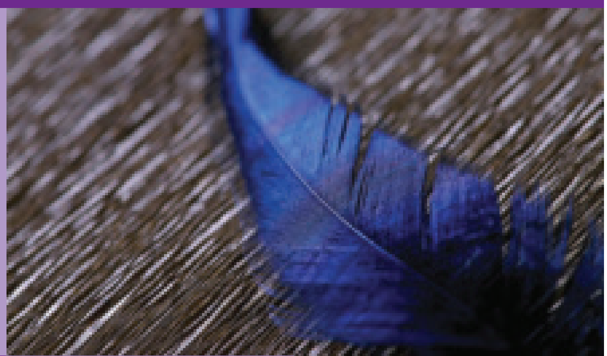
Henderson Diversified Income Limited

Report and Financial Statements for the year ended 31 October 2011



Objective

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

The Manager is incentivised to provide shareholders with ongoing total returns of at least three month sterling LIBOR plus 1.25%.

History

Henderson Diversified Income Limited is a Jersey domiciled closed-ended investment company and was incorporated on 5 June 2007 and launched with £40.5 million of capital on 18 July 2007. The Company raised an additional £38.4 million in a placing of shares in May 2008. It is listed on the main market of the London Stock Exchange. The Company has an indefinite life and has a single class of ordinary shares of no par value. Dividends are paid quarterly.

Contents

Financial Highlights

	31 October 2011 £'000	31 October 2011 per share	31 October 2010 £'000	31 October 2010 per share
Net asset value	**65,446**	**78.2p**	69,483	83.1p
Market price	**–**	**76.8p**	–	79.3p

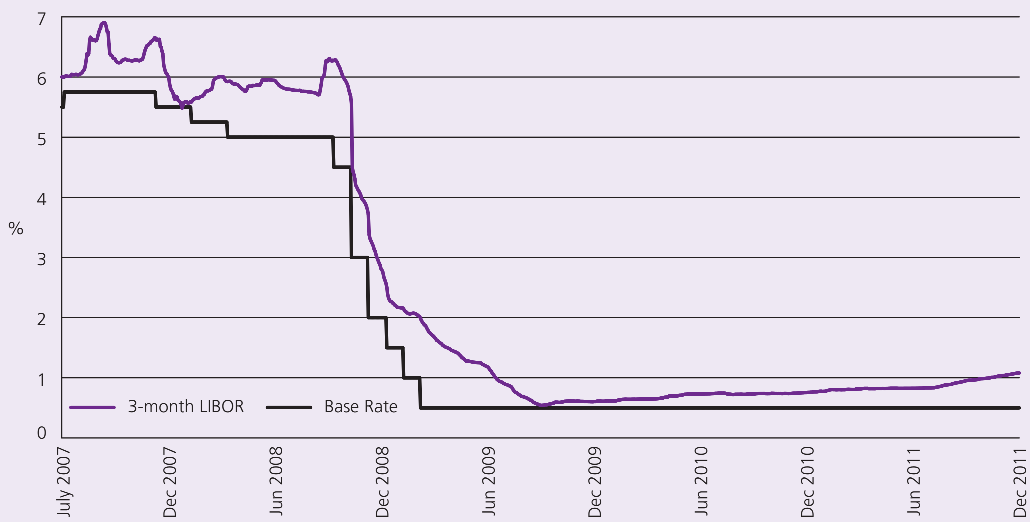
	Year ended 31 October 2011 £'000	Year ended 31 October 2011 per share	Year ended 31 October 2010 £'000	Year ended 31 October 2010 per share
Revenue earnings (based on weighted average number of shares)	**4,319**	**5.16p**	3,906	4.67p
Dividends (paid and payable)	**4,016**	**4.80p**	3,848	4.60p

Performance

	Year to 31 October 2011
Net asset value (total return)	**-0.12%**
Share price (total return)	**2.64%**

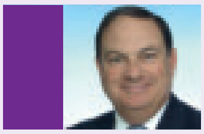
Source: Morningstar for the AIC

Movement in 3-month LIBOR and UK Base Rates (from launch to 31 December 2011)

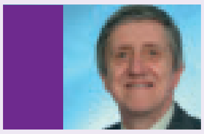


Source: Bloomberg

Directors


Paul Manduca


Helen Green


Nigel Parker


David Smith

Paul Manduca (Chairman) Following a long career in asset management as both a fund manager and CEO of fund management groups including Threadneedle Asset Management, Rothschild Asset Management and Deutsche Asset Management Europe, Paul is now Chairman of Aon UK and of JP Morgan European Smaller Companies Investment Trust and Senior Independent Director at Prudential Group plc. He is a former Chairman of the AIC.

Helen Green is a chartered accountant and has been employed by Saffery Champness, a UK top 20 firm of chartered accountants, since 1984. She qualified as a chartered accountant in 1988 and became a partner in the London office in 1997. Since 2000, she has been based in the Guernsey office where she is a client liaison director responsible for trust and company administration. Mrs Green serves on the boards of a number of companies in various jurisdictions.

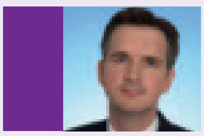
Nigel Parker has over 35 years' experience in the Jersey finance industry and in 2004 was appointed Chief Executive Officer of Gartmore Fund Managers International Limited. He has held a number of positions with Jersey trust companies but specialises in compliance and regulation. In 2002 he was appointed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

David Smith has spent his career in the financial services sector. He has worked in retail banking with National Westminster Bank, in unit trust sales for County Bank and fund management sales for Ivory & Sime. He became Marketing Director of Fleming Investment Trust Management in 1991, during a period of much increased interest in the investment trust sector, before returning to Jersey to help establish Flemings' private banking operations in Jersey. He was appointed Managing Director of Dexia Private Bank in Jersey in 1999 and subsequently took overall responsibility for all Dexia's operations in Jersey. He now acts as a consultant to a number of local businesses. Mr Smith is an Associate of the Chartered Institute of Bankers, a member of the Chartered Institute of Marketing and holds the Certificate in Company Direction.

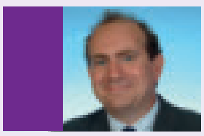
All of the directors are non-executive and are members of the Audit Committee and Nominations Committee. Other than Nigel Parker, all the directors are members of the Management Engagement Committee.

Paul Manduca chairs the Management Engagement Committee and the Nominations Committee and Helen Green chairs the Audit Committee. Helen Green and Nigel Parker are also directors of the Luxembourg subsidiary.

Management

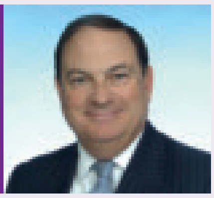

John Pattullo


Jenna Barnard


David Milward

The portfolio is managed by John Pattullo and Jenna Barnard.
The Company's investments in secured loans are managed by David Milward and his team.

Chairman's Statement



Paul Manduca

The failure of European politicians to address the substantial challenges in the Eurozone has led to considerable volatility in bond markets during the financial year. Despite this, we have continued to beat our annual income target of 1.25% over 3 month sterling LIBOR and have been able to increase the second and fourth interim dividends and place a small amount of income in reserve to underpin future dividends. Your board believes that in the absence of a cut in LIBOR, this level of dividend can be at least maintained.

Performance

Your Company's net asset value fell 5.9% from 83.1p to 78.2p over the year, as secondary prices of both bonds and secured loans weakened. As in the previous year, performance was better in the first half than the second with the net asset value having stood at 85.5p at the end of April 2011. The share price likewise fell over the year from 79.3p to 76.8p but the discount narrowed to just below net asset value at 1.8%. Group net revenue for the year increased however from £3.9 million to £4.3 million or by 10.6%, thereby bolstering the Company's performance on a total return basis.

Dividends

An improved income stream enabled your Board to increase dividends. For the year under review, the four dividends which have been paid total 4.8p, an increase of 4.35% over the prior year, and this lifted the yield to 6.25% based on the year end share price of 76.8p.

Gearing

During the year the Board put in place a new facility for up to £25.5 million for a two year term at a lower rate providing increased flexibility. At the year end, borrowings were £6.9 million, up from £6.2 million at the previous year end. In addition, your portfolio was geared by a further 11.1% due to exposure to credit derivatives.

Outlook

There are signs that European politicians have accepted the seriousness of the sovereign debt crisis. There is little indication of a definitive solution but we feel markets are bringing events to a head. Whilst it seems inevitable that some volatility will persist we do believe that there continues to be an attractive risk reward ratio in your Company's diversified portfolio.

Annual General Meeting

Our fifth Annual General Meeting will be held on Thursday 8 March 2012 at 11.00am at our registered office in Jersey and full details of the business of the meeting and the venue are set out in the separate Notice which has been sent out with this report. Once again we are pleased to invite shareholders to attend our annual open presentation and take the opportunity to meet the Portfolio Managers. This will be held at 10.30am on Tuesday 20 March 2012 at Henderson's offices in London.

Paul Manduca
Chairman
26 January 2012

Managers' Report

John Pattullo and Jenna Barnard

In last year's Portfolio Managers' report we highlighted that the key challenge for markets would be European sovereign debt concerns. We also anticipated further pockets of volatility which we hoped would be contained by swift and sensible policy responses from the European authorities if they could rise above political and local concerns. It is clear now that any faith in the ability of European policymakers to formulate convincing and decisive policy responses was misplaced. The lack of policy co-ordination across Europe has been a defining feature of the crisis and much time and energy has been wasted on impractical and poorly executed plans. Perhaps the most obvious example of this is the bank stress tests undertaken in the autumn of 2011. Rather than forcing banks to raise capital immediately, this exercise has instead set in train a process of deleveraging of bank balance sheets that, over the next year, is likely to severely undermine growth prospects in the Eurozone economies. At the time of writing it seems highly likely that Europe has entered an economic recession and yet little progress has been made in formulating a convincing plan to prevent financial contagion within the Eurozone financial system. This is a challenge that European politicians must meet.

Your Company opened the year trading at a discount to net asset value which then widened in January and then moved to a premium during the early summer, when any selling pressure evaporated. However, the market downdraft since mid summer 2011 eroded this premium and the Company closed the year on a discount of 1.8%. It is disappointing but not surprising, given market conditions, that the NAV of the company fell over the course of the year but it was pleasing that in contrast we were able to continue to significantly exceed our target income level of 1.25% over LIBOR whilst also keeping a small amount in the revenue reserve.

It is worth reflecting on the course of events over the full year rather than just focusing on the intensification of the European crisis in the final months of the financial year. Indeed, although we may feel that in comparison to recent events, the first three quarters of the period were quiet they were certainly not uneventful. The Japanese earthquake and tsunami caused significant market turmoil, high oil prices were a considerable drag on growth and two ill-judged interest rate rises from the European Central Bank were all notable features of this nine month period. At the beginning of the calendar year, the market was pricing in three interest rate rises in the UK as growth and reflation were uppermost in investors' minds. In early summer however, the American economy hit another "soft patch" which caused a substantial reassessment of investor expectations and led to questions about whether this could be explained by earthquake-related supply disruptions or was there something more sinister at work? This coupled with the US political debt ceiling crisis mid summer, an ill timed downgrade of the USA, and a scare about Greece's solvency led markets to take fright and severely mark asset prices down. Sovereign bond prices rose aggressively (yields fell to record lows globally) as markets started pricing in a deflationary Japanese style economic outlook.

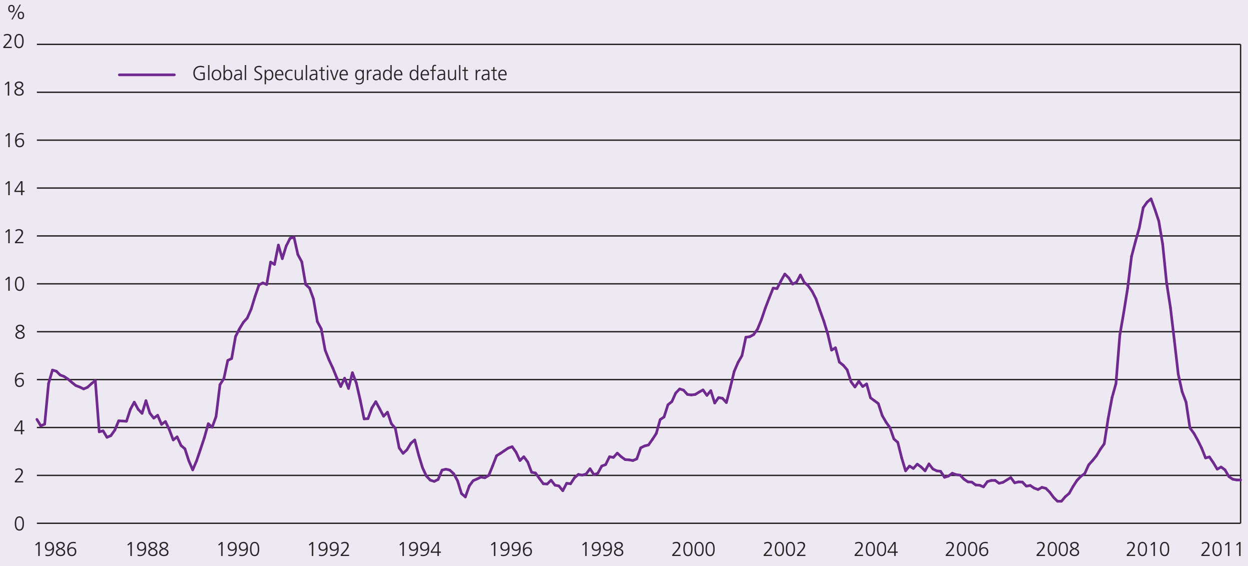
The different economic responses in Europe (austere monetary and fiscal policy and a relatively strong Euro) versus America is striking; however, neither policy has been particularly effective in engineering growth and reducing unemployment. We have underestimated the amount of deleveraging which has happened at the consumer and corporate level and also by the banking industry in response to changing regulation. We feel this theme of deleveraging is here to stay for many years. We do not expect interest rates nor inflation to be an immediate concern. The greater threat is default and exit of the Euro by potentially a number of European countries. What is certain, however, is that growth in Europe will be negligible and more likely to contract than expand. We expect the USA to grow between 1-2.5% over the coming year, which is too slow to make any material impact on the high unemployment levels.

Ironically, such a backdrop is reasonable for fixed income investors whilst secured loans will not get the uplift if interest rates do not rise. In this sort of environment we do want to

Managers' Report

continued

Default Rates



Source: Moody's, as at 31 December 2011

position the fund in the middle of the rating scale, typically BBB, BB and selective single B issuers. The best quality credits (rated AAA, AA and A) do not offer enough yield and are highly sensitive to gilt prices, which themselves have been manipulated by policy makers! Cyclical single B and CCC companies have too much debt on their balance sheets in a low growth environment and hence we do not hold these types of credits. We do expect defaults to rise in this sort of environment but from very low levels. Inevitably, what happens to the Eurozone crisis will have a material effect on default rates.

Turning to the portfolio itself, we strategically sold the vast majority of the junior French and all of the Irish bank bonds (BNP Paribas, Soc Gen, and Bank of Ireland) at the end of 2010 and beginning of 2011 on concerns of growing Eurozone debt problems. We also trimmed the few corporate bonds we held in the periphery (last year we considered Spain as periphery but this area has grown recently). These trades have proved beneficial given the severity of the crisis. The proceeds were re-invested principally in industrial names both in the secured loan portfolio (see commentary below) and the secured and unsecured bond portfolios. Names include Daily Mail, Anglian Water, LABCO and William Hill. We also added some financial exposure in the insurance sector with names such as BUPA and Legal & General. We have slowly increased our exposure to secured loans over time. Initially this was with the view that interest rates would rise and hence our interest payments would float up. This outlook has changed but we still favour the security that secured loans offer. Given the more muted growth outlook, we are now concentrating on the larger more stable high yield businesses which have a reason to exist. Gearing within the portfolio has fluctuated through the year. It was reduced into the last quarter of the year as volatility rose and fortunately some loans matured. Towards the year end as risk assets seemed to be stabilising we raised gearing. This was done using credit derivatives which are considered more flexible and cheaper than bank gearing. In addition, the Company's bank facility was replaced for a two year period at a lower cost which was very pleasing given the banking environment.

Secured Loan Portfolio

European Secured Loan prices began the year with a strong rally until the end of May before being hit by the latest bout of European sovereign worries, political squabbling on both sides of the Atlantic and weaker macro data which drove a sell off in risk assets. Over the period under review, the Credit Suisse European Leveraged Loan Index showed a positive return of 1.87%. Price moves this year have been driven much

Managers' Report
continued

more by macro concerns rather than company specific news which on the whole has seen the underlying loan portfolio performing well.

We saw a couple of distinct phases in the primary issuance market. In the first eight months of the financial year we concentrated on adding exposure in the primary market as deals were of high quality with good risk reward. However, since late June, we found that terms on new primary issuance had weakened as arrangers had competed for mandates and had structured transactions with too aggressive terms and we therefore stopped adding primary risk to the portfolio.

Secondary prices of loans weakened from 88.96 at the end of October 2010 to 85.62 a year later. This meant that loans on a 3 year take out basis offered a spread of LIBOR plus 793bps (up +111bps versus prior year end) which made secondary opportunities attractive for the fund. We did not suffer any loan defaults in the portfolio during the year and are forecasting that loan default rates for 2012 will rise somewhat as recent European business activity data has worsened and credit supply tightens due to pressure on European bank balance sheets. We think that the rise in loan credit spreads more than offsets the additional default risk and provides potential opportunities for the portfolio.

We will continue to focus on fundamental credit analysis and maintain our quality bias. We believe at current levels loans continue to offer an attractive risk reward even in the face of economic uncertainty as they blend a high coupon with downside protection through being senior to claims of other creditors, secured on assets and protected by performance based covenants.

Outlook

We have been frustrated by the lack of political leadership in Europe. At times it has felt like a slow moving car crash. Unfortunately the pace of progress is so slow that it is beginning to affect confidence and economic activity and hence recovery and growth potential. However, we feel many of the issues are now widely understood and are being discussed although none of the solutions are terribly palatable. An additional Greek write down was announced in November 2011 as were proposals to re-capitalise a number of banks in Continental Europe. At the time of writing, we sense markets are demanding a major policy response from the European Central Bank (ECB) where the more market focused and pragmatic Mr Drahi replaced Mr Trichet as President in early November. This, together with a number of other departures of hard core German monetarist economists, gives us some encouragement as to ECB thinking. Germany is currently loath to print money and we doubt this will happen until markets take us close to the abyss which means lower equity prices. However, as the crisis subsides, we hope to add risk and lock in some attractive yield for shareholders. Credit markets are pricing in a lot of severe assumptions about defaults. Whilst we expect defaults to rise we do feel risk taking is being well rewarded at current yield levels albeit with a dose of volatility. By the Spring we hope to have better clarity of the outcome of the European crisis, but we do expect continued pockets of volatility in a slow growth deleveraging economic environment.

John Pattullo and Jenna Barnard
Portfolio Managers
26 January 2012

Investment Portfolio

as at 31 October 2011

Secured Loans

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

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Alliance Boots	**£**	**UK**	**Retail**	**1,811**	**2.59**
Bausch & Lomb	**Euro**	**USA**	**Healthcare**	**1,629**	**2.33**
RBS Worldpay	**£**	**UK**	**Card services**	**1,620**	**2.31**
ISS	**Euro**	**Denmark**	**Business services**	**1,612**	**2.30**
Infonxx	**Euro**	**USA**	**Business services**	**1,531**	**2.19**
Polyconcept	**Euro**	**France**	**Business services**	**1,521**	**2.17**
Lavena	**Euro**	**Germany**	**Media**	**1,471**	**2.10**
Towergate	**£**	**UK**	**Insurance**	**1,380**	**1.97**
Springer	**Euro**	**Germany**	**Publishing**	**1,370**	**1.96**
Weetabix	£	UK	Beverages, food & tobacco	1,356	1.94
Flint	Euro	Germany	Chemicals, plastics & rubber	1,346	1.92
Xerium	Euro	USA	Paper & publishing	1,295	1.85
Delachaux	Euro	France	Transportation equipment	1,284	1.84
Firth Rixon	£	UK	Engineering	1,137	1.63
Ineos	Euro	UK	Chemicals, plastics & rubber	1,103	1.58
TMF	Euro	France	Business services	1,102	1.58
Foncia	Euro	France	Property management	1,101	1.57
TNT Logistics	US$	UK	Logistics	1,099	1.57
Deutsch	US$	France	Engineering	1,090	1.56
Vivarte	Euro	France	Retail	1,057	1.51
Linpac	Euro	UK	Packaging	989	1.41
Birds Eye	£	UK	Beverages, food & tobacco	981	1.40
Takko	Euro	Germany	Retail	921	1.32
Kion	Euro	Germany	Engineering	850	1.22
Stork	Euro	Netherlands	Engineering	822	1.18
Northgate	£	UK	Business services	800	1.14
AVR	Euro	Netherlands	Ecological	780	1.12
Macquarie	£	UK	Telecommunications	767	1.10
Gala Clubs	£	UK	Leisure	756	1.08
Materis	Euro	France	Building materials	732	1.05
Numericable	Euro	France	Broadcasting	713	1.02
Technicolour	Euro	France	Media	696	1.00
Kabel Deutschland	Euro	Germany	Broadcasting	657	0.94
Vue	£	UK	Leisure	634	0.91
KDG	Euro	Germany	Cable TV	587	0.84
WDAC	Euro	£	Directories	437	0.62
IMO	£	UK	Retail	432	0.62
La Seda De Barcelona	Euro	Spain	Chemicals, plastics & rubber	314	0.45
Yell	£	UK	Publishing	174	0.25
Total Secured Loans				**39,957**	**57.14**

All of the above investments would in Henderson's view, if rated, be BB+ or lower.

Investment Portfolio

continued

High Yield Bonds

These bonds are considered more risky than investment grade bonds and as a result have to pay much higher coupons to attract investors. They generally mature in ten years or less and are less sensitive to interest rate changes than other bonds.

They are rated below BBB- (by Standard & Poor's, Moodys or a similar recognised rating agency). This rating signifies a higher risk of default compared to an investment grade bond.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Lloyds Group	**£**	**UK**	**Diversified banking**	**1,445**	**2.07**
Ziggo	Euro	Netherlands	Cable TV	1,322	1.89
Daily Mail & General Trust	£	UK	Publishing	1,015	1.45
ITV	£	UK	Media	988	1.41
Wind Acquisition	Euro	Italy	Telecommunications	935	1.34
William Hill	£	UK	Gaming & betting	773	1.11
Unity Media	Euro	Germany	Cable TV	772	1.10
Levi Strauss	Euro	USA	Apparel	723	1.03
UPC	Euro	Netherlands	Cable TV	676	0.97
LABCO	Euro	France	Medical labs & testing services	552	0.79
ING Verzekeringen	Euro	Netherlands	Insurance	542	0.77
Sunrise Communications	Euro	Switzerland	Telecommunications	517	0.74
Investec	£/Euro	UK	Diversified financial services	477	0.68
Digicel	US$	Caribbean	Telecommunications	472	0.68
Rexel	Euro	France	Electrical parts distribution	419	0.60
Odeon	£	UK	Leisure	412	0.59
Interxion	Euro	Netherlands	IT services	368	0.53
Gala	£	UK	Leisure	322	0.46
Refresco	Euro	Netherlands	Beverages	311	0.45
Ardagh Glass	Euro	Ireland	Packaging & containers	273	0.39
Phones4U	£	UK	Retailer	271	0.39
Kabel BW	Euro	Germany	Cable TV	260	0.37
Virgin Media	£	UK	Cable TV	238	0.34
Picard	Euro	France	Food & beverages	218	0.31
Anglian Water	£	UK	Water	192	0.27
ISS	Euro	Denmark	Business services	192	0.27
GCL	Euro	Luxembourg	Rubber & plastic products	174	0.25
Musketeer	Euro	Germany	Cable TV	168	0.24
Nordenia Holdings	Euro	Germany	Packaging & containers	153	0.22
National Westminster	£	UK	Diversified banking	142	0.20
F&C Asset Management	£	UK	Diversified financial services	43	0.06
Total High Yield Bonds				**15,364**	**21.97**

Investment Portfolio

continued

Investment Grade Bonds

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

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Aviva	£/Euro	UK	Insurance	1,207	1.73
Legal & General	£	UK	Insurance	1,045	1.50
Barclays	£	UK	Diversified banking	980	1.40
Royal Bank of Scotland	£	UK	Diversified banking	968	1.38
BUPA	£	UK	Insurance	967	1.38
Royal London	£	UK	Insurance	852	1.22
Royal Sun Alliance	£	UK	Insurance	835	1.19
Dong	Euro	Denmark	Electric	719	1.03
Standard Life	£/Euro	UK	Insurance	576	0.82
Elm	£	Switzerland	Insurance	485	0.69
Friends Life	£	UK	Insurance	479	0.69
British Telecommunications	£	UK	Telecommunications	414	0.59
F&C Asset Management	£	UK	Diversified financial services	395	0.56
Co-operative Bank	£	UK	Diversified banking	382	0.55
Zurich Financial Services	US$	Switzerland	Insurance	361	0.52
SwissRe Capital	US$	Switzerland	Insurance	279	0.40
Generali	£	Italy	Insurance	274	0.39
Nationwide Building Society	£	UK	Diversified banking	272	0.39
Axa	£	France	Insurance	263	0.38
Virgin Media	£	UK	Cable TV	254	0.36
Standard Chartered Bank	£	UK	Diversified banking	251	0.36
Glencore	US$	Switzerland	Basic materials	220	0.31
Friends Provident	£	UK	Insurance	189	0.27
Prudential	US$	UK	Insurance	103	0.15
Total Investment Grade Bonds				**12,770**	**18.26**

Some of the above investment grade financial bonds trade as bonds but are considered perpetual, non step up preferred securities.

Investment Portfolio

continued

Equities

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Scottish & Southern Energy	£	UK	Utilities	538	0.77
Royal Dutch Shell	£	Netherlands	Oil & gas	514	0.73
British American Tobacco	£	UK	Beverages, food & tobacco	501	0.72
La Seda De Barcelona	Euro	Spain	Chemicals, plastics & rubber	154	0.22
British Vita	Euro	UK	Chemicals, plastics & rubber	130	0.19
Total Equities				**1,837**	**2.63**
Total Investments				**69,928**	**100.00**

Those investments shown in **bold** are the ten largest investments which by value account for £15,390,000 or 21.99% of the total value of investments (2010: 21.37%).

Report of the Directors

The Directors present the audited financial statements of the Group and their report for the year ended 31 October 2011. The Group comprises Henderson Diversified Income Limited ('the Company') and its wholly owned subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. The Company commenced trading on the London Stock Exchange on 18 July 2007.

Business Review

The following review is designed to provide information primarily about the Group's business and results for the year ended 31 October 2011. It should be read in conjunction with the Chairman's Statement on page 3 and with the Managers' Report on pages 4 to 6 which give a detailed review of the investment activities for the year and an outlook for the future.

a) Status

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

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

The Company intends to continue to manage its affairs so that its shares fully qualify for inclusion in an ISA.

b) Investment objective and policy

The Company's investment objective is to provide shareholders with a high level of income, capital growth over the long term and capital preservation over all periods.

The Company aims to deliver these investment outcomes for shareholders by investing selectively across the spectrum of fixed income asset classes; principally in secured loans, asset-backed securities, investment grade corporate bonds and high yield corporate bonds, but also in unrated bonds, gilts, preference and selective high yield equity shares, hybrid securities, convertible bonds and floating rate notes.

The portfolio is not managed by reference to any benchmark save for an income target of 1.25% over sterling three month LIBOR. The composition of the portfolio is therefore not constrained by concepts such as the size, sector or national origin of the issuer. The Company may use credit derivatives (including credit default swaps) in addition to interest rate futures and interest rate swaps. Both the credit derivatives and the interest rate derivatives are used in order to take a synthetic exposure to, or to hedge, an investment position where the derivative contract is more efficient or cost effective than a position in the underlying physical asset. The Company's exposure to credit derivatives is capped at a maximum net long or short position of 30% of the Company's net assets. The interest rate exposure of the Company is currently managed in a range of between 0 and 8 years.

The Company may employ gearing to enhance investment returns but borrowings may not exceed 30% of net assets.

c) Financial Review

Results for the year

Net assets as at 31 October 2011 amounted to £65.446 million (2010: £69.483 million) and the net asset value per ordinary share was 78.2p (2010: 83.1p).

At 31 October 2011 there were 99 (2010: 105) separate investments, as detailed in the Investment Portfolio on pages 7 to 10.

Group net revenue after taxation for the year was £4.319 million (year ended 31 October 2010: £3.906 million).

The total expense ratio ('TER') was 1.55% (2010: 1.71%).

Dividends

It is the intention of the Company to continue to make distributions in the form of quarterly dividends payable in March, June, September and December each year. Three interim dividends have been paid: 1.15p per share on 31 March and 1.20p per share on each of 30 June and 30 September 2011. A fourth interim dividend of 1.25p per share in respect of the period ended 31 October 2011 was paid on 30 December 2011. For the year under review the Company exceeded its target dividend yield of 1.25% over sterling three month LIBOR.

Bank facilities and gearing

The Board has in place facilities which allow it to borrow up to £25.5 million for periods of one, two, three or six months. At 31 October 2011 the Group had drawn down £6.9 million (2010: £6.2 million). The facilities are subject to regular review. At 31 October 2011, the ratio of borrowings under the facilities to net assets was 10.5% (2010: 8.9%).

Report of the Directors
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Payment of suppliers
It is the payment policy of the Company for the financial year to 31 October 2012 to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors as at 31 October 2011.

Future developments
While the future performance of the Company will depend, to some degree, on macro-economic factors and on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined earlier. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement (on page 3) and the Managers' Report (on pages 4 to 6).

Going Concern
The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Group consist mainly of securities which are readily realisable and, accordingly, the Group has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the going concern and liquidity risk 'Guidance for Directors of UK Companies 2009' issued by the Financial Reporting Council in October 2009.

d) Performance measurement and key performance indicators

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

- *Returns and net asset value*
  The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value, income and share price for the Company. The Company does not have a formal benchmark.

- *Discount/premium to net asset value ('NAV')*
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant AIC sector. 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 which includes current financial year revenue; the same basis as that calculated for the financial statements. The NAV excluding current financial year revenue is also published for historical cost comparison.

- *Yield*
  At each Board meeting, the Directors examine the revenue forecast and consider yield on the portfolio and the amount available for distribution.

- *Performance against other income funds*
  The Board considers the performance of other income funds, at each Board meeting.

e) Management, administration, custody and registration arrangements

Investment management services are provided to the Company by wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ('Henderson') under a management agreement.

The management fee is calculated and paid quarterly in arrears at the rate of 0.75% per annum of the net chargeable assets of the Company. A performance fee is also payable in certain circumstances. This fee is calculated and payable at the end of the Company's financial year if the Company's total return in that year exceeds the hurdle return for the year at a rate of 15% of such excess subject to a cap of 1.75% of the Company's net assets in any financial year. For the year under review, no performance fee was payable (2010: nil).

The management agreement may be terminated by either party, but in certain events the Company would be required to pay compensation to Henderson of 12 months' management charges. No compensation is payable if notice of termination of more than 12 months is given.

During the year the Manager used certain services provided by or paid for by various brokers. In return it placed business, which may have included transactions relating to the Company, with these brokers.

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Securities Services Fund Administration Limited ('BNPP'). BNP Paribas Securities Services Trust Company (Jersey) Limited acts as

Report of the Directors
continued

custodian to the Company's assets. Registrar services are provided by Computershare Investor Services (Jersey) Limited.

f) Related party transactions

The contracts with Henderson and BNPP are the only related party transactions currently in place. Other than the fees payable in the ordinary course of business, there have been no material transactions with a related party which have affected the financial position or performance of the Company in the financial year.

g) Principal risks and uncertainties

The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions appropriate to the Company's investment objective and policy, in order to mitigate risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

Investment Strategy

An inappropriate investment strategy, for example, in terms of asset allocation or level of gearing, may result in under performance against the companies in the peer group, and also in the Company's shares trading on a wider discount. 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 an investment limits and restrictions policy determined by the Board, which includes limits on the extent to which borrowings may be employed. The Board reviews the limits and restrictions on a regular basis and the Manager confirms adherence to them every month. The Manager provides the Board with management information, including performance data and reports and shareholder analyses. The Directors monitor the implementation and results of the investment process with the Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

Market

Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in Note 14.1 on page 34.

Accounting, legal and regulatory

The Company must comply with the provisions of the Companies (Jersey) Law, 1991 and since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Rules. A breach of company law could result in the Company and/or the directors being fined or the subject of criminal proceedings and financial and reputational damage. A breach of the UKLA Rules could result in the suspension of the Company's shares. The Board relies on its Company Secretary and advisers to ensure adherence to company law and UKLA Rules.

Operational

Disruption to, or the failure of, the Manager's or the Administrator's accounting, dealing, or payment systems or the Custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. The Administrator, BNP Paribas Securities Services Fund Administration Limited, sub-contracts some of the operational functions (principally relating to trade processing, investment administration and accounting) to BNP Paribas Securities Services. Details of how the Board monitors the services provided by the Manager and other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section of this report.

Financial

The financial risks faced by the Company include market price risk, interest rate risk, liability risk and credit risk. Further details are disclosed in Note 14 on pages 33 to 38. Disclosures are provided in accordance with IFRS 7, Financial Instruments: Disclosures.

Corporate Governance Statement

a) Applicable Corporate Governance Codes

The Board is accountable to shareholders for the governance of the Company's affairs. Paragraph 7.2 of the Disclosure and Transparency Rules of the UK Listing Authority requires all listed companies to publish a corporate governance statement, while paragraph 9.8.6 of the Listing Rules requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (the 'Code'). As an investment company, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and all the Directors are non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

The Financial Reporting Council (the 'FRC') confirmed on 30 September 2010 that it remained the view of the FRC that by following the Corporate Governance Guide for Investment Companies produced by the Association of Investment Companies (the 'AIC Guide') published in 2010, boards of

Report of the Directors

continued

investment companies should fully meet their obligations in relation to the Code and paragraph 9.8.6 of the Listing Rules. The AIC Code of Corporate Governance (the 'AIC Code') published in October 2010 as explained by the AIC Guide, addresses all the principles set out in the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The Board believes that reporting the AIC Code by reference to the AIC Guide will provide the most appropriate information to shareholders and has therefore followed the principles and recommendations set out in the AIC Code. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk

The AIC Code was enhanced for Jersey companies in March 2009 to include a statement of support from the Jersey Financial Services Commission and was further revised in 2010.

b) Statement of compliance

The AIC Code comprises 21 principles. The Directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the Code except as noted below.

The Code includes provisions relating to:

- The role of the Chief Executive
- The appointment of a Senior Independent Director
- Executive directors' remuneration
- The need for an internal audit function.

As the Company delegates to third parties its day-to-day operations and has no employees, the Board does not consider these provisions to be relevant to the Company and has not reported further in respect of these provisions.

The Directors believe that this Report and Financial Statements present a balanced and understandable assessment of the Company's position and prospects.

c) Directors

The names and biographies of the Directors holding office at the date of this report are listed on page 2.

The Articles of Association require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment and shall not remain in office longer than three years since their last election or re-election without submitting themselves for re-election. The Articles also provide that one third of the Directors retire by rotation each year. Helen Green offers herself for re-election at the forthcoming AGM. The Board considers that there is a balance of skills and experience within the Board and each of the Directors contributes effectively.

Board independence and composition

The Board currently consists of four non-executive directors. All are currently independent of the Company's Manager and the Company's Administrator.

All the Directors consider that there are no factors which compromise the Directors' independence and that they all contribute to the affairs of the Company in an independent manner.

The Directors are conscious of the need to maintain continuity of the Board. The Board believes that retaining directors with sufficient experience of both the Company and its markets is of great benefit to shareholders and that the Directors have different qualities and areas of expertise on which they may lead where issues arise. Their biographies, set out on page 2, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

Directors' conflicts of interest

Each Director has a letter of appointment with the Company. Copies are available at all shareholder meetings. There were no contracts subsisting during, or at the end of the period, 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.

Directors' Remuneration

A report on Directors' Remuneration is on page 21.

Directors' interests in shares

The Directors and their beneficial interests in the shares of the Company at the start and end of the financial year are stated below:

Ordinary Shares of no par value	**31 October 2011**	31 October 2010
Paul Manduca (Chairman)	**150,000**	125,000
Helen Green	**10,000**	–
Nigel Parker	**–**	–
David Smith	**20,000**	5,000

Report of the Directors

continued

There have been no changes in the interests of the Directors since the year end.

Directors' professional development
Training seminars held by the Manager are offered to newly appointed Directors. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls and each Director's individual training requirements are considered by the Chairman as part of an annual appraisal. Changes in directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

Directors' Indemnity
Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the Court.

d) The Board

Responsibilities
The Board meets at least four times each year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance.

Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, through its representative who is responsible to the Board for ensuring that Board procedures are followed.

Board Committees
The Board has established Audit, Management Engagement and Nominations committees with defined terms of reference and duties.

a) Audit Committee
The Board has appointed an Audit Committee, which operates within clearly defined terms of reference and which comprises the entire Board. In summary, the Audit Committee's main functions are:

- to review and monitor the internal financial control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half year and annual financial statements and the going concern statement of the Group by reviewing and challenging, where necessary, the actions and judgments of the Manager and the Administrator;
- to meet, if required, with the Company's auditors to review their proposed audit programme of work and the findings of its auditors (the Audit Committee also uses this as an opportunity to assess the effectiveness of the audit process);
- to make recommendations to the Board in relation to the appointment of the Company's auditors and to approve the remuneration and terms of engagement of the Company's auditors; and
- to monitor and review annually the Company's auditors' independence, objectivity, effectiveness, resources and qualifications.

Helen Green has been Chairman of the Audit Committee since 8 June 2007.

The Audit Committee has satisfied itself that Grant Thornton Limited, the Company's auditors, are independent.

b) Management Engagement Committee
The Management Engagement Committee is responsible for reviewing the performance of the Manager and for ensuring that the Manager complies with the terms of the management agreement and that the provisions of that agreement follow industry practice and remain competitive and in the best interests of shareholders. This Committee is chaired by the Chairman of the Board.

c) Nominations Committee
The Board seeks to ensure that it is well-balanced with the skills and experience necessary. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass their past and current experience of various areas relevant to the Company's business.

The Board has appointed a Nominations Committee, which comprises the entire Board and is chaired by the Chairman and

Report of the Directors

continued

which will be convened for the purpose of considering the appointment of additional or replacement directors and reviewing the performance of current Board members. When considering succession planning the Committee bears in mind the balance of skills, experience and diversity existing within the Board and may recommend additional recruitment. A formal job description would be drafted and external agencies may be used to assist in the process.

Attendance at meetings

The number of formal meetings held during the year of the Board, Audit Committee and Management Engagement Committee, and the attendance of the individual Directors at those meetings, is shown in the following table:

Number of meetings in year	Board **4**	Audit Committee **2**	Management Engagement Committee **1**
Paul Manduca	4	2	1
Helen Green	4	2	1
Nigel Parker	4	2	1
David Smith	4	2	1

In addition, a number of short Board Meetings were held during the year to approve dividends, release Interim Management Statements and to attend to pressing matters. The Annual General Meeting was held in March 2011.

e) Performance evaluation

The performance of the Company is considered in detail at each Board meeting. The Chairman reviews each individual Director's contribution on an annual basis. The work of the Board as a whole and its committees are reviewed annually. The Directors also meet without the Chairman present in order to review his performance.

f) Internal controls

The Board has established a process for identifying, evaluating and managing any major risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 (the 'Turnbull Guidance') which was revised by the Financial Reporting Council in October 2005. The process has been in place since 2007 and up to the date of the approval of this report.

The Board is responsible overall for the Company's system of risk management and internal control and for reviewing its effectiveness taking into account that the activities of the Company are outsourced to external service providers.

However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager and the Administrator, undertook a full review of the Company's business risks and these have been analysed and recorded in a risk map which is reviewed regularly. The Board receives each quarter from the Manager and Administrator jointly, a formal report which details the steps taken to monitor the areas of risk, and which reports the details of any known internal control failures. The Board receives each year from each of the Manager and the Administrator, a report on its internal controls which includes a report from each party's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operation and culture of the Company and its key suppliers.

The Manager and Administrator have each established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Manager's and Administrator's compliance and risk departments on a continuing basis.

By means of the procedures set out above the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31 October 2011 and to the date of approval of this Annual Report and Financial Statements.

g) Accountability and relationship with the Manager and the Administrator

The Statement of Directors' Responsibilities in respect of the Group's financial statements is set out on page 20, the Independent Auditors' Report is set out on page 22 and the Statement of Going Concern on page 12.

The Board has contractually delegated to external agencies, including the Manager and the Administrator, the management of the investment portfolio, the custodial services (which include the safeguarding of the Group's assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper

Report of the Directors

continued

consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers reports regularly from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman or one of the other Directors attends meetings of all the chairmen of the investment trusts and investment companies managed by the Manager. These are a forum to discuss issues of common interest, and are reported on back to the Board.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager and the Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager and of the Administrator attend each Board meeting enabling the Directors to probe further on matters of concern. A formal schedule of matters specifically reserved for decision by the full Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Manager and the Administrator operate in a supportive, co-operative and open environment.

h) 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 set out on page 12.

The Board reviews investment performance at each Board meeting and a formal review of the Manager is conducted annually.

As a result of their annual review, it is the opinion of the Directors that the continued appointment of the current Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

The Manager has extensive investment management resources and wide experience in managing and administering investment companies.

i) Share capital and shareholders

The Company's share capital comprises Ordinary shares of no par value. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's shares or voting rights and there are no shares which carry specific rights with regard to the control of the Company. The number of shares in issue at the start and end of the year was 83,640,877.

Substantial Share Interests

Declarations of interests in the voting rights of the Company, at 31 October 2011, are set out below:

Shareholder	% of voting rights
Brewin Dolphin Securities Ltd	15.35
Investec Wealth & Management	12.88
Cazenove Capital Management Ltd	9.87
Midas Capital plc	9.45
Premier Fund Managers	5.14
Turcan Connell	4.99

Subsequent to the year end, Brewin Dolphin Securities Ltd has increased its holding to 20.01%.

Relations with shareholders

Shareholder relations are given high priority by the Board and by the Manager. The prime medium by which the Company communicates with shareholders is through the Half Year and Annual Reports which aim to provide shareholders with a clear understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication on the London Stock Exchange website of the net asset value of the Company's ordinary shares and a monthly fact sheet. All documents issued by the Company can be viewed on the website, www.hendersondiversifiedincome.com.

It is the intention of the Board that the Notice of AGM be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 43. At other times the Company Secretary responds to letters from shareholders on a range of issues.

General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

Report of the Directors

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The Board recognises that few shareholders are able to travel to Jersey to attend the AGM so a shareholder event will be held in London on Tuesday 20 March 2012. Full details are set out on page 42. This will give shareholders the opportunity to meet the Chairman and to address questions to the Portfolio Managers who, as the representatives of the Manager, will make a presentation to shareholders.

j) Corporate Responsibility

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

  The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

- *Voting policy*
  Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship Code. The Company has delegated responsibility for voting to the Manager. The Board will receive a report, at least annually, on the voting undertaken by the Manager on behalf of the Company.

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

  The Henderson Responsible Investment Policy can be found on the Henderson website, www.henderson.com

- *Employee and Environmental matters*
  The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible.

Annual General Meeting ('AGM')

The AGM will be held in Jersey on Thursday 8 March 2012 at 11.00am. The Notice of Meeting is contained in a separate document which has been sent to shareholders with the Annual Report. Separate resolutions are proposed for each substantive issue.

The Directors intend to operate an active discount management policy through the use of share buy backs, if the shares were ever to trade at a substantial discount to net asset value for a significant period. The Directors seek annual authority to buy back and cancel, or hold in Treasury, the Company's shares. On 8 March 2011 the Directors were granted authority to repurchase 12,537,637 shares for cancellation. This authority, which has not been used, will expire at the forthcoming AGM.

The Company is also seeking authority to disapply pre-emption rights relating to share issues. These powers will give the Directors additional flexibility going forward and the Board considers that it will be in the interests of the Company that such powers be available.

Independent Auditors

Our auditors, Grant Thornton Limited, have indicated their willingness to remain in office. The Directors will place a resolution before the Annual General Meeting to re-appoint them as independent auditors for the ensuing year, and to authorise the Directors to determine their remuneration.

Report of the Directors

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Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this Report are listed on page 2. Each of those Directors confirms that:

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of their report of which the Auditors are unaware; and
- he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

For and on behalf of the Board

Helen Green
Director
26 January 2012

Statement of Directors' Responsibilities in respect of the Group's Financial Statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Jersey law and International Financial Reporting Standards as adopted by the European Union.

Jersey law requires the Directors to prepare, in accordance with generally accepted accounting principles, financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis; and
- specify which generally accepted accounting principles have been adopted in their preparation.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on a website maintained by the Company's Manager, Henderson Global Investors Limited, in the United Kingdom. The maintenance and integrity of this website is, so far as it relates to the Group, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in their own jurisdiction.

Statement under Disclosure and Transparency Rules

The Directors, who are listed on page 2 of this Annual Report, each confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable international financial reporting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

(b) this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Helen Green
Director
26 January 2012

Directors' Remuneration Report

This report meets the relevant rules of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. A resolution to receive and approve this report will be proposed at the AGM.

Consideration by the Directors of matters relating to Directors' remuneration

As the Board is comprised entirely of non-executive Directors the Board as a whole consider the Directors' remuneration. The Board has not been provided with advice or services by any outside person in respect of its consideration of the Directors' remuneration although the Directors will review the fees paid to the boards of directors of similar investment companies.

Statement of the Company's policy on Directors' remuneration

The Board consists entirely of non-executive Directors who meet regularly to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will initially serve for a period of three years. Directors' appointments will be reviewed formally every three years thereafter by the Board as a whole. Each of the Directors has a letter of appointment and a Director may resign by giving notice in writing to the Board at any time; there are no set notice periods. The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes provided by the Company and the fees are not specifically related to the Directors' performance, or the share price. Each Director will stand for re-election every three years.

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 enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Company's Articles of Association limit the aggregate fees payable to the Directors to £200,000 per annum. The fees were increased with effect from 1 April 2011 and are paid at the following annual rates: the Chairman £35,000 (previously £30,000); the Chairman of the Audit Committee £25,000 (previously £22,000); the other Directors £20,000 (previously £17,500).

Directors' and Officers' liability insurance cover is in place in respect of the Directors.

Directors' fees and expenses

The fees payable by the Company in respect of each of the Directors who served during the year and during 2010, were as follows:

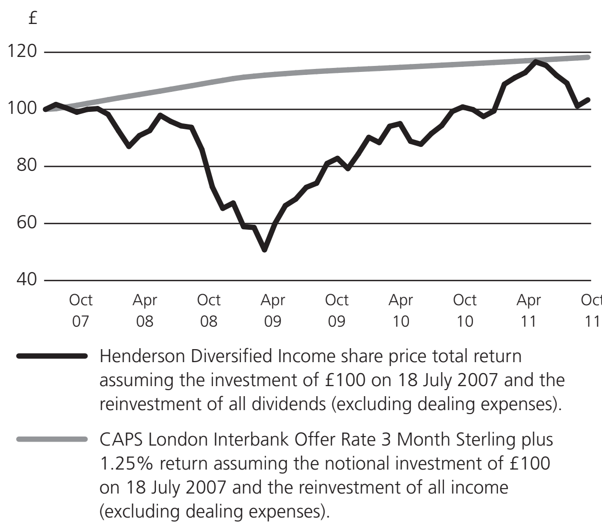
	2011 £	2010 £
Paul Manduca (Chairman and highest paid director)	**32,726**	30,000
Helen Green	**23,611**	22,000
Nigel Parker	**18,848**	17,500
David Smith	**18,848**	17,500
Total	**94,033**	87,000

Helen Green and Nigel Parker also each receive £5,000 fees (2010: £5,000) as Directors of the Luxembourg subsidiary. Helen Green's fees are paid to Saffery Champness.

No other remuneration or compensation was paid or payable by the Company during the period to any of the Directors.

The graph below illustrates the total shareholder return as compared to the absolute return objective of 1.25% over three month sterling LIBOR for the period from launch on 18 July 2007 to 31 October 2011.

Share price performance graph



Sources: IMSE

For and on behalf of the Board

Helen Green
Director
26 January 2012

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

We have audited the Group financial statements of Henderson Diversified Income Limited for the year ended 31 October 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

This report is made solely to the Company's members, as a body, in accordance with Article 113 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As described in the Statement of Directors' Responsibilities on page 20 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. In addition, we read all the financial and non-financial information in the annual report for the year ended 31 October 2011 to identify materal inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2011 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRS issued by the IASB, to the extent that IFRS has been adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you, if in our opinion:

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 11 to 19, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on directors' remuneration.

Cyril Swale
For and on behalf of
Grant Thornton Limited
Chartered Accountants
St. Helier, Jersey, Channel Islands

26 January 2012

The financial statements are published on websites maintained by the Company's Manager, Henderson Global Investors Limited ('Henderson').

The maintenance and integrity of these websites are the responsibility of Henderson; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Consolidated Statement of Comprehensive Income

for the year ended 31 October 2011

Notes		Year ended 31 October 2011 Revenue return £'000	Year ended 31 October 2011 Capital return £'000	Year ended 31 October 2011 Total £'000	Year ended 31 October 2010 Revenue return £'000	Year ended 31 October 2010 Capital return £'000	Year ended 31 October 2010 Total £'000
11(b)	(Losses)/gains on investments at fair value through profit or loss	**–**	**(4,490)**	**(4,490)**	–	6,840	6,840
	Gains on foreign exchange transactions at fair value through profit or loss	**–**	**428**	**428**	–	793	793
3	Investment income	**5,186**	**–**	**5,186**	4,854	–	4,854
4	Other income	**12**	**–**	**12**	4	–	4
	Total income	**5,198**	**(4,062)**	**1,136**	4,858	7,633	12,491
	Expenses						
5	Management fee	**(279)**	**(279)**	**(558)**	(281)	(281)	(562)
6	Other expenses	**(488)**	**–**	**(488)**	(562)	–	(562)
	Profit/(loss) before finance costs and taxation	**4,431**	**(4,341)**	**90**	4,015	7,352	11,367
7	Finance costs	**(83)**	**(83)**	**(166)**	(109)	(109)	(218)
	Profit/(loss) before taxation	**4,348**	**(4,424)**	**(76)**	3,906	7,243	11,149
8	Taxation	**(29)**	**–**	**(29)**	–	–	–
	Profit/(loss) for the year	**4,319**	**(4,424)**	**(105)**	3,906	7,243	11,149
9	**Earnings/(loss) per ordinary share**	**5.16p**	**(5.29)p**	**(0.13)p**	4.67p	8.66p	13.33p

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

All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of Henderson Diversified Income Limited. There are no minority interests.

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

The net loss of the Group for the year was £105,000 (2010: profit of £11,149,000).

The notes on pages 27 to 39 form an integral part of these financial statements

Consolidated Statement of Changes in Equity

for the year ended 31 October 2011

Notes	**Consolidated year ended 31 October 2011**	**Stated capital £'000**	**Distributable reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Total equity at 31 October 2010	**37,677**	**39,862**	**(9,171)**	**1,115**	**69,483**
	Total comprehensive income:					
	(Loss)/profit for the year	**–**	**–**	**(4,424)**	**4,319**	**(105)**
	Transactions with owners, recorded directly to equity:					
10	**Dividends paid**	**–**	**–**	**–**	**(3,932)**	**(3,932)**
	Total equity at 31 October 2011	**37,677**	**39,862**	**(13,595)**	**1,502**	**65,446**

Notes	Consolidated year ended 31 October 2010	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2009	37,677	39,832	(16,414)	1,141	62,236
	Total comprehensive income:					
	Profit for the year	–	–	7,243	3,906	11,149
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(3,932)	(3,932)
	Write back of issue costs	–	30	–	–	30
	Total equity at 31 October 2010	37,677	39,862	(9,171)	1,115	69,483

The notes on pages 27 to 39 form an integral part of these financial statements

Consolidated Balance Sheet

at 31 October 2011

Notes		2011 £'000	2010 £'000
	Non current assets		
11(a)	Investments designated at fair value through profit or loss	**69,928**	76,210
	Current assets		
12	Other receivables	**4,444**	4,329
	Cash and cash equivalents	**732**	806
		5,176	5,135
	Total assets	**75,104**	81,345
	Current liabilities		
13	Other payables	**(9,658)**	(11,862)
	Net assets	**65,446**	69,483
	Equity attributable to equity shareholders		
15	Stated capital	**37,677**	37,677
16	Distributable reserve	**39,862**	39,862
	Retained earnings:		
17	Other capital reserves	**(13,595)**	(9,171)
	Revenue reserve	**1,502**	1,115
	Total equity	**65,446**	69,483
18	**Net asset value per ordinary share**	**78.2p**	83.1p

The financial statements were approved by the Board of Directors and authorised for issue on 26 January 2012 and were signed on its behalf by:

Helen Foster Green
Director

Nigel Robert Parker
Director

The notes on pages 27 to 39 form an integral part of these financial statements

Consolidated Cash Flow Statement

for the year ended 31 October 2011

	2011 £'000	2010 £'000
Net (loss)/profit before taxation	**(76)**	11,149
Add back interest paid	**166**	218
Add/(less): losses/(gains) on investments designated as fair value through profit or loss	**4,062**	(7,633)
(Increase)/decrease in prepayments and accrued income	**(106)**	84
Decrease in other receivables	**–**	1
(Decrease)/increase in other payables	**(199)**	263
Net sales of investments	**2,209**	867
Increase in sales settlement debtor	**(584)**	(699)
(Decrease)/increase in purchase settlement creditor	**(2,633)**	3,209
Net cash inflow from operating activities before finance costs	**2,839**	7,459
Interest paid	**(166)**	(218)
Taxation on investment income	**(32)**	(28)
Net cash inflow from operating activities	**2,641**	7,213
Financing activities		
Equity dividends paid	**(3,932)**	(3,932)
Loan expenses paid	**(109)**	–
Drawdown/(repayment) of loan	**704**	(3,852)
Net cash outflow from financing	**(3,337)**	(7,784)
Decrease in cash and cash equivalents	**(696)**	(571)
Cash and cash equivalents at the start of the year	**806**	492
Exchange movements	**618**	885
Amortisation of loan expenses	**4**	–
Cash and cash equivalents at the year end	**732**	806

The notes on pages 27 to 39 form an integral part of these financial statements

Notes to the Financial Statements

1 General information

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

The Company was incorporated on 5 June 2007.

2 Accounting policies

a Basis of preparation

This consolidated financial information for the year ended 31 October 2011 has been prepared in accordance with International Financial Reporting Standards ('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 International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRS have been adopted by the European Union ('EU').

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The principal accounting policies adopted are set out below. Where consistent with IFRS the financial statements have also been prepared in accordance with the guidance set out in the Statement of Recommended Practice ('SORP') for Investment Companies issued by the Association of Investment Companies ('AIC') as revised in January 2009.

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

There are also some minor amendments to a number of standards, which are part of the IASB's annual improvements project published in May 2008. These amendments are subject to endorsement by the EU and they are unlikely to have any significant impact on the Group's financial statements.

b Basis of consolidation

The consolidated financial information comprises the financial information of Henderson Diversified Income Limited ('the Company') and its subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l. ('the Subsidiary').

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised as assets, are eliminated in full.

The Subsidiary is fully consolidated from the date of inception, being the date on which the Group obtained control, and will continue to be consolidated until the date that such control ceases.

c Investments designated as fair value through profit or loss

All loans, bonds and equities are designated as held at fair value through profit or loss. Assets are de-recognised at the trade date of the disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs.

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

Notes to the Financial Statements
continued

2 Accounting policies (continued)

d Income

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

e Expenses

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

f Taxation

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

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

g Foreign currency

For the purposes of the consolidated financial information, the results and financial position of each entity is expressed in pounds sterling, which is the functional currency of the Company and the presentational currency of the Group. Sterling is the functional currency because it is the currency of the primary economic environment in which the Group operates. The Company is a closed-ended investment company, incorporated in Jersey, with its shares listed on the London Stock Exchange. Sterling is the currency by which dividends are returned to shareholders, share buy-backs and share issues are conducted and is the cost base of the Company.

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

h Cash and cash equivalents

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

i Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds are received, net of direct issue costs. After initial recognition bank loans and overdrafts are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Consolidated Statement of Comprehensive Income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the Financial Statements
continued

2 Accounting policies (continued)

j Segmental reporting
The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business.

k Derivative financial instruments
The Group's activities expose it primarily to the financial risks of changes in market prices, foreign currency exchange rates and interest rates. Derivative transactions which the Group may enter into include forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities) and interest rate futures and swaps (the purpose of which is to take a position in relation to government bond yields). The Group may also use credit derivatives, for example buying or selling protection on credit default swaps in order to manage credit risk.

The use of financial derivatives is governed by the Group's policies as approved by the Board, which has set written principles for the use of financial derivatives.

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

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

l Equity and reserves
Share capital represents the nominal value of shares that have been issued.

Distributable reserves includes any premiums received on the issue of share capital. Any transaction costs associated with the issue of shares are deducted from share premium. Retained earnings includes all current and prior period retained profits.

3 Investment income	2011 £'000	2010 £'000
Income from investments:		
UK dividend income	**149**	22
Bond and loan interest	**4,717**	4,470
Premiums on credit default swaps	**320**	362
	5,186	4,854

4 Other income	2011 £'000	2010 £'000
Bank and other interest	**12**	4

Notes to the Financial Statements

continued

5 Management fee	Year ended 31 October 2011 Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 October 2010 Revenue return £'000	Capital return £'000	Total £'000
Investment management fee	**279**	**279**	**558**	281	281	562

A summary of the terms of the management agreement is given in the Report of the Directors on page 12.

No performance fee was paid for the year (2010: £nil).

6 Other expenses	2011 £'000	2010 £'000
Directors' fees† (see the Directors' Remuneration Report on page 21)	**104**	97
Auditors' remuneration (including £11,000 (2010: £7,000) relating to the subsidiary):		
– statutory audit	**36**	39
– tax services for the subsidiary	**5**	5
Bank and custody charges	**86**	102
Administration and Company Secretarial services	**133**	193
Registrar's fees	**10**	17
Stock exchange fees	**16**	18
Printing and stationery	**13**	14
Other expenses	**85**	77
	488	562

†Includes £10,000 (2010: £10,000) paid to the directors of the Luxembourg subsidiary.

7 Finance costs	Year ended 31 October 2011 Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 October 2010 Revenue return £'000	Capital return £'000	Total £'000
	83	**83**	**166**	109	109	218

8 Taxation	Year ended 31 October 2011 Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 October 2010 Revenue return £'000	Capital return £'000	Total £'000
The taxation charge for the year is comprised of the following:						
Foreign withholding tax suffered	**32**	**–**	**32**	28	–	28
Less: foreign tax recoverable	**(32)**	**–**	**(32)**	(28)	–	(28)
Luxembourg tax	**29**	**–**	**29**	–	–	–
	29	**–**	**29**	–	–	–

Under Jersey law the Group is exempt from Jersey tax.

Notes to the Financial Statements

continued

9 Earnings/(loss) per ordinary share

The earnings/(loss) per ordinary share figure is based on the net loss for the year after taxation of £0.105 million (year ended 31 October 2010: profit of £11.149 million) and on 83,640,877 (2010: 83,640,877) being the weighted average number of ordinary shares in issue during the year.

The earnings/(loss) 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/(loss) per ordinary share are the same.

	2011 £'000	2010 £'000
Net revenue earnings	**4,319**	3,906
Net capital (loss)/earnings	**(4,424)**	7,243
Net total (loss)/earnings	**(105)**	11,149
Weighted average number of ordinary shares in issue during the year	**83,640,877**	83,640,877

	2011 pence	2010 pence
Revenue earnings per ordinary share	**5.16**	4.67
Capital (loss)/earnings per ordinary share	**(5.29)**	8.66
Total (loss)/earnings per ordinary share	**(0.13)**	13.33

10 Dividends

	Record Date	Pay Date	**2011 £'000**	2010 £'000
Fourth interim dividend – 1.25p	11 December 2009	31 December 2009	**–**	1,046
First interim dividend – 1.15p	12 March 2010	31 March 2010	**–**	962
Second interim dividend – 1.15p	11 June 2010	30 June 2010	**–**	962
Third interim dividend – 1.15p	10 September 2010	30 September 2010	**–**	962
Fourth interim dividend – 1.15p	10 December 2010	31 December 2010	**962**	–
First interim dividend – 1.15p	10 March 2011	31 March 2011	**962**	–
Second interim dividend – 1.20p	10 June 2011	30 June 2011	**1,004**	–
Third interim dividend – 1.20p	10 September 2011	30 September 2011	**1,004**	–
			3,932	3,932

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 October 2011.

Notes to the Financial Statements
continued

10 Dividends (continued)

The table below sets out the total dividends paid and to be paid in respect of the financial year. The revenue available for distribution by way of dividend for the year is £4.319 million (2010: £3.906 million).

	2011 £'000
First interim dividend for 2011 – 1.15p	**962**
Second interim dividend for 2011 – 1.20p	**1,004**
Third interim dividend for 2011 – 1.20p	**1,004**
Fourth interim dividend for 2011 – 1.25p (paid 30 December 2011)	**1,046**
	4,016

11 (a) Investments designated as fair value through profit or loss

	Listed Investments £'000	Unlisted Investments £'000	Total £'000
Cost at 31 October 2010	**30,312**	**38,357**	**68,669**
Investment holding gains at 31 October 2010	**4,541**	**3,000**	**7,541**
Valuation at 31 October 2010	**34,853**	**41,357**	**76,210**
Movements in the year:			
Purchases at cost	**15,263**	**28,236**	**43,499**
Sales – proceeds	**(17,357)**	**(28,195)**	**(45,552)**
– realised gains on sales of investments designated as fair value through profit or loss	**895**	**1,462**	**2,357**
Movement in investment holding gains	**(3,683)**	**(2,903)**	**(6,586)**
Closing valuation at 31 October 2011	**29,971**	**39,957**	**69,928**

	2011 £'000	2010 £'000
(b) (Losses)/gains on investments at fair value through profit or loss		
Realised gains on sales of investments at fair value through profit or loss	**2,357**	2,738
Movement in investment holdings gains designated at fair value through profit or loss	**(6,586)**	4,180
Gains on future contracts held at fair value through profit or loss	**–**	10
Losses on credit default swaps held at fair value through profit or loss	**(261)**	(88)
	(4,490)	6,840

(c) Transaction costs

During the year expenses amounting to £2,000 (year to 31 October 2010: £16,000) were incurred in acquiring or disposing of investments designated as at fair value through profit or loss. These have been expensed through capital and are included within gains on investments at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements

continued

11 Investments designated as fair value through profit or loss (continued)

(d) Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. This is a limited liability company, registered under the laws of the Grand Duchy of Luxembourg and was incorporated on 1 August 2007. In addition, the Company has made a loan to the subsidiary undertaking of £48.197 million (2010: £47.408 million). After providing for the net deficit in the subsidiary of £8.259 million (2010: £9.297 million) the loan has been written down to £39.938 million (2010: £38.111 million).

The subsidiary is valued at cost less impairment.

12 Other receivables

	2011 £'000	2010 £'000
Amounts due from brokers	**2,622**	2,038
Prepayments and accrued income	**1,175**	1,069
Withholding tax recoverable	**122**	90
Credit default swaps held at fair value through profit or loss	**155**	572
Forward exchange contracts held at fair value through profit or loss	**370**	560
	4,444	4,329

13 Other payables

	2011 £'000	2010 £'000
Amounts due to brokers	**2,471**	5,104
Bank loan (net of finance costs)	**6,810**	6,211
Taxation payable	**55**	26
Other payables	**322**	521
	9,658	11,862

14 Risk Management policies and procedures

The Group comprises a closed-ended investment company and its wholly owned subsidiary which invest primarily in fixed interest investments for the long term so as to secure the investment objective. In pursuing its investment objective, the Group is exposed to a variety of risks that could result in either a reduction in the Group's net assets or a reduction in the profits available for distribution by way of dividends.

These risks, market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk, and the Directors' approach to the management of them, are set out below. The Company Secretary, in close co-operation with the Board of Directors and the Manager, (Henderson Global Investors Limited) co-ordinates the Group's risk management. The objectives, policies and processes for managing the risks, and the methods used to manage the risks, that are set out below, are unchanged from the previous accounting period.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.1 Market risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 14.2), interest rate risk (see note 14.3) and other price risk (see note 14.4). The Board of Directors reviews and agrees policies for managing these risks. The Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

14.2 Currency risk

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

Management of the risk

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

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

Foreign currency exposure

The currency exposure of the Group's monetary items at 31 October is shown below.

	2011		2010	
	US$ £'000	**Euro £'000**	US$ £'000	Euro £'000
Investments at fair value through profit or loss that are monetary items	**3,887**	**37,661**	6,321	37,191
Receivables (due from brokers, dividends and other income receivable)	**166**	**2,532**	1,389	909
Cash at bank and on deposit	**161**	**315**	67	320
Payables (due to brokers, accruals and other creditors)	**–**	**(1,712)**	(35)	(2,345)
Forward currency sales	**(3,992)**	**(38,999)**	(7,746)	(36,371)
Credit default swaps	**67**	**88**	76	496
Total net foreign exposure	**289**	**(115)**	72	200

Foreign currency sensitivity

The majority of foreign currency assets and liabilities are hedged by the Investment Manager back to sterling using forward currency contracts. In the opinion of the Directors, this strategy means the Group's income and equity is not materially sensitive to changes in exchange rates.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk

Interest rate movements may affect:

– the fair value of fixed interest securities (bonds, loans and interest rate futures)

– the level of income receivable from fixed interest securities and cash at bank and on deposit

– the interest payable on the Group's variable rate borrowings

Management of the risk

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

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

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

The Group had no interest rate futures in place at 31 October 2011 (2010: £nil).

Interest rate exposure

The exposure at 31 October 2011 of financial assets and financial liabilities to interest rate risk is shown by reference to:

– floating interest rates – when the interest rate is due to be re-set

– fixed interest rates – when the financial instrument is due for repayment

	2011				2010			
	Within one year £'000	**One to five years £'000**	**More than five years £'000**	**Total £'000**	Within one year £'000	One to five years £'000	More than five years £'000	Total £'000
Exposure to floating interest rates:								
Investments held at fair value through profit or loss	**45,326**	**–**	**–**	**45,326**	48,626	–	–	48,626
Cash at bank	**732**	**–**	**–**	**732**	806	–	–	806
Bank loan	**(6,810)**	**–**	**–**	**(6,810)**	(6,211)	–	–	(6,211)
	39,248	**–**	**–**	**39,248**	43,221	–	–	43,221
Exposure to fixed interest rates:								
Investments held at fair value through profit or loss	**–**	**–**	**22,765**	**22,765**	–	2,134	22,268	24,402
Total exposure to interest rates	**39,248**	**–**	**22,765**	**62,013**	43,221	2,134	22,268	67,623

At 31 October 2011, the Group had gross nominal exposure to interest rate futures to the value of £nil (2010: £nil).

Interest receivable is at the following rates:

– Interest received on cash balances, or paid on bank overdrafts and loans, is at margin over LIBOR or its foreign currency equivalent

– The weighted average effective interest rate of the Group's investments is 5.7% (2010: 4.3%)

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk (continued)

Interest rate sensitivity

The Group's portfolio (excluding equities) at 31 October 2011 was valued at £68.091 million (2010: £73.028 million) and has a modified duration (interest rate sensitivity) of approximately 1.7 years (2010: 2.2 years). A 100 basis point change in short term interest rates (up or down), which is mirrored by an equivalent change in long term rates, would be expected to decrease or increase this portfolio's value by approximately £1.158 million (2010: £1.607 million) all other factors being equal.

14.4 Other price risk

In addition to foreign currency and interest rate risk, the Group is also exposed to other price risk due to short term market price changes and default risk. A 10% increase or decrease in market prices would increase or decrease net profit after tax and shareholders' funds by £6.940 million (2010: £7.564 million) (equivalent to an increase or decrease in net asset value per share of 10.6% (2010: 10.9%)).

14.5 Liquidity risk

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

Management of the risk

Liquidity risk is monitored by the Manager on a daily basis to ensure financial liabilities can be paid as they fall due. Both the Corporate Bond portfolio and the Loan portfolio although traded over the counter, can be realised at or around the prevailing bid prices. The Corporate Bond portfolio is generally considered more liquid than the Loan portfolio. The Group also has a multi-currency loan facility of £25.5 million (2010: £15.5 million), of which £6.915 million was drawn down at 31 October 2011 (2010: £6.211 million). This facility is subject to regular review and unless renewed will expire on 30 September 2013.

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

Liquidity risk exposure

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

	At 31 October 2011 3 months or less £'000	**At 31 October 2011** Total £'000	At 31 October 2010 3 months or less £'000	At 31 October 2010 Total £'000
Amounts due to brokers, accruals and tax payable	**2,848**	**2,848**	5,651	5,651
Bank loans	**6,819**	**6,819**	6,217	6,217
	9,667	**9,667**	11,868	11,868

The Group also has exposure of £6.850 million (2010: £5.044 million) in respect of credit default swaps where protection has been sold.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.6 Credit risk

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

Management of the risk

The risk is significant, and is managed as follows:

– where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to determine the risk to the Group of default;
– investments in bonds and loans are made across a variety of industry sectors and geographical markets, so as to avoid concentrations of credit risk. At 31 October 2011 investments totalling £0.611 million were past due or impaired;
– transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Group of default;
– investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Investment Manager, 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.

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

To the extent that the credit derivative exposure is not covered by cash held by the Group then any net long exposure would act as synthetic gearing. Credit default swaps are used by the Manager for two purposes. By selling protection (going long risk) the Manager can increase the Group's exposure to a particular reference entity. In return for taking this credit risk the Group will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract (e.g. default) in the intervening period. This reference entity may be a specific company, or in the case of ITRAXX indices, a basket of credit exposures, for example senior financials. At 31 October 2011, the gross exposure to single name credit default swaps and ITRAXX indices was £2.015 million and £4.835 million respectively (2010: £2.399 million and £2.645 million respectively).

By contrast the Manager may buy protection (take a short risk position) on a reference entity to reduce the overall credit exposure. This would involve the payment of premium in order to protect against possible capital losses in the future. At 31 October 2011 the protection purchased was £0.424 million (2010: £nil).

14.7 Fair values of financial assets and financial liabilities

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

Current assets and current liabilities: forward currency sales are valued on the basis of exchange rates for a similar contract for the same residual duration, as provided by the counterparty. The amount of change in fair value for such forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income for the year was a gain of £0.086 million (2010: £0.768 million). The forward currency transactions serve to hedge back the value of Euro and US Dollar denominated securities to sterling.

Credit default swaps are fair valued. The amount of change in fair value recognised in the Consolidated Statement of Comprehensive Income for the year for credit default swaps was a gain of £0.395 million (2010: £0.499 million).

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.8 Fair value hierarchy disclosures

The table below sets out fair value measurements using the IFRS 7 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 October 2011	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments	**29,971**	**39,957**	**–**	**69,928**
Credit default swaps	**–**	**155**	**–**	**155**
Forward exchange contracts	**–**	**370**	**–**	**370**
	29,971	**40,482**	**–**	**70,453**

Financial assets at fair value through profit or loss at 31 October 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	34,853	41,357	–	76,210
Credit default swaps	–	572	–	572
Forward exchange contracts	–	560	–	560
	34,853	42,489	–	77,342

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

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

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1

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

The valuation techniques used by the Company are explained in the accounting policies note on pages 27 and 29.

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

14.9 Capital management policies and procedures

The Group's capital management objectives are:
- to ensure that it will be able to continue as a going concern, and
- to maximise the income and capital return to its equity shareholders

through an appropriate balance of equity capital and debt.

The policy is that debt should be between 0% and 20% of equity.

The Group had borrowings totalling £6.915 million at 31 October 2011 (2010: £6.211 million).

The Board with the assistance of the Manager monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:
- the planned level of gearing which takes into account the Manager's view on the market;
- the need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);
- the need for new issues of equity shares; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Group is subject to the following externally imposed capital requirement:
- Under the multi currency facility now in place, borrowings shall be repaid at any time the Adjusted Asset Coverage falls below 3.3 times (as defined in the agreement) or the Borrowings exceed such limits as prescribed in the Company's original prospectus.

The Group has complied with these requirements during the year.

Notes to the Financial Statements

continued

15	Stated capital	Stated Capital £'000	Number of fully paid shares issued
	As at 31 October 2010 and 2011	**37,677**	**83,640,877**

16	Distributable reserve	£'000
	As at 31 October 2010 and 2011	**39,862**

17	Capital reserves	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
	At 1 November 2010	**8,278**	**(17,449)**	**(9,171)**
	Exchange movements	**(190)**	**618**	**428**
	Movement in investment holding gains	**(6,586)**	**–**	**(6,586)**
	Gains on investments	**–**	**2,357**	**2,357**
	Costs charged to capital	**–**	**(362)**	**(362)**
	Movement in credit default swaps	**(261)**	**–**	**(261)**
	At 31 October 2011	**1,241**	**(14,836)**	**(13,595)**

18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net asset value attributable to ordinary shareholders at the year end of £65.446 million (2010: £69.483 million) and on 83,640,877 (2010: 83,640,877) ordinary shares, being the number of ordinary shares in issue at the year end.

19 Related Party Transactions

(a) Under the terms of an agreement dated 15 June 2007, as amended, the Company has appointed wholly owned subsidiary companies of Henderson Group plc ('Henderson') to provide investment management services.

Details of the fee arrangements for these services are given in the Report of the Directors on page 12. The total of the fees paid or payable under this agreement to Henderson in respect of the year was £558,000 (2010: £562,000) of which £170,000 (2010: £191,000) was outstanding at 31 October 2011.

No performance fee was paid in respect of the year (2010: £nil).

(b) Directors' fees of £94,000 relating to the Company were paid during the year (2010: £87,000). A further £10,000 was paid in fees to the Directors of the subsidiary (2010: £10,000). Further details are given in the Directors' Remuneration Report on page 21.

Glossary of Terms

Asset backed securities
A bond secured against a specific pool of assets, such as credit card receivables, corporate loans or mortgages and collateralised by the future cash flows derived from this specific pool of assets.

Basis points ('bps')
One basis point is 1/100th of 1.00%, or 0.01%. 100 bps = 1%.

Bid-offer spread
The difference in price between the price quoted for an immediate sale (the bid price) and the price quoted for an immediate purchase (the offer price). In an illiquid market the bid-offer spread typically widens.

Bond
An IOU issued by a borrower, usually a government or a company, who pays a specific sum of money (a coupon) regularly over the life of the bond and repays the face value at maturity.

Breakeven rate
The difference between the yield on a conventional bond and an inflation-linked bond, which provides an indication of investors' inflation expectations.

Credit default swaps ('CDS')
An agreement designed to switch economic exposure between two parties. It is often characterised as an insurance policy but as there is no requirement to hold any asset it is a derivative. It is possible to be either a buyer or seller of 'insurance', the buyer pays a periodic fee (a premium) for protection against a specific event (e.g. a bond default) the seller would receive income but bear the cost of default.

Credit derivative
An over the counter derivative designed to transfer credit risk from one party to another. By synthetically creating or eliminating credit exposures they allow institutions to manage credit risks. Most credit derivatives entail two sources of credit exposure: one from the reference entity and the second from the possible default by the counterparty to the transaction. There are many forms of credit derivatives of which credit default swaps are one of the more popular structures.

Credit rating
Sovereign and corporate bonds usually receive a credit rating from one or more leading rating agencies e.g. Standard & Poor's ('S&P') or Moody's. The agencies assess the issuer's ability to service its interest payments and repay the principal, and assign it a rating that represents the risk of default.

Credit spread
The difference in yield between two bonds, measured in basis points. When one of the bonds is a top rated government bond, the spread represents the additional return investors demand to choose an asset with default risk over one with virtually none.

Default risk
This is the probability that the bond issuer is unable to make its coupon or principal payments. Investors affected may suffer a loss of income and only a partial principal repayment.

Derivatives
Financial instruments derived from another asset. Rather than buying or selling the asset itself the two parties enter into an agreement to exchange money, assets, or some other value at a future date. Derivatives are used to increase or decrease exposure or increase levels of risk within a portfolio and are more cost effective than purchasing the underlying assets themselves.

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

Duration
An indication of the sensitivity of the bond's price to a change in interest rates. For example, where the duration of a bond is four years, this indicates that for a 1% rise in the yield of the bond, the price of the bond would fall by approximately 4%, and for a 1% fall in the yield of the bond, the price would rise by approximately 4%.

Duration risk
The impact of an interest rate change on a bond portfolio's value.

Fixed income
Assets whose income remains constant; otherwise known as bonds. It also covers bonds with a variable coupon (e.g. inflation-linked bonds).

Floating rate note
A bond whose interest rate varies with short term rates. Also known as variable notes.

Future/Forward
Derivative contracts that lock in a fixed price on a defined quantity of an underlying asset at a stated maturity. Futures are generic exchange traded contracts whereas forwards are customised OTC contracts. Futures are used for duration management and Forwards are used to hedge currency exposure.

Glossary of Terms

continued

Gearing
The gearing percentage reflects the amount of borrowings the Company uses to invest in the market.

Gilt
A bond issued by the British government.

Inflation-linked bond
A bond issued by governments or companies, whose coupon and face value are adjusted to reflect price increases. Index-linked bonds are inflation–linked bonds issued in the UK.

Interest rate future
A futures contract the underlying security of which is a debt obligation (an interest bearing obligation). Examples include a Gilt future (with UK government bonds as the underlying security), Bond futures (German government bonds as the underlying security), Treasury-bond futures (US Treasury bonds as the underlying obligation).

IPOs
'Initial Public Offerings' i.e new issues to the market.

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

Life
The length of time between a bond's issuance and maturity, otherwise known as 'term to maturity' or 'term'.

Net Asset Value
The value of the total assets less liabilities. The NAV per share of the Company is published daily.

OTC instrument/contract
'Over the counter' instrument, i.e. a non-exchange traded instrument, directly traded with a counterparty e.g. Deutsche Bank.

Quantitative Easing
An extreme form of monetary policy used to stimulate an economy where interest rates are either at, or close to, zero.

Secured loans
A form of lending to a company which offers first or second lien security (depending whether senior or junior) over other subordinated assets. These loans rank higher in seniority to other bond or debt securities and as a consequence have historically shown a relatively high ratio of recovery in events of default. Secured loans are a relatively cautious way of accessing the high yield market.

Swap
An exchange transaction between two parties which enables one party to exchange something it possesses for something it requires. Usually refers to exchanging floating rate payments for fixed rate payments.

Total expense ratio
This is total expenses incurred by the Group, including those charged to capital expressed as a percentage of average shareholders' funds over the year.

Total return
The return on the share price or net asset value per share taking into account the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by the shareholder are assumed to have been reinvested in additional shares (for share price total return) or the company's assets (for net asset value total return).

Yield
Yield-to-maturity or redemption yield is the return of an investment held until maturity, taking into account both coupon payments and capital gains and losses. A bond's simple yield is equal to the coupon rate divided by the bond's price.

Warning to Shareholders

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

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

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company Secretary or the Registrar at the numbers provided on page 43.

Investor Information

Financial calendar

Financial year end	31 October 2011
Annual General Meeting	8 March 2012
Shareholder Event (see below)	20 March 2012
4th Interim dividend 2011	30 December 2011
Ex dividend date	7 December 2011
Record date	9 December 2011
1st Interim dividend 2012	31 March 2012
2nd Interim dividend 2012	30 June 2012
3rd Interim dividend 2012	30 September 2012

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services). Mandate forms for this purpose are available on request from the Company's registrars.

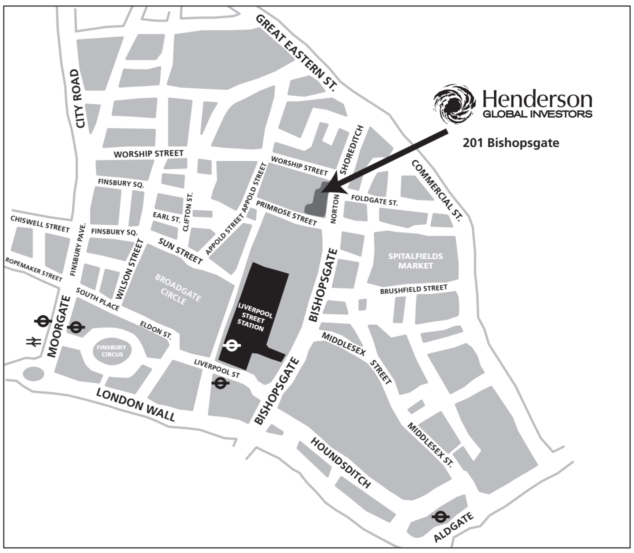
Shareholder Event

Please note that all general meetings of the Company are held in Jersey. You may wish to contact the Company Secretary at the registered office if you would like directions to the AGM venue.

The Board recognises that many shareholders are unable to travel to Jersey, but would like to meet a member of the Board and hear from the Portfolio Managers on a regular basis.

Henderson has therefore arranged a Shareholder Event to be held on Tuesday 20 March 2012 at 10.30am. The event will provide the opportunity for the Portfolio Managers to give a presentation on the investment strategy and performance. The event will include light refreshments.

If you wish to attend, please return the yellow card which is enclosed with this Report. A map of the venue for the Shareholder Event is provided below:



■ Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE

Quotation of shares

The market price of the Company's Ordinary shares can be found in the Financial Times.

The London Stock Exchange Daily Official List (SEDOL) code is: B1Y1NS4. The International Security Identification Number is: JE00B1Y1NS49. The EPIC code is HDIV.

Website

Details of the Company's share price and net asset value, together with other information about the Company, can be found on the Henderson website. The address is: **www.hendersondiversifiedincome.com**

Shareholder information

Copies of this Report and other documents issued by the Company are available from the Company Secretary.

If needed, copies can be made available in a variety of formats, either Braille or on audio tape or larger type as appropriate.

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 meetings when invited to do so by the Chairman.

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

Investor Information

continued

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Paul Manduca (Chairman)
Helen Green
Nigel Parker
David Smith

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Henderson Global Investors Limited
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Secretary
BNP Paribas Securities Services Fund Administration Limited
represented by Jeremy Hamon

BNP Paribas Securities Services Fund Administration Limited is regulated by the Jersey Financial Services Commission.

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PREMIUM

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