THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Annual Report for the year ended 31 May 2019

MANAGED BY
Janus Henderson
INVESTORS

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moneywise Investment Trust awards 2019 WINNER UK SMALLER COMPANIES Henderson Smaller Companies

moneywise Investment Trust awards 2018 WINNER UK SMALLER COMPANIES Henderson Smaller Companies

MORNINGSTAR Silver ★★★★

The image on the front cover is based on Custom House in King's Lynn.

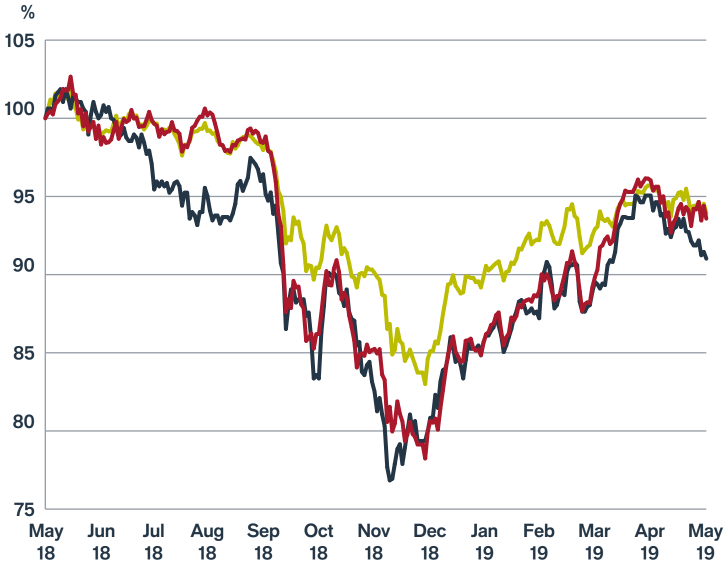
Strategic Report

"The quality of our portfolio companies' earnings allows us to report a 9.5% increase in the proposed total dividend for the year, making it our 16th consecutive year of dividend growth..."

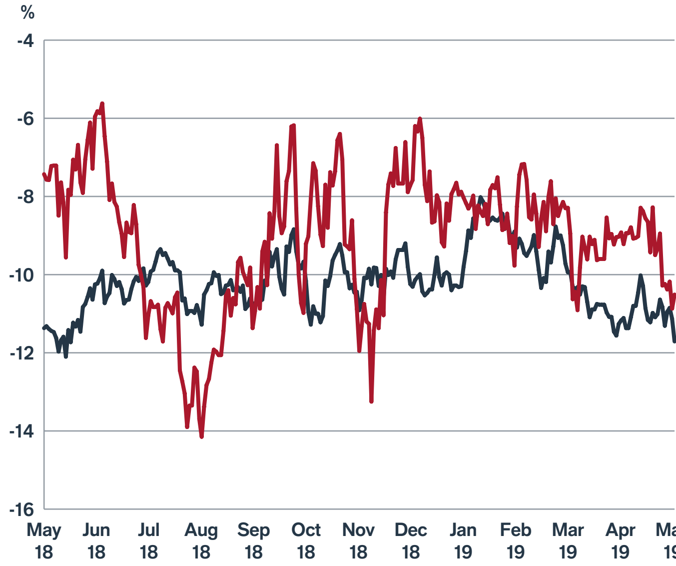
Jamie Cayzer-Colvin, Chairman

Performance

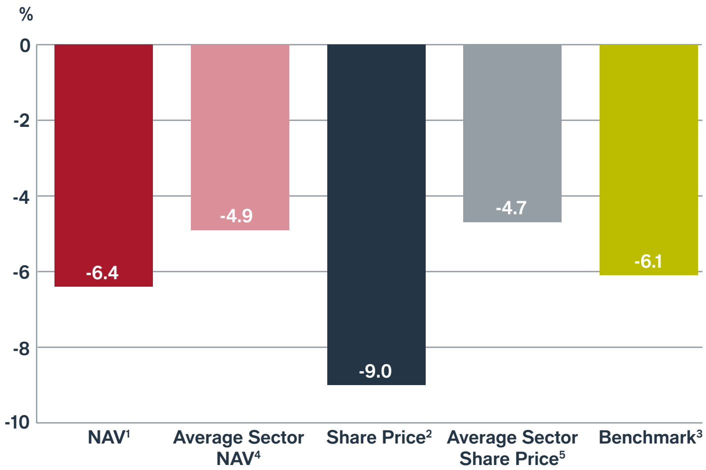
Total Return Performance to 31 May 2019



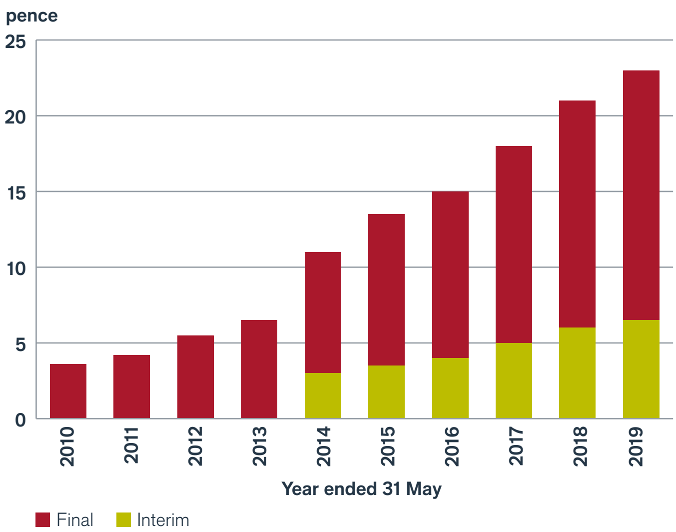
Discount data to 31 May 2019



Total Return Performance to 31 May 2019



Dividends



Total Return Performance for the period ended 31 May 2019

	1 year %	3 years %	5 years %	10 years %
NAV[1]	-6.4	39.6	67.2	480.9
Share Price[2]	-9.0	49.6	76.1	533.3
Benchmark[3]	-6.1	22.5	33.1	249.6
Average Sector NAV[4]	-4.9	33.7	55.9	345.8
Average Sector Share Price[5]	-4.7	32.6	57.4	386.4
FTSE All-Share Index	-3.2	28.4	29.3	149.4

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

Performance (continued)

NAV per share at year end

2019 **958.7p** 2018 1,046.9p

Share price at year end

2019 **858.0p** 2018 966.0p

Discount at year end[1]

2019 **10.5%** 2018 7.7%

Gearing at year end

2019 **8.4%** 2018 8.5%

Dividend for year

2019 **23.0p**[2] 2018 21.0p

Revenue return per share

2019 **23.59p** 2018 22.79p

Dividend yield[3]

2019 **2.7%** 2018 2.2%

Total net assets

2019 **£716m** 2018 £782m

Ongoing charge excluding performance fee

2019 **0.42%** 2018 0.42%

Ongoing charge including performance fee

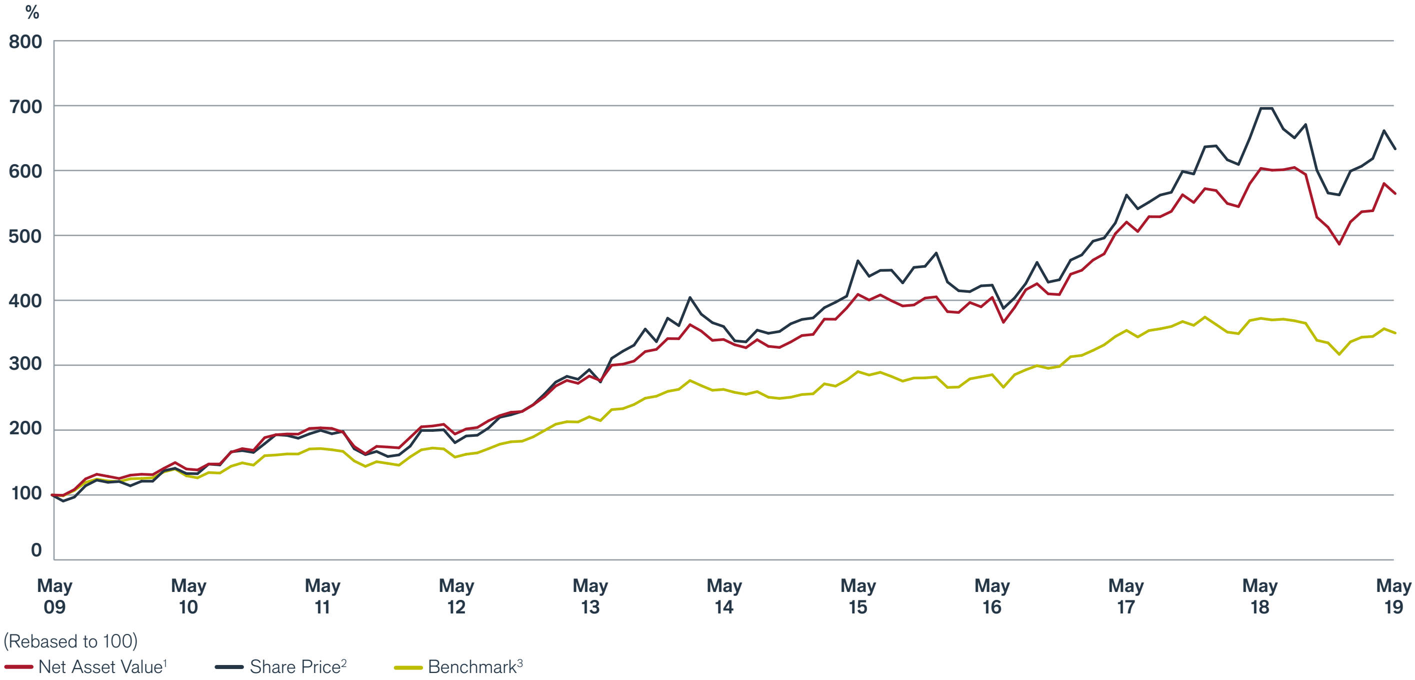
2019 **0.42%** 2018 0.99%

1 Calculated using published daily NAVs with debt at par including current year revenue
2 This represents an interim dividend of 6.5p and a proposed final dividend of 16.5p. See page 50 for more details
3 Based on the ordinary dividends paid and payable for the year and the mid-market share price at year end

A glossary of terms and explanations of alternative performance measures are included on pages 61 and 62
Sources: Morningstar for the AIC, Janus Henderson, Datastream

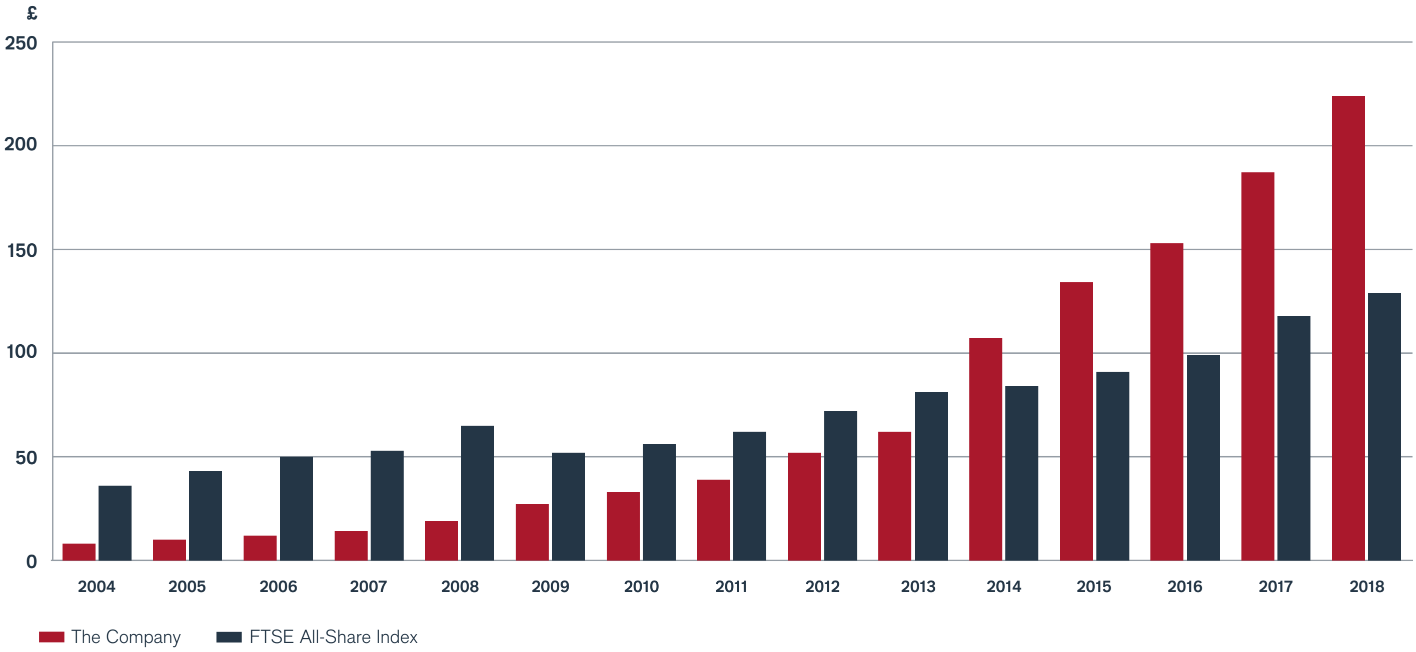
Historical Performance

Total Return Performance over the 10 years to 31 May 2019



Historical Dividend Growth

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



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

Sources: Morningstar for the AIC, Janus Henderson, Datastream

Chairman's Report

The Chairman of the Company, Jamie Cayzer-Colvin, reports on the year to 31 May 2019

During the past year your Company's net assets fell by 6.4%, underperforming our benchmark by 0.3% on a total return basis, and the share price fell by 9.0%. This is only the second year in the past 16 that your Fund Manager, Neil Hermon, and his team have underperformed the benchmark. Despite any disappointment with this year's marginal underperformance, the last ten years' annualised return to shareholders of 19.2% and outperformance of 5.9% per annum, clearly demonstrate that Neil and his team's thoughtful stock selection creates value. The quality of our portfolio companies' earnings allows us to report a 9.5% increase in the proposed total dividend for the year, making it our 16th consecutive year of dividend growth, as the companies continue to trade well, maintain strong balance sheets and grow their dividends.

On your behalf, I would like to make particular thanks to Neil, Indriatti van Hien, our Deputy Fund Manager, and Shiv Sedani, the team's Analyst, for all their endeavours and for 'keeping their heads' in what was a particularly bleak Christmas period for investors. I would like also to thank the staff at Janus Henderson, and make special mention of Rachel Peat, who looked after your Company as the representative of the corporate secretary for five years. Her guidance and assistance were highly valued, and we wish her luck with her future career. Her role has been taken by Johana Woodruff.

Board changes

At this year's Annual General Meeting ("AGM"), Beatrice Hollond, our Senior Independent Director and Chairman of the Audit Committee, will step down from the Board. I would like to thank her for the wise and professional advice and the great commitment she has given your Company over the last nine years. Beatrice's stable and insightful leadership of the Audit Committee was of constant reassurance to the Board, in a period where there was much change in the world of reporting. During the autumn we welcomed two new directors, Penelope Freer and Alexandra Mackesy. Alexandra will assume the Chair of the Audit Committee and David Lamb will assume the role of Senior Independent Director.

Discount and share buy-backs

During the year, the AIC UK Smaller Companies sector as a whole traded at an average discount of 10.2% to NAV, with highs and lows of 12.1% and 8.0% respectively. At the year end, the Company's shares traded at a discount of 10.5%. The Company's discount ranged from 14.2% to 5.6%, with the average discount over the year being 9.1%. The Board continues to monitor the discount and will consider the merits of buying back shares as markets evolve, though we do not currently believe that share buy-backs represent the most effective way of generating long-term shareholder value. During the reporting year, no shares in the Company were bought back.

Revenue and dividend

The revenue return per share was 23.6p, compared with 22.8p for the previous year. The Board is proposing a final dividend for the year of 16.5p per share, making a total dividend for the year of 23.0p (2018: 21.0p), as an interim dividend of 6.5p was paid in March. The final dividend is, of course, subject to shareholder approval at the AGM.

Ongoing charge

The Board regularly reviews the ongoing charge and monitors the expenses incurred by the Company. For the year ended 31 May 2019, the base ongoing charge was unchanged at 0.42%, with no performance fee payable. The total charge payable last year, including performance fee, was 0.99%. Further details of the ongoing charge are on page 14.

Continuation

Our shareholders are asked every three years to vote for the continuation of the Company, and a resolution to this effect will be put to the AGM in October. Your Company has shown that active investment management, well executed within the transparent and low-cost structure of an investment trust, is a highly effective means of gaining exposure to this class of equity. We therefore recommend that shareholders vote for the Company to continue.

Outlook

Populism has never been a more dominant influence in the political leadership of Western countries, and yet economies continue to grow, albeit at a slow pace, and unemployment continues to fall, creating new opportunities for investors. Global markets have responded positively to the latest round of interest rate signals emerging from the US and the expectation now is for lower rates, rather than rate increases, in the world's largest economy. Whilst progress on talks between the US and China on global trade has been mixed, any move forward here is likely to provide further support for investors.

Against this background, it is critical that the Brexit process is concluded, one way or another, and that there is some clarity around the UK's trading position with Europe and the rest of the world. This will help to remove any lingering uncertainty. Many companies had planned for the March Brexit by increasing their stock, only to find this was a wasted exercise; we shouldn't make companies do so again. I really hope that next year I shall be commenting on post-Brexit events, but in the meantime enjoy our increased dividend and your Company will continue its policy of seeking out quality growth at the right price. Your Board remains confident that Neil and his team are the best people to do this.

Annual General Meeting

The Company's AGM will be held at 11.30 am on Friday, 4 October 2019 at the Company's registered office. We would encourage as many shareholders as possible to attend for the opportunity to meet the Board and watch a presentation from Neil reviewing the year and looking forward to the year ahead.

Jamie Cayzer-Colvin
Chairman
1 August 2019

Portfolio Information

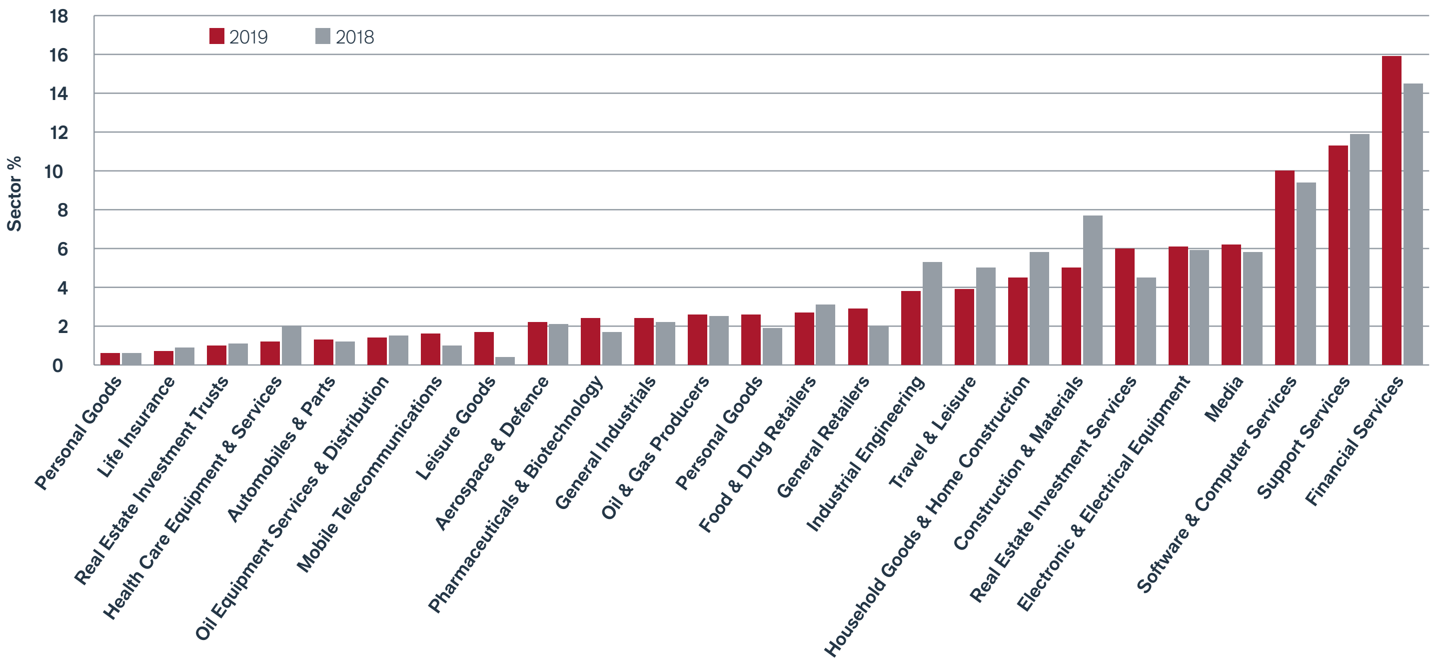
Performance Attribution

	Year ended 31 May	
	2019 %	2018 %
NAV total return	-6.4	15.9
Benchmark total return	-6.1	5.3
Relative performance	**-0.3**	**10.6**
Comprising:		
Stock selection	0.6	11.3
Gearing	-0.5	0.3
Expenses	-0.4	-1.0

Ten Largest Investments at 31 May 2019

Ranking 2019	Ranking 2018	Company	Principal activities	Valuation 2019 £'000	Portfolio %
1	2	Intermediate Capital	Mezzanine finance	25,426	3.28
2	1	Bellway	Housebuilder	21,928	2.82
3	6	Cineworld	Cinema operator	20,445	2.63
4	8	Clinigen	Pharmaceuticals	20,160	2.60
5	10	John Laing	Infrastructure investor	17,885	2.30
6	28	RWS	Patent translation services	15,500	2.00
7	7	Paragon	Buy-to-let mortgage provider	15,415	1.99
8	3	Renishaw	Precision measuring and calibration equipment	15,053	1.94
9	9	Dechra Pharmaceuticals	Veterinary pharmaceuticals	14,322	1.84
10	22	Aveva	Design software	14,230	1.83
				180,364	**23.23**

Analysis of the Portfolio by Sector at 31 May



As at 31 May 2019, the Company had no holdings in the following sectors: Industrial Metals & Mining, Gas, Water & Multi Utilities, Alternative Energy, Electricity, Beverages, Fixed Line Telecommunications, Industrial Transportation, Mining, Non-life insurance, Food & Drug Retailers and Technology Hardware & Equipment

Sources: Factset, Janus Henderson

Fund Manager's Report

The Fund Manager of the portfolio, Neil Hermon, reports on the year to 31 May 2019

Fund performance

The Company had a disappointing year in performance terms – falling in absolute terms and marginally underperforming its benchmark. The share price fell by 9.0% and the net asset value by 6.4% on a total return basis. This compared to a fall of 6.1% (total return) from the Numis Smaller Companies Index (excluding investment companies). The underperformance came from a negative contribution from gearing and expenses in the Company, partially offset by a positive contribution through underlying positive portfolio performance. This year marks only the second year of underperformance of the benchmark in the 16 years in which I have managed the investment portfolio.

Market – year under review

The year under review was a negative one for equity markets. To use a sporting metaphor it was a 'game of two halves'. In the first half of the year UK equity markets fell sharply as Brexit negotiations made limited progress, trade hostilities between US and China escalated, the Federal Reserve raised interest rates and oil and commodities prices fell.

However, equity markets recovered sharply in 2019. Factors driving the market higher included optimism that there would be progress on US and Chinese trade negotiations, a rally in the oil price, and the Federal Reserve softening its commentary around future interest rate increases.

Brexit negotiations have failed to make conclusive progress. The current situation is that the EU has granted an extension on the date the UK is to leave the EU until 31 October 2019 but with a new leader of the Conservative Party only recently installed and Parliament unable to come to a consensus on what deal, if any, it would approve, all scenarios remain possible.

The fundamentals of the corporate sector remained robust. Companies continued to grow their dividends whilst balance sheets remained strong. UK corporate earnings saw growth, helped by generally robust economic conditions and the continued weakness of sterling increasing the value of overseas earnings for UK companies.

Smaller companies underperformed larger companies over the year. This is the third year in a row that the Numis Smaller Companies Index (excluding investment companies) has underperformed the FTSE All-Share Index, albeit not by significant amounts.

Gearing

Gearing started the year at 8.5% and ended it at 8.4%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% and £60 million of short-term bank borrowings. As markets fell, the use of gearing was a negative contributor to performance in the year, a contrast with the significant positive contribution it has made over the 16 years I have managed the investment portfolio.

Attribution analysis

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

Principal contributors

	12 month return %	Relative contribution %
RWS Holdings	+75.6	+0.9
Aveva	+58.3	+0.8
Intermediate Capital	+18.0	+0.7
Gamma Communications	+59.5	+0.7
John Laing	+23.2	+0.6

RWS Holdings is a translation services business with particular strengths in intellectual property, life sciences and technology. The company has demonstrated long-term sustainable growth through a combination of organic and acquisitive expansion which has generated substantial shareholder return over the long term. Over the last year the much-improved trading performance of the recent acquisition, Moravia, has accelerated earnings growth and led to significant share price performance.

Aveva is an international provider of software and services to the engineering industry, particularly the oil and gas, mining, marine and power industries. It merged with Schneider Electric's industrial software business in 2018, significantly expanding the global reach of its digital transformation solutions. In this process Schneider took a controlling 60% stake in the business. The markets that Aveva is supplying are seeing robust expansion and the digitalisation of industrial markets is providing a further fillip to growth. The merger with Schneider is also providing cost saving synergies which is boosting profitability.

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

Fund Manager's Report (continued)

have also boosted the company's return on equity by returning substantial surplus capital.

Gamma Communications is a UK based telecoms operator offering voice, data, mobile and internet based products to small and medium sized enterprises. The company has performed strongly over the last few years as it has utilised the channel network in order to gain market share. Gamma has an exciting product set that provides customers with flexibility and scalability in an environment where products are moving to internet based services. 2018 was a strong year for the group as Gamma expanded overseas into the Netherlands and launched new products with extra functionality.

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

Principal detractors

	12 month return %	Relative contribution %
Greggs[1]	+110.8	-0.9
Victoria	-50.7	-0.6
Dunelm[1]	+72.1	-0.6
Just Group	-66.9	-0.5
Renishaw	-26.3	-0.5

1 Not owned by the Company

Greggs is a UK based convenience retailer of bakery products. The Company had no holding in Greggs. The bakery company has performed strongly, aided by the appeal of its value-for-money offering and the publicity around its launch of vegan sausage rolls. Strong profit growth has combined with a substantial valuation re-rating leaving Greggs on expensive earnings multiples.

Victoria is a pan-European floor coverings manufacturer. The company has bought, rationalised and integrated a number of UK carpet manufacturers. It has more recently expanded into the ceramic market in Europe through acquisitions in Italy and Spain. This expansion combined with a slowdown in trading saw debt expand to uncomfortable levels and combined with negative commentary from short sellers meant the shares underperformed. Recognising these concerns we sold our position in Victoria.

Dunelm is a UK retailer of homewares products. The Company had no holding in Dunelm. After a number of years of poor operational delivery and subdued earnings growth, Dunelm has seen an improvement in its performance, led by a new management team. This has led to a substantial valuation re-rating.

Just Group is a provider of enhanced annuities. The company has been impacted by its regulator, the PRA, deciding that the company needs to hold more capital against its portfolio of lifetime mortgages. To satisfy this capital requirement Just Group issued fresh debt and equity to restore its solvency position to more acceptable levels. The shares now trade at a substantial discount to both its tangible book value and embedded value and we believe they are very vulnerable to predatory interest.

Renishaw designs, develops and manufactures high technology precision measuring and calibration equipment. The business is a global leader in its field with strong patent protection. The company invests heavily in research and development to maintain its market leading technological position. Over the medium term the organic growth delivered has been one of the strongest in the capital goods sector. It has expanded its operations by diversifying into healthcare and additive manufacturing markets, both of which offer long-term attractive growth. In the short term the company is suffering from weakness in Asian demand and, given short visibility and high operational gearing, profitability is under pressure. That said, Renishaw, with a very strong balance sheet and a well invested production base, is superbly positioned for the long term.

Portfolio activity

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

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

Alliance Pharma acquires, markets and sells pharmaceutical and consumer healthcare products. The company has over 90 brands which are predominantly sold in the UK, US, China, France and Ireland. Alliance Pharma is an acquisition-driven business: the company buys niche products from major pharmaceuticals companies and looks to improve sales through focused marketing and expansion into new geographies. The company has solid underlying growth with strong cash generation and there remains a number of opportunities for the business to deploy capital to expand into new products.

Future is a tech-enabled global platform for specialised media which targets both consumers and business-to-business ("B2B") brands across Europe, America and Asia Pacific. The company creates specialised content to attract and grow high-value audiences. These audiences are then monetised through memberships and subscriptions, print and digital advertising, e-commerce sales and

Fund Manager's Report (continued)

events. Future has both an organic and inorganic growth strategy. Management are focused on purchasing new brands and titles to leverage their scalable technology and drive digital growth using its revenue optimisation model.

Savills is a real estate services company offering retail and corporate sales, valuation, fund management, property facilities and consulting for a broad range of clients across Europe, America, Asia and Australia. It is a business that has significantly diversified over the years, reducing its exposure to transactional services towards more predictable revenue streams. Our investment in Savills provides us with a quality, diversified real estate business with a strong management team and opportunities for expansion through tactical acquisitions.

Serica Energy is a North Sea focused oil and gas exploration and production company. The company expanded significantly through the acquisition of the Bruce, Rhum and Keith fields from BP, Total, BHP and Marubeni. This deal, which solved ownership issues of the vendors, was achieved at a fantastic price for Serica and transformed it into one of the major independent oil and gas producers in the North Sea. The company will generate substantial free cash flow in the coming years leaving it well placed to do further value enhancing deals.

Vitec is a leading manufacturer and supplier of specialist camera/video accessories, lighting and sound equipment. The company has a high market share in each of its product categories and continues to outperform its peers through new product innovation. Whilst the consumer camera market has shifted to the use of mobile phones, there still remains an active professional and amateur photographer market that buys high quality equipment. Our investment in Vitec provides exposure to a company with an improving demand cycle, increasing margins through efficient manufacturing and the potential for small acquisitions of other niche brands.

In addition to the companies mentioned above, we invested in a number of initial public offerings ("IPOs") in the year. These included **AJ Bell**, an investment platform business, **Codemasters**, a software games developer and publisher, **Tekmar**, a provider of subsea protection systems and engineering services and **Watches of Switzerland**, a retailer of luxury branded watches.

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance. We sold our holding in **Elementis**, a speciality chemicals group, where the company made a poorly judged and expensive acquisition of Mondo Chemicals, an industrial talc company. This boosted leverage to levels we were uncomfortable with. We also disposed of our holding in **NCC**, a cybersecurity consultancy and escrow services business, as the company warned that recruitment and retention of employees was proving difficult.
In addition the software escrow business is seeing structural decline as software moves to the cloud. Other companies we sold due to a belief that they were structurally challenged or suffering from poor operational performance included: **Playtech**, a software and services provider to the gaming industry; **Ricardo**, a consultant serving the automotive, rail and environmental markets; **XPS Pensions**, a pensions consultant; **Accesso**, a queueing and ticketing software business; and **Ted Baker**, a clothing brand and retailer. We also sold our positions, in line with our stated policy, in **GVC**, a gaming company and **Melrose**, a diversified industrial group, as both were elevated to the FTSE 100.

We benefited from a level of takeover activity in the year, albeit at reduced levels compared to previous years. Three portfolio companies received agreed bids. Within our portfolio, takeover bids were received for: **Faroe Petroleum**, an oil and gas exploration and production company, from DNO; **Tarsus**, an international exhibitions company, from Charterhouse Private Equity; and **WYG**, an engineering consultancy, from Tetra Tech.

Portfolio outlook

The following table shows the Company's top 10 stock positions and their active positions versus the Numis Smaller Companies Index (excluding investment companies) at the end of May 2019.

Top ten active positions at 31 May 2019	Holding %	Index Weight %	Active Weight %
Intermediate Capital	3.5	–	3.5
Bellway	3.1	–	3.1
Cineworld	2.9	–	2.9
Clinigen	2.8	–	2.8
John Laing	2.5	–	2.5
RWS Holdings	2.2	–	2.2
Paragon	2.2	0.8	1.4
Renishaw	2.1	–	2.1
Dechra Pharmaceuticals	2.0	–	2.0
Aveva	2.0	–	2.0

A brief description of the largest active positions (excluding Aveva, Intermediate Capital, John Laing, Renishaw and RWS Holdings, which were covered earlier) follows:

Bellway is a national UK housebuilder. The UK new housing market is robust, due to low interest rates and Government initiatives, particularly Help to Buy. Bellway is looking to exploit these conditions by expanding its national footprint, whilst maintaining a strong land-bank and balance sheet. Operating margins are over 20% and volumes and profits are growing. The positive outlook for the sector is aided by: a benign land market, as the number of competitors has reduced from the previous cycle; the structural under-supply of housing in the UK; and the capital discipline Bellway and its peers are displaying.

Cineworld is an international cinema operator. The company has market leading positions in the UK, Israel, Eastern Europe and the USA. Historically growth has been driven by a rapid roll out of new capacity, particularly in Eastern Europe where cinema visits per capita markedly lag more developed economies. The company undertook significant expansion in 2018 by acquiring Regal Entertainment, a leading US cinema chain. Although the US is a mature market, Regal's valuation was depressed by poor 2017 financial results, which were a consequence of a weak film

Fund Manager's Report (continued)

release schedule, particularly over the summer months. This provided Cineworld with an opportunity to acquire a good asset at a knock-down valuation. With a much stronger film slate, significant cost synergies and an opportunity to invest in a tired Regal asset base, the prospects for growth look good.

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

Paragon is principally a provider of buy-to-let mortgages. The company has changed its structure in the last few years by obtaining a banking licence, growing its lending in asset-backed car finance and specialist residential markets and diversifying its funding sources into the retail market. The company enjoys a very strong capital position, enabling it to pay higher dividends whilst buying back some of its own stock. The introduction of new regulations on complex underwriting should help the specialist lenders like Paragon grow market share, and at a modest premium to asset value, we believe Paragon represents good value.

Dechra Pharmaceuticals is an international specialist pharmaceuticals business that develops, manufactures and sells products exclusively for vets. It does this for companion animals, equine animals and food producing animals. Key product focus areas include dermatology, ophthalmology, endocrinology and antibiotics and vaccinations for food producing animals. Company strategy has been to grow the business both organically and inorganically and the long-standing CEO has successfully done this through growing the pipeline, diversifying geographically (most notably in the US) and undertaking some value accretive acquisitions. Our investment provides us with exposure to growing demand for veterinary pharmaceuticals as the trends of the humanisation of pets and increase in demand for protein continue.

As at 31 May 2019, the portfolio was weighted by company size as follows:

	Weighting %	
	31 May 2019	31 May 2018
FTSE 100	0.0	2.5
FTSE 250	62.0	62.9
FTSE Small Cap	21.3	21.5
FTSE AIM	25.1	21.6
Gearing	-8.4	-8.5

Market Outlook

The UK economy is showing anaemic growth. Brexit deliberations stumble on, with intermittent progress. There is clearly a range of outcomes but what deal, if any, the UK will end up with is, at this point, unclear. Extra complication is added by the weak position of the minority Conservative Government and that Boris Johnson has replaced Theresa May as Prime Minister. The battle to replace her and the summer parliamentary recess accounts for a significant proportion of the time before we are due to leave the EU. This political uncertainty is likely to weigh on consumer and business confidence, and delay and postpone investment and purchasing decisions, further dampening economic growth.

Outside the UK, economic conditions are robust, but slowing. Europe, in particular, is showing signs of economic slowdown. Escalating trade tensions are providing additional negative commentary and, after what seemed to be good progress between the US and China, recent rhetoric and actions have seen an increase in volatility of relations between the two countries. The rise in US interest rates in 2018 flagged to investors that loose global monetary conditions were reversing. However, commentary from the Federal Reserve has softened recently and the expectation is that there will be cuts in US rates in 2019.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-9. Balance sheets are more robust and dividends are growing. In addition, a large proportion of UK corporate earnings come from overseas, even among smaller companies, and should be boosted by the relative weakness of sterling.

In terms of valuations, the equity market is now trading below long-term averages. Mergers and acquisitions ("M&A") remains a supportive feature for smaller companies. If corporate confidence does not deteriorate, M&A will increase, especially as little or no return can currently be generated from cash and the cost of debt is historically low. We have seen interest in UK corporates from abroad and from private equity and, given the relatively low valuation of UK equities and a weak currency, we expect this trend to continue. However, a return to a more vibrant M&A market depends on a Brexit resolution and clarity around the UK's trading position with Europe and the rest of the world.

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

Neil Hermon
Fund Manager
1 August 2019

Investment Portfolio at 31 May 2019

Company	Principal activities	Valuation £'000	Portfolio %
Intermediate Capital	Mezzanine finance	25,426	3.28
Bellway	Housebuilder	21,928	2.82
Cineworld	Cinema operator	20,445	2.63
Clinigen[1]	Pharmaceuticals	20,160	2.60
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Aveva	Design software	14,230	1.83
10 largest		**180,364**	**23.23**
Sanne	Investment management services	13,324	1.72
Gamma Communications[1]	Telecommunication services	12,548	1.62
GB Group[1]	Data intelligence services	12,536	1.61
Victrex	Speciality chemicals	12,419	1.60
Burford Capital[1]	Litigation finance	12,335	1.59
Oxford Instruments	Advanced instrumentation equipment	12,033	1.55
OneSavings Bank	Banks	11,457	1.48
Ultra Electronics	Defence and aerospace products	11,160	1.44
St Modwen Properties	Real estate investment and services	10,872	1.40
SIG	Building materials distributor	10,238	1.32
20 largest		**299,286**	**38.56**
TI Fluid Systems	Automotive supplier	10,225	1.32
Balfour Beatty	International contractor	10,217	1.32
IntegraFin	B2B financial platform	10,118	1.30
Vesuvius	Materials technology for steel and foundry industry	9,988	1.29
Euromoney Institutional Investor	B2B information	9,979	1.29
Ibstock	Bricks manufacturer	9,758	1.26
Synthomer	Speciality chemicals	9,725	1.25
Learning Technologies Group[1]	E-learning	9,664	1.24
Softcat	Software reseller	9,550	1.23
Tarsus Group	Exhibition organiser	9,266	1.19
30 largest		**397,776**	**51.25**
Coats	Global threads provider	8,812	1.14
Midwich[1]	Audio-visual equipment distributor	8,596	1.11
Jupiter Fund Management	Investment management company	8,556	1.10
Ascential	Exhibition organiser and data services	8,535	1.10
Scapa[1]	Technical tapes	8,379	1.08
Cairn Energy	Oil & gas exploration and production	8,305	1.07
Impax Asset Management[1]	SRI investment management company	8,186	1.05
Hunting	Oil equipment and services	8,128	1.05
Countryside	Housebuilder	8,019	1.03
Premier Oil	Oil & gas exploration and production	7,874	1.01
40 largest		**481,166**	**61.99**
Brewin Dolphin	Wealth management	7,756	1.00
Grainger	Residential property investor	7,724	1.00
Vitec	Broadcast and camera systems	7,718	0.99
Spectris	Electronic control and process instrumentation	7,694	0.99
Northgate	Commercial vehicle hire	7,464	0.96
Computacenter	IT reseller	7,327	0.94
CLS	Real estate investment and services	6,967	0.90
Consort Medical	Healthcare products	6,900	0.89
Alpha Financial Markets[1]	Investment management consultancy	6,840	0.88
Team17[1]	Games software developer	6,837	0.88
50 largest		**554,393**	**71.42**

1 Quoted on the Alternative Investment Market

Investment Portfolio at 31 May 2019 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Codemasters[1]	Games software developer	6,588	0.85
Rotork	Process control solutions	6,469	0.83
Avon Rubber	Defence and dairy industry products	6,211	0.80
Savills	Property transactional consulting services	6,141	0.79
SDL	Language software service provider	5,859	0.75
ITE Group	Exhibition organiser	5,802	0.75
DFS	Furniture retailer	5,789	0.75
Helical	Office property investor and developer	5,619	0.72
GoCompare.com	Price comparison website	5,615	0.72
Just Group	Enhanced annuity provider	5,600	0.72
60 largest		**614,086**	**79.10**
Hollywood Bowl Group	Ten pin bowling operator	5,468	0.70
Restore[1]	Office service provider	5,390	0.69
Polypipe	Building products	5,366	0.69
Unite Group	Student accommodation investor	5,317	0.68
Howden Joinery	Kitchen manufacturer and retailer	5,275	0.68
Tyman	Building products	5,273	0.68
Eurocell	Building products	5,189	0.67
Safestore Holdings	Self storage operator	5,171	0.67
SThree	Recruitment company	5,168	0.67
XP Power	Electrical power products	5,104	0.66
70 largest		**666,807**	**85.89**
Bodycote	Engineering group	5,057	0.65
Crest Nicholson	Housebuilder	4,857	0.63
Next Fifteen Communications[1]	PR and media services	4,735	0.61
Luceco	Electrical products	4,720	0.61
Watches of Switzerland	Luxury watch retailer	4,657	0.60
Lookers	Automotive retailer	4,510	0.58
Tribal Group[1]	Education support services and software	4,507	0.58
Future	Specialist internet, website and magazine company	4,464	0.57
Alliance Pharma[1]	Pharmaceutical products	4,385	0.56
Urban & Civic	Real estate investment and services	4,238	0.55
80 largest		**712,937**	**91.83**
Smart Metering Systems[1]	Energy smart meters	4,076	0.52
Aptitude Software	Software retailer	3,938	0.51
Safestyle[1]	Window replacement retailer	3,876	0.50
RM	Education software and services	3,743	0.48
Serica Energy[1]	Oil and gas exploration and production	3,594	0.46
Joules[1]	Clothing retailer	3,510	0.45
Marshall Motor[1]	Automotive retailer	3,441	0.44
AA	Roadside assistance	3,215	0.41
Blue Prism[1]	Robot processing automation	3,185	0.41
Gym Group	Gym operator	3,159	0.41
90 largest		**748,674**	**96.42**
Blancco Technology[1]	Data erasure software	2,960	0.38
Costain	Contractor	2,835	0.37
Tekmar[1]	Offshore wind protection systems	2,762	0.36
Sherborne Investors (Guernsey) C	Speciality finance	2,601	0.34
Severfield	Industrial engineering	2,520	0.32
Spire Healthcare	Hospital operator	2,385	0.31
Capital & Regional	Retail property investor	2,374	0.31
WYG[1]	Engineering consultancy	2,160	0.28
Thruvision[1]	Detection technology	1,747	0.23
AJ Bell	B2B and B2C investment platform	1,672	0.22
100 largest		**772,690**	**99.54**
Charles Taylor	Insurance management services	1,624	0.21
Xaar	Electronic equipment	1,239	0.16
AB Dynamics[1]	Automotive testing and measurement products	680	0.09
Total equity investments		**776,233**	**100.00**

There were no convertible or fixed interest securities at 31 May 2019 (2018: None)

1 Quoted on the Alternative Investment Market

Business Model

Our purpose

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

Our strategy

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

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

Status

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

Investment objective

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

Investment policy[1]

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

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

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

The Company maintains a diversified portfolio and cannot:

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

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

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

Derivatives

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

Gearing

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

Management

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

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

The fund management team is led by Neil Hermon, who was appointed as the Company's Fund Manager with effect from November 2002. He receives a proportion of any performance fee paid by the Company to the Manager and a proportion of that is

1 Following review of the wording of the investment policy and after consultation with the Company's Manager and corporate broker, the Board has taken the opportunity to make certain non-material amendments which are reflected above. The Board has been advised that these changes do not require shareholder approval.

Business Model (continued)

deferred into further shares in the Company. Indriatti van Hien was appointed Deputy Fund Manager with effect from 1 June 2016. Both Neil and Indriatti have a shareholding in the Company.

Janus Henderson and its subsidiaries also provide accounting, company secretarial, marketing and general administrative services. Some of the administration and accounting services are carried out, on behalf of the Manager, by BNP Paribas Securities Services. Henderson Secretarial Services Limited acts as corporate secretary.

Investment selection

The Fund Manager uses rigorous research to identify high-quality smaller companies with strong growth potential. The benchmark is the Numis Smaller Companies Index (excluding investment companies). Generally, new investments are made in constituents of the benchmark index but they may continue to be held when the underlying companies grow out of the smaller companies sector.

Fees

Management fee

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

Performance fee

The management agreement also provides for payment of a performance fee, calculated as 15% of any outperformance of the benchmark index, on a total return basis, over the Company's accounting year. This is subject to a limit on the total management fee and performance fee payable in any one year of 0.9% of the average value of the net assets of the Company during the year.

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

No performance fee is payable for the year ended 31 May 2019 (2018: £4,086,000).

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

Ongoing charge

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

Category of cost	2019 £'000	2019 % of average net assets[1]	2018 £'000	2018 % of average net assets[1]
Management fee[2]	2,455	0.34	2,409	0.34
Other expenses	537	0.08	536	0.08
Ongoing charge (excl performance fee)	**2,992**	**0.42**	**2,945**	**0.42**
Performance fee	–	–	4,086	0.57
Ongoing charge (incl performance fee)	**2,992**	**0.42**	**7,031**	**0.99**
Transaction costs[3]	537	0.08	715	0.10

1 Calculated on average daily net assets in accordance with the AIC methodology
2 The management fee in the ongoing charge is calculated based on the average daily net assets, as opposed to the quarter-end net assets to which the 0.35% fee rate applies
3 Transaction costs are the costs of buying and selling investments in the Company's portfolio; they comprise mainly stamp duty and commission

Borrowings

The Company has access to borrowings up to £90 million (2018: £90 million), comprising £30 million unsecured loan notes and a £60 million committed bank facility with Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"). In addition the Company has a small amount of preference stock in issue (see page 23 for more details).

Sustainability of business model and promoting the Company's success

The directors' overarching duty is to promote the success of the Company for the benefit of all investors, with careful consideration of wider stakeholders' interests, as set out in section 172 of the Companies Act 2006. With the Company's long-term optimal performance and success in mind, the Board regards a sustainable, well governed business model as necessary for the successful delivery of its investment proposition. To this end, the Board secures the Company's success by engaging reputable third-party suppliers with established track records to deliver the day-to-day operations. The most important of these is the Manager, and in particular, the Fund Manager who is responsible for the management of the Company's assets in line with the investment objective. The Board maintains a close working relationship with the Manager and holds it to account for the smooth running of the Company's day-to-day business operations.

The Board remains responsible for decisions regarding corporate strategy, corporate governance, risk and control assessment, setting

Business Model (continued)

limits and restrictions on gearing and asset allocation, monitoring investment performance, setting and monitoring marketing budgets. The Fund Manager promotes the Company with the support of the Manager's dedicated investment trust sales team and the Board makes additional spend available to support marketing activities aimed at informing retail investors about the opportunities for investing in the Company.

To ensure our chosen service providers continue to deliver the expected level of service, the Board receives regular reporting from them, evaluates the control environment in place at each service provider and formally assesses their appointment annually. By doing so, the Board seeks to ensure that the Company's key service providers continue to be appropriately remunerated to deliver the expected level of service. Details of the Manager's annual performance review can be found on page 32.

The Board held its first externally facilitated performance evaluation during the year. The evaluation found that the Board's policies, practices and behaviours are aligned and effective in promoting the strategy and success of the Company. With regard to its efforts to maintain good communication flows with its stakeholders, the findings confirmed that the Board engages regularly and effectively with a range of key stakeholders to understand their interests and unfiltered views. These encompass shareholders and service-providers, including Janus Henderson staff across a spectrum of functions. The Board's relationship with the Manager is described as 'open, constructive and collaborative'. The evaluator noted that the Chairman has a good ability to foster diversity of thought at meetings, and that the directors' working relationship and behaviours are effective and complementary to those of the fund management team.

To augment the Company's strategic gearing at low rates for the purpose of enhancing returns into the future, the Board took the decision to enter into a £60 million two-year revolving loan facility agreement during the year with SMBE. Another feature of the Company of benefit to shareholders over the longer term is the historically low management fee rate of 0.35%, details of which are on page 14.

The Board donates to various charities, detailed further on page 23, cognisant of the interests of the wider community.

With its history going back over 130 years, the Company has a long-term, consistent approach to investing over a broad time horizon via a low-turnover portfolio of high-quality stocks, managed by an experienced team of small-cap investors.

Our ESG approach

Responsible ownership

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

Investment approach

The Fund Manager's UK Smaller Companies team (the "UK Smaller Companies team") uses a combination of bottom-up and top-down approaches to find companies that have undervalued long-term growth potential. A key part of the philosophy is focused on the sustainability of business models. The Fund Manager believes that the most successful management teams will be those with a long-term focus, a good track record of shareholder alignment and an understanding of industry themes. The team's conviction and focus on the long term is reflected in its average holding period of approximately five years.

Sustainability themes regularly inform capital allocation decisions. Companies offering goods and services which address issues such as aging populations, urbanisation, cyber-crime and the savings gap have all been attractive propositions from a growth perspective.

ESG integration and company engagement

The team's combined experience of over 49 years in the UK market has created a deep knowledge base. Management analysis is further supplemented by a body of increasingly sophisticated ESG-related data, broker research and company meetings. The team is wary of the fact that individual ESG data points are not always material to company performance or even comparable between peers. However, the team is conscious that management's overall attention to a collection of impactful ESG or sustainability issues can be interpreted as a leading indicator of quality long-term oriented leadership and so the ability to deliver enduring success.

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

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

Business Model (continued)

Voting and the Stewardship Code

The Board believes that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. We have chosen to delegate responsibility to the Manager for voting the rights attached to the shares held in the Company's portfolio, and the Manager votes actively at shareholder meetings and engages with companies as part of the voting process.

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

The UK Smaller Companies team has a strong focus on good governance practice and an active approach to voting. Through the proxy engagement and voting process, the team aims to ensure that management is aligned with its long-term expectations.

The Manager will vote against resolutions at general meetings, but engagement and consultation prior to general meetings is the preferred course of action.

During the year to 31 May 2019, the UK Smaller Companies team met with directors of various investee companies to discuss corporate governance issues and help to shape their policies on such matters. In addition to remuneration, a broad range of topics was tackled, including board composition, workforce engagement, stakeholder relationships, diversity, strategy, and health and safety issues.

The key issues against which the Fund Manager voted concerned director remuneration and the election of directors and auditors. Votes cast against management in respect of remuneration were generally either in light of concerns over the structure of incentive schemes and performance targets or due to insufficient justification for significant pay increases.

In total, the Company voted at 118 shareholder meetings during the period, being 100% of portfolio companies' general meetings.

The environment

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

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 annual 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 has no customers. Accordingly, the directors consider that the Company is not required to make any slavery or human trafficking statements 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

The Company's affairs are overseen by a Board comprising six non-executive directors – four females and two males. In terms of progress in achieving diversity, the Board's gender balance of two men (33.33%) and four women (66.67%) directors exceeds the target of 33% of women on FTSE 350 company boards by 2020 set under The Hampton-Alexander Review. The directors are broad in their experience, bringing knowledge of investment markets, business, financial services and governance expertise to discussions on the Company's business. The directors regularly consider the leadership needs and specific skills required to achieve the Company's investment objective. Whilst appointments are based on skills and experience, the Board is cognisant of diversity gender, social and ethnic backgrounds, cognitive and personal strengths and experience. All appointments are based on objective criteria and merit, and are made following a formal, rigorous and transparent process when making appointments. Further detail is provided on page 30 in the Nomination Committee section. The Company has no employees and therefore has no further disclosures to make in respect of gender representation within the Company.

Business Model (continued)

Performance measurement and key performance indicators

To measure the success of the Company in meeting its objective and to evaluate the performance of the Manager, the directors take into account the following key performance indicators ("KPIs"). The charts, tables and data on pages 2, 3 and 63 show how the Company has performed against those KPIs, and a glossary of terms and alternative performance measures is included on pages 61 and 62.

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

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 which relate to the activity of investing in the shares of smaller companies that are listed (or quoted) in the United Kingdom. In carrying out this assessment, the Board has considered the market uncertainty arising from the result of the UK referendum to leave the European Union. Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly and it may not be possible to realise an investment at the Manager's assessment of its value. The companies in which investments are made may operate unsuccessfully, or fail entirely, such that shareholder value is lost. The Company is also exposed to the operational risk that one or more of its contractors or sub-contractors may not provide the required level of service.

The Board considers regularly the principal risks facing the Company in order to mitigate them as far as practicable. The Board has drawn up a risk matrix which identifies the substantial risks to which the Company is exposed. The Board has also put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy. The principal risks fall broadly under the following categories:

Risk	Controls and mitigation
Investment activity and strategy Poor long-term investment performance (significantly below agreed benchmark or market/industry average) Loss of the Fund Manager or management team	The Board reviews investment strategy at each board meeting. An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may lead to underperformance against the Company's benchmark and the companies in its peer group; it may also result in the Company's shares trading at a wider discount to the net asset value per share. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with investment limits and restrictions determined by the Board; these include limits on the extent to which borrowings may be used. The Board reviews its investment limits and restrictions regularly and the Manager confirms its compliance with them each month. The Manager provides the directors with management information, including performance data and reports and shareholder analysis. The Board monitors the implementation and results of the investment process with the Fund Manager, who attends all board meetings, and regularly reviews data that monitor portfolio risk factors. The Board obtains assurances from the Manager that the UK Smaller Companies team is suitably resourced and the Fund Manager is appropriately remunerated and incentivised in this role. The Board also considers the succession plan for the Fund Management team on an annual basis.

Business Model (continued)

Risk	Controls and mitigation
Accounting, legal and regulatory Loss of investment trust status Brexit and other UK political risk Breach of company law or Listing Rules resulting in suspension	In order to qualify as an investment trust the Company must comply with section 1158 of the Corporation Tax Act 2010. A breach of section 1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to corporation tax. The section 1158 criteria are monitored by the Manager and the results are reported to the directors at each board meeting. The Company must comply with the provisions of the Companies Act 2006 and, as the Company has a premium listing on the London Stock Exchange, the Company must comply with Listing, Prospectus and Disclosure Guidance and Transparency Rules of the UK Listing Authority ("UKLA"). A breach of the Companies Act could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of section 1158. The Board relies on its company secretary and its professional advisers to ensure compliance with the Companies Act and UKLA Rules. The Board reviews the potential impact of Brexit and other fundamental political infrastructure change as an integral part of investment risks and will continue to assess the portfolio.
Operational Failure of a key third-party service provider Cyber-crime leading to loss of confidential data Breach of internal controls	Disruption to, or failure of, the Manager's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. Janus Henderson has contracted some of its operational functions, principally those relating to trade processing, investment administration and accounting, to BNP Paribas Securities Services. Details of how the Board monitors the services provided by Janus Henderson and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal control section of the Corporate Governance Statement on page 31. Cyber security is closely monitored by the Audit Committee as part of quarterly internal controls reports, and the Audit Committee receives an annual presentation from Janus Henderson's Head of Information Security.
Financial instruments and the management of risk	By its nature as an investment trust, the Company is exposed in varying degrees to market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk. An analysis of these financial risks and the Company's policies for managing them are set out in note 15 on pages 53 to 56.

Viability statement

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

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

We are conscious that the continuation of the Company is due to be considered by shareholders at the forthcoming annual general meeting ("AGM"). This is the sixth such time the continuation vote has been put to shareholders, and the resolution has been successfully passed on each occasion. The Board supports the continuation of the Company and expects that it will continue to exist for the foreseeable future, being ideally suited for long-term investment in UK-listed/quoted smaller companies. If, however, such a vote were not passed, the directors would follow the provisions in the articles of association to wind up the Company's assets.

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

Business Model (continued)

Communicating with our shareholders

The Board is committed to maintaining open channels of communication with shareholders in a manner which they find most meaningful. Unlike trading companies, we appreciate that this often takes the form of meeting with the Fund Manager rather than members of the Board. Shareholders are able to meet with the Fund Manager throughout the year and the Manager provides information on the Company and videos of the Fund Manager on the Company's website, via various social medial channels and through its HGI platform. Feedback from all meetings between the Fund Manager and shareholders are shared with the Board. In the event shareholders wish to raise issues or concerns with the directors, they are welcome to do so at any time by writing to the Chairman or the Senior Independent Director at the registered office.

The Annual Report and half-year results are circulated to shareholders wishing to receive them and made available on the Company's website. These provide shareholders with a clear understanding of the Company's portfolio and financial position. This information is supplemented by the daily calculation and publication of the NAV per share and a monthly fact sheet which is available on the website. The Fund Manager provides presentations to shareholders and analysts following the publication of the annual financial results.

The Fund Manager attends the AGM and provides a presentation on the Company's performance and the future outlook. We encourage shareholders to attend and participate in the AGM, which is available to watch live by visiting **www.janushenderson.com/trustslive**. Shareholders have the opportunity to address questions to the Chairman of the Board, the Fund Manager and all directors.

For and on behalf of the Board

Beatrice Hollond
Director
1 August 2019

Directors' Biographies

Directors

The directors in office at the date of this report are:

Jamie Cayzer-Colvin

Position: Chairman of the Board

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

Background: Jamie is an executive director of Caledonia Investments plc, where he is Head of the Funds Pool. He chairs the Royal Horticultural Society pension scheme and the Heritage of London Trust and a number of other charities. Jamie is a non-executive director of Polar Capital Holdings plc and has previously served as a non-executive director on the boards of Close Brothers plc, Rathbone Brothers plc and Amber Industrial Holdings Plc. He also sits on the board of a number of private companies.

Skills and experience: Jamie brings leadership and much in-depth knowledge, expertise and experience in investment management at a senior level, as well as expertise in marketing, branding and business development. Prior to joining Caledonia, Jamie was commissioned as an army officer, and held roles as brand manager with the Whitbread Beer Company and as business development manager at GPT.

Penelope Freer

Position: Director

Date of appointment: 14 September 2018

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

Skills and experience: Penny is an experienced finance professional and director, who brings in-depth investment knowledge, expertise and experience to the Board.

All the directors are independent and non-executive. No directors are linked via any other directorships. All directors are members of the Management Engagement Committee and the Nomination Committee, both of which are chaired by Jamie Cayzer-Colvin. The Audit Committee is chaired by Beatrice Hollond, the other members of which are David Lamb, Victoria Sant, Alexandra Mackesy and Penelope Freer. Mary Ann Sieghart retired as a director on 14 September 2018.

Directors' Biographies (continued)

Beatrice Hollond

Position: Chairman of the Audit Committee and Senior Independent Director (retiring from 4 October 2019)

Date of appointment: 23 July 2010

Background: Beatrice began her career as an equity analyst at Morgan Grenfell Asset Management and spent 16 years at Credit Suisse Asset Management in Global Fixed Income. She is chairman at Millbank Financial Services Limited and a director of Brown Advisory. Beatrice also holds non-executive directorships at F&C Investment Trust PLC, Telecom Plus PLC, M&G Group Limited and Templeton Emerging Markets Investment Trust PLC, where she is senior independent director. Beatrice is a trustee of the Esmée Fairbairn Foundation and chairs its investment committee and is a member of the investment committee of the Endowment Fund of Pembroke College Oxford.

Skills and experience: Beatrice brings in-depth investment knowledge, expertise and experience to the Board, as well as leadership skills from her time as managing director of Credit Suisse Asset Management, LLC, and from her other non-executive director and chairman roles.

David Lamb

Position: Director (proposed Senior Independent Director from 4 October 2019)

Date of appointment: 1 August 2013

Background: David was managing director and board member of St James's Place plc until the start of 2019, having been with the company from the beginning. Before joining St James's Place, he was investment manager at Friends Life and chief research actuary at Allied Dunbar. David continues his involvement with St James's Place as chairman of the investment committee. He is also a governor of the University of the West of England.

Skills and experience: David brings in-depth knowledge, expertise and experience in investment management as well as leadership skills, having worked in senior roles at St James's Place for nearly 30 years, notably as managing director and as group business development director. David provides guidance to the Manager's investment trust marketing team in establishing the necessary infrastructure and initiatives for the effective delivery of the Company's investment proposition and access to its shares.

Alexandra Mackesy

Position: Director (proposed Audit Committee Chairman from 4 October 2019)

Date of appointment: 14 September 2018

Background: Alexandra has over 30 years' experience in the investment industry. Since retiring from full-time employment as an investment analyst in 2000, and relocating from Asia to the UK in 2002, she has focused on a portfolio of UK-based non-executive directorships, as well as acting as a consultant to a number of Asian-based business groups. Alexandra is currently a non-executive director on the boards of The Scottish Oriental Smaller Companies Trust plc, Murray International Trust PLC and JPMorgan Chinese Investment Trust plc. In addition, Alexandra works as a consultant, providing external board evaluation services. She was previously a non-executive director of Schroder Asian Total Return Investment Company plc, Empiric Student Property plc and RENN Universal Growth Investment Trust plc.

Skills and experience: Alexandra is an experienced investment professional and investment trust director, with particular experience of global smaller companies, who brings a specialist governance perspective to the Board. She has a strong financial background, with recent experience of chairing the audit committee of The Scottish Oriental Smaller Companies Trust plc.

Victoria Sant

Position: Director

Date of appointment: 23 September 2016

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

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

Corporate Report

Report of the Directors

The directors present the audited financial statements of The Henderson Smaller Companies Investment Trust plc (the "Company") and their report for the year from 1 June 2018 to 31 May 2019. The Company (registered and domiciled in England & Wales with registration number 00025526) was active throughout the year under review and was not dormant.

The Investment Portfolio on pages 11 and 12, the Corporate Governance Statement on pages 28 to 32 and Report of the Audit Committee on pages 33 to 34 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 remuneration, for which there were no outstanding amounts payable at the year end. The directors did not claim any expenses during the years to 31 May 2019 or 31 May 2018. 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 facilitation of marketing activities with third parties, there have been no material transactions with the Manager affecting the financial position of the Company during the year under review. More details on transactions with the Manager, including amounts outstanding at the year end, are given in Note 21 on page 58.

Share capital

The Company's share capital comprises:

Ordinary shares of 25p nominal value each ("shares")
The voting rights of the shares on a poll are one vote for each share held. At 31 May 2019 and 31 May 2018 the number of shares in issue, and thus the number of voting rights, was 74,701,796. This represents 99.98% of the Company's share capital.

Preference stock units of £1 each ("preference stock units")
Preference stockholders have no rights to attend and vote at general meetings (except where the dividend is six months in arrears or on a resolution to wind up the Company). At 31 May 2019 and 31 May 2018 there were 4,257 preference stock units in issue. This represents 0.02% of the Company's share capital. Further details are in Note 14 on page 52.

There are no restrictions on the transfer of the Company's ordinary shares or voting rights, no shares which carry specific rights with regard to the control of 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 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 holdings of ordinary shares.

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

At the annual general meeting (the "AGM") held in September 2018 the directors were granted authority to buy back 11,197,799 shares (being 14.99% of the issued ordinary share capital as at 3 August 2018). In the period from 1 June 2018 to 1 August 2019, being the latest practicable date prior to publication of this Annual Report, the Company did not buy back any shares. As at 1 August 2019, being the latest practicable date prior to publication of this Annual Report, the total voting rights were 74,701,796. There remained 11,197,799 ordinary shares available within the buy-back authority granted in 2018. This authority will expire at the conclusion of the 2019 AGM. The directors intend to renew this authority subject to shareholder approval. Shares are not bought back unless the result is an increase in the NAV per ordinary share.

Holdings in the Company's shares

Declarations of interests in the voting rights of the Company as at 31 May 2019 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

Shareholder	% of voting rights
Lazard Asset Management LLC	6.0
East Riding of Yorkshire Council	6.0
1607 Capital Partners	5.0
Standard Life Aberdeen	4.9
Newton Investment Management Limited	4.9
Royal London Asset Management Limited	3.9

No changes have been notified in the period to 1 August 2019.

Donations

The Board supports a number of charities, all of which are personally selected on an annual basis by the directors. These charities span a variety of different causes including further education, building restoration projects and hospices for people living with life-limiting illness. During the year the Company made charitable donations totalling £6,000 (2018: £5,000). The Company does not make political donations (2018: £nil).

Report of the Directors (continued)

Directors' statement as to disclosure of information to the auditor

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

Global greenhouse gas emissions

Details of the Company's responsibilities are set out on page 16.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross-reference table indicating where the information is set out. The directors confirm that there are no disclosures to be made in this regard.

Other information

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

Annual general meeting ("AGM")

The AGM will be held on Friday 4 October 2019 at 11.30 am at the Company's registered office. The Notice of AGM and details of the resolutions to be put to the AGM are contained in the circular being sent to shareholders with this report.

The Company's AGM will be broadcast live on the internet. If you are unable to attend in person, you can watch the meeting by visiting **www.janushenderson.com/trustslive**.

Voting recommendation

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

By order of the Board

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

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

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

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 pages 20 and 21, confirms that, to the best of his or her knowledge:

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

For and on behalf of the Board

Beatrice Hollond
Director
1 August 2019

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

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

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

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 £200,000 per annum. Subject to the overall limit, the Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors and should be sufficient to promote the long-term success of the Company.

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

Report on implementation

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"). This report also meets the relevant requirements of the Companies Act 2006 (the "Act") and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by section 439 of the Act, an ordinary resolution to approve the report will be proposed at the AGM on 4 October 2019. The Company's remuneration policy was originally approved by shareholders at the 2014 AGM and again at the 2017 AGM in accordance with section 439A of the Act. The policy will remain in place until the AGM in 2020, 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 auditor is required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All directors are non-executive and the Company has no chief executive officer or employees; as such some 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 individual directors. The directors believe that all relevant information is disclosed within this report in an appropriate format.

The Nomination Committee considers directors' fees and makes recommendations to the Board for its determination. Therefore, the Board has not appointed a remuneration committee to consider such matters. While the directors review annually the fees paid to the directors of comparable investment trust companies, the Board has not been provided with advice or services by any person in respect of its consideration of the directors' remuneration.

Annual statement

The Chairman reports that directors' fees were increased with effect from 1 June 2019, as detailed on page 27. The increases were made after consideration of the fees paid to directors of investment trusts in the peer group and the other Janus Henderson-managed investment trusts. The Board continues to believe that fees paid to directors should be commensurate with the need to attract and retain candidates of a suitable calibre to govern the Company effectively. There have been no other decisions on directors' remuneration or any other changes to the remuneration paid to each individual director in the year under review.

Directors' interests in shares (audited)

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

	Ordinary shares of 25p	
	31 May 2019	1 June 2018
Jamie Cayzer-Colvin	12,000	12,000
Penelope Freer[1]	0	n/a
Beatrice Hollond	5,700	5,700
David Lamb	5,802	5,802
Alexandra Mackesy[1]	0	n/a
Victoria Sant	500	500
Mary Ann Sieghart[2]	n/a	9,038

1 Appointed on 14 September 2018
2 Retired on 14 September 2018

No director has an interest in the preference stock of the Company. There have been no other changes to any of the directors' holdings in the period to 1 August 2019. In accordance with the Company's articles of association, no director is required to hold shares in 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 paid to shareholders by way of dividends. There were no share buy-backs during the year. There were no other significant distributions, payments or other uses of the Company's profit or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2019 £	2018 £	Change %
Total remuneration	149,317	130,000	14.86
Ordinary dividends paid during the year	16,060,886	14,193,341	13.16

Directors' Remuneration Report (continued)

Directors' remuneration (audited)

The remuneration paid to the directors who served during the years ended 31 May 2019 and 31 May 2018 was as follows:

	Year ended 31 May 2019 Total salary and fees £	Year ended 31 May 2018 Total salary and fees £	Year ended 31 May 2019 Expenses and taxable benefits £	Year ended 31 May 2018 Expenses and taxable benefits £	Year ended 31 May 2019 Total £	Year ended 31 May 2018 Total £
Jamie Cayzer–Colvin[1]	34,500	34,000	–	–	34,500	34,000
Beatrice Hollond[2]	27,500	27,000	–	–	27,500	27,000
David Lamb	23,500	23,000	–	–	23,500	23,000
Victoria Sant	23,500	23,000	–	–	23,500	23,000
Mary Ann Sieghart[3]	6,811	23,000	–	–	6,811	23,000
Penelope Freer[4]	16,753	–	–	–	16,753	–
Alexandra Mackesy[4]	16,753	–	–	–	16,753	–
Total	**149,317**	**130,000**	**–**	**–**	**149,317**	**130,000**

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

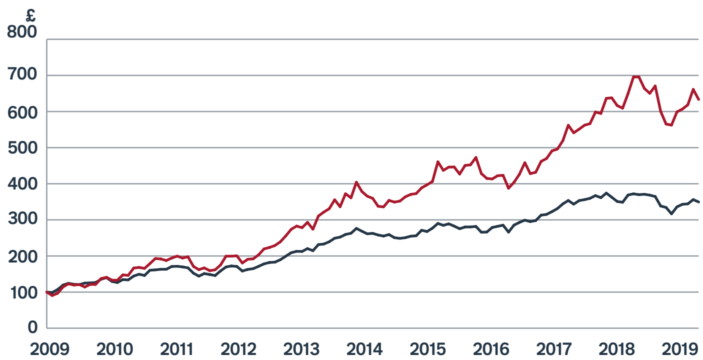
1 Chairman and highest paid director
2 Chairman of the Audit Committee
3 Retired from the Board on 14 September 2018
4 Appointed a director on 14 September 2018

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

From 1 June 2019 the fees payable to the directors were as follows (previous rates are shown in brackets): Chairman £35,000 (£34,500), Audit Committee Chairman £28,000 (£27,500) and director £24,000 (£23,500).

Performance

The graph below compares the mid-market price of the Company's ordinary shares over the ten-year period ended 31 May 2019 with the return from the Numis Smaller Companies Index (excluding investment companies) over the same period.



Company's share price total return, assuming the investment of £100 on 31 May 2009 and the reinvestment of all dividends (excluding dealing expenses) (Source: Morningstar for the AIC)

Benchmark total return, assuming the notional investment of £100 on 31 May 2009 and the reinvestment of all income (excluding dealing expenses) (Source: Datastream)

Statement of voting at AGM

At the 2018 AGM, 31,523,196 votes in favour of the resolution to approve the Directors' Remuneration Report were received (99.70%), 51,932 (0.16%) were against, 80,374 (0.14%) were discretionary and 29,468 were withheld. All percentages of votes exclude those withheld. In relation to the approval of the Company's Remuneration Policy, last voted at the 2017 AGM, 34,888,365 votes (99.64%) were received in favour of the resolution, 52,722 (0.15%) were against, 56,081 (0.21%) were discretionary and 35,405 were withheld.

For and on behalf of the Board

Beatrice Hollond
Director
1 August 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 (the "UK Code") issued by the Financial Reporting Council ("FRC") in April 2016 are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in July 2016 (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Code and Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

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

The Board has noted that the FRC issued a revised code in July 2018 (the "2018 UK Code"). The AIC issued an updated Code of Corporate Governance in February 2019 (the "2019 AIC Code"), key aspects of which the Board has adopted. The Company will be required to report against the 2019 AIC Code for the financial year ending 31 May 2020.

Statement of compliance

The Board has considered the principles and recommendations of the UK Code, the AIC Code and the AIC Guide and believes that the Company has complied with the applicable provisions throughout the period under review and up to the date of this report except as set out below.

The UK Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and as explained in the AIC Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment trust company. The Company has no executive directors, employees or internal operations and has therefore not reported further in these respects.

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.

Terms of appointment

Directors' appointment, tenure and retirement

The Board may appoint directors to the Board at any time during the year. Any director so appointed will stand for election by shareholders at the following annual general meeting in accordance with the provisions of the Company's articles of association.

Directors are generally expected to serve two terms of three years, which may be extended to a third term at the discretion of the Board and subject to satisfactory performance evaluation and annual re-election by shareholders. Given the entirely non-executive nature of the Board and the fact that the Chairman may not be appointed as such at the time of their initial appointment as a director, the Chairman's tenure may be longer where this is considered by the Board to be in the best interests of the Company. As with all directors, the continuing appointment of the Chairman is subject to satisfactory performance evaluation, annual re-election by shareholders and may be further subject to the particular circumstances of the Company at the time he intends to retire from the Board. The directors are cognisant of the benefits of regularly refreshing Board membership and seek to do so while retaining a balance of knowledge of the Company and the key relationship with the Fund Manager.

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

The contribution and performance of each director seeking re-appointment was reviewed by the Nomination Committee at its meeting in May 2019. Noting that Beatrice Hollond was retiring as director, the continuing appointment of all other directors was recommended.

Directors' independence

All directors have a wide range of other interests and are not dependent on the Company itself. At the Nomination Committee meeting in May 2019, the directors reviewed their independence and confirmed that all directors remain wholly independent of the Manager. The Board believes that length of service does not diminish the contribution from a director as experience and knowledge of the Company are positive factors and should not impact a director's independence. It believes that longer serving directors are less likely to take a short-term view, which is supported by the AIC Code. The Board has determined that all directors are independent in character and judgement and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders. Nevertheless the role and contribution of any long-serving director are subject to particularly rigorous review every year.

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

Corporate Governance Statement (continued)

Directors' professional development

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 with key information on a regular basis about the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are reported to the Board as they arise. Directors are also able to attend external training 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 association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising from their positions as directors, in which they are acquitted or judgment is given in their favour by the Court.

Directors' conflicts of interest

The Company's articles of association permit the Board to consider and, if it sees fit, authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes and the register of interests. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the system it has in place for reporting and considering situational conflicts continues to operate effectively.

On appointment, and throughout the Chairman's tenure, it is confirmed that he has had no relationships that may have created a conflict between his interests and those of the Company's shareholders.

The Board

Board composition

The Board currently consists of six non-executive directors and the biographies of those holding office at the date of this report are included on pages 20 and 21. 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 Penelope Freer and Alexandra Mackesy who were appointed to the Board on 14 September 2018. All directors are resident in the UK.

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 five 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, Jamie Cayzer-Colvin, 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, corporate governance, policies and shareholders.

The Board is responsible for the approval of annual and half-year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects. The directors confirm that they are satisfied that the Annual Report for the year ended 31 May 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 ("NAV"), share price, 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 Nomination Committee. The terms of reference for these committees are available on the website **www.hendersonsmallercompanies.com** or via the corporate secretary. A separate remuneration committee has not been established as the Board consists of only six non-executive directors. The whole Board is responsible for setting directors' fees, following review and recommendations made by the Nomination Committee, in line with the Remuneration Policy set out on page 26, which is subject to periodic shareholder approval.

Corporate Governance Statement (continued)

Audit Committee

The Audit Committee comprises all directors, with the exception of the Chairman of the Board, and is chaired by Beatrice Hollond. The other Audit Committee members have a combination of financial, investment and other experience gained throughout their careers and the Board is satisfied that several Audit Committee members have recent and relevant financial experience gained from their senior management roles elsewhere. 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 and 34.

Management Engagement Committee

All directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board. 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 April 2019 to carry out its annual review of the Manager, the results of which are detailed on page 32.

Nomination Committee

All directors are members of the Nomination Committee, which is chaired by the Chairman of the Board (except when the Chairman's fees, performance or successor is being considered). The Nomination Committee is responsible for making recommendations to the Board on the appointment of new directors and for reviewing board succession planning and tenure policy, directors' fees, and the performance of the Board and its committees.

When considering succession planning and tenure policy, the Nomination Committee bears in mind the balance of skills, knowledge, experience, gender, backgrounds and diversity on the Board, the achievement of the Company's investment objective and compliance with the Company's articles of association and the AIC Code. Individual performance and the contribution of each director remain a key element of the Company's approach in making determinations on tenure. The Nomination Committee considers diversity as part of the annual performance evaluation.

Given the small size of the Board, it is not considered appropriate for the Company to have set targets in relation to gender diversity; candidates are assessed with regard to the needs of the Company at the time of appointment. The Nomination Committee will make recommendations when the recruitment of additional directors is required. Once a decision is made to recruit directors to the Board, a formal job description is drawn up. The Company may use external agencies as and when the requirement to recruit an additional director becomes necessary and did so with the recruitment of Penelope Freer and Alexandra Mackesy, in respect of which Odgers Berndtson was engaged. The firm is independent of the Company.

The Nomination Committee also reviews and recommends to the Board the directors seeking re-appointment. Recommendation is not automatic and will follow a process of evaluation of each director's performance and consideration of the director's independence. The Nomination Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the UK Code, any director serving for longer than six years is subject to particularly rigorous assessment of his or her contribution. The Nomination Committee met in May 2019 and considered the results of the annual review of the Board, its composition and size and its committees. The results of the performance evaluation are detailed below.

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

Board attendance

The table below sets out the number of scheduled board and committee meetings held during the year under review and the number of meetings attended by each director. All directors attended the AGM in September 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 dividends, the approval of a new loan facility, the appointment of Penelope Freer and Alexandra Mackesy and for investment updates.

	Board	AC	MEC	NC
Number of meetings				
Jamie Cayzer-Colvin[1]	6	3	1	1
Penelope Freer[2]	4	2	1	1
Beatrice Hollond[3]	5	2	0	1
David Lamb	6	3	1	1
Alexandra Mackesy[2]	4	2	1	1
Victoria Sant	6	3	1	1
Mary Ann Sieghart[4]	2	1	0	0

Notes:

1 Attendance at AC meetings by invitation only
2 Appointed on 14 September 2018
3 One set of meetings missed due to illness
4 Retired on 14 September 2018
AC: Audit Committee
MEC: Management Engagement Committee
NC: Nomination Committee

Performance evaluation

In the year under review, The Effective Board LLP ("TEB") conducted an external evaluation, covering the performance of the Board, its committees, the Chairman and each individual director. TEB is a firm independent of the Company. Tom Bonham Carter, partner of TEB, carried out extensive interviews with each director and six other individuals with regular Board involvement, and observed meetings of the Management Engagement Committee, Audit Committee and Board. He subsequently discussed the results of the individual director appraisals with the Chairman, with the exception of feedback on the Chairman, which he discussed with the Senior Independent Director. Mr Bonham Carter presented his reports to

Corporate Governance Statement (continued)

the meeting of the Nomination Committee. It was concluded that the performance and effectiveness of the Board, its committees and each individual director were satisfactory and that the Board has a good balance of skills and experience.

On the basis of TEB's findings, the Nomination Committee concluded that directors are believed to dedicate sufficient time to their roles and no director is considered to be 'overboarded'. In particular, it is considered that:

- each director makes a significant contribution to the affairs of the Company and brings different qualities to the Board;
- the Chairman continues to display effective leadership; and
- directors seeking re-appointment at the Company's AGM merit re-appointment by shareholders.

The skills and experience each director brings to the Board for the longer term sustainable success of the Company are set out on pages 20 and 21.

Internal controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The process accords with advice issued by the FRC and is subject to regular review by 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.
  – the Manager's Internal Audit team on areas of operation which are relevant to the Company.

The Board noted service auditors' qualifications in respect of the assurance reports of the service providers during the reporting period. As reported last year, the Audit Committee sought additional clarification in respect of the exceptions which resulted in the qualifications and was satisfied that the matter has been considered in sufficient detail. In particular remedial action has been undertaken by Janus Henderson to address the exceptions identified within the assurance reports.

The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 May 2019. During the course of its review the Board has not identified or been advised of any other failings or weaknesses that have been determined as significant.

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.

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 Auditor's Report on pages 35 to 39 and the Viability Statement on page 18. 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 delegated through the appointment of the depositary as explained on page 61), 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.

Corporate Governance Statement (continued)

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 Janus Henderson. Any correspondence from shareholders addressed to the Chairman or the Company received at Janus Henderson's offices is forwarded to the Chairman of the Company in line with the audited procedures in place. Any correspondence is submitted to the next board meeting. Janus Henderson and BNP Paribas Securities Services, 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 pages 13 and 14. 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 existing terms is in the interests of the Company and its shareholders as a whole.

Share capital

Please see the Report of the Directors on pages 23 to 24.

Future developments

The future success of the Company is dependent primarily on the performance of its investments, which will to a significant degree reflect the performance of the stock market and the Manager.

While the Company invests in companies that are listed (or quoted) in the United Kingdom, the underlying businesses of those companies are affected by various external factors, many of an international nature. The Board's intention is that the Company will continue to pursue its stated investment objective and strategy as explained on page 13. The Chairman's Report and the Fund Manager's Report give commentary on the outlook for the Company.

By order of the Board

For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
1 August 2019

Report of the Audit Committee

The Audit Committee (the "Committee") is chaired by Beatrice Hollond, the other members being David Lamb, Penelope Freer, Alexandra Mackesy and Victoria Sant. Jamie Cayzer-Colvin attends the Committee's meetings by invitation. Although the members of the Committee are not accountants by profession, the Board considers that several of the directors, including the Chairman of the Committee, have recent and relevant financial experience from their senior management roles elsewhere.

Meetings

The Committee's usual programme is to meet at least three times a year: in advance of the publication of both the annual and the half-year results and on at least one other occasion with an agenda that is focused on its broader responsibilities. The Company's auditor is invited to attend Committee meetings on a regular basis. Representatives of the Manager and BNP Paribas Securities Services may also be invited to attend if deemed necessary by the Committee.

Role and responsibilities

The role of the Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the auditor. The Committee formally reports to the Board. The Committee's responsibilities are set out in formal terms of reference which are reviewed at least annually.

In the year under review the main duties undertaken were:

- consideration of the appropriateness of the Company's accounting policies;
- a review of the half-year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, viability, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board. In assessing whether the report is fair, balanced and understandable, each director reviewed the disclosures made, applying their respective knowledge and expertise;
- 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 Janus Henderson;
- consideration of the internal controls in place at Janus Henderson, BNP Paribas Securities Services as administrative agent and HSBC Bank plc as depository and custodian;
- consideration of Janus Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Janus Henderson's internal audit and risk departments periodically;
- consideration of the whistleblowing policy that Janus Henderson 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 key risks, risk management systems in place and the Company's risk matrix;
- consideration of the Company's Anti-Bribery Policy and the policies and procedures in place to prevent tax evasion;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of the appointment of the auditor, the auditor's effectiveness, performance, tenure and remuneration;
- consideration of the auditor's independence and objectivity, the auditor's provision of any non-audit services and their planning and completion reporting;
- consideration of the annual confirmation from the Company's depositary; and
- consideration of the appropriate level of dividend to be paid by the Company.

Policy on non-audit services

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

No non-audit services were provided in the year under review or in the previous year.

Report of the Audit Committee (continued)

Annual Report for the year ended 31 May 2019

In relation to the financial statements for the year ended 31 May 2019 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The directors have appointed the Manager to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, the Manager has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments is verified by reconciliation to the custodian's records.
Correct calculation of the performance fee	The performance fee calculation is prepared by BNP Paribas Securities Services (Administrator) and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the investment management agreement.
Compliance with Section 1158 of the Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving supporting documentation from the Manager and BNP Paribas Securities Services.
Maintaining internal controls	The Committee receives regular reports on internal controls from Janus Henderson, BNP Paribas Securities Services and HSBC Bank plc and its delegates and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The assurance reports for two of the Company's service providers were qualified by the respective service auditor. The Committee reviewed the instances giving rise to the qualification and received confirmation that the exceptions identified had no impact on the Company.
Recognition of dividend income	Income received is accounted for in line with the Company's accounting policies (as set out on page 45) and is reviewed by the Committee at each meeting. For special dividends Janus Henderson is required to allocate between revenue and capital, the Committee reviews the rationale provided and approves the treatment.

The Committee is satisfied that the Annual Report for the year ended 31 May 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.

External audit, review and tender

Following a formal tender process led by the Committee in 2018, the Board selected Ernst & Young LLP as statutory auditor. This appointment was approved by shareholders at the 2018 annual general meeting for the year ended 31 May 2019.

The Committee discusses the audit process with the auditor without representatives of the Manager present and considers the effectiveness of the audit process after each audit. The Committee is satisfied with the effectiveness of the audit provided by Ernst & Young LLP during its first year in office as the Company's statutory auditor.

The Committee is satisfied that the auditor is independent of the Company. The auditor is required to rotate partners every five years and this is the first year that the current partner has been in place.

Fees paid or payable to the auditor are detailed in Note 5 on page 48.

Beatrice Hollond
Chairman of the Audit Committee
1 August 2019

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

Opinion

We have audited the financial statements of The Henderson Smaller Companies Investment Trust plc for the year ended 31 May 2019 which comprise the Statement of comprehensive income, the Statement of changes in equity, the Balance Sheet, Statement of cash flows and the related notes 1 to 22, 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 31 May 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 17 and 18 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 44 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 18 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	Incomplete or inaccurate income recognition through incorrect classification of special dividends (including the risk of management override of controls. Incorrect calculation and allocation of performance fees. Incorrect valuation and defective title of the investment portfolio.
Materiality	Overall materiality of £7.16m which represents 1% of net assets.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements, 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
Incomplete or inaccurate income recognition through incorrect classification of special dividends £1.83m (2018: £2.13m) (as described on page 34 in the Report of the Audit Committee and as per the accounting policy set out on page 45). As can be seen in note 2 in the notes to the financial statements, the Company has reported investment income of £19.43 million (2018: £18.66 million). This includes special dividend income of £1.83m (2018: £2.13m). For special dividends the Company assesses income received and then determines whether amounts should be credited to the revenue or capital columns of the Statement of Comprehensive Income based on the underlying substance of the transaction. We focus on the recognition of special dividends and its presentation in the financial statements because the revenue return is a key area of focus for shareholders.	**We performed the following procedures:** • We obtained an understanding of BNP Paribas Securities (the 'Administrator' or 'BNP') and Janus Henderson's (the 'Manager') processes and controls surrounding revenue recognition and allocation of special dividends and performing a walkthrough to evaluate the design and effectiveness of controls. • We reviewed the income and capital reports to identify special dividends that have been received and accrued during the period. • We agreed the appropriateness of the accounting treatment of 5 special dividend samples to publicly available information. • We agreed all special dividends received from the income report to an independent pricing source, recalculated the dividend amount receivable and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount. • We selected a sample of 25 of investments from the Company's valuation report, checked to an independent source for any dividends (including special dividends) declared by those securities and agreed the recognition of such dividends to the income report. • To address the risk of management override, we reviewed the journal population for manual special dividend journal entries posted to the income account during the year and around the year end.	The results of our procedures identified no issues with the treatment, accuracy or completeness of the special dividends recognised in the year. There were no material special dividends received during the year. Based on the work performed, we have no matters to report.
Incorrect calculation and allocation of performance fees £nil (2018: £4.09m) (as described on page 34 in the Report of the Audit Committee and as per the accounting policy set out on page 45). As can be seen in note 4 in the notes to the financial statements, the Company has reported a performance fee of £nil (2018: £4.09 million). We focus on the calculation of the performance fee because investment management charges relating to the Company, particularly the variable performance fee, are a key area of focus for shareholders.	**We performed the following procedures:** • We obtained an understanding the Administrator's processes and controls surrounding performance fee calculation and allocation and performing a walkthrough to evaluate the design and effectiveness of controls. • We recalculated the performance fee to agree the accuracy of the calculation. • We reviewed the Investment Management Agreement ('IMA') to assess that the conditions of the IMA were followed. • We checked inputs to third party data or to alternative sources of evidence.	The results of our procedures identified no material error in the measurement of the Company's performance fee. Based on the work performed, we have no matters to report.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation and defective title to the investment portfolio £776.23m (2018: £848.33) (as described on page 34 in the Report of The Audit Committee). The investment portfolio at the year-end comprised of quoted equities £776.23m (2018: £848.33m). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and investment return. Incorrect asset pricing or a failure to maintain proper legal title of assets by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	**We performed the following procedures:** • We obtained an understanding of the Administrator's processes and controls for the valuation of investments by performing walkthrough procedures and reviewing the Administrator's internal control reports. • We agreed all the quoted investment holding prices at the year end to a relevant independent source. • We agreed the number of shares held for each security to confirmations of legal title received from the Company's custodian and depositary, both HSBC Bank plc.	The results of our procedures on the investment portfolio assets, identified no material error in the pricing or reconciliation. Based on the work performed, we have no matters to report.

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

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

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £3.58m. We have set performance materiality at this percentage as the audit for the year ending 31 May 2019 is EY's first audit following appointment on 17 April 2018.

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

Reporting threshold

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

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

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

Other information

The other information comprises the information included in the annual report set out on pages 2 to 34, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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 pages 33 and 34 – 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 pages 28 to 32 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 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.

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

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

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

Our approach was as follows:

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

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

Other matters we are required to address

- We were appointed by the Company on 17 April 2018 to audit the financial statements for the year ending 31 May 2019 and subsequent financial periods. We were engaged as auditors by the Audit Committee and signed an engagement letter on 22 November 2018.

  The period of total uninterrupted engagement including previous renewals and reappointments is 1 year, covering the years ending 31 May 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
1 August 2019

Notes:

1. The maintenance and integrity of The Henderson Smaller Companies Investment 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 auditor accepts 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 31 May 2019 Revenue return £'000	Year ended 31 May 2019 Capital return £'000	Year ended 31 May 2019 Total £'000	Year ended 31 May 2018 Revenue return £'000	Year ended 31 May 2018 Capital return £'000	Year ended 31 May 2018 Total £'000
2	Investment income	19,431	–	19,431	18,662	–	18,662
3	Other income	80	–	80	138	–	138
10	(Losses)/gains on investments held at fair value through profit or loss	–	(64,758)	(64,758)	–	97,561	97,561
	Total income	**19,511**	**(64,758)**	**(45,247)**	**18,800**	**97,561**	**116,361**
	Expenses						
4	Management and performance fees	(736)	(1,719)	(2,455)	(723)	(5,772)	(6,495)
5	Other expenses	(723)	–	(723)	(622)	–	(622)
	Profit/(loss) before finance costs and taxation	**18,052**	**(66,477)**	**(48,425)**	**17,455**	**91,789**	**109,244**
6	Finance costs	(431)	(1,006)	(1,437)	(433)	(1,010)	(1,443)
	Profit/(loss) before taxation	**17,621**	**(67,483)**	**(49,862)**	**17,022**	**90,779**	**107,801**
7	Taxation	–	–	–	–	–	–
	Profit/(loss) for the year and total comprehensive income	**17,621**	**(67,483)**	**(49,862)**	**17,022**	**90,779**	**107,801**
8	Earnings per ordinary share – basic and diluted	23.59p	(90.34p)	(66.75p)	22.79p	121.52p	144.31p

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

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

The notes on pages 44 to 58 form part of these financial statements.

Statement of Changes in Equity

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

		Year ended 31 May 2018				
				Retained earnings		
Notes		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
	Total equity at 1 June 2017	18,676	26,745	623,009	20,030	688,460
	Total comprehensive income:					
	Profit for the year	–	–	90,779	17,022	107,801
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(14,193)	(14,193)
	Total equity at 31 May 2018	**18,676**	**26,745**	**713,788**	**22,859**	**782,068**

The notes on pages 44 to 58 form part of these financial statements.

Balance Sheet

Notes		At 31 May 2019 £'000	At 31 May 2018 £'000
	Non current assets		
10	Investments held at fair value through profit or loss	776,233	848,330
	Current assets		
12	Receivables	3,215	3,334
	Tax recoverable	19	19
	Cash and cash equivalents	872	4,889
		4,106	**8,242**
	Total assets	**780,339**	**856,572**
	Current liabilities		
13	Payables	(5,284)	(8,612)
	Bank loans	(29,087)	(36,079)
		(34,371)	**(44,691)**
	Total assets less current liabilities	**745,968**	**811,881**
	Non current liabilities		
14	Financial liabilities	(29,823)	(29,813)
	Net assets	**716,145**	**782,068**
	Equity attributable to equity shareholders		
16	Share capital	18,676	18,676
17	Capital redemption reserve	26,745	26,745
	Retained earnings:		
17	Capital reserve	646,305	713,788
18	Revenue reserve	24,419	22,859
	Total equity	**716,145**	**782,068**
19	**Net asset value per ordinary share**	958.7p	1,046.9p

These financial statements on pages 40 to 58 were approved and authorised for issue by the Board of Directors on 1 August 2019 and were signed on its behalf by:

Beatrice Hollond
Director

The notes on pages 44 to 58 form part of these financial statements.

Statement of Cash Flows

Notes		For the year ended 31 May 2019 £'000	31 May 2018 £'000
	Operating activities		
	(Loss)/profit before taxation	(49,862)	107,801
	Add back interest payable	1,437	1,443
10	Losses/(gains) on investments held at fair value through profit or loss	64,758	(97,561)
10	Purchases of investments	(135,343)	(196,351)
10	Sales of investments	142,682	197,318
	Decrease/(increase) in receivables	207	(21)
	(Increase)/decrease in amounts due from brokers	(14)	866
	Increase in accrued income	(74)	(418)
	(Decrease)/increase in payables	(3,646)	774
	Increase/(decrease) in amounts due to brokers	323	(1,480)
	Net cash inflow from operating activities before interest[1]	**20,468**	**12,371**
	Interest paid	(1,432)	(1,428)
	Net cash inflow from operating activities	**19,036**	**10,943**
	Financing activities		
9	Equity dividends paid	(16,061)	(14,193)
	(Repayment)/drawdown of bank loans	(6,992)	4,310
	Net cash outflow from financing activities	**(23,053)**	**(9,883)**
	(Decrease)/increase in cash and cash equivalents	**(4,017)**	**1,060**
	Cash and cash equivalents at the start of the year	4,889	3,829
	Cash and cash equivalents at the end of the year	**872**	**4,889**

1 In accordance with IAS 7.31, cash flow from dividends was £19,357,000 (2018: £18,263,000) and cash inflow from interest was £6,000 (2018: £1,000).

The notes on pages 44 to 58 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Henderson Smaller Companies Investment Trust plc (the "Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The financial statements of the Company for the year ended 31 May 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the IFRS Interpretations Committee ("IFRS IC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

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

Accounting standards

i) The following new and amended standards are relevant and applicable to the Company and have been adopted although they have had no impact on the financial statements:

Amendments to IFRS as adopted by the EU pronouncements issued and effective for current year end:

Standard		Effective for annual periods beginning on or after
IFRS 9	Financial Instruments	1 January 18
IFRS 15	Revenue from Contracts with Customers	1 January 18
IFRS 15 Amendment	New effective date of IFRS 15 to 1 January 18	1 January 18
IFRS 15	Clarifications	1 January 18

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

Standard		Effective for annual periods beginning on or after
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 20
IAS 1 and 8	Amendment to references to the conceptual framework	1 January 20

Interpretations		Effective for annual periods beginning on or after
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 19

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

b) Going concern

The Company's shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was put to the Annual General Meeting held on 23 September 2016 and passed by a substantial majority of the shareholders. The assets of the Company consist almost entirely of securities that are listed (or quoted on AIM) 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, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis.

c) Investments held at fair value through profit or loss

All investments are classified upon initial recognition as held at fair value through profit or loss, and are measured initially and subsequently at fair value. Investment transactions are accounted for on a trade date basis. Assets are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price or the last traded price depending on the convention of the exchange on which the investment is quoted at the balance sheet date, without deduction of the estimated future selling costs. Unquoted investments are valued by the directors using primary valuation techniques such as earnings multiples, recent transactions and net assets. There were no unquoted investments during the current year or prior year. Where fair value cannot be reliably measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

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

d) Presentation of the Statement of Comprehensive Income

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

e) Income

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

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

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

f) Expenses

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

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

Any performance fees are charged wholly to the capital return.

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

h) Foreign currency

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

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

i) Cash and cash equivalents

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

j) Borrowings

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

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

k) Operating segments

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

l) Dividends payable to shareholders

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

m) Capital and reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

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

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

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

Revenue reserve

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

Capital redemption reserve

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

n) Distributable reserves

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

o) Share capital

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

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

Share capital represents the nominal value of ordinary shares issued.

p) Key estimates and assumptions

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

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

Notes to the Financial Statements (continued)

2 Investment income

	2019 £'000	2018 £'000
Income from companies listed or quoted in the United Kingdom:		
Dividends	17,154	15,954
Special dividends	1,827	2,133
Property income distributions	450	575
Total investment income	**19,431**	**18,662**

3 Other income

	2019 £'000	2018 £'000
Bank and other interest	6	2
Underwriting income (allocated to revenue)[1]	74	136
	80	**138**

1 None of the income receivable from sub-underwriting commitments was allocated to capital during the year (2018: £nil)

4 Management and performance fees

	2019			2018		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Management fee	736	1,719	2,455	723	1,686	2,409
Performance fee	–	–	–	–	4,086	4,086
	736	**1,719**	**2,455**	**723**	**5,772**	**6,495**

A summary of the management agreement is given on pages 13 and 14 of the Strategic Report.

5 Other expenses

	2019 £'000	2018 £'000
Directors' fees (see the Directors' Remuneration Report on pages 26 and 27)	149	130
Auditors' remuneration for the audit of the Company and the financial statements	29	30
Other professional fees	125	78
FCA and London Stock Exchange fees	44	35
Registration costs	23	24
Annual and half year reports and shareholder circulars: printing and distribution	15	15
Insurances	4	8
AIC subscriptions	21	21
Custody and other bank charges	36	36
Bank facilities: commitment fees	121	86
Charitable donations	6	5
Depositary charges	48	55
Other expenses payable to the management company[1]	77	77
Share price listings in newspapers and websites	7	7
Other expenses	18	15
	723	**622**

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

All transactions with directors are disclosed in the Directors' Remuneration Report and are related party transactions. All the above expenses include VAT where VAT is applied to them. There were no non-audit services in the period (2018: nil).

Notes to the Financial Statements (continued)

6 Finance costs

	2019			2018		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Bank overdraft and loan interest	128	299	427	130	303	433
Interest on unsecured loan notes	300	699	999	300	699	999
Amortisation of unsecured loan notes expenses	3	8	11	3	8	11
Total	**431**	**1,006**	**1,437**	**433**	**1,010**	**1,443**

7 Taxation

a) Analysis of charge for the year

	2019			2018		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Overseas tax suffered	–	–	–	–	–	–
Current and total tax charge for the year	**–**	**–**	**–**	**–**	**–**	**–**

b) Factors affecting the tax charge for the year

UK corporation tax is charged at 19% (2018: effective rate 19%). Approved investment trusts are exempt from corporation tax on chargeable gains made by the investment trust.

The tax assessed for the year is lower than the average standard rate of corporation tax in the UK of 19% (2018: 19%) for the year ended 31 May 2019.

	2019			2018		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Profit before taxation	**17,621**	**(67,483)**	**(49,862)**	**17,022**	**90,779**	**107,801**
Corporation tax at 19.00% (2018: 19.00%)	3,348	(12,822)	(9,474)	3,234	17,248	20,482
Effects of:						
Non-taxable UK dividends	(3,467)	–	(3,467)	(3,191)	–	(3,191)
Non-taxable overseas dividends	(139)	–	(139)	(245)	–	(245)
Expenses not deductible for tax purposes	–	–	–	4	–	4
Excess management expenses and loan deficits	258	518	776	198	1,289	1,487
Overseas withholding tax	–	–	–	–	–	–
Non taxable capital items	–	12,304	12,304	–	(18,537)	(18,537)
Current and total tax charge for the year	**–**	**–**	**–**	**–**	**–**	**–**

c) Provision for deferred taxation

No provision has been made for deferred tax. Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to maintain approval of such status in the foreseeable future, the Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments.

d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £15,705,000 (2018: £15,008,000) arising as a result of having unutilised management expenses and deficits on loan relationships. These expenses will only be utilised if the tax treatment of the Company's income and chargeable gains changes or if the Company's investment profile changes.

Notes to the Financial Statements (continued)

8 Earnings per ordinary share

The earnings per ordinary share figure is based on the net loss for the year of a £49,862,000 (2018: net profit of £107,801,000) and on 74,701,796 (2018: 74,701,796) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

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

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

	2019 £'000	2018 £'000
Net revenue profit	17,621	17,022
Net capital (loss)/profit	(67,483)	90,779
Net total (loss)/profit	**(49,862)**	**107,801**
Weighted average number of ordinary shares in issue during the year	74,701,796	74,701,796

	2019	2018
Revenue earnings per ordinary share	23.59p	22.79p
Capital earnings per ordinary share	(90.34p)	121.52p
Total earnings per ordinary share	**(66.75p)**	**144.31p**

9 Ordinary dividends

	Record Date	Pay Date	2019 £'000	2018 £'000
Final dividend: 15.0p (2017: 13.0p) for the year ended 31 May 2018	31 August 2018	28 September 2018	11,205	9,711
Interim dividend: 6.5p (2018: 6.0p) for the year ended 31 May 2019	15 February 2019	8 March 2019	4,856	4,482
			16,061	**14,193**

Subject to approval at the Annual General Meeting, the proposed final dividend of 16.5p per ordinary share will be paid on 8 October 2019 to shareholders on the register of members at the close of business on 9 August 2019. The shares will be quoted ex-dividend on 8 August 2019.

The proposed final dividend for the year ended 31 May 2019 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by the shareholders. All dividends have been paid or will be paid out of revenue profits.

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

	2019 £'000	2018 £'000
Revenue available for distribution by way of dividends for the year	17,621	17,022
Interim dividend for the year ended 31 May 2019: 6.5p (2018: 6.0p) per ordinary share	(4,856)	(4,482)
Final dividend for the year ended 31 May 2018: 15.0p (based on the 74,701,796 shares in issue at 6 August 2018)	–	(11,205)
Proposed final dividend for the year ended 31 May 2019: 16.5p (based on 74,701,796 shares in issue at 1 August 2019)	(12,326)	–
	439	**1,335**

Notes to the Financial Statements (continued)

10 Investments held at fair value through profit or loss

	2019 £'000	2018 £'000
Cost at start of year	542,533	464,126
Investment holding gains at start of year	305,797	287,610
Valuation at start of year	**848,330**	**751,736**
Movements in the year:		
Acquisitions at cost	135,343	196,351
Disposals at cost	(122,128)	(117,944)
Movement in investment holding gains	(85,312)	18,187
Valuation at year end	**776,233**	**848,330**
Cost at the end of the year	555,748	542,533
Investment holding gains	220,485	305,797
Valuation at year end	**776,233**	**848,330**

Purchase and sale transaction costs for the year ended 31 May 2019 were £469,000 and £68,000 respectively (2018: transaction costs of purchases £609,000; transaction costs of sales £106,000). These comprise mainly stamp duty and commission.

Analysis of investments at fair value

	2019 £'000	2018 £'000
Equity investments:		
Listed on the London Stock Exchange	597,057	680,008
Quoted on the Alternative Investment Market (AIM)	179,176	168,322
	776,233	**848,330**

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

Total capital gains from investments

	2019 £'000	2018 £'000
Gains on the sale of investments based on historical cost	20,554	79,374
Revaluation gains recognised in previous years	(52,135)	(59,975)
(Losses)/gains on investments sold in the year based on the carrying value at the previous balance sheet date	**(31,581)**	**19,399**
Investment holding gains	(33,177)	78,162
(Losses)/gains on investments held at fair value through profit or loss	**(64,758)**	**97,561**

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

Notes to the Financial Statements (continued)

11 Substantial interests

The Company held interests of 3% or more of any class of share capital in six investee companies (2018: four investee companies). These investments are not considered by the directors to be significant in the context of these financial statements.

	Valuation £'000	% of voting rights
Safestyle	3,876	6.3
WYG	2,160	5.5
Tekmar	2,762	4.4
Thruvision	1,747	4.1
Tribal	4,507	3.2
Blancco Technology	2,960	3.1

12 Receivables

	2019 £'000	2018 £'000
Securities sold for future settlement	209	195
Prepayments and accrued income	3,006	3,139
	3,215	**3,334**

13 Payables

	2019 £'000	2018 £'000
Securities purchased for future settlement	4,673	4,350
Management fee	393	–
Performance fee	–	4,086
Accruals and deferred income	218	176
	5,284	**8,612**

14 Financial liabilities

	2019 £'000	2018 £'000
Unsecured Loan Notes:		
3.33% Unsecured Loan Notes 2036 (redeemable at par on 23 May 2036)	29,819	29,809
Preference Stock:		
4,257 Preference Stock units of £1 each (2018: 4,257)	4	4
	29,823	**29,813**

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

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

Notes to the Financial Statements (continued)

15 Risk management policies and procedures

The directors manage investment risk principally through setting an investment policy (that is approved by shareholders) which incorporates risk parameters (see page 13), by contracting management of the Company's investments to an investment manager (Janus Henderson) under a contract which incorporates appropriate duties and restrictions and by monitoring performance in relation to these. The Board's relationship with Janus Henderson is discussed on pages 31 and 32. Internal control and the Board's approach to risk is also on pages 17 and 18. There have been no material changes to the management or nature of the Company's investment risks from the prior year.

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

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

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

a) Market risk

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

b) Market price risk

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

Management of the risk

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

The Company's exposure to changes in market prices at 31 May 2019 on its equity investments was £776,233,000 (2018: £848,330,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 11 and 12 and a sector analysis is set out on page 6. At 31 May 2019 all the investments were in companies listed or quoted in London, most of them being companies established in and operating from the United Kingdom. Accordingly, there is a concentration of exposure to the UK, although it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

b) Market price risk (continued)

Market price risk sensitivity

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

The impact of a 25% increase in the value of the investments on the revenue return as at 31 May 2019 is a decrease of £204,000 (2018: £223,000) and on the capital return is an increase of £193,583,000 (2018: £211,563,000). Accordingly, the total impact on shareholders' funds is an increase of £193,379,000 (2018: £211,340,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2019 is a increase of £204,000 (2018: £223,000) and on the capital return is a decrease of £193,583,000 (2018: £211,563,000). Accordingly, the total impact is a decrease of £193,379,000 (2018: £211,340,000).

c) Currency risk

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

As at 31 May 2019, the Company did not hold any non-sterling denominated investments (2018: nil).

d) Interest rate risk

Interest rate movements may affect:

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

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

Management of the risk

The possible effects on the fair value of the investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. At 31 May 2019 the Company had committed bank borrowing facilities for a total of £29.1 million (2018: £36.1 million). Borrowings are drawn down for short periods at rates of interest that are determined by reference to the market rates applicable at the time of borrowing.

Interest rate exposure

The Company's financial liabilities at 31 May 2019 that give exposure to fixed interest rate risk are set out in note 14.

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

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

Interest rate sensitivity

The Company is not materially exposed to changes in interest rates. As at 31 May 2019 the Company's two-year revolving loan facility provided by Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC") allowed borrowings to a maximum of £60 million, the interest rate exposure on which is 0.65% plus LIBOR (2018 - 0.975% plus LIBOR); the interest payable on the Company's £30 million issue of unsecured loan notes is fixed at 3.33%.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

e) Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £30 million by its issue in 2019 of 3.33% unsecured loan notes 2036. The Company is able to draw short-term borrowings of up to £60 million from its committed borrowing facility with SMBC. There were borrowings of £29,087,000 drawn down under the facility at 31 May 2019 (2018: £36,079,000).

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

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

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 May 2019, based on the earliest date on which payment could be required, was as follows:

	2019			2018		
	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000
Preference Stock[1]	–	–	–	–	–	–
Unsecured loan notes[2]	999	3,996	41,988	999	3,996	42,987
Bank loans and interest	29,127	–	–	36,160	–	–
Payables	5,224	–	–	8,547	–	–
	35,350	**3,996**	**41,988**	**45,706**	**3,996**	**42,987**

1 See also note 14 on page 52. The Company has in issue Preference Stock without a set redemption date with a total par value of £4,000 (2018: £4,000) which has a negligible ongoing finance cost

2 The amounts due include unsecured loan notes interest

f) Credit risk

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

Management of the risk

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

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

In summary, the maximum exposure to credit risk at 31 May 2019 was to cash and cash equivalent of £872,000 (2018: £4,889,000), and to receivables of £3,215,000 (2018: £3,334,000) (see note 12).

None of the Company's financial assets are past their due date and the adoption of the expected credit loss model for impairment under IFRS 9 has not had a material impact on the Company.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

g) Fair values of financial assets and financial liabilities

The investments are held at fair value through profit or loss. All the net current liabilities are held in the Balance Sheet at a reasonable approximation of fair value. At 31 May 2019 the fair value of the Preference Stock was £4,000 (2018: £4,000). The fair value of the Preference Stock is estimated using the prices quoted on the exchange on which the investment trades. The Preference Stock is carried in the Balance Sheet at par.

The unsecured loan notes are carried in the Balance Sheet at par less the issue costs which are amortised over the life of the notes. In order to comply with fair value accounting disclosures only, the fair value of the unsecured loan notes has been estimated to be £33,607,000 (2018: £32,203,000) and is categorised as Level 3 in the fair value hierarchy as described below. However, for the purpose of the daily NAV announcements, the unsecured loan notes are valued at par in the fair value NAV because they are not traded and the directors have assessed that par value is the most appropriate value to be applied for this purpose.

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

h) Fair value hierarchy disclosures

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

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

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

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

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

The valuation techniques used by the Company are explained in note 1(c) on page 45.

Fair value hierarchy – 2019

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

Fair value hierarchy – 2018

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	848,330	–	–	848,330
	848,330	**–**	**–**	**848,330**

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

i) Capital management policies and procedures

The Company's capital management objectives are:

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

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

The Company's total capital at 31 May 2019 was £775,236,000 (2018: £848,151,000) comprising £29,087,000 (2018: £36,079,000) of unsecured bank loans, £30,000,000 (2018: £30,000,000) of Unsecured Loan Notes, £4,000 (2018: £4,000) of Preference Stock and £716,145,000 (2018: £782,068,000) of equity share capital and reserves.

On 6 February 2019 the Company entered into a £60m revolving credit facility with SMBC. The Company had drawn down £29,087,000 under this facility as at 31 May 2019 (2018: £36,079,000 drawn down with Scotiabank). The Company was fully compliant with the terms of the facility, as it existed, for the period 1 June 2018 to the date of this Annual Report.

Previously the Company had a £60m revolving credit facility with Scotiabank. This agreement expired on 6 February 2019 and all outstanding balances were repaid in full.

Notes to the Financial Statements (continued)

16 Share capital

	2019 £'000	2018 £'000
Allotted, issued, authorised and fully paid:		
74,701,796 ordinary shares of 25p each (2018: 74,701,796)	18,676	18,676

During the year the Company made no purchases of its own issued ordinary shares (2018: nil). Since 31 May 2019 the Company has not purchased any ordinary shares.

17 Capital redemption reserve and capital reserve

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

2018	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2017 as previously reported	26,745	287,610	335,399	623,009
Transfer on disposal of investments (see note 10)	–	(59,975)	59,975	–
Net capital gains for the year	–	78,162	19,399	97,561
Expenses charged to capital	–	–	(6,782)	(6,782)
At 31 May 2018	**26,745**	**305,797**	**407,991**	**713,788**

18 Revenue reserve

	2019 £'000	2018 £'000
At 1 June	22,859	20,030
Ordinary dividends paid	(16,061)	(14,193)
Revenue profit for the year	17,621	17,022
At 31 May	**24,419**	**22,859**

19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £716,145,000 (2018: £782,068,000) and on the 74,701,796 ordinary shares in issue at 31 May 2019 (2018: 74,701,796).

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

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

	2019 £'000	2018 £'000
Net assets attributable to the ordinary shares at 1 June	782,068	688,460
Net (losses)/gains for the year	(49,862)	107,801
Ordinary dividend paid in the year	(16,061)	(14,193)
Net assets attributable to the ordinary shares at 31 May	**716,145**	**782,068**

Notes to the Financial Statements (continued)

20 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 31 May 2019 (2018: £nil).

Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting commitments as at 31 May 2019 (2018: £nil).

21 Transactions with the Manager and related parties

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

Details of the fee arrangements for these services are given on page 14. The management fees payable to Janus Henderson under the agreement in respect of the year ended 31 May 2019 were £2,455,000 (2018: £2,409,000). The amount outstanding at 31 May 2019 was £393,000 payable to Janus Henderson (2018: prepayment £202,000).

The performance fee payable to Janus Henderson in respect of the year ended 31 May 2019 is £nil (2018: £4,086,000).

In addition to the above services, Janus Henderson facilitates marketing activities with third parties which are recharged to the Company. Janus Henderson also provides sales and marketing services which until 31 December 2017 were charged to the Company at an annual cost of £24,000 including VAT. Since 1 January 2018 there has been no separate charge for these services. Total amounts paid to Janus Henderson in respect of sales and marketing, including VAT, for the period ended 31 May 2019 amounted to £77,000 (2018: £77,000).

Fees paid to the directors are considered to be related party transactions. Details of the amounts paid are included in note 5 on page 48. These amounts do not include national insurance contributions on the directors' fees of £13,000 (2018: £9,000) which are included in general expenses. Directors' shareholdings are shown on page 26.

22 Changes in financial liabilities

The following table shows the movements during the period of net financial liabilities in the Balance Sheet.

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

Notes		At 1 June 2017 £'000	Cash flows £'000	Non-cash changes: Fair value changes £'000	Non-cash changes: Foreign exchange movement £'000	At 31 May 2018 £'000
	Financing Activities					
	Bank loans	(31,769)	(4,310)	–	–	(36,079)
14	Financial liabilities	(29,802)	–	(11)	–	(29,813)
		(61,571)	**(4,310)**	**(11)**	**–**	**(65,892)**
	Non-financing Activities					
	Cash and cash equivalents	3,829	1,060	–	–	4,889
		3,829	**1,060**	**–**	**–**	**4,889**
	Total	**(57,742)**	**(3,250)**	**(11)**	**–**	**(61,003)**

General Shareholder Information

AIFMD disclosures

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), information in relation to the Company's leverage and remuneration of Henderson Investment Funds Limited, as the Company's Alternative Investment Fund Manager ("AIFM") 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 AIFMD Disclosure which can be found on the Company's website **www.hendersonsmallercompanies.com**.

BACS

Dividends can be paid by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the registrar. Alternatively, shareholders can write to the registrar (the address is given on page 64) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard ("CRS")

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

Equality Act 2010

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

You can contact the registrar, 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 702 0005. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a "typetalk" operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

Foreign Account Tax Compliance ("FATCA")

FATCA is a United States federal law enacted in 2010 whose intent is to enforce the requirement for United States persons (including those living outside the USA) to file yearly reports on their non-USA financial accounts. 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**.

History

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

ISA

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

Non-mainstream pooled investments ("NMPI") status

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

General Shareholder Information (continued)

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

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

Performance details/share price information

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

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

Shareholder details

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

Glossary

Alternative Investment Fund Managers Directive ("AIFMD")

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

Association of Investment Companies ("AIC")

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

Benchmark

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

Custodian

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

Depositary

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

Dividend dates

When declared or 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 and share price will be disclosed ex-dividend.

Gearing

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

Investment trusts

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

Liquidity

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

Market capitalisation

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

Ongoing charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The ongoing charge is based on the premise that actual costs incurred in the year (see notes 4 and 5) are the best estimate of future costs, excluding any performance fees, in accordance with the AIC methodology. The ongoing charge is the annualised charge expressed as a percentage of the average aggregate NAV in the period (see page 14). Management fees and other administrative expenses are included in the calculation, such as directors' fees and the auditor's fees, and the figure therefore exceeds the rate of the management fee paid to Janus Henderson. The cap of 0.90% relates only to management fees and performance fees under the Company's management agreement, and excludes any other expenses. Total expenses for periods where a performance fee is payable can therefore be greater than 0.90%. The AIC's ongoing charge methodology differs from the PRIIPs methodology for ongoing costs which are disclosed in the KID.

Alternative Performance Measures

Capital return per share

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

Dividend yield

The annual dividend (see Note 9) expressed as a percentage of the share price (see page 3).

Net asset value ("NAV") per ordinary share

The value of the Company's assets, i.e. investments (see Note 10), cash held (see Balance Sheet), less any liabilities (i.e. bank borrowings, debt securities and creditors (see Notes 13, 14 and 15)) for which the Company is responsible, divided by the number of shares in issue (see Note 8). The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV is published daily.

Premium/Discount

The amount by which the market price per share (see page 3) of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

Revenue return per ordinary share

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

Total return performance

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

Historical Record

Historical Record

At 31 May	Net assets £'000	NAV per ordinary share with debt at par p	Mid-market price per ordinary share p	Discount with debt at par %	Revenue return p	Capital return p	Total return p	Dividends[1] p	Expenses[1] %	
2010	207,533	277.1	216.0	(22.1)	4.59	74.70	79.29	3.60	0.58	(0.58)
2011	298,184	398.1	319.4	(19.8)	4.91	119.70	124.61	4.20	0.50	(1.16)
2012	279,926	374.5	284.3	(24.1)	6.07	(25.62)	(19.55)	5.50	0.50	(0.50)
2013	403,420	540.0	454.0	(15.9)	6.24	164.72	170.96	6.50	0.47	(1.07)
2014	476,281	637.6	547.0	(14.2)	12.67	94.37	107.04	11.00	0.44	(0.56)
2015	563,321	754.1	686.0	(9.0)	15.04	112.98	128.02	13.50	0.46	(0.88)
2016[2]	546,080	731.0	616.5	(15.7)	15.92	(25.00)	(9.08)	15.00	0.44	(0.44)
2017	688,460	921.6	799.0	(13.3)	19.57	187.03	206.60	18.00	0.43	(1.01)
2018	782,068	1,046.9	966.0	(7.7)	22.79	121.52	144.31	21.00	0.42	(0.99)
2019	**716,145**	**958.7**	**858.0**	**(10.5)**	**23.59**	**(90.34)**	**(66.75)**	**23.00**	**0.42**	**(0.42)**

1 Using total expense ratio methodology for 2011 and previous years; ongoing charge methodology thereafter, figures excluding performance fee (figures in brackets including performance fee)
2 Since the redemption of the debenture stock on 31 May 2016, the Company's NAV and discount with debt at par or market value are identical because there is no difference in the values of the remaining debt liabilities

Sources: Morningstar for the AIC, Janus Henderson, Datastream

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 would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment "advice".

If you are in any doubt about the veracity of an unsolicited phone call, please call the corporate secretary at the number provided on page 64.

Corporate Information

Registered office

201 Bishopsgate
London EC2M 3AE

Service providers

Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London EC2M 3AE

Corporate Secretary

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

Registrar

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

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

Broker

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

Independent Auditor

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

Financial calendar

Annual results	1 August 2019
Ex-dividend date	8 August 2019
Dividend record date	9 August 2019
Annual general meeting[1]	4 October 2019
Final dividend payable	8 October 2019
Half year results	January 2020
Interim dividend payable	March 2020

Information sources

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

HGi

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

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

Follow Investment Trusts on Twitter, YouTube and Facebook

Investing

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

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive 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.

1 At the Company's registered office at 11.30 am

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

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

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www.hendersonsmallercompanies.com

MANAGED BY
Janus Henderson
INVESTORS

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The Association of
Investment Companies

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Typeset by 2112 Communications, London.

Printed by DG3 Leycol, London.

JHI9226/19