

THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Update for the half-year
ended 30 November 2019



MANAGED BY
Janus Henderson
INVESTORS

Investment objective

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



This update contains material extracted from the unaudited half-year results of the Company for the six months ended 30 November 2019. The unabridged results for the half-year are available on the Company's website:

www.hendersonsmallercompanies.com

The image is based on Custom House in King's Lynn

Performance

Performance for the six months to 30 November 2019



NAV per share at period end

30 Nov 2019 31 May 2019

1,011.4p **958.7p**

Share price at period end

30 Nov 2019 31 May 2019

975.0p **858.0p**

Net Assets

30 Nov 2019

£755.6m

31 May 2019

£716.1m

Total Return Performance (including dividends reinvested)

| | 6 months % | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---------------|-------------|--------------|--------------|---------------|
| NAV ¹ | 7.5 | 18.3 | 48.4 | 81.7 | 399.0 |
| Benchmark ² | 4.9 | 9.6 | 23.0 | 46.2 | 203.7 |
| Share price ³ | 16.0 | 30.0 | 70.2 | 101.9 | 508.4 |
| Average sector NAV ⁵ | 1.4 | 7.0 | 25.7 | 61.3 | 259.1 |
| Average sector share price ⁶ | 4.3 | 8.1 | 38.9 | 71.8 | 313.2 |
| FTSE All-Share Index | 5.8 | 11.0 | 24.0 | 37.0 | 120.4 |

Sources: Morningstar Direct, Janus Henderson

1 Net asset value ('NAV') per ordinary share total return with income reinvested

2 Numis Smaller Companies Index (excluding investment companies) total return

3 Share price total return using mid-market closing price

4 Interim dividend of 7.0p (30 November 2018: 6.5p) to be paid to shareholders on 9 March 2020

5 Average NAV total return of the AIC UK Smaller Companies sector

6 Average share price total return of the AIC UK Smaller Companies sector

Financial Summary

| | Half-year ended | | | |
|---|--|--|--|--|
| | 30 November 2019 Revenue return £'000 | 30 November 2019 Capital return £'000 | 30 November 2019 Total return £'000 | 30 November 2018 Total return £'000 |
| Extract from the Statement of Comprehensive Income (unaudited) | | | | |
| Investment income | 9,354 | - | 9,354 | 8,345 |
| Other income | 14 | - | 14 | 51 |
| Gains/(losses) on investments held at fair value through profit or loss | - | 47,876 | 47,876 | (121,889) |
| Total income/(loss) | 9,368 | 47,876 | 57,244 | (113,493) |
| Expenses, finance costs & taxation ¹ | (874) | (4,643) | (5,517) | (2,389) |
| Profit/(loss) for the period | 8,494 | 43,233 | 51,727 | (115,882) |
| Earnings per ordinary share | 11.37p | 57.87p | 69.24p | (155.13)p |

¹Expenses, finance costs and taxation include provision for a performance fee when the relevant criteria have been met. For the six months to 30 November 2019 the performance fee provision is £3,275,000 (30 November 2018: £nil; May 2019: £nil). Any provision for a performance fee is charged 100% to capital. The actual performance fee, if any, payable to Janus Henderson for the year to 31 May 2020 will depend on outperformance over the full financial year, subject to a cap on the total fees paid to Janus Henderson of 0.9% of the average value of the net assets of the Company during the year. No performance fee is payable if on the last day of the accounting year the Company's share price or NAV is lower than the share price and NAV at the preceding year-end. Details of the performance fee arrangements are set out in the Annual Report for the year ended 31 May 2019.

| | Half-year ended | | Year ended |
|---|------------------------------|------------------------------|-------------------------|
| | 30 November 2019 £'000 | 30 November 2018 £'000 | 31 May 2019 £'000 |
| Extract from Balance Sheet (unaudited except May 2019 figures) | | | |
| Investments held at fair value through profit or loss | 824,007 | 694,819 | 776,233 |
| Net current liabilities | (38,627) | (10,020) | (30,265) |
| Non current liabilities | (29,829) | (29,818) | (29,823) |
| Net assets | 755,551 | 654,981 | 716,145 |
| Net asset value per ordinary share | 1,011.4p | 876.8p | 958.7p |

Chairman's Statement

At long last the political uncertainty regarding Europe and Westminster seems to have abated with Boris Johnson's resounding victory in the General Election. However, we still have a long way to go, but we do have a Prime Minister who is clear on his intent and has the mandate and political power to finally "Get Brexit Done". As I have commented in previous statements, the uncertainty that has hung over the United Kingdom these past three years has not been helpful to British businesses. Local investment has not been forthcoming and foreign investors have bypassed the United Kingdom. This is beginning to change with the principal beneficiary being the smaller companies sector as investors seek the good value and growth opportunities that can be found in this area.

Performance

I am pleased to report that for this reporting period our Company's net asset value has risen on a total return basis by 7.5%, 2.6% more than the Numis Smaller Companies Index (excluding investment companies), which rose by 4.9%. Our Company's share price rose by 16.0% on a total return basis for the period, outstripping its peer group, which increased by an average of 10.7%. The Company's discount narrowed from 10.5% at 31 May 2019 to 3.6% at 30 November 2019. I am delighted to say that the Company's share price has more than doubled over the past five years, rising by 101.9% on a total return basis.

Dividend

The Board has decided to increase the interim dividend by 7.7% to 7.0p per share (30 November 2018: 6.5p). This reflects the continuing strong growth in dividend payments from our portfolio companies. In the absence of any unforeseen circumstances, it is expected that the Board will also increase the final dividend. The final dividend for the year ended 31 May 2019 was 16.5p.

Jamie Cayzer-Colvin
Chairman
28 January 2020



Fund Manager's Report

Market Review –

Six Months to 30 November 2019

UK equity markets rose in the period. Boris Johnson won the Conservative Party leadership contest and was installed as Prime Minister. A revised Withdrawal Agreement was negotiated with the EU. Parliament, however, refused to debate the bill within the time frame required to get approval by 31 October 2019. Consequently, an extension to Article 50 was requested by the UK and granted by the EU; the new deadline is 31 January 2020. With the risk of "no deal" Brexit avoided once again, sterling strengthened. Elsewhere the US Federal Reserve cut base rates in what was deemed a "mid-cycle adjustment to policy" which dampeden investors' hopes of a more aggressive cycle of monetary easing. Mario Draghi warned that the global economy faced "protracted weakness" going into 2020 at his last meeting as President of the ECB. Stalling trade negotiations between the US and China, in conjunction with deteriorating economic data and flattening yield curves, increased global recessionary fears.

Smaller companies outperformed larger companies over the period. This was driven principally by investors taking a more positive view on the outlook for the UK economy and an end to political and Brexit uncertainty which favoured the more domestically focused smaller company universe over the more internationally diverse constituents of the FTSE 100.

Fund Performance

The Company outperformed the benchmark during the period. The net asset value rose by 7.5% on a total return basis. This compares with an increase of 4.9% (total return) in the Numis Smaller Companies Index (excluding investment companies). The outperformance came from a combination of underlying positive portfolio performance and a positive contribution from gearing in the Company.

Gearing

Gearing started the period at 8.4% and ended it at 9.1%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% and £60 million of short-term bank borrowings.

Attribution Analysis

The tables below show the top five contributors to, and detractors from, the Company's relative performance. Some of the following stocks are included in the benchmark index but not held by the Company. These have an effect on relative performance.

| Top five contributors | 6 month return % | Relative contribution % |
|------------------------------|------------------|-------------------------|
| Bellway | 25.4 | 0.6 |
| Learning Technologies | 43.0 | 0.5 |
| Intermediate Capital | 19.6 | 0.5 |
| Sirius Minerals ¹ | -76.9 | 0.4 |
| Ferrexpo ¹ | -34.9 | 0.4 |

| Top five detractors | 6 month return % | Relative contribution % |
|-------------------------|------------------|-------------------------|
| Burford Capital | -52.5 | -1.0 |
| Cineworld | -21.6 | -0.7 |
| Clinigen | -13.1 | -0.5 |
| Mitchells and Butlers | 62.1 | -0.4 |
| Rank Group ¹ | 67.1 | -0.3 |

¹In benchmark index but not held by the Company.

Principal Contributors

Bellway is a national UK housebuilder; Learning Technologies is a provider of e-learning services and technologies; Intermediate Capital is a provider and asset manager of alternative credit; Sirius Minerals is a mining development company; and Ferrexpo is a Ukrainian iron-ore producer.

Principal Detractors

Burford Capital is a provider of litigation finance; Cineworld is an international cinema chain; Clinigen is a provider of pharmaceutical services and specialist drugs; Mitchells and Butlers is a UK pub chain; and Rank Group is a UK bingo and casino operator.

Fund Manager's Report (continued)

Portfolio Activity

Our approach is to consider our investments as long-term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise, we have been employing strong sell disciplines to dispose of stocks that fail to meet these criteria.

During the period we have added to a number of positions in our portfolio and increased exposure to those stocks we feel have further catalysts to drive strong performance.

New additions to the portfolio include AB Dynamics, an advanced testing and measurement products business for the automotive industry; Chemring, an energetic materials, countermeasures and sensors products company for the defence industry; Frontier Developments, a computer games developer and publisher; Liontrust, an investment management company; and Volution, an international manufacturer and supplier of ventilation products.

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance or where the valuation had become extended, including the holdings in AJ Bell, Ibstock and Unite. Additionally we sold our holding in Tarsus, after the company had received an agreed takeover bid, and our position in Aveva, after the company was elevated to the FTSE 100 Index.

Market Outlook

The Conservative election victory has given a significant boost to the UK small and mid-cap equity market. The result has provided political clarity and removed the risk of a market unfriendly Corbyn government. It has also provided more certainty to our negotiations over Brexit. However, it is still unclear as to what our future trading relationship with Europe is and what trade deal can be negotiated.

The UK economy has been flirting with recession. The political and Brexit uncertainty has weighed on consumer and business confidence, delaying and postponing investment and purchasing decisions, and dampening economic growth. One would hope that now some of this uncertainty has cleared, the UK economy will strengthen, helped also by potential tax cuts and boosts to public spending.

Globally economic conditions are challenging. Europe, in particular, is showing signs of economic weakness. Trade tensions are providing additional negative commentary and the volatility of relations between the US and China is not helpful. However, recent progress on a stage 1 deal raises hopes that trade tensions can be de-escalated in 2020. After a rise in US interest rates last year, 2019 has seen that policy reverse although the commentary from the Federal Reserve would now indicate we are currently in a mid-cycle pause.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-9. Balance sheets are more robust and dividends are growing.

In terms of valuations, the equity market is now trading below long-term averages. M&A remains a supportive feature for the smaller companies sector. If corporate confidence improves, M&A will increase, especially as little or no return can currently be generated from cash and the cost of debt is historically low. We have seen significant interest in UK corporates from abroad and from private equity, and given the relatively low valuation of UK equities and a weak currency, we expect this trend to continue.

Neil Hermon
Fund Manager
28 January 2020

Investment Portfolio at 30 November 2019

| Position | Company | Valuation £'000 | Portfolio % |
|-------------------|--|--------------------|----------------|
| 1 | Intermediate Capital | 29,089 | 3.53 |
| 2 | Bellway | 25,877 | 3.14 |
| 3 | Clinigen Group ¹ | 17,420 | 2.11 |
| 4 | Paragon | 17,348 | 2.11 |
| 5 | RWS ¹ | 16,400 | 1.99 |
| 6 | Oxford Instruments | 16,339 | 1.98 |
| 7 | John Laing | 16,295 | 1.98 |
| 8 | Ultra Electronic | 15,019 | 1.82 |
| 9 | Dechra Pharmaceuticals | 14,597 | 1.77 |
| 10 | Victrex | 14,375 | 1.74 |
| 10 largest | | 182,759 | 22.17 |
| 11 | Cineworld | 14,338 | 1.74 |
| 12 | Renishaw | 13,997 | 1.70 |
| 13 | Learning Technologies Group ¹ | 13,725 | 1.67 |
| 14 | GB Group ¹ | 13,646 | 1.66 |
| 15 | Gamma Communications ¹ | 13,218 | 1.60 |
| 16 | TI Fluid Systems | 12,711 | 1.54 |
| 17 | Sanne | 12,455 | 1.51 |
| 18 | SoftCat | 12,153 | 1.47 |
| 19 | Vesuvius | 11,907 | 1.45 |
| 20 | IntegraFin | 11,860 | 1.44 |
| 20 largest | | 312,769 | 37.95 |
| 21 | OneSavings Bank | 11,610 | 1.41 |
| 22 | St Modwen Properties | 10,968 | 1.33 |
| 23 | Balfour Beatty | 10,819 | 1.31 |
| 24 | Synthomer | 10,502 | 1.27 |
| 25 | Consort Medical | 10,450 | 1.27 |
| 26 | SIG | 10,205 | 1.24 |
| 27 | Team 17 ¹ | 10,050 | 1.22 |
| 28 | Cairn Energy | 9,895 | 1.20 |
| 29 | Euromoney Institutional Investor | 9,610 | 1.17 |
| 30 | Countryside Properties | 9,480 | 1.15 |
| 30 largest | | 416,358 | 50.52 |

¹Quoted on the Alternative Investment Market (AIM)

Investment Portfolio (continued)

| Position | Company | Valuation £'000 | Portfolio % |
|------------------------|-------------------------------------|--------------------|----------------|
| 31 | Avon Rubber | 9,414 | 1.14 |
| 32 | CLS | 9,203 | 1.12 |
| 33 | Spectris | 9,110 | 1.11 |
| 34 | Premier Oil | 8,903 | 1.08 |
| 35 | Future | 8,898 | 1.08 |
| 36 | Impax Asset Management ¹ | 8,880 | 1.08 |
| 37 | Brewin Dolphin | 8,876 | 1.08 |
| 38 | Computacenter | 8,850 | 1.07 |
| 39 | Grainger | 8,721 | 1.06 |
| 40 | Ascential | 8,712 | 1.06 |
| 40 largest | | 505,925 | 61.40 |
| 41 | Midwich ¹ | 8,673 | 1.05 |
| 42 | Just Group | 8,215 | 1.00 |
| 43 | Coats | 8,182 | 0.99 |
| 44 | Jupiter Fund Management | 8,106 | 0.98 |
| 45 | Scapa ¹ | 8,004 | 0.97 |
| 46 | Codemasters ¹ | 7,975 | 0.97 |
| 47 | Savills | 7,891 | 0.96 |
| 48 | Northgate | 7,584 | 0.92 |
| 49 | Bodycote | 7,573 | 0.92 |
| 50 | Rotork | 7,048 | 0.86 |
| 50 largest | | 585,176 | 71.02 |
| 51 | GoCo | 7,035 | 0.85 |
| 52 | Hunting | 7,027 | 0.85 |
| 53 | Vitec Group | 6,902 | 0.84 |
| 54 | XP Power | 6,784 | 0.82 |
| 55 | Helical | 6,557 | 0.80 |
| 56 | DFS | 6,372 | 0.77 |
| 57 | SDL | 6,351 | 0.77 |
| 58 | Restore ¹ | 6,230 | 0.76 |
| 59 | Hyve | 6,215 | 0.75 |
| 60 | Howden Joinery | 5,991 | 0.73 |
| 60 largest | | 650,640 | 78.96 |
| Remaining 46 | | 173,367 | 21.04 |
| Total portfolio | | 824,007 | 100.00 |

¹Quoted on the Alternative Investment Market (AIM)

Dividends

The Board has declared an interim dividend of 7.0p (30 November 2018: 6.5p) to be paid on 9 March 2020 to shareholders on the register at the close of business on 14 February 2020. The ex-dividend date will be 13 February 2020. No provision has been made for the interim dividend in these condensed financial statements.

The final dividend of 16.5p per ordinary share, paid on 8 October 2019, in respect of the year ended 31 May 2019, has been recognised as a distribution in the period.

Share Capital

At 30 November 2019 there were 74,701,796 ordinary shares in issue (30 November 2018: 74,701,796; 31 May 2019: 74,701,796). During the half-year ended 30 November 2019 the Company did not buy back or issue any shares (half-year ended 30 November 2018: nil; year ended 31 May 2019: nil). No shares have been bought back or issued during the period.

Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business fall broadly under the following categories:

- investment activity and strategy;
- accounting, legal and regulatory;
- operational; and
- financial instruments and the management of risk.

Detailed information on these risks is given in the Strategic Report and in the Notes to the financial statements in the Company's Annual Report for the year ended 31 May 2019.

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.

Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position of the Company during the period. Details of related party transactions are contained in the Annual Report for the year ended 31 May 2019.

Going Concern

Having reassessed the principal risks and uncertainties, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. The assets of the Company consist almost entirely of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in existence for the foreseeable future.

Directors' Responsibility Statement

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

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting;
- the Interim Management Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management 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

Jamie Cayzer-Colvin

Chairman

28 January 2020

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MANAGED BY
Janus Henderson
INVESTORS

aic
The Association of
Investment Companies



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