HENDERSON DIVERSIFIED INCOME LIMITED

Annual Report 2014

MANAGED BY
Henderson
GLOBAL INVESTORS

Contents

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

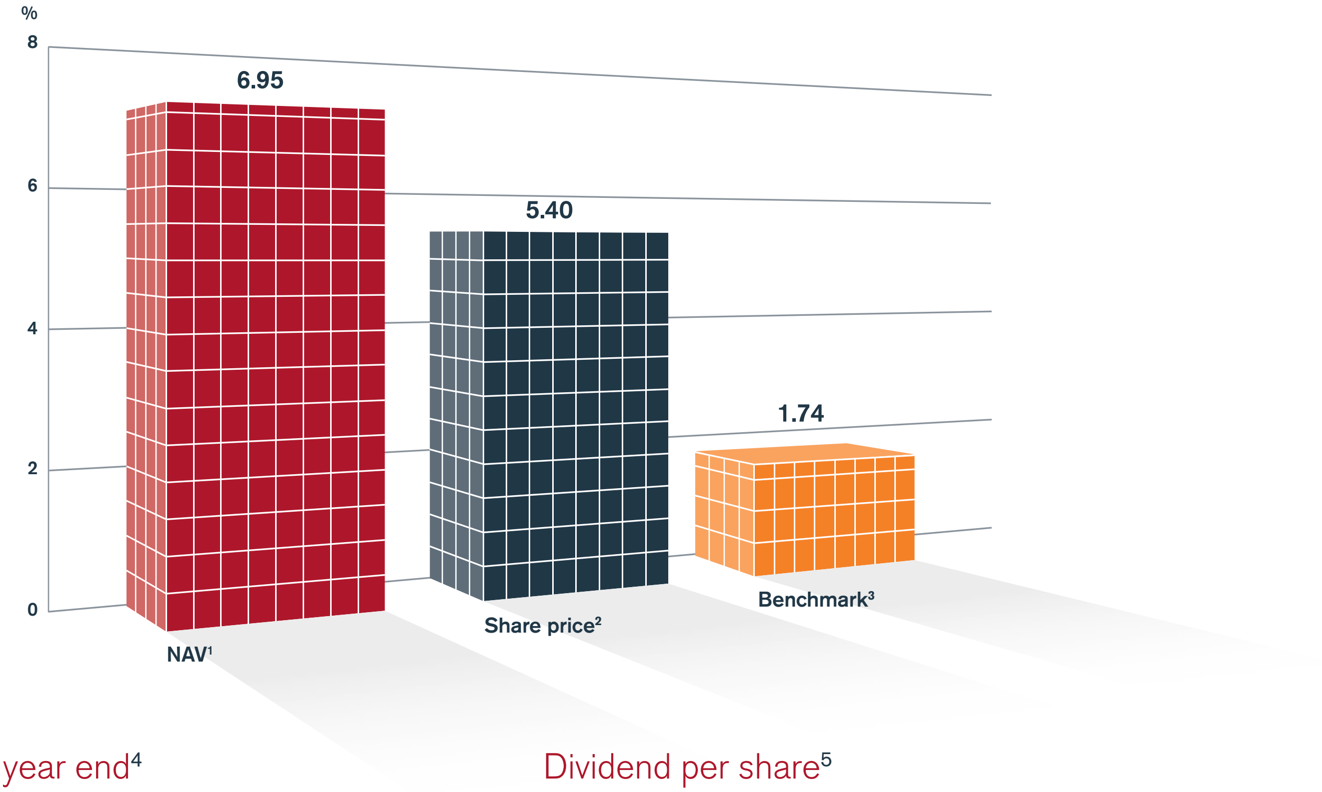
Strategic Report

"I am pleased to report a positive year for your Company against a background of continuing low interest rates. Demand for the Company's shares was strong and following a successful placing and offer for subscription in February and further tap share issues since that date, your Company's net assets have grown 54% over the year from £80.9m to £124.6m and as a consequence your Company's ongoing charge has reduced from 1.40% to 1.08% over the same period. At the year end, the ordinary shares were yielding 5.59%."

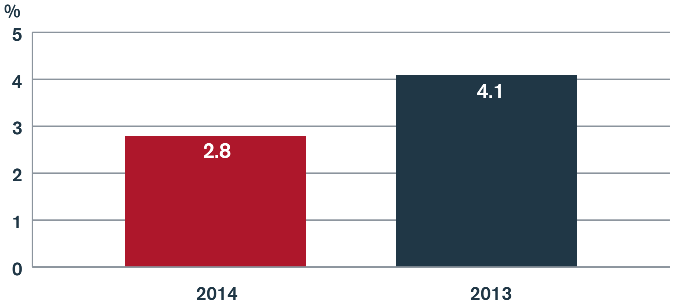
Paul Manduca, Chairman

Strategic Report: Performance Highlights

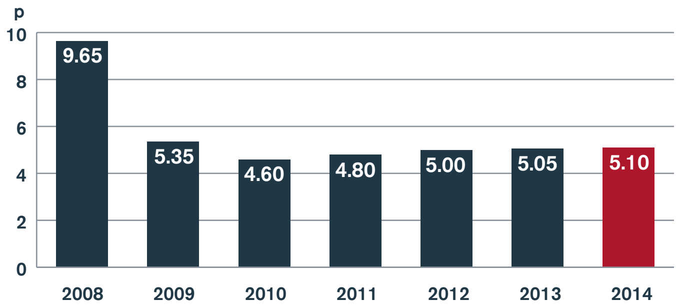
Total return performance for year to 31 October 2014



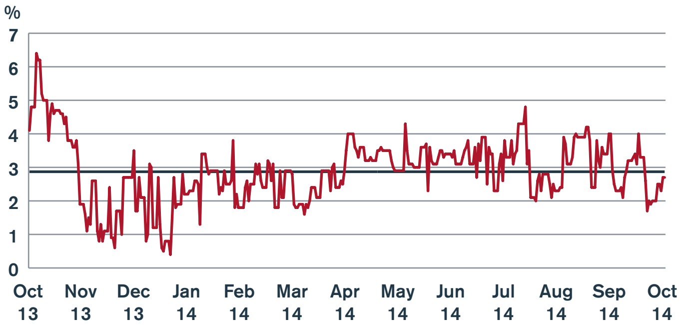
Premium at year end[4]



Dividend per share[5]



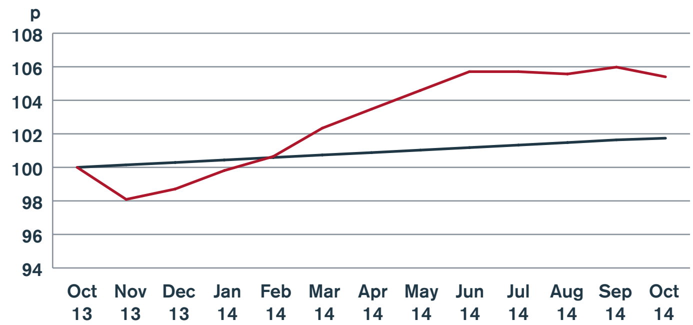
(Discount)/premium for the year[4]



Source: Morningstar Funddata using Cum Income Fair NAV

Company Premium
Average Premium

Share price performance (total return)[6]



Source: Morningstar Funddata using Cum Income Fair NAV

Company
Three month sterling Libor plus1.25%

Strategic Report: Performance Highlights (continued)

NAV per share at year end

2014 **88.82p**

2013 87.92p

Share price at year end

2014 **91.25p**

2013 91.50p

Dividend for the year[7]

2014 **5.10p**

2013 5.05p

Dividend yield[8]

2014 **5.59%**

2013 5.52%

Ongoing charge for the year[9]

2014 **1.08%**

2013 1.40%

Financial gearing at year end[10]

2014 **4.68%**

2013 9.22%

Number of investments held at year end

2014 **129**

2013 128

Performance fee paid[11]

2014 **£845,000**

2013 £703,000

1 Net asset value total return (including dividends reinvested)
2 Share price total return
3 Benchmark (total return over three month sterling Libor plus 1.25%)
4 Calculated using published daily net asset values including current year revenue
5 Ordinary dividend paid per share for each financial year ended 31 October. This includes dividends that have been declared but not yet paid. In the 2008 financial year, five interim dividends were paid over a 15 month period totalling 9.65p
6 Share price rebased to 100p. Total return over three month sterling Libor plus 1.25%
7 This represents ordinary dividends declared but not yet paid for the year ended 31 October 2014
8 Based on the ordinary dividends paid and share price at the year end
9 The ongoing charge excludes the performance fee
10 This represents financial gearing only. For an explanation of the difference between financial gearing and synthetic gearing please refer to the derivatives and gearings section of the Strategic Report on page 4 and in the Glossary on pages 18 and 19
11 The 2013 performance fee was paid in the financial year ending 31 October 2014. The 2014 performance fee will be paid in the financial year ending 31 October 2015
Sources: Morningstar for the AIC, Morningstar Funddata, Henderson, Datastream

Strategic Report: Business Model

Investment objective

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

Portfolio

The portfolio is managed by reference to a benchmark of three month sterling Libor plus 1.25%. With effect from 1 November 2014 the benchmark has been increased to three month sterling Libor plus 2.00%. The portfolio is therefore not constrained by concepts such as the size, sector or domicile of the issuer.

Derivatives and gearing

The Company uses synthetic gearing in the form of credit default swaps which are a credit derivative, to enable the Company to earn additional income by taking the default risk on certain bonds.

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 futures and swaps are used in order to take a synthetic exposure to, or to hedge, an investment position where the derivative contract is more efficient or cost effective than a position in the underlying physical asset.

The 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 Company may employ financial gearing to enhance investment returns but total gearing (both financial gearing and synthetic gearing combined) may not exceed 30% of net assets. The current borrowing facility is for a maximum of £45.5 million.

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

Strategy

The Company's strategy is to meet its investment objective. This is achieved through the appointment of external fund management who manages the portfolio in accordance with the Company's investment policy.

Management

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

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

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

Henderson receives a management fee of 0.65% per annum, calculated and paid quarterly in arrears on the value of the Company's net assets. An additional fee based on performance is payable if Henderson meets certain targets for the year. The performance fee is charged when the Company's total return in that year exceeds the hurdle return for the year at a rate of 15% of such excess. The overall annual cap on total fees (base fee and performance fee) is 1.50% of net assets in any financial year.

With effect from 1 November 2014 the Company's performance hurdle rate increased from three month sterling Libor plus 1.25% to three month sterling Libor plus 2.00%. The performance fee hurdle is reviewed annually by the Management Engagement Committee and any recommendations are made to the Board for approval.

Subsidiary

The Company has a wholly owned subsidiary undertaking, Henderson Diversified Income Luxembourg s.a.r.l (the 'subsidiary').

Strategic Report: Chairman's Statement

The Chairman of the Company, Paul Manduca, reports on the year to 31 October 2014

Introduction

I am pleased to report a positive year for your Company against a background of continuing low interest rates. Demand for the Company's shares was strong and following a successful placing and offer for subscription in February and further tap share issues since that date, your Company's net assets have grown 54% over the year from £80.9m to £124.6m and as a consequence your Company's ongoing charge has reduced from 1.40% to 1.08% over the same period. At the year end, the ordinary shares were yielding 5.59% and your Board is pleased to be able to once again increase the fourth interim dividend by a modest amount and place a small amount of income in reserve to underpin future dividends.

Performance

Your Company's net asset value per ordinary share increased from 87.92p to 88.82p over the year and the share price remained largely unchanged at 91.25p as compared to 91.50p.

Dividends and dividend policy

Dividends remained flat at 1.25p per quarter as a consequence of the continuing low levels of Libor and Euribor. However, a fourth interim dividend of 1.35p was declared on 27 November 2014 making a total of 5.10p for the year compared to 5.05p in the prior year. Your Board recognises the importance of maintaining a stable dividend flow and, in the absence of a change in interest rates, the Board plans to continue with 1.25p per quarter dividend payments for the financial year ended 31 October 2015.

Gearing

Your Board has maintained its active gearing policy during the year under review given the attractive arbitrage between the cost of debt and the yields that can be achieved in the portfolio. This is delivered through a combination of traditional financial gearing, which is funded using a loan facility provided by Scotia Bank, and synthetic gearing, being the gearing effect of investing in credit derivatives and interest rate futures and swaps. At the year end financial gearing was 4.68% compared to 9.22% a year ago and synthetic gearing was 8.30% compared to 15.10% a year ago. It is the Board's policy that total gearing, being the sum of financial gearing and synthetic gearing, cannot exceed 30% of net assets.

Share issues

On 7 February 2014, an aggregate of 23,751,762 new shares were issued pursuant to a placing and offer for subscription by the Company at an issue price of 88.50p per share. The gross proceeds of this issue were £21,020,309. From 7 February 2014 to 31 October 2014 the Company issued a further 24,525,000 new ordinary shares for cash at a premium to net asset value. As at 23 January 2015 a further 8,451,216 new ordinary shares had been issued since 31 October 2014.

Management fee arrangements

Following the reduction in the management fee and performance fee arrangements announced a year ago, your Board has further reviewed the performance fee with Henderson. Accordingly, with effect from 1 November 2014, the performance benchmark will be the total return of three month sterling Libor plus 2.00% increased from three month sterling Libor plus 1.25%. Your Board will continue to review the management fee arrangements on an annual basis. For the year under review, a performance fee of £845,000 will be paid compared to £703,000 for the year ended 31 October 2013.

Alternative Investment Fund Managers Directive

I reported last year on our plans for complying with the Alternative Investment Fund Managers Directive, a new piece of EU legislation which captures investment companies within its scope. We have appointed HIFL as our Alternative Investment Fund Manager and BNP Paribas Securities Services as our depositary. The new arrangements are adding modestly to your Company's cost base.

Annual general meeting

Our eighth annual general meeting will be held on Thursday 5 March 2015 at 11.00 a.m. at our registered office in Jersey. As in previous years an open presentation to shareholders, including the opportunity to meet the Fund Managers, will be held on Tuesday 17 March 2015 at 10.30 a.m. at Henderson's offices in London and will be followed by light refreshments.

The Directors welcome shareholders' attendance at both meetings and recommend shareholders support the resolutions to be proposed.

Outlook

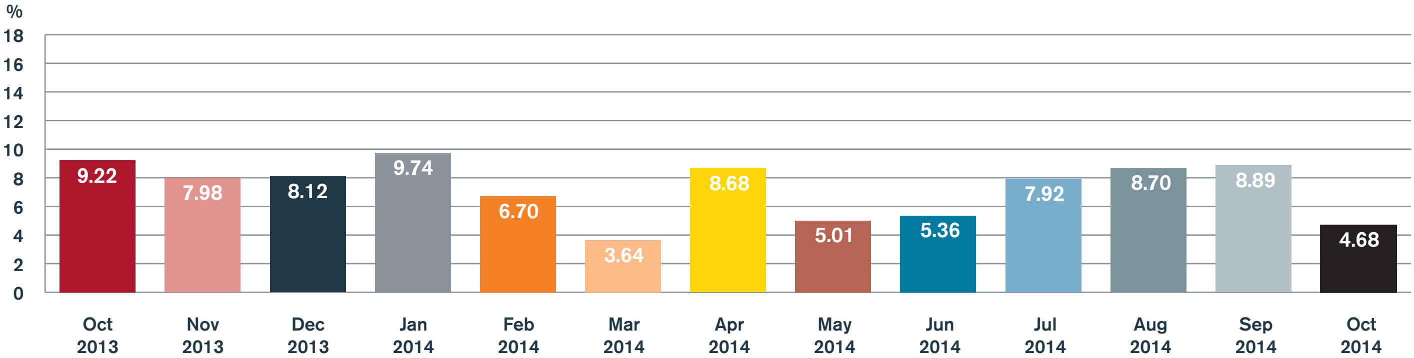
Looking forward, the market backdrop remains familiar with low economic growth, low inflation and little likelihood of any increase in interest rates in the short term. That said, the continuing low default environment has meant that credit has performed well. Going forward the majority of return is expected to be driven by income. Against that we must reconcile ourselves to the occasional spike in volatility. Our policy of actively asset allocating between fixed rate bonds and floating rate loans is proving to be beneficial and we anticipate at least maintaining the level of dividend in the year ahead.

Strategic Report: Portfolio Information

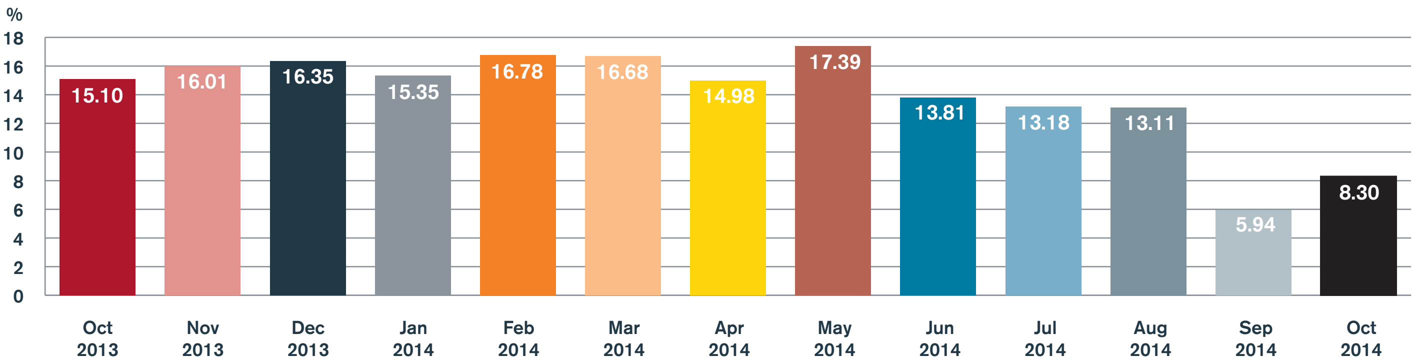
Ten largest investments at 31 October 2014

Ranking 2014	Ranking 2013	Investment	Principal activities	Type of investment	Geographical area	Valuation 2014 £'000	Percentage of portfolio
1	2	Lloyds Group	Diversified banking	High Yield Bond	UK	3,375	2.59
2	–	Nationwide Preference Shares	Banks	High Yield Bond/Equity	UK	2,356	1.81
3	10	Scottish Widows	Insurance	Investment Grade Bond	UK	2,354	1.80
4	60	Arqiva	Media	High Yield Bond	UK	2,209	1.69
5	13	Gala Clubs	Leisure	Secured Loan	UK	2,152	1.65
6	–	Wind	Telecommunications	High Yield Bond/Secured Loan	Italy	2,146	1.65
7	1	Alliance Boots	Retail	Secured Loan	UK	1,999	1.53
8	62	BNP Paribas	Banks	Investment Grade Bond	France	1,962	1.50
9	–	Altice	Telecommunications	High Yield Bond	France	1,946	1.49
10	44	Intertrust	Diversified financial services	Secured Loan	Luxembourg	1,942	1.49

Financial gearing levels over the year to 31 October 2014



Synthetic gearing levels over the year to 31 October 2014



Source: Henderson

Strategic Report: Fund Managers' Report

The Fund Managers' of the portfolio, John Pattullo and Jenna Barnard report on the year to 31 October 2014

Introduction

The Company's net asset value per ordinary share made modest progress over the financial year with the bulk of the return coming from the significant yield the portfolio continues to generate in a virtually zero cash deposit world. The Company's ordinary shares have traded at a healthy premium to net asset value over the period reflecting, we think, the persistent demand for a more diversified income stream. In particular the formula of income with a degree of protection in a potential rising interest rate environment, unlike the majority of mainstream bond fund offerings, is proving particularly attractive. Indeed, we would describe this portfolio as an antithesis of a Gilt fund as it is highly exposed to credit risk, but with limited exposure to interest rate sensitivity.

Markets

Turning to markets, the final months of 2013 provided strong returns for credit sensitive areas of the fixed income markets but not interest rate sensitive areas such as Gilts. The reduction in the amount of quantitative easing stimulus known as 'tapering', was announced by the US Federal Reserve, and was taken positively by equity markets but less so by the sovereign bond markets. This caused US and UK benchmark 10-year bond yields to breach the September 2013 highs thereby exceeding the psychological 3% levels at 2013 calendar year end. This provided an opportunity for those higher yielding assets that we favour and which are not highly correlated to Government bonds (loans, high yield bonds and higher yielding financials) to rally. This environment of relatively low growth, low inflation and very low defaults is almost perfect for being exposed to credit risk. The Gilt market reversed its severe weakness of late 2013 in January 2014, as it was felt that global bond markets had overly discounted the threat of future interest rate rises. This bounce back in lower Gilt yields and higher Gilt prices was exacerbated by extreme positioning as a lot of investors had already sold the market. This was further exacerbated by some weaker than expected weather induced US data and weak Chinese growth, all of which helped bond assets to perform.

As 2014 progressed there was a growing realisation by market participants that the slow growth was not just a weather related problem. Larry Summers' 'secular stagnation' thesis which suggested that a persistent lack of demand meant growth could continue to be sub-par for many years to come, started to pervade mainstream thinking. Christine Lagarde of the International Monetary Fund described this as 'new mediocre'. This is primarily due to the lack of demand for credit by individuals who are keener to pay off debt than borrow. This is also generally true of European corporations who currently have record amounts of cash on their balance sheets but have no great capital investment desires, nor are they keen to buy back shares as their US counterparts have been doing. It is at last becoming generally accepted that cutting interest rates has little effect in such 'balance sheet recession' scenarios, whereas increased Government spending may have some merit.

In addition, it is worth noting that inflation has generally risen more slowly than many commentators expected. This is in part due to weaker global demand, especially from commodity hungry China and other emerging economies, but has also manifested itself in the oil price, helped by increased supply from the Middle East and the American shale gas revolution. We feel the oil price is a great proxy for global demand and obviously a weaker pump price will cause significant re-distribution effects around the world. This backdrop of slower growth and lower inflation caused a stealth rally in global bond prices, meaning lower yields and higher prices, which was very much against consensus thinking and positioning. Investment grade credit performed well in this environment as did high yield bonds. However, the latter asset class displayed greater volatility over the period. Loans behaved as expected providing modest to reasonable returns but with limited volatility.

The other big consensus for the year was that equity markets were going to outperform bonds. But after the strong equity returns experienced in 2013, equity markets have been fairly range bound for much of the year. However, markets did experience two volatility spikes towards the end of the financial year. In August a valuation shakeout in high yield bonds caused by excessive positioning and Janet Yellen, chairman of the US Federal Reserve, describing valuations as being 'stretched'. This caught the headlines as billions of dollars were removed from US mutual funds in a few quiet summer weeks but with the benefit of hindsight this amount of money was actually quite modest when put in the context of the whole market. Broadly speaking yields rose from 5% to 6% and whilst some retail investors did exit, they were replaced by institutional investors, representing approximately three quarters

Strategic Report: Fund Managers' Report (continued)

of the market, who were attracted back to the enhanced yields available. Mid October also experienced a significant sell off and an even harder rebound in risk assets. We felt this shakeout was a mixture of a growth scare, as witnessed by the oil price, and a shaking out of short positions in sovereign bond markets manifesting itself in falling equity and high yield bond prices. Over this period there was also a considerable overhang of new corporate bonds being supplied into the market coupled with the markets somewhat bi-polar attitude to the eventual threat of rising interest rates from the US Federal Reserve. Political tensions in Scotland, Ukraine and the Middle East did not help market anxiety nor did the Ebola crisis. The even greater surprise was the rally in risk assets in November 2014 which set new record highs in the S&P. This spike coincided with a significant rise in credit specific problems with a number of companies reporting tough trading conditions. Phones 4U, the UK mobile phone provider, which the portfolio did not hold, defaulted virtually overnight. Tesco had numerous profit warnings and disclosed significant accounting irregularities, highlighting how hard it is for companies to achieve top line growth in a deflationary environment. We remain very wary of retailers and energy related credit opportunities.

Asset allocation

Turning to asset allocation, we are conscious of the portfolio not having enough floating note assets if interest rates were to rise. However, in the short term we expect rate rises to be fairly muted and be broadly priced in, and that better value can be gained for shareholders from fixed rate bonds. Longer term, and subject to the interest rate environment, we would expect to have more floating rate assets. Over the period Gilts, investment grade and high yield bonds returned 6.67%, 6.62% and 6.99% respectively whilst European loans achieved 3.55%. Holding more fixed rate investment grade and high yield bonds than floating rate loans has been the correct strategy as investment grade bonds and high yield bonds have materially outperformed the more stable but steady loan performance. The portfolio has had a modest exposure to some mainstream and high yield equities which have performed very well. A few equities were selectively added in the October 2014 sell off and gearing was materially increased over this period having been run down into the more buoyant markets of midsummer. This was successfully executed using cost efficient credit derivative indices.

Stock selection

Two major themes influenced our stock selection over the period. Firstly, we increased exposure to long dated old style tier 1 banking bonds as these bonds lose their ability to be treated as regulatory capital over time but from a bond holders' perspective these bonds are not redundant in any way given their long maturities. These bonds have been hugely sought after and have performed very well. We locked in some very appealing long term yields in names such as Lloyds at yields of around 7% for over 20 years. In addition, we have selectively participated in the new CoCo market, (capital contingent convertible securities). These bonds do qualify as loss absorbing capital for the banks as in a severe downturn they either get converted to equity or are written down to zero. We see this market as a structural growth story as the banks need to issue these securities but we also see them as highly cyclical and should not be seen as a permanent asset class. Nationwide, the building society, issued an equity-like instrument with a yield of 10.25% in late November 2013. This proved to be one of the best performing bonds of the year. Other names include Credit Suisse, UBS, Barclays and Credit Agricole.

The other major theme was one of selectivity regarding stock selection for high yield bonds. The team have examined many high yield new deals but we have only recommended for purchase a small percentage. We have had a major bias to large deals over smaller deals as small deals tend to have worse liquidity, be more cyclical and historically have much higher default rates. Larger deals tend to come with a bigger new issue concession. Over the period, the Company invested in the largest high yield deal ever, Altice, which was a takeover by French cable TV operator of the second largest mobile phone operator, SFR at yields of 7.25%. Telecom convergence continues to be a major theme pervading the bond and equity markets. We expect ongoing convergence of mobile operators with cable TV providers to offer quad play services with resulting synergies and lower churn rates. Further, a number of European four player mobile phone markets have moved to three player markets with a general uplift in margins and profitability. We have favoured the Telecommunications, Media and Technology ('TMT') sector, packaging and US healthcare amongst others whilst we have been very shy of the heavy cyclical industries. US healthcare companies have performed very well given the extra throughput of patients due to the Obamacare reforms. Other big issuers we favour include the AA, the roadway service company, which floated on the London Stock Exchange during the period (for interest we also hold the RAC, which was sold privately during the period) and Arqiva, the UK broadcast towers transmission business. Over time we have had a leaning towards bonds at the expense of loans.

Secured loans portfolio

At the beginning of the year under review, the sell-off in Government bond markets, driven by fears over the pace of rate rises in the major economies and led by the USA, provided a robust backdrop for loans. Indeed, loans returned 1.63% in the three months from November 2013 to end January 2014, compared with (0.1%) for UK Gilts (source Henderson). However, strong demand for loans from both Collateralised Loan Obligations ('CLO') and institutional investors manifested itself in borrowers being able to re-price and re-finance their loans at lower interest rates during the following three to six months, which had two effects on the portfolio. Firstly, the re-financing reduced the income from loans (lower spreads over Libor); and secondly, some issuer's loans reduced in price as the return was no longer as attractive. This position reversed towards the end of the period with credit spreads widening somewhat from August onwards and we were able to add a number of new positions to the portfolio paying attractive coupons.

Strategic Report: Fund Managers' Report (continued)

Performance

We maintained an active investment approach to the loan portfolio as the best way of achieving our objective of delivering excess performance over the broader loan market. Our focus on fundamental credit analysis meant the portfolio experienced no defaults in the period, whilst the European loan market experienced annualised defaults to the end of October 2014 of 5.3% (source LCD and S&P), although a significant component of this was Vivarte, a large French retailer. In the three months to end October 2014, the European loan market returned 0.25%, approximately 1% below its running yield, but almost 0.5% more than the European high yield market. This is what we should expect to see from loans given their higher level of seniority and security compared with the average high yield bond during periods of financial market risk aversion.

Performance from the European loan market was below our expectations for the period, with the market delivering a return of 3.5%. Returns were compressed largely by the strong re-pricing and re-financing activity through the middle part of the year as mentioned above and the recent risk asset market volatility. Looking forward we expect loans to deliver a return closer to 5% over the next 12 months broadly in line with the average coupon. This is underpinned by the following key points:

1. The running yield on the loan portfolio is 5% (European loan market 4.6% (source Henderson, Credit Suisse 31 October 2014));

2. We see the potential for modest capital gains as the majority of European loan prices are again below par (100) (source Credit Suisse 31 October 2014);

3. We expect a low default environment as companies continue to maintain their profitability in the current low growth, albeit relatively stable, macro environment and given they continue to limit capital expenditure spend and other drains on cash flow; and

4. We see a supportive technical backdrop to the European loan market given the continued growth of CLO demand – issuance in 2014 to date being Euro 11.9bn as compared to Euro 5.7bn a year ago (source LCD 10 November 2014).

Outlook

Credit has performed well over the period. Defaults remain at very low levels but we are aware of a pick-up in stock volatility. It is for this reason that the portfolio remains biased to larger non-cyclical stocks in the main. Going forward, the bulk of the bond returns will continue to come from the coupons. In the short to medium term, we expect the portfolio to have more investment grade and high yield bonds pending more clarity about the future direction and magnitude of interest rate rises, if any. In conclusion, it is anticipated that the Company should be able to outperform the new income target of three month sterling Libor plus 2.00% over the year ahead.

Strategic Report: Investment Portfolio as at 31 October 2014

High Yield Bonds

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

Investments by value	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Lloyds Group	£	UK	Diversified banking	3,375	2.59
Arqiva	£	UK	Media	2,209	1.69
Altice	Euro	France	Telecommunications	1,946	1.49
CHS/Community Health	US$	US	Healthcare services	1,821	1.40
Bakkavor	£	UK	Food	1,758	1.35
Virgin Media	£	UK	Cable TV	1,712	1.31
Royal Bank of Scotland	Euro/US$	UK	Diversified banking	1,671	1.28
Phoenix Group Holdings	£	UK	Insurance	1,576	1.21
Sprint	US$	US	Telecommunications	1,468	1.13
Brakes Brothers	£	UK	Food	1,463	1.12
Coventry Building Society	£	UK	Banks	1,457	1.12
Iron Mountain	£/US$	US	Commercial services	1,441	1.10
Dresdner	US$	Germany	Banks	1,415	1.09
Barclays	US$	UK	Diversified banking	1,385	1.06
Enel	£	Italy	Utilities	1,376	1.06
Daily Mail & General Trust	£	UK	Publishing	1,369	1.05
Wind	Euro	Italy	Telecommunications	1,369	1.05
Play Finance	Euro	Poland	Telecommunications	1,359	1.04
Lock	Euro	Norway	Diversified financial services	1,352	1.04
R&R Ice Cream	£/Euro	UK	Food	1,342	1.03
Cabot Financial	£	UK	Diversified financial services	1,335	1.02
BBVA	US$	Spain	Banks	1,275	0.98
Ardagh	Euro/US$	Ireland	Packaging & containers	1,246	0.96
Galaxy	£	UK	Insurance	1,244	0.95
Thomas Cook	£	UK	Travel services	1,219	0.93
Assicurazioni Generali	£	Italy	Insurance	1,120	0.86
First Data	US$	US	Software	1,089	0.84
Aviva	£	UK	Insurance	1,038	0.80
Credit Suisse	US$	Switzerland	Banks	930	0.71
Tenet Healthcare	US$	US	Healthcare services	891	0.68
Loxam	Euro	France	Rental equipment	860	0.66
IDH	£	UK	Healthcare products	858	0.66
Cerved Technologies	Euro	Italy	Commercial services	837	0.64
Ontex	Euro	Belgium	Healthcare products	836	0.64
AA	£	UK	Commercial services	827	0.63
TMF	Euro	Netherlands	Commercial services	756	0.58
Snai	Euro	Italy	Leisure	748	0.57
Regal Entertainment	US$	US	Leisure	720	0.55
Nationwide Building Society	£	UK	Banks	675	0.52
HCA	US$	US	Healthcare services	672	0.52
Matterhorn	Euro/CHF	Luxembourg	Telecommunications	668	0.51
Hastings	£	UK	Diversified financial services	653	0.50
Oberthur	Euro	France	Technology	627	0.48
Telefonica	£	Spain	Telecommunications	524	0.40
Infor Lawson	Euro	USA	Software	516	0.40
Iceland	£	UK	Food	490	0.38
Intelsat	US$	US	Telecommunications	425	0.33
Ziggo	Euro	Netherlands	Cable TV	424	0.33
Levi Strauss	Euro	USA	Apparel	355	0.27
Europcar	Euro	France	Commercial services	353	0.27
Trionista	Euro	Germany	Electronics	328	0.25
Numericable	Euro	France	Media	276	0.21
BMBG	Euro	Luxembourg	Building materials	275	0.21
Unity Media	Euro	Germany	Media	247	0.19
Rexam	Euro	UK	Packaging & containers	246	0.19
Deutsche Raststatten	Euro	Germany	Commercial services	240	0.18
Investec	£	UK	Diversified financial services	237	0.18
Avis	Euro/US$	US	Commercial services	207	0.16
Vougeot	£	UK	Entertainment	200	0.15
SMCP	Euro	France	Apparel	160	0.12
Societe Generale	£	France	Banks	122	0.09
Marlin	£	UK	Diversified financial services	121	0.09
National Westminster	£	UK	Banks	106	0.08
UPC	Euro	Netherlands	Telecommunications	54	0.04
Total High Yield Bonds				**59,894**	**45.92**

Strategic Report: Investment Portfolio as at 31 October 2014 (continued)

Secured Loans

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

Investments by value	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Gala Clubs	£	UK	Leisure	2,152	1.65
Alliance Boots	£	UK	Retail	1,999	1.53
Intertrust	Euro/US$	Luxembourg	Diversified financial services	1,942	1.49
Dell	Euro	US	Technology	1,840	1.41
Sam Finance	£/Euro	Spain	Diversified financial services	1,828	1.40
Iglo Birds Eye	£	UK	Food	1,764	1.35
Firth Rixon	£	UK	Engineering	1,699	1.30
Scandlines	Euro	Germany	Transportation	1,569	1.20
RBS Worldpay	£	UK	Card services	1,525	1.17
BMC Software	Euro/US$	US	Software	1,517	1.16
TDF	Euro	France	Telecommunications	1,512	1.16
Deoleo	Euro	Spain	Food	1,482	1.14
Eircom	Euro	Ireland	Telecommunications	1,458	1.12
Wood Mackenzie	£	UK	Corporate services	1,442	1.11
Polyconcept	US$	France	Business services	1,398	1.07
RAC	£	UK	Commercial services	1,395	1.07
ERM	US$	UK	Business services	1,256	0.96
Delachaux	US$	France	Transportation equipment	1,250	0.96
Ahlsell	Euro	Sweden	Building materials	1,178	0.90
Chesapeake	£	UK	Packaging & containers	1,168	0.90
Delek	Euro	Israel	Utilities	1,132	0.87
Flint	Euro	Germany	Chemicals	1,125	0.86
Mediq	Euro	Netherlands	Retail	998	0.77
Burtons Biscuits	£	UK	Food	975	0.75
Orion	Euro	Germany	Chemicals	940	0.72
United Biscuits	£	UK	Food	938	0.72
Merlin	£	UK	Leisure	903	0.69
Travelport	US$	US	Travel services	880	0.67
Infor Lawson	Euro	US	Software	808	0.62
Pret A Manger	£	UK	Food	794	0.61
CEP	Euro	France	Diversified financial services	777	0.60
Wind	Euro	Italy	Telecommunications	777	0.60
Unit 4	Euro	Netherlands	Software	775	0.59
Oxea	Euro	Germany	Chemicals	755	0.58
Formula 1	US$	UK	Media	755	0.58
Telepizza	Euro	Spain	Food	676	0.52
Oberthur	Euro	France	Technology	605	0.46
Xerium	US$	US	Forest products & paper	479	0.37
Exopack	Euro	US	Packaging & containers	432	0.33
Springer	Euro	Germany	Publishing	400	0.31
BMBG	Euro	Luxembourg	Building materials	396	0.30
Vedici	Euro	France	Healthcare services	259	0.20
Techicolour	US$	France	Media	251	0.19
La Seda	Euro	Spain	Chemicals	84	0.06
Total Secured Loans				**48,288**	**37.02**

Strategic Report: Investment Portfolio as at 31 October 2014 (continued)

Investment Grade Bonds

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

Investments by value	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Scottish Widows	£	UK	Insurance	2,354	1.81
BNP Paribas	US$	France	Banks	1,962	1.51
Electricite de France	£	France	Utilities	1,576	1.21
Axa	£	France	Insurance	1,478	1.13
Legal & General	£	UK	Insurance	1,409	1.08
Standard Life	£	UK	Insurance	1,053	0.81
HSBC	£	UK	Banks	968	0.74
BUPA	£	UK	Insurance	861	0.66
Friends Life	£	UK	Insurance	804	0.62
Orange	Euro	France	Telecommunications	626	0.48
Credit Agricole	Euro/£/US$	France	Banks	593	0.45
RSA Insurance	£	UK	Insurance	330	0.25
Prudential	US$	UK	Insurance	95	0.07
Total Investment Grade Bonds				**14,109**	**10.82**

Equities

Investments by value	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Nationwide Preference Shares	£	UK	Banks	1,681	1.29
Royal Dutch Shell	£	UK	Oil & gas	1,028	0.79
British American Tobacco	£	UK	Tobacco	993	0.76
HSBC	£	UK	Banks	959	0.73
Segro	£	UK	REITS	951	0.73
Phoenix	£	UK	Insurance	866	0.66
National Grid	£	UK	Utilities	787	0.60
BAE Systems	£	UK	Defence	780	0.60
British Vita	Euro	UK	Chemicals	98	0.08
Total Equities				**8,143**	**6.24**
Total Investments				**130,434**	**100.00**

Strategic Report: Historical Performance and Financial Information

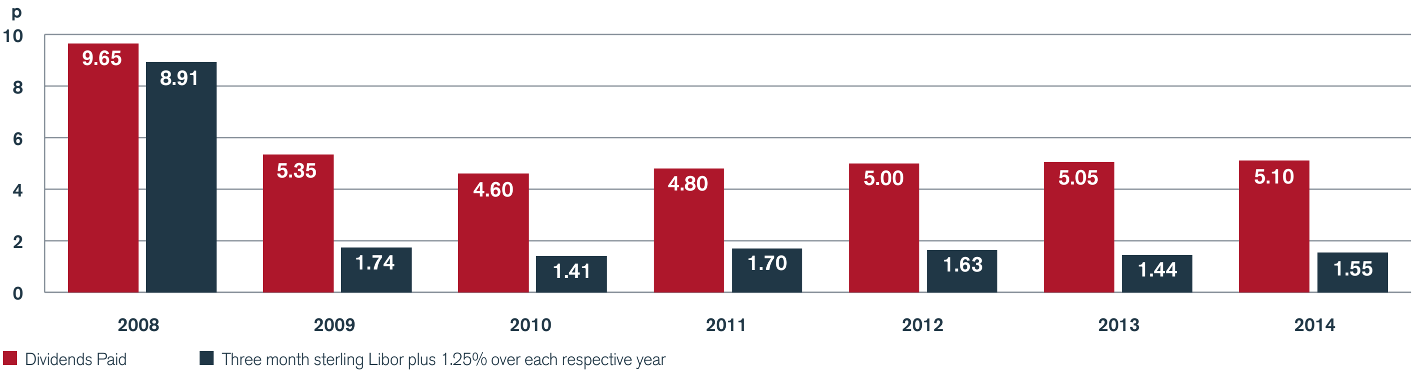
Total return performance[1]

	1 year %	3 years %	5 years %	Since launch %
NAV[2]	6.95	35.90	60.60	54.14
Share price[3]	5.40	41.85	76.96	46.57

Financial information as at 31 October

Date	Net assets £'000	NAV p	Mid-market price per ordinary share p	Premium/ (discount) %	Profit/(loss) for year £'000	Revenue return p	Capital return p	Total return p	Expenses %
2008	50,700	60.6	68.0	12.2	(23,279)	9.59	(52.15)	(42.56)	–
2009	62,236	74.4	69.5	(6.6)	16,638	5.41	14.48	19.89	1.75
2010	69,483	83.1	79.3	(4.6)	11,149	4.67	8.66	13.33	1.71
2011	65,446	78.2	76.8	(1.8)	(105)	5.16	(5.29)	(0.13)	1.55
2012	69,647	83.3	80.2	(3.7)	8,384	5.41	4.61	10.02	1.46
2013	80,889	87.9	91.5	4.1	8,214	5.32	4.20	9.52	1.40
2014	**124,604**	**88.8**	**91.3**	**2.8**	**6,579**	**5.57**	**(0.10)**	**5.47**	**1.08**

Dividend history[4]



1 Including dividends reinvested and excluding transaction costs
2 Net asset value per ordinary share with dividends reinvested
3 Share price total return
4 Ordinary dividend paid per share. In the 2008 financial year, five interim dividends were paid over a 15 month period totalling 9.65p
Sources: Henderson, Morningstar for the AIC, Datastream, Bloomberg, Morningstar Funddata

Strategic Report: Key Information

Directors

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

Paul Manduca

Position: Chairman of the Board and of the Nominations and Management Engagement Committees
Date of appointment: 5th June 2007
Following a long career in asset management as both a fund manager and Chief Executive Officer of fund management groups including Threadneedle Asset Management, Rothschild Asset Management and Deutsche Asset Management Europe, Paul is now Chairman of Prudential Group plc. He is also a former Chairman of Aon UK and of Bridgewell Group plc, a former Senior Independent Director of Wm Morrison Supermarkets plc and of Development Securities plc and was also previously Chairman of JP Morgan European Smaller Companies Investment Trust plc. He is a past Chairman of the Association of Investment Companies.

Helen Green

Position: Chairman of the Audit Committee
Date of appointment: 5th June 2007
Helen is a chartered accountant and has been employed by Saffery Champness, a UK top 20 firm of accountants, since 1984. She became a partner in 1997. Since 2000 she has been based in the Guernsey office where she is a client liaison director responsible for trust and company administration. Helen serves as a non-executive director on the boards of a number of companies in various jurisdictions, including Landore Resources Limited, John Laing Infrastructure Fund Limited, Advance Frontier Markets Limited, and Acorn Income Fund Limited, of which she is Chairman.

Nigel Parker

Position: Director
Date of appointment: 5th June 2007
Nigel has over 35 years' experience in the Jersey finance industry and in 2004 was appointed Chief Executive Officer of Gartmore Fund Managers International Limited. He has held a number of positions with Jersey trust companies but specialises in compliance and regulation. In 2002 he was appointed Head of European Compliance for the Gartmore Group with compliance responsibility for all offices, services and products within Europe. Nigel is a registered Trust and Estate Practitioner ('TEP') and a former committee member of the Jersey Funds Association. He is a member of the Jersey Compliance Officers' Association.

David Smith

Position: Director
Date of appointment: 5th June 2007
David has spent his career in the financial services sector, specialising in business to business and business to consumer marketing and sales. He became Marketing Director of Fleming Investment Trust Management in 1991, before returning to Jersey to assist in the establishment of 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 both its fiduciary and investment management operations in Jersey. He now acts as a consultant to a number of Jersey businesses. He is an Associate of the Chartered Institute of Bankers, a founder member and past Chairman of the Chartered Institute of Marketing in Jersey and holds the Certificate in Company Direction.

All Directors are independent of Henderson and are members of the Nominations, Management Engagement and Audit Committees. Helen Green and Nigel Parker are also Directors of Henderson Diversified Income Luxembourg s.a.r.l (the 'subsidiary').

Strategic Report: Key Information (continued)

Service providers

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

Depositary and Custodian
BNP Paribas Securities Service (London)
55 Moorgate
London
EC2R 6PA

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

Stockbrokers
JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

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

Registrar
Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St. Helier
Jersey
JE1 1ES
Telephone: 0870 707 4040
info@computershare.co.je

Financial calendar

Financial year end	31 October 2014
Annual general meeting[1]	5 March 2015
Shareholder event[2]	17 March 2015
4th interim dividend 2014	31 December 2014
Ex-dividend date	4 December 2014
Record date	5 December 2014
1st interim dividend 2015	31 March 2015
2nd interim dividend 2015	30 June 2015
3rd interim dividend 2015	30 September 2015

Information sources

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

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

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

Follow us on Twitter
To get the latest updates follow us on Twitter @HGiTrusts

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 08457 225 525, email **Henderson@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**. Henderson ISA holders can contact the Henderson ISA department at PO Box 10665, Chelmsford CM99 2BF, telephone 0800 856 5656.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

1 At the registered office, Liberté House, 19-23 La Motte Street, St Helier, Jersey JE2 4SY at 11:00 am
2 At the offices of Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE at 10:30 am

Strategic Report: Corporate Information

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 investments fully qualify for a stocks and shares component of an Individual Savings Account ('ISA').

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 gearing. Henderson operates in accordance with an investment limits and restrictions policy determined by the Board, which includes limits on the extent to which gearing may be employed. The Board reviews the limits and restrictions at each meeting and Henderson confirms adherence to them each month by way of completion of a schedule that is based on a traffic light system to easily identify areas for concern. Henderson provides the Board with management information, including performance data, reports and shareholder analyses. The Directors monitor the implementation and results of the investment process with Henderson at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed regularly at Board meetings.

Market

Market risk arises from uncertainty about the future prices of the Company's investments. Further commentary on market risk is provided in note 14.1 on page 46.

Accounting, legal and regulatory

The Company is regulated by the Jersey Financial Services Commission and complies with the regulatory requirements in Jersey. The Company must comply with the provisions of the Companies (Jersey) Law 1991 and since its shares are listed on the London Stock Exchange, the UK Listing Authority ('UKLA') Rules. A breach of company law could result in the Company and/or the Directors being fined or the subject of criminal proceedings, all with the potential for financial and reputational damage. A breach of the UKLA Rules could result in the suspension of the Company's shares. The Board relies on its Company Secretary and advisers to ensure adherence to company law and the UKLA Rules.

Operational

Disruption to, or the failure of Henderson or BNP Paribas Securities Service accounting, dealing, or payment systems or the custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. BNP Paribas Securities Service S.C.A (Jersey) sub-contracts some of the operational functions (principally relating to trade processing, investment administration and accounting) to BNP Paribas Securities Service. Details of how the Board monitors the services provided by Henderson, BNP Paribas Securities Service and other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section of the Corporate Governance Statement on page 28.

Financial

The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 14 on pages 46 to 51. Disclosures are provided in accordance with IFRS 7, Financial Instruments: Disclosures.

Credit derivatives

The Company may use credit derivatives (including credit default swaps) in addition to interest rate futures and interest rate swaps.

The use of credit derivatives entails the risk of credit exposure from the underlying physical assets to possible default from the counterparty to the transaction. To mitigate this risk 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 (both financial gearing and synthetic gearing combined).

Borrowing

The Board has in place facilities which allow it to borrow up to £45.5 million (£15.5 million with an additional £30.0 million commitment being available) for periods of one, two, three or six months. The facilities are subject to regular review. At 31 October 2014 the Group had drawn down £10.0 million (2013: £5.7 million). The maximum drawn down in the period was £14.9 million, with borrowing costs including interest for the year totalling £0.2 million. At 31 October 2014, the ratio of borrowings under the facilities to net assets was 8.0% (2013: 7.0%).

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

Strategic Report: Corporate Information (continued)

continue to pursue its stated investment objective in accordance with the strategy set out on page 4. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement (on page 5) and the Fund Managers' Report (on page 9).

Key performance indicators

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

Discount/premium to NAV

At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV per share (including income). The 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 year revenue items.

Yield

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

Returns and net asset value

The Board reviews and compares the performance of the portfolio as well as the net asset value, income and share price of the Company at each Board meeting.

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

Corporate responsibility

Responsible investment

Henderson is responsible for reporting on 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 as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance ('ESG') issues into mainstream investment decision-making and ownership practices.

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

Voting policy and the UK stewardship code

Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the UK Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to Henderson. The Board receives regular reports on the voting undertaken by Henderson 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 Fund Managers will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefore are fed back to the investee company prior to voting.

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

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

Employees, social, community, human rights and environmental matters

The Company has no employees and its core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues.

Henderson's corporate responsibility statement is included on the website **www.henderson.com**. In 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2015.

The Company's Annual Report and half year results update are printed on carbon balanced paper, whereby the carbon impact of the production and distribution process has been balanced, or offset, by the World Land Trust, an international conservation charity.

Gender representation

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

For and on behalf of the Board

Helen Green
Director
26 January 2015

Glossary

Alternative Investment Fund Managers Directive ('AIFMD')

Issued by the European Parliament and written into UK and Jersey legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ('AIFs') and requires them to appoint an Alternative Investment Fund Manager ('AIFM'). As the Company's AIFM is based in the European Union ('EU') and as the Company intends to market itself in the EU, a depositary must be appointed to carry out the duties of cash flow monitoring, safe keeping of assets and oversight. The Board of the Company retains responsibility for strategy, operations and compliance.

Association of Investment Companies ('AIC')

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

Benchmark

An index against which performance is compared. The Company does not have a formal benchmark.

Credit default swaps

A financial contract whereby a buyer of corporate or sovereign debt in the form of bonds attempts to eliminate possible loss arising from default by the issuer of the bonds. This is achieved by the issuer of the bonds insuring the buyer's potential losses as part of the agreement.

Custodian

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

Depositary

With effect from 22 July 2014 some AIFs including the Company were required to appoint a depositary who has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation.

Derivative

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

Dividend dates

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

Euribor

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

Financial gearing

Net gearing is the sum of bank borrowings less cash.

Floating note asset

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

Floating rate asset

Secured loans or floating rate notes.

Gearing

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company has used to invest in the market. This figure indicates the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall. This is calculated by taking the difference between quoted and unquoted investments and equity shareholders' funds divided by equity shareholders' funds and multiplied by 100.

High yield bonds

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

Glossary (continued)

Investment Companies

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

Interest futures

A financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. It is a particular type of interest rate derivative.

Investment grade bonds

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

Interest rate swaps

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

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.

Liquidity

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

Market capitalisation ('market cap')

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

Net asset value ('NAV') per ordinary share

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

Ongoing charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year as being the best estimate of future costs, excluding performance fees in accordance with the AIC methodology.

Premium/discount

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

Secured loans

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

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

Synthetic gearing

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

Total return performance

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

Yield

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

Corporate Report

Report of the Directors

The Directors present the audited financial statements of the Group and their report for the year from 1 November 2013 to 31 October 2014. The Group comprises Henderson Diversified Income Limited (the 'Company') and its wholly owned subsidiary undertaking Henderson Diversified Income Luxembourg s.a.r.l (the 'subsidiary'). The Company (registered with limited liability in Jersey as a closed-ended investment company under the Companies (Jersey) Law 1991 with registered number 97669) was active throughout the year under review and was not dormant.

Directors' remuneration and shareholdings

The Directors' Remuneration Report on pages 24 and 25 provides information on the remuneration and share interests of the Directors.

Directors' conflicts of interest

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

Related party transactions

The Company's current related parties are its Directors, Henderson and the subsidiary. There have been no material transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of expenses and remuneration for which there were no outstanding amounts payable at the year end. In relation to the provision of services by Henderson, other than fees payable by the Company in the ordinary course of business and the provision of marketing services there have been no material transactions with Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in note 22 on page 53.

Share capital

As at 31 October 2014 the Company's paid up share capital consisted of 140,281,726 ordinary shares. There are no restrictions concerning the transfer of securities in the Company, no special rights with regards to control attached to securities, no restrictions on voting, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. The holders of ordinary shares are entitled to all capital growth in the Company and all the income from the Company that is resolved by the Directors to be distributed. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holding of ordinary shares.

The holders of the Company's ordinary shares are entitled to one vote for every share. Therefore, as at 31 October 2014, the voting rights were 140,281,726. Since the year end the Company has issued 8,451,216 shares. As at 23 January 2015 the voting rights were 148,732,942.

Subject to annual shareholder approval, the Company may purchase its own ordinary shares at a discount to net asset value ('NAV') per share. At the annual general meeting in March 2014 shareholders gave the Board authority to buy back 13,791,544 ordinary shares during the following 15 months for cancellation. To date this authority has not been used.

Holdings in the Company's shares

Declarations of interests in the voting rights of the Company as at 31 October 2014 in accordance with the disclosure and transparency rules were as follows:

	% of voting rights
Brewin Dolphin Limited	23.97
Cazenove Capital Management Limited	4.78

In the period 1 November 2014 to 26 January 2015, the following declarations of interests in the voting rights of the Company have been made:

	% of voting rights
Brewin Dolphin Limited	22.99

At 31 October 2014, 2.87% of the issued ordinary shares are held on behalf of participants in Halifax Share Dealing products run by Halifax Share Dealing Limited ('HSDL').

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

Report of the Directors (continued)

Duration of the Company and going concern

The assets of the Company consist mainly of a portfolio of diversified securities that are readily realisable, and the Company has adequate financial resources to meet its liabilities and continue in operational existence for the foreseeable future. This was reviewed by the Audit Committee at its meeting in January 2015 after considering revenue forecasts for the following twelve months. For these reasons, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. 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' published by the Financial Reporting Council in October 2009.

Annual general meeting

The annual general meeting will be held on Thursday 5 March 2015 at 11.00 am, at the registered office, Liberté House, 19-23 La Motte Street, St Helier, Jersey JE2 4SY. The Notice of Meeting is contained in a separate document which has been sent to shareholders with the Annual Report.

Shareholder event

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

Henderson has therefore arranged a shareholder event to be held at Henderson's offices at 201 Bishopsgate, London EC2M 3AE on Thursday 17 March 2015 at 10:30 am. The event will provide the opportunity for the Fund Managers, John Pattullo and Jenna Barnard, 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 Annual Report.

Directors' statement as to disclosure of information to Auditors

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

Global greenhouse gas emissions

As an externally managed company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 October 2014 (2013: same).

Corporate governance

The Corporate Governance Statement on pages 26 to 29 forms part of the Report of the Directors.

Listing Rule 9.8.4

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

For and on behalf of the Board

Helen Green
Director
26 January 2015

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report (which must be fair, balanced and understandable) and the financial statements in accordance with applicable law and regulations.

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

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

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

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

Statement under DTR 4.1.12

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

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report (comprising the Performance Highlights, Business Model, Chairman's Statement, Fund Managers' Report, Investment Portfolio, Portfolio Information, Historical Performance and Financial Information, Key Information, Corporate Information and Glossary), the Report of the Directors, Corporate Governance Statement, Directors' Remuneration Report, Report of the Audit Committee and financial statements include a fair review of the development and performance of the business and the position of the 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 2015

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

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

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

Directors' Remuneration Report

Introduction

This report is submitted on the same basis as would be required by Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations'). The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. An ordinary resolution to approve the report will be proposed at the annual general meeting on 5 March 2015. The Company's remuneration policy was approved by shareholders at the annual general meeting in March 2014. No changes to the policy are currently proposed.

The Company's Auditors are required by the Listing Rules to review certain information contained within this report; where information set out below has been reviewed it is indicated as such.

All Directors are non-executive and the Company has no chief executive officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

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

Remuneration policy

Directors are remunerated in the form of fees, payable quarterly in arrears. In accordance with the Company's articles of association the aggregate remuneration of the Directors may not exceed £200,000 per annum. Subject to this overall limit, the Board's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. All Directors, including any new appointments to the Board, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee who are paid a higher fee in recognition of their additional responsibilities. The level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in any change to the rate; any feedback from shareholders would be taken into account when setting remuneration levels. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

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

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

This policy has been in place since 1 November 2013 and will remain in place until the annual general meeting in 2017 unless it is amended by way of ordinary resolution put to shareholders at a general meeting. The Board may amend the level of remuneration paid to individual Directors within the parameters of the remuneration policy.

Annual statement

As Chairman, Paul Manduca reports that the fees paid to Directors have been increased with effect from 1 April 2014 as detailed below. The increase was made in accordance with the Company's remuneration policy in order to ensure the fees paid to Directors are competitive. There have been no other major decisions on Directors' remuneration in the year under review.

Between 1 November 2013 and 31 March 2014 the fees paid to the Directors were: Chairman £36,500, Audit Committee Chairman £26,500 and Director £21,000. Since 1 April 2014 the annual fees were increased to: Chairman £37,500, Audit Committee Chairman £27,500 and Director £22,000.

Annual report on remuneration

Directors' interests in shares (reviewed)

	Ordinary shares of no par value	
	31 October 2014	31 October 2013
Paul Manduca	150,000	150,000
Helen Green	10,000	10,000
Nigel Parker	20,000	20,000
David Smith	20,000	20,000

The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the preceding table. There have been no changes to any of the Directors' holdings in the period 1 November 2014 to 26 January 2015.

In accordance with the Company's articles of association, no Directors are required to hold shares of the Company by way of qualification.

Directors' Remuneration Report (continued)

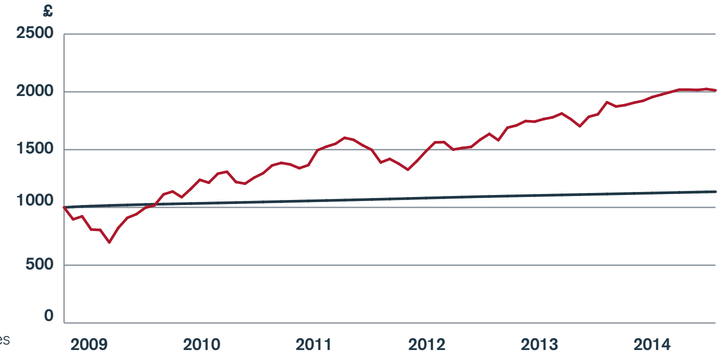
Performance

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

Source: Datastream. Rebased to 1000

— Company's share price total return, assuming the investment of £1,000 on 31 October 2009 and the reinvestment of all dividends (excluding dealing expenses) (Source: Morningstar for the AIC)

— Total return over three month sterling Libor plus 1.25% assuming the notional investment of £1,000 on 31 October 2009 and the reinvestment of all income (excluding dealing expenses (Source: Datastream)



Directors' fees (reviewed)

The fees paid to the Directors who served during the years ended 31 October 2014 and 31 October 2013 were as follows:

	Year ended 31 October 2014 Total salary and fees £	Year ended 31 October 2013 Total salary and fees £
Paul Manduca[1]	37,083	35,875
Helen Green[2,3]	34,583	32,333
Nigel Parker[3]	29,083	27,042
David Smith	21,583	20,583
Total	**122,332**	**115,833**

Notes:

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

1 Chairman and highest paid Director
2 Chairman of the Audit Committee
3 Director of Henderson Diversified Income Luxembourg s.a.r.l and receives an additional £7,500 per annum for this appointment

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

Relative importance of spend on pay

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

	2014 £	2013 £	Change £
Total remuneration	122,332	115,833	6,499
Ordinary dividend paid	5,703,000	4,303,000	1,400,000

Statement of voting at annual general meeting ('AGM')

At the 2014 annual general meeting 39,608,420 votes (99.0%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 345,985 votes (0.9%) were against, 34,729 votes (0.1%) were discretionary and 156,314 votes were withheld and 39,607,840 votes (99.2%) were received voting for the resolution seeking approval of the Company's Remuneration Policy, 292,899 votes (0.7%) were against, 34,729 votes (0.1%) were discretionary and 156,314 votes were withheld. The percentage of votes excludes votes withheld.

For and on behalf of the Board

Helen Green
Director
26 January 2015

Corporate Governance Statement

Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. The Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code (the 'UK Code') issued by the Financial Reporting Council ('FRC') are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in February 2013 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

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

Statement of compliance

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

The UK Code includes provisions relating to:

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

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. In particular, all of the Company's day to day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations.

Directors

Directors' appointment and retirement

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

This year Helen Green stands for re-election and is eligible for re-appointment. At its meeting in September 2014 the Nominations Committee reviewed the contribution and performance of Helen Green. The Nominations Committee agreed that Helen is an asset to the Board and the Company, in particular noting her role and contribution as Chairman of the Audit Committee. The Nominations Committee therefore fully recommended her continuing appointment as a Director of the Company to the Board, who in turn support her re-appointment at the 2015 annual general meeting.

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

Directors' independence

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nominations Committee meeting in September 2014, the Directors reviewed their independence through a formal board evaluation process and concluded that all Directors remain wholly independent of Henderson. The Board has determined that all Directors are independent in character and judgement and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders.

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

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

Directors' professional development

When a new Director is appointed he or she is offered an induction seminar which is held in conjunction with Henderson and BNP Paribas Securities Service at the request of the Chairman. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are also able to attend external training facilities and industry seminars at the expense of the Company and each Director's individual training requirements are considered as part of the annual performance appraisal.

Directors' insurance and indemnification

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

Corporate Governance Statement (continued)

The Board

Board composition

The Board currently consists of four non-executive Directors and the biographies of those holding office at the date of this report are included on page 14. Those details demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors. All Directors served throughout the year.

Responsibilities of the Board and its Committees

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

The Directors confirm that they are satisfied that the Annual Report for the year ended 31 October 2014, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

At each meeting the Directors follow a formal agenda, which includes a review of the Company's net asset value ('NAV'), share price, premium/discount, financial position, gearing levels, peer group performance, investment performance, asset allocation and transactions and any other relevant business matters to ensure that control is maintained over the affairs of the Company.

The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which Henderson has discretion to act and regularly reviews investment strategy. It has adopted a procedure for Directors to take independent professional advice in the furtherance of their duties at the expense of the Company.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

Committees of the Board

The Board has three Committees: the Audit Committee, the Management Engagement Committee and the Nominations Committee. The terms of reference for these Committees are available on the website **www.hendersondiversifiedincome.com** or via the Corporate Secretary.

A separate Remuneration Committee has not been established. Instead the whole Board is responsible for setting Directors' fees in line with the remuneration policy set out on page 24, which is subject to periodic shareholder approval. This does not comply with the UK Corporate Governance Code or AIC Code of Corporate Governance provisions on Remuneration Committees however the Board feel that given the small size of the Company, the fact that there are no executive directors and the simple remuneration policy in place, it is appropriate not to establish a separate Remuneration Committee. This decision is reviewed on an annual basis by the Nominations Committee.

Audit Committee

The Audit Committee comprises all of the Directors and is chaired by Helen Green, who is a chartered accountant. The other Audit Committee members have a combination of financial, investment and other experience gained throughout their careers and the Board is satisfied that at least one of the Committee's members has recent and relevant financial experience in accordance with provision C.3.1 of the UK Corporate Governance Code. All members of the Audit Committee are independent non-executive Directors. The Report of the Audit Committee, which forms part of this Corporate Governance Statement, can be found on pages 30 and 31.

Nominations Committee

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

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

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

At its meeting in September 2014 the Nominations Committee held an in depth discussion with regards to the Board's succession plans. All Directors have been on the Board since 2007 and are mindful of the UK Code provision that Directors cease to be independent after a term of nine years or more. It was agreed in principle that David Smith would retire at the 2016 annual general meeting and that the other directors would follow over the following three years. Appropriately qualified replacements would be appointed to the Board in good time which will mean that the size of the Board will rise to five Directors for short periods.

This succession plan has been carefully considered to ensure that there is always an investment management specialist on the Board, ideally with fixed interest experience which has been deemed key criterion for the recruitment of the new Chairman in due course.

An appropriate balance of skills, experience and diversity are also key considerations for the Committee and potential candidates will be identified by the Committee, potentially with the use of a recruitment agency.

Corporate Governance Statement (continued)

Each new director would be invited to attend a thorough induction training which would include a series of one to one meetings with key personnel from both Henderson and BNP Paribas Securities Service.

The Committee also reviews and recommends to the Board, the Directors seeking re-election at the forthcoming annual general meeting. Recommendation is not automatic and follows a process of evaluation of each Director's performance and consideration of the Director's independence. The Committee also takes into account the mix of skills and experience of the current Board members to meet the requirements of the Company. In accordance with the UK Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his or her contribution. The Committee met in September 2014 to carry out its annual review of the Board, its composition and size and its Committees. The results of the performance evaluation are detailed below.

Management Engagement Committee

All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board. The Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders and also for reviewing the performance and cost effectiveness of the Company's other service providers. The Committee met in September 2014 to carry out its annual review of Henderson, the results of which are detailed below.

Board attendance

The table below sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the annual general meeting in March 2014.

	Board	AC	MEC	NC
Number of meetings	**4**	**2**	**1**	**1**
Paul Manduca	4	2	1	1
Helen Green	4	2	1	1
Nigel Parker	4	2	1	1
David Smith	4	2	1	1

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

The Directors and Committees of the Board also met during the year to undertake business such as the approval of the Company's results and dividends and documentation arising from the introduction of the Alternative Investment Fund Managers Directive.

Performance evaluation

The performance of the Company is considered in detail at each Board meeting. In the year under review the Board has conducted a review of its own performance, together with that of its Committees, the Chairman and each individual Director. This was conducted by each Director anonymously completing a performance questionnaire and the non-executive Directors also anonymously completing a questionnaire on the performance of the Chairman. The findings of both questionnaires were reviewed and discussed by the Committee which concluded that the Board has a good balance of skills and experience. In particular, it is considered that each of the Directors makes a significant contribution to the affairs of the Company the Chairman continues to display effective leadership and that Helen Green who is seeking re-election at the Company's annual general meeting in 2015 merits re-election by shareholders.

Internal controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Group. The process accords with advice issued by the Financial Reporting Council and is subject to regular review by the Board. The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness.

However, such a system is designed to manage rather than eliminate risks of failure to achieve the Group's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Group's system of internal controls for the year ended 31 October 2014. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant. All business risks faced by the Group are recorded in a risk map which is reviewed periodically by the Audit Committee which also annually reviews the Company's third party service providers assurance reports to provide comfort that these companies have appropriate controls in place to manage risk.

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

The ongoing process for identifying, evaluating and managing significant risks faced by the Group has been in place throughout the year under review and up to the date of this report. Systems are in operation to safeguard the Group's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable.

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

Corporate Governance Statement (continued)

Accountability and relationship with Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 23, the Independent Auditors' Report on pages 32 to 34 and the statement of going concern on pages 21 to 22. The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the depositary as explained on page 4), the day-to-day accounting, company secretarial and administration requirements and registration services.

Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from Henderson. Ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Henderson which provides a forum to discuss industry matters which would then be reported to the Board.

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

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

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

Continued appointment of Henderson

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

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

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

Share capital

Please see the Report of the Directors on page 21.

Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information was supplemented by periodic interim management statements over the year under review, and is also supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the website. Further to the Financial Conduct Authority's decision on 7 November 2014 the Company will no longer be providing interim management statements.

The Board considers that shareholders should be encouraged to attend and participate at the annual general meeting where shareholders will have the opportunity to address questions to the Chairman of the Board. However it does recognise that not all shareholders wish to travel to Jersey therefore a shareholder event will be held in London on Tuesday 17 March 2015 at 10.30 am at Henderson Global Investors' office, 201 Bishopsgate, London EC2M 3AE where shareholders will have the opportunity to address questions to the Chairman of the Board and the Fund Managers who will make a presentation to shareholders.

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

For and on behalf of the Board

Helen Green
Director
26 January 2015

Report of the Audit Committee

Meetings

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

Role and responsibilities

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

- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the internal controls in place at Henderson and BNP Paribas Securities Services as administrator and Henderson's policies in relation to cyber risk and business continuity;
- consideration of the performance fee calculation;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board, as described on page 28;
- consideration of the appointment of the Auditors, and its performance and remuneration (see page 31);
- consideration of the Auditors' independence and objectivity and the provision of any non-audit services (as explained further on page 31); and
- consideration of the whistle blowing policy that Henderson and BNP Paribas Securities Services have put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action.

Audit for the year ended 31 October 2014

In relation to the Annual Report for the year ended 31 October 2014 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The Directors have appointed Henderson to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments is verified by reconciliation to the custodian's records.
Recognition of income	Income received is accounted for in line with the Company's accounting policy (as set out on page 39) and is reviewed by the Committee at each meeting.
Internal controls	The Committee receives regular reports on internal controls from Henderson and BNP Paribas Securities Service and has access to the relevant personnel of Henderson and BNP Paribas Securities Service who have a responsibility for risk management and internal audit.
Correct calculation of the performance related fee	The year end performance related fee calculation is prepared by the Administrator (BNP Paribas Securities Service) and reviewed by Henderson and reviewed in depth by the Committee, all with reference to the Management Agreement.

Report of the Audit Committee (continued)

Policy on non-audit services

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

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

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

Auditors' appointment

Grant Thornton Limited has been the Company's Auditors since launch. The appointment of the Auditors is not regularly put out to tender and as the Company is not in the FTSE 350 it is not required to do so on a regular basis. However, performance is regularly reviewed by the Audit Committee including the Audit Chairman completing an Auditor effectiveness questionnaire on an annual basis to review performance during the audit process which is fed back through discussion at a pre year-end audit planning meeting at which the Auditors, the Audit Committee Chairman and representatives from BNP Paribas Securities Service and Henderson attend.

The Audit Committee remains satisfied with the effectiveness of the audit provided by Grant Thornton Limited. On the basis of the Auditors' performance the Audit Committee recommended their continuing appointment to the Board with no tender necessary. The Auditors have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of Grant Thornton Limited as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the annual general meeting.

In accordance with EU regulation on auditor rotation and Financial Reporting Council guidance on audit tendering, the Company will be required to put its audit contract out to tender at least every ten years.

Fees paid or payable to the Auditors are detailed in note 6 on page 42.

For and on behalf of the Board

Helen Green
Audit Committee Chairman
26 January 2015

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

We have audited the Group financial statements of Henderson Diversified Income Limited (the 'Company') for the year ended 31 October 2014 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 ('IFRSs') as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the Directors are responsible for the preparation of the financial statements which 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.

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 Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Audit commentary

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Group's business and is risk-based. The day-to-day management of the Group's investment portfolio, the custody of its investments and the maintenance of the Group's accounting records is outsourced to third party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating internal controls at the Group and relevant third party service providers. This included a review of reports on the description, design and operating effectiveness of internal controls at relevant third party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement, an item would be considered material if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view. Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. We established a materiality for the Group financial statements taken as a whole to be £686,000, which is 0.5% of total assets. For the financial information of the subsidiary, we set our materiality in the same manner, at £258,000, being 0.5% of total assets of the subsidiary.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be £34,300, being 5% of the materiality. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, balances or disclosures.

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

Investments designated at fair value through profit or loss

The Group's investment objective is to provide shareholders with a high level of income and capital growth over the longer term by investing selectively across the full spectrum of fixed income asset classes, including secured loans, high yield corporate bonds and investment grade corporate bonds. Accordingly, the investment portfolio is a significant, material item in the financial statements. Valuation and existence of the investment portfolio is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, understanding management's process to recognise and measure investments including ownership of those investments, obtaining a confirmation of investments held at the year end directly from the independent custodian, testing the reconciliation of the custodian records to the records maintained by the Group's Administrator, testing a selection of investment additions and disposals shown in the Group's records to supporting documentation and agreeing the valuation of quoted investments to an independent source of market prices.

The Group's accounting policy on the valuation of investments is included in note 2(c), and its disclosures about investments held at the year end are included in note 11.

Derivative financial instruments

The Group has entered into over-the-counter derivative contracts. In accordance with IFRSs as adopted by the European Union, they should be classified as held for trading and measured at fair value. Measurement of the value of a derivative includes significant assumptions and judgements. We therefore identified the valuation of derivatives as a significant risk requiring special audit consideration.

Our audit work recalculating the fair value of the derivatives and assessed whether the counterparties to the derivative transactions are able to meet their contractual obligation. We also reviewed off balance sheet exposures and the related income or expenses, to ensure the revaluation gains or losses had been correctly accounted for. A review of the disclosures was performed to ensure appropriate disclosure of derivatives in the financial statements.

The Group's accounting policy on the valuation of derivatives is included in note 2(k), and its disclosures about derivatives held at the year end are included in note 12.

Investment income

Investment income is the Group's major source of revenue and a significant, material item in the Consolidated Statement of Comprehensive Income. Accordingly, the recognition of investment income is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, assessing whether the Group's accounting policy for revenue recognition is in accordance with IFRSs as adopted by the European Union, obtaining an understanding of management's process to recognise revenue in accordance with the stated accounting policy, testing whether a sample of income transactions has been recognised in accordance with the policy, and for a sample of investments held in the period confirming that income that should have been received has been received and recorded and assessing whether any of the interest income and dividends should have been treated as capital receipts.

The Group's accounting policy on the recognition of income is shown in note 2(d) and the components of that revenue are included in note 3.

Management override of internal controls

Under ISAs (UK and Ireland), for all of our audits we are required to consider the risk of management override of financial controls. Due to the unpredictable nature of this risk we are required to assess it as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, specific procedures responding to this risk that are required by ISA (UK and Ireland) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'. This included tests of journal entries, the evaluation of judgements and assumptions in any management estimates and tests of any significant transactions outside the normal course of business. These tests were also performed in the context of the functions provided by, and the controls designed and implemented at, the relevant third party service providers.

Opinion on 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly 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:

Under the ISAs (UK and Ireland) we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable, and whether the annual report appropriately discloses those matters that were communicated to the Audit Committee which we consider should have been disclosed.

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

- proper accounting records have not been kept by the company; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with its accounting records and returns; or
- we have not obtained from the company any information or explanation that, to the best of the auditor's knowledge and belief, was necessary for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 21 and 22, in relation to going concern; and
- 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.

Alexander R Langley
for and on behalf of Grant Thornton Limited
Chartered Accountants
St Helier
Jersey
Channel Islands
26 January 2015

Consolidated Statement of Comprehensive Income

Notes		Year ended 31 October 2014 Revenue return £'000	Year ended 31 October 2014 Capital return £'000	Year ended 31 October 2014 Total return £'000	Year ended 31 October 2013 Revenue return £'000	Year ended 31 October 2013 Capital return £'000	Year ended 31 October 2013 Total return £'000
11(b)	(Losses)/gains on investments at fair value through profit or loss	–	(1,399)	(1,399)	–	5,785	5,785
17	Gains/(losses) on foreign exchange transactions at fair value through profit or loss	–	2,590	2,590	–	(1,076)	(1,076)
3	Investment income	7,727	–	7,727	5,493	–	5,493
4	Other income	1	–	1	1	–	1
	Total income	**7,728**	**1,191**	**8,919**	**5,494**	**4,709**	**10,203**
	Expenses						
5	Management and performance fees	(393)	(1,238)	(1,631)	(294)	(997)	(1,291)
6	Other expenses	(514)	–	(514)	(484)	–	(484)
	Profit/(loss) before finance costs and taxation	**6,821**	**(47)**	**6,774**	**4,716**	**3,712**	**8,428**
7	Finance costs	(78)	(78)	(156)	(86)	(86)	(172)
	Profit/(loss) before taxation	**6,743**	**(125)**	**6,618**	**4,630**	**3,626**	**8,256**
8	Taxation	(39)	–	(39)	(42)	–	(42)
	Profit/(loss) for the year	**6,704**	**(125)**	**6,579**	**4,588**	**3,626**	**8,214**
9	**Earnings/(loss) per ordinary share**	5.57p	(0.10)p	5.47p	5.32p	4.20p	9.52p

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 non-controlling 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 notes on pages 39 to 53 form part of these financial statements.

Consolidated Statement of Changes in Equity

Notes	Year ended 31 October 2014	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2013	45,008	39,862	(6,114)	2,133	80,889
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(125)	6,704	6,579
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(5,703)	(5,703)
15	Share issues	42,839	–	–	–	42,839
	Total equity at 31 October 2014	**87,847**	**39,862**	**(6,239)**	**3,134**	**124,604**
Notes	**Year ended 31 October 2013**	**Stated capital £'000**	**Distributable reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Total equity at 31 October 2012	37,677	39,862	(9,740)	1,848	69,647
	Total comprehensive income:					
	Profit for the year	–	–	3,626	4,588	8,214
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(4,303)	(4,303)
15	Share issues	7,331	–	–	–	7,331
	Total equity at 31 October 2013	**45,008**	**39,862**	**(6,114)**	**2,133**	**80,889**

The notes on pages 39 to 53 form part of these financial statements.

Consolidated Balance Sheet

Notes		At 31 October 2014 £'000	At 31 October 2013 £'000
	Non current assets		
11(a)	Investments designated at fair value through profit or loss	130,434	88,347
	Current assets		
12	Other receivables	5,872	3,416
	Cash and cash equivalents	803	733
		6,675	**4,149**
	Total assets	**137,109**	**92,496**
	Current liabilities		
13	Other payables	(2,548)	(5,911)
	Total assets less current liabilities	**134,561**	**86,585**
	Non current liabilities		
	Bank loan (net of issue costs)	(9,957)	(5,696)
	Net assets	**124,604**	**80,889**
	Equity attributable to equity shareholders		
15	Stated capital	87,847	45,008
16	Distributable reserve	39,862	39,862
	Retained earnings:		
17	Other capital reserves	(6,239)	(6,114)
	Revenue reserve	3,134	2,133
	Total equity	**124,604**	**80,889**
18	Net asset value per ordinary share	88.82p	87.92p

The financial statements were approved by the Board of Directors and authorised for issue on 26 January 2015 and were signed on its behalf by:

Helen Foster Green
Director

Nigel Robert Parker
Director

The notes on pages 39 to 53 form part of these financial statements.

Consolidated Cash Flow Statement

	At 31 October 2014 £'000	At 31 October 2013 £'000
Operating activities		
Profit before taxation	6,618	8,256
Add back interest payable	156	172
Add/(less): losses/(gains) on investments designated as fair value through profit or loss	1,399	(5,785)
(Less)/add: (gains)/losses on foreign exchange transactions at fair value through profit or loss	(2,590)	1,076
(Increase)/decrease in prepayments and accrued income	(685)	143
Increase in other payables	231	302
Net purchases of investments	(43,616)	(5,442)
Increase in sales settlement debtor	(1,425)	(746)
(Decrease)/increase in purchase settlement creditor	(3,593)	2,522
Amortisation of loan expenses	19	71
Net cash (outflow)/inflow from operating activities before finance costs	**(43,486)**	**569**
Interest paid	(156)	(172)
Taxation on investment income	1	(99)
Net cash (outflow)/inflow from operating activities	**(43,641)**	**298**
Financing activities		
Equity dividends paid	(5,703)	(4,303)
Issue of ordinary shares	42,839	7,331
Loan expenses paid	–	(21)
Net loan drawdown/(repayment)	4,242	(2,089)
Net cash inflow from financing	**41,378**	**918**
(Decrease)/increase in cash and cash equivalents	(2,263)	1,216
Cash and cash equivalents at the start of the year	733	372
Exchange movements	2,333	(855)
Cash and cash equivalents at the year end	**803**	**733**

The notes on pages 39 to 53 form part of these financial statements.

Notes to the Financial Statements

1 General information

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

The Company was incorporated on 5 June 2007.

2 Accounting policies

a) Basis of preparation

This consolidated financial information for the year ended 31 October 2014 has been prepared in accordance with International Financial Reporting Standards ('IFRSs'). These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRSs have been adopted by the European Union ('EU').

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial assets designated at fair value through profit or loss, loans that are held at amortised cost using the effective interest method and derivative financial instruments that are measured at fair value.

The principal accounting policies adopted are set out below. Where consistent with IFRSs the financial statements have also been prepared in accordance with the guidance set out in the Statement of Recommended Practice ('SORP') for the Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued in January 2009.

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

IFRS 9: Financial Instruments – Classification and Measurement 1 January 2018
IFRS 10: Consolidated Financial Statements 1 January 2014
IFRS 12: Disclosure of Interests in Other Entities 1 January 2014

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

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 investments are designated upon initial recognition as held at fair value through profit or loss. This is consistent with the Group's investment strategy and information about these investments is provided to the Board. 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/(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)

Significant accounting judgements and estimates

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

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. Any performance fees payable are allocated wholly 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' of its administrator 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 excluding bank loans. Cash equivalents have a term of three months or less, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risks of changes in value.

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.

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

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.

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

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

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.

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

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

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

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

Notes to the Financial Statements (continued)

3 Investment income

	2014 £'000	2013 £'000
Income from investments:		
UK dividend income	432	225
Bond and loan interest	6,617	4,755
Premiums on credit default swaps	678	513
	7,727	**5,493**

4 Other income

	2014 £'000	2013 £'000
Bank and other interest	1	1

5 Management and performance fees

	2014			2013		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Investment management fee	393	393	786	294	294	588
Performance fee	–	845	845	–	703	703
	393	**1,238**	**1,631**	**294**	**997**	**1,291**

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

6 Other expenses

	2014 £'000	2013 £'000
Directors' fees[1] (see the Directors' Remuneration Report on pages 24 to 25)	122	116
Auditor's remuneration (including £6,000 (2013: £10,000) relating to the subsidiary):		
– statutory audit	40	38
– tax services for the subsidiary	2	5
Bank and custody charges	25	46
Administration and company secretarial services	152	151
Registrar's fees	15	17
Stock exchange fees	16	14
Printing and stationery	14	14
Other expenses	128	83
	514	**484**

1 Includes £15,000 (2013: £13,000) paid to the Directors of the Luxembourg subsidiary

7 Finance costs

	2014			2013		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
On bank loans and overdrafts payable: within one year	78	78	156	86	86	172

Notes to the Financial Statements (continued)

8 Taxation

	2014 Revenue return £'000	2014 Capital return £'000	2014 Total return £'000	2013 Revenue return £'000	2013 Capital return £'000	2013 Total return £'000
The taxation charge for the year is comprised of the following:						
Foreign withholding tax suffered	99	–	99	59	–	59
Less: foreign tax recoverable	(32)	–	(32)	(59)	–	(59)
Luxembourg tax	29	–	29	42	–	42
Luxembourg tax recovered	(57)	–	(57)	–	–	–
	39	**–**	**39**	**42**	**–**	**42**

Profits arising in the Company for the year ended 31 October 2014 are subject to Jersey income tax at the rate of 0% (2013: 0%).

9 Earnings per ordinary share

The earnings per ordinary share figure is based on the net profit for the year after taxation of £6.579 million (year ended 31 October 2013: profit of £8.214 million) and on 120,316,298 (2013: 86,285,257) being the weighted average number of ordinary shares in issue during the year.

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

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

	2014 £'000	2013 £'000
Net revenue profit	6,704	4,588
Net capital (loss)/profit	(125)	3,626
Net total profit	**6,579**	**8,214**
Weighted average number of ordinary shares in issue during the year	120,316,298	86,285,257
Revenue earnings per ordinary share	5.57p	5.32p
(Loss)/capital earnings per ordinary share	(0.10)p	4.20p
Total earnings per ordinary share	**5.47p**	**9.52p**

10 Dividends

Dividends on ordinary shares	Record date	Payment date	2014 £'000	2013 £'000
Fourth interim dividend – 1.25p	7 December 2012	31 December 2012	–	1,046
First interim dividend – 1.25p	8 March 2013	28 March 2013	–	1,057
Second interim dividend – 1.25p	7 June 2013	28 June 2013	–	1,095
Third interim dividend – 1.25p	6 September 2013	30 September 2013	–	1,105
Fourth interim dividend – 1.30p	6 December 2013	31 December 2013	1,196	–
First interim dividend – 1.25p	7 February 2014	31 March 2014	1,150	–
Second interim dividend – 1.25p	6 June 2014	30 June 2014	1,643	–
Third interim dividend – 1.25p	5 September 2014	30 September 2014	1,714	–
			5,703	**4,303**

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 October 2014.

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 and the previous year. The revenue available for distribution by way of dividend for the year is £6.704 million (2013: £4.588 million).

	2014 £'000	2013 £'000
First interim dividend for 2014 – 1.25p (2013: 1.25p)	1,150	1,057
Second interim dividend for 2014 – 1.25p (2013: 1.25p)	1,643	1,095
Third interim dividend for 2014 – 1.25p (2013: 1.25p)	1,714	1,105
Fourth interim dividend for 2014 – 1.35p (paid 31 December 2014 with record date of 5 December 2014) (2013: 1.30p)	1,940	1,196
	6,447	**4,453**

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

	Listed Investments £'000	Unlisted Investments £'000	2014 Total £'000	2013 Total £'000
Cost at beginning of the year	41,444	43,135	84,579	75,473
Investment holding gains at the beginning of the year	3,410	358	3,768	2,250
Valuation at the beginning of the year	**44,854**	**43,493**	**88,347**	**77,723**
Movements in the year				
Purchases at cost	83,095	27,796	110,891	67,024
Sales – proceeds	(46,254)	(20,983)	(67,237)	(61,932)
– realised gains on sales of investments designated as fair value through profit or loss	1,691	(478)	1,213	4,014
Movement in investment holding gains	(1,240)	(1,540)	(2,780)	1,518
Closing valuation at the end of the year	**82,146**	**48,288**	**130,434**	**88,347**
Cost at the end of the year	79,976	49,470	129,446	84,579
Investment holding gains	2,170	(1,182)	988	3,768
Closing valuation of investments at the end of the year	**82,146**	**48,288**	**130,434**	**88,347**

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

	2014 £'000	2013 £'000
Realised gains on sales of investments at fair value through profit or loss	1,213	4,014
Movement in investment holdings gains designated at fair value through profit or loss	(2,780)	1,518
Gains on credit default swaps held at fair value through profit or loss	168	253
	(1,399)	**5,785**

(c) Transaction costs

During the year expenses amounting to £17,000 (2013: £32,000) were incurred in acquiring or disposing of investments designated at fair value through profit or loss. These have been expensed through capital and are included within gains on investments at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

(d) Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Diversified Income Luxembourg s.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.

Notes to the Financial Statements (continued)

12 Other receivables

	2014 £'000	2013 £'000
Amounts due from brokers	2,556	1,131
Prepayments and accrued income	1,829	1,144
Withholding tax recoverable	188	228
Credit default swaps held at fair value through profit or loss	1,012	883
Currency forward exchange contracts held at fair value through profit or loss	287	30
	5,872	**3,416**

13 Other payables

	2014 £'000	2013 £'000
Amounts due to brokers	1,273	4,866
Taxation payable	7	8
Other payables	1,268	1,037
	2,548	**5,911**

14 Risk management policies and procedures

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

These financial risks: market risk (comprising market price risk, currency risk and interest rate risk), credit risk, liquidity risk and gearing, and the Directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board and Henderson coordinate the Company's risk management and there are various risk management systems in place as detailed below.

- Straight-through processing via a deal order and management system ('OMS') is utilised for listed securities, exchange-traded derivatives and OTC derivatives contracts with connectivity to third party affirmation and trade repository services;

- Portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third party software applications: Charles River Development OMS and/or Imagine;

- Fund pricing and accounting services are outsourced to a third party administrator (currently BNP Paribas Securities Services) which utilises Hiportfolio software; and

- The IT tools to which the Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:

  – Charles River Compliance module for investment restrictions monitoring;

  – Arc Logics operational risk database;

  – Riskmetrics for VaR statistics, stress-testing and back-testing;

  – UBS Delta, Style Research, Finanalytica and Barra Aegis for market risk measurement;

  – Bloomberg for market data and price-checking;

  – Hiportfolio for portfolio holdings and valuations; and

  – Markit system for secured loans.

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

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

14.2 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 are shown below. Where the Group's investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2014			2013			
	US$ £'000	Euro £'000	CHF £'000	US$ £'000	Euro £'000	CHF £'000	SEK £'000
Receivables (due from brokers, dividends and other income receivable)	404	2,169	3	206	1,236	3	2
Cash at bank and on deposit	46	412	–	80	173	–	–
Payables (due to brokers, accruals and other creditors)	(1,252)	(26)	–	(244)	(4,038)	–	–
Forward currency sales	(25,094)	(43,517)	(237)	(11,041)	(30,670)	(258)	(420)
Credit default swaps	20	992	–	49	834	–	–
Total foreign currency exposure on net monetary items	**(25,876)**	**(39,970)**	**(234)**	**(10,950)**	**(32,465)**	**(255)**	**(418)**
Investments at fair value through profit or loss	24,745	42,133	235	11,067	32,532	256	416
Total net foreign currency exposure	**(1,131)**	**2,163**	**1**	**117**	**67**	**1**	**(2)**

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

Foreign currency sensitivity

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; and
- 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 2014 (2013: none).

Interest rate exposure

The exposure at 31 October 2014 of financial assets and financial liabilities to interest rate risk is shown by reference to:

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

	2014				2013			
	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	74,296	–	–	74,296	59,013	–	–	59,013
Cash at bank	803	–	–	803	733	–	–	733
Bank loan	–	(9,957)	–	(9,957)	–	(5,696)	–	(5,696)
	75,099	**(9,957)**	**–**	**65,142**	**59,746**	**(5,696)**	**–**	**54,050**
Exposure to fixed interest rates:								
Investments held at fair value through profit or loss	–	9,624	38,371	47,995	–	6,140	17,422	23,562
Total exposure to interest rates	**75,099**	**(333)**	**38,371**	**113,137**	**59,746**	**444**	**17,422**	**77,612**

At 31 October 2014, the Group had gross nominal exposure to interest rate futures and swaps to the value of £nil (2013: £nil).

Interest receivable is at the following rates:

- Interest received on cash balances, or paid on bank overdrafts and loans, is at margin over Libor or its foreign currency equivalent; and
- The weighted average effective interest rate of the Group's investments is 5.9% (2013: 5.9%).

Interest rate sensitivity

The Group's portfolio (excluding equities) at 31 October 2014 was valued at £122.291 million (2013: £82.575 million) and has a modified duration (interest rate sensitivity) of approximately 3.5 years (2013: 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 £4.280 million (2013: £1.817 million) all other factors being equal.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.4 Other price risk

In addition to foreign currency and interest rate risk, the 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 £12.959 million (2013: £8.768 million) (equivalent to an increase or decrease in net asset value per share of 10.4% (2013: 10.8%)).

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 Henderson on a daily basis to ensure financial liabilities can be paid as they fall due. Both the corporate bond portfolio and the loan portfolio although traded over the counter, 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 £45.5 million (£15.5 million with an additional £30.0 million commitment being available) (2013: £25.5 million), of which £9.957 million was drawn down at 31 October 2014 (2013: £5.715 million). This facility is subject to regular review and unless renewed will expire on 14 August 2016.

The Board gives guidance to Henderson 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 2014				At 31 October 2013			
	3 months or less £'000	More than 3 months, less than one year £'000	More than one year £'000	Total £'000	3 months or less £'000	More than 3 months, less than one year £'000	More than one year £'000	Total £'000
Current liabilities								
Amounts due to brokers, accruals and tax payable	2,548	–	–	2,548	5,911	–	–	5,911
Bank loan	–	–	9,957	9,957	–	–	5,702	5,702
	2,548	**–**	**9,957**	**12,505**	**5,911**	**–**	**5,702**	**11,613**

The Company also has exposure of £10.346 million (2013: £12.172 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;
- 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 Henderson for two purposes. By selling protection (going long risk) Henderson 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 2014, the gross exposure to single name credit default swaps and ITRAXX indices was £3.833 million and £6.513 million respectively (2013: £1.451 million and £10.721 million respectively).

By contrast Henderson may buy protection (take a short risk position) on a reference entity to reduce the overall credit exposure. This would involve the payment of premium in order to protect against possible capital losses in the future. At 31 October 2014 the protection purchased was £nil (2013: £nil).

The credit quality of bonds and secured loans is reviewed in the Fund Managers' Report and Investment Portfolio on pages 8 and 10 to 12 respectively.

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 £2.605 million (2013: loss of £1.403 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 £1.067 million (2013: £0.894 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 13 fair value hierarchy.

2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Investments	82,146	48,288	–	130,434
Credit default swaps	–	1,012	–	1,012
Currency forward exchange contracts	–	287	–	287
	82,146	**49,587**	**–**	**131,733**

2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Investments	44,854	43,493	–	88,347
Credit default swaps	–	883	–	883
Currency forward exchange contracts	–	30	–	30
	44,854	**44,406**	**–**	**89,260**

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

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

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

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1. The Company's holdings in credit default swaps are included within Level 2. Also included here are forward exchange contracts which have resulted in unrealised gains of £287,000; and

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

The valuation techniques used by the Company are explained in the accounting policies note on pages 39 to 41.

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

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.9 Capital management policies and procedures

The 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 30% of equity.

The Group had borrowings totalling £9.957 million at 31 October 2014 (2013: £5.715 million).

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

The 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.

15 Stated capital

		2014		2013	
	Authorised	Issued and fully paid	£'000	Issued and fully paid	£'000
Ordinary shares of no par value					
Opening balance at 1 November	Unlimited	92,004,964	45,008	83,640,877	37,677
Issued during the year		48,276,762	42,839	8,364,087	7,331
Closing balance at 31 October		**140,281,726**	**87,847**	**92,004,964**	**45,008**

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

During the year, the Company issued 48,276,762 (2013: 8,364,087) shares for proceeds of £42,839,000 (2013: £7,331,000) net of costs.

16 Distributable reserve

	2014 £'000	2013 £'000
As at 31 October	39,862	39,862

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

Notes to the Financial Statements (continued)

17 Capital reserves

2014	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 31 October 2013	4,027	(10,141)	(6,114)
Exchange movements	257	2,333	2,590
Movement in unrealised depreciation	(2,780)	–	(2,780)
Gain on investments	–	1,213	1,213
Costs charged to capital	–	(1,316)	(1,316)
Movement in credit default swaps	168	–	168
At 31 October	**1,672**	**(7,911)**	**(6,239)**

2013	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 31 October 2012	2,476	(12,216)	(9,740)
Exchange movements	(220)	(856)	(1,076)
Movement in unrealised appreciation	1,518	–	1,518
Gain on investments	–	4,014	4,014
Costs charged to capital	–	(1,083)	(1,083)
Movement in credit default swaps	253	–	253
At 31 October	**4,027**	**(10,141)**	**(6,114)**

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 2014 year end of £124.604 million (2013: £80.889 million) and on 140,281,726 (2013: 92,004,964) ordinary shares, being the number of ordinary shares in issue at the year end.

19 Related Party Transactions

Directors' fees of £107,000 relating to the Company were paid during the year (2013: £103,000). A further £15,000 was paid in fees to the Directors of the subsidiary (2013: £13,000). Further details are given in the Directors' Remuneration Report on pages 24 to 25. In assessing impairment, the Board estimates the recoverable amount of the loan to the subsidiary to be lowered by the net deficit in the subsidiary. The Company has made a loan to the subsidiary undertaking of £53.640 million (2013: £45.812 million). After providing for the net deficit in the subsidiary of £3.883 million (2013: £4.218 million) the loan has been written down to £49.757 million (2013: £41.594 million). These amounts are consolidated out in the Group accounts.

20 Contingent liabilities

There were no contingent liabilities as at 31 October 2014 (2013: none).

21 Subsequent events

Since the year end the Company has issued 8,451,216 shares for net proceeds of £7,698,000 as at 23 January 2015. The Directors have evaluated the period since the year end and have not noted any other subsequent events.

Notes to the Financial Statements (continued)

22 Transactions with the Manager

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

Details of the arrangements for these services are given on page 4 in the Strategic Report. The total of the fees paid or payable to Henderson under this agreement in respect of the year ended 31 October 2014 was £786,000 (2013: £588,000), of which £286,000 was outstanding at 31 October 2014 (2013: £206,000).

In addition to the above services, a performance fee is also payable to Henderson. The performance fee payable for the year ended 31 October 2014 amounted to £845,000 (excluding VAT) (2013: £703,000). This amount was outstanding at 31 October 2014 (2013: £703,000).

In addition, the Company received a payment of £36,000 from Henderson as a reimbursement of time barred withholding tax which had not been reclaimed.

General Shareholder Information

BACS

Dividends can be paid by means of Bankers' Automated Clearing Services ('BACS'); mandate forms for this purpose are available from the registrar. Alternatively, shareholders can write to the registrar (the address is given on page 15) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Disability Act

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

You can contact the registrar, Computershare Investor Services (Jersey) Limited, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0870 707 4040. Specially trained operators are available during normal business hours to answer queries via this service.

FCA restrictions

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

ISA

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

Share price listings

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

Performance details/share price information

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

Shareholder details

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

Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman. Investors via Halifax Share Dealing receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

Warning to shareholders

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

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

If you are in any doubt about the veracity of an unsolicited phone call, please call the Corporate Secretary at the number provided on page 15.

Alternative Investment Fund Managers Directive Disclosures (unaudited)

Henderson and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ('AIFMD'). Those disclosures that are required to be made pre-investment are included within a Key Investor Information Document ('KIID') which can be found on the website. There have been no material changes to the disclosures contained within the KIID since publication in July 2014.

The periodic disclosures to investors are made below:

- Information on the investment strategy, geographic and sector investment focus and principal stock exposures are included in the Strategic Report. A full list of portfolio holdings is included on pages 10 to 12;

- None of the Company's assets are subject to special arrangements arising from their illiquid nature;

- The Strategic Report and note 14 to the accounts set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;

- There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Henderson; and

- All authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. It is therefore anticipated that the Henderson Remuneration Policy and associated financial disclosures will be made with the Company's Annual Report from 2016.

Leverage

Although leverage is often used as another term for gearing, under the AIFMD Regulations leverage is expressed as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value ('NAV'). It defines two types of leverage, the gross method and the commitment method.

These are essentially the same other than the commitment method allows derivative instruments to be netted off to reflect 'netting' or 'hedging arrangements'. Non-sterling cash is deemed to carry a currency exposure so is considered to be leverage. In accordance with the AIFMD the Company is obliged to disclose the maximum expected leverage levels under both methods and this is disclosed on page 56. In order to comply with the AIFMD the maximum leverage levels have been set in accordance with the maximum gearing allowable by the Company's Articles of Association. However, the day-to-day management of gearing and leverage levels will be conducted within the tighter limits set by the Company's investment policy.

Leverage may be applied to the portfolio by utilising financial gearing (such as bank borrowings and overdrafts) and synthetic gearing (through derivatives and/or other non-fully funded instruments or techniques for efficient portfolio management purposes such as stock-lending). Typically, leverage will arise through the use of index futures, forward foreign exchange contracts or contracts for difference, where cash is paid to the counterparty as a margin against the current mark-to-market value of the derivative contract; as a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may even result in further loss exceeding any margin deposited. The use of leverage therefore creates additional risks and may significantly increase the market and counterparty risk of the Company through non-fully funded exposure to underlying markets or securities.

Leverage is considered in terms of the Company's overall 'exposure' to financial or synthetic gearing and includes any method by which the exposure of the Company is increased whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. Henderson is required, in accordance with the AIFMD, to calculate and monitor the level of leverage of the Company, expressed as the ratio between the total exposure of the Company and its net asset value with exposure values being calculated by both the gross method and commitment method.

Exposure values under the gross method basis are calculated as the absolute value of all positions in the portfolio; this includes all eligible assets and liabilities, relevant borrowings, derivatives (converted into their equivalent underlying positions) and all other positions, even those held purely for risk reduction purposes, such as forward foreign exchange contracts held for currency hedging.

The gross method of exposure of the Company requires the calculation to:

- include the sum of all non-derivative assets (if applicable) held at market value, plus the absolute value of all such liabilities;

- exclude cash and cash equivalents which are highly liquid investments held in the base currency of the Company, that are readily convertible to a known amount of cash, are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three month high quality bond;

- includes derivative instruments which are converted into the equivalent position in their underlying assets;

- exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known;

- include exposures resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of cash borrowed; and

- include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements as applicable.

Alternative Investment Fund Managers Directive Disclosures (unaudited) (continued)

Exposure values under the commitment method basis are calculated on a similar basis to the above, but may take into account the effect of netting off instruments to reflect eligible netting and hedging arrangements on eligible assets and different treatment of certain cash and cash equivalent items in line with regulatory requirements.

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	As a percentage of net assets	
	Gross method	Commitment method
Maximum level of leverage	275%	275%
Actual level at 31 October 2014	173%	117%

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees granted under the leveraging arrangement.

Changes to the information contained either within this Annual Report or the KIID in relation to any special arrangements in place, the maximum level of leverage which Henderson may employ on behalf of the Company; the right of re-use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

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

SEDOL/ISIN number: Ordinary Shares: B1Y1NS4 /JE00B1Y1NS49
London Stock Exchange (EPIC) Code: HDIV
Global Intermediary Identification Number (GIIN): MAZ4WI.99999.SL.826
Legal Entity Identifier (LEI): 213800WSTK3SLGXXXN46

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Printed by Leycol, London

HGI38929/2014