

# HENDERSON DIVERSIFIED INCOME LIMITED

Annual Report 2015



MANAGED BY

**Henderson**  
GLOBAL INVESTORS

# Contents

<b>Strategic Report</b>		<b>Corporate Information</b>	<b>15-21</b>
<b>Performance Highlights</b>	<b>2-3</b>	Registered office	15
<b>Business Model</b>	<b>4</b>	Service providers	15
Investment objective	4	Independent auditors	15
Risk	4	Financial calendar	15
Management	4	Information sources	15
Subsidiary	4	Investing	15
		Nominee share code	15
<b>Chairman's Statement</b>	<b>5-6</b>	Status	16
Introduction and changes to financial reporting	5	Principal risks and uncertainties	16-19
Performance	5	Viability statement	19
Dividends and dividend policy	5	Borrowing	20
Gearing	5	Future developments	20
Amendments to the investment policy	5	Key performance indicators	20
Prospectus and share issues	6	Corporate responsibility	20
Management and performance fee arrangements	6	Continued appointment of Henderson	21
Board	6	Board diversity	21
Annual general meeting	6		
Outlook	6	<b>Glossary</b>	<b>22-23</b>
		<b>Corporate Report</b>	
<b>Portfolio Information</b>	<b>7</b>	<b>Report of the Directors</b>	<b>25-26</b>
Ten largest investments	7	<b>Statement of Directors' Responsibilities</b>	<b>27</b>
Financial gearing levels	7	<b>Directors' Remuneration Report</b>	<b>28-29</b>
Synthetic gearing levels	7	<b>Corporate Governance Statement</b>	<b>30-33</b>
		<b>Report of the Audit Committee</b>	<b>34-35</b>
<b>Fund Managers' Report</b>	<b>8-9</b>	<b>Aggregated Income Statement</b>	<b>36</b>
Portfolio performance	8	<b>Aggregated Balance Sheet</b>	<b>37</b>
Secured loans	9	<b>Independent Auditors' Report to the Members of Henderson Diversified Income Limited</b>	<b>38-40</b>
Performance	9	<b>Company Income Statement</b>	<b>41</b>
Equities	9	<b>Company Statement of Changes in Equity</b>	<b>42</b>
Outlook	9	<b>Company Balance Sheet</b>	<b>43</b>
		<b>Company Cash Flow Statement</b>	<b>44</b>
<b>Investment Portfolio</b>	<b>10-12</b>	<b>Notes to the Financial Statements</b>	<b>45-59</b>
High yield bonds	10	<b>General Shareholder Information</b>	<b>60</b>
Investment grade bonds	11		
Asset backed securities	11		
Equities	11		
Investments held in subsidiary	12		
Secured loans	12		
Equities	12		
<b>Historical Performance and Financial Information</b>	<b>13</b>		
Total return performance	13		
Financial information	13		
Dividend history	13		
<b>Director Biographies</b>	<b>14</b>		

## Strategic Report

---

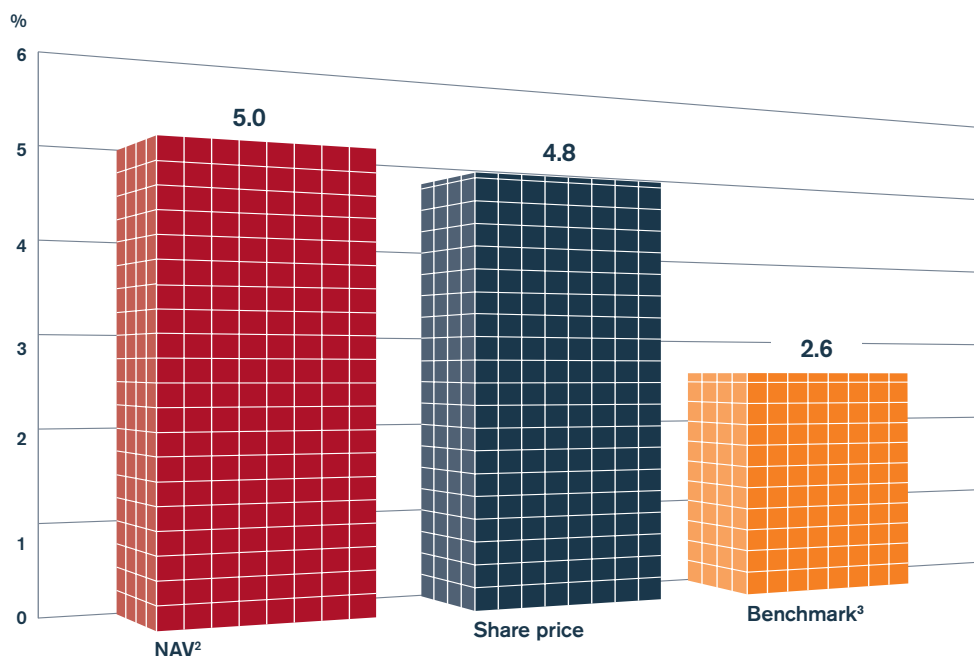
**“I am pleased to report that your Company continued to grow over the year under review with net assets of £145.4m at the year-end compared to £124.6m at the beginning of the year. This is a rise of 16.7%, reflecting the success we have had in issuing new shares at a premium to net asset value. The aggregated revenue return was 5.16p per ordinary share and dividends were maintained with a total for the year of 5.10p per ordinary share.”**

Paul Manduca, Chairman

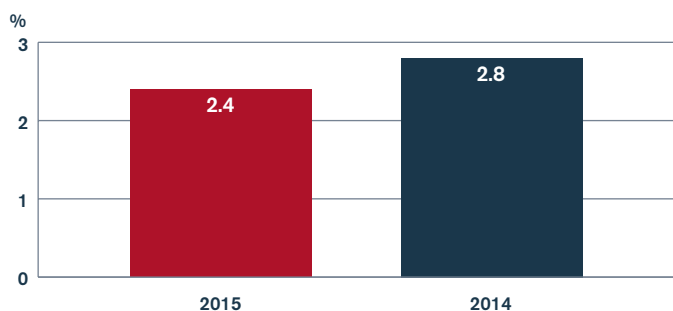


# Strategic Report: Performance Highlights

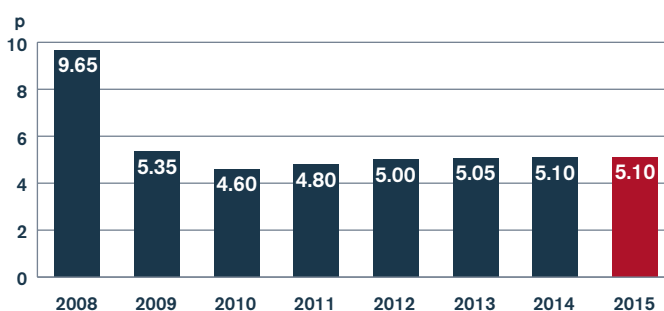
Total return performance for year to 31 October 2015<sup>1</sup>



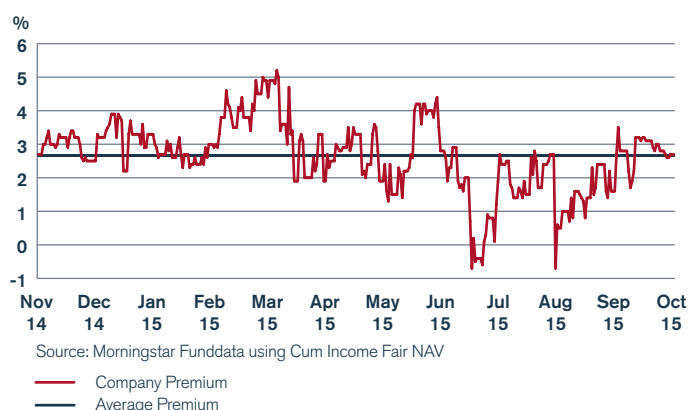
Premium to NAV at year end<sup>4</sup>



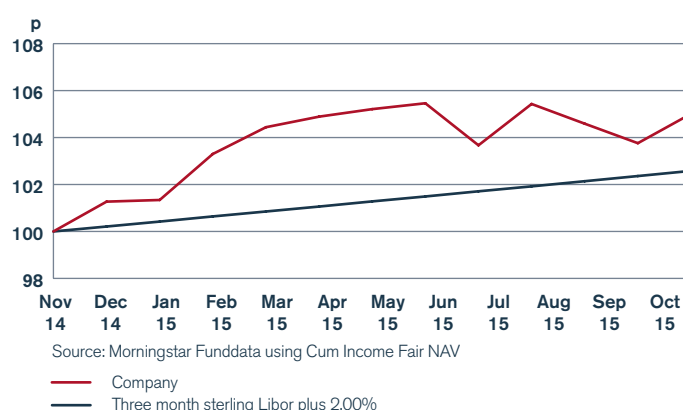
Dividend per share<sup>5</sup>



(Discount)/premium to NAV for the year<sup>4</sup>

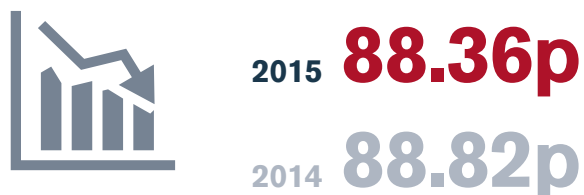


Total return share price performance<sup>6</sup>



# Strategic Report: Performance Highlights (continued)

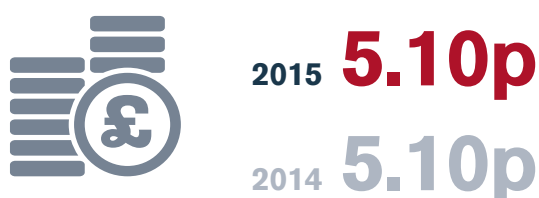
## NAV per share at year end<sup>4</sup>



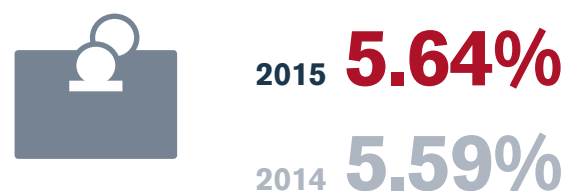
## Share price at year end<sup>7</sup>



## Dividend for the year<sup>5</sup>



## Dividend yield



## Ongoing charge for the year<sup>8</sup>



## Total gearing at year end



## Number of portfolio investments held at year end



## Performance fee<sup>9</sup>



1 Total return against three month sterling Libor plus 2.00%

2 Net asset value total return (including dividends reinvested and excluding transaction costs)

3 Since launch the benchmark was three month sterling Libor plus 1.25%. With effect from 1 November 2014 the benchmark changed to three month sterling Libor plus 2.00%

4 Calculated using published daily net asset values including current year revenue

5 Ordinary dividends paid per share for each financial year ended 31 October (includes dividends declared but not yet paid)

6 Rebased to 100p

7 Mid-market closing price

8 The ongoing charge excludes the performance fee. The ongoing charge including the performance fee was 1.39% (2014: 1.87%)

9 The 2014 performance fee was paid in the financial year ended 31 October 2015. The 2015 performance fee will be paid in the financial year ending 31 October 2016

A glossary of terms is included on pages 22 to 23

Sources: Morningstar for the AIC, Morningstar Funddata, Henderson and 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 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 and its wholly-owned subsidiary, Henderson Diversified Income Luxembourg S.a.r.l. (the 'Group') uses synthetic gearing in the form of credit default swaps which are a credit derivative, to enable it to earn additional income by taking the default risk on certain bonds.

The Group 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 Group's exposure to credit derivatives is capped at a maximum net long or short position of 30% of their net assets. It 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.

The Board has noted that the bear market in credit markets has resulted in valuations being considerably cheaper than they have for a number of years. However, the end of the bear market may well provide a compelling opportunity to lock in highly attractive long term income streams in good quality companies with the consequent benefits for shareholders in both capital and income terms. Should such a scenario arise, the Board would like the flexibility to be able to increase the total gearing above the existing 30% to a new maximum level of 40% and is therefore seeking shareholder approval to permit this additional flexibility.

A separate circular will be sent to shareholders with this Annual Report, putting forward proposals to amend the Group's existing gearing limit as follows:

- the exposure to credit derivatives which will be capped at a maximum net long or short position of 40% of its net assets; and
- that total gearing will not exceed 40% of net assets.

A resolution to approve the amended gearing limit will be put to shareholders at the 2016 annual general meeting.

## Risk

For more information about the Company's principal risks please see pages 16 to 19.

## Management

The Company qualifies as an Alternative Investment Fund in accordance with the Alternative Investment Fund Managers Directive. The Company has appointed Henderson Investment Funds Limited ('HIFL') to act as its Alternative Investment Fund Manager in accordance with an agreement which was effective from 22 July 2014 and which is terminable on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA'). References to Henderson within this Annual 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 chargeable 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 chargeable assets in any financial year. The performance fee hurdle is reviewed annually by the Management Engagement Committee and any recommendations are made to the Board for approval.

With effect from 1 November 2015 the management fee of 0.65% was reduced to 0.60% calculated and paid quarterly in arrears of the value of the Company's net assets. The overall annual cap on total fees (base fee and performance fee) was also reduced from 1.50% to 1.20% of net assets in any financial year.

## Subsidiary

The subsidiary was previously consolidated into the Company's financial statements but following changes to accounting standards in the year under review, it is now held at fair value and disclosed as 'interests in subsidiary' on the Company Balance Sheet.

# Strategic Report: Chairman's Statement



**The Chairman of the Company, Paul Manduca, reports on the year to 31 October 2015**

## Introduction and changes to financial reporting

I am pleased to report that your Company continued to grow over the year under review with net assets of £145.4m at the year end compared to £124.6m at the beginning of the year. This is a rise of 16.7%, reflecting the success we have had in issuing new shares at a premium to net asset value. The aggregated revenue return was 5.16p per ordinary share and dividends were maintained with a total for the year of 5.10p per ordinary share.

As I reported to you in the half year update International Financial Reporting Standard 10 ('IFRS 10') now states that Investment Entities should measure all of their subsidiaries that are themselves Investment Entities, at fair value. Your Board asked the Audit Committee to evaluate the application of the new accounting standard IFRS10 as it applies to Investment Entities. As a result of its recommendation, your Board has prepared audited accounts for the year ended 31 October 2015 where the Company is presented as a separate entity and has accounted for the Company's interest in the subsidiary at fair value on the Company's Balance Sheet. This follows the methodology used in the half year update. Further information about the Audit Committee's evaluation can be found on page 35.

To help enable shareholders to understand the full results and position of the total portfolio, your Board has presented a supplementary Aggregated Statement of Comprehensive Income and Aggregated Balance Sheet, prepared on a basis consistent with prior years on pages 36 and 37 respectively.

## Performance

Your Company's net asset value per ordinary share decreased slightly from 88.82p to 88.36p over the year as did the share price from 91.25p to 90.50p.

## Dividends and dividend policy

On 31 December 2015 a fourth interim dividend of 1.35p per share for the year ended 31 October 2015 was paid. In this financial year, your Board also paid three interim dividends of 1.25p per share making 5.10p for the financial year under review, which is the same as the prior year. This reflects the Board's view of the outlook for credit markets in the year ahead.

## Gearing

Your Board maintains an active gearing policy given the attractive arbitrage between the cost of debt and the yields that can be achieved in the portfolio and the desire to at least maintain the dividend at the current level. This is delivered through a combination of traditional financial gearing, which is funded using a loan facility provided by Scotiabank, and synthetic gearing, being the gearing effect of investing in credit derivatives. Over the year under review total gearing rose from 12.98% to 16.90% with the emphasis shifting from synthetic gearing to financial gearing, reflecting the lower risk-reward profile of credit derivatives at this point in the cycle.

## Amendments to the investment policy

Your Board has recently undertaken a review of its investment policy and in particular the gearing limit within the policy, in the light of recent market movements. Your Board and Henderson believe that the end of the bear market may well provide a compelling opportunity to lock in attractive income streams from high quality companies. In order to take advantage of these opportunities should they arise, your Board would like the flexibility to increase total permitted gearing above the current limit of 30% of net assets to a new limit of 40% of net assets.

A resolution will be put to shareholders to approve the amended investment policy at the 2016 annual general meeting. Further details of this amendment to the investment policy can be found in the separate explanatory circular which is being sent to shareholders with this Annual Report.

# Strategic Report: Chairman's Statement (continued)

---

## Prospectus and share issues

On 26 March 2015 your Company issued a Prospectus to issue up to 70 million new shares to meet market demand. Your Board believes that the Company's continuing ability to issue shares at a premium to the net asset value enhances net asset value for existing shareholders, increases the liquidity of the shares, spreads the fixed costs of the Company over a larger asset base and reduces volatility by preventing the build-up of excessive demand for shares. In addition, a general meeting was held on 14 December 2015 where shareholders agreed to renew the authority to issue shares on a non-pre-emptive basis.

In the year under review your Company issued 24,236,514 shares and a further 1,950,000 shares have been issued between 1 November 2015 and 29 February 2016.

## Management and performance fee arrangements

Following a review of the management fee arrangements with Henderson, with effect from 1 November 2015, the base management fee has been reduced to 0.60% of net assets and the overall cap on total fees in a financial year (base fee and performance fee) has been reduced from 1.50% to 1.20% of net assets. The next fee review will be in 2017.

## Board

Your Board has agreed a succession plan for Directors and the first stage of this will be the retirement of David Smith following the 2016 annual general meeting. David has been a Director since the launch of the Company and has made a significant contribution, particularly in the area of sales and marketing. We thank him for his diligent service and shall miss his wise counsel and advice. The second stage will be the retirement of Helen Green and myself following the annual general meeting in 2017 and the final stage will be the retirement of Nigel Parker following the annual general meeting in 2018.

In regard to new Directors, I am pleased to report that Ian Wright and Angus Macpherson were appointed to the Board as independent non-executive Directors on 23 November 2015 and 18 January 2016 respectively. Ian is a Jersey based Chartered Accountant with a wealth of experience in both financial services and regulation whilst Angus is a UK based investment banker with considerable experience of the financial markets. Your Board welcomes the experience and expertise they will bring.

## Annual general meeting

Our ninth annual general meeting will be held on Tuesday 12 April 2016 at 11.00 a.m. at our registered office in Jersey. Your Board recommends unanimously to shareholders that they vote in favour of each of the resolutions, as the Directors intend to do in respect of their own beneficial holdings. As in previous years a shareholder event, which includes the opportunity to meet the Fund Managers, will be held on Thursday 14 April 2016 at 10.30 a.m. at Henderson's offices in London and will be followed by light refreshments. For those that cannot attend in person the shareholder event will be available to watch online at **[www.henderson.com/trustslive](http://www.henderson.com/trustslive)**.

## Outlook

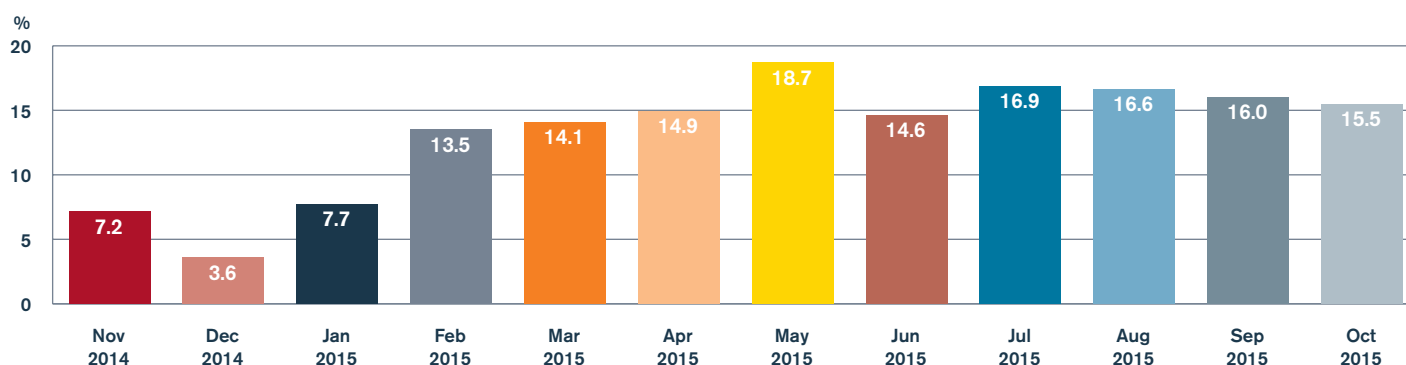
The outlook for the credit markets is uncertain and our Fund Managers are keeping the gearing on the Company at a level that will enable them to maintain the flexibility to add at higher yields should the opportunity present itself. It is worth noting that the investments in UK companies (particularly insurers and banks) face an additional level of volatility in the form of the referendum on continued membership of the European Union. In an environment of already heightened risk aversion this could result in material price movements for the bonds issued by these companies.

# Strategic Report: Portfolio Information

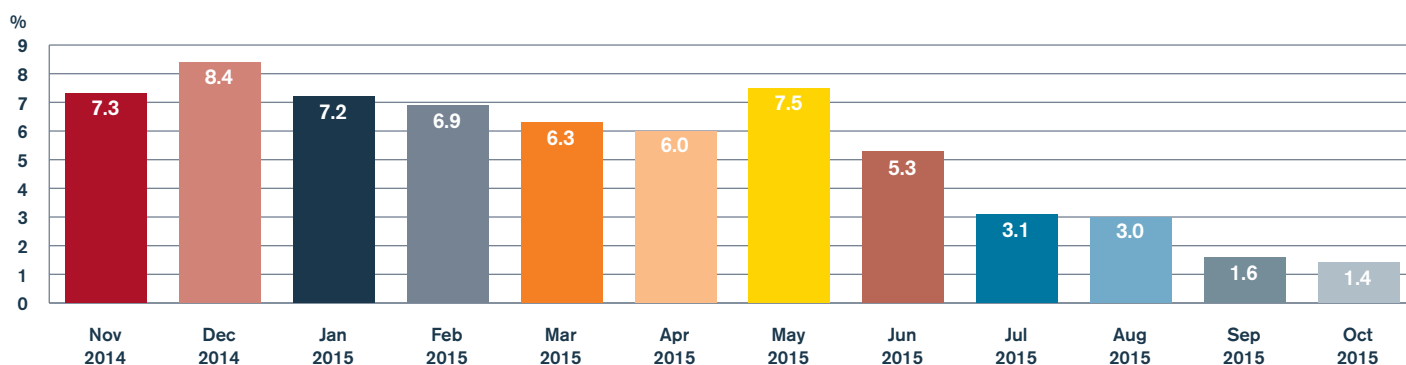
## Ten largest investments at 31 October

Ranking 2015	Ranking 2014	Investment	Principal activities	Type of investment	Country	Market value £'000	Percentage of portfolio
1	1	Lloyds Group	Diversified banking	High yield bond	UK	4,088	2.43
2	26	Axa	Insurance	Investment grade bond	France	4,024	2.40
3	2	Nationwide	Banks	High yield bond/equity	UK	3,982	2.37
4	16	Virgin Media	Cable TV	High yield bond	UK	3,603	2.15
5	36	RAC	Commercial services	Secured loan	UK	3,505	2.09
6	96	Orange	Telecommunications	Investment grade bond	France	3,356	2.00
7	18	Royal Bank of Scotland	Diversified banking	High yield bond	UK	3,145	1.87
8	37	Barclays	Diversified banking	High yield bond	UK	3,039	1.81
9	78	AA	Commercial services	High yield bond	UK	3,032	1.81
10	28	Brake Brothers	Food	High yield bond	UK	2,910	1.73

## Financial gearing levels over the year to 31 October 2015



## Synthetic gearing levels over the year to 31 October 2015



# Strategic Report: Fund Managers' Report



The Fund Managers' of the portfolio, John Pattullo and Jenna Barnard report on the year to 31 October 2015

## Portfolio performance

The Company provided a net asset value total return of 5.0% over the course of the year and maintained dividend payments of 5.10p for shareholders. It is clear from this profile of return that there was a modest amount of capital loss and, the overall return was driven by income. As Fund Managers we view this profile of return as reasonable in the context of a much more difficult environment for credit investing than we have experienced in the last few years. Key to the Company's performance was the avoidance of any of the number of negative corporate surprises that characterised the year. Many of these originated from the commodities sector (which the Fund Managers maintain no exposure to) but also genuine surprises such as the VW emissions scandal. Although default rates in Europe remained at exceptionally low levels throughout the financial year, the same cannot be said of the ever-dominant US credit markets where modestly rising default rates were a hallmark of the year. Much of this was due to the higher commodity (particularly energy) weighting in the US market but it was also a function of a more general rising risk aversion which caused investors globally to display a much more cautious approach to refinancing of marginal credits.

Indeed it now seems clear that the environment for US corporate bond investing has entered a late cycle phase. A more cautious approach to stock selection is likely to prevail. One obvious sign of this is an increased trend to more shareholder friendly activity at the expense of bondholders i.e. debt-financed M&A and share buybacks. This is particularly notable for better-rated investment grade companies (the healthcare industry being a posterchild in this respect). However on the positive side this has already caused a repricing of spreads to wider levels (higher yields all else being equal) which has, on occasion, presented some selective opportunities. One such opportunity was the US telecom company Verizon which used a large amount of debt to buy out Vodafone's stake in the company in 2013. Following a general market sell-off we initiated a position in the company's longer dated bonds with a yield of 5.3%. At the same time we also built a position in AT&T at similar yields. Although the corporate sector is in this late cycle phase there remains one sector which has been in a more positive phase of the

cycle for bondholders – the European banking sector. It is remarkable to us that seven years after the financial crisis, European banks continue to announce rights issues and dividend cuts (painful for equity investors) in order to meet ever-harsher regulatory requirements. As a result the Fund Managers have found opportunities for income investment in this sector. One area is legacy subordinated Tier 1 bonds which are being gradually phased out as Tier 1 capital under new, tougher regulation. In addition, the Company held a smaller tactical position, in the new loss-absorbing hybrid bonds issued by banks with the Swiss banks (Credit Suisse & UBS) a particular focus given their emphasis on wealth management and reduction of their investment banking operations.

Finally, turning to high yield corporate bonds, we have been managing the Company's exposure to this sector in a much more defensive manner reflecting the more inhospitable market environment described above. This has manifested itself through aggressive sell discipline where a company begins to show any signs of stress or where the market may no longer be willing to support a company at its current leverage due to heightened investor risk aversion. As a result we were quick to rid the portfolio of a number of positions which subsequently sold off aggressively: Intelsat (the satellite company), Altice (telecommunications/cable acquisition vehicle), Sprint (US telecommunications) and Valeant (debt financed pharmaceutical acquirer). Even though many or all of these companies may not ultimately default, we felt that the Company would be able to buy the bonds back at lower prices in the future should it wish to and could not justify the risk of capital loss in the short term. Turning to bonds that we purchased for the Company, these also reflect this more cautious tone. Examples include bonds issued by the funeral care and convenience food retailing divisions of Co-operative Group, CentreParcs and the French blood testing business, LabCo. At the higher risk end of the spectrum positions were also added to bonds issued by Tesco reflecting our view that the debt reduction strategy was achievable through asset sales and focus on cash flow (and much easier than the underlying operational turnaround).

# Strategic Report: Fund Managers' Report (continued)

## Secured loans

The secured loans portfolio experienced a significant amount of churn through the period as a number of borrowers repaid their loans as a result of a successful IPO process or having been acquired. Loans that were repaid in full included Alliance Boots, Intertrust, TDF and Worldpay.

Although the financial performance of the companies in which the portfolio has been invested was generally quite stable through the period, the Company did exit a number of holdings due to concerns about the performance of the business. These included small positions in Deoleo (Spanish food producer) and Burtons Biscuits (UK food producer), which were both adversely impacted by the significant competition being seen in the food retail sector.

New loan issuance in Europe has been fairly steady through the year to 31 October 2015 with €55bn of issuance, down 22% versus the prior year (source S&P LCD). Our strategy through the period has been to continue to focus investment on sourcing new primary loans rather than purchasing secondary issues as we felt primary loans offer a more attractive risk-reward.

We have been particularly selective with new additions to this portfolio, given the view that there were better opportunities in other parts of the fixed income market. As a consequence of this and the exits from the portfolio mentioned above, the number of loan holdings has reduced from 44 to 35 as at 31 October 2015. New additions included Douglas (Germany, retail) and Evry (Norway, technology). The secured loan portfolio did not report any defaults over the year. The market default rate has continued to fall with the trailing 12 month default rate as at the end of October 2015 standing at 1.4% (source S&P Capital IQ). The main detractor to performance was a small position in BMC Software (US, technology). We have maintained our strategy of primarily holding the most senior loans (rather than second lien or mezzanine tranches) with good liquidity, and focused purchases on the best risk-adjusted return prospects supported by detailed fundamental research.

## Performance

The European secured loan market, delivered a healthy return despite significant periods of volatility in fixed income markets. The market return based on the CS Western European Leveraged Loan Index (hedged to GBP) stood at 4.0%, which was slightly below our expectations for the period. Returns were compressed largely by the recent risk asset market volatility in the first and last quarters of the year. Looking forward we expect loans to deliver a return of around 5.0% 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 5.2%, with broader European loan market yielding 4.8% (source Henderson, Credit Suisse 30 November 2015);
2. We see the potential for modest capital gains as the majority of European loan prices are again below par (source Credit Suisse 30 November 2015); and
3. We expect the low default environment to continue.

## Equities

The equity portion represented 7.2% of the total portfolio at the period end. During a year in which equity markets moved sideways, we have sought to position the portfolio to attract both dividend yield and capital growth. Our holding in Royal Dutch Shell was switched into BP and a new position in Taylor Wimpey, which was bought to benefit from the strong demand for new homes, performed well. HSBC continued to pay an attractive dividend although share price performance was restrained by concerns about regulation and also the bank's exposure to Asia Pacific, whilst life insurer Phoenix has benefited from a significant improvement in its balance sheet. Elsewhere, the blue chip holdings of British American Tobacco and National Grid continued to deliver decent dividend growth whilst defence contractor BAE Systems and real estate investment trust Segro both remain well positioned for future growth.

## Outlook

With credit markets having been in a well-entrenched bear market since June 2014, valuations are considerably cheaper than they have been for a number of years. Risks however, have also risen appreciably as the default cycle builds and as a result, we feel patience is still required. Credit markets have a tendency to overshoot fair value by a considerable margin, not least when liquidity conditions deteriorate. Should this final leg of the bear market occur we will be able to lock in highly attractive long term income streams in good quality companies so long as we have retained adequate flexibility to do so in advance.

# Strategic Report: Investment Portfolio as at 31 October 2015

## 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.

Investment	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Lloyds Group	\$	UK	Diversified banking	4,088	2.43
Virgin Media	£	UK	Cable TV	3,603	2.15
Royal Bank of Scotland	Euro/\$	UK	Diversified banking	3,145	1.87
Barclays	£/\$	UK	Diversified banking	3,039	1.81
AA	£	UK	Commercial Services	3,032	1.81
Auris	Euro	Germany	Healthcare-Products	2,886	1.72
Iron Mountain	£/\$	US	Commercial Services	2,555	1.52
Aviva	£	UK	Insurance	2,492	1.48
CPUK Finance	£	Ireland	Diversified financial services	2,433	1.45
Credit Suisse	\$	Switzerland	Banks	2,359	1.40
Arqiva	£	UK	Media	2,338	1.39
Co-Operative Group	£	UK	Food	2,219	1.32
BBVA	\$	Spain	Banks	2,154	1.28
Dresdner	\$	Germany	Banks	2,146	1.28
First Data	\$	US	Software	2,105	1.25
Galaxy	£	UK	Insurance	1,983	1.18
Brake Brothers	£	UK	Food	1,919	1.14
Unity Media	Euro/\$	Germany	Media	1,704	1.02
Phoenix Group Holdings	£	UK	Insurance	1,622	0.97
Wachovia	\$	US	Banks	1,571	0.94
Ardagh	Euro/\$	Ireland	Packaging & Containers	1,474	0.88
Coventry Building Society	£	UK	Banks	1,440	0.86
IDH	£	UK	Healthcare-Products	1,419	0.85
Enel	£	Italy	Utilities	1,371	0.82
Tesco	£	UK	Food	1,266	0.75
Hastings	£	UK	Diversified financial services	1,222	0.73
Lock	Euro	Norway	Diversified financial services	1,189	0.71
Sirius	\$	US	Media	1,156	0.69
Wind Acquisition	Euro	Italy	Telecommunications	1,111	0.66
Assicurazioni Generali	£	Italy	Insurance	1,096	0.65
TMF	Euro	Netherlands	Commercial Services	1,028	0.61
Oberthur	Euro	France	Computers	856	0.51
Labco	Euro	France	Healthcare-Services	848	0.50
Numericable	\$	France	Media	801	0.48
UBS	\$	Switzerland	Banks	780	0.46
Regal Entertainment	\$	US	Leisure	777	0.46
Bank of Ireland	Euro	Ireland	Banks	718	0.43
Telenet Finance	Euro	Luxembourg	Telecommunications	696	0.41
Nationwide Building Society	£	UK	Banks	695	0.41
HCA	\$	US	Healthcare-Services	687	0.41
International Game Technology	\$	US	Gaming	646	0.38
Charter Communications	\$	US	Media	635	0.38
Telefonica	£	Spain	Telecommunications	511	0.30
Trionista	Euro	Germany	Electronics	494	0.29
Thomas Cook	£	UK	Media	451	0.27
R&R Ice Cream	Euro	UK	Food	436	0.26
Cabot Financial	£	UK	Diversified financial services	335	0.20
Infor Lawson	\$	US	Software	271	0.16
Investec	£	UK	Diversified financial services	245	0.15
Levi Strauss	\$	US	Apparel	208	0.12
Avis	Euro/\$	US	Commercial Services	194	0.12
Ziggo	Euro	Netherlands	Diversified financial services	178	0.11
CHS/Community Health	\$	US	Healthcare Services	173	0.10
Marlin	£	UK	Diversified financial services	121	0.07
Rexam	Euro	UK	Packaging & Containers	56	0.03
<b>Total high yield bonds</b>				<b>74,977</b>	<b>44.63</b>

# Strategic Report: Investment Portfolio

## as at 31 October 2015 (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.

Investment	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Axa	£	France	Insurance	4,024	2.40
Orange	£	France	Telecommunications	3,356	2.00
Prudential	£	UK	Insurance	2,737	1.63
BUPA	£	UK	Insurance	2,543	1.51
RSA Insurance	£	UK	Insurance	2,327	1.39
Scottish Widows	£	UK	Insurance	2,268	1.35
BNP Paribas	\$	France	Banks	2,245	1.34
Standard Life	£	UK	Insurance	2,085	1.24
AT&T	\$	US	Telecommunications	1,320	0.79
Legal & General	£	UK	Insurance	1,297	0.77
HSBC	£	UK	Banks	1,010	0.60
Rabobank	£	Netherlands	Banks	901	0.54
Friends Life	£	UK	Insurance	822	0.49
Verizon Communications	\$	US	Telecommunications	736	0.44
Sky	\$	UK	Media	594	0.35
Credit Agricole	\$	France	Banks	593	0.35
CVS Health Corporation	\$	US	Healthcare-Products	323	0.19
Reynolds America	\$	US	Tobacco	294	0.18
Charter Communications	\$	US	Media	171	0.10
<b>Total investment grade bonds</b>				<b>29,646</b>	<b>17.66</b>

### Asset backed securities

Investment	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Tesco Property Finance	£	UK	Food	1,190	0.71
<b>Total asset backed securities</b>				<b>1,190</b>	<b>0.71</b>

### Equities

Investment	Currency	Country	Industry	Market value £'000	Percentage of portfolio
Nationwide Pref	£	UK	Banks	3,287	1.96
National Grid	£	UK	Utilities	1,387	0.83
HSBC	£	UK	Banks	1,142	0.68
Taylor Wimpey	£	UK	Construction	1,139	0.68
Segro	£	UK	REITS	1,125	0.67
BP	£	UK	Oil & Gas	1,101	0.65
British American Tobacco	£	UK	Tobacco	1,081	0.64
Phoenix	£	UK	Insurance	984	0.59
BAE Systems	£	UK	Defence	881	0.52
<b>Total equities</b>				<b>12,127</b>	<b>7.22</b>
<b>Total investments</b>				<b>117,940</b>	<b>70.22</b>

# Strategic Report: Investment Portfolio

## as at 31 October 2015 (continued)

### Investments held in subsidiary

The following investment portfolio analysis is provided on a look through basis to provide shareholders with information regarding the investments held by the subsidiary.

### 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.

Investment	Currency	Country	Industry	Market value £'000	Percentage of portfolio
RAC	£	UK	Commercial services	3,505	2.09
ERM	\$	UK	Business services	2,600	1.55
Delachaux	£/\$	France	Industrials	2,584	1.54
Verallia	Euro	France	Materials	2,405	1.43
Formula 1	\$	UK	Media	2,306	1.37
Iglo Birds Eye	£	UK	Food	2,240	1.33
Travelport	\$	US	Travel services	2,172	1.29
Gala	£	UK	Leisure	2,154	1.28
Douglas Nocibe	Euro	Germany	Retail	2,096	1.25
Eircom	Euro	Ireland	Telecommunications	2,077	1.24
Sig	Euro	Switzerland	Materials	1,995	1.19
Kloeckner Pentaplast	\$	Germany	Materials	1,943	1.16
Pret A Manger	£	UK	Food	1,799	1.07
Sam Finance	£/Euro	Spain	Diversified financial services	1,658	0.99
BVD	£	Netherlands	Financials	1,494	0.89
Evry	Euro	Norway	Services	1,459	0.87
Polyconcept	\$	France	Business services	1,417	0.84
Telepizza	Euro	Spain	Food	1,335	0.79
Scandlines	Euro	Germany	Transportation	1,198	0.71
Delek	Euro	Israel	Utilities	1,055	0.63
Brake Brothers	£	UK	Services	991	0.59
Numericable	Euro	France	Media	990	0.59
Mediq	Euro	Netherlands	Retail	904	0.54
BMC Software	Euro/\$	US	Software	854	0.51
Orion	Euro	Germany	Chemicals	851	0.51
Chesapeake	£	UK	Packaging & containers	825	0.49
Springer	Euro	Germany	Publishing	721	0.43
Infor Lawson	Euro	US	Software	717	0.43
Unit 4	Euro	Netherlands	Software	707	0.42
CEP	Euro	France	Diversified financial services	678	0.40
Exopack	Euro	US	Packaging & containers	617	0.37
Xerium	\$	US	Forest products & paper	490	0.29
Wind	Euro	Italy	Telecommunications	409	0.24
Monier	Euro	Germany	Buildings	361	0.21
La Seda	Euro	Spain	Chemicals	301	0.18
<b>Total secured loans</b>				<b>49,908</b>	<b>29.71</b>

### Equities

Investment	Currency	Country	Industry	Market value £'000	Percentage of portfolio
British Vita	Euro	UK	Chemicals	115	0.07
<b>Total equities</b>				<b>115</b>	<b>0.07</b>
<b>Total investments held in subsidiary</b>				<b>50,023</b>	<b>29.78</b>
<b>Total aggregate investments</b>				<b>167,963</b>	<b>100.00</b>

# Strategic Report: Historical Performance and Financial Information

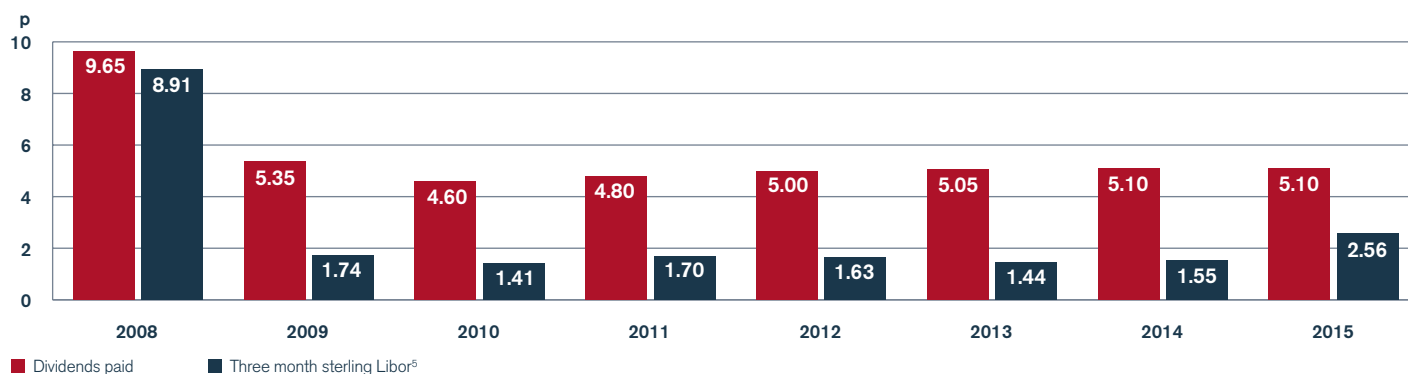
## Total return performance<sup>1</sup>

	1 year %	3 years %	5 years %	Since launch %
NAV	5.0	25.7	42.2	53.7
Share price <sup>2</sup>	4.8	33.4	52.3	53.6

## Financial information as at 31 October

Date	Net assets £'000	NAV p	Share price p	Premium/ (discount) %	Profit/(loss) for year £'000	Total return p	Expenses <sup>3</sup> %
2008	50,700	60.6	68.0	12.2	(23,279)	(42.56)	–
2009	62,236	74.4	69.5	(6.6)	16,638	19.89	1.75
2010	69,483	83.1	79.3	(4.6)	11,149	13.33	1.71
2011	65,446	78.2	76.8	(1.8)	(105)	(0.13)	1.55
2012	69,647	83.3	80.2	(3.7)	8,384	10.02	1.46
2013	80,889	87.9	91.5	4.1	8,214	9.52	1.40
2014	124,604	88.8	91.3	2.8	6,579	5.47	1.08
<b>2015</b>	<b>145,369</b>	<b>88.4</b>	<b>90.5</b>	<b>2.7</b>	<b>6,586</b>	<b>4.23</b>	<b>1.10</b>

## Dividend history<sup>4</sup>



<sup>1</sup> Including dividends reinvested and excluding transaction costs

<sup>2</sup> Mid-market closing price

<sup>3</sup> Using total expense ratio methodology for 2010 and previous years; ongoing charge methodology thereafter

<sup>4</sup> Ordinary dividend paid per share. In the 2008 financial period, five interim dividends were paid over a 15 month period totalling 9.65p

<sup>5</sup> The Company's benchmark since launch was three month sterling Libor plus 1.25%. With effect from 1 November 2014 the Company's benchmark changed to three month sterling Libor plus 2.00%

# Strategic Report: Director Biographies

## 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:** 5 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 and Chairman of Templeton Emerging Markets Investment Trust 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 JPMorgan European Smaller Companies Investment Trust plc. He is a past Chairman of the Association of Investment Companies.

### Nigel Parker

**Position:** Director

**Date of appointment:** 5 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.

### Helen Green

**Position:** Chairman of the Audit Committee

**Date of appointment:** 5 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 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, City Natural Resources High Yield Trust plc and Acorn Income Fund Limited, of which she is Chairman.

### David Smith

**Position:** Director

**Date of appointment:** 5 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 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.

### Ian Wright

**Position:** Director

**Date of appointment:** 23 November 2015

Ian is a Commissioner of the Jersey Financial Services Commission and Chairman of its Audit Committee. He is also Deputy Chairman of the Financial Reporting Review Panel which is part of the UK Financial Reporting Council. He is a Chartered Accountant.

Previously he was an audit partner in Price Waterhouse and then PriceWaterhouseCoopers including serving as the Senior Partner of the firm's international accounting consulting group. A founder member of the IFRS Interpretations Committee he has also served on professional committees of the ICAEW and FEE.

Ian is resident in Jersey having previously worked in the Channel Islands, London and Bahrain.

### Angus Macpherson

**Position:** Director

**Date of appointment:** 18 January 2016

Angus is Chief Executive of ES Noble & Company. He is also Chairman of JP Morgan Elect PLC, Chairman of the Belhaven Hill School Trust Ltd, a Director of Haitong UK Ltd and a Member of the Scottish Government's Financial Services Advisory Board. Previously he worked for Merrill Lynch in London, New York, Singapore and Hong Kong, latterly as Head of Capital Markets and Financing in Asia.

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.à.r.l.

# Strategic Report: Corporate Information

## Registered office

Liberté House  
19-23 La Motte Street  
St Helier  
Jersey  
JE2 4SY

## Service providers

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

Depository and Custodian  
BNP Paribas Securities Services (London)  
55 Moorgate  
London  
EC2R 6PA

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  
Telephone: 01534 813800

Registrar  
Computershare Investor Services (Jersey) Limited  
Queensway House  
Hilgrove Street  
St. Helier  
Jersey  
JE1 1ES  
Telephone: 0370 707 4040  
info@computershare.co.je

## Independent auditors

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

## Financial calendar

Financial year end	31 October 2015
Annual general meeting <sup>1</sup>	12 April 2016
Shareholder event <sup>2</sup>	14 April 2016
1st interim dividend 2016	31 March 2016
2nd interim dividend 2016	30 June 2016
3rd interim dividend 2016	30 September 2016

## Information sources

For more information about the Company, visit the website at **[www.hendersondiversifiedincome.com](http://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, YouTube and Facebook

For alternative access to Henderson's insight you can now follow us on Twitter, YouTube and Facebook.



## Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 225 525, email **[Henderson@halifax.co.uk](mailto:Henderson@halifax.co.uk)** or visit their website **[www.halifax.co.uk/sharedealing](http://www.halifax.co.uk/sharedealing)**. Henderson ISA holders can contact the Henderson ISA department at PO Box 10665, Chelmsford CM99 2BF, telephone 0300 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.

## 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.

<sup>1</sup> At the registered office, Liberté House, 19-23 La Motte Street, St Helier, Jersey JE2 4SY at 11:00 am

<sup>2</sup> At the offices of Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE at 10:30 am

# Strategic Report: Corporate Information (continued)

## 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 (Jersey Funds Law). 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 Directors have carried out a robust assessment of the principal risks facing the Company. They have subsequently drawn up a matrix of risks facing the Company and 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:

Risks	Controls and mitigation	Board action/consideration
<p><b>Investment strategy</b></p> <p>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.</p> <p>Poor investment performance, for example, failure to achieve expected returns or returns achieved only with excessive risk.</p>	<p>Henderson operates in accordance with an investment limits and restrictions schedule determined by the Board, which includes limits on the extent to which gearing may be employed.</p> <p>Henderson provides the Board with management information, including performance data, reports and shareholder analyses.</p>	<p>The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of gearing.</p> <p>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.</p> <p>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.</p> <p>Investment strategy is reviewed regularly at Board meetings.</p> <p>The Board considers this risk to have remained unchanged throughout the year under review.</p>
<p><b>Market and financial</b></p> <p>Market risk arises from uncertainty about the future prices of the Company's investments.</p> <p>The fair value or future cash flows of a financial instrument held by the Company may fluctuate due to changes in market prices.</p> <p>The financial risks faced by the Company include currency risk, market price risk, interest rate risk, liquidity risk and credit risk.</p>	<p>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.</p> <p>Henderson and BNP Paribas Securities Services provide an annual AAF 01/06 Report to the Board. The Board also receives quarterly internal controls reports from these service providers as well as the monthly limits and restrictions schedule, details in investment strategy above.</p> <p>For further details about these risks please see note 14 on pages 51 to 57 of the Annual Report.</p>	<p>The Board reviews and agrees policies for managing these risks.</p> <p>The Board considers these risks to have remained unchanged throughout the year under review.</p>

# Strategic Report: Corporate Information (continued)

Risks	Controls and mitigation	Board action/consideration
<p><b>Accounting, legal and regulatory</b></p> <p>The Company is regulated by the Jersey Financial Services Commission and must comply with the regulatory requirements in Jersey.</p> <p>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.</p> <p>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.</p>	<p>The Board relies on its Corporate Secretary and advisers to ensure adherence to Jersey and UK company law and the UKLA Rules however the responsibility to comply remains with the Board.</p>	<p>The key requirements are captured within a fund policy manual and are subject to periodic testing by Henderson.</p> <p>The Board considers this risk to have remained unchanged throughout the year under review.</p>
<p><b>Operational</b></p> <p>Disruption to, or the failure of Henderson or BNP Paribas Securities Services accounting, dealing, or payment systems, or the custodian's, depositary's or other counterparty records could prevent the accurate reporting or monitoring of the Company's financial position.</p> <p>BNP Paribas Securities Services S.C.A (Jersey) sub-contracts some of the operational functions (principally relating to trade processing, investment administration and accounting) to BNP Paribas Securities Services.</p>	<p>The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the Financial Reporting Council and is subject to regular review by the Board.</p> <p>The Board has overall responsibility for the Company'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 Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.</p> <p>The Board has delegated responsibility to the depositary to appoint a custodian under the terms of the depositary agreement.</p>	<p>The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 October 2015. 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.</p> <p>All business risks faced by the Company are recorded in a risk map which is reviewed periodically by the Audit Committee which also annually reviews the Company's third party service provider's assurance reports to provide comfort that these companies have appropriate controls in place to manage risk.</p> <p>The Board receives periodic reports from, and has meetings with, the depositary as appropriate.</p> <p>The Board considers this risk to have remained unchanged throughout the year under review.</p>
<p><b>Borrowing</b></p> <p>As an investment company, the Company uses borrowing to enhance returns to shareholders. Failure to maintain the loan facility because of a breach of agreed covenants, or inability to renew the loan facility because of the bank's unwillingness to lend could cause possible loss of shareholders' assets because of forced sales at short notice at a disadvantageous price.</p>	<p>The Board relies on its Corporate Secretary to adhere to the terms of the loan facility.</p>	<p>The Corporate Secretary has responsibility for the ongoing monitoring of the bank covenants and reports to the Board at each meeting adherence to these as part of the monthly limits and restrictions schedule.</p> <p>The Board considers this risk to have remained unchanged throughout the year under review.</p>

# Strategic Report: Corporate Information (continued)

Risks	Controls and mitigation	Board action/consideration
<p><b>Currency hedging/foreign exchange</b></p> <p>The Company accounts for its activities and reports its results in sterling while investments may be made and realised in other currencies. In any instances where the Company does not hedge its currency exposure, the movement of exchange rates between sterling and the other currencies in which the Company's investments are denominated or its borrowings are drawn down, may have a material effect, unfavourable as well as favourable, on the returns otherwise experienced on the investments made by the Company.</p> <p>Although the Fund Managers seek to manage any foreign exchange exposure in relation to the Company, there is no assurance that this can be performed effectively. Any currency hedging may force the Fund Managers to realise underlying investments, as well as adversely affecting the overall value of the portfolio and the net asset value per share.</p> <p>Movements in the foreign exchange rate between sterling and the currency applicable to a particular shareholder may have an impact upon such shareholder returns in their own currency of account.</p>	<p>The Company engages in currency hedging of capital risk but not income risk. It 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.</p>	<p>The Board has assessed the Company's income and equity and concluded that neither is materially sensitive to changes in exchange rates.</p> <p>The Board reviews the currency exposure of the portfolio at each meeting.</p> <p>The Board considers this risk to have remained unchanged throughout the year under review.</p>
<p><b>Interest rates</b></p> <p>In the event of a significant rising interest rate environment and/or economic downturn, loan defaults may increase and such an increase could result in losses that may adversely affect the Company's operating results. In the event of a general rise in interest rates, the value of certain investments that may be contained in the Company's investment portfolio, particularly those which are not at floating rates may fall, reducing the net asset value per share of the Company.</p>	<p>As the Company's dividend yield target is three month Libor plus 2.00%, shareholders' income should not be diminished should interest rates rise. Likewise, if interest rates fall, the Company's income will fall.</p>	<p>The Company remains committed to the three-month Libor plus 2.00% target yield on net assets. This is reviewed at each Board meeting.</p> <p>The Board considers this risk to have remained unchanged throughout the year under review.</p>

# Strategic Report: Corporate Information (continued)

Risks	Controls and mitigation	Board action/consideration
<p><b>Credit risk including credit default risk</b></p> <p>The Company will be exposed to credit risk with counterparties with which it trades and issuers of financial instruments if the issuer fails to fulfil its obligations or commitments that it has entered into.</p> <p>The Company's investments expose it to the risk of default on the Company's investments by counterparties and the risk of loss of principal and accrued interest. For example, a bond issuer may fail to meet its operating projections and this could lead to the issuer defaulting interest and/or capital payments. There is also a default risk for any derivative contracts that the Company enters into should the counterparty to the derivative default on its obligations under the contract.</p>	<p>The Fund Managers consider credit risk and credit default risk as part of their assessment of an investment before the time of transaction and also as part of their monitoring of the portfolio.</p> <p>They may also invest in credit default swaps and certain other derivative instruments in order to enhance and protect the Company's income and total returns. Credit derivatives are used as a way of managing the aggregate credit exposure of the Company without buying or selling a physical bond/loan. To the extent that the credit derivative exposure is not covered by cash held by the Company then any net long exposure would act as synthetic gearing.</p> <p>By selling protection (going long risk) the Fund Managers can increase the Company's exposure to a particular reference entity. In return for taking this credit risk the Company will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract in the intervening period.</p> <p>Transactions involving derivatives are only entered into with investment banks, the credit ratings of which are taken into account so as to minimise the risk to the Company of default.</p>	<p>The Board has set a maximum aggregate exposure of 5% of the Company's net assets to any counterparty that has a rating below a single A equivalent from a number of ratings agencies. Where the counterparty's credit rating is downgraded, this would lead to this exposure limit being breached, the position will be corrected within a timeframe that is in the best interest of shareholders.</p> <p>The Board has set a maximum net exposure to credit derivatives which may not at any time exceed 30% of the Company's net assets. Adherence to these limits is reviewed at each Board meeting.</p> <p>The Board has noted that the bear market in credit markets has resulted in valuations being considerably cheaper than they have for a number of years. However, the end of the bear market may well provide an exceptional opportunity to lock in highly attractive long term income streams in good quality companies with the consequent benefits for shareholders in both capital and income terms. Should such a scenario arise, the Board would like the flexibility to be able to increase the total gearing above the existing 30% to a new maximum level of 40% and is therefore seeking shareholder approval to permit this additional flexibility.</p> <p>A separate circular will be sent to shareholders with this Annual Report, putting forward proposals to amend the Group's existing gearing limit. Further details can be found on page 4 of the Annual Report in the derivatives and gearing section.</p>

## Viability statement

The Directors have assessed the viability of the Company over a three year period, taking account of the Company's current position and the potential impact of the principal risks and uncertainties documented in this Strategic Report. The Directors consider this to be an appropriate period over which they do not expect there to be any significant changes in the current principal risks and adequacy of the mitigating actions in place. Also the Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period.

The assessment has considered the impact of the likelihood of the principal risks and uncertainties facing the Company in severe but reasonable scenarios, and the effectiveness of any mitigating actions in place.

The Directors also took into account the liquidity and maturity of the portfolio and the income stream from the portfolio in considering the viability of the Company and its ability to meet liabilities as they fall due. This included consideration of how the forecast income stream, expenditure and levels of reserves could impact on the Company's ability to pay dividends to shareholders over that period in line with its current dividend policy. Whilst detailed forecasts are only made over a shorter timeframe, the nature of the Company's business as an investment company means that such forecasts are equally valid to be considered over the longer three year period as a means of assessing whether the Company can continue in operation. However, the Directors may follow the provisions in the Articles of Association relating to the wind up of the Company and realisation of its assets.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three years.

# Strategic Report: Corporate Information (continued)

## Borrowing

The Board has in place facilities which allow it to borrow up to £45.5 million (£30.5 million with an additional £15.0 million commitment being available) for periods of one, two, three or six months. The facilities are subject to regular review. At 31 October 2015 the Company had drawn down £19.2 million (2014: £10.0 million). The maximum drawn down in the period was £30.0 million, with borrowing costs including interest for the year totalling £0.3 million. At 31 October 2015, the ratio of borrowings under the facilities to net assets was 13.2% (2014: 8.0%).

## 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 continue to pursue its stated investment objective as set out on page 4. Further comments on the outlook for the Company for the next 12 months are set out in both the Chairman's Statement (on page 6) 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 ('KPI'):

KPI	Action
<b>Discount/premium to net asset value ('NAV')</b>	At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV per share (including income). The Board considers the use of share buy-backs to enhance shareholder value where appropriate. Shares would only be purchased at a price below the prevailing NAV per share, thereby increasing the NAV per share of the remaining shares. The Board also considers the issuance of new shares, but only when there is unfulfilled demand, they trade at a premium to NAV, and the cost of such issuance is included in the price paid for the new shares, such that there is no detriment in terms of total return to existing shareholders. The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and since 1 June 2008 includes current financial year revenue items.
<b>Yield</b>	At each Board meeting, the Directors examine the revenue forecast and consider yield on the portfolio and the amount available for distribution.
<b>Total return performance</b>	The Board reviews and compares the performance of the portfolio as well as the NAV, 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 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 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 Board has reviewed the policy and has delegated responsibility for voting to Henderson. 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.

The Henderson responsible investment policy and further details of Henderson's responsible investment activities can be found on the Henderson website, [www.henderson.com](http://www.henderson.com).

## Strategic Report: Corporate Information (continued)

---

### Employees, social, community, human rights and environmental matters

The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues here; Henderson's policies are included in its Annual Report which can be found on its website [www.henderson.com](http://www.henderson.com).

Henderson's corporate responsibility statement is included on its website stated above. In 2012 it was granted CarbonNeutral® Company status which it has committed to maintain at least until the end of 2018.

The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as CarbonNeutral®.

### 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 Services, including company secretarial and accounting, is undertaken.

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

### Board diversity

Currently, five of the Company's Directors are male and one is female. The Directors consider diversity when making appointments to the Board, taking into account 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  
29 February 2016

# Strategic Report: 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 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's benchmark is three month sterling Libor plus 2.00%.

## Credit default swaps

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

## Custodian

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

## Depositary

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

## Derivative

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

## Dividend dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's 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

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company and its subsidiary has used to invest in the market and also takes into account the exposure to hedging and derivatives which have a gearing effect. This figure indicates the extra amount by which total equity would move if the Company's and its subsidiary's investments were to rise or fall. This is calculated by taking the difference between quoted and unquoted investments and total equity divided by total equity and multiplied by 100.

## Floating rate asset

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

## High yield bonds

These bonds are considered more risky than investment grade bonds and as a result 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.

## Interest rate futures

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

## Interest rate swaps

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

## Strategic Report: Glossary (continued)

---

### Investment companies

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

### 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.

### Libor

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

### Liquidity

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

### Market capitalisation

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

### Net asset value ('NAV') per share

The value of the Company's assets (e.g. investments and cash held) less any liabilities (e.g. 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 per share 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 usually be judged by the rating agencies to be below investment grade.

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

### Synthetic gearing

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

### Total gearing

Total gearing is the total of financial gearing and synthetic gearing.

### 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 during a given period. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return).

### Treasury shares

Shares repurchased by the Company but not cancelled.

### 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 Company and their Directors Report for the year from 1 November 2014 to 31 October 2015. The Company was active throughout the year under review and was not dormant. Further Company information is provided on page 16 of the Annual Report in the status section.

## Directors' remuneration and shareholdings

The Directors' Remuneration Report on pages 28 and 29 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 continue to operate effectively.

## Related party transactions

The Company's transactions with related parties in the year were with its Directors, Henderson and the subsidiary. The material transactions between the Company and its subsidiary during the year and the amount due from the subsidiary are given in note 11 on page 50. There have been no material transactions between the Company and its Directors during the year other than the amounts paid to them in respect of fees 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 sales and marketing services there have been no 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 59.

## Stated capital

As at 31 October 2015 the Company's stated capital consisted of 164,518,240 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 voting rights of the shares on a poll are one vote for every one share held. At the beginning of the year, there were 140,281,726 shares in issue. During the year, 24,236,514 shares (representing 17.3% of the number of shares in issue at the beginning of the year) were issued to J.P. Morgan Cazenove (the Company's broker) at a price range of 89.50p to 93.50p for total proceeds (net of commissions) of £22,044,000. At 31 October 2015 the number of shares in issue with voting rights was 164,518,240.

Since 1 November 2015 and up to 29 February 2016 a further 1,950,000 shares have been issued for a total consideration of £1,752,000. The number of shares in issue as at 29 February 2016 was 166,468,240.

Subject to annual shareholder approval, the Company may purchase its own shares at a discount to net asset value per share. At the annual general meeting in March 2015 shareholders gave the Board authority to buy back 22,893,963 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 2015 in accordance with the disclosure and transparency rules were as follows:

	% of voting rights
Brewin Dolphin Limited	19.46

At 31 October 2015, 5.34% 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 this scheme 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)

---

## Annual general meeting

The annual general meeting will be held on Tuesday 12 April 2016 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 this 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 14 April 2016 at 10:30 am. The event will provide the opportunity for the Fund Managers, John Pattullo and Jenna Barnard, to give a presentation on investment strategy and performance. The Chairman of the Board will also be present. The event will include light refreshments. If you wish to attend, please return the yellow attendance card which is enclosed with this Annual Report.

The Board considers that shareholders should be encouraged to attend and participate at the shareholder event, which will be available to watch live by visiting [www.henderson.com/trustslive](http://www.henderson.com/trustslive).

## 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.

## Corporate governance

The Corporate Governance Statement on pages 30 to 33 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 other than in accordance with Listing Rule 9.8.4(7) which is disclosed on page 25 of the Annual Report in the stated capital section.

For and on behalf of the Board

Helen Green  
Director  
29 February 2016

# Statement of Directors' Responsibilities

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

The Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under the Companies (Jersey) Law 1991 the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company at the end of the year and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

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

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

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

## Statement under 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 Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report, Report of the Directors, Directors' Remuneration Report, Corporate Governance Statement, 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 Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Helen Green  
Director  
29 February 2016

The financial statements are published on **[www.hendersondiversifiedincome.com](http://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 Jersey and 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 a similar basis to provide shareholders with the same information 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 Tuesday 12 April 2016. 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.

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 promote the long term success of the Company. All Directors, including any new appointments to the Board, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee who are paid a higher fee in recognition of their additional responsibilities. The 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 there were no decisions on Directors' remuneration or any changes to the remuneration paid to each individual Director in the year under review. The Board agreed on 23 November 2015 that with effect from 1 January 2016 the remuneration paid to Directors would increase from £22,000 per annum to £24,000 per annum, to bring the Director's remuneration in line with other comparable investment companies. There is no change to the remuneration for the Chairman of the Board or Chairman of the Audit Committee.

## Annual report on remuneration

### Directors' interests in shares

	Ordinary shares of no par value	
	31 October 2015	1 November 2014
Paul Manduca	150,000	150,000
Helen Green	10,000	10,000
Nigel Parker	20,000	20,000
David Smith	10,000	20,000
Ian Wright	–	N/A
Angus Macpherson	–	N/A

The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table above. There have been no changes to any of the Directors' holdings in the period 1 November 2015 to 29 February 2016.

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

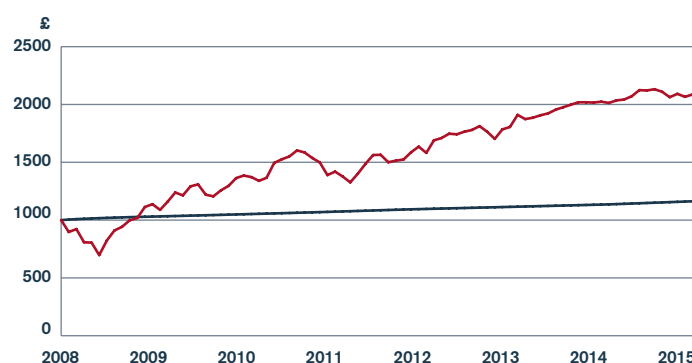
# Directors' Remuneration Report (continued)

## 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 and 2.00% over three month sterling Libor for the year to 31 October 2015.

Source: Datastream. Rebased to 1000

- Company's share price total return, assuming the investment of £1,000 on 31 October 2008 and the reinvestment of all dividends (excluding dealing expenses) (Source: Morningstar for the AIC)
- Total return over three month sterling Libor plus 1.25% & 2.00% assuming the notional investment of £1,000 on 31 October 2008 and the reinvestment of all income (excluding dealing expenses) (Source: Datastream)



## Directors' fees

The fees paid to the Directors who served during the years ended 31 October 2015 and 31 October 2014 were as follows:

	Year ended 31 October 2015 Total salary and fees £	Year ended 31 October 2014 Total salary and fees £
Paul Manduca <sup>1</sup>	37,500	37,083
Helen Green <sup>2,3</sup>	35,000	34,583
Nigel Parker <sup>3</sup>	29,500	29,083
David Smith	22,000	21,583
<b>Total</b>	<b>124,000</b>	<b>122,332</b>

### 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. These fees are paid by the subsidiary

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.

	2015 £	2014 £	Change £
Total remuneration	124,000	122,332	1,688
Ordinary dividend paid	7,865,012	5,703,170	2,162,842

## Statement of voting at annual general meeting

At the 2015 annual general meeting 38,578,365 votes (99.6%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 105,419 votes (0.3%) were against, 41,504 votes (0.1%) were discretionary and 7,645 votes were withheld. At the 2014 annual general meeting 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 209,980 votes were withheld. The percentage of votes excludes votes withheld.

For and on behalf of the Board

Helen Green  
Director  
29 February 2016

# Corporate Governance Statement

## Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment company, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code ('UK Code') issued by the Financial Reporting Council ('FRC') in September 2014 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 2015 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: [www.theaic.co.uk](http://www.theaic.co.uk) and [www.frc.org.uk](http://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, for the reasons outlined above.

## Directors

### Terms of appointment

The Board has set, and each Director has agreed to adopt, generic terms and conditions of appointment of non-executive directors of the Company.

### Directors' reappointment, 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 Paul Manduca and Nigel Parker stand for re-election and are eligible for re-appointment. At its meeting in September 2015 the Nominations Committee reviewed the contribution and performance

of both Directors and concluded that their expertise in investment management and compliance respectively, were a great asset to the Company. The Committee also commended the leadership of the Chairman. The Committee therefore fully recommended their continuing appointment to the Board.

Ian Wright and Angus Macpherson will offer themselves for election at the 2016 annual general meeting, following their appointments to the Board that were announced on 23 November 2015 and 18 January 2016 respectively. For more information about the Nominations Committee assessment of these Directors please see pages 31 and 32.

David Smith will retire at the 2016 annual general meeting after serving on the Board since the Company was launched. The Directors would like to express their thanks to him for his valuable contributions and wish him all the best for the future.

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.

### Board 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 2015, 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 in existence during or at the end of the year in which a Director 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 invited to attend a thorough induction training which includes a series of one-to-one meetings with key personnel from both Henderson and BNP Paribas Securities Services. 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 events and industry seminars at the expense of the Company and each Director's individual training requirements are considered as part of the annual performance evaluation.

# Corporate Governance Statement (continued)

## 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.

## Board

### Board composition

The Board currently consists of six non-executive Directors and the biographies of those holding office at the date of this report are included on 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, with the exception of Ian Wright who joined the Board on 23 November 2015 and Angus Macpherson who joined the Board on 18 January 2016.

### 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 2015, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which 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, the Chairman ensures that 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](http://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 28, which is subject to periodic shareholder approval. This does not comply with the UK Code or AIC Code 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 is chaired by Helen Green. The Report of the Audit Committee which forms part of this Corporate Governance Statement can be found on pages 34 and 35.

### 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 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 2015 the Nominations Committee held an in depth discussion with regards to the Board's succession plans. David Smith will retire at the 2016 annual general meeting and it was agreed in principle that Paul Manduca and Helen Green would retire at the 2017 annual general meeting, and that Nigel Parker would retire at the 2018 annual general meeting.

During the year the Nominations Committee appointed two separate recruitment agencies to find two candidates with the appropriate qualifications to replace Paul Manduca and Helen Green in due course.

The Nominations Committee drew up a short list of candidates from two recruitment agencies Fletcher Jones Ltd and Hassell Blampied Associates Limited. Neither of these agencies are connected or related to the Company. Following interviews with potential candidates, it recommended the appointment of Ian Wright and Angus Macpherson to the Board. Further information about the new Directors is contained in the Chairman's Statement on page 6 and biographical details are on page 14.

# Corporate Governance Statement (continued)

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 2015 to carry out its annual review of the Board, its composition and size and its Committees.

## 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 Paul Manduca and Nigel Parker who are seeking re-election at the Company's annual general meeting in 2016 merit re-election by shareholders.

## 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 2015 to carry out its annual review of Henderson, the results of which are detailed on page 21 of the Annual Report in the continued appointment of Henderson section.

## Board attendance

The following table sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the annual general meeting in March 2015.

The table excludes Ian Wright and Angus Macpherson as both directors were appointed after the year under review.

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

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, dividends and documentation in connection with the Prospectus issued in March 2015.

## Internal controls

Both 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 Services 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 Services, and which reports the details of any known internal control failures. The Board receives a report on Henderson's and BNP Paribas Securities Services internal controls each year which includes a report from Henderson's and BNP Paribas Securities Services auditors on the control policies and procedures in operation.

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

As all of the Company'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 Company 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 21, the Independent Auditors' Report on pages 38 to 40 and the statement of going concern on page 45. 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 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 Services have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

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.

## Stated capital

Please see the Report of the Directors on page 22 of the Annual Report.

## Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the Company's website [www.hendersondiversifiedincome.com](http://www.hendersondiversifiedincome.com). Henderson also provides information on the Company and Fund Manager videos on the website, via social media channels and through its HGi content platform.

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 and the Fund Managers. However it does recognise that not all shareholders wish to travel to Jersey therefore a shareholder event will be held in London on Thursday 14 April 2016 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 Board considers that shareholders should be encouraged to attend and participate at the shareholder event, which will be available to watch live as it happens by visiting [www.henderson.com/trustslive](http://www.henderson.com/trustslive).

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](http://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 Chairman 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 communications between Henderson, BNP Paribas Securities Services and shareholders are reported to the Board.

For and on behalf of the Board

Helen Green  
Director  
29 February 2016

# 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 controls 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:

- consideration of the appropriateness of the Company's accounting policies;
- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, viability, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board;
- 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;
- 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 32;
- consideration of the appointment of the Auditors and its effectiveness, and its performance and remuneration (see page 35);
- consideration of the Auditors' independence and objectivity and the provision of any non-audit services including the level of non-audit fees paid to the audit firm in relation to the statutory audit fee (as explained further on page 35) and reporting of the external Auditor;
- in assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying their respective knowledge and experience. The internal controls over financial reporting were also considered, together with feedback from the Company's Auditors, management and the Corporate Secretary; 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.

## Annual Report for the year ended 31 October 2015

In relation to the Annual Report for the year ended 31 October 2015 the following significant issues and audit matters were considered by the Committee:

Significant issues and audit matters	How it was addressed
<b>Valuation and ownership of the Company's investments</b>	Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments are verified by reconciliation to the custodian's records.
<b>Recognition of income</b>	Income received is accounted for in line with the Company's accounting policies (as set out on page 46 in note 2f)) and is reviewed by the Committee at each meeting.
<b>Internal controls</b>	The Committee receives regular reports on internal controls from Henderson and BNP Paribas Securities Services and has access to the relevant personnel of Henderson and BNP Paribas Securities Services who have a responsibility for risk management and internal audit.
<b>Correct calculation of the performance related fee</b>	The year end performance related fee calculation is prepared by the Administrator (BNP Paribas Securities Services) and reviewed by Henderson and reviewed in depth by the Committee, all with reference to the management agreement.

# Report of the Audit Committee (continued)

Significant issues and audit matters	How it was addressed
<b>Accounting treatment of subsidiary</b>	<p>The Audit Committee discussed in detail the conditions necessary to qualify as an Investment Entity for the purposes of IFRS10, particularly the requirement that to qualify, a parent company is obliged to measure and account for substantially all of its investments, which include investments in subsidiaries, at fair value.</p> <p>It concluded and subsequently recommended to the Board that it prepare half year accounts for the period ended 30 April 2015 and audited accounts for the year ended 31 October 2015 where the Company is presented as a separate entity and has accounted for the Company's interest in the subsidiary at fair value.</p>

## 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 the Company was launched on 5 June 2007. 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 Services 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. The Auditors have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of Grant Thornton Limited as Auditor to the Company and to authorise the Directors to determine their remuneration will be proposed at the annual general meeting.

As a Public Interest Entity listed on the London Stock Exchange, the Company is subject to the mandatory rotation requirements of the European Union. Subject to the detailed implementation of the EU Regulation in the UK, this is likely to mean that the Company will be required to put its audit contract out to tender at least every 10 years and change auditor at least every 20 years. The Auditor is required to rotate partners every five years and this is the third year that the current partner has been in place.

The Audit Committee will be conducting an audit tender process in 2016 to meet the legislative requirements.

Fees paid or payable to the Auditors are detailed in note 6 on page 48.

For and on behalf of the Board

Helen Green  
Audit Committee Chairman  
29 February 2016

# Aggregated Income Statement

	Year ended 31 October 2015			Year ended 31 October 2014		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Losses on investments designated at fair value through profit or loss	–	(3,498)	(3,498)	–	(1,399)	(1,399)
Gains on foreign exchange transactions at fair value through profit or loss	–	3,117	3,117	–	2,590	2,590
Investment income	9,320	–	9,320	7,727	–	7,727
Other operating income	2	–	2	1	–	1
<b>Total income</b>	<b>9,322</b>	<b>(381)</b>	<b>8,941</b>	<b>7,728</b>	<b>1,191</b>	<b>8,919</b>
<b>Expenses</b>						
Management and performance fees	(514)	(924)	(1,438)	(393)	(1,238)	(1,631)
Other expenses	(562)	–	(562)	(514)	–	(514)
<b>Profit/(loss) before finance costs and taxation</b>	<b>8,246</b>	<b>(1,305)</b>	<b>6,941</b>	<b>6,821</b>	<b>(47)</b>	<b>6,774</b>
Finance costs	(139)	(139)	(278)	(78)	(78)	(156)
<b>Profit/(loss) before taxation</b>	<b>8,107</b>	<b>(1,444)</b>	<b>6,663</b>	<b>6,743</b>	<b>(125)</b>	<b>6,618</b>
Taxation	(77)	–	(77)	(39)	–	(39)
<b>Profit/(loss) for the year</b>	<b>8,030</b>	<b>(1,444)</b>	<b>6,586</b>	<b>6,704</b>	<b>(125)</b>	<b>6,579</b>
<b>Earnings/(loss) per ordinary share</b>	<b>5.16p</b>	<b>(0.93)p</b>	<b>4.23p</b>	<b>5.57p</b>	<b>(0.10)p</b>	<b>5.47p</b>

The aggregated information is derived from the separate accounts of the Company and its subsidiary, individually prepared in accordance with the IFRS accounting policies and after eliminating intra group transactions and balances. This statement is supplemental to the financial statements and unaudited.

# Aggregated Balance Sheet

	At 31 October 2015 £'000	At 31 October 2014 £'000
<b>Non current assets</b>		
Investments designated at fair value through profit or loss	167,963	130,434
<b>Current assets</b>		
Other receivables	4,756	5,872
Cash and cash equivalents	1,131	803
	<b>5,887</b>	<b>6,675</b>
<b>Total assets</b>	<b>173,850</b>	<b>137,109</b>
<b>Current liabilities</b>		
Other payables	(9,304)	(2,548)
Bank loan (net of issue costs)	(19,177)	–
<b>Total assets less current liabilities</b>	<b>145,369</b>	<b>134,561</b>
<b>Non current liabilities</b>		
Bank loan (net of issue costs)	–	(9,957)
<b>Net assets</b>	<b>145,369</b>	<b>124,604</b>
<b>Equity attributable to equity shareholders</b>		
State capital	109,891	87,847
Distributable reserve	39,862	39,862
Retained earnings:		
Other capital reserves	(7,683)	(6,239)
Revenue reserve	3,299	3,134
<b>Total equity</b>	<b>145,369</b>	<b>124,604</b>
<b>Net asset value per ordinary share</b>	<b>88.36p</b>	<b>88.82p</b>

The aggregated information is derived from the separate accounts of the Company and its subsidiary, individually prepared in accordance with the IFRS accounting policies and after eliminating intra group transactions and balances. This statement is supplemental to the financial statements and unaudited.

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

## Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- comply with the requirements of the Companies (Jersey) Law 1991.

## Who we are reporting to

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.

## What we have audited

Henderson Diversified Income Limited's financial statements for the year ended 31 October 2015 comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

## Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that are, in our judgement, had the greatest effect on our audit.

### Recognition of Income

The risk: Investment income from fixed interest securities and equity securities is the Company's major source of revenue and is a significant material item in the Income Statement. Under International Standards on Auditing (ISA) (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to fraud. Accordingly, the recognition of income was identified as a risk that required special audit attention.

Our response: Our audit work included, but was not restricted to, assessing whether the Company's accounting policy for revenue recognition as stated in note 2 f) of the financial statements is in accordance with IFRSs as adopted by the European Union, understanding management's process to recognise revenue in accordance with the stated accounting policy and testing whether a sample of income transactions has been recognised in accordance with the policy. Furthermore; for a sample of investments held in the period, we confirmed that income was correctly received and recorded and assessed whether any of the interest income and dividends should have been treated as capital receipts.

The Company's accounting policy on income is shown in note 2 f) and related disclosures are included in note 3. The Audit Committee identified Recognition of Income as a significant issue in its report on page 34, where the Committee also described the action that it has taken to address this risk.

### Ownership and Valuation of Investments designated at fair value through profit or loss

The risk: The Company's investment objective is to provide shareholders with a high level of income and capital growth over the longer term, principally through investing selectively across the full spectrum of fixed income asset classes, including secured loans, high yield corporate bonds and investment grade corporate bonds. Therefore the Company has a significant exposure to fluctuations in investments, which are the main drivers of returns, with the total investments designated at fair value through profit or loss at 31 October 2015 valued at £117.9m and interests in subsidiary at fair value through profit or loss valued at £44.6m. There is a risk that the investments shown in the Balance Sheet may not be owned by the Company, and/or are incorrectly valued. Accordingly, ownership and valuation of investments designated at fair value through profit or loss and of interests in subsidiary at fair value through profit or loss were identified as risks that required particular audit attention.

Our response on ownership: Our audit work on ownership 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 by the Company at 31 October 2015 directly from the independent custodian, testing the reconciliation of the custodian records to the records maintained by the Company's administrator, testing a sample of investment additions and disposals shown in the Company's records to supporting documentation.

Our response on valuation: Our audit work on valuation included, but was not restricted to, understanding management's process to value quoted investments, agreeing the valuation of 100% of the investments to an independent source of market prices, and in order to confirm investments are actively traded we obtained trading volumes of listed investments held at the year end. In relation to the interests in subsidiary, reviewed measurement of subsidiary at fair value with reference to the net asset value of the subsidiary's separate accounts.

The Company's accounting policy on investments designated at fair value through profit or loss is shown in note 2 d), the Company's accounting policy on interests in subsidiary at fair value through profit or loss is shown in note 2 e), and related disclosures are included in notes 11 a) and 11 d). The Audit Committee identified valuation and ownership of the Company's investments and the accounting treatment of the subsidiary as a significant issue in its report on page 34 and page 35 respectively, where the Committee also described the action that it has taken to address this risk.

### Valuation and Completeness of Derivative Financial Instruments

The risk: The Company has entered into over the counter derivative contracts which include forward foreign exchange contracts and credit derivatives. In accordance with IFRSs as adopted by the European Union, they should be classified as held for trading and

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

measured at fair value. Measurements of the value of a derivative includes significant assumptions and judgements. Accordingly, the valuation and completeness of derivative and financial instruments were identified as risks that required particular audit attention.

Our response on valuation: Our audit work included, but was not restricted to, understanding management's process to value derivatives and recalculating the fair value of the derivatives by agreeing to an independent source of pricing. We reviewed off balance sheet exposures and the related income or expenses, to ensure the revaluation gains or losses had been correctly accounted for and reviewed disclosures to ensure appropriate disclosure of derivatives in the financial statements.

Our response on completeness: Our audit work included, but was not restricted to, understanding the nature and extent to which the Company uses derivatives and understanding the Company's objectives in using derivatives. We scanned settled transactions subsequent to 31 October 2015 to determine whether any related to previously unrecorded derivatives. In addition, scanned contracts and agreements for any embedded derivatives that require separate accounting from the host contract.

The Company's accounting policy on derivative financial instruments is shown in note 2 m) and related disclosures are included in notes 12 and 14.

## Non-compliance with debt covenants

The risk: The Company has a multicurrency revolving credit facility in place with Scotiabank. The facility was increased on 23 February 2015 and 8 April 2015, as a consequence of these increases at 31 October 2015 the total commitment amount was £30.5m and the total drawdown amount was £19.2m. The ability of the entity to operate as a going concern will be dependent on whether the Company could meet the debt obligations as and when they fall due, and whether debt covenants have been complied with. Accordingly, non-compliance with debt-covenants was identified as a risk that required particular audit attention.

Our response: Our audit work included, but was not restricted to, reviewing the covenant certificates and re-performed covenant calculations prepared monthly to determine whether there were any debt covenant violations during the year.

The Company's accounting policy on bank borrowings is shown in note 2( ).

## Our application of materiality and an overview of the scope of our audit

### Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £835,000 which is 0.5% of total assets. This benchmark is considered the most appropriate because the Company's two primary objectives are to obtain capital appreciation

of the assets under management and to maintain a high level of income distribution. We also determine a lower level of specific materiality for certain areas such as the income statement and related party transactions.

Materiality for the current year is higher than the level that we determined for the year ended 31 October 2014 to reflect the increased size and value of the investment portfolio.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 60% of financial statement materiality for the audit of the financial statements. We also determine a lower level of specific materiality for certain areas such as related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £41,750. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### Overview of the scope of our audit

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.

We conducted our audit in accordance with ISAs (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Company's business and is risk based. The day-to-day management of the Company's investment portfolio, the maintenance of accounting records, the custody of investments and administrative and company secretarial services are outsourced to third-party service providers. Accordingly, our audit work included obtaining an understanding of, and evaluating, relevant internal controls at third-party service providers. This included obtaining and reading an internal controls report prepared by the Investment Manager on the description, design and operating effectiveness of the controls put in place to cover its business operations conducted through the Investment Manager. In addition, we reviewed controls reports prepared by third party auditors

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

on the description, design and operating effectiveness of controls in respect of both the independent custodian and the fund administration services provided by the Company's administrator. 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 and the design and implementation of controls and the management of specific risks.

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

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 Company's financial statements are not in agreement with the accounting records and returns; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Under the Listing Rules we are required to review:

- the Directors' statements in relation to going concern and longer-term viability, set out on page 45 and page 19 respectively; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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 Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- 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; or
- the Annual Report does not appropriately disclose those matters that were communicated to the Audit Committee which we consider should have been disclosed.

We have nothing to report in respect of the above.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Responsibilities for the financial statements and the audit

What the directors are responsible for:

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What are we responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Alexander Langley  
For and on behalf of Grant Thornton Limited  
Chartered Accountants  
St Helier, Jersey, Channel Islands  
29 February 2016

# Company Income Statement

Notes		Year ended 31 October 2015			Year ended 31 October 2014		
		Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
11(b)	(Losses)/gains on investments designated at fair value through profit or loss and interests in subsidiary	–	(452)	(452)	–	1,562	1,562
17	Gains on foreign exchange transactions at fair value through profit or loss	–	1,338	1,338	–	978	978
3	Investment income	6,865	–	6,865	5,113	–	5,113
3	Investment income from subsidiary	1,088	–	1,088	1,222	–	1,222
4	Other operating income	1	–	1	1	–	1
	<b>Total income</b>	<b>7,954</b>	<b>886</b>	<b>8,840</b>	<b>6,336</b>	<b>2,540</b>	<b>8,876</b>
	<b>Expenses</b>						
5	Management and performance fees	(514)	(924)	(1,438)	(393)	(1,238)	(1,631)
6	Other expenses	(488)	–	(488)	(443)	–	(443)
	<b>Profit/(loss) before finance costs and taxation</b>	<b>6,952</b>	<b>(38)</b>	<b>6,914</b>	<b>5,500</b>	<b>1,302</b>	<b>6,802</b>
7	Finance costs	(139)	(139)	(278)	(78)	(78)	(156)
	<b>Profit/(loss) before taxation</b>	<b>6,813</b>	<b>(177)</b>	<b>6,636</b>	<b>5,422</b>	<b>1,224</b>	<b>6,646</b>
8	Taxation	(50)	–	(50)	(67)	–	(67)
	<b>Profit/(loss) for the year</b>	<b>6,763</b>	<b>(177)</b>	<b>6,586</b>	<b>5,355</b>	<b>1,224</b>	<b>6,579</b>
9	<b>Earnings/(loss) per ordinary share</b>	<b>4.34p</b>	<b>(0.11)p</b>	<b>4.23p</b>	<b>4.45p</b>	<b>1.02p</b>	<b>5.47p</b>

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this. All items in the above statement derive from continuing operations. All income is attributable to the equity shareholders of Henderson Diversified Income Limited.

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

# Company Statement of Changes in Equity

Notes	Year ended 31 October 2015	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2014	87,847	39,862	705	(3,810)	124,604
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(177)	6,763	6,586
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(7,865)	(7,865)
15	Issue of shares	22,044	–	–	–	22,044
	<b>Total equity at 31 October 2015</b>	<b>109,891</b>	<b>39,862</b>	<b>528</b>	<b>(4,912)</b>	<b>145,369</b>
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	(519)	(3,462)	80,889
	Total comprehensive income:					
	Profit for the year	–	–	1,224	5,355	6,579
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(5,703)	(5,703)
15	Issue of shares	42,839	–	–	–	42,839
	<b>Total equity at 31 October 2014</b>	<b>87,847</b>	<b>39,862</b>	<b>705</b>	<b>(3,810)</b>	<b>124,604</b>

# Company Balance Sheet

Notes		At 31 October 2015 £'000	At 31 October 2014 £'000
	<b>Non current assets</b>		
11(a)	Investments designated at fair value through profit or loss	117,940	82,048
11(a)	Interests in subsidiary	44,598	50,369
		<b>162,538</b>	<b>132,417</b>
	<b>Current assets</b>		
12	Other receivables	4,095	2,911
	Cash and cash equivalents	350	482
		<b>4,445</b>	<b>3,393</b>
	<b>Total assets</b>	<b>166,983</b>	<b>135,810</b>
	<b>Current liabilities</b>		
13	Other payables	(2,437)	(1,249)
14.5	Bank loan (net of issue costs)	(19,177)	–
	<b>Total assets less current liabilities</b>	<b>145,369</b>	<b>134,561</b>
	<b>Non current liabilities</b>		
14.5	Bank loan (net of issue costs)	–	(9,957)
	<b>Net assets</b>	<b>145,369</b>	<b>124,604</b>
	<b>Equity attributable to equity shareholders</b>		
15	Stated capital	109,891	87,847
16	Distributable reserve	39,862	39,862
	Retained earnings:		
17	Other capital reserves	528	705
	Revenue reserve	(4,912)	(3,810)
	<b>Total equity</b>	<b>145,369</b>	<b>124,604</b>
18	Net asset value per ordinary share	88.36p	88.82p

The financial statements were approved by the Board of Directors and authorised for issue on 29 February 2016 and were signed on its behalf by:

Helen Foster Green  
Director

Nigel Robert Parker  
Director

# Company Cash Flow Statement

	At 31 October 2015 £'000	At 31 October 2014 £'000
<b>Operating activities</b>		
Net profit before tax	6,636	6,646
Interest payable	278	156
Losses/(gains) on investments held at fair value through profit or loss	452	(1,562)
(Gains) on foreign exchange transactions at fair value through profit or loss	(1,338)	(978)
Amortisation of loan expenses	10	15
Increase in prepayments and accrued income	(1,338)	(641)
(Decrease)/increase in other creditors	(355)	230
Purchases of investments	(97,956)	(84,695)
Sales of investments	60,999	47,895
Drawdown of loan to subsidiary	(12,850)	(17,950)
Repayments of loan to subsidiary	21,151	11,344
Interest from subsidiary	(1,088)	(1,222)
(Increase)/decrease in sales for settlement debtor	(414)	79
Increase/(decrease) in purchase settlement creditor	1,543	(1,377)
<b>Net cash outflow from operating activities before finance costs</b>	<b>(24,270)</b>	<b>(42,060)</b>
Interest paid	(278)	(156)
Taxation on investment income	(65)	(72)
<b>Net cash outflow from operating activities</b>	<b>(24,613)</b>	<b>(42,288)</b>
<b>Financing activities</b>		
Equity dividends paid	(7,865)	(5,703)
Issue of ordinary shares	22,044	42,839
Net drawdown of loans	9,220	4,242
<b>Net cash inflow from financing</b>	<b>23,399</b>	<b>41,378</b>
<b>Decrease in cash and cash equivalents</b>	<b>(1,214)</b>	<b>(910)</b>
Cash and cash equivalents at start of the year	482	466
Exchange movements	1,082	926
<b>Cash and cash equivalents at the year end</b>	<b>350</b>	<b>482</b>

# 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.

As discussed in the Report of the Audit Committee on pages 34 and 35 of the Annual Report these Company only financial statements have been presented for the first time in a number of years. This is because the Company is at present, assessed to meet the definition of an Investment Entity and accordingly it is prohibited from producing International Financial Reporting Standard ('IFRS') compliant consolidated accounts.

The comparative amounts were not disclosed in the prior year as Company only accounts were not required to be presented to shareholders. They do not represent a restatement of the consolidated data presented last year as they are Company only comparatives.

## 2 Accounting policies

### a) Basis of preparation

This financial information for the year ended 31 October 2015 has been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. 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 a going concern basis under the historical cost basis of accounting, 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. Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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 Company are:

IFRS 9: Financial Instruments – Classification and Measurement (effective for annual financial periods beginning on or after 1 January 2018)  
IFRS 15: Revenue from Contracts with Customers (effective for annual financial periods beginning on or after 1 January 2018)

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

### b) First time application of IFRS 10 Consolidated Financial Statements ('IFRS 10')

From 1 January 2014 entities that meet the definition of an Investment Entity within IFRS 10 are required to account for most investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. Subsidiaries that provide investment related services or engage in permitted investment related activities continue to be consolidated. The criteria which define an Investment Entity are as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

Further narrow scope amendments were issued in December 2014, Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 Disclosures of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures), to clarify the application of the standard in respect of Investment Entities. The amendments which clarify the initial standard are effective for annual periods beginning on or after 1 January 2016, with early application being permitted.

As explained in the Report of the Audit Committee on page 35 of the Annual Report, it was concluded that the Company meets the definition of an Investment Entity and that the subsidiary should be excluded from consolidation to comply with IFRS 10. The Company has no other subsidiaries so it no longer prepares consolidated accounts. These accounts now represent Company only financial statements.

# Notes to the Financial Statements (continued)

## 2 Accounting policies (continued)

### c) Significant accounting judgements and estimates

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

The other significant accounting judgement considered by the Directors in the preparation of the financial statements is the first time application of IFRS 10 which is explained in detail above.

### d) 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 Company's investment strategy and fair value information about these investments is provided to the Board. Assets are recognised at the trade date of acquisition and are de-recognised at the trade date of the disposal. Proceeds 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 Company Balance Sheet date, without deduction of the estimated future selling costs.

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

Changes in the fair value of investments designated 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 designated 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.

### e) Interests in subsidiary

Interests in subsidiaries are accounted for at fair value through profit or loss. Fair value is estimated based on the fair value of the net assets held by the subsidiary adjusted where market evidence exists that a different value should be used such as a substantial discount or premium between the Company's share price and the aggregate net asset value of the Group.

### f) 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 Company Income Statement. 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.

### g) 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 Company Income Statement 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.

### h) Taxation

The Company is subject to income tax at a rate of 0%. The States of Jersey introduced a Goods and 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 and Services Tax (Jersey) Law 2007 and payment of the relevant application fees. The tax expense represents irrecoverable withholding tax suffered.

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

### i) Foreign currency

The results and financial position of the Company is expressed in pounds sterling, which is the functional currency of the Company because it is the currency of the primary economic environment in which the Company operates. Sterling is the currency by which dividends are returned to shareholders, share 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 Company Balance Sheet date are translated into sterling at the exchange rates ruling at that date.

# Notes to the Financial Statements (continued)

## 2 Accounting policies (continued)

### j) 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.

### k) 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 direct issue costs and interest payable on settlement or redemption, are accounted for on an accruals basis in the Company Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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.

### l) Segmental reporting

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

Under IFRS 8 Operating Segments, 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 Company's performance. The Fund Managers, who have been appointed to manage the Company's investments, attend all Board meetings at which investment strategy and performance are discussed.

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

### m) Derivative financial instruments

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 Company Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Company Income Statement.

### n) Equity and reserves

Stated capital represents the total proceeds of shares that have been issued net of issue costs. The distributable reserve was created by a reduction in the stated capital, please see page 25 of the Annual Report for more details. 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 of 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.

## 3 Investment income

	2015 £'000	2014 £'000
Income from investments:		
Dividend income	521	223
Bond and loan interest	5,991	4,210
Premiums on credit default swaps	353	680
Interest income from subsidiary	1,088	1,222
	<b>7,953</b>	<b>6,335</b>

# Notes to the Financial Statements (continued)

## 4 Other operating income

	2015 £'000	2014 £'000
Bank and other interest	1	1
	<b>1</b>	<b>1</b>

## 5 Management and performance fees

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Investment management fee	514	514	1,028	393	393	786
Performance fee	–	410	410	–	845	845
	<b>514</b>	<b>924</b>	<b>1,438</b>	<b>393</b>	<b>1,238</b>	<b>1,631</b>

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

## 6 Other expenses

	2015 £'000	2014 £'000
Directors' fees	109	107
Auditors remuneration for statutory audit*	32	34
Bank and custody charges	12	8
Administration and company secretarial services	120	116
Registrars' fees	24	15
Stock exchange fees	17	16
Printing and stationery	14	14
Other expenses	160	133
	<b>488</b>	<b>443</b>

\*In addition, the Company's Auditors are paid £5,000 for the audit of the subsidiary (2014: £6,000) and £2,000 for tax services for the subsidiary (2014: £2,000). These are recognised as an expense in the subsidiary's financial statements.

## 7 Finance costs

	2015			2014		
	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	139	139	278	78	78	156

## 8 Taxation

	2015			2014		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
The taxation charge for the year is comprised of the following:						
Foreign withholding tax suffered	50	–	50	67	–	67
	<b>50</b>	<b>–</b>	<b>50</b>	<b>67</b>	<b>–</b>	<b>67</b>

Profits arising in the Company for the year ended 31 October 2015 are subject to Jersey income tax at the rate of 0% (2014: 0%).

# Notes to the Financial Statements (continued)

## 9 Earnings per ordinary share

The earnings per ordinary share figure is based on the net profit for the year after taxation of £6.586 million (2014: £6.579 million) and on 155,631,014 (2014: 120,316,298) 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.

	2015 £'000	2014 £'000
Net revenue profit	6,763	5,355
Net capital (loss)/profit	(177)	1,224
<b>Net total profit</b>	<b>6,586</b>	<b>6,579</b>
Weighted average number of ordinary shares in issue during the year	155,631,014	120,316,298
Revenue earnings per ordinary share	4.34p	4.45p
Capital (loss)/earnings per ordinary share	(0.11)p	1.02p
<b>Total earnings per ordinary share</b>	<b>4.23p</b>	<b>5.47p</b>

## 10 Dividends

Dividends on ordinary shares	Record date	Payment date	2015 £'000	2014 £'000
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
Fourth interim dividend – 1.35p	5 December 2014	31 December 2014	1,940	–
First interim dividend – 1.25p	6 March 2015	31 March 2015	1,909	–
Second interim dividend – 1.25p	5 June 2015	30 June 2015	2,002	–
Third interim dividend – 1.25p	4 September 2015	30 September 2015	2,014	–
			<b>7,865</b>	<b>5,703</b>

The fourth interim dividend for the year ended 31 October 2015 has not been included as a dividend payable in these financial statements as it was announced and paid after 31 October 2015 (2014: same).

The table below sets out the total dividends paid and to be paid in respect of the current financial year and previous year. The revenue available for distribution by way of dividend for the year is £6.763 million (2014: £5.355 million).

	2015 £'000	2014 £'000
First interim dividend for 2015 – 1.25p (2014: 1.25p)	1,909	1,150
Second interim dividend for 2015 – 1.25p (2014: 1.25p)	2,002	1,643
Third interim dividend for 2015 – 1.25p (2014: 1.25p)	2,014	1,714
Fourth interim dividend for 2015 – 1.35p (paid 31 December 2015 with a record date of 4 December 2015) (2014: 1.35p)	2,247	1,940
	<b>8,172</b>	<b>6,447</b>

# Notes to the Financial Statements (continued)

## 11 (a) Investments designated at fair value through profit or loss and interests in subsidiary

	Listed Investments £'000	Interests in subsidiary £'000	2015 Total £'000	2014 Total £'000
Cost at beginning of the year	79,973	53,648	133,621	87,263
Holding gains at the beginning of the year	2,075	(3,279)	(1,204)	(908)
<b>Valuation at the beginning of the year</b>	<b>82,048</b>	<b>50,369</b>	<b>132,417</b>	<b>86,355</b>
Movements in the year				
Purchases at cost/drawdowns	97,557	12,850	110,407	101,049
Sales – proceeds/repayments	(60,156)	(21,151)	(81,307)	(57,603)
Accrued interest in subsidiary	–	1,088	1,088	1,222
Realised (losses)/gains on sales of investments designated at fair value through profit or loss	(422)	–	(422)	1,690
Movement in holding (gains)/losses	(1,087)	1,442	355	(296)
<b>Closing valuation at the end of the year</b>	<b>117,940</b>	<b>44,598</b>	<b>162,538</b>	<b>132,417</b>
Cost at the end of the year	116,952	46,435	163,387	133,621
Holding gains/(losses)	988	(1,837)	(849)	(1,204)
<b>Closing valuation at the end of the year</b>	<b>117,940</b>	<b>44,598</b>	<b>162,538</b>	<b>132,417</b>

## (b) Losses/gains on investments held at fair value through profit or loss and interests in subsidiary

	2015 £'000	2014 £'000
Realised (losses)/gains on sales of investments designated at fair value through profit or loss	(422)	1,690
Movement in investment holdings gains designated at fair value and interests in subsidiary	355	(296)
(Losses)/gains on credit default swaps designated at fair value through profit or loss	(385)	168
	<b>(452)</b>	<b>1,562</b>

## (c) Transaction costs

During the year expenses amounting to £21,000 (2014:£17,000) 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 designated at fair value through profit or loss in the Company Income Statement.

## (d) Interests in subsidiary

The interests in subsidiary comprise 100% of the issued share capital in the Company's wholly-owned subsidiary undertaking, Henderson Diversified Income Luxembourg S.a.r.l. and an intercompany funding balance. The subsidiary is a limited liability company, registered under the laws of the Grand Duchy of Luxembourg and was incorporated on 1 August 2007.

In addition, the Company has provided the subsidiary with a revolving credit facility of €200 million up to 2030 with interest on the facility set at a default Libor plus 2.00%. There are no restrictions on cash and no commitments unless otherwise disclosed.

The Company allocates a portion of its net assets so the subsidiary can take advantage of opportunities to invest in secured loans to predominantly European issuers that would attract withholding taxes if held by the Company.

## 12 Other receivables

	2015 £'000	2014 £'000
Amounts due from brokers	645	231
Prepayments and accrued income	2,944	1,606
Withholding tax recoverable	20	5
Credit default swaps held at fair value through profit or loss	173	1,012
Currency forward exchange contracts held at fair value through profit or loss	313	57
	<b>4,095</b>	<b>2,911</b>

# Notes to the Financial Statements (continued)

## 13 Other payables

	2015 £'000	2014 £'000
Amounts due to brokers	1,543	–
Other payables	894	1,249
	<b>2,437</b>	<b>1,249</b>

## 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 over the counter ('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.

### 14.1 Market risk

The fair value or future cash flows of a financial instrument held by the Company 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 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.

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

### 14.2 Currency risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the functional currency of the Company, and in which the Company 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 Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are used to achieve the portfolio characteristics that assist the Company in meeting its investment objective. These contracts are limited to currencies and amounts equivalent to the asset exposure to those currencies.

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

#### Foreign currency exposure

The currency exposure of the Company's monetary items at 31 October are shown below. Where the Company's investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure. The subsidiary carries no significant foreign currency exposure.

	2015		2014		
	US\$ £'000	Euro £'000	US\$ £'000	Euro £'000	CHF £'000
Investments designated at fair value through profit or loss	30,798	13,089	18,007	17,240	235
Receivables (due from brokers, dividends and other income receivables)	603	742	362	493	3
Cash at bank and on deposit	29	31	11	319	–
Payables (due to brokers, accruals and other creditors)	(1,393)	–	–	–	–
Forward currency sales	(29,945)	(13,429)	(18,317)	(18,507)	(237)
Credit default swaps	7	166	20	992	–
<b>Total net foreign currency exposure</b>	<b>99</b>	<b>599</b>	<b>83</b>	<b>537</b>	<b>1</b>

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

A 10% increase or decrease in foreign exchange rates would see the Euro income increase or decrease by £0.059 million and US\$ income increase or decrease by £0.009 million.

# 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 Company's variable rate borrowings.

#### Management of the risk

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

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

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

The Company had no interest rate futures in place at 31 October 2015 (2014: none).

#### Interest rate exposure

The exposure at 31 October 2015 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.

	2015				2014			
	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 designated at fair value through profit or loss	48,812	–	–	48,812	26,007	–	–	26,007
Interests in subsidiary	44,598	–	–	44,598	50,369	–	–	50,369
Interest on inter company loan	1,088	–	–	1,088	1,222	–	–	1,222
Cash and cash equivalents	350	–	–	350	482	–	–	482
Bank loan (net of issue costs)	(19,177)	–	–	(19,177)	–	(9,957)	–	(9,957)
	<b>75,671</b>	<b>–</b>	<b>–</b>	<b>75,671</b>	<b>78,080</b>	<b>(9,957)</b>	<b>–</b>	<b>68,123</b>
Exposure to fixed interest rates:								
Investments designated at fair value through profit or loss	–	13,791	42,829	56,620	–	9,624	38,371	47,995
	<b>–</b>	<b>13,791</b>	<b>42,829</b>	<b>56,620</b>	<b>–</b>	<b>9,624</b>	<b>38,371</b>	<b>47,995</b>

At 31 October 2015, the Company had gross nominal exposure to interest rate futures and swaps to the value of £nil (2014: £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 Company's investments is 6.7% (2014: 5.9%).

#### Interest rate sensitivity

The Company's investment portfolio (excluding equities) at 31 October 2015 including those held through the subsidiary, was valued at £155.721 million (2014: £122.291 million) and has a modified duration (interest rate sensitivity) of approximately 4.6 years (2014: 3.5 years). A 100 basis point change in short term interest rates (up or down), which is mirrored by an equivalent change in long term rates, would be expected to decrease or increase this portfolio's return by approximately £7.163 million (2014: £4.280 million) in total over the remaining years, 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 Company 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 total return net profit after tax and shareholders' funds by £16.148 million (2014: £13.189 million) (equivalent to an increase or decrease in net asset value per share of 11.1% (2014: 10.6%)).

	2015 £'000	2014 £'000
Increase by 10%		
Market value	16,254	13,242
Management fee	(106)	(53)
	<b>16,148</b>	<b>13,189</b>
Decrease by 10%		
Market value	(16,254)	(13,242)
Management fee	106	53
	<b>(16,148)</b>	<b>(13,189)</b>
	<b>11.1%</b>	<b>10.6%</b>

### 14.5 Liquidity risk

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

#### Management of the risk

Liquidity risk is monitored by Henderson on a daily basis to ensure financial liabilities can be paid as they fall due. Both the corporate bond portfolio and the loan portfolio although traded over the counter, should be able to be realised at or around the prevailing bid prices. The corporate bond portfolio is generally considered more liquid than the loan portfolio. The Company also has a multicurrency loan facility with Scotiabank of £45.5 million (£30.5 million with an additional £15.0 million commitment being available) (2014: £15.5 million with an additional £30.0 million commitment being available), of which £19.177 million was drawn down at 31 October 2015 (2014: £9.957 million). This facility is subject to regular review and unless renewed will expire on 14 August 2016. The interest rate currently charged on the loan is 0.95% above Libor. Scotiabank has indicated its willingness to renew the facility in August 2016.

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

#### 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 2015				At 31 October 2014			
	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								
Accounts due to brokers, accruals and tax payable	2,437	–	–	2,437	1,249	–	–	1,249
Interest accrual on bank loan	22	–	–	22	6	–	–	6
Interest accrual on maturity of credit deficit swaps	–	–	474	474	–	12	1,903	1,915
Bank loan	–	19,177	–	19,177	–	–	9,957	9,957
	<b>2,459</b>	<b>19,177</b>	<b>474</b>	<b>22,110</b>	<b>1,255</b>	<b>12</b>	<b>11,860</b>	<b>13,127</b>

The Company also has exposure of £2.058 million (2014: £10.346 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)

The asset maturity of the bond portfolio as at 31 October was as follows:

	Value as at 31 October 2015					Total
	Less than 5 years	More than 5 years, less than 10 years	More than 10 years, less than 20 years	More than 20 years	Perpetuity	
High yield bonds	15,950	26,163	8,779	1,597	22,488	74,977
Investment grade bonds	–	2,110	–	18,122	9,414	29,646
Asset backed securities	–	–	–	1,190	–	1,190
Interests in subsidiary	–	–	44,598	–	–	44,598
<b>Total</b>	<b>15,950</b>	<b>28,273</b>	<b>53,377</b>	<b>20,909</b>	<b>31,902</b>	<b>150,411</b>

	Value as at 31 October 2014					Total
	Less than 5 years	More than 5 years, less than 10 years	More than 10 years, less than 20 years	More than 20 years	Perpetuity	
High yield bonds	9,999	31,453	4,496	4,754	9,193	59,895
Investment grade bonds	–	1,180	–	8,077	4,851	14,108
Interests in subsidiary	–	–	50,369	–	–	50,369
<b>Total</b>	<b>9,999</b>	<b>32,633</b>	<b>54,865</b>	<b>12,831</b>	<b>14,044</b>	<b>124,372</b>

Please refer to note 11d) on page 50 for details on the interests in the subsidiary.

### 14.6 Credit risk

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

#### Management of the risk

The risk is significant, and is managed as follows:

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

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

To the extent that the credit derivative exposure is not covered by cash held by the Company then any net long exposure would act as synthetic gearing. Credit default swaps are used by Henderson for two purposes. By selling protection (going long risk) Henderson can increase the Company's exposure to a particular reference entity. In return for taking this credit risk the Company will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract (e.g. default) in the intervening period. This reference entity may be a specific company, or in the case of ITRAXX indices, a basket of credit exposures, for example senior financials. At 31 October 2015, the gross exposure to single name credit default swaps and ITRAXX indices was £0.104 million and £1.954 million respectively (2014: £3.833 million and £6.513 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 2015 the protection purchased was £nil (2014: £nil).

The credit quality of bonds and secured loans is reviewed in the Fund Managers' Report and Investment Portfolio on pages 8 and 9 and pages 10 to 12 respectively. None of the Company's financial assets are past due.

# Notes to the Financial Statements (continued)

## 14 Risk management policies and procedures (continued)

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

Financial assets and financial liabilities, are either carried in the Company Balance Sheet at their fair value (investments, interests in subsidiary and derivatives) or the Company 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 Company Income Statement for the year was a gain of £1.280 million (2014: £0.984 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 Company Income Statement for the year for credit default swaps was a gain of £0.224 million (2014: £1.067 million).

### 14.8 Fair value hierarchy disclosures

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

2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Investments	117,940	–	–	117,940
Interests in subsidiary	–	44,598	–	44,598
Credit default swaps	–	173	–	173
Currency forward exchange contracts	–	313	–	313
	<b>117,940</b>	<b>45,084</b>	<b>–</b>	<b>163,024</b>
2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Investments	82,048	–	–	82,048
Interests in subsidiary	–	50,369	–	50,369
Credit default swaps	–	1,012	–	1,012
Currency forward exchange contracts	–	57	–	57
	<b>82,048</b>	<b>51,438</b>	<b>–</b>	<b>133,486</b>

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 interests in the subsidiary and holdings in credit default swaps are included within Level 2. Also included here are forward exchange contracts which have resulted in unrealised gains of £313,000; 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 45 to 47.

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 Company'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 Company had borrowings totalling £19.177 million at 31 October 2015 (2014: £9.957 million).

As at 31 October 2015, the ratio of borrowings under the facilities was 13.2% (2014: 8.0%).

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

- the planned level of gearing which takes into account the Fund Managers view on the market;
- the need to 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 Company is subject to the following externally imposed capital requirement:

- Under the multicurrency 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 Company has complied with these requirements during the year.

## 15 Stated capital

	Authorised	2015		2014	
		Issued and fully paid	£'000	Issued and fully paid	£'000
Ordinary shares of no par value					
Opening balance at 1 November	Unlimited	140,281,726	87,847	92,004,964	45,008
Issued during the year		24,236,514	22,044	48,276,762	42,839
<b>Closing balance at 31 October</b>		<b>164,518,240</b>	<b>109,891</b>	<b>140,281,726</b>	<b>87,847</b>

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 24,236,514 (2014: 48,276,762) ordinary shares for proceeds of £22,044,000 (2014: £42,839,000) net of costs.

## 16 Distributable reserve

	2015 £'000	2014 £'000
As at 31 October	39,862	39,862

The reserve was created by the reduction in stated 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

2015	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 31 October 2014	(749)	1,454	705
Exchange movements	256	1,082	1,338
Movement in unrealised depreciation	355	–	355
Gains/(losses) on investments	–	(422)	(422)
Costs charged to capital	–	(1,063)	(1,063)
Movement in credit default swaps	(385)	–	(385)
<b>At 31 October 2015</b>	<b>(523)</b>	<b>1,051</b>	<b>528</b>

2014	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 31 October 2013	(673)	154	(519)
Exchange movements	52	926	978
Movement in unrealised depreciation	(296)	–	(296)
Gains on investments	–	1,690	1,690
Costs charged to capital	–	(1,316)	(1,316)
Movement in credit default swaps	168	–	168
<b>At 31 October 2014</b>	<b>(749)</b>	<b>1,454</b>	<b>705</b>

## 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 2015 year end of £145.369 million (2014: £124.604 million) and on 164,518,240 (2014: 140,281,726) ordinary shares, being the number of ordinary shares in issue at the year end.

## 19 Related party transactions

Directors' fees of £109,000 relating to the Company were paid during the year (2014: £107,000). A further £15,000 was paid in fees to the Directors of the subsidiary (2014: £15,000). Further details are given in the Directors' Remuneration Report on pages 28 to 29.

## 20 Contingent liabilities

There were no contingent liabilities as at 31 October 2015 (2014: none).

## 21 Subsequent events

Since the year end the Company has issued 1,950,000 shares for net proceeds of £1,752,000 as at 29 February 2016.

The fourth interim dividend of 1.35p per share for the year-ended 31 October 2015 was declared on 23 November 2015. The dividend was paid on 31 December 2015 to shareholders on the register as at 4 December 2015. The shares were quoted ex-dividend on 3 December 2015.

A first interim dividend of 1.25p per share for the year-ended 31 October 2016 was declared on 22 February 2016. The dividend will be paid on 31 March 2016 to shareholders on the register as at 4 March 2016. The shares will be quoted ex-dividend on 3 March 2016.

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 to provide investment management.

Details of the arrangements for these services are given on page 4 of the Annual Report. The total of the fees paid or payable to Henderson under this agreement in respect of the year ended 31 October 2015 was £1,028,000 (2014: £786,000), of which £350,000 was outstanding at 31 October 2015 (2014: £286,000).

A performance fee is also payable to Henderson. The performance fee payable for the year ended 31 October 2015 amounted to £410,000 (2014: £845,000). This amount was outstanding at 31 October 2015 (2014: £845,000).

Henderson also provides the Company with sales and marketing services. The total fee payable for these services for the year ended 31 October 2015 amounted to £66,500 (2014: £48,000). As at 31 October 2015, £23,000 was outstanding (2014: £16,000).

# General Shareholder Information

## AIFMD disclosures

Periodic disclosures required in accordance with the Alternative Investment Fund Managers Directive are included within a Key Investor Information Document ('KIID') which can be found on the Company's website [www.hendersondiversifiedincome.com](http://www.hendersondiversifiedincome.com).

## BACS

Dividends can be paid by means of BACS ('Bankers' Automated Clearing Services'); mandate forms for this purpose are available from the registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 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.

## Equality Act 2010

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

You can contact the Registrar, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 707 4040. Specially trained operators are available during normal business hours to answer queries via this service.

## ISA

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

## Non-mainstream pooled investments status

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.

## Performance details/share price information

Details of the Company's share price and NAV per share can be found on the website ([www.hendersondiversifiedincome.com](http://www.hendersondiversifiedincome.com)). 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](http://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.

## 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.

## 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.



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

SEDOL number: B1Y1NS4  
ISIN number: Ordinary Shares: JE00B1Y1NS49  
London Stock Exchange (EPIC) Code: HDIV  
Global Intermediary Identification Number (GIIN): MAZ4WI.99999.SL.832  
Legal Entity Identifier (LEI): 213800WSTK3SLGXXXN46

Telephone: **020 7818 1818**  
Email: **trusts@henderson.com**

**[www.hendersondiversifiedincome.com](http://www.hendersondiversifiedincome.com)**

MANAGED BY  
**Henderson**  
GLOBAL INVESTORS

**aic**  
The Association of  
Investment Companies



This report is printed on cocoon silk 50% recycled, a recycled paper containing 50% recycled waste and 50% virgin fibre and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).

The FSC® logo identifies products which contain wood from well managed forests certified in accordance with the rules of the Forest Stewardship Council®.