at this date. The net proceeds of £161,418,000 received from this transaction comprised £180,302,000 investments, £5,324,000 cash and £24,208,000 other net current liabilities, these included all assets and liabilities held in the subsidiary.

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

During the period to 30 April 2018, the Company issued a further 7,425,000 ordinary shares for proceeds of £6,869,000 net of costs.

## 16 Share premium account

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At start of year/period | – | – |
| Premium on shares issued on 27 April 2017 | – | 160,056 |
| Issue costs | – | (460) |
| Premium on shares issued subsequent to 27 April 2017 | – | 6,795 |
| Transfer of distributable reserve following cancellation of share premium account | – | (166,391) |
| **At 30 April** | **–** | **–** |

On 20 September 2017 the Company announced that the High Court confirmed the cancellation of the Company's share premium account and that the distribution may be applied. The Company's distributable reserve can be applied in any manner in which the Company's profits available for distribution may be applied.

# Notes to the Financial Statements (continued)

## 17 Distributable reserve

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At start of year/period | 165,538 | – |
| Transfer of share premium account following cancellation | – | 166,391 |
| Issue costs | (5) | – |
| First interim dividend – nil (2018 – 0.25p) | – | (474) |
| Second interim dividend – nil (2018 – 0.20p) | – | (379) |
| **At 30 April** | **165,533** | **165,538** |

During the period ended 30 April 2018, the Company paid part of the first interim dividend of 0.25p and second interim dividend of 0.20p from the distributable reserve.

## 18 Capital reserves

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Capital reserve arising on revaluation on investments held £'000 | Capital reserve arising on investments sold £'000 | Total £'000 | Capital reserve arising on revaluation on investments held £'000 | Capital reserve arising on investments sold £'000 | Total £'000 |
| At start of year/period | (11,425) | 7,582 | (3,843) | – | – | – |
| Exchange movements[1] | 4,782 | (14,323) | (9,541) | (4,950) | 10,674 | 5,724 |
| Movement in holding gains/ (losses) | 11,241 | – | 11,241 | (6,578) | – | (6,578) |
| Losses on investments | – | (1,890) | (1,890) | – | (2,494) | (2,494) |
| Costs charged to capital | – | (704) | (704) | – | (1,245) | (1,245) |
| Movement in credit default swaps | 81 | (489) | (408) | 103 | 647 | 750 |
| **At end of year/period** | **4,679** | **(9,824)** | **(5,145)** | **(11,425)** | **7,582** | **(3,843)** |

[1] Included within exchange movements are exchange losses of £9,105,000 (2018: gains of £5,552,000) relating to forward foreign exchange transactions and losses of £436,000 (2018: gains of £172,000) relating to other foreign exchange movements

## 19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net asset value attributable to ordinary shareholders at 30 April 2019 of £164,618,000 (2018: £165,799,000) and on 189,618,240 (2018: 189,618,240) ordinary shares, being the number of ordinary shares in issue.

## 20 Contingent liabilities

There were no contingent liabilities as at 30 April 2019 (2018: nil).

## 21 Subsidiary

In the prior period end as part of the transfer of the assets and liabilities from the predecessor company, the Company acquired beneficial ownership of the investments held through Henderson Diversified Income (Luxembourg) S.a.r.l ('subsidiary'). On 24 October 2017 the subsidiary was subject to a deed of dissolution, without liquidation, with immediate effect in accordance with the Luxembourg Civil Code.

# Notes to the Financial Statements (continued)

## 22 Transactions with the Manager and related parties

Under the terms of an agreement effective from 3 March 2017, the Company appointed Janus Henderson to provide investment management, accounting, administrative and company secretarial services. Janus Henderson has contracted with BNP 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 30 April 2019 were £1,039,000 (2018: £1,079,000) (see note 5) of which £354,000 (2018: £358,000) is included in the accruals at 30 April 2019.

In addition to the above services, Janus Henderson facilitates marketing activities with third parties which are recharged to the Company. Janus Henderson also provided 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 was no separate charge for these services. Total amounts paid to Janus Henderson in respect of marketing for the year ended 30 April 2019 amounted to £55,000 (2018: £93,000).

The compensation payable to key management personnel is in respect of the short term employment benefits was £113,000 (2018: £163,000). The disclosure relates wholly to the fees of £113,000 (2018: £163,000) payable to the directors in respect of the year; the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 26 to 27 provides more details. The Company has no employees.

## 23 Changes in financial liabilities

| 2019 | At start of year £'000 | Transfer during the year £'000 | Cash flows £'000 | Exchange movements £'000 | 30 April 2019 £'000 |
|---|---|---|---|---|---|
| Bank loans (see note 14.2) | 26,810 | – | (8,283) | – | 18,527 |
| **Total net debt** | **26,810** | **–** | **(8,283)** | **–** | **18,527** |

| 2018 | At start of period £'000 | Transfer during the period[1] £'000 | Cash flows £'000 | Exchange movements £'000 | 30 April 2018 £'000 |
|---|---|---|---|---|---|
| Bank loans (see note 14.2) | – | 29,935[1] | (3,125) | – | 26,810 |
| **Total net debt** | **–** | **29,935** | **(3,125)** | **–** | **26,810** |

[1] On 27 April 2017, as part of the scheme of reconstruction, the existing bank loan in the predecessor company was transferred to the Company

# 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') are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document called 'AIFM Disclosure' which can be found on the Company's website.

## BACS

Dividends can be paid by means of BACS ('Bankers' Automated Clearing Services'); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 14) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

## Common Reporting Standard ('CRS')

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

## Equality Act 2010

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

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 707 1740. 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 USA) to file yearly reports on their non-USA 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 will therefore need 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 USA reportable accounts to HMRC, as required.

## General Data Protection Regulation ('GDPR')

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

## ISA

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

## Non-Mainstream Pooled Investments status ('NMPI')

The Company currently conducts its affairs so that its ordinary shares of par value can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products as the Company's portfolio is wholly or predominantly made up of shares, debentures or government and public securities which are not themselves issued by other investment funds.

## 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 KID 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.hendersondiversifiedincome.com.** The Company's NAV is published daily.

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

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 website you will need the holder reference number shown on your share certificate.

## Warning to shareholders

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

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare 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 14.

Henderson Diversified Income Trust plc
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**Telephone: 0800 832 832**
**Email: support@janushenderson.com**

**www.hendersondiversifiedincome.com**

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