

Henderson Diversified Income Trust plc

Update for the half year ended
31 October 2021



MANAGED BY

Janus Henderson
— INVESTORS —



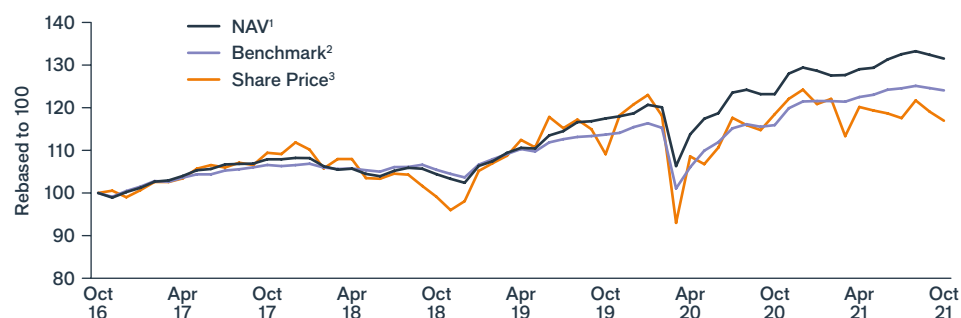
This update contains material extracted from the unaudited half-year results of the Company for the six months ended 31 October 2021. The unabridged results for the period are available on the Company's website.

Performance summary

Total return performance for the six months ended 31 October 2021



Total return performance over 5 years⁴



Total return performance to 31 October⁴

	6 months %	1 year %	3 years %	5 years %	7 years %	10 years %
NAV¹	1.94	6.77	25.97	31.52	49.01	102.47
Benchmark²	1.27	7.02	17.66	24.06	35.62	75.65
Share Price³	-2.68	-1.29	17.99	16.95	31.83	87.00

¹ Net asset value total return including dividends reinvested and excluding transaction costs

² 60% Global High Yield Credit (ICE BofA Global High Yield Constrained Index), 25% Global Investment Grade Corporate Credit (ICE BofA Global BBB Corporate Bond Index) and 15% European Loans (Credit Suisse Western European Leveraged Loan Index). Prior to 16 September 2021 the benchmark was three-month sterling LIBOR + 2%

³ Share price total return using mid-market closing price with dividends reinvested

⁴ Performance prior to 27 April 2017 reflects the performance of the predecessor company, Henderson Diversified Income Limited, that was launched on 18 July 2007

Chairman's Statement

Your Board has been undertaking a review of the Company over the course of the last year. We have concluded that while the Company offers investors an interesting and different investment exposure, we would like to emphasise the policies and measures in place to reflect the Company's underlying objectives and investment style.

This process commenced with the introduction of a new benchmark at the Annual General Meeting earlier this year. It will continue with a number of additional proposed changes to the investment objective and policy which I will be writing to you about shortly in a separate shareholder Circular, which will be sent to shareholders with this abbreviated update.

None of these changes will make a material difference to the way the investment portfolio is currently managed. The Board believes that the purpose of the Company is to be a fundamental, active investor in companies with the objective of preserving shareholders capital and providing a relatively high level of income, through the economic cycle.

This involves investing in assets which provide a relatively higher return than the risks involved. The new benchmark was introduced because the Board felt that the existing benchmark did not reflect the risks inherent in pursuing this strategy.

Performance

On the basis of the performance in the first half of the financial year, I am pleased to report this objective is being achieved. During the period under review the Company delivered a NAV total return of 1.94%, outperforming the new benchmark which returned 1.27%.

I would highlight that given the diversified nature of the potential investable asset classes, the Fund Managers investment style is such that performance is likely to deviate from that of the benchmark.

Proposed Changes to the Investment Objective and Policy

The Company's current investment objective is to seek a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses.

The Board believes that the potential for capital gains with interest rates as low as they are is limited. Instead, we would propose that, with your approval, the Company's investment objective should be providing shareholder's with a high level of income and preservation of capital, through the economic cycle.

This change has the effect of moving to a realistic target which is still a challenge. As the Fund Managers note in their report, we may be at the start of a rising interest rate cycle. This may cause a fall in bond prices which the Fund Managers will need to navigate adroitly to achieve the new investment objective.

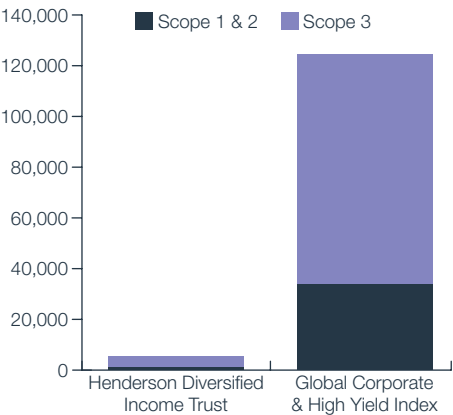
Environmental, Social and Governance (ESG)

The Fund Managers have always invested in companies which they believe have a sustainable future and a reason to exist. They naturally favour the new economy over the old.

There has been much recent discussion about ESG investment and finance being a catalyst for positive change. On review, I am pleased to report that your Company's investment portfolio carbon metrics and climate scenario alignment already compare extremely favourably to the benchmark index.

Chairman’s Statement (continued)

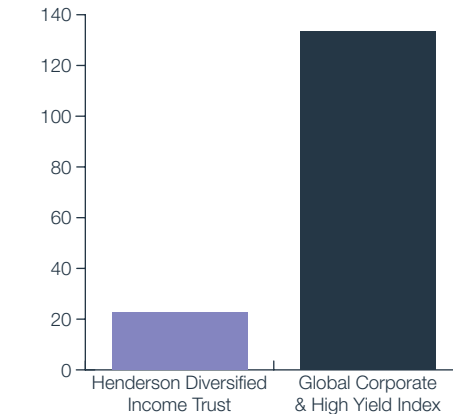
Emissions exposure (tCO₂e)



The portfolio is associated with a potential temperature increase of **1.5°C** by 2050 versus the reference benchmark (Global Corporate & High Yield Index) potential temperature increase of **1.9°C** by 2050.

The scenario alignment analysis compares current and future portfolio greenhouse gas emissions with the carbon budgets for the IEA Sustainable Development Scenario (SDS), Stated Policies Scenario (STEPS) and the Current Policies Scenario (CPS). Performance is shown as the percentage of assigned budget used by the portfolio and reference benchmark (Global Corporate & High Yield Index). This reference benchmark is different from the Company’s benchmark due to data constraints.

Carbon intensity (tCO₂e/Moi USD revenue)

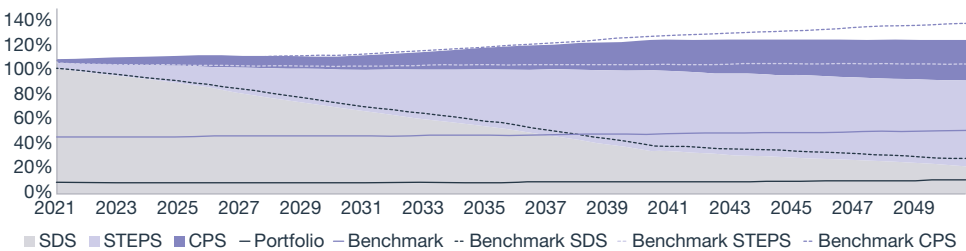


We are proposing that the Company formalises this by integrating ESG into the investment process. We are advised by the Fund Managers that it is not anticipated that there will be any change to how the portfolio is currently managed as a consequence of adopting these changes.

It is a source of some satisfaction that the portfolio has always been managed consistent with ESG standards only now being adopted as standard by many market practitioners.

Source: ICE Bank of America, ISS, as at 31 May 2021. ISS portfolio coverage: Henderson Diversified Income Trust (80%), ICE BofA Global Corporate & High Yield Index (98%). tCO₂e: tonnes (t) of carbon dioxide (CO₂) equivalent (e).

Portfolio emission pathway vs climate scenarios budgets



Source: ICE Bank of America, ISS, as at 31 May 2021. ISS portfolio coverage: Henderson Diversified Income Trust (80%), ICE BofA Global Corporate & High Yield Index (98%)

Chairman's Statement (continued)

Buying Back Shares

Disappointingly, the share price total return for shareholders during the period under review was -2.68%, reflecting the widening of the discount on the shares. The Board are of the view that the Fund Managers should buy back stock in the market where the opportunity exists to enhance the total return to shareholders by a greater amount than investing in the market. This has the added benefit of providing additional liquidity to shareholders.

During the period under review 2,502,730 ordinary shares were bought back. At 31 October 2021 there were 188,764,303 ordinary shares of 1p nominal value in issue.

Between 1 November 2021 and 14 December 2021, 980,000 ordinary shares have been bought back. The issued share capital at 14 December 2021 was therefore 187,784,303.

The Company has no shares held in Treasury.

Appointment of New Co-Fund Manager

I am pleased to report that the Board has appointed Nicholas Ware to co-manage the portfolio alongside the Fund Managers John Pattullo and Jenna Barnard. His appointment will take effect from 1 January 2022.

Nicholas is a long-standing member of the Janus Henderson Strategic Fixed Income team and has detailed knowledge about the Company, having supported John and Jenna in running the Company's portfolio for many years.

General Meeting

The General Meeting to formalise the changes proposed above will be held at Janus Henderson's offices, 201 Bishopsgate, London EC2M 3AE on 25 February 2022 at 9.30am. Full details of the business to be conducted at the meeting are set out in the shareholder Circular which will be sent to shareholders with this abbreviated update.

Please note that as a result of the COVID-19 pandemic and the guidance published by the UK Government in response thereto, physical attendance

at the General Meeting may not be possible at the time of the meeting. In addition, and in accordance with the Company's articles of association, the Company may impose entry restrictions on attendance at the General Meeting.

In the light of this, the Board encourages shareholders to submit their votes by proxy in advance by the required deadline and to appoint the Chairman of the meeting as their proxy to ensure their vote is counted.

Dividends

A fourth interim dividend for the year ended 30 April 2021 of 1.10p (2020: 1.10p) per ordinary share was paid to shareholders on 30 June 2021 to shareholders on the register at close of business on 4 June 2021.

A first interim dividend for the year ended 30 April 2022 of 1.10p (2021: 1.10p) per ordinary share was paid to shareholders on 30 September 2021 to shareholders on the register at close of business on 3 September 2021.

On 25 November 2021 the Board announced a second interim dividend for the year ended 30 April 2022 of 1.10p (2021: 1.10p) per ordinary share that will be paid on 31 December 2021 to shareholders on the register at close of business on 3 December 2021. The shares were quoted ex-dividend on 2 December 2021.

Outlook

As the Fund Managers comment, this has been an unusually calm period for credit markets. The possibility of inflation and a rising interest rate cycle does offer challenges, but as ever will depend on how much inflation we experience and what the impact on policy and market rates is.

In the meantime, shareholders should take some comfort from the Fund Managers' confidence in their ability to maintain the current dividend, although there remain plenty of other potential challenges to these apparently benign markets.

Angus Macpherson
Chairman
14 December 2021

Fund Managers' Report

Performance

The Company's NAV total return rose by 1.94% over the six months to 31 October 2021, outperforming the benchmark which returned 1.27%. The share price total return was -2.68% which reflected a widening of the discount. The dividend remains on track. We will continue to buy back shares opportunistically if accretive for shareholders.

Macro Background

The period under review was remarkably benign. We described the period a year ago as idyllic and it continues to be so. Credit is not the villain here and continues to be remarkably well behaved. The period was broadly about "clipping the coupon" and being neither heroic nor greedy. As we discussed in the last annual review, credit spreads were quick to re-price to the post COVID world. Credit spreads are again reassuringly expensive, reflecting suppressed volatility and exceptionally low default rates. Thus, there was limited opportunity for capital appreciation. The market feels late cycle and credit has lagged the strength of equity markets. We expect this benign environment to evolve given the economic recovery. This will of course present different challenges for bond investors. The period we are entering is understandably a tougher regime – we have very tight credit spreads, and we are at the beginning of a rising interest rate cycle. Bond returns are often lumpy, and this cycle feels no different.

This inevitable and encouraging changing of the guard reflects the post COVID outlook. Inflation is the major focus of central banks today. Inflation had previously slumped into the demand shock of lockdown and was always going to surge back into a re-opening supply shock. This was further compounded by numerous bottleneck problems from semiconductors and containers, to HGV drivers. Although we are broadly understanding of the base effects and bottleneck supply side arguments for cyclical inflation, we have been surprised by the forecasting error regarding inflation by most commentators. We feel it is reasonable to expect the goods, services, and commodity markets to sort themselves out with time. Unless there is a persistent

and sustained uptick in the demand for credit, we do not believe consumers are permanently going to be buying more "stuff". Many consumers have excess savings and time will tell whether it is the roaring twenties or perhaps an environment of a more precautionary approach to savings and consumption? We are sympathetic to the idea that people have re-appraised lifestyles and working practices. Indeed, given the rapid digitalisation of many industries we would broadly suggest a more disinflationary economy longer term. We have spoken at length about how COVID has simply accelerated existing structural trends which were already apparent to see. We have also favoured structural digital winners over cyclical analogue losers – for example, favouring data centres over shopping centres and similarly Netflix over cinema chains!

However, against this background two important themes remain; firstly, how central banks react over the larger and less transitory inflation surge, and secondly, the bizarre tightness of the labour market. We are very focussed on these two issues and cannot get too tied up in the team transitory versus permanence of inflation debate. The swing factor may be the tightness or otherwise of the labour market. Normally, unemployment is a significant issue coming out of a recession. The furlough scheme has preserved millions of jobs around the world at a considerable cost. But now many western economies have too few workers! America has approximately 5m fewer workers than pre COVID; the UK has 900,000 fewer. The great resignation or the great re-set describes the fall off in people participating in employment. Many older, wealthier people have prospered during COVID and have retired early; many students have extended their studies whilst others have simply re-appraised their work/life balance. These issues have been compounded by restricted migration and in the UK's case, an exodus of EU nationals. This is all crucially important because "normal" participation levels would suggest US unemployment levels of 8%+, whilst new participation levels would suggest levels nearer 4% and heading lower. These numbers include both cyclical and structural elements evolving over time.

Fund Managers' Report (continued)

How the unemployment numbers pan out will have a significant bearing on how central banks change monetary policy to fulfil their mandate objectives. A rise in interest rates has already caused yield curves to flatten which, by design, makes risk taking less compelling. This will induce, in time, greater volatility and risk aversion.

Equity markets feel euphoric to us. There are some excesses going on in markets but none of these seem to be of systemic importance. One notable area is the leveraged buyout activity of predominately US private equity purchasing cheap UK businesses. Again, we are by design not exposed to many UK businesses, but we are understandably wary of this trend. The private equity community is awash with cash and seems to be running their slide rule over many cheap European businesses. Elsewhere there are only pockets of excess. We remain vigilant and picky in this late cycle environment.

Asset Allocation and Stock Selection

We have kept our asset allocation broadly similar throughout the period under review although we have added some more loans during the period where risk/reward made sense. We kept gearing at a level to maintain the dividend through a combination of financial gearing (borrowing money and investing at a better yield than the cost of debt) and synthetic gearing (the use of credit derivatives). The focus on providing a relatively consistent and attractive income stream to investors means that the portfolio is naturally skewed to lower rated and riskier corporate bonds. Credit spreads were compressed but that was supported by robust fundamentals and low default volumes which led to a carry environment for credit.

New loans we bought in primarily included McAfee Enterprises (a provider of enterprise software security provider), UDG (UK based healthcare consultancy business) and Duravant (provider of automated machinery for food processing and packaging). Valuations on loans were expensive which meant there were no significant other opportunities to add. In high yield bonds significant

additions to the portfolio included Medline (US manufacturer and distributor of medical products), Diversey (producer of cleaning and hygiene solutions) and we also invested in ING subordinated financial bond (Benelux bank). We also spent time trimming names where we felt the risk/reward given the inflationary backdrop meant that they would struggle to pass through all the price increases to customers. Given relatively tight valuations these switches were into credits without relinquishing yield or spread.

Environmental, Social and Governance (ESG)

It is proposed that, subject to shareholder approval, the Company's investment objective be amended to that of providing shareholders with a high level of income and preservation of capital, through the economic cycle. The Board also proposes to include additional formal restrictions related to ESG considerations in the Company's investment policy; these reflect restrictions already applied by the Investment Manager in constructing the Company's portfolio. For the avoidance of doubt, the current investment approach already takes these into account and there will therefore be no material change to the Company's investment process or strategy as a result of the proposed amendments.

A shareholder Circular containing further details of the proposed changes will be sent to shareholders with this abbreviated update.

Outlook

Credit spreads are tight and bond yields are fairly low. Given where we are in the economic cycle, we do expect an uptick in volatility from the current very low levels. We are very focused on central banks' reaction functions to both their inflation and employment mandates. We remain confident in maintaining the current level of income in the foreseeable future for our shareholders which remains our primary focus.

John Pattullo, Jenna Barnard and Nicholas Ware
Fund Managers
14 December 2021

Portfolio information

Summary of portfolio as at 31 October¹

	2021 %	2020 %
High yield bonds	65.3	62.7
Investment grade bonds	24.9	28.8
Secured loans	5.1	4.9
Equities	4.1	2.7
Asset backed securities	0.6	0.9
Total	100.0	100.0

Currency denomination of portfolio as at 31 October^{1,2}

	2021 %	2020 %
Sterling	23.7	22.3
Euro	12.9	9.1
US dollar	62.4	67.5
Australian dollar	1.0	1.1
Total	100.0	100.0

¹ Excluding credit default swaps

² The Company hedges its foreign currency exposure back to sterling. There was therefore no material currency exposure at 31 October 2021 (2020: same)

Twenty largest investments as at 31 October 2021

Company	Industry	Currency	Geographical area	Market value £'000	% of portfolio
Nationwide Building Society VAR Perpetual	Financials	£	UK	4,966	2.51
Verizon Communications	Communications	\$/AUD	US	4,383	2.22
Virgin Media	Communications	£/\$	UK	4,336	2.19
Co-Operative Group	Consumer non-cyclical	£	UK	4,192	2.12
Phoenix	Financials	£	UK	4,166	2.11
Crown Castle	Industrials	\$	US	4,053	2.05
IMS	Technology	\$	US	3,973	2.01
Lloyds Group	Financials	£/\$	UK	3,950	2.00
BUPA	Financials	£	UK	3,744	1.89
Barclays	Financials	£/\$	UK	3,667	1.86
Ardagh	Industrials	Euro/\$	Ireland	3,513	1.78
Direct Line Insurance	Financials	£	UK	3,472	1.76
Royal Bank of Scotland	Financials	£/\$	UK	3,430	1.74
Restaurant Brands International	Consumer cyclical	\$	US	3,374	1.71
Service Corp	Consumer non-cyclical	\$	US	3,330	1.69
Altice	Communications	\$	US	3,209	1.62
Rabobank	Financials	Euro	UK	3,108	1.57
McAfee Enterprises	Technology	Euro/\$	US	3,102	1.57
Center Parcs	Consumer cyclical	£	UK	2,884	1.46
Sirius	Communications	\$	US	2,835	1.43

These investments total £73,687,000 or 37.29% of the portfolio.

Financial summary

Extract from the Condensed Statement of Comprehensive Income (unaudited)	Half year ended			Half year ended
	31 Oct 2021 Revenue return £'000	31 Oct 2021 Capital return £'000	31 Oct 2021 Total return £'000	31 Oct 2020 Total return £'000
(Losses)/gains on investments held at fair value through profit or loss	-	(2,329)	(2,329)	10,611
Gains/(losses) on foreign exchange	-	1,549	1,549	(1,282)
Investment income	4,907	-	4,907	5,121
Other operating income	8	-	8	4
Expenses, finance costs and taxation	(601)	(362)	(963)	(1,000)
Profit/(loss) for the period	4,314	(1,142)	3,172	13,454
Return per ordinary share	2.27p	(0.60p)	1.67p	7.03p

Extract from the Condensed Statement of Financial Position (unaudited except 30 Apr 2021 figures)	Half year ended		Year ended
	31 Oct 2021 £'000	31 Oct 2020 £'000	30 Apr 2021 £'000
Investments held at fair value through profit or loss	197,582	195,525	202,152
Current assets	8,370	7,972	9,661
Current liabilities	(33,391)	(31,628)	(36,093)
Net assets	172,561	171,869	175,720
Net asset value per ordinary share	91.42p	89.83p	91.87p

Going concern

The directors have considered the impact of COVID-19, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio. Thus, after making due enquiry, the directors believe that the Company has adequate financial resources to

meet its financial obligations, including the repayment of any borrowings, and to continue in operational existence for at least twelve months from the date of approval of the financial statements. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Corporate information

Dividends

The following dividends have been paid during the period, or will be paid, as interest distributions for UK tax purposes from the Company's revenue account.

A fourth interim dividend for the year ended 30 April 2021 of 1.10p (2020: 1.10p) per ordinary share was paid to shareholders on 30 June 2021 to shareholders on the register at close of business on 4 June 2021.

A first interim dividend for the year ended 30 April 2022 of 1.10p (2021: 1.10p) per ordinary share was paid to shareholders on 30 September 2021 to shareholders on the register at close of business on 3 September 2021.

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Principal risks and uncertainties

The principal risks and uncertainties associated with the Company's business can be divided into the following main areas:

- General market risks associated with the Company's investments, including interest rate, credit and currency risks.
- Operational risks, including:
 - Continued interest and commitment of the Fund Managers and Investment Manager.
 - Janus Henderson's effective operation of systems of internal control and management reporting.
 - Credit standing and quality of service of the Depositary.
 - Reliance on service providers.

Information on these risks and uncertainties and how they are managed are given in the annual report for the year ended 30 April 2021.

In the view of the Board these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the six months under review.

Statement of directors' responsibilities

Each of the directors confirm that, to the best of their knowledge:

- (a) the condensed set of financial statements for the half year ended 31 October 2021 have been prepared in accordance with UK adopted international accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- (b) this report and condensed set of financial statements include a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the six month period and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) this report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

For and on behalf of the Board
Angus Macpherson
Chairman
14 December 2021

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201 Bishopsgate
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MANAGED BY
Janus Henderson
INVESTORS

aic
The Association of
Investment Companies



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