

# The Henderson Smaller Companies Investment Trust plc



Annual Report 2021

MANAGED BY

**Janus Henderson**  
— INVESTORS —

# Objective

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

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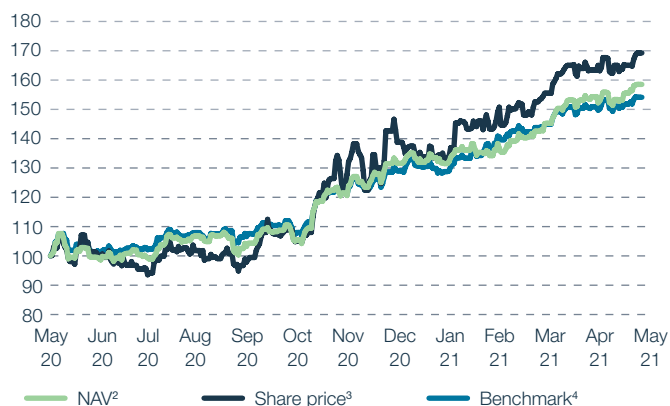


# Strategic Report

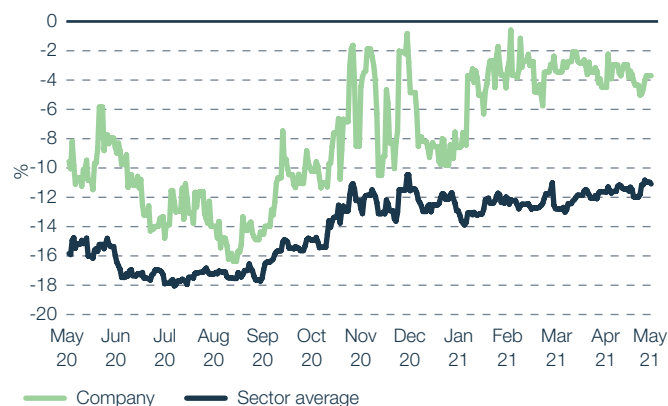


# Performance Highlights

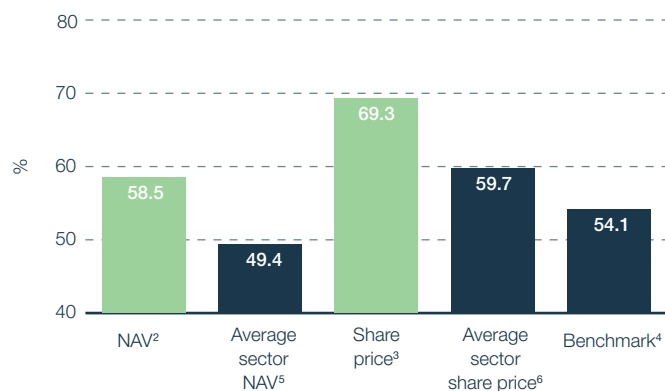
## Total return performance to 31 May 2021<sup>1</sup>



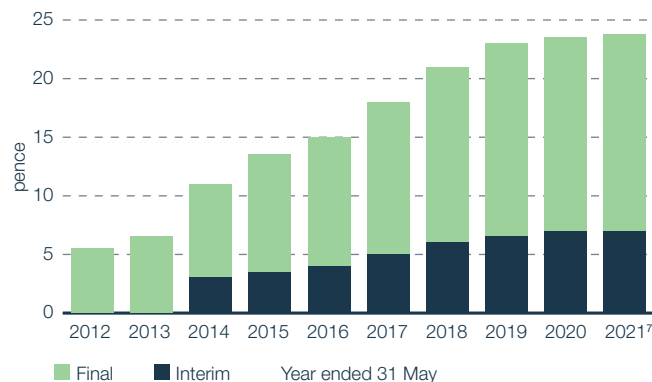
## Discount data to 31 May 2021



## Total return performance for the year ended 31 May 2021



## Dividends



## Total return performance for the period ended 31 May 2021

	1 year %	3 years %	5 years %	10 years %
NAV²	58.5	36.3	103.3	310.2
Share price³	69.3	43.4	135.6	399.8
Benchmark⁴	54.1	21.8	58.8	164.2
Average sector NAV⁵	49.4	25.8	77.1	205.4
Average sector share price⁶	59.7	28.9	83.6	241.1
FTSE All-Share Index	23.1	5.9	40.5	84.4

1 Net asset value ("NAV") total return per ordinary share and share price total return compared to the total return of the benchmark over the year to 31 May 2021 rebased to 100

2 NAV per ordinary share total return with income reinvested

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

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

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

7 The 2021 final dividend is subject to shareholder approval

A glossary of terms and explanations of alternative performance measures are included on pages 82-84

# Performance Highlights (continued)

Year to 31 May

## NAV per share at year end

2021	2020
<b>1,329.1p</b>	<b>859.1p</b>

## Share price at year end

2021	2020
<b>1,280.0p</b>	<b>777.0p</b>

## Discount at year end<sup>1</sup>

2021	2020
<b>3.7%</b>	<b>9.6%</b>

## Gearing at year end

2021	2020
<b>8.8%</b>	<b>11.0%</b>

## Dividend for year

2021	2020
<b>23.75p<sup>2</sup></b>	<b>23.50p</b>

## Revenue return per share

2021	2020
<b>13.86p</b>	<b>16.73p</b>

## Dividend yield<sup>3</sup>

2021	2020
<b>1.9%</b>	<b>3.0%</b>

## Total net assets

2021	2020
<b>£993m</b>	<b>£642m</b>

## Ongoing charge excluding performance fee

2021	2020 <sup>4</sup>
<b>0.39%</b>	<b>0.42%</b>

## Ongoing charge including performance fee

2021	2020 <sup>4</sup>
<b>0.98%</b>	<b>0.42%</b>

<sup>1</sup> Calculated using the NAV and mid-market share price at year end

<sup>2</sup> This represents an interim dividend of 7.00p and a proposed final dividend of 16.75p. See page 72 for more details

<sup>3</sup> Based on the ordinary dividends paid and payable for the year and the mid-market share price at year end

<sup>4</sup> No performance fee was payable in 2020

A glossary of terms and explanations of alternative performance measures are included on pages 82-84

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream



# Chairman's Statement



**Jamie Cayzer-Colvin**  
Chairman of the Board

**“Your Company performed very well in the year under review with a net asset value total return of 58.5% outperforming our Numis Smaller Companies Index benchmark by 4.4%. This performance also compared favourably with the AIC UK Smaller Companies sector average which returned 49.4%. The share price total return was even better at 69.3%, reflecting a narrowing of the share price discount to net asset value.”**



# Chairman's Statement

I am very pleased that the optimism I expressed in my half-year report has proved to be well founded. The recovery in your Company's share price and net asset value continued through the second half of the year resulting in significant outperformance against our benchmark. This is the eighteenth consecutive year in which we have increased our total dividend. The vaccine rollout in the UK has proved to be swifter and more efficient than in most other countries and this has stimulated a fast recovery for UK smaller companies.

Even more pleasing is the long-term performance track record of your Company. Since Neil Hermon was appointed as the lead Fund Manager, your Company has outperformed its benchmark in 16 of the past 18 years. Performance over the last ten years, during which I have had the honour of being your Chairman, has been particularly impressive. The annualised net asset value ("NAV") total return over that period has been 15.2%, outperforming the benchmark average by 5.0% per annum.

The consistency of this outperformance reflects the quality of the investment style and approach of Neil Hermon and his team, Indriatti van Hien and Shivam Sedani.

## Performance

Your Company performed very well in the year under review with a NAV total return of 58.5% outperforming our Numis Smaller Companies Index benchmark by 4.4%. This performance also compared favourably with the AIC UK Smaller Companies sector average which returned 49.4%. The share price total return was even better at 69.3%, reflecting a narrowing of the share price discount to NAV.

## Revenue and dividend

The total revenue received from your Company's portfolio fell from £14.2m to £12.3m over the year as investee companies cut their dividends in response to the challenges of the pandemic. Your Board believes that as the UK economy continues to recover, the level of dividend income will return to previous levels.

Notwithstanding this lower level of income received, your Board proposes to continue its record of increasing the annual dividend each year in light of the improving outlook. Accordingly, your Board is pleased to recommend a final dividend of 16.75p per share (2020: 16.50p), which together with the interim dividend of 7.00p per share makes a total dividend for the year of 23.75p per share (2020: 23.5p), an increase of 1.1%. This will be funded from a combination of current year revenue, the revenue reserve and a small amount from the capital reserve.

## Discount

Your Company's share price discount to NAV fluctuated widely over the year with highs and lows of 0.6% and 16.4% respectively, averaging 8.0%. This compares favourably with the sector average of 14.2%. The Company ended the year at a 3.7% discount compared with 9.6% on 31 May 2020. Your Board continues to monitor the discount and will consider the merits of buying back shares as markets evolve, although we do not currently believe that share buy-backs represent the most effective way of generating long-term shareholder value. During the reporting year, no shares were bought back.

## Performance fee

Your Company's management fee arrangements consist of a very low base fee of 0.35% and a performance fee arrangement which is subject to various restrictions, including a performance hurdle and the requirement for an improved absolute return and share price compared with the prior year. There is also a cap ensuring that investment management fees, including the performance fee, cannot exceed 0.9%. This year, the strong investment performance has resulted in a performance fee being paid. Full details are given on page 26.

## Board

As I explained in my half-year report, I shall be retiring as your Chairman at the conclusion of the 2021 AGM and will be succeeded by Penny Freer. Penny has spent over 25 years in investment banking, providing advice to management teams. She has extensive experience of leadership at board level and, having been on our Board since 2018, I have no doubt she will be an outstanding Chairman. Our succession planning continues, and this is reflected in the appointments to the Board of Kevin Carter and Michael Warren which I also reported in my half-year report.

## Annual General Meeting ("AGM")

We are pleased to invite shareholders to attend the AGM in person at our registered office on Friday, 1 October 2021 at 11.30 am. We encourage shareholders to attend for the opportunity to meet the Board, to see a presentation from your Fund Manager reviewing the year and looking forward to the year ahead, and to ask questions and debate with Neil and the Board. For any shareholders unable to travel, we will also be welcoming you to join by conferencing software Zoom. As is our normal practice, there will be live voting for those physically present at the AGM. Due to technological restrictions, we cannot offer live voting by Zoom, and we therefore request all shareholders, and particularly those who cannot attend physically, to submit their votes by proxy, ahead of the deadline of 29 September 2021, to ensure that their vote counts at the AGM.

## Outlook

At the time of writing, the vaccination roll-out continues at pace and the data is suggesting that a full exit from lockdown measures should be possible this summer, which should accelerate further the sharp recovery in economic activity. Economic and sentiment indicators continue to be positive with corporate activity picking up, and UK smaller companies generally have performed well during the crisis. The UK Government has agreed a trade deal with Europe and is starting to agree trade deals with other countries which should prove beneficial for British trade and therefore UK smaller companies. Against this background, I see no reason why your Company cannot continue the success of the last ten years in the years ahead.

Jamie Cayzer-Colvin  
Chairman  
3 August 2021

# Portfolio Information

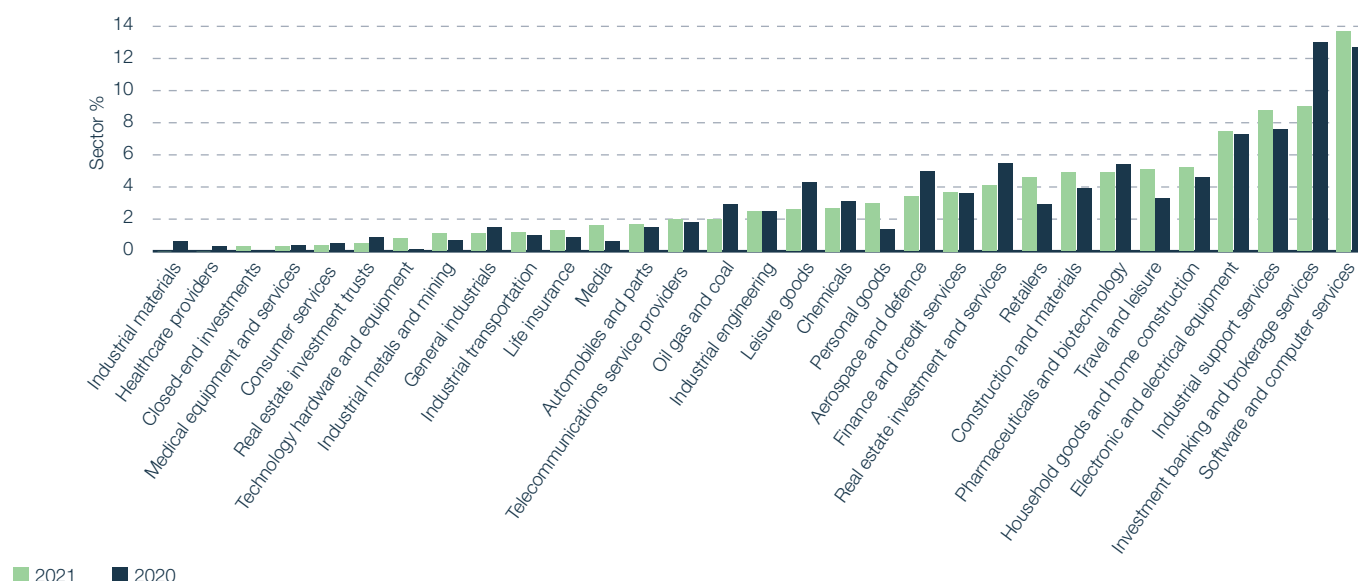
## Performance attribution

	Year ended 31 May	
	2021 %	2020 %
NAV total return	58.5	-8.2
Benchmark total return	54.1	-15.9
<b>Relative performance</b>	<b>4.4</b>	<b>7.7</b>
	Comprising:	
Stock selection	-0.9	9.9
Gearing	6.3	-1.8
Expenses	-1.0	-0.4

## Ten largest investments at 31 May 2021

Ranking 2021	Ranking 2020	Company	Principal activities	Valuation 2021 £'000	Portfolio %
1	20	Impax Asset Management	Specialist fund manager	33,480	3.1
2	24	Future	Specialist media platform	29,657	2.7
3	2	Bellway	Housebuilder	28,624	2.6
4	3	Clinigen	Pharmaceuticals	22,485	2.1
5	5	RWS	Translation services	22,237	2.1
6	63	Mitchells & Butlers	Hospitality operator	21,511	2.0
7	4	Team17	Games software developer	21,087	2.0
8	13	Gamma Communications	Telecommunication services	21,085	2.0
9	14	Oxford Instruments	Advanced instrumentation equipment	21,011	1.9
10	46	Watches Of Switzerland	Luxury watch retailer	20,240	1.9
				<b>241,417</b>	<b>22.4</b>

## Analysis of the portfolio by sector at 31 May



As at 31 May 2021, the Company had no holdings in the following sectors: Healthcare providers and Industrial materials

Sources: Factset, Janus Henderson



# Fund Manager's Report



“The Company had an excellent year of performance, rising significantly in absolute terms and materially outperforming its benchmark. This marks the 16<sup>th</sup> year of outperformance in the 18 years I have been managing the portfolio, and it is also the 18<sup>th</sup> consecutive year of dividend increase.”

# Fund Manager's Report

## Fund performance

The Company had an excellent year in performance terms, rising significantly in absolute terms and materially outperforming its benchmark. The share price rose by 69.3% and the net asset value by 58.5% on a total return basis. This compared with an increase of 54.1% (total return) by the Numis Smaller Companies Index (excluding investment companies). The outperformance came from a positive contribution from gearing partially offset by a small negative contribution from expenses and stock selection. This year marks the 16th year of outperformance of the benchmark in the 18 years in which I have managed the investment portfolio, and it is also the 18th consecutive year of dividend increase.

After another extraordinary year of navigating the challenges of running a business in a pandemic, we would like to offer our sincere thanks to the boards, management teams and their colleagues of our portfolio companies for all their hard work and resilience during this time. We have always kept an open dialogue with the management and boards of all our portfolio companies, and in many ways the pandemic increased the need for and ability to communicate as we worked to provide support for businesses. We invite you to read more about our company engagement in the ESG section on pages 28-31 of this Annual Report.

## Market – year under review

The year under review was a volatile but ultimately extremely positive one for equity markets as Covid-19 headlines dominated news flow. Rising virus caseloads globally in the summer and the discovery of new highly contagious mutant strains of the virus in the winter resulted in a stop-start reopening of the UK economy. Corporate and consumer sentiment was dampened by the re-imposition of stricter measures at various points in the year including local and national lockdowns. Consequently, governments globally were forced to provide continued support to their economies, while corporates looked to issue more equity to withstand the disruption to trading caused by new lockdowns.

It was the news in November 2021 that three separate vaccine trials had passed the first efficacy and safety hurdles that marked a turning point in the world's fight against Covid-19. This caused animal spirits to return to boardrooms, living rooms and trading floors alike. Equity markets rallied sharply as investors regained the confidence to look through short-term trading conditions and put multiples on the future earnings of pandemic-stricken sectors such as travel, leisure and retail.

Politics briefly took centre stage at the turn of the year. After taking talks to the brink, the impasse was broken and the UK and EU finally agreed a trade deal, averting the much-feared “no-deal” Brexit scenario. Sterling strengthened materially as a result. Elsewhere, in the US, after a protracted vote count Joe Biden was proclaimed the winner of the presidential election and the Democrats took control of Congress and the Senate which raised hopes of further fiscal stimulus.

In the UK, the vaccination programme that started in December 2020 was a notable success both in terms of the speed of roll-out and evidence of high efficacy rates. This allowed the Government to set out a roadmap to the “irreversible” reopening of the economy, causing equity markets to rally further. Elsewhere, vaccination rates gained pace in the US and Israel whilst Europe initially lagged behind developed market peers. Vaccination progress in conjunction with the continued fiscal support from governments increased global growth and inflation expectations. Oil and commodity prices rose along with bond yields. Value stocks rallied at the expense of defensive and growth stocks as investors started to position themselves for reflation.

Smaller companies materially outperformed larger companies over the year. The Numis Smaller Companies Index (excluding investment companies) outperformed the FTSE All-Share Index for the first time since 2015-16.

## Gearing

Gearing started the year at 11.0% and ended it at 8.8%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% and £85 million short-term bank borrowings. As markets rose, the use of gearing was a positive contributor to performance in the year. Gearing has made a significant positive contribution to investment performance over the 18 years I have managed the investment portfolio.

## Attribution analysis

The tables below show the top five contributors to, and the top five detractors from, the Company's relative performance.

### Principal contributors

	12 month return %	Relative contribution %
Impax Asset Management	+197.7	+1.8
Centamin <sup>1</sup>	-31.3	+1.2
Codemasters	+95.3	+0.8
Future	+106.3	+0.8
Luceco	+229.2	+0.7

<sup>1</sup> Not owned by the Company

**Impax Asset Management** is an environmentally and socially responsible focused asset manager based in the UK. The company was formed in 1998 by the current CEO Ian Simm, and has several funds spanning public equities, bonds and private equity assets. Demand for these types of funds is growing as the sustainability agendas have become top priorities for governments, consumers and investors alike. Consequently, the business has seen continued rapid growth in assets under management, and we expect this to continue as the group's strong performance track record and distribution agreements should lead to further inflows.

# Fund Manager's Report (continued)

**Centamin** is an Egyptian gold miner. The company reported reduced production output after a period of disruption. Furthermore, the shares de-rated as investor appetite for gold and other safe haven assets waned following the positive vaccine news and the sharp rebound in economic activity as economies began to recover from the effects of Covid-19. The Company did not own a position in this stock.

**Codemasters** is a video games developer. The company saw strong growth driven by its premier title, Formula One. The company was a major beneficiary of its customers being housebound during the early stages of Covid-19. The company also received a takeover offer from Electronic Arts at a substantial premium to the prevailing share price.

**Future** is a tech-enabled global platform for specialised media which targets consumers and business-to-business ("B2B") brands across Europe, America and Asia Pacific. The company creates specialised content to attract and grow high-value audiences. These audiences are then monetised through memberships and subscriptions, print and digital advertising, e-commerce sales and events. Future has both an organic and inorganic growth strategy. Management is focused on purchasing new brands and titles to leverage its scalable technology and drive digital growth using its revenue optimisation model. The company was a big beneficiary of its customers' overnight shift to consumer spending online and increasing allocation of corporate marketing budgets spent on digital marketing during the early stages of the pandemic.

**Luceco** is a manufacturer and distributor of electrical products. It has substantial UK market shares in portable power and wiring accessories. The company has benefited from increased RMI (repair, maintenance and improvement) demand driven by Covid-19, market share gains and materially improved margins driven by cost improvement. With a rapidly de-leveraging balance sheet, prospects look strong, driven by further revenue growth and the potential for value enhancing acquisitions.

## Principal detractors

	12 month return %	Relative contribution %
Clinigen	-1.6	-1.5
RWS Holdings	+0.2	-1.3
AO World <sup>1</sup>	+200.9	-1.2
S4 Capital <sup>1</sup>	+117.4	-1.0
William Hill <sup>1</sup>	+102.3	-0.9

<sup>1</sup> Not owned by the Company

**Clinigen** is a global speciality pharmaceutical services business. Its core activity is providing comparator drugs and other services for clinical trials and providing market access for drugs that are difficult to obtain or yet to be licensed. It also has a speciality pharmaceutical division, which looks to acquire niche drugs from major pharmaceutical companies, where management thinks it can enhance performance

through additional regulatory approval or increased targeted marketing. The company suffered from the impact of Covid-19 on its portfolio of oncology drugs, as diagnosis and treatment of cancer declined, and from delays to the clinical approval of a new treatment which uses one of Clinigen's major drugs.

**RWS** is a translation-services business with particular strengths in intellectual property, life sciences and technology. The company has demonstrated long-term sustainable growth through a combination of organic and acquisitive expansion which has generated substantial shareholder returns over the long term. During the period under review RWS acquired SDL, a translation-services competitor, which put technical pressure on the stock due to a large number of shares issued to fund the deal.

**AO World** is an online retailer of electrical products in the UK and Europe. Revenues grew substantially in the period under review as consumers refocused their expenditure towards the home and away from leisure and holiday spend. The company also took market share as physical retailers were forced to close for a significant part of the year due to Covid-19 restrictions. The Company did not own a position in this stock.

**S4 Capital** is a provider of digital marketing and advertising services. The company has enjoyed rapid growth from client wins and a series of acquisitions. The Company did not own a position in this stock.

**William Hill** is a licensed betting company. The company was taken over by Caesars Entertainment principally to boost its exposure to the nascent US gambling market. The Company did not own a position in this stock.

## Portfolio activity

Trading activity in the portfolio was consistent with an average holding period of over five years. 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 cut out stocks that fail to meet these criteria.

During the year we have added a number of new positions to our portfolio. These include the following:

**Auction Technology Group** is an online marketplace and platform company that serves auctioneers and bidders in the industrial, commercial and antique auction markets.

The company is benefitting from a transition from physical-only auctions to an online hybrid format, with this trend accelerating during the Covid-19 pandemic. With strong growth prospects from further online penetration and targeted complementary acquisitions, the outlook for the company is positive.

**Bytes Technology** is the eighth largest UK IT reseller with just 3% market share and lots of white space to penetrate. It specialises in software sales and therefore benefits from the recurring revenues arising from the SaaS (Software as a



# Fund Manager's Report (continued)

Service) models it sells. The company is benefitting from the structural growth in IT spending by both the private and public sector. The group's strategy is straightforward and is centred around selling more to existing customers and winning new customers.

**Foresight Group** is an alternatives asset manager specialising in infrastructure and regional private-equity investments. We invested in Foresight as it offered relatively cheap exposure to growing fund allocations towards alternative assets. The company is highly cash generative and intends to spend money on bolt-on M&A (mergers and acquisitions) alongside returning cash to shareholders.

**Moonpig** is an online card and gifting retailer operating in the UK and the Netherlands. The group has more than 60% market share of the online card market. It is a structural grower benefitting from the offline-to-online transition in card purchasing. Moonpig's negative working capital profile and capital-light business model mean cash generation is strong and returns are high. Management is using data analytics to increase customer stickiness and encourage the attachment of gift purchases to card purchases to augment top-line growth.

**Pebble Group** provides advertising services to global enterprises. The group primarily designs and supplies branded promotion products to large corporates for use in marketing campaigns. The company also offers a purchasing platform tool for smaller US businesses, which is recurring and highly profitable income. Pebble is demonstrating good growth as it wins new enterprise contracts and attracts customers on to its purchasing platform. We expect this positive momentum to continue as the group has a strong pipeline of new business opportunities.

**Young & Co's** is an owner and operator of premium unbranded pubs in the South of England. It has significant net asset value backing with 84% of its pubs either owned freehold or with long-term peppercorn rents. We took the opportunity to initiate a position when the company raised equity in June 2020 to bolster its balance sheet to withstand the impact of Covid-19. As the economy re-opens, Youngs should benefit from its favourable geographic exposure, a well-invested estate and a strong balance sheet which will enable it to acquire new sites.

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance. We sold our holding in Cineworld, a global cinema operator, after the shares recovered strongly from post-pandemic lows. The forced closure of its business throughout most of 2020 and early 2021 has left the balance sheet over-indebted. Additionally, moves from the film studios to shorten the exclusive period that movies are shown at cinemas, and the rise in premium video-on-demand leaves the shape of recovery in trading at Cineworld open to question. We also disposed of our holding in Tekmar, a provider of products to the offshore wind, oil and gas industries. We had become increasingly concerned by the outlook for earnings and the poor corporate governance in

the company. We sold our positions in Safestore, a self-storage company, and Zotefoams, a speciality foams manufacturer, as strong recoveries in both companies' share prices left them fully valued. We also sold our position, in line with our stated policy, in Intermediate Capital, an alternative-finance provider and asset manager, as it was elevated to the FTSE 100.

There was a heightened level of takeover activity in the portfolio, particularly in the latter part of our financial year. This was consistent with the wider mid and small-cap equity market aided by the removal of Brexit uncertainty and heightened levels of interest from private equity. A number of takeover bids were received: for AA, a roadside assistance and insurance group, from Towerbrook and Warburg Pincus; for Codemasters, a video games company, from Electronic Arts; for GoCo, a price comparison website, from Future; for John Laing, an infrastructure investor, from KKR; for SDL, a language services group, from RWS; for Spire Healthcare, a hospital operator, from Ramsay Health; for Urban & Civic, an urban regeneration business, from Wellcome Trust; and for Vectura, a medical device development company, from Carlyle.

## Portfolio outlook

The following table shows the Company's top 10 stock positions and their active positions versus the Numis Smaller Companies Index (excluding investment companies) at 31 May 2021:

Top ten positions at 31 May 2021	Holding %	Index Weight %	Active Weight %
Impax Asset Management	3.1	–	3.1
Future	2.7	–	2.7
Bellway	2.6	–	2.6
Clinigen	2.1	–	2.1
RWS	2.1	–	2.1
Mitchells & Butlers	2.0	0.9	1.1
Team17	2.0	–	2.0
Gamma Communications	2.0	–	2.0
Oxford Instruments	1.9	0.8	1.1
Watches Of Switzerland	1.9	1.2	0.7

A brief description of the largest active positions (excluding Impax Asset Management, Future, Clinigen and RWS Holdings, which were covered earlier) follows:

**Bellway** is a national UK housebuilder. Before the pandemic, the UK new-housing market was robust due to low interest rates and government initiatives, particularly the 'Help to Buy' scheme. Although the housing market slowed temporarily due to Covid-19, it has bounced back very strongly, helped by stamp duty relief and a desire by consumers to own larger properties as the working-from-home trend becomes more prevalent. Bellway is also benefitting from other structural factors, such as a benign land market due to the reduction in competitors from the previous cycle, the under-supply of

# Fund Manager's Report (continued)

housing in the UK and the capital discipline Bellway and its peers are displaying. Bellway is looking to exploit these conditions by expanding its national footprint, whilst maintaining a strong land-bank and balance sheet.

**Mitchells & Butlers** is a national pub and restaurant owner and operator. Although Covid-19 severely impacted the business, as operations were either closed or operating under severe restrictions, the company has come through this tough period intact and with a strong balance sheet, aided by an equity issue during the year. Prospects for recovery look strong as Covid-19 restrictions are eased and consumers will look to spend the substantial personal savings built up in the last year. Additionally, competition has diminished as the number of licensed operators has declined and in the short term the inability to travel abroad should boost 'staycation' spend in the UK.

**Team17** is a developer and publisher of video games for PCs, consoles and mobile devices. The company focuses on the independent games market and selectively works with developers and third parties to launch new content on multiple platforms. The business listed in 2018 and has had a strong record of growth driven by well-received new releases, the monetisation of new content and improved profitability as the portfolio expands. With a balance sheet in a net cash position, the company is well placed to acquire complementary assets in the sector.

**Gamma Communications** provides voice, data, mobile and internet-based telecoms to small and medium-sized enterprises in the UK and Europe. The company is focused on selling cloud-based telephony solutions, a market which is rapidly growing as users switch to more flexible services. The company has been highly successful with this approach in the UK and has recently expanded through acquisitions in Germany, the Netherlands and Spain to replicate this strategy. We expect this positive growth to continue both organically and through further acquisitions in Europe.

**Oxford Instruments** is a manufacturer of advanced instrumentation equipment. The company benefits from servicing a number of high-growth industries such as semiconductors, quantum computing, life sciences and advanced materials. In addition, its 'Horizon' programme of business improvement is driving sales, profit and margin growth. With a very strong balance sheet and a positive outlook for its end-markets the company is well placed for the future.

**Watches Of Switzerland** is a leading retailer of luxury watches and jewellery in the UK and US. The group trades under the banner of four prestigious retail brands: Watches of Switzerland, Mappin & Webb, Goldsmiths and Mayors. The group has a 40% share of the UK luxury watch market and 9% share of the US luxury watch market. Over 50% of revenues are generated from the sale of Rolex watches. In addition to driving sales densities across existing stores through improved marketing and stock availability, management's growth strategy is centred around expansion

in the US where the potential for market share gains is most apparent.

As at 31 May 2021, the portfolio was weighted by company size as follows:

	Weighting %	
	31 May 2021	31 May 2020
FTSE 100	1.6	3.7
FTSE 250	63.0	61.2
FTSE Small Cap	13.4	15.3
FTSE AIM	30.8	30.8
Gearing	(8.8)	(11.0)

## Market outlook

The Covid-19 outbreak dramatically changed expectations for global economic growth. The lockdown measures we have seen across the globe have had a profound effect on economic activity. Government actions to protect consumers and businesses from the worst impact of the shock softened the blow but ultimately can only be short term in nature given the scale of the bail-out required.

The virus will pass and the global economy is recovering. However, the shape and magnitude of the recovery are at this point uncertain, although confidence is rising that it will be pronounced and swift. The positive vaccine news announced in November 2020 and the subsequent successful vaccination programme have raised the very real possibility that life may return to some sort of 'normal' during 2021 with a consequent sharp recovery in economic activity.

One of the major concerns facing the equity market is the threat of higher inflation and the need for central banks to start tightening monetary policy. There is much debate as to whether current indications of inflation, led by commodities and logistics costs, are temporary or are of a more permanent nature with central bankers tending to lean towards the former view. A sustained pick-up in wage inflation would probably force monetary authorities to act more quickly, although at the time of writing there is no evidence of this.

Outside of Covid-19 there has been positive progress on key matters. The EU and the UK have finally agreed on a trade deal removing the threat of the damaging implications of a hard-deal Brexit. The US election outcome was closer than expected but a definitive resolution was reached. Hopefully a Biden presidency should see a more conciliatory and pragmatic approach to US foreign and trade policies.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-9. Balance sheets are, in particular, more robust. On the whole, so far, the UK corporate sector has performed well during the crisis and most companies are beating their initial post-Covid-19 earnings and cash expectations.

We are seeing a noticeable pick-up in corporate activity. The IPO market, after a quiet 2020, has exploded into life in recent months. Given the number of companies looking to

# Fund Manager's Report (continued)

float on public markets, it is important to remain disciplined when sifting through the multitude of new investment opportunities we have in front of us. Likewise, we are also seeing a significant increase in M&A activity as private equity, in particular, looks to exploit opportunities thrown up by Covid-19. We expect this upsurge to continue in the coming months as UK equity market valuations remain markedly depressed versus other developed markets.

In terms of valuations, the UK equity market is now trading in line with long-term averages if we apply pre-Covid-19 earnings. Corporate earnings were sharply down in 2020 although confidence in a sharp recovery in 2021 and beyond is rising.

Although uncertainty remains around short-term economic conditions, the virus will pass and we are seeing the green shoots of recovery. The movements in equity markets have thrown up some fantastic buying opportunities and we expect many listed companies to emerge stronger from the

downturn. However, it is important to be selective, as any recovery will be uneven and strength of franchise, market positioning and balance sheet will determine the winners from the losers in a post-Covid-19 world.

In conclusion, the year under review has been an excellent one for the Company. Absolute performance was positive and the Company materially outperformed its benchmark. Our portfolio companies have performed robustly, are soundly financed and attractively valued. Additionally, the smaller companies market continues to throw up exciting growth opportunities in which the Company can invest. We remain confident in our ability to generate significant value from a consistent and disciplined investment approach.

Neil Hermon  
Fund Manager  
3 August 2021

## Fund Management Team



**Neil Hermon**

Fund Manager

28 years experience

Joined Janus Henderson 2002



**Indriatti van Hien**

Deputy Fund Manager

10 years experience

Joined Janus Henderson 2011



**Shivam Sedani**

Analyst

4 years experience

Joined Janus Henderson 2017



# Investment Portfolio at 31 May 2021

Company	Principal activities	Valuation £'000	Portfolio %
Impax Asset Management <sup>1</sup>	Specialist fund manager	33,480	3.1
Future	Specialist media platform	29,657	2.7
Bellway	Housebuilder	28,624	2.6
Clinigen <sup>1</sup>	Pharmaceuticals	22,485	2.1
RWS <sup>1</sup>	Translation services	22,237	2.1
Mitchells & Butlers	Hospitality operator	21,511	2.0
Team17 <sup>1</sup>	Games software developer	21,087	2.0
Gamma Communications <sup>1</sup>	Telecommunication services	21,085	2.0
Oxford Instruments	Advanced instrumentation equipment	21,011	1.9
Watches Of Switzerland	Luxury watch retailer	20,240	1.9
<b>10 largest</b>		<b>241,417</b>	<b>22.4</b>
GB Group <sup>1</sup>	Data intelligence services	19,168	1.8
Learning Technologies <sup>1</sup>	E-learning software	18,955	1.8
TI Fluid Systems	Automotive supplier	18,705	1.7
Synthomer	Speciality chemicals	18,373	1.7
OneSavings Bank	Buy-to-let mortgage provider	17,667	1.6
Paragon	Buy-to-let mortgage provider	17,482	1.6
Softcat	Software reseller	16,461	1.5
Dechra Pharmaceuticals	Veterinary pharmaceuticals	15,839	1.5
Renishaw	Precision measuring and calibration equipment	15,775	1.5
Balfour Beatty	International contractor	15,773	1.5
<b>20 largest</b>		<b>415,615</b>	<b>38.6</b>
Tyman	Building products	15,681	1.5
Savills	Property transactional consulting services	15,134	1.4
Sanne	Investment management services	14,976	1.4
Ultra Electronics	Defence and aerospace products	14,832	1.4
IntegraFin	B2B financial platform	14,552	1.3
Just Group	Enhanced annuity provider	14,410	1.3
Luceco	Electrical products	14,190	1.3
Computacenter	IT reseller	14,021	1.3
Vesuvius	Ceramic engineering	13,922	1.3
Ascential	Exhibition organiser and data services	12,775	1.2
<b>30 largest</b>		<b>560,108</b>	<b>52.0</b>
Volution	Ventilation products	12,163	1.1
Inspecks <sup>1</sup>	Eyewear maker and designer	11,652	1.1
Crest Nicholson	Housebuilder	11,638	1.1
Bodycote	Engineering group	11,351	1.1
Brewin Dolphin	Wealth management	11,322	1.0
XP Power	Electrical power products	11,301	1.0
DFS	Furniture retailer	11,289	1.0
Liontrust Asset Management	Specialist fund manager	11,248	1.0
Victrix	Speciality chemicals	11,234	1.0
Avon Rubber	Defence products	10,836	1.0
<b>40 largest</b>		<b>674,142</b>	<b>62.4</b>

<sup>1</sup> Quoted on the Alternative Investment Market

# Investment Portfolio at 31 May 2021 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Alpha Financial Markets <sup>1</sup>	Investment management consultancy	10,704	1.0
Countryside	Housebuilder	10,634	1.0
Chemring	Defence products	10,557	1.0
CLS	Real estate investment and services	10,374	1.0
Cairn Energy	Oil and gas exploration and production	10,081	0.9
Vitec	Broadcast and camera systems	9,824	0.9
Spectris	Electronic control and process instrumentation	9,315	0.9
Euromoney Institutional Investor	B2B information	9,082	0.8
Redde Northgate	Commercial vehicle hire	9,048	0.8
Foresight Group	Specialist fund manager	8,820	0.8
<b>50 largest</b>		<b>772,581</b>	<b>71.5</b>
Bytes Technology	Software reseller	8,650	0.8
Midwich <sup>1</sup>	Audio-visual equipment distributor	8,625	0.8
Gym Group	Gym operator	8,418	0.8
Restore <sup>1</sup>	Office service provider	7,831	0.7
Moonpig	Online card and gift retailer	7,712	0.7
St Modwen Properties	Property investment and development	7,686	0.7
Joules <sup>1</sup>	Clothing retailer	7,562	0.7
Hollywood Bowl Group	Ten-pin bowling operator	7,374	0.7
Howden Joinery	Kitchen manufacturer and retailer	7,372	0.7
Hunting	Oil equipment and services	7,308	0.7
<b>60 largest</b>		<b>851,119</b>	<b>78.8</b>
Frontier Developments <sup>1</sup>	Games software developer	7,068	0.7
Serco	Outsourcing services	7,009	0.6
Helical	Office property investor and developer	6,820	0.6
Next Fifteen Communications <sup>1</sup>	PR and media services	6,552	0.6
Go-Ahead Group	Transport provider	6,381	0.6
Alliance Pharma <sup>1</sup>	Pharmaceutical products	6,373	0.6
Hyve	Exhibition and conference organiser	6,115	0.6
Moneysupermarket.Com	Price comparison website	6,080	0.6
Tribal Group <sup>1</sup>	Educational support services and software	6,064	0.6
Coats	Global threads manufacturer	6,057	0.6
<b>70 largest</b>		<b>915,638</b>	<b>84.9</b>
Genuit	Building products	5,966	0.6
SThree	Recruitment company	5,796	0.5
Smart Metering Systems <sup>1</sup>	Energy smart meters	5,712	0.5
Safestyle <sup>1</sup>	Window and door retailer	5,625	0.5
Eurocell	Building products	5,400	0.5
Wickes	DIY retailer	5,389	0.5
Aptitude Software	Software retailer	5,345	0.5
Alphawave IP	Semiconductor IP	5,287	0.5
Restaurant	Restaurant and pub operator	5,129	0.5
Headlam	Floor coverings distributor	5,106	0.5
<b>80 largest</b>		<b>970,393</b>	<b>90.0</b>

<sup>1</sup> Quoted on the Alternative Investment Market

# Investment Portfolio at 31 May 2021 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Rotork	Process control solutions	5,013	0.5
De La Rue	Currency and authentication products	4,869	0.5
Burford Capital <sup>1</sup>	Litigation finance	4,828	0.4
Pagegroup	Recruitment company	4,822	0.4
Auction Technology	Online auction software provider	4,660	0.4
Serica Energy <sup>1</sup>	Oil and gas exploration and production	4,641	0.4
Pebble Group <sup>1</sup>	Promotional products and services	4,611	0.4
Vectura	Pharmaceutical products	4,464	0.4
Knights <sup>1</sup>	Legal and professional services	4,334	0.4
Marshall Motor <sup>1</sup>	Automotive retailer	4,266	0.4
<b>90 largest</b>		<b>1,016,901</b>	<b>94.2</b>
RM	Education software and services	4,200	0.4
Young & Co's share class A <sup>1</sup>	Pub operator	4,088	0.4
Johnson Service <sup>1</sup>	Textile rental and related services	3,949	0.4
Grainger	Residential property investor	3,924	0.4
Fisher (James) & Sons	Marine, oil and gas specialised services provider	3,914	0.4
AB Dynamics <sup>1</sup>	Automotive testing and measurement products	3,794	0.4
Benchmark Holdings <sup>1</sup>	Pharmaceuticals and biotechnology	3,748	0.3
Advanced Medical Solutions <sup>1</sup>	Medical supplies manufacturer	3,699	0.3
Empiric	Student accommodation	3,697	0.3
Gooch & Housego <sup>1</sup>	Optical components manufacturer	3,668	0.3
<b>100 largest</b>		<b>1,055,582</b>	<b>97.8</b>
Blancco Technology <sup>1</sup>	Data erasure software	3,528	0.3
Gresham House <sup>1</sup>	Specialist fund manager	3,267	0.3
Sherborne Investors (Guernsey) C	Investment company	3,190	0.3
Volex <sup>1</sup>	Power products	3,166	0.3
Severfield	Industrial engineering	2,844	0.3
EMIS <sup>1</sup>	Healthcare software	2,671	0.2
Young & Co's share class NV <sup>1</sup>	Pub operator	2,667	0.2
Harbour Energy	Oil and gas exploration and production	2,055	0.2
Thruvision <sup>1</sup>	Detection technology	1,388	0.1
<b>Total equity investments</b>		<b>1,080,358</b>	<b>100.00</b>

There were no convertible or fixed interest securities at 31 May 2021 (2020: None)

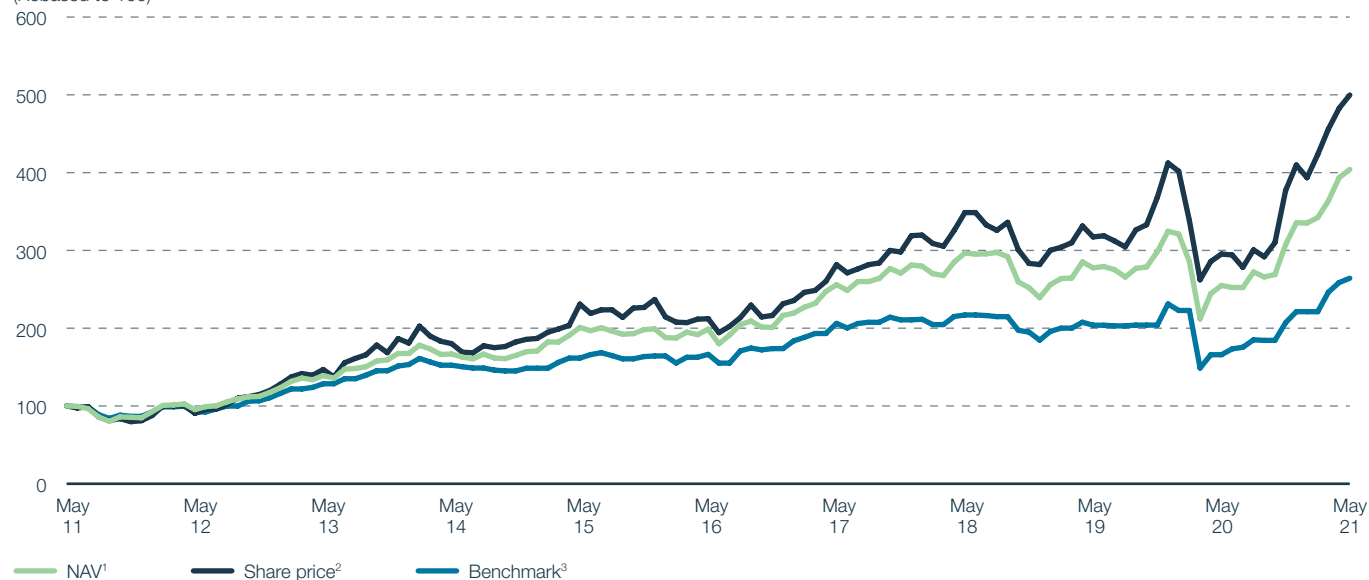
<sup>1</sup> Quoted on the Alternative Investment Market



# Historical Performance

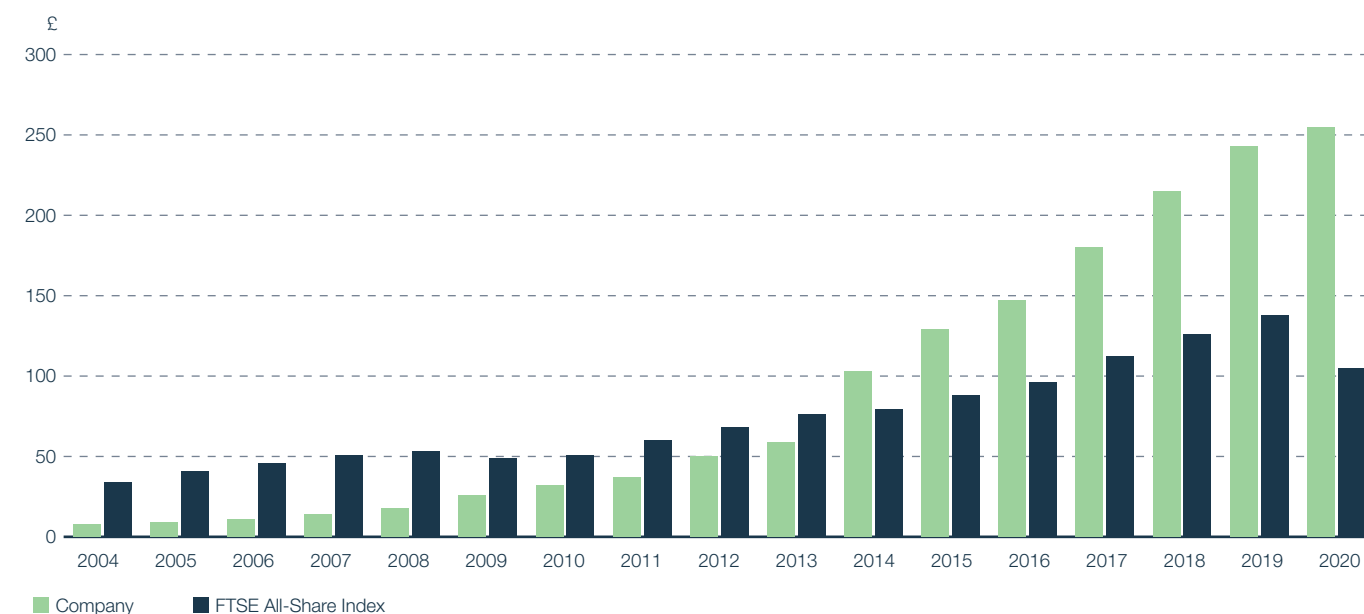
## Total return performance over the 10 years to 31 May 2021

(Rebased to 100)



## Historical dividend growth

Annual income (without reinvestment) an investor would have received on an initial £1,000 investment in the Company compared to the FTSE All-Share Index on a calendar year basis



See page 88 for further historical data.

<sup>1</sup> Net asset value ("NAV") per ordinary share total return with income reinvested

<sup>2</sup> Share price total return using mid-market closing price with income reinvested

<sup>3</sup> Numis Smaller Companies Index (excluding investment companies) total return

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream

# Business model

## Our purpose

Our purpose is to provide shareholders with long-term growth through investing in UK smaller companies and making this form of investment accessible to investors, both large and small. We do this by following a disciplined process of investment in a diversified portfolio of companies which benefit from sustainable growth trends, and by controlling costs and using borrowings to enhance returns.

## Our culture and values

Throughout our long history we have achieved our investment objective supported by investment capability and values characterised by openness, challenge, diversity, adaptation and integrity. The openness and constructive challenge extend to our interaction with our service providers. We expect the Company's service providers to uphold the same values as the Board, and particularly the Manager who is responsible for the management of the Company's portfolio, in view of the long-term nature of our investment proposition. These factors remain core elements of our culture and will continue to influence our long-term strategy.

## Our strategy

We fulfil our purpose by operating as an investment company, enabling us to delegate operational matters to specialised service providers. Their performance is monitored and challenged by us as a board of independent non-executive directors (the "Board") which retains oversight of the Company's operations. The framework of delegation provides the Company with a cost-effective mechanism for delivering operations whilst allowing us to benefit from capital gains treatment afforded to investment trusts under the Corporation Tax Act 2010. The closed-ended nature of the Company permits the Fund Manager to hold a long-term view on investments and remain fully invested while taking advantage of illiquidity in normal and volatile market conditions, as redemptions do not arise. The Company may use leverage to increase returns for shareholders, which provides us with a significant advantage over other investment fund structures.

The Board is accountable to the shareholders, who have the ability to remove a director from office where they deem it to be in the interests of the Company. The Company is governed by its articles of association, amendments to which must be approved by shareholders through a special resolution. The Company is listed on the Main Market of the London Stock Exchange and is subject to the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority ("FCA"). The Company is a member of the Association of Investment Companies ("AIC").

## Status

The Company is registered as a public limited company, founded in 1887, and is an investment company as defined in section 833 Companies Act 2006 (the "Act"). The Company operates as an investment trust in accordance with section 1158 Corporation Tax Act 2010 ("s1158") as amended and has obtained approval from HMRC for its status. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with s1158, and is not a 'close company' as defined under the Act. The directors believe that the Company has conducted its affairs in compliance with s1158 since approval was granted and intends to continue to do so.

## 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.

## Investment policy

Smaller companies are defined as any company outside the FTSE 100 Index. Once a portfolio company enters the FTSE 100 Index the Fund Manager has, in normal circumstances, six months to sell the position.

Investments may include shares, securities and related financial instruments, including derivatives. The following investment ranges apply:

- Equities: 80% – 100% of total gross assets
- Fixed Income and Cash: 0% – 20%

The Company maintains a diversified portfolio and cannot:

- Invest more than 5% of its total gross assets in any one holding; or
- Hold more than 10% of an investee company's equity,

in each case measured at the time of investment (or additional investment). The Board may give approval to the Manager to exceed these limits to as far as 10% and 20% respectively but only in exceptional circumstances.

It is the stated investment policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

## Derivatives

The Company may use financial instruments known as derivatives for the purpose of efficient portfolio management.

## Gearing

Net gearing (defined as all borrowings less cash balances and investments in cash funds) is limited by the Board to a maximum of 30% of shareholders' funds.

# Business model (continued)

## Management

The Company qualifies as an ‘alternative investment fund’ in accordance with the Alternative Investment Fund Managers Directive (“AIFMD”).

We as a Board appointed Henderson Investment Funds Limited (“HIFL”) to act as its alternative investment fund manager (“AIFM”). HIFL delegates investment management services to Henderson Global Investors Limited (“HGIL”) in accordance with an agreement which was effective from 22 July 2014. The management agreement with HIFL is reviewed annually by the Management Engagement Committee (see page 40), and can be terminated with six months’ notice. Both HIFL and HGIL are authorised and regulated by the FCA. References to the ‘Manager’ within this Annual Report refer to the services provided by both entities, both of which are wholly owned subsidiaries of Janus Henderson Group plc and are also referred to as ‘Janus Henderson’.

The fund management team is led by Neil Hermon, who was appointed as the Company’s Fund Manager with effect from November 2002. Neil’s team receives a proportion of any performance fee paid by the Company to the Manager and a proportion of that is deferred into shares in the Company. Indriatti van Hien was appointed Deputy Fund Manager with effect from 1 June 2016. Neil and Indriatti have shareholdings in the Company.

The Company does not have employees, premises or operations. Janus Henderson and its subsidiaries provide accounting, company secretarial, sales, marketing and general administrative services. Some of the administration and accounting services are carried out, on behalf of the Manager, by BNP Paribas Securities Services. Henderson Secretarial Services Limited acts as corporate secretary.

## Investment selection

The Fund Manager uses rigorous research to identify high-quality smaller companies with strong growth potential. The benchmark is the Numis Smaller Companies Index (excluding investment companies). Generally, new investments are made in constituents of the benchmark index but they may continue to be held when the underlying companies grow out of the smaller companies sector. Our Fund Manager’s investment approach is selective, aiming to deliver higher returns than our equity benchmark. The Manager is not a passive or indexed investor. Reflecting this, our portfolio’s active share at 31 May 2021 was 72.2% (72.3% at 31 May 2020).

## Borrowings

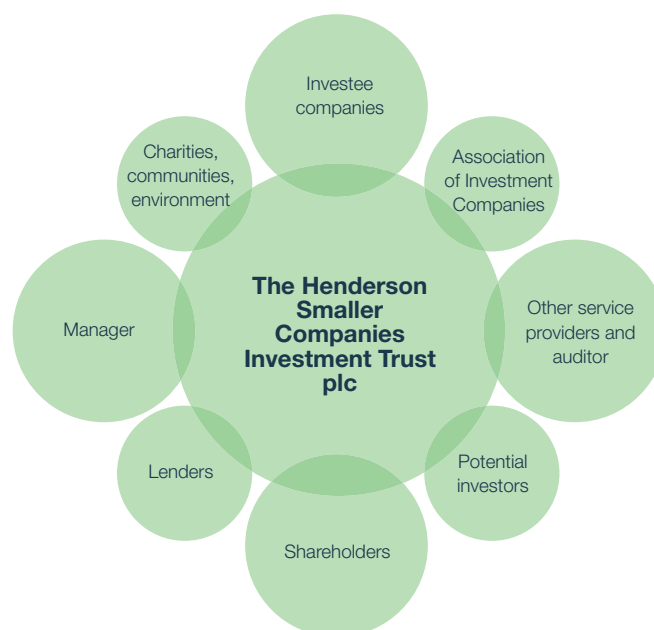
The Company has access to borrowings up to £115 million (2020: £90 million), comprising £30 million unsecured loan notes and a £85 million committed bank facility with Industrial and Commercial Bank of China Limited London Branch (“ICBC”). In addition, the Company has a small amount of preference stock in issue (see page 74 for more details).

## Promoting the success of the Company

We as directors act to promote the success of the Company for the benefit of its shareholders as a whole. In so doing, we have regard to the matters set out in s172(1) Companies Act 2006 (the “Act”). This includes the likely consequences of our decisions in the longer term, taking wider stakeholders’ needs into account. The Board’s strategy is facilitated by engaging with a wide range of stakeholders through virtual and physical meetings, research and presentations and through our service providers’ interactions within the investment community and beyond.

As an investment company with no employees, our key stakeholders are our shareholders, service providers and investee companies. Understanding stakeholders, their interests and views, enables the Company to fulfil its purpose and enables the directors to promote the success of the Company for the benefit of shareholders as a whole, with constant awareness of other stakeholders and their interests. As a Board, we have adopted a map to support us in identifying and understanding our stakeholders and fostering the appropriate level and form of interaction with them.

## Stakeholder map





# Business model (continued)

## Interaction with stakeholders

Set out below are examples of the ways in which we as your Board and the Company have interacted with our key stakeholders in the year under review, in line with s172 of the Act.

Stakeholders	Engagement	Outcome
Shareholders	<p>Key mechanisms of engagement included:</p> <ul style="list-style-type: none"> <li>encouraging investors to attend and vote at annual general meetings (“AGMs”). Shareholders have the opportunity to address questions to all directors, the Fund Manager and the company secretary;</li> <li>the Company’s website which hosts annual and half-year reports, the daily NAV per share calculation, monthly factsheets, press releases, key information documents, videos recorded by the Fund Manager, proxy voting results after our shareholder meetings, and other information on governance and decision making. Social media channels are also used (see Corporate Information on page 87);</li> <li>providing regular market commentary;</li> <li>investor meetings with directors in attendance, one-to-one investor meetings with the Fund Manager, presentations to investors and analysts following the publication of annual results, and a programme of events to foster understanding and good relations with wealth managers and underlying investors;</li> <li>promoting the Company through marketing and public relations initiatives, as we believe that the Company provides a credible investment choice for all types of investors.</li> </ul> <p>Feedback on all meetings with investors is reported to the Board, and the Board reviews shareholder correspondence addressed to it.</p>	<p>Shareholders make informed decisions about their investments. Clear communication of our strategy and the Company’s performance against our objective can help the share price trade at a narrower discount to its net asset value which benefits shareholders.</p> <p>The shares traded at an average discount through the financial year of 8.0% and reached 0.6% in March 2021.</p> <p>Close interaction with shareholders enables the Board to run the Company in line with shareholders’ interests as a whole and for the Company’s long-term success.</p> <p>The Chairman and all the directors invite shareholders to make contact with them directly. Shareholders are welcome to write to the Chairman or Senior Independent Director at the registered office (see page 87), or by email to <a href="mailto:itsecretariat@janushenderson.com">itsecretariat@janushenderson.com</a> with any feedback, queries, or concerns.</p> <p>The Board is pleased to invite shareholders to attend the AGM and Fund Manager’s presentation for the year ended 31 May 2021. More details are on page 5, page 51 and in the AGM Notice.</p>
Potential investors	<p>The Board and Manager liaise to engage with the wider investor community through various forums to understand their requirements in addition to those of the current shareholders. The material made available to current shareholders, as set out at the top of this table, is also publicly available for the benefit of potential investors.</p>	<p>By understanding the Company’s activities, performance, risks and prospects, potential investors will also be able to make informed decisions about their investments.</p>

# Business model (continued)

Stakeholders	Engagement	Outcome
<p><b>Janus Henderson as Fund Management Group</b></p> <p><b>Activities include:</b></p> <ul style="list-style-type: none"> <li>• Fund management</li> <li>• Sales and marketing</li> <li>• Company secretarial</li> <li>• Financial reporting</li> <li>• Internal controls functions</li> <li>• Internal audit</li> <li>• Investment accounting and administration (outsourced by Janus Henderson to BNP Paribas)</li> </ul>	<p>We, as your board of directors, set and oversee parameters for the Manager's activities, including asset allocation, gearing, stock and sector selection as well as risk management. The Board holds our Manager to account in managing the Company's assets.</p> <p>The Board regularly reviews performance against objective, policy and guidelines, and receives presentations from the Fund Manager and other representatives of the Manager at each board meeting to exercise effective oversight of portfolio, performance and strategic objectives. The Manager's performance in all respects is reviewed formally by the Management Engagement Committee ("MEC") each year.</p> <p>The directors work closely with the Fund Management Group outside scheduled board meetings on matters relating to portfolio management, administration and governance oversight, including stakeholder engagement and relationships with third parties. The Board also meets outside board meetings with key staff to develop strategy, including plans to promote the Company with the aim of raising its profile.</p> <p>Recognising that sustainability is fundamental to achieving long-term success, the Board has continued to work closely with our Manager to achieve the Company's investment objective in an effective, responsible and sustainable way in the interests of shareholders, future investors and society at large. We support the Manager's approach, which focuses on engagement with investee companies on ESG issues and empowers each investment team to define the ESG considerations pertinent to their own investment approach, as set out on pages 28-31. We are also very supportive of the fund management team's letter sent to the chairmen of all our investee companies earlier this year, explaining their priorities and inviting deeper engagement. We review at each meeting all the votes on portfolio companies' resolutions cast since the previous meeting and how they align with the Manager's ESG principles.</p> <p>The Board encourages and supports the Manager in attracting and retaining talent, so that the Company has the resources to implement its strategy and manage third-party relationships successfully.</p> <p>The Board monitors the Manager's culture, values and aspirations each year to ensure that these remain aligned with the Board's own culture and values, as part of the overall assessment of the service provided to them.</p>	<p>The portfolio activities undertaken by our Manager and the impact of decisions taken are set out in the Fund Manager's Report on pages 7-12.</p> <p>Our close relationship enables both the Manager and directors to explore and understand performance and what may be expected in the future.</p> <p>It is also necessary to evaluate our portfolio's performance against the stated strategy and benchmark and to understand any risks or opportunities this may present to the Company. The Board monitors investment management costs, keeps them competitive and ensures the Manager is paid in accordance with the management agreement.</p> <p>At their meeting of the MEC in April 2021, the directors assessed the Manager's performance and service to the Board throughout the pandemic, and in response to the new business environment. The directors considered each service area and were pleased with the Manager's business resilience, greater use of technology and prompt adaptation to videoconference meetings and online training. The directors were cautious about the longer-term impact of the pandemic on investment, operations and culture, believing that there may be further unforeseen risks.</p> <p>The directors monitor succession planning within Janus Henderson for all key positions supporting the Company, and received a formal update at the MEC meeting in April 2021 on staffing and succession within the Investment Trusts team. On receiving the Manager's presentation on culture and values within the firm in April 2021, the directors raised queries regarding the Human Resources' team's implementation of new employee peer recognition and focus group schemes, to better understand their impact on the teams that supported their Company, and particularly on the fund management team. After consultation with Janus Henderson's senior management, the directors were satisfied that the new initiatives were intended to encourage best practice in employee behaviour and client outcomes, and that there were no unintended consequences.</p>

# Business model (continued)

Stakeholders	Engagement	Outcome
<b>Third-party service providers, including:</b> <ul style="list-style-type: none"> <li>• <b>Depository and custodian</b></li> <li>• <b>Fund accountant and administrator (outsourced by the Manager)</b></li> <li>• <b>Registrar</b></li> <li>• <b>Corporate broker</b></li> <li>• <b>Recruitment agent</b></li> <li>• <b>Legal counsel</b></li> </ul>	<p>Representatives of all the main service provider functions present regularly to the Board. The Company contracts directly for custodian, depository and registrar services, and indirectly for fund administration and accounting services.</p> <p>The Board and Manager work with the broker, including its research and sales teams, to provide access to the market and liquidity in the Company's shares. The Board invites representatives of the broker to provide regular analysis of shareholder movements and voting patterns at shareholder meetings, industry changes and contact with investors.</p> <p>Monitoring and ensuring these third parties undertake their roles diligently and correctly is necessary for the Company's success. This regular interaction provides an environment where topics, issues and business development needs can be dealt with efficiently and collegiately. The Board is then able to ensure that service levels and fees remain in the best interests of shareholders.</p> <p>The Board relies on the Manager to provide reports on the Company's suppliers' performance at each meeting of the MEC, while the directors remain responsible for assessing each supplier's internal controls and risk management systems, ESG matters, information security and business continuity plans. This is achieved through the assessment of suppliers' assurance reports (see the Report of the Audit and Risk Committee on pages 43-46) and feedback from the Manager to identify any issues or concerns.</p>	<p>The Company is supported by experienced and capable third parties for all the services required to be a well functioning Company.</p> <p>The liquidity of Company's shares benefits shareholders and potential investors as they can buy and sell shares in a timely, efficient and cost-effective way.</p> <p>At the MEC meeting held in April 2021, the directors reviewed the contractual terms, fees and performance of all the Company's service providers. The largest service providers gave updates on any material changes in organisational structure/ownership and information regarding staff turnover and other cultural/leadership matters.</p>
<b>Investee companies as listed on pages 13-15</b>	<p>The Board sets the investment objective and discusses stock selection, asset allocation, and engagement with investee companies with the Fund Manager at each board meeting.</p> <p>The Manager has a dedicated Governance and Responsible Investment Team which supports the Fund Manager in the investment process.</p> <p>The Manager engages with the investee companies on behalf of the Company to exercise good stewardship practices including on ESG matters.</p>	<p>The fund management team has conducted face-to-face and/or virtual meetings with all our portfolio companies' management teams in the past year to enable them to understand current trading and prospects for their businesses, and ensure that the ESG principles and approach are understood. The Manager is a responsible investor.</p>

# Business model (continued)

Stakeholders	Engagement	Outcome
<b>Lenders</b> <ul style="list-style-type: none"> <li>Industrial and Commercial Bank of China Limited London Branch</li> <li>Loan note holders</li> </ul>	<p>The Company employs gearing to enhance shareholder returns and confirms compliance with the loan covenants of both its short-term and long-term gearing facilities on a monthly basis.</p> <p>Janus Henderson provides the Board with regular financial covenant compliance validation and financial reports.</p> <p>Our strategic gearing (8.8% at 31 May 2021) positions us well to continue to enhance long-term returns over many years to come.</p>	<p>The Company maintains long-term borrowings at low rates through the use of loan notes and a revolving credit facility.</p> <p>The Company maintains a good relationship with its lenders and is well positioned to raise financing to operate effectively as an investment trust.</p>
<b>Auditor</b>	<p>The auditor attends at least two audit and risk committee ("ARC") meetings each year and maintains regular contact with the corporate secretary, the Manager and the ARC Chairman between meetings.</p> <p>Through close engagement, the directors ensure that the auditor in office is committed to the investment trust audit market and providing the best quality service for an appropriate fee level.</p>	<p>Shareholders, potential investors and wider stakeholders place reliance on the Company's audited annual report and financial statements.</p> <p>During the year under review, an audit tender process was undertaken, prompted by a material increase in audit fees. The directors wished to ensure that shareholders receive the best long-term service and value for money from their auditor. More details of the tender process are on page 44.</p>
<b>The Association of Investment Companies ("AIC")</b>	The Company is a member of the AIC which is an organisation that looks after the interests of investment trusts.	The Board chooses to report under the AIC Code of Corporate Governance as this better reflects the unique aspects of an investment trust in the context of good corporate governance.



# Business model (continued)

## Board decision making

The Board takes into consideration the Company's purpose, investment objective and investment policy as well as the interests of the Company's stakeholders when discussing matters and making decisions. The following are examples of the key discussions held and decisions made by the Board during the financial year ended 31 May 2021:

- **The Board arranged for the Company's half-year and annual results to be prepared**, and approved these for release to the market and to shareholders. By presenting the financial results to shareholders in the Half-Year Update and Annual Report as well as the market announcements, and making them available on the website to other stakeholders, the Company enabled shareholders and potential investors to make informed decisions about their investment in the Company.
- **The Board agreed resolutions put to shareholders at the AGM in 2020** including amendments to the Company's Articles of Association. The main change was to allow shareholders virtual access to general meetings or a mixture of virtual and physical participation, as required in the future. This is because the directors believe that flexibility in the Company's constitution to engage with shareholders in as broad a manner as possible benefits its members as a whole.
- **As the pandemic progressed during the year, the Board held frequent discussions with the Manager about the potential impact of Covid-19.** After careful deliberation, they decided that there was no need to make any change to the investment discipline and approach, as there would be no benefit to shareholders in doing so.
- **The directors carefully assessed the size of the dividend and the strength of the Company's balance sheet.** They ultimately agreed that, subject to shareholder approval, the final dividend should be increased with the use of revenue and a small amount of capital reserves. This will benefit shareholders and align their interests with those of the Fund Manager in his management of the portfolio.
- **The Board has decided to hold a physical AGM this year**, honouring its commitment made in the 2020 Annual Report to holding physical AGMs when allowed legally and accomplished safely. Building on last year's enhanced digital connection provided for shareholders during lockdown, all those unable to travel will still be able to join the meeting, ask questions and debate 'live' through Zoom videoconferencing software. The directors believe that by meeting the Board and Fund Manager in person, debating and questioning them face-to-face, shareholders will enjoy optimum communication and participation in the governance of the Company.
- **The directors had many discussions about succession planning and recruitment**, which culminated in the appointment of two directors during the year: Michael Warren and Kevin Carter (see pages 41-42 for the recruitment process and reasons for the appointment of Michael and Kevin as directors).
- **The Audit and Risk Committee undertook an audit tender** prompted by a substantial increase in audit fees, many times the rate of inflation, to ensure that shareholders were receiving value for money and the best and most committed long-term service from the statutory auditor. See page 44 for more information on this.
- **The directors discussed the Fund Manager's approach to investing responsibly**, including his analysis of the impact that the portfolio companies' approach to environmental, social and governance matters has on the wider community. Much discussion was centred on the 'Dear Chairman' letter sent by the fund management team to all portfolio companies, and the additional engagement this has led to in many cases, as described on pages 29-30.
- **The directors held a dedicated strategy meeting** and validated the Company's policy and strategic approach to investment. This included ensuring alignment with ownership interests, as well as potential interests in the future. The directors considered in detail the structure, costs and promotion of the Company to the secondary market, and invited representatives of shareholders to join the meeting to discuss with them their interests and preferences.

# Business model (continued)

## Principal risks and uncertainties

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal and emerging risks facing the Company which relate to the activity of investing in the shares of smaller companies that are listed (or quoted) in the United Kingdom. The directors seek assurance that the risks are appropriately evaluated and that effective mitigating controls are in place. To support this process, the Audit and Risk Committee ("ARC") has drawn up a detailed risk matrix which identifies the substantial risks to which the Company is exposed and methods of mitigating against them as far as practicable. The Board regularly considers these. It does not consider the principal risks to have changed during the course of the reporting period and up to the date of the report. It does however now also treat as a risk the failure to identify in a timely fashion an emerging risk that develops rapidly into a significant risk. The directors have also categorised risks relating to material climate impacts as a new additional risk.

Throughout the year the Board has considered the impact of Covid-19 on the Company and concluded that the portfolio and investment approach are resilient, with the Fund Manager's long-standing philosophy that, over the long term, smaller companies are able to deliver superior returns than the broader market, driven by his fund management team's fundamental, qualitative analysis, engagement with management teams and strong valuation discipline.

The principal risks fall broadly under the following categories:

Risk	Controls and mitigation
<b>Investment activity and strategy</b>  Poor long-term investment performance (significantly below agreed benchmark or market/industry average)  Loss of the Fund Manager or management team  Impact of political, environmental, health or other emergencies (e.g. Covid-19) on the Company's investments  Approach to ESG matters  Material climate-related impacts (both physical and transition risks)	<p>The Board reviews investment strategy at each board meeting. An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may lead to underperformance against the Company's benchmark and the companies in its peer group; it may also result in the Company's shares trading at a wider discount to net asset value ("NAV") per share. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with investment limits and restrictions determined by the Board; these include limits on the extent to which borrowings may be used. The Board reviews its investment limits and restrictions regularly and the Manager confirms its compliance with them each month. The Manager provides the directors with management information, including performance data and reports and shareholder analysis. The Board monitors the implementation and results of the investment process with the Fund Manager, who attends all board meetings, and regularly reviews data that monitor portfolio risk factors.</p> <p>The performance of the Company relative to its benchmark and its peers and the discount/premium to NAV per share are key performance indicators measured by the Board on a continual basis and are reported on pages 2, 3 and 5.</p> <p>Although the Company invests entirely in securities that are quoted on recognised markets, share prices may move rapidly and it may not be possible to realise an investment at the Manager's assessment of its value. The companies in which investments are made may operate unsuccessfully, or fail entirely, such that shareholder value is lost.</p> <p>The Board obtains assurances from the Manager that the UK Smaller Companies team is suitably resourced, and the Fund Manager is appropriately remunerated and incentivised in this role. The Board also considers the succession plan for the fund management team on an annual basis.</p>
<b>Legal and regulatory</b>  Loss of investment trust status  Brexit and other UK political risk  Breach of company law or Listing Rules resulting in suspension	<p>In order to qualify as an investment trust the Company must comply with s1158 Corporation Tax Act 2010 ("s1158"). A breach of s1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to corporation tax. The s1158 criteria are monitored by the Manager and the results are reported to the directors at each board meeting. The Company must comply with the provisions of the Companies Act 2006 (the "Act") and, as the Company has a premium listing on the London Stock Exchange, the Company must comply with Listing, Prospectus and Disclosure Guidance and Transparency Rules of the FCA.</p> <p>The Board reviews the impact of Brexit and other fundamental political infrastructure change as an integral part of investment risks and will continue to assess the portfolio on this basis.</p> <p>A breach of the Act could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. A breach of the FCA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of s1158. The Board relies on its corporate secretary and its professional advisers to ensure compliance with the Act and FCA Rules.</p>

## Business model (continued)

Risk	Controls and mitigation
<b>Operational</b>	
Failure of, disruption to or inadequate service levels by key third-party service provider	Disruption to, or failure of, the Manager's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Manager has contracted some of its operational functions, principally those relating to trade processing, investment administration and accounting, to BNP Paribas Securities Services. Details of how the Board monitors the services provided by Janus Henderson and its other suppliers, and the key elements designed to provide effective internal control and risk management, such as review of service providers' assurance reports, are explained further on pages 40-41 and 43-46.
Cyber-crime leading to loss of confidential data	Cybersecurity is closely monitored by the ARC as part of quarterly internal controls reports, and the ARC receives an annual presentation from Janus Henderson's Chief Information Security Officer.
Breach of internal controls	The Board monitors effectiveness and efficiency of service providers' processes through ongoing compliance and operational reporting. There were no disruptions to the services provided to the Company in the year under review.
Impact of political, environmental, health or other emergencies (e.g. Covid-19) on the Company's operations	
<b>Financial instruments and the management of risk</b>	By its nature as an investment trust, the Company is exposed in varying degrees to market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk. An analysis of these financial risks and the Company's policies for managing them are set out in note 15 on pages 75-78.

### Emerging risks

At each meeting, the Board considers emerging risks which it defines as potential trends, sudden events or changing risks which are characterised by a high degree of uncertainty in terms of occurrence probability and possible effects on the Company. Once emerging risks become sufficiently clear, they may be treated as specific risks and enter the Company's matrix of significant risks. During the year, the directors agreed that these would include any unexpected further consequences of the pandemic, such as the business equivalent of 'Long-Covid'. Inflation was noted as a further emerging risk and in effect an investment management consideration within the Fund Manager's remit of investment management activities.

The Board receives reporting on risks from the Manager and other service providers, in addition to any ad hoc reports on specialist topics from professional advisors. With the support of reports to the Board at its regular meetings, ad hoc reports as required, and directors' own experience and external insights gained from industry and shareholder events, the Board monitors effectively the changing risk landscape and potential threats to the Company. Moreover, the directors ensure that the culture of the Board supports and encourages constant horizon scanning and sharing of information and challenge to identify and manage risks.

### Viability statement

The Company is a long-term investor. The Board believes it is appropriate to assess the Company's viability over a five-year period in recognition of the Company's long-term horizon and what the Board believes to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as documented in the Strategic Report. The assessment has considered the impact of the likelihood of the principal risks and uncertainties facing the Company, in particular investment strategy and performance against benchmark, whether from asset allocation or the level of gearing, and market risk, in severe but plausible scenarios, and the effectiveness of any mitigating controls in place.

The Board took into account the liquidity of the portfolio and the borrowings in place when considering the viability of the Company over the next five years and its ability to meet liabilities as they fall due. This included consideration of the duration of the Company's loan and borrowing facilities and how a breach of any covenants could impact on the Company's NAV and share price. The Board does not expect there to be any significant change in the principal risks and adequacy of the mitigating controls in place, nor does the Board envisage any change in strategy or objective or any events that would prevent the Company from continuing to operate over that period – the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Only a sustained financial crisis affecting the global economy could have an impact on this assessment. In coming to this conclusion, the Board has considered the aftermath of the Covid-19 pandemic and the UK's ongoing negotiations having left the European Union, and considers that they have highlighted the advantages of holding an investment trust. The Board does



## Business model (continued)

not believe that they will have a long-term impact on the viability of the Company and its ability to continue in operation, notwithstanding the short-term uncertainty they have caused in the markets.

Based on this assessment, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years to 31 May 2026.

### Fee arrangements with the Manager

#### Management fee

The management agreement provides for the payment of a composite management fee. The fee is charged at 0.35% of net assets per annum, payable quarterly in advance at a rate of 0.0875% based on net assets at the end of the previous quarter. Any holdings in funds managed by Janus Henderson, of which there were none, would be excluded from calculation of the management fee.

#### Performance fee

The management agreement also provides for payment of a performance fee, calculated as 15% of any outperformance of the benchmark index, on a total return basis, over the Company's accounting year. This is subject to a limit on the total management fee and performance fee payable in any one year of 0.9% of the average value of the net assets of the Company during the year.

There is a further cap to the effect that any enhancement to NAV resulting from share buy-backs in excess of 5% of the opening issued share capital is excluded from the calculation of the performance fee for the year. No performance fee is payable if on the last day of the Company's accounting year the Company's share price is lower than the share price as at the preceding year end. If on the last day of the Company's accounting year the NAV per share, calculated in accordance with the Company's accounting policies, net of costs (including any performance fee), is equal to or lower than the NAV per share as at the preceding year end, the performance fee payable will be restricted to such amount, if any, as will result in the NAV per share being higher than the NAV per share at the preceding year end.

A performance fee of £4,537,000 is payable for the year ended 31 May 2021 (2020: £nil).

Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of the cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years. For the year ended 31 May 2021, unrewarded outperformance is carried forward. It can only offset underperformance so that underperformance does not prevent a fee from being earned in a future period and will never earn a fee itself.

Category of cost	2021 £'000	2021 % of average net assets <sup>1</sup>	2020 £'000	2020 % of average net assets <sup>1</sup>
Management fee	2,496	0.32 <sup>2</sup>	2,437	0.35
Performance fee	4,537	0.58	–	0.00
<b>Total</b>	<b>7,033</b>	<b>0.90</b>	<b>2,437</b>	<b>0.35</b>

1 Calculated as a percentage of average monthly net assets, which is the basis on which the management and performance fee cap is calculated

2 This percentage is calculated on the average of the month-end net assets, which is the basis on which the cap is assessed. The actual management fee is calculated and charged quarterly in advance on the net assets at the end of the previous quarter

### Ongoing charge

The Board believes that the ongoing charge, excluding the performance fee, of 0.39% during the year represented good value for money for shareholders. A breakdown of the main cost headings in monetary terms and as a percentage of average net assets is on page 83.

# Business model (continued)

## Performance measurement and key performance indicators

To measure the success of the Company in meeting its objective and to evaluate the performance of the Manager, the directors take into account the following key performance indicators ("KPIs"). The charts, tables and data on pages 2, 3 and 6 show how the Company has performed against these KPIs, and a glossary of terms and alternative performance measures is included on pages 82-84.

KPI	Action
Performance measured against the benchmark	At every meeting, the Board reviews and compares the performance of the portfolio as well as the net asset value ("NAV") and share price for the Company against the performance of the Company's benchmark.
Performance against the Company's peer group	The Company is included in the AIC's UK Smaller Companies sector, which represents the Company's peer group. In addition to comparison against the stated benchmark, the Board also considers the Company's performance against the peer group, as shown on page 2.
Discount/premium to NAV	The Board monitors the level of the discount to the NAV at which the Company's shares trade and reviews the average discount for the AIC UK Smaller Companies sector at each meeting. The Board considers whether to use share buy-backs to enhance shareholder value. Shares are only bought back at a price below the prevailing NAV, thereby increasing the NAV for the remaining 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.
Ongoing charge	The Board monitors the costs of running the Company calculated using the AIC methodology for the ongoing charge.

Alexandra Mackesy  
Director  
3 August 2021

# ESG matters



Photo: Victrex, high performance polymers

# Environmental, social and governance matters

The Board believes in the power of engaged, long-term ownership as a force for positive change. The Board therefore supports the Fund Manager's responsible approach to environmental, social and corporate governance ("ESG") matters and how it is incorporated into investment decisions by the UK Smaller Companies fund management team (the "Team"), their company engagement and voting at investee companies' shareholder meetings. As one of the largest investors in listed UK small and mid-cap companies we recognise the meaningful impact we can have on the way our portfolio companies conduct their business and understand it is our duty to exercise this influence.

## Investment approach and ESG engagement

The Team uses a combination of bottom-up and top-down approaches to find companies that have undervalued long-term growth potential. ESG issues are identified as part of the Team's well-established "4Ms" process to analyse portfolio companies' models, management, money and momentum. A key part of the philosophy is focused on the sustainability of business models. The Team's core belief is that the most successful management teams over time will be those which score well on ESG and sustainability factors, have a long-term focus, a good track record of shareholder alignment and an understanding of industry themes. The conviction and focus on the long term are reflected in the Company's average holding period of over five years.

Sustainability themes regularly inform capital allocation decisions. Companies offering goods and services which address issues such as aging populations, urbanisation, cyber-crime and the savings gap have all been attractive propositions from a growth perspective. The Team is also cognisant of the risks accompanying ESG-themed investing: policy instability, uncertainty around customer adoption and technological obsolescence.

The Team believes that ESG factors impact all parts of an investment case often implicitly, not explicitly. The effectiveness of a company's corporate governance structure and the impact a company has on the environment and society are just as important as more traditional indicators of quality such as cash flow or returns on invested capital.

A company's ESG characteristics directly impact how it is valued. All these factors influence the valuation multiples the market is willing to attribute to a company's earnings or the cost of capital used to discount its cash flows. The Fund Manager's core belief is that companies that score well on ESG and sustainability factors warrant a premium over time.

## Company engagement

The Team's combined experience in the UK market has created a deep knowledge base. The Team's analysis is further supplemented by a body of increasingly sophisticated ESG-related data, broker research and company meetings. The

Team is wary of the fact that individual ESG data points are not always material to company performance or even comparable between peers. However, the Team is conscious that management's overall attention to a collection of impactful ESG or sustainability issues can be interpreted as a leading indicator of quality, long-term oriented leadership and so impacts the ability to deliver enduring success.

The general level of corporate governance at listed companies in the UK is of a very high standard in terms of best practice principles. The Team makes strong use of this market feature to augment traditional corporate governance and company research. As active managers in the UK marketplace, the Team is committed to the principles of good stewardship and attends more than 300 company meetings per year. These opportunities are used to challenge strategy and hold management to account where issues have occurred. In addition to engaging with company management, the Team will often engage with the Boards of portfolio companies where they believe concerns need to be escalated.

The Team collaborates closely with Janus Henderson's in-house Governance and Responsible Investment ("GRI") team, as a specialist resource on ESG issues. The GRI team screens portfolios for major ESG issues and highlights important ESG engagement topics ahead of company meetings. In addition, the GRI team and Fund Manager work together to coordinate a pipeline of proactive engagement with companies on a range of ESG themes.

If the Team does not feel that shareholder concerns are being addressed when engaging with a company, they will consider disinvesting.

## Engagement over the year

In early 2021 the Team sent letters to the chairmen of the board of each portfolio company setting out their key themes and areas of focus regarding ESG matters. This was done with the objective of informing portfolio companies of the Team's voting policies and to encourage discussion and debate on the matters highlighted. These matters included:

Vote against chairman of the board:

- if there is a significant lack of diversity (gender or ethnicity) on the board and no explanation of plans in place to improve the situation;
- if there are no carbon emissions reduction targets. Where there is a reasonable explanation of why there is no target this will be deemed satisfactory.

Vote against chairman of the remuneration committee:

- if the remuneration policy does not require executives to hold 2x base salary in stock (excluding unvested long-term incentive plans).

Vote against head of nomination committee:

- if there is no diversity policy, commitment to disclose gender pay reports or to be an equal opportunities employer.



# Environmental, social and governance matters

(continued)

The Team also informed portfolio companies that they would be voting against the payment of dividends in any financial year where the UK Coronavirus Government Job Retention Scheme was utilised and not subsequently repaid as they believe the purpose of this particular form of government support was not to sustain company dividend payments. Finally, the Team invited portfolio companies to inform them of which non-executive on the board was responsible for ESG matters.

These letters and the subsequent engagement the Team had with various board members of portfolio companies are a clear demonstration of the Team's dedication to exercising their voting rights to effect change. The letters encouraged engagement on areas where board members felt they needed to explain why certain targets were not being met and the plans they had put in place to address these issues. Whilst many portfolio companies met the minimum requirements set out in our letter, others did not. In these instances, the Team believes the direct line of communication from Fund Manager to portfolio company chairman should help prioritise these issues at board meetings. Overall feedback from boards of portfolio companies has been constructive. The different ways portfolio companies have responded to the letter have provided new insights to the Fund Manager regarding the culture and attitude towards ESG at various portfolio companies. The Team was encouraged to hear their letter had been a deciding factor in whether certain companies decided to repay furlough money.

Furthermore, the Fund Manager undertakes quarterly theme-based engagements with its portfolio companies to provide a better understanding of industry ESG issues. In this financial year these themes included: work practices in the video-gaming industry; health and safety in the aerospace and defence industry; diversity and inclusion in the financial services industry; and supply-chain sustainability in the retail industry.

## Voting

The Board believes that voting at general meetings is an integral part of exercising responsible corporate stewardship and provides an effective means of signalling shareholder views on board policy, practices and performance. We have chosen to delegate voting responsibility to the Manager for the rights attached to the shares held in the Company's portfolio, and the Manager votes actively at shareholder meetings and engages with companies as part of the voting process.

Voting decisions are guided by the best interests of investors and made in consultation with the Team, which has an in-depth understanding of the respective companies' operations. Voting decisions are made in keeping with the provisions of the Manager's ESG Investment Principles which set out the Manager's approach to corporate governance and compliance with the Stewardship Code and are publicly

available at [www.janushenderson.com](http://www.janushenderson.com). To retain oversight of the process, the directors receive reporting at each board meeting on how the Manager has voted the shares held in the Company's portfolio, and they review the ESG Investment Principles at least annually.

The Fund Manager has a strong focus on good governance practice and an active approach to voting. Where appropriate, the Manager will vote against resolutions at general meetings. In most cases this is done following engagement or consultation with the company prior to general meetings. During the year to 31 May 2021, the UK Smaller Companies team engaged with directors of various portfolio companies to discuss corporate governance issues and to help shape their policies on such matters. In addition to remuneration, a broad range of topics were tackled including; strategy, the sustainability of supply chains, workforce engagement, diversity, health and safety issues and board composition.

The key issues which the Fund Manager voted against concerned director remuneration, director overboarding and director independence. The Fund Manager also voted against the payment of dividends by companies which had utilised the UK Coronavirus Job Retention Scheme and not repaid it in the same financial year the dividend was announced. In total, the Company voted at 135 shareholder meetings during the year to 31 May 2021, being 100% of portfolio companies' general meetings. At 16 of these meetings (11.9%), the Company placed a vote against management or abstained. The Company voted against 27 resolutions in total, being 1.4% of all resolutions voted on during the year, and abstained on two further resolutions (0.1%).

## Stewardship

Stewardship is an integral and natural part of Janus Henderson's long-term, active approach to investment management. Strong ownership practices, such as management engagement and proxy voting, can help protect and enhance long-term shareholder value. Janus Henderson supports stewardship codes and broader initiatives around the world, including being a founder signatory of the UN Principles for Responsible Investment, and is committed to becoming a signatory of the FRC's Stewardship Code. The intensive research by fund managers and analysts involves conducting thousands of interviews with senior executives and chairmen of companies throughout the world each year. These teams develop long-term relationships with the management of firms in which they invest. Should concerns arise over a firm's practices or performance, they seek to leverage these constructive relationships by engaging with company management or expressing their views through voting on management or shareholder proposals. Escalation of the engagement activities depends upon a company's individual circumstances.

# Environmental, social and governance matters

(continued)

## The environment

As an investment company, the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The Company's indirect impact occurs through its investments and the Fund Manager monitors the carbon footprint of the portfolio as a measure of its carbon intensity. The UK Smaller Companies team engages with portfolio companies on environmental matters where they arise.

Our Manager recognises the importance of managing its operational activities in a sustainable way and minimising any adverse impact on the environment. To this end, Janus Henderson has made the following commitments:

- to maintain a carbon-neutral status;
- to reduce carbon use by 15% per full-time employee over a three-year period – starting January 2019; and
- to maintain a Carbon Disclosure Project (CDP) score of B, which is higher than the financial services sector average CDP score of C (CDP scores range from A to D, with A being the best score).

## Business ethics

As the Company's operations are delegated to service providers, the Board seeks assurances, at least annually, from its service providers, that they comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Finances Act 2017. The Company has received assurances from its main suppliers that they maintain a zero-tolerance policy towards the provision of illegal services.

## Board diversity

The Company's affairs are overseen by a Board comprising seven non-executive directors – three women and four men, a gender balance of 43% female and 57% male. This exceeds the gender diversity target set by the Hampton-Alexander Review. The gender balance will be equal at 50% female, 50% male after the 2021 AGM, if shareholders approve all AGM resolutions. The directors are fully aware of the Parker Review recommendations and will bear these in mind when making future Board appointments. Together, the directors offer a broad range of experience and skills gained in the UK and overseas, bringing knowledge of investment markets, corporate operations, financial services, stakeholder and governance expertise to discussions on the Company's business.

The Board takes a keen interest in the diversity initiatives in place at its service providers and in particular, supports and encourages the Manager's diversity training and initiatives to improve any imbalances. These include Janus Henderson's ethnicity pay gap analysis, returnship, trainee, apprenticeship and internship programmes, such as INROADS, Girls Who Invest, Investment 2020 and #100 Black Interns. The Board monitors the culture at Janus Henderson. We appreciate that the Manager fosters and maintains an environment that values the unique talents and contributions of individuals, and strives to cultivate and practise inclusiveness for the long-term success of the business and for the benefit of its employees, investors and shareholders.

# Governance



Photo: Oxford Instruments, Jupiter XR atomic force microscope

# Corporate Governance Report

## Board of Directors

The directors appointed to the Board at the date of this Annual Report are set out below:



**Jamie Cayzer-Colvin**

**Position:** Chairman of the Board

**Date of appointment:** 13 May 2011  
(Chairman in September 2011)

**Experience and contribution:** Jamie brings leadership and much in-depth knowledge, expertise and experience in investment management at a senior level, as well as expertise in marketing, branding and business development.

**Other appointments:** Jamie is an executive director of Caledonia Investments plc, where he is Head of the Funds Pool, and a non-executive director of Polar Capital Holdings plc. Jamie chairs the board of the Royal Horticultural Society pension scheme, Heritage of London Trust and several other charities. He also sits on the board of a number of private companies. Jamie has previously served as a non-executive director on the boards of Close Brothers plc, Rathbone Brothers plc and Amber Industrial Holdings Plc. Prior to joining Caledonia, he was a commissioned officer in the British Army and held roles as brand manager with the Whitbread Beer Company and as business development manager at GPT.



**Penny Freer**

**Position:** Director

**Date of appointment:** 14 September 2018

**Experience and contribution:** Penny is an experienced board director who brings in-depth investment expertise and leadership skills to the Board. In particular, she has many years of experience of UK smaller companies, both as a director and as an investment banker advising companies in this sector.

**Other appointments:** Penny is chairman of AP Ventures LLP where she also chairs the Limited Partners' advisory committee and the investment committee. She holds board positions at Crown Place VCT PLC, where she is chairman, and non-executive roles at Empresaria Group plc and Advanced Medical Solutions Group plc<sup>1</sup>. From 2000 to 2004 she led Robert W Baird's UK equities division; prior to this she spent eight years at Credit Lyonnais Securities where she headed the small and mid-cap equities business. Penny is Chairman Designate of the Board of the Company.



**David Lamb**

**Position:** Senior Independent Director

**Date of appointment:** 1 August 2013  
(Senior Independent Director from 4 October 2019)

**Experience and contribution:** David brings in-depth knowledge, leadership skills, expertise and experience in investment management. He provides guidance to the Manager's investment trust marketing team in establishing the necessary infrastructure and initiatives for effective delivery of the Company's investment proposition and access to its shares.

**Other appointments:** David is chairman of the boards of Polar Capital Holdings plc and the University of the West of England. David held senior executive roles at St James's Place plc for nearly 30 years, notably as managing director, group business development director and board member until 2019. Before joining St James's Place, he was investment manager at Friends Life and chief research actuary at Allied Dunbar.

All the directors are independent and non-executive. All directors are members of the Management Engagement Committee and the Nomination Committee, both of which are chaired by Jamie Cayzer-Colvin. The Audit and Risk Committee is chaired by Alexandra Mackesy, the other members of which are David Lamb, Victoria Sant, Penny Freer, Michael Warren and Kevin Carter.

<sup>1</sup> The Company has a holding in Advanced Medical Solutions Group plc, as set out on page 15 in the investment portfolio listing



# Corporate Governance Report (continued)

## Board of Directors (continued)



**Alexandra Mackesy**

**Position:** Chairman of the Audit and Risk Committee

**Date of appointment:**

14 September 2018 (Audit and Risk Committee Chairman from 4 October 2019)

**Experience and contribution:**

Alexandra brings a specialist governance perspective and particular experience of global smaller companies to the Board. She has a strong financial and risk management background and substantial experience as an investment trust director and in chairing investment trust audit committees.

**Other appointments:** Alexandra is a non-executive director on the boards of Murray International Trust plc and JPMorgan China Growth & Income Investment Trust plc. In addition, Alexandra works as a consultant, providing external board evaluation services. Alexandra was previously a non-executive director of Schroder Asian Total Return Investment Company plc, Empiric Student Property plc, The Scottish Oriental Smaller Companies Trust plc and RENN Universal Growth Investment Trust plc. During her executive career in the investment industry, Alexandra worked in senior equity research roles with Credit Suisse, JPMorgan and SG Warburg in Asia.



**Victoria Sant**

**Position:** Director

**Date of appointment:**

23 September 2016

**Experience and contribution:**

Victoria brings a wide governance and stakeholder perspective to the Board with her in-depth ESG/SRI knowledge and experience, particularly through her roles at the Investor Forum and an endowment asset owner.

**Other appointments:** Victoria is a senior adviser at the Investor Forum, with an active role engaging with UK-listed companies on long-term strategic and governance issues. Prior to this, she was an investment manager at the Wellcome Trust, where she was responsible for the outsourced long-only equity portion of the £18bn investment portfolio, and a trustee director of the pension scheme.

Victoria is a member of the advisory board of Ownership Capital B.V., a Dutch equity manager focused on active ownership and ESG integration, a member of the investment committee of the National Trust endowment and a member of the finance and investment committee of the Crop Trust endowment.



**Kevin Carter**

**Position:** Director

**Date of appointment:**

1 May 2021

**Experience and contribution:**

Kevin brings wide experience of investment management and leadership skills to the Board, both as a fund manager and managing director of investment businesses. Kevin is a CFA charter holder and has a doctorate in mathematical statistics with a research subject in financial economics.

**Other appointments:** Kevin is a non-executive chairman of the board of JPMorgan American Investment Trust plc. He is a director of Aspect Capital Limited and Newton Investment Management Limited. Kevin is also a trustee director of the Universities Superannuation Scheme and chairman of its investment committee, and performs the same roles for the BBC Pension Scheme. Kevin is an experienced investment trust director, having been a non-executive chairman of Murray International Trust plc and director of Lowland Investment Company plc. During his executive career, Kevin led the European investment practice of Watson Wyatt Limited and was chief executive officer of Old Mutual Asset Managers.



**Michael Warren**

**Position:** Director

**Date of appointment:**

1 March 2021

**Experience and contribution:**

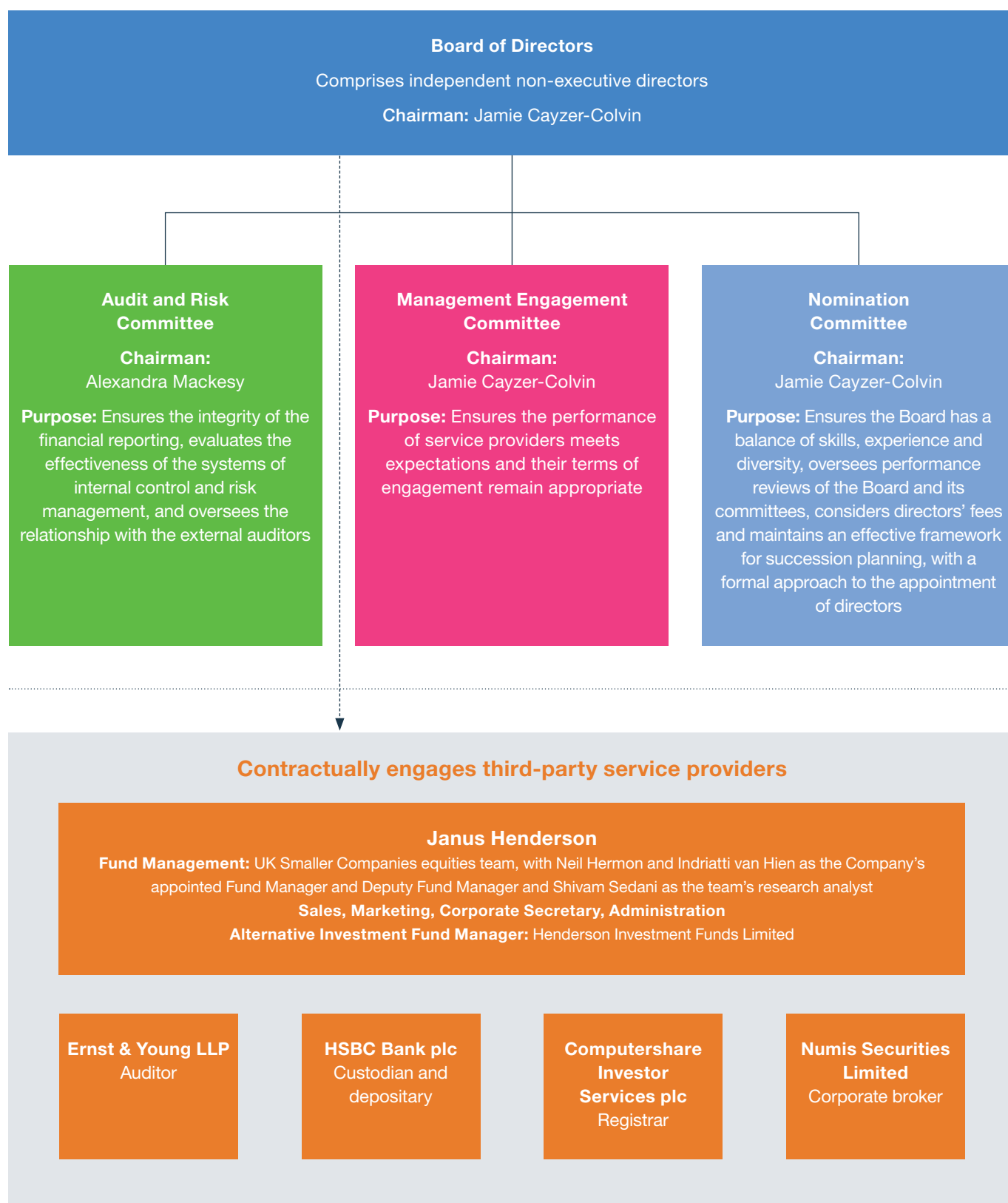
Michael brings a combination of investment, operational and CEO-level management experience, with expertise in managing money, people and organisations. A particular management specialism is Michael's experience of leading sales and marketing divisions.

**Other appointments:** Michael is a non-executive director of Fidelity Asian Values plc, where he chairs the management engagement committee, and a non-executive director of Carrington Wealth Management and Rathbone Unit Trust Management Limited. During his executive career, Michael held several senior management and investment roles. Latterly he was the investment director of Thames River Capital, a board member and the managing director of the sales and marketing divisions of HSBC Investments UK Ltd, managing director and head of retail for DWS, the UK mutual fund business of Deutsche Asset Management and director and global equity portfolio manager of Baring Asset Management. Michael also acts as adviser to Gresham House Asset Management.<sup>2</sup>

<sup>2</sup> The Company has a holding in Gresham House Asset Management, as set out on page 15 in the investment portfolio listing

# Corporate Governance Report (continued)

## Governance structure



The terms of reference for each of the committees of the Board are kept under regular review and are available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com) or via the company secretary.

# Corporate Governance Report (continued)

## Chairman's statement on corporate governance

Your Board is pleased to report on our approach to the governance of your Company. On pages 33-34, you will find biographies of each director. As a Board, we believe that good governance creates value and we are committed to high standards of corporate governance, business ethics and transparency.

## Compliance with Corporate Governance Codes

By virtue of the Company's premium listing on the London Stock Exchange, the Board is required to report on how the principles of the 2018 UK Corporate Governance Code (the "UK Code") have been applied. The 2019 AIC Code of Corporate Governance (the "AIC Code") addresses the principles and provisions of the UK Code as well as additional provisions of specific relevance to investment companies, and has been endorsed by the Financial Reporting Council. This enables investment company boards to report against the AIC Code and still meet their obligations under the UK Code and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules. The Board has chosen to report under the AIC Code, as it considers reporting against the AIC Code provides more relevant information to the Company's shareholders about its governance arrangements.

The AIC Code 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 Board confirms that the Company has applied the principles and adhered to the provisions of the AIC Code in the year under review and up to the date of this report. The AIC Code includes a significant departure from that of the UK Code in the removal of the nine-year limit on chairman tenure, and requires that the Board should determine and disclose a policy on the tenure of the chairman, which you will find on page 38. Shareholders supported Jamie Cayzer-Colvin's additional tenth year of service to facilitate the smooth transition of chairmanship to his successor Penny Freer, and for continuity of knowledge and expertise on the Board during a period of recruitment.

A separate remuneration committee has not been established, as the Board comprises only non-executive directors and the Company has no employees or executive directors. The remit of the Nomination Committee includes responsibility for non-executive directors' remuneration, and the Board Chairman does not act as Nomination Committee Chairman when it considers matters relating to the performance, succession or remuneration of the Chairman. In addition, the Company does not have any internal operations and therefore does not maintain an internal audit function, though the Audit and Risk Committee considers the need for such a function at least annually.

## Governance overview

The Board has three principal committees: the Audit and Risk Committee, the Management Engagement Committee and the Nomination Committee, as set out in the governance structure chart on page 35. Committee membership is noted under the directors' biographies on page 33.

The Board has engaged third-party service providers to deliver the operations of the Company. Management of the investment portfolio has been delegated contractually to Janus Henderson, which also provides the day-to-day accounting, company secretarial, administrative, sales and marketing activities. The Company has appointed a depository, which in turn appoints the custodian which is responsible for the safe custody of the Company's assets. The Company has appointed a registrar to maintain the register of members and assist shareholders with queries in respect of their holdings. The Company entered into each of these principal contracts after full and proper consideration of the quality and cost of the services offered, including the operation of their control systems in relation to the affairs of the Company. The Board and its committees maintain oversight of third-party service providers through regular and ad hoc reporting and ongoing monitoring by the Manager. The Board meets annually with representatives from the depository and custodian to discuss, amongst other matters, performance, service levels, their value for money, information security and business continuity plans.

The Board meets formally at least six times a year, with additional board or committee meetings arranged when required. The directors have regular contact with the Fund Manager, the corporate secretary and other employees of the Manager between meetings.

# Corporate Governance Report (continued)

## Operation of the Board

### Directors

The Board comprises seven non-executive directors, whose biographies are included on pages 33-34. These biographies demonstrate the breadth of investment, financial, commercial and professional experience relevant to their positions as directors. Michael Warren was appointed to the Board on 1 March 2021 and Kevin Carter was appointed on 1 May 2021. All other directors served throughout the year and are resident in the UK.

### Board leadership and purpose

The Board is collectively responsible for the success of the Company. Its role is to provide leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board is responsible for setting the Company's standards and values and for ensuring that its obligations to its shareholders and others are understood and met. The Board sets the Company's strategic aims, subject to the Company's articles of association, and to such approval by shareholders in general meeting as may be required from time to time, and ensures that the necessary resources are in place to enable the Company's objectives to be met. Information relating to the Company's purpose, values and culture can be found on page 17.

### Division of responsibilities

The Chairman, Jamie Cayzer-Colvin, is responsible for leading the Board and ensuring it continues to deal effectively with all aspects of its role, promoting a culture of openness, challenge and robust debate. Jamie leads the Board's relationship and engagement with the Manager, shareholders and other stakeholders.

The Board has a formal schedule of matters reserved for its decision, available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com), which includes setting strategy and providing oversight of performance against agreed measures. All matters that are not delegated to the Manager under the management agreement, such as the purchase and sale of investments, are reserved for the Board. It approves any changes to the governance structure, capital arrangements, board composition, oversees financial reporting and assesses the effectiveness of the internal control framework.

Each board meeting follows a formal agenda, set by the Chairman in conjunction with the company secretary, which includes a review of the Company's investment performance, financial position, compliance with investment parameters and the investment objective, a review of shareholder movements, along with any sales and marketing activities and any other relevant business matters, to ensure that control is maintained over the Company's affairs.

The Manager ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial

information to allow them to discharge their responsibilities and enable smooth function of the Board and its committees. Representatives of the Manager attend each board meeting enabling the directors to probe further on matters of interest or concern.

The Chairman is invited to meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provide a forum to discuss industry matters and are then reported to the Board as necessary. A fundamental consideration in the Board's decision-making is its awareness of the interests of shareholders and other key stakeholders, as explained on pages 19-22.

David Lamb, as Senior Independent Director ("SID"), acts as an experienced sounding board for the Chairman and an intermediary for other directors, shareholders and other stakeholders. He is also the director nominated to lead the dialogue with the Manager on marketing and promotional matters, due to his experience managing operations at St James' Place. As SID, David leads in place of the Chairman on other occasions, as required.

Any correspondence from shareholders addressed to the Chairman or the Company received by Janus Henderson is forwarded to the Chairman in line with audited procedures in place, and is submitted to the next board meeting as appropriate. Any urgent or important correspondence would be circulated promptly at the request of the Chairman.

### Corporate secretary

The Board has direct access to the advice and services of the company secretary, who has been appointed by Henderson Secretarial Services Limited, a subsidiary of Janus Henderson with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the two entities, particularly when dealing with any conflicts or issues between the Company and Janus Henderson. The company secretary is responsible to the Board for ensuring compliance with Board and committee procedures and applicable rules and regulations. The proceedings at all board and committee meetings are fully minuted, with any director's concerns recorded in the minutes. The Board has the power to appoint or remove the company secretary in accordance with the terms of the management agreement.

### Board effectiveness review

The Nomination Committee met in January 2021 and considered the results of the internal Board review. This was carried out during the year via questionnaires about the performance of the Board, its committees, individual directors and the Chairman, and was followed up with one-to-one conversations between each director and the Chairman, and between the Chairman and the director nominated to lead his review. The review addressed Board and committee composition including knowledge, skills, diversity, experience,



# Corporate Governance Report (continued)

independence, the time commitment of the directors, and relationship with the Manager.

The review concluded that the Board oversees the management of the Company effectively and has the skills and expertise to safeguard shareholders' interests. The Board, the Fund Manager, Deputy Fund Manager and company secretary were found to operate in a co-operative and open environment. Each director made a valuable contribution to the Board and its discussions, brought different qualities to the Board, challenged the Manager constructively, remained independent in character and judgement, and dedicated sufficient time to their respective role on the Board. Board composition, dynamics and structure worked well. The appraisal did not identify any areas of material weakness or concern, but found areas for enhancement, including succession planning with recruitment of two new non-executive directors during 2021, and the internal successor to the Chairman. The Board will also continue strengthening the Company's investment and marketing strategies in annual strategy sessions.

The committees were found to be operating effectively, with the right balance of membership, experience and skills, and it was noted that the members of the Audit and Risk Committee continued to undertake training in the technical and regulatory areas relevant to its work, including attending bespoke cybersecurity training during the year for non-executive investment trust directors.

The Chairman's performance was considered by all directors to be uniformly excellent. Ensuring open, robust and fair debate at meetings, and working alongside the company secretary and the Fund Manager, the Chairman ensured that the Board was provided with accurate, timely and clear information, and ensured objective oversight of the business and challenge to service providers. It was agreed that the Chairman's performance continued to meet expectations and that Penny Freer's appointment as his successor was in the best interests of the Company and its long-term sustainable success.

The SID would usually lead the Chairman's annual evaluation, but this year the directors nominated Penny to lead Jamie's evaluation, to avoid any potential, albeit temporary, conflict of interests with David's chairmanship of Polar Capital Holdings plc, where Jamie is also a director.

Every three years the appraisal process is carried out with the support of an independent external facilitator. The last external board evaluation was carried out in 2019, and the next will take place in 2022.

## Directors' appointment and tenure

The Board may appoint directors at any time during the year. Any director so appointed will stand for election by shareholders at the following annual general meeting in accordance with the provisions of the Company's articles of

association. Each director receives a letter of appointment that sets out, amongst other matters, what is expected of them in terms of time commitment.

Directors are generally expected to serve two terms of three years, which may be extended to a third term at the discretion of the Board and subject to satisfactory performance evaluation and re-election by shareholders each year. Given the entirely non-executive nature of the Board and the fact that the Chairman may not be appointed as such at the time of their initial appointment as a director, the Chairman's tenure may be longer where this is considered by the Board to be in the best interests of the Company. As with all directors, the appointment of the Chairman is subject to satisfactory performance evaluation and annual re-election by shareholders. The directors are cognisant of the benefits of regularly refreshing Board membership and seek to do so while retaining a balance of knowledge of the Company and the key relationship with the Fund Manager. Penny Freer led a recruitment programme during the year which culminated in the appointments of Michael Warren and Kevin Carter as new directors. Their appointments ensure the continuity on the Board of knowledge and expertise of the investment management sector and promotion of the Company.

The Company's articles of association permit shareholders to remove a director before the end of his or her term by passing a special resolution at a general meeting. An appointment may be terminated by either party giving written notice without compensation payable.

Following the Nomination Committee's review of the contribution and performance of each director, as explained on the previous page, the continuing appointment of all directors was recommended, other than the Chairman who will be retiring.

## Directors' independence

All directors have a wide range of other interests and are not dependent financially on the Company. At the Nomination Committee meeting in January 2021, the directors reviewed their independence and confirmed that all directors remained wholly independent of the Manager.

The Board believes that length of service does not diminish the contribution from a director, as experience and knowledge of the Company are positive factors and should not impact a director's independence. The Board has concurred with the Nomination Committee's assessment that its longer serving 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. For these reasons, the Chairman's tenure of ten years does not compromise his independence. Nevertheless, the role and contribution of any longer serving director are subject to particularly rigorous review, and updated letters of appointment were issued accordingly during the year.

# Corporate Governance Report (continued)

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

The Board has adopted a procedure for directors to take independent professional advice in the furtherance of their duties at the expense of the Company.

## Directors' conflicts of interest

The Company's articles of association permit the Board to consider and, if it sees fit, 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 and the register of interests.

The Chairman was independent on appointment, and throughout his tenure has had no relationships that may have created a conflict between his interests and those of the Company's shareholders. David Lamb became non-executive director and chairman of Polar Capital Holdings plc in 2020, where Jamie Cayzer-Colvin also serves as non-executive director. The other directors discussed the potential for conflicts of interest and agreed that this was minimal and could be effectively managed, with Penny Freer conducting the Chairman's evaluation. After due consideration, the directors felt that the shared directorship would not compromise the independence of either Jamie or David.

## Board attendance

The table below sets out the number of scheduled board and committee meetings held during the year under review and the number of meetings attended by each director. All directors in office at the date of this report attended the AGM on 21 September 2020, other than the newly appointed Michael Warren and Kevin Carter. The directors and committees of the Board also met during the year to undertake business such as the approval of the Company's results and dividends, hold interviews for candidate directors, approve a side letter to the revolving credit facility agreement and plan updates to the risk register. One additional meeting of the Audit and Risk Committee took place in the year under review as part of the audit tender process.

	Board	ARC	MEC	NC
<b>Number of meetings</b>				
Jamie Cayzer-Colvin <sup>1</sup>	6	4	1	1
Penny Freer	6	4	1	1
David Lamb	6	4	1	1
Alexandra Mackesy	6	4	1	1
Victoria Sant	6	4	1	1
Kevin Carter <sup>2</sup>	1	1	1	0
Michael Warren <sup>3</sup>	1	1	1	0

### Notes:

1 Attendance at ARC meetings by invitation only

2 Appointed on 1 May 2021

3 Appointed on 1 March 2021

ARC: Audit and Risk Committee

MEC: Management Engagement Committee

NC: Nomination Committee

## Audit, risk and internal control

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, as set out in the chart on page 46. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 May 2021. During the course of its review the Board did not identify and was not advised of any failings or weaknesses that were determined to be significant. The Audit and Risk Committee supports the Board in the continuous monitoring of the internal controls and risk management framework. Its considerations in this respect, including why the Company does not have its own internal audit function, are set out on pages 43-46.

## Directors' insurance and indemnification

Directors' and officers' liability insurance cover was in place throughout the financial year and remains in place at the date of this report. The Company's articles of association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising from their positions as directors, in which they are acquitted, or judgment is given in their favour by the Court.

By order of the Board  
For and on behalf of  
Henderson Secretarial Services Limited  
Corporate Secretary  
3 August 2021

# Corporate Governance Report (continued)

## Report of the Management Engagement Committee

### Role and responsibilities

The primary role of the Management Engagement Committee ("MEC") is to review the management agreement and monitor the performance of the Manager for the investment, company secretarial, financial reporting, administration, sales, marketing and support services that it provides under that agreement. Its review of the terms of the agreement include the level and structure of fees payable, the length of notice period and best practice provisions generally. The fees paid to the Manager are aligned with the Company's purpose, values and the successful delivery of its long-term strategy. The MEC is also responsible for formally evaluating the overall performance of third-party service providers engaged by the Company and for considering whether their continuing appointment is in the interests of the Company and its long-term sustainable success.

### Membership and meetings

All directors are members of the MEC and the Chairman of the Board is the MEC Chairman. The MEC met once during the year.

### Activities during the year

In discharging its duties over the course of the period, the MEC completed a questionnaire about the Manager's performance. The MEC considered:

- the investment performance of the Company, taking account of the benchmark and performance of competitors in the closed-ended sector, the share price, level of premium/discount and gearing;
- the management of the portfolio's risk profile and the use of gearing;
- the fee structures of the Company's competitors in the AIC peer group and other Janus Henderson-managed investment companies;
- the quality and experience of the team involved in managing all aspects of the Company's business and a review of the stability of the management group and its business priorities;
- the key clauses of the management agreement, the principle clauses of which are set out on page 26, how the Manager had fulfilled these and whether these continued to be appropriate;
- the culture, values, senior management and organisational changes of the key service providers and particularly that of the Manager;
- the performance and fees of the Company's other service providers, including the Company's broker (Numis Securities), depositary (HSBC Bank plc) and registrar (Computershare);

- the Company's service providers in their roles as stakeholders and whether there is an appropriate level of engagement with them; and
- any points of conflict which may arise between the providers of services to the Company.

### Continued appointment of the Manager

Following completion of the review, the MEC recommended to the Board that the continued appointment of the Manager on the terms agreed was in the interests of the Company's shareholders as a whole and its long-term sustainable success, which was subsequently approved by the Board.

### MEC effectiveness review

The activities of the MEC were considered as part of the internal board review, completed in accordance with standard governance arrangements as summarised on page 38.

# Corporate Governance Report (continued)

## Report of the Nomination Committee

### Role and responsibilities

The Nomination Committee ("NC") is responsible for reviewing Board succession planning and tenure policy, the effectiveness of the Board as a whole and its committees, the appointment of new directors through an established formal procedure, and reviewing directors' fees.

### Membership and meetings

All directors are members of the NC. The Chairman of the Board is the NC Chairman but does not chair meetings when the NC is dealing with the Chairman's fees, performance or successor. The NC met once during the year under review.

### Activities during the year

In discharging its duties, the Committee monitored and reviewed the following matters, and made recommendations to the Board:

- the structure and size of the Board and its composition, particularly in terms of succession planning and the experience and skills of the individual directors and diversity across the Board as a whole;
- the directors' and the Chairman's tenure policy;
- the criteria for future Board appointments and the methods of recruitment, selection and appointment;
- selection of candidates for the role of non-executive directors;
- appointment of the successor to the role of the Chairman of the Board, the MEC and NC;
- reappointment of directors standing for re-election at annual general meetings;
- the attendance and time commitment of the directors in fulfilling their duties, including the extent of their other directorships;
- each director's independence; and
- directors' fees for the financial year ahead.

### Successor to Chairman of the Board

In accordance with the NC's succession plan described in last year's Annual Report, Jamie will be stepping down on conclusion of the AGM on 1 October 2021. The Committee considered appointing one of the Board's existing directors to be the next Chairman of the Board, and their other appointments and significant commitments were reviewed as part of this process. There was unanimous agreement that Penny Freer was the most suitable candidate for the position, having over 25 years' experience in investment banking, with particular expertise in UK smaller companies, chairmanship experience through her role at Crown Place VCT Trust plc, and having proven herself as a key member of the Board. In line with provision 13 of the AIC Code, Penny was independent on her appointment to the Board in 2018

and continues to be independent, with no relationships that may create a conflict between her interests and those of shareholders.

The NC has considered Penny's external appointments, two of which would be as Chairman, subject to shareholder approval. Following careful consideration of her interests and appointments, and being conscious of the reduced obligations and time commitment required as an investment company director rather than as a director of trading companies, the NC believes that Penny has sufficient time available and has demonstrated clear commitment to her role as director and Chairman designate.

The Board subsequently accepted the NC's recommendation that Penny Freer should succeed Jamie Cayzer-Colvin as Chairman of the Board, MEC and NC from the conclusion of the 2021 AGM.

### Appointment of directors

A formal job description was drawn up to ensure that the search for new directors took place under clearly defined criteria produced by the Committee, which focused on maintaining the knowledge of the investment management sector, deep investment trust board experience, and fund marketing and sales expertise. The firm Odgers Berndtson were chosen as external recruitment agent after a full tender process for executive search firms.

A long list of candidates was prepared by Odgers Berndtson and discussed with the Committee. The preferred candidates were invited for interviews first with Penny Freer, David Lamb and Alexandra Mackesy, and then with Jamie Cayzer-Colvin, Victoria Sant, the Fund Manager and Deputy Fund Manager. Candidates were evaluated based on their business experience, focusing in particular on the skills and expertise that the NC wished to retain on the Board, their cognitive and personal strengths. The candidates' other commitments were also considered as part of the process.

Following conclusion of the process, the Committee was pleased to recommend to the Board the appointment of Michael Warren and Kevin Carter. Michael and Kevin were appointed with effect from 1 March 2021 and 1 May 2021 respectively.

The services provided by Odgers Berndtson were for the sole purpose of recruiting the eventual appointees. Odgers Berndtson has not provided any other services to the Company and has no connection with any of the directors.

### Board composition and succession planning

All Board appointments are subject to a formal, rigorous and transparent procedure. The Committee considers the Company's leadership needs regularly and seeks to ensure that any Board vacancies are filled by the most qualified



# Corporate Governance Report (continued)

candidates based on objective criteria and merit and in the context of the specific skills, knowledge and experience needed to lead the Company effectively and achieve its investment objective. Individual performance and the contribution of each director remain an integral element of the Company's approach.

When considering succession planning and tenure, the NC bears in mind the balance of skills, knowledge, experience, gender, background and diversity on the Board, the achievement of the Company's investment objective and compliance with the Company's articles of association and the AIC Code. The NC also considers diversity of gender, social and ethnic backgrounds, cognitive and personal strengths and experience as part of the annual performance review. The directors believe that diversity is important to ensure that the Company can draw on a broad range of backgrounds, skills, knowledge, experience and perspectives to achieve effective stewardship of the Company. Further details on Board diversity are set out on page 31.

The NC ensures that long lists of potential non-executive directors include diverse candidates of appropriate experience and merit, as was the case during the recruitment process carried out in 2020-21. The directors are fully aware of the Parker Review recommendations and will bear these in mind when making future Board appointments.

The directors confirm that, in all the NC's activities, there will be no discrimination on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability.

The NC also reviews and recommends to the Board the directors seeking election/re-election. Recommendation is not automatic and will follow a process of evaluation of each director's performance, consideration of the director's independence, and the mix of skills and experience of the current Board members. Any director serving for longer than six years is subject to particularly rigorous assessment of their contribution.

## Annual Board performance review

Following completion of its reviews, the NC concluded that the Board, its committees, the individual directors and the Chairman continued to operate effectively. Taking into account the FRC's guidance on board effectiveness, the NC agreed that each director had sufficient time to dedicate to their role. The NC accordingly recommended to the Board that it should support the re-election of David Lamb, Penny Freer, Alexandra Mackesy and Victoria Sant at the 2021 AGM. The NC further recommended that the Board support the election of Michael Warren and Kevin Carter at the 2021 AGM.

## NC evaluation

The activities of the NC were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as reported on page 38.

# Audit and Risk Committee Report

I am pleased to present my formal report to shareholders as Chairman of the Audit and Risk Committee (the “Committee”) for the year ended 31 May 2021.

## Role and responsibilities

The primary responsibilities of the Committee are to ensure the integrity of the Company’s financial reporting and the appropriateness of internal controls and risk management systems in place at the Manager and the Company’s other service providers. The Committee also makes recommendations to the Board on the appointment, re-appointment and removal of the Company’s external auditor. The Committee formally reports to the Board after each meeting and its responsibilities are set out in terms of reference which are reviewed at each meeting and available on the Company’s website.

## Membership and meetings

The members of the Audit and Risk Committee during the year were myself as Chairman, David Lamb, Penny Freer, Victoria Sant, and with effect from 1 March and 1 May 2021 respectively, Michael Warren and Kevin Carter. Jamie Cayzer-Colvin attends the Committee’s meetings by invitation. This is in accordance with the AIC Code. Although the members of the Committee are not accountants by profession, the Board considers that several of the members, including myself, have recent and relevant financial experience from their senior management roles elsewhere.

The Committee met four times in the year under review: in advance of the publication of the annual and of the half-year results, to focus on its broader responsibilities overseeing internal controls, to plan for an audit tender for the Company’s financial year ending 31 May 2022 and to consider audit tender presentations from potential auditors. The Company’s external auditor Ernst & Young LLP (“EY”), the Fund Manager, Deputy Fund Manager and the Manager’s Financial Reporting Manager for investment trusts are invited to attend meetings of the Committee on a regular basis. Other representatives of the Manager (including representatives of the Risk, Internal Audit, Business Continuity functions, and the Chief Information Security Officer) also attend meetings at least on an annual basis, and more frequently as deemed necessary by the Committee.

## Activities during the year

In the year under review the Committee has considered, monitored and reviewed the following matters:

- the appropriateness of the Company’s accounting policies and the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Janus Henderson;
- the half-year results and the Annual Report, in order to make recommendations to the Board. This includes

disclosures on internal controls, 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;

- dividends to be paid by the Company for recommendation to the Board;
- internal controls in place at Janus Henderson, BNP Paribas Securities Services (“BNP”), HSBC Securities Services (“HSBC”) and Computershare;
- Janus Henderson’s policies and activities in relation to information security and business continuity, meeting with representatives of Janus Henderson’s internal audit, information security and risk departments;
- the key and emerging risks, risk management systems in place and the Company’s risk map;
- the Company’s anti-bribery policy and the policies and procedures in place to prevent tax evasion;
- the nature and scope of the external audit and its findings;
- whether there is a need for an internal audit function;
- the appointment of the auditor, their performance, remuneration and tenure of appointment, their independence, objectivity and effectiveness, and the reporting of the external auditor;
- the benefits of an audit tender, potential audit firms and their audit tender presentations;
- the audit plan, including the principal areas of focus;
- the Manager’s and other key service providers’ whistleblowing policies for their staff to raise concerns in confidence about possible improprieties, including in relation to the Company;
- the management fee and performance fee calculations;
- the annual confirmation from the Company’s depository;
- the Committee terms of reference, including a change of name from “Audit Committee” to “Audit and Risk Committee” to reflect the Committee’s evolving risk mandate from the Board; and
- liquidity analysis of cross-holdings across the Manager’s funds.

## Internal control and risk management

The Board has overall responsibility for the Company’s system of internal control and for reviewing its effectiveness, as set out in the chart “System of Internal Controls” on page 46. The Committee supports the Board in the continuous monitoring of the Company’s internal control and risk management framework and that of its key service providers.

The Committee has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company (see pages 24-25). The process accords with the FRC’s Guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in

# Audit and Risk Committee Report (continued)

September 2014. The system was in operation throughout the year under review and up to the date of this report. The system is designed to meet the specific risks faced by the Company and takes account of the nature of the Company's reliance on its service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

The key components of the internal control framework include:

- clearly defined investment criteria which specify levels of authority and exposure limits. The Board reviews reports on compliance with the criteria at each meeting;
- regular reporting that allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- the contractual agreements with the Manager and other service providers. The Board reviews performance levels and adherence to relevant provisions of the agreements on a regular basis. The Management Engagement Committee conducts a formal evaluation of the overall level of services from third-party providers at least annually (see page 40); and
- the review of controls (including financial, operational and compliance) at the Manager and other service providers. The Board receives quarterly internal controls reports from the Manager and a quarterly report from the depositary.

The Committee reviews the assurance reports of Janus Henderson, BNP, HSBC, and Computershare, which detail the effectiveness of their respective control environments. These reports are produced at least annually and are reviewed by the Committee.

The Committee also meets with representatives of the Manager's Internal Audit function at least annually to obtain comfort that the high standards of internal control and the risk management systems in place at the Manager are satisfactory. In particular, the Committee asks questions relating to areas of the Manager's business that affect investment trusts. In the year under review the Committee has not identified or been advised of any significant failings or weaknesses relating to the Company's portfolio. The Committee is therefore satisfied that the internal control and risk management systems in place at the Manager and its key service providers are effective.

## Internal audit function

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.

The Company is an investment company, has no employees and delegates all executive activities to third-party service providers, principally among them, the Manager. The Board

relies on the Company's framework of internal control and the Committee's view on reporting received from specific teams at the Manager.

The Manager's Risk Team supports the Committee in considering the independently audited reports on the effectiveness of internal controls in place at the Company's third-party service providers. The Manager's Internal Audit Team provides regular reporting to the Board on the operations at the Manager and presents to the Committee at least annually. The Committee therefore concluded that it is not necessary at the present time for the Company to have its own internal audit function.

## Appointment, review and tenure of the external auditor

Regulations in force require the Company to rotate audit firms after a period of ten years, which may be extended where audit tenders are carried out or where more than one audit firm is appointed to carry out the audit. The Committee last carried out an audit tender process in 2018 and EY have held office as auditor since the year ended 31 May 2019. The auditor is required to rotate partners every five years, and this is the third year the current audit partner has been in place.

In the year under review, the Committee decided to put the Company's audit for the year ending May 2022 out to tender, after EY proposed a material increase in audit fees for 2020 and future years, on the basis of significant regulatory change. The Committee managed a competitive audit tender process, following the FRC's best practice guidance, with the aim of appointing an audit firm that would demonstrate long-term commitment and provide the Company with the highest quality, most effective and efficient audit while ensuring long-term value for money for shareholders. After careful consideration, the Committee subsequently recommended the appointment of Mazars LLP for the year ended 31 May 2022 onwards to the Board. A resolution to appoint Mazars LLP as the Company's statutory auditor will be put to shareholders at the 2021 AGM.

## Policy on non-audit services

The Committee keeps under regular review its policy on the provision of non-audit services by the auditor. The policy sets out that the Company's auditor will only be considered for non-audit work where this is not prohibited by regulations and where it does not appear to affect the independence and objectivity of the auditor. Any provision of non-audit services by the auditor is not permitted to exceed 70% of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period to which the cap applies. Such services would require approval in advance by the Committee or the Committee Chairman.

No fees were paid or payable to the auditor for non-audit services in the year under review or since their appointment.

# Audit and Risk Committee Report (continued)

## Annual Report for the year ended 31 May 2021

The Committee considered the following significant matters in respect of the Annual Report for the year ended 31 May 2021:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The directors have appointed the Manager to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required, the Manager has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third-party pricing vendors. Ownership of listed investments is verified by reconciliation to the custodian's records.
Correct calculation of the performance fee	The performance fee calculation is prepared by BNP and reviewed in depth by the Manager and by the Committee, all with reference to the management agreement.
Compliance with section 1158 Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving supporting documentation from the Manager and BNP.
Maintaining internal controls	The Committee receives regular reports on internal controls from Janus Henderson, BNP, Computershare and HSBC Securities Services and its delegates and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The assurance report for one of the Company's service providers was qualified by the respective service auditor. The Committee reviewed the instances giving rise to the qualification and received confirmation that the exceptions identified had no impact on the Company.
Recognition of dividend income	Income received is accounted for in line with the Company's accounting policies (as set out on page 66) and is reviewed by the Committee at each meeting. For special dividends Janus Henderson is required to allocate between revenue and capital, and the Committee reviews the rationale provided and approves the treatment.

## Effectiveness and independence of the external auditor

The Committee monitors the auditor's independence and objectivity through three aspects of its work: approval of the non-audit services policy (see previous page); assessing the appropriateness of the fees paid to the auditor for all work undertaken by them and by reviewing the information and assurances provided by the auditor on their compliance with the relevant ethical standards.

For the year ended 31 May 2021 EY confirmed that all partners and staff involved with the audit were independent of any links to the Company, and that these individuals had complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standards. EY has confirmed to the Committee its policy on independence, which stipulates that all of its partners and staff involved with the audit of the Company are not permitted to have any direct or materially indirect interest in the Company. Adherence to this policy of independence is reaffirmed in writing by each member of professional staff involved in the Company's audit annually at EY.

Due to the relatively recent appointment of EY as the Company's auditor, this being the third year Matthew

Price has been Audit Partner and the fact that EY does not provide any non-audit services to the Company, the Committee is satisfied that auditor independence and objectivity are safeguarded.

The Committee's process for evaluating the effectiveness of the external audit comprises two components: firstly, consideration is given to the findings of the FRC's Audit Quality Inspection Report and secondly, a post-audit assessment is carried out, led by the Committee Chairman.

In assessing the effectiveness of the audit process, the Committee discussed the service provided by EY with Janus Henderson's Financial Reporting Manager for investment trusts and the company secretary, who have the most hands-on involvement in the audit each year. The Committee also reviewed and assessed the robustness of the audit, level of challenge offered by the audit team, the quality of the audit team and timeliness of delivering the tasks required for the audit and reporting for the Committee, benchmarking EY's performance against their recent experience with other firms gained through their other commitments. The Committee also met privately with the Audit Partner to discuss how the audit operated from EY's perspective.

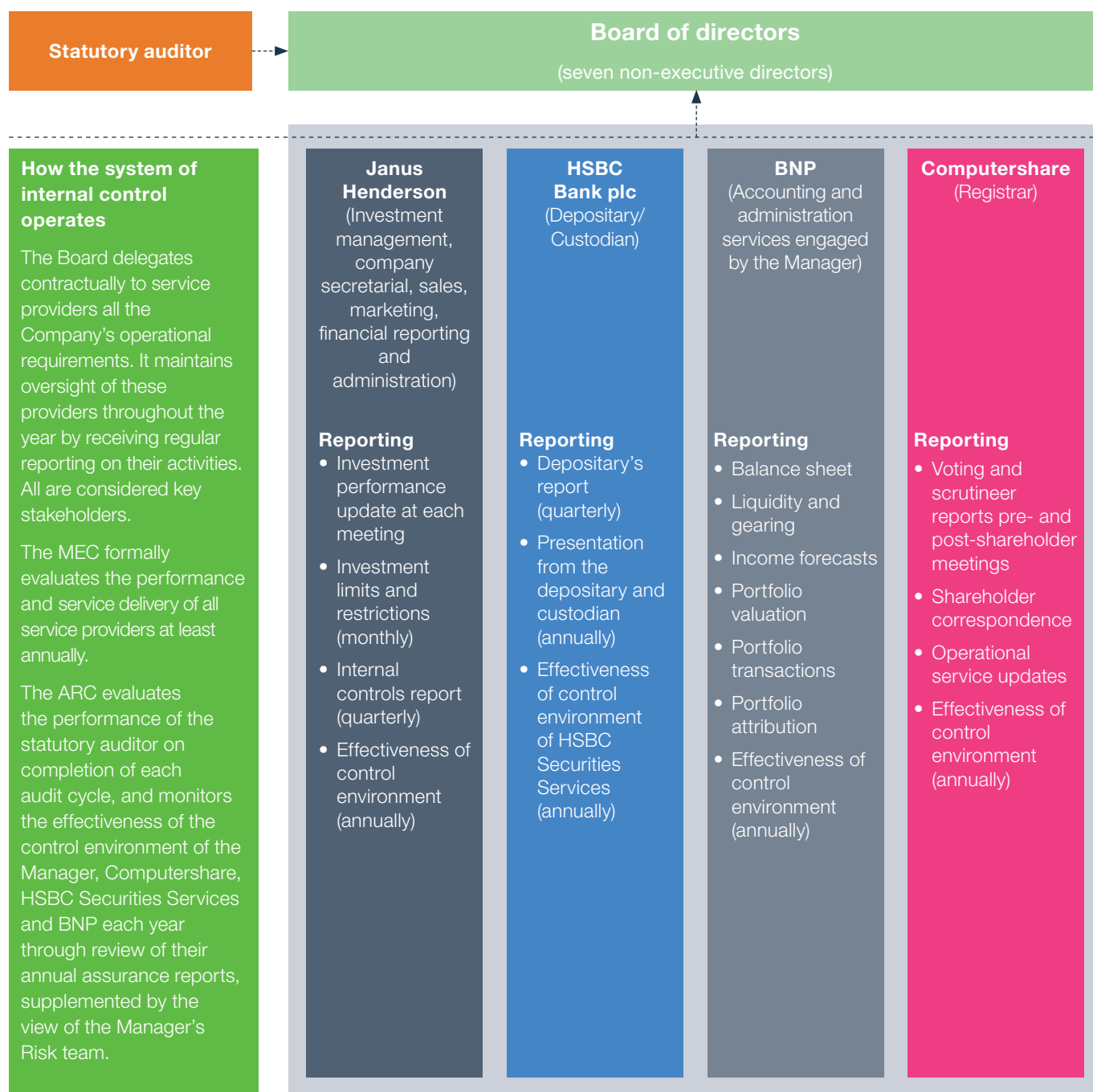


# Audit and Risk Committee Report (continued)

Overall the Committee considers that the audit quality for the year ended 31 May 2021 has been high and that the Manager and EY have worked together to enhance and improve reporting to shareholders.

Alexandra Mackesy  
Chairman of the Audit and Risk Committee  
3 August 2021

## System of internal controls



# Directors' Remuneration Report

## Report on implementation

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended (the "Regulations"). This report also meets the relevant requirements of the Companies Act 2006 ("Act") and the Listing Rules of the FCA and describes how the Board has applied the principles relating to directors' remuneration. The Company's auditor is required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All directors are non-executive and the Company has no chief executive officer or employees; as such some 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 individual directors. The directors believe that all relevant information is disclosed within this report in an appropriate format. The Nomination Committee considers directors' fees and makes recommendations to the Board for its determination, and there is therefore no separate remuneration committee to consider such matters (see page 36). While the directors review annually the fees paid to the directors of comparable investment trust companies, the Board has not been provided with advice or services by any person in respect of its consideration of the directors' remuneration.

## Remuneration policy

Shareholders last approved the Remuneration Policy at the AGM in 2020. The Board may amend the level of remuneration paid to individual directors within the parameters of the Policy. Further details can be found in the Notice of AGM which is available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com). In determining the Remuneration Policy, the Board takes into account all factors which it deems necessary, including relevant legal and regulatory requirements and the provisions and recommendations of the AIC Code.

The objective of the Remuneration Policy is to attract, retain and motivate non-executive directors of the quality required to manage the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The Board obtains up-to-date information about remuneration in other companies of comparable scale and complexity to avoid and manage conflicts of interest in determining remuneration levels. The directors review the appropriateness and relevance of the Remuneration Policy at least annually, with a focus on supporting the Company's long-term sustainable success.

Directors are remunerated in the form of fees, payable quarterly in arrears. The Company's articles of association limit the fees payable to the directors in aggregate to £250,000 per annum. Subject to the overall limit, the Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors, and should be sufficient to promote the long-term success of the Company.

All directors, including those newly appointed, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit and Risk Committee who are paid a higher fee in recognition of their additional responsibilities. The policy is to review fee rates annually, although this will not necessarily result in any change to the rates. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties. No director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable. No director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

## Annual statement

Directors' remuneration is determined by the Board as a whole within the parameters of the Policy approved by shareholders, following recommendations by the Nomination Committee as to the appropriate level of fees. Directors' fees for the year under review were £35,000 for the Chairman, £28,000 for the Chairman of the Audit and Risk Committee. All remaining directors were paid £24,000 per annum.

In view of the loss in shareholder value and share price in the wake of Covid-19-related market disruption, and the challenges facing many shareholders, the directors deferred their previously agreed fee increase of £500 per annum for the financial year ending 31 May 2021.

The Board has agreed the first increases in directors' fees since 2019 to take effect from 1 June 2021, as detailed on page 49. The changes follow a review of fee levels which utilised external published reviews as well as a desktop review. The Board believes that both the individual remuneration and the aggregate fee levels take account of the needs of a very engaged non-executive Board of experienced practitioners in the sector, and the likely need to continue to attract and retain candidates of a suitable calibre to govern the Company effectively. There have been no other major decisions on directors' remuneration or any other changes to the remuneration paid to each individual director in the year under review.

# Directors' Remuneration Report (continued)

## Directors' interests in shares (audited)

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 below.

	Ordinary shares of 25p	
	31 May 2021	1 June 2020
Jamie Cayzer-Colvin	12,000	12,000
Penny Freer	1,400	1,400
David Lamb	5,802	5,802
Alexandra Mackesy	2,200	1,000
Victoria Sant <sup>1</sup>	640	640
Michael Warren <sup>2</sup>	1,000	n/a
Kevin Carter <sup>3</sup>	2,500	n/a

1 On 15 June 2021, Victoria purchased a further 400 shares, taking her total holding in the Company to 1,040 ordinary shares at the date of this report

2 Appointed on 1 March 2021

3 Appointed on 1 May 2021

No director has an interest in the preference stock of the Company. There have been no other changes to any of the directors' interests since the year end to the date of this report.

Under the Company's articles of association, no director is required to hold shares in the Company by way of qualification. However, to reflect the governance standards expected in investee companies, the Board requests each director to invest in the Company's shares and to retain those shares for as long as they remain on the Board. The overarching aim is for each director's holding to equate to 25% of their fees earned by the end of their projected nine-year tenure.

## Spend on pay

As the Company has no employees, the directors do not consider it relevant to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to directors are shown in the table below.

## Directors' remuneration (audited)

The remuneration paid to the directors who served during the years ended 31 May 2021 and 31 May 2020 was as follows:

	Year ended 31 May 2021 Total salary and fees £	Year ended 31 May 2020 Total salary and fees £	Year ended 31 May 2021 Expenses and taxable benefits £	Year ended 31 May 2020 Expenses and taxable benefits £	Year ended 31 May 2021 Total £	Year ended 31 May 2020 Total £
Jamie Cayzer-Colvin <sup>1</sup>	35,000	35,000	–	–	35,000	35,000
Penny Freer	24,000	24,000	–	–	24,000	24,000
Beatrice Hollond <sup>2</sup>	–	9,560	–	–	–	9,560
David Lamb <sup>3</sup>	24,000	24,000	–	–	24,000	24,000
Alexandra Mackesy <sup>4</sup>	28,000	26,633	–	–	28,000	26,633
Victoria Sant	24,000	24,000	–	–	24,000	24,000
Michael Warren <sup>5</sup>	6,067	–	–	–	6,067	–
Kevin Carter <sup>6</sup>	2,044	–	–	–	2,044	–
<b>Total</b>	<b>143,111</b>	<b>143,193</b>	<b>–</b>	<b>–</b>	<b>143,111</b>	<b>143,193</b>

### Notes:

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

1 Chairman and highest paid director

2 Retired from the Board on 4 October 2019

3 Senior Independent Director

4 Appointed as Audit and Risk Committee Chair on 4 October 2019

5 Appointed 1 March 2021

6 Appointed 1 May 2021

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors or third parties specified by any of them.

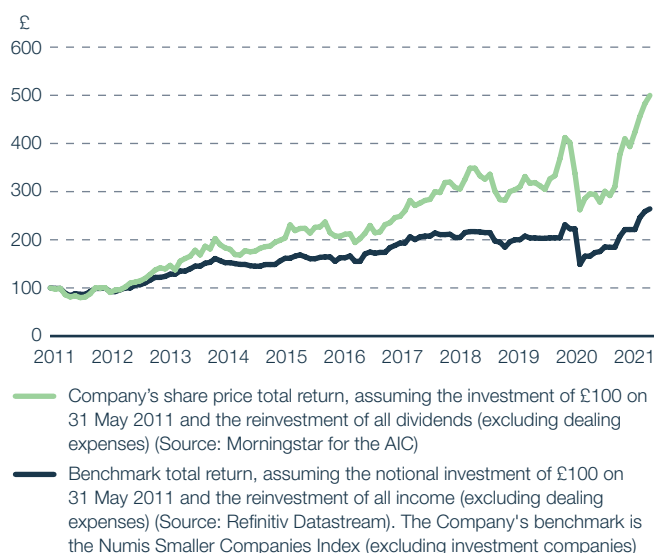
# Directors' Remuneration Report (continued)

## Changes to fees

From 1 June 2021, the fees payable to directors were as follows (previous rates in brackets): Chairman £40,000 (£35,000), Audit and Risk Committee Chairman £32,000 (£28,000), and director £27,500 (£24,000).

## Performance

The graph below compares the mid-market price of the Company's ordinary shares over the ten-year period ended 31 May 2021 with the benchmark return over the same period.



## Statement of voting at AGM

At the 2020 AGM, 26,202,277 votes in favour of the resolution to approve the Directors' Remuneration Report were received (99.51%), 58,597 (0.22%) were against, 69,513 (0.27%) were discretionary and 52,022 were withheld. In respect of the approval of the Company's Remuneration Policy, last voted on at the 2020 AGM, 26,187,908 votes (99.50%) were received in favour of the resolution, 62,455 (0.24%) were against, 69,513 (0.26%) were discretionary and 62,533 were withheld. All percentages of votes exclude those withheld.

For and on behalf of the Board

Alexandra Mackesy  
Director  
3 August 2021



# Report of the Directors

The directors present the audited financial statements of The Henderson Smaller Companies Investment Trust plc (the “Company”) and their report for the year ended 31 May 2021. The Company (registered and domiciled in England & Wales with registration number 00025526) was active throughout the year under review and was not dormant.

The Investment Portfolio on pages 13-15, Corporate Governance Report on pages 32-42, Audit and Risk Committee Report on pages 43-46, Statement of Directors’ Responsibilities on page 52, and the glossary, alternative performance measures and other information on pages 82-88, all form part of the Report of the Directors.

## Directors

The directors and their appointments are listed on pages 33-34. Information on directors’ insurance and indemnification is given on page 39.

## Share capital

The Company’s share capital comprises:

### Ordinary shares of 25p nominal value each (“shares”):

The voting rights of the shares on a poll are one vote for each share held. At 31 May 2021 and 31 May 2020 the number of shares in issue, and thus the number of voting rights, was 74,701,796. This represents 99.98% of the Company’s share capital. There are no restrictions on the transfer of the Company’s shares or voting rights, no shares which carry specific rights with regard to the control of the Company and no agreement to which the Company is party that affect its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue and capital reserves) are available for distribution by way of dividends to the holders of the shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holdings of shares.

**Preference stock units of £1 each (“preference stock units”):** Preference stockholders have no rights to attend and vote at general meetings (except where the dividend is six months in arrears or on a resolution to wind up the Company). At 31 May 2021 and 31 May 2020 there were 4,257 preference stock units in issue. This represents 0.02% of the Company’s share capital. Further details are in Note 14.

The directors seek annual authority from the shareholders to allot new shares, to disapply pre-emption rights of existing shareholders and to buy back shares for cancellation or to be held in Treasury. The Company’s articles of association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital reserves. No shares or preference stock units were issued or bought back during the year.

At the annual general meeting (“AGM”) held in September 2020, the directors were granted authority to buy back 11,197,799 shares (being 14.99% of the issued ordinary share capital as at 21 September 2020). In the period from 1 June 2020 to 3 August 2021, being the latest practicable date prior to publication of this Annual Report, the Company did not buy back any shares, and total voting rights were 74,701,796. There remained 11,197,799 shares available within the buy-back authority granted in 2020. This authority will expire at the conclusion of the 2021 AGM. The directors intend to renew this authority subject to shareholder approval. Shares are not bought back unless the result is an increase in net asset value per share.

## Holdings in the Company’s shares

Declarations of interests in the voting rights of the Company as at 31 May 2021 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

Shareholder	% voting rights
Tilney Group Limited	5.0
1607 Capital Partners	5.0
Lazard Asset Management LLC	4.9
Standard Life Aberdeen	4.9
Newton Investment Management Limited	4.9
Royal London Asset Management	3.9
East Riding of Yorkshire	2.9

No changes have been notified since 31 May 2021 to the date of this Report.

## Donations

The Board supports a number of UK-focused charities, all of which are personally selected on an annual basis by the directors. These charities span a variety of different causes including food poverty, literacy, and education for children excluded from school. In respect of the year under review, the Company will make charitable donations totalling £12,900 (2020: £5,000). This year the amount was increased as dividends unclaimed for over 12 years were donated to support a Covid-19 related charity. The Company does not make political donations (2020: £nil).

## Disclosure of information to the auditor

Each director who is a member 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 of which the Company’s auditor is 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 auditor is aware of that information.

# Report of the Directors (continued)

## Related party transactions

The Company's transactions with related parties in the year were with the directors and the Manager. There were no material transactions between the Company and its directors, and the only amounts paid to them were in respect of remuneration, for which there were no outstanding amounts payable at the year end. The directors did not claim any expenses during the years to 31 May 2021 or 31 May 2020. Directors' shareholdings are listed on page 48.

In respect of the Manager's service provision during the year, other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties, there were no material transactions with the Manager affecting the financial position of the Company. More details on transactions with the Manager, including amounts outstanding at the year end, are on page 80.

## Appointment of auditor

As explained on page 44, the incumbent auditor Ernst & Young LLP is not continuing in office and its statement to members submitting its resignation has been sent with this Annual Report. A resolution proposing the appointment of Mazars LLP and authorising the Audit and Risk Committee to determine its remuneration for the ensuing year will be put to shareholders at the 2021 AGM.

## Future developments

The future success of the Company is dependent primarily on the performance of its investment portfolio, which will, to a significant degree, reflect the performance of the stock market and the skill of the Manager. While the Company invests in companies that are listed (or quoted) in the United Kingdom, the underlying businesses of those companies are affected by external factors, many of an international nature. The Board's intention is that the Company will continue to pursue its stated investment objective and strategy as explained on page 17. The Chairman's Statement and the Fund Manager's Report on pages 5 and 8-12 give commentary on the outlook for the Company. Other information on recommended dividends and financial risks is detailed in the Strategic Report and in notes 9 and 15 to the financial statements.

## Other information

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross-reference table indicating where the information is set out. The directors confirm that there are no disclosures to be made in this regard. For details of the Company's responsibilities in respect of global greenhouse gas emissions, see page 31. This Report of the Directors has been approved by the Board.

## Annual general meeting ("AGM")

The Company's AGM will be held at 11.30 am on Friday, 1 October 2021. The Board invites shareholders to attend the meeting at the registered office at 201 Bishopsgate, London EC2M 3AE, or via Zoom webinar connection if preferable. The Fund Manager will present his review of the year and thoughts on the future and will be pleased to answer your questions, as will the Board.

As is our normal practice, there will be live voting for those physically present at the AGM. Due to technological restrictions, we cannot currently offer voting by Zoom, and we therefore request all shareholders, particularly those who cannot attend physically, to submit their votes by proxy, ahead of the deadline of 29 September 2021.

If you hold your shares in a nominee account, such as through a share dealing service or platform, you will need to contact your provider and ask them to submit the proxy votes on your behalf. If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform. For further information regarding Proxymity, please see [www.proxymity.io](http://www.proxymity.io). Any change to the format of the AGM will be notified to shareholders via a Regulatory Information Service announcement and the Company's website.

Instructions on attending the meeting and details of resolutions to be put to the AGM are included in the Notice of AGM sent with this Annual Report and are available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com). If shareholders would like to submit any questions in advance of the AGM, they are welcome to send these to the corporate secretary at [itsecretariat@janushenderson.com](mailto:itsecretariat@janushenderson.com).

## Voting recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of the shareholders as a whole. The Board therefore recommends that shareholders vote in favour of each resolution, as the directors intend to do in respect of their own beneficial holdings.

By order of the Board  
Henderson Secretarial Services Limited  
Corporate Secretary  
3 August 2021

# Statement of Directors' Responsibilities

## Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law 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 Accounting Standards in conformity with the requirements of the Companies Act 2006. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, a strategic report and a directors' remuneration report which comply with the requirements of the Companies Act 2006.

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 and the Directors' Remuneration Report comply with the Companies Act 2006. 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 director, who is listed on pages 33-34, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report 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

Alexandra Mackesy  
Director  
3 August 2021



# Financial Statements





# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc

## Opinion

We have audited the financial statements of Henderson Smaller Companies Investment Trust plc (the "Company") for the year ended 31 May 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 May 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We confirmed our understanding of the Company's going concern assessment process and engaged with the directors and the Company Secretary to determine if all key factors that we have become aware of during our audit were considered in their assessment.
- We inspected the directors' assessment of going concern, including the revenue forecast, which is at least 12 months from the date the financial statements were authorised for issue. In preparing the revenue forecast, the Company has concluded that it is able to continue to meet its ongoing costs as they fall due.
- We have reviewed the factors and assumptions, including the impact of the Covid-19 pandemic, as applied to the revenue forecast and the liquidity assessment of the investments. We considered the appropriateness of the methods used to calculate the revenue forecast and the liquidity assessment and determined, through testing of the methodology and calculations, that the methods, inputs and assumptions utilised were appropriate to be able to make an assessment for the Company.
- In relation to the Company's borrowing arrangements, we inspected the directors' assessment of the risk of breaching the debt covenants as a result of a reduction in the value of the Company's portfolio. We recalculated the Company's compliance with debt covenants in the scenarios assessed by the directors and performed reverse stress testing in order to identify what factors would lead to the Company breaching the financial covenants during the going concern period.
- We reviewed the Company's assessment of the liquidity of investments held and evaluated the Company's ability to sell those investments in order to repay borrowings or to cover working capital requirements should revenue decline significantly.
- We reviewed the Company's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

## Overview of our audit approach

<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>• The risk of incomplete or inaccurate income recognition including incorrect classification of special dividends as revenue or capital items in the Statement of Comprehensive Income (fraud risk).</li> <li>• The risk of incorrect calculation and allocation of performance fees.</li> <li>• The risk of incorrect valuation or defective title of the investment portfolio held at fair value through profit and loss.</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>• Overall materiality of £9.9m which represents 1% of Net Assets as at 31 May 2021.</li> </ul>

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### Key audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p><b>The risk of incomplete or inaccurate income recognition including incorrect classification of special dividends as revenue or capital items in the Statement of Comprehensive Income £0.35m (2019: £0.65m)</b></p> <p>(as described on page 44 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 66).</p> <p>The income receivable by the Company during the year directly affects the Company's revenue return. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or applying appropriate accounting treatment.</p> <p>The revenue column of the Income Statement is the main driver of the minimum dividend calculation. There is therefore a risk that an incorrect classification could potentially result in an under distribution of income and put the Company's investment trust status at risk. There is also a risk that the revenue column is overstated to increase the dividend paid to shareholders.</p> <p>In addition to the above, the directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'. This manual and judgemental element in allocating special dividends between revenue and capital can lead to the risk of incorrect allocation.</p>	<p><b>We have performed the following procedures:</b></p> <ul style="list-style-type: none"> <li>• We obtained an understanding of BNP Paribas Securities (the 'Administrator') and Janus Henderson's (the 'Manager') processes and controls surrounding revenue recognition and allocation of special dividends and performed a walkthrough to evaluate the design and effectiveness of controls.</li> <li>• We reviewed the income and capital reports to identify special dividends, above our testing threshold, that have been received and accrued during the period.</li> <li>• The Company received 5 special dividends during the year and there were no dividends that were individually above our testing threshold. We tested all four dividends classed as revenue (£0.35m) as well as the dividend classed as capital (£2.11m) and confirmed that the classification was consistent with the underlying nature of the payment.</li> <li>• We agreed a sample of dividends (including all of the special dividends) received from the income report to an independent pricing source, recalculated the dividend amount receivable and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount.</li> <li>• For dividends accrued, we reviewed the investee company announcements to assess whether the dividend obligations arose prior to 31 May 2021.</li> <li>• We selected a sample of investments from the Company's valuation report, checked to an independent source for any dividends (including special dividends) declared by those securities and agreed the recognition of such dividends to the income report.</li> <li>• To test for the risk of management override, we tested a sample of journal entries and other adjustments made in the preparation of the financial statements relating to special dividends.</li> </ul>	<p><b>The results of our procedures are:</b></p> <p>We have no matters to communicate with respect to the procedures in response to the risk of incorrect or inaccurate income recognition, including classification of special dividends as revenue or capital in the Statement of Comprehensive Income.</p>

# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p><b>The risk of incorrect calculation and allocation of performance fees £4.54m (2020: £nil)</b></p> <p>(as described on page 44 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 66).</p> <p>The Company pays performance fees to the Manager. There is a risk that performance fees are not calculated correctly, in line with the underlying agreements or that the methodology is open to misinterpretation.</p>	<p><b>We have performed the following procedures:</b></p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the Administrator's processes and controls surrounding performance fee calculation and allocation by performing walkthrough procedures.</li> <li>• We reviewed the Investment Management Agreement ('IMA') to assess the conditions of the IMA that result in a performance fee payable.</li> <li>• We reperformed the Administrator's calculation of performance fees payable for the year ended 31 May 2021.</li> <li>• We checked the inputs to the calculation to third party data or to alternative sources of evidence.</li> <li>• We agreed the amounts booked to the general ledger to invoices and bank statements.</li> <li>• To address the risk of management override, we tested the appropriateness of journal entries and other adjustments made in the preparation of the financial statements in relation to performance fees.</li> </ul>	<p><b>The results of our procedures are:</b></p> <p>We have no matters to communicate with respect to the procedures that we performed in response to the risk of incorrect calculation and allocation of performance fees.</p>
<p><b>The risk of incorrect valuation or defective title of the investment portfolio held at fair value through profit and loss £1,080.36m (2020: £712.33m)</b></p> <p>(as described on page 44 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 66).</p> <p>In accordance with IFRS, the Company's listed investments have been designated as 'fair value through profit and loss'.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at the close of business on the year-end date.</p>	<p><b>We have performed the following procedures:</b></p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the Administrator's process surrounding the investment pricing process by reviewing their internal control reports and by performing walkthrough procedures.</li> <li>• For all investments in the portfolio, we compared the market prices applied to an independent pricing vendor and recalculated the investment valuations as at the year-end.</li> <li>• We compared the Company's investment holdings at 31 May 2021 to independent confirmations received directly from the Company's Custodian.</li> <li>• We reviewed any price exception and stale pricing reports to identify any prices that have not changed and testing whether the listed price is a valid fair value.</li> </ul>	<p><b>The results of our procedures are:</b></p> <p>We have no matters to communicate with respect to the procedures that we performed in response to the risk of incorrect valuation or defective title of the investment portfolio held at fair value through profit and loss.</p>

In the prior year, our auditor's report included a key audit matter in relation to the impact of Covid-19 on the Company and its operations. The impact of Covid-19 continued to be relevant to our audit of the Company and we considered its impact as part of our work on going concern which is set out in this report under our conclusions relating to going concern.



# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £9.93 million (2020: £6.42 million), which is 1% (2020: 1%) of Net Assets. We have derived our materiality calculation based on a proportion of net assets as we consider it to be the most important financial metric on which shareholders would judge the performance of the Company.

During the course of our audit, we reassessed initial materiality and found no reason to alter the basis of calculation at year-end.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £7.45m (2020: £4.81m).

Given the importance of the distinction between revenue and capital for the Company, we have also applied a separate testing threshold of £0.52m (2020: £0.63m) for the revenue column of the Statement of Comprehensive Income being 5% of revenue profit before tax.

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.50m (2020: £0.32m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report set out on pages 2-52, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that 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.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 52;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 25;
- Directors' statement on fair, balanced and understandable set out on page 52;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 52;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 43; and
- The section describing the work of the Audit and Risk Committee set out on page 43.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are International Accounting Standards in conformity with the Companies Act 2006, the Companies Act 2006, the Listing Rules, UK Corporate Governance Code, the Association of Investment Companies' Code and Statement of Recommended Practice, Section 1158 of the Corporation Tax Act 2010 and The Companies (Miscellaneous Reporting) Regulations 2018.
- We understood how the Company is complying with those frameworks through discussions with the Audit and Risk Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate income recognition through the incorrect classification of special dividends. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Other matters we are required to address:

- Following the recommendation from the Audit and Risk Committee, we were appointed by the Company on 17 April 2018 to audit the financial statements for the year ending 31 May 2019 and subsequent financial periods. We were engaged as auditors by the Audit and Risk Committee and signed an engagement letter on 6 July 2021.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 May 2019 to 31 May 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc (continued)

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Matthew Price (Senior statutory auditor)  
For and on behalf of Ernst & Young LLP (Statutory Auditor)  
London  
3 August 2021



# Statement of Comprehensive Income

Notes		Year ended 31 May 2021			Year ended 31 May 2020		
		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	12,269	–	12,269	14,194	–	14,194
3	Other income	–	–	–	37	–	37
10	Gains/(losses) on investments held at fair value through profit or loss	–	365,577	365,577	–	(66,571)	(66,571)
	<b>Total income</b>	<b>12,269</b>	<b>365,577</b>	<b>377,846</b>	<b>14,231</b>	<b>(66,571)</b>	<b>(52,340)</b>
	Expenses						
4	Management and performance fees	(749)	(6,284)	(7,033)	(731)	(1,706)	(2,437)
5	Other expenses	(726)	–	(726)	(560)	–	(560)
	<b>Profit/(loss) before finance costs and taxation</b>	<b>10,794</b>	<b>359,293</b>	<b>370,087</b>	<b>12,940</b>	<b>(68,277)</b>	<b>(55,337)</b>
6	Finance costs	(427)	(995)	(1,422)	(438)	(1,019)	(1,457)
	<b>Profit/(loss) before taxation</b>	<b>10,367</b>	<b>358,298</b>	<b>368,665</b>	<b>12,502</b>	<b>(69,296)</b>	<b>(56,794)</b>
7	Taxation	(14)	–	(14)	(5)	–	(5)
	<b>Profit/(loss) for the year and total comprehensive income</b>	<b>10,353</b>	<b>358,298</b>	<b>368,651</b>	<b>12,497</b>	<b>(69,296)</b>	<b>(56,799)</b>
8	Earnings per ordinary share – basic and diluted	13.86p	479.64p	493.50p	16.73p	(92.76p)	(76.03p)

The total column of this statement represents the Statement of Comprehensive Income, prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

# Statement of Changes in Equity

		Retained earnings				
		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
Notes	Year ended 31 May 2021					
	Total equity at 1 June 2020	18,676	26,745	577,009	19,366	641,796
	Total comprehensive income:					
	Profit for the year	–	–	358,298	10,353	368,651
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(17,549)	(17,549)
	<b>Total equity at 31 May 2021</b>	<b>18,676</b>	<b>26,745</b>	<b>935,307</b>	<b>12,170</b>	<b>992,898</b>

			Retained earnings			
		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
Notes	Year ended 31 May 2020					
	Total equity at 1 June 2019	18,676	26,745	646,305	24,419	716,145
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(69,296)	12,497	(56,799)
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(17,550)	(17,550)
	<b>Total equity at 31 May 2020</b>	<b>18,676</b>	<b>26,745</b>	<b>577,009</b>	<b>19,366</b>	<b>641,796</b>

# Balance Sheet

Notes		At 31 May 2021 £'000	At 31 May 2020 £'000
	<b>Non current assets</b>		
10	Investments held at fair value through profit or loss	1,080,358	712,330
	<b>Current assets</b>		
12	Receivables	4,987	3,120
	Tax recoverable	9	16
	Cash and cash equivalents	2,962	4,741
		<b>7,958</b>	<b>7,877</b>
	<b>Total assets</b>	<b>1,088,316</b>	<b>720,207</b>
	<b>Current liabilities</b>		
13	Payables	(5,726)	(3,481)
15	Bank loans	(59,860)	(45,107)
		<b>(65,586)</b>	<b>(48,588)</b>
	<b>Total assets less current liabilities</b>	<b>1,022,730</b>	<b>671,619</b>
	<b>Non current liabilities</b>		
14	Financial liabilities	(29,832)	(29,823)
	<b>Net assets</b>	<b>992,898</b>	<b>641,796</b>
	<b>Equity attributable to equity shareholders</b>		
16	Share capital	18,676	18,676
17	Capital redemption reserve	26,745	26,745
	Retained earnings:		
17	Capital reserve	935,307	577,009
18	Revenue reserve	12,170	19,366
	<b>Total equity</b>	<b>992,898</b>	<b>641,796</b>
19	<b>Net asset value per ordinary share</b>	<b>1,329.1p</b>	<b>859.1p</b>

These financial statements on pages 62-80 were approved and authorised for issue by the board of directors on 3 August 2021 and were signed on its behalf by:

Alexandra Mackesy  
Director

# Statement of Cash Flows

Notes	For the year ended	
	31 May 2021 £'000	31 May 2020 £'000
<b>Operating activities</b>		
Gain/(loss) before taxation	368,665	(56,794)
Add back interest payable	1,422	1,457
10 (Gains)/losses on investments held at fair value through profit or loss	(365,577)	66,571
10 Purchases of investments	(157,850)	(125,705)
10 Sales of investments	155,399	123,037
Decrease/(increase) in receivables	20	(26)
Increase in amounts due from brokers	(340)	(2,530)
(Increase)/decrease in accrued income	(1,546)	2,651
Increase/(decrease) in payables	4,743	(127)
13 Decrease in amounts due to brokers	(2,527)	(1,672)
<b>Net cash inflow from operating activities before interest and taxation<sup>1</sup></b>	<b>2,409</b>	<b>6,862</b>
Interest paid	(1,392)	(1,463)
<b>Net cash inflow from operating activities</b>	<b>1,017</b>	<b>5,399</b>
<b>Financing activities</b>		
9 Equity dividends paid	(17,549)	(17,550)
Drawdown of bank loans	14,753	16,020
<b>Net cash outflow from financing activities</b>	<b>(2,796)</b>	<b>(1,530)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(1,779)</b>	<b>3,869</b>
Cash and cash equivalents at the start of the year	4,741	872
<b>Cash and cash equivalents at the end of the year</b>	<b>2,962</b>	<b>4,741</b>

<sup>1</sup> In accordance with IAS 7.31 cash flow from dividends was £10,715,000 (2020: £16,852,000) and cash inflow from interest was £nil (2020: £4,000)

# Notes to the Financial Statements

## 1 Accounting policies

### a) Basis of preparation

The Henderson Smaller Companies Investment Trust plc (the "Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (the "Act"). The financial statements of the Company for the year ended 31 May 2021 have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Act. 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 IFRS Interpretations Committee ("IFRS IC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice (the "SORP") for investment trusts issued by the Association of Investment Companies (the "AIC") in October 2019 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

#### Accounting standards

- i) The following new and amended standards are relevant and applicable to the Company and have been adopted. There has been no impact on the financial statements as a result of these new and amended standards.

Amendments to International Accounting Standards in conformity with the requirements of the Act issued and effective for the current year end:

Standards		Effective for annual periods beginning on or after
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IAS 1, 8, 34, 37, 38 and IFRS 2, 3, 6, 14 Amendments	References to the Conceptual Framework	1 January 2020
IAS 39, IFRS 7 and 9 Amendments	Interest Rate Benchmark Reform (Phase 1)	1 January 2020
Interpretations		Effective for annual periods beginning on or after
IFRIC 12, 19, 20, 22 and SIC 32 Amendments	References to the Conceptual Framework	1 January 2020

- ii) Relevant new standards and amendments issued but not effective for the current financial year and not early adopted by the Company:

Standards		Effective for annual periods beginning on or after
IAS 1 Amendments	Classification of Liabilities as current or non-current	1 January 2023
IAS 1 Amendments	Disclosure of Accounting Policies	1 January 2023
IAS 8 Amendments	Definition of Accounting Estimates	1 January 2023
IAS 16 Amendments	Proceeds before intended use	1 January 2022
IAS 39, IFRS 4, 7, 9 and 16 Amendments	Interest Rate Benchmark Reform (Phase 2)	1 January 2021
IAS 41, IFRS 1, 9 and 16 Amendments	Annual Improvements 2018-20 Cycle	1 January 2022

#### Interpretations

It is expected that these new standards and amendments will have no impact on the financial statements.



# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### b) Going concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The directors have also 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. They have concluded that they are able to meet their financial obligations, including the repayment of the bank loan, as they fall due for a period of at least twelve months from the date of issuance. Having assessed these factors, the principal risks and other matters discussed in connection with the Viability Statement on page 25, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis. The Company's shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was put to the Annual General Meeting ("AGM") held on 4 October 2019 and passed by a substantial majority of the shareholders. The next continuation vote will take place at the AGM in 2022.

### c) Investments held at fair value through profit or loss

All investments are classified upon initial recognition as held at fair value through profit or loss, and are measured initially and subsequently at fair value. Investment transactions are accounted for on a trade date basis. Assets are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price or the last traded price depending on the convention of the exchange on which the investment is quoted at the balance sheet date, without deduction of the estimated future selling costs. There were no unquoted investments during the current year or prior year.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as "Gains/(losses) on investments held 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.

### d) Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns are no longer prohibited to be distributed by way of dividend where authority is given within the Company's articles of association. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

### e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Interest is recognised on an accruals basis.

Income distributions from UK Real Estate Investment Trusts ("UK REITs") will be split into two parts, a Property Income Distribution ("PID") made up of rental revenue and a non-PID element, consisting of non-rental revenue. The PID element is subject to corporation tax as schedule A revenue, while the non-PID element will be treated as franked revenue.

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, commission income is allocated to the revenue return. Gains or losses arising from the take up of shares are allocated to the capital return.

### f) Expenses

All expenses are accounted for on an accruals basis. The Board has determined that the capital return should reflect the indirect costs of earning capital returns. Since 1 June 2013, the Company has allocated 70% of its management fees and finance costs to the capital return of the Statement of Comprehensive Income with the remaining 30% being allocated to the revenue return.

All other administrative expenses are charged to the revenue return of the Statement of Comprehensive Income.

Any performance fees are charged wholly to the capital return. Expenses which are incidental to the purchase or sale of an investment are recognised immediately in the capital return of the Statement of Comprehensive Income, and are included within the gains or losses on investments held at fair value through profit or loss.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

The tax effect of different items of expenditure is allocated between the capital and the revenue using the Company's effective rate of tax for the year. In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### h) Foreign currency

For the purposes of the financial statements, the results and financial position are expressed in pound sterling, which is the functional currency and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and investments held at fair value through profit or loss which are denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Gains or losses arising on the retranslation of investments held at fair value through profit or loss are included within the "Gains/ (losses) on investments held at fair value through profit or loss".

### i) Cash and cash equivalents

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

### j) Borrowings

Interest-bearing bank loans, overdrafts, unsecured loan notes and Preference Stock are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest rate 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.

The Preference Stock has been classified as a liability as it represents a contractual obligation on behalf of the Company to deliver to the stockholders a fixed and determinable amount at the date of redemption.

### k) Operating segments

The directors consider that the Company has one operating segment, being the activity of investing in shares and securities primarily for capital appreciation in accordance with the Company's published investment objective. The Company operates within the United Kingdom.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### l) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid or, in the case of final dividends, when they are approved by shareholders. Dividends are recorded in the Statement of Changes in Equity.

### m) Capital and revenue reserves

#### *Capital reserve arising on investments sold*

The following are accounted for in this reserve:

- gains and losses on the disposals of investments;
- expenses and finance costs allocated to capital net of tax relief;
- realised foreign exchange differences of a capital nature; and
- costs of repurchasing ordinary share capital.

#### *Capital reserve arising on revaluation of investments held*

The following are accounted for in this reserve:

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

#### *Revenue reserve*

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

#### *Capital redemption reserve*

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled.

### n) Distributable reserves

The Company's capital reserve arising on investments sold (i.e. realised capital profits) and revenue reserve may be distributed by way of a dividend.

### o) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable Preference Stock is classified as a liability. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

Share capital represents the nominal value of ordinary shares issued.

### p) Key estimates and assumptions

Estimates and assumptions used in preparing the financial statements are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these estimates and assumptions form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

There are no estimates and assumptions that may cause material adjustment to the carrying value of assets and liabilities. There are no significant judgements made in the preparation of these financial statements.

# Notes to the Financial Statements (continued)

## 2 Investment income

	2021 £'000	2020 £'000
Income from companies listed or quoted in the United Kingdom:		
Dividends	11,669	13,202
Special dividends	351	651
Property income distributions	249	341
<b>Total investment income</b>	<b>12,269</b>	<b>14,194</b>

## 3 Other income

	2021 £'000	2020 £'000
Bank and other interest	–	4
Underwriting income (allocated to revenue) <sup>1</sup>	–	33
	<b>–</b>	<b>37</b>

<sup>1</sup> There was no income receivable from sub-underwriting commitments allocated to capital in the prior year

## 4 Management and performance fees

	Revenue return £'000	2021 Capital return £'000	Total return £'000	Revenue return £'000	2020 Capital return £'000	Total return £'000
Management fee	749	1,747	2,496	731	1,706	2,437
Performance fee	–	4,537	4,537	–	–	–
	<b>749</b>	<b>6,284</b>	<b>7,033</b>	<b>731</b>	<b>1,706</b>	<b>2,437</b>

A summary of the management agreement is given on pages 18 and 26.

## 5 Other expenses

	2021 £'000	2020 £'000
Directors' fees (see the Directors' Remuneration Report on pages 47-49)	143	143
Auditors' remuneration for the audit of the Company and the financial statements	39	30
Other professional fees	111	50
FCA and London Stock Exchange fees	51	45
Registration costs	24	23
Annual and half-year reports and shareholder circulars: printing and distribution	32	11
Insurances	6	6
AIC subscriptions	21	22
Custody and other bank charges	41	37
Bank facilities: commitment fees	102	35
Charitable donations	13	5
Depositary charges	48	47
Other expenses payable to the management company <sup>1</sup>	76	84
Share price listings in newspapers and websites	7	7
Other expenses	12	15
	<b>726</b>	<b>560</b>

<sup>1</sup> Other expenses payable to the management company ("Janus Henderson") relate to marketing activities as described in Note 21

All transactions with directors are disclosed in the Directors' Remuneration Report and are related-party transactions. All the above expenses include VAT where VAT is applied to them. There were no non-audit services in the period (2020: nil).



# Notes to the Financial Statements (continued)

## 6 Finance costs

	Revenue return £'000	2021 Capital return £'000	Total return £'000	Revenue return £'000	2020 Capital return £'000	Total return £'000
Bank overdraft and loan interest	125	290	415	138	320	458
Interest on unsecured loan notes <sup>1</sup>	302	705	1,007	300	699	999
<b>Total</b>	<b>427</b>	<b>995</b>	<b>1,422</b>	<b>438</b>	<b>1,019</b>	<b>1,457</b>

1 Includes amortisation of issue costs and will therefore vary from year to year

## 7 Taxation

### a) Analysis of charge for the year

	Revenue return £'000	2021 Capital return £'000	Total return £'000	Revenue return £'000	2020 Capital return £'000	Total return £'000
Overseas tax suffered	14	–	14	5	–	5
<b>Current and total tax charge for the year</b>	<b>14</b>	<b>–</b>	<b>14</b>	<b>5</b>	<b>–</b>	<b>5</b>

### b) Factors affecting the tax charge for the year

UK corporation tax is charged at 19% (2020: 19%). Approved investment trusts are exempt from corporation tax on chargeable gains made by the investment trust.

The tax assessed for the year is lower than the average standard rate of corporation tax in the UK of 19% (2020: 19%) for the year ended 31 May 2021.

	Revenue return £'000	2021 Capital return £'000	Total return £'000	Revenue return £'000	2020 Capital return £'000	Total return £'000
<b>Profit/(loss) before taxation</b>	<b>10,367</b>	<b>358,298</b>	<b>368,665</b>	<b>12,502</b>	<b>(69,296)</b>	<b>(56,794)</b>
Corporation tax at 19% (2020: 19%)	1,970	68,077	70,047	2,375	(13,166)	(10,791)
Effects of:						
Non-taxable UK dividends	(2,141)	–	(2,141)	(2,554)	–	(2,554)
Non-taxable overseas dividends	(143)	–	(143)	(78)	–	(78)
Expenses not deductible for tax purposes	1	–	1	1	–	1
Excess management expenses and loan deficits	313	1,383	1,696	256	518	774
Overseas withholding tax	14	–	14	5	–	5
Non-taxable capital items	–	(69,460)	(69,460)	–	12,648	12,648
<b>Current and total tax charge for the year</b>	<b>14</b>	<b>–</b>	<b>14</b>	<b>5</b>	<b>–</b>	<b>5</b>

### c) Provision for deferred taxation

No provision has been made for deferred tax on income.

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to maintain approval of such status in the foreseeable future, the Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments.

### d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £20,023,000 (2020: £18,327,000) arising as a result of having unutilised management expenses and deficits on loan relationships. These expenses will only be utilised if the tax treatment of the Company's income and chargeable gains changes or if the Company's investment profile changes.

# Notes to the Financial Statements (continued)

## 8 Earnings per ordinary share

The earnings per ordinary share figure is based on the net gain for the year of £368,651,000 (2020: net loss of £56,799,000) and on 74,701,796 (2020: 74,701,796) ordinary shares, 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.

	2021 £'000	2020 £'000
Net revenue profit	10,353	12,497
Net capital profit/(loss)	358,298	(69,296)
<b>Net total profit/(loss)</b>	<b>368,651</b>	<b>(56,799)</b>
Weighted average number of ordinary shares in issue during the year	74,701,796	74,701,796
	2021	2020
Revenue earnings per ordinary share	13.86p	16.73p
Capital earnings per ordinary share	479.64p	(92.76p)
<b>Total earnings per ordinary share</b>	<b>493.50p</b>	<b>(76.03p)</b>

## 9 Ordinary dividends

	Record Date	Pay Date	2021 £'000	2020 £'000
Final dividend 16.5p (2020: 16.5p) for the year ended 31 May 2020	28 August 2020	12 October 2020	12,326	12,326
Interim dividend of 7.0p (2020: 7.0p) for the year ended 31 May 2021	12 February 2021	9 March 2021	5,229	5,229
Unclaimed dividends over 12 years old			(6)	(5)
			<b>17,549</b>	<b>17,550</b>

Subject to approval at the AGM, the proposed final dividend of 16.75p per ordinary share will be paid on 11 October 2021 to shareholders on the register of members at the close of business on 27 August 2021. The shares will be quoted ex-dividend on 26 August 2021.

The proposed final dividend for the year ended 31 May 2021 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by shareholders.

The total dividends payable in respect of the financial year which form the basis of the test under section 1158 of the Corporation Tax Act 2010 are set out below:

	2021 £'000	2020 £'000
Revenue available for distribution by way of dividends for the year	10,353	12,497
Interim dividend for the year ended 31 May 2021 of 7.00p (2020: 7.00p) per ordinary share	(5,229)	(5,229)
Final dividend for the year ended 31 May 2020 16.5p (based on the 74,701,796 shares in issue at 21 September 2020)	–	(12,326)
Proposed final dividend for the year ended 31 May 2021 16.75p (based on 74,701,796 shares in issue at 3 August 2021)	(12,513)	–
<b>Transfer from reserves</b>	<b>(7,389)<sup>1</sup></b>	<b>(5,058)</b>

<sup>1</sup> The residual will be transferred from the revenue reserve £7,046,000 (2020: £5,058,000) and from the capital reserve £343,000 (2020: £nil)

# Notes to the Financial Statements (continued)

## 10 Investments held at fair value through profit or loss

	2021 £'000	2020 £'000
Cost at start of year	580,973	555,748
Investment holding gains at start of year	131,357	220,485
<b>Valuation at start of year</b>	<b>712,330</b>	<b>776,233</b>
Movements in the year:		
Acquisitions at cost	157,850	125,705
Disposals at cost	(111,326)	(100,480)
Movement in investment holding gains/(losses)	321,504	(89,128)
<b>Valuation at year end</b>	<b>1,080,358</b>	<b>712,330</b>
Cost at end of year	627,497	580,973
Investment holding gains	452,861	131,357
<b>Valuation at year end</b>	<b>1,080,358</b>	<b>712,330</b>

The Company received £155,399,000 (2020: £123,037,000) from investments sold in the year. The book cost of these investments when they were purchased were £111,326,000 (2020: £100,480,000). These investments have been revalued over time and until they were sold, any unrealised gains/losses were included in the fair value of investments.

Purchase and sale transaction costs for the year ended 31 May 2021 were £487,000 and £68,000 respectively (2020: transaction costs of purchases £461,000; transaction costs of sales £51,000). These comprise mainly stamp duty and commission.

### Analysis of investments at fair value

	2021 £'000	2020 £'000
Equity investments:		
Listed on London Stock Exchange	775,780	516,198
Listed on Alternative Investment Market ("AIM")	304,578	196,132
	<b>1,080,358</b>	<b>712,330</b>

All the investments are listed in the United Kingdom. The above categories are based on information obtained from the Stock Exchange Daily Official list.

### Total capital gains/(losses) from investments

	2021 £'000	2020 £'000
Gains on the sale of investments based on historical cost	44,073	22,557
Revaluation gains recognised in previous years	(13,158)	(31,773)
<b>Gains/(losses) on investments sold in the year based on the carrying value at the previous balance sheet date</b>	<b>30,915</b>	<b>(9,216)</b>
Net movement in investment holding gains/(losses)	334,662	(57,355)
<b>Gains/(losses) on investments held at fair value through profit or loss</b>	<b>365,577</b>	<b>(66,571)</b>

All capital gains/(losses) are from investments that are listed (or quoted on AIM) in the United Kingdom.

# Notes to the Financial Statements (continued)

## 11 Substantial interests

The Company held interests of 3% or more of any class of share capital in four investee companies (2020: five investee companies). These investments are not considered by the directors to be significant in the context of these financial statements.

	Valuation £'000	% of voting rights
Inspects	11,652	3.1
Marshall Motor	4,266	3.0
Safestyle	5,625	6.6
Thruvision	1,388	4.1

## 12 Receivables

	2021 £'000	2020 £'000
Securities sold for future settlement	3,079	2,739
Prepayments and accrued income	1,908	381
	<b>4,987</b>	<b>3,120</b>

## 13 Payables

	2021 £'000	2020 £'000
Securities purchased for future settlement	474	3,001
Management fee	514	304
Performance fee	4,537	–
Accruals and deferred income	201	176
	<b>5,726</b>	<b>3,481</b>

## 14 Financial liabilities

	2021 £'000	2020 £'000
<b>Unsecured loan notes:</b>		
3.33% Unsecured loan notes 2036 (redeemable at par on 23 May 2036)	29,828	29,819
<b>Preference Stock:</b>		
4,257 Preference Stock units of £1 each (2020: 4,257)	4	4
	<b>29,832</b>	<b>29,823</b>

The Preference Stock units carry the right to receive a non-cumulative dividend at a final rate of 0.001% payable on 1 June each year. On a winding-up of the Company, preference stockholders are entitled to repayment of the capital paid up thereon. The Preference Stock does not entitle the holder to attend or vote at any general meeting of the Company except where the dividend is six months in arrears or on a resolution to liquidate the Company.

On 23 May 2016, the Company issued £30,000,000 (nominal) 3.33% unsecured loan notes, net of issue costs totalling £213,000. The issue costs will be amortised over the life of the notes. The loan notes do not carry voting rights and the 3.33% interest rate would be cumulative if unpaid in any period.



# Notes to the Financial Statements (continued)

## 15 Risk management policies and procedures

The directors manage investment risk principally through setting an investment policy, approved by shareholders, which incorporates risk parameters (see pages 24-25), by contracting management of the Company's investments to an investment manager (Janus Henderson) under a contract which incorporates appropriate duties and restrictions and by monitoring performance in relation to these. The Board's relationship with Janus Henderson is discussed in the Strategic Report pages (page 18). Internal control and the Board's approach to risk is also on pages 43-44. There have been no material changes to the management or nature of the Company's investment risks from the prior year.

The main risks arising from the Company's pursuit of its investment objective are market risk, credit risk and liquidity risk. The effects of these can also be increased by gearing.

The Board and Janus Henderson co-ordinate 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.
- 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.
- The IT tools to which the Janus Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
  - Charles River Compliance module for investment restrictions monitoring;
  - Nasdaq Bwise operational risk database;
  - RiskMetrics, UBS Delta, Style Research, Cognition and Barra for market risk measurement;
  - Bloomberg for market data and price-checking; and
  - HiPortfolio for portfolio holdings and valuations.

### a) Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 15 (b)), currency risk (see note 15 (c)) and interest rate risk (see note 15 (d)). The Board reviews and agrees policies for managing these risks. Janus 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.

### b) Market price risk

Market price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of the investments. The Company's investments are susceptible to market price risk arising from uncertainties about the future prices of investments.

#### Management of risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board regularly reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objectives and is directly responsible for investment strategy.

The Company's exposure to changes in market prices at 31 May 2021 on its equity investments was £1,080,358,000 (2020: £712,330,000).

#### Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 13-15 and a sector analysis is set out on page 6. At 31 May 2021 all investments were in companies listed or quoted in London, most of them being companies established in and operating from the United Kingdom. Accordingly, there is a concentration of exposure to the UK, although it is recognised that an investment's country of domicile or listing does not necessarily equate to its exposure to the economic conditions in that country.

# Notes to the Financial Statements (continued)

## 15 Risk management policies and procedures (continued)

### b) Market price risk (continued)

#### Market price risk sensitivity

The sensitivity of (a) the return after taxation for the year and (b) the Company's net assets to an increase or decrease of 25% in the fair values of the Company's investments at each balance sheet date is given below. This level of change is considered to be reasonably possible, based on observation of current market conditions.

The impact of a 25% increase in the value of investments on the revenue return as at 31 May 2021 is a decrease of £284,000 (2020: £187,000) and on the capital return is an increase of £269,428,000 (2020: £177,646,000). Accordingly, the total impact on shareholders' funds is an increase of £269,144,000 (2020: £177,459,000).

The impact of a 25% decrease in the value of investments on the revenue return as at 31 May 2021 is a decrease of £284,000 (2020: £187,000) and on the capital return is a decrease of £269,428,000 (2020: £177,646,000). Accordingly, the total impact on shareholders' funds is a decrease of £269,144,000 (2020: £177,459,000).

### c) Currency risk

The Company is not itself materially exposed to currency risk, although some of the investments will be in companies that have operations that involve currency risk.

As at 31 May 2021, the Company did not hold any non-sterling denominated investments (2020: nil).

### d) Interest rate risk

Interest rate movements may affect:

- the level of income receivable from cash at bank and on deposit; and
- the interest payable on the Company's short-term borrowings.

Interest rate changes may also have an impact on the market value of the Company's equity investments. In particular, the effect of the interest rate changes on the earnings of companies held within the portfolio may have a significant impact on the valuations of those companies.

#### Management of risk

The possible effects on the fair value of investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. At 31 May 2021 the Company had committed bank borrowing facilities for a total of £59.9 million (2020: £45.1 million); borrowings are drawn down for short periods at rates of interest that are determined by reference to the market rates applicable at the time of borrowing.

#### Interest rate exposure

The Company's financial liabilities at 31 May 2021 that give exposure to fixed interest rate risk are set out in note 14.

The exposure to floating interest rates can be found on the Balance Sheet (cash and cash equivalents and bank loans).

These amounts are not necessarily representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down or repaid, and the mix of borrowings subject to floating or to fixed interest rate changes.

#### Interest rate sensitivity

The Company is not materially exposed to changes in interest rates. As at 31 May 2021 the Company's two-year revolving loan facility provided by Industrial and Commercial Bank of China Limited London Branch ("ICBC") allowed borrowings to a maximum of £85 million, the interest rate exposure on which is 0.85% per annum plus LIBOR (2020: 0.65% plus LIBOR); the interest payable on the Company's £30 million issue of unsecured loan notes is fixed at 3.33%. The Company's interest rate sensitivity is not expected to be materially impacted by the LIBOR reforms that will take place at the end of 2021.

# Notes to the Financial Statements (continued)

## 15 Risk management policies and procedures (continued)

### e) Liquidity risk

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

#### Management of risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £30 million through its issue in 2016 of 3.33% unsecured loan notes 2036. The Company is able to draw short-term borrowings of up to £85 million from its committed borrowing facility with ICBC. There were borrowings of £59.9 million drawn down under the facility at 31 May 2021 (2020: £45.1 million).

Accordingly, the Company has access to borrowings of up to £115 million: the £30 million of fixed debt represented by the issue of unsecured loan notes and a committed bank facility of £85 million.

The Board gives guidance to the Manager 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 should be used to fund short-term cash requirements.

#### Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 May 2021, based on the earliest date on which payment could be required, was as follows:

	2021			2020		
	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000
Preference Stock <sup>1</sup>	–	–	–	–	–	–
Unsecured loan notes <sup>2</sup>	999	3,996	39,990	999	3,996	40,989
Bank loans and interest	59,942	–	–	45,136	–	–
Payables	5,656	–	–	3,443	–	–
	<b>66,597</b>	<b>3,996</b>	<b>39,990</b>	<b>49,578</b>	<b>3,996</b>	<b>40,989</b>

1 See also note 14. The Company has in issue Preference Stock without a set redemption date with a total par value of £4,000 (2020: £4,000) which has a negligible ongoing finance cost

2 The amounts due include unsecured loan note interest

### f) Credit risk

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

#### Management of risk

The risk is not significant, and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed regularly by Janus 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.

None of the Company's financial assets are past their due date and the adoption of the expected credit loss model for impairment under IFRS 9 has not had a material impact on the Company.

In summary, the maximum exposure to credit risk at 31 May 2021 was to cash and cash equivalent of £2,962,000 (2020: £4,741,000), and to receivables of £4,987,000 (2020: £3,120,000) (see note 12).

# Notes to the Financial Statements (continued)

## 15 Risk management policies and procedures (continued)

### g) Fair values of financial assets and financial liabilities

The investments are held at fair value through profit or loss. All net current liabilities are held in the Balance Sheet at a reasonable approximation of fair value. At 31 May 2021 the fair value of the Preference Stock was £4,000 (2020: £4,000). The fair value of the Preference Stock is estimated using the prices quoted on the exchange on which the investment trades. The Preference Stock is carried in the Balance Sheet at par.

The unsecured loan notes are carried in the Balance Sheet at par less the issue costs which are amortised over the life of the notes. In order to comply with fair value accounting disclosures only, the fair value of the unsecured loan notes has been estimated to be £34,035,000 (2020: £37,244,000) and is categorised as Level 3 in the fair value hierarchy as described below. However, for the purpose of the daily NAV announcements, the unsecured loan notes are valued at par in the fair value NAV because they are not traded and the directors have assessed that par value is the most appropriate value to be applied for this purpose.

The fair value of the unsecured loan notes is calculated using a discount rate which reflects the yield of a UK Gilt of similar maturity plus a suitable credit spread.

### h) Fair value hierarchy disclosures

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

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

Level 1: valued using quoted prices in active markets for identical assets.

Level 2: valued by reference to valuation techniques using observable inputs other than quoted prices.

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 note 1(c).

#### Fair value hierarchy – 2021

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	1,080,358	–	–	1,080,358

#### Fair value hierarchy – 2020

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	712,330	–	–	712,330

There were no transfers during the year between any of the levels.

### i) 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 secure long-term capital growth for the shareholders by investment in quoted securities in the UK.

This is to be achieved through an appropriate balance of equity capital and gearing. The Company's policy is that its borrowings must not exceed 30% of shareholders' funds.

The Company's total capital at 31 May 2021 was £1,082,762,000 (2020: £716,907,000) comprising £59,860,000 (2020: £45,107,000) of unsecured bank loans, £30,000,000 (2020: £30,000,000) of unsecured loan notes, £4,000 (2020: £4,000) of Preference Stock and £992,898,000 (2020: £641,796,000) of equity share capital and reserves.

The Company has a £85m revolving credit facility with ICBC Bank (2020: £60m with Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC")). The Company had drawn down £59,860,000 under these facilities as at 31 May 2021 (2020: £45,107,000 drawn down with SMBC). The Company was fully compliant with the terms of the facilities, as they existed, for the period 1 June 2020 to the date of this Annual Report.

# Notes to the Financial Statements (continued)

## 16 Share capital

	2021 £'000	2020 £'000
Allotted, issued, authorised and fully paid:		
74,701,796 ordinary shares of 25p each (2020: 74,701,796)	18,676	18,676

During the year the Company made no purchases of its own issued ordinary shares (2020: nil). Up to the date of this Report, the Company has not purchased any ordinary shares.

## 17 Capital redemption reserve and capital reserve

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
<b>2021</b>				
At 1 June 2020	26,745	131,357	445,652	577,009
Transfer on disposal of investments (see note 10)	–	(13,158)	13,158	–
Net capital gains for the year	–	334,662	30,915	365,577
Expenses charged to capital	–	–	(7,279)	(7,279)
<b>At 31 May 2021</b>	<b>26,745</b>	<b>452,861</b>	<b>482,446</b>	<b>935,307</b>
<b>2020</b>				
At 1 June 2019	26,745	220,485	425,820	646,305
Transfer on disposal of investments (see note 10)	–	(31,773)	31,773	–
Net capital losses for the year	–	(57,355)	(9,216)	(66,571)
Expenses charged to capital	–	–	(2,725)	(2,725)
<b>At 31 May 2020</b>	<b>26,745</b>	<b>131,357</b>	<b>445,652</b>	<b>577,009</b>

## 18 Revenue reserve

	2021 £'000	2020 £'000
At start of year	19,366	24,419
Ordinary dividend paid (note 9)	(17,549)	(17,550)
Revenue profit for the year	10,353	12,497
<b>At 31 May</b>	<b>12,170</b>	<b>19,366</b>

## 19 Net asset value (“NAV”) per ordinary share

The NAV per ordinary share is based on the net assets attributable to the ordinary shares of £992,898,000 (2020: £641,796,000) and on the 74,701,796 ordinary shares in issue at 31 May 2021 (2020: 74,701,796).

The Company has no securities in issue that could dilute the NAV per ordinary share.

The movement during the year of the net assets attributable to the ordinary shares was as follows:

	2021 £'000	2020 £'000
Net assets attributable to ordinary shares at 1 June	641,796	716,145
Net gains/(losses) for the year	368,651	(56,799)
Ordinary dividends paid in the year	(17,549)	(17,550)
<b>Net assets attributable to ordinary shares at 31 May</b>	<b>992,898</b>	<b>641,796</b>



# Notes to the Financial Statements (continued)

## 20 Capital commitments and contingent liabilities

### Capital commitments

There were no capital commitments at 31 May 2021 (2020: £nil).

### Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting commitments at 31 May 2021 (2020: £2,104,000).

## 21 Transactions with the Manager and related parties

Under the terms of an agreement effective from 22 July 2014, the Company has appointed a wholly owned subsidiary of Janus Henderson Group plc ("Janus Henderson") to provide investment management, accounting, secretarial and administrative services. Janus Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given on page 26. The management fees payable to Janus Henderson under the agreement in respect of the year ended 31 May 2021 were £2,496,000 (2020: £2,437,000). The amount outstanding at 31 May 2021 was £514,000 payable to Janus Henderson (2020: £304,000).

The performance fee payable to Janus Henderson in respect of the year ended 31 May 2021 is £4,537,000 (2020: £nil).

In addition to the above services, Janus Henderson facilitates marketing activities with third parties which are recharged to the Company. Total amounts paid to Janus Henderson in respect of marketing, including VAT, for the year ended 31 May 2021 amounted to £76,000 (2020: £84,000).

Fees paid to the directors are considered to be related-party transactions and details are shown in the Directors' Remuneration Report on page 48 and in note 5.

## 22 Changes in financial liabilities

The following table shows the movements during the period of net debt in the Balance Sheet:

Notes	At 1 June 2020 £'000	Non-cash changes		At 31 May 2021 £'000
		Cash flows £'000	Fair value changes £'000	
<b>Financing activities</b>				
Bank loans	(45,107)	(14,753)	–	(59,860)
14 Financial liabilities	(29,823)	–	(9)	(29,832)
	<b>(74,930)</b>	<b>(14,753)</b>	<b>(9)</b>	<b>(89,692)</b>
<b>Non-financing activities</b>				
Cash and cash equivalents	4,741	(1,779)	–	2,962
	<b>4,741</b>	<b>(1,779)</b>	<b>–</b>	<b>2,962</b>
<b>Total</b>	<b>(70,189)</b>	<b>(16,532)</b>	<b>(9)</b>	<b>(86,730)</b>

Notes	At 1 June 2019 £'000	Non-cash changes		At 31 May 2020 £'000
		Cash flows £'000	Fair value changes £'000	
<b>Financing activities</b>				
Bank loans	(29,087)	(16,020)	–	(45,107)
14 Financial liabilities	(29,823)	–	–	(29,823)
	<b>(58,910)</b>	<b>(16,020)</b>	<b>–</b>	<b>(74,930)</b>
<b>Non-financing activities</b>				
Cash and cash equivalents	872	3,869	–	4,741
	<b>872</b>	<b>3,869</b>	<b>–</b>	<b>4,741</b>
<b>Total</b>	<b>(58,038)</b>	<b>(12,151)</b>	<b>–</b>	<b>(70,189)</b>

# Other Information



Photo: Mitchells & Butlers, cream tea

# Glossary

## Alternative Investment Fund Managers Directive (“AIFMD”)

Agreed by the European Parliament and the Council of the European Union and adopted into UK 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”) and depositary to manage and oversee the operations of the investment vehicle. The Board retains responsibility for strategy, operations and compliance and the directors retain a fiduciary duty to shareholders.

## 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 respect of various matters which impact the regulation of such entities. The Company is a constituent of the AIC’s UK Smaller Companies sector.

## Benchmark

An index against which performance is compared. For the Company this is the Numis Smaller Companies Index (excluding investment companies).

## 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

As an AIF, the Company is required to appoint a depositary who has responsibility for overseeing the operations of the Company, including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings, and is responsible for the appointment of a custodian. 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 Company’s depositary has confirmed that it has not discharged liability in relation to any of the Company’s assets. The depositary further confirms that, in all material respects, the Company has been managed in accordance with the FCA’s Investment Funds Sourcebook, the Company’s articles of association and as required by the AIFMD.

## Dividend dates

When declared or announced, 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 registrar 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 and share price will be disclosed ex-dividend.

## Gearing

Gearing is the borrowing of money to buy assets in the expectation that the return on investments bought will exceed the interest cost of the borrowing. The net gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company has used to invest in the market. It is calculated by taking the difference between total investments (see note 10) and equity shareholders’ funds (see Balance Sheet), dividing this by the equity shareholders’ funds and multiplying by 100. The Company can also use synthetic gearing through derivatives.

## Investment trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

## 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.

## 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 costs and gains or losses arising on investments. The ongoing charge is based on the premise that actual costs incurred in the year (see notes 4 and 5) are the best estimate of future costs, excluding any performance fees, in accordance with the AIC methodology.

The ongoing charge is the annualised charge expressed as a percentage of the average aggregate NAV in the period (see page 83). Management fees and other administrative expenses are included in the calculation, such as directors’ fees and the auditor’s fees, and the figure therefore exceeds the rate of the management fee paid to Janus Henderson. The cap of 0.90% relates only to management fees and performance fees under the Company’s management agreement, and excludes any other expenses. Total expenses for periods where a performance fee is payable can therefore be greater than 0.90%. The AIC’s ongoing charge methodology differs from the PRIIPs methodology for ongoing costs which are disclosed in the KID.



# Alternative Performance Measures

The Company uses the following alternative performance measures (“APMs”) throughout the Annual Report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders to help assess the Company’s performance against its peer group.

## Capital return per share

The capital return per share, is the capital profit for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year (see note 8).

## Discount or premium

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

	NAV pence	Share price pence	Premium/ (discount) to NAV %
At 31 May 2020	859.1	777.0	(9.6)
At 31 May 2021	1,329.1	1,280.0	(3.7)

## Gearing/(net cash)

Gearing represents the excess amount above shareholders’ funds of total investments, expressed as a percentage of the shareholders’ funds. If the amount calculated is negative, this is a ‘net cash’ position and no gearing.

		2021	2020
Investments held at fair value through profit or loss (£'000) (page 64)	(A)	1,080,358	712,330
Net assets (£'000) (page 64)	(B)	992,898	641,796
Gearing (C = (A/B) -1) (%)	(C)	8.8	11.0

## Net asset value (“NAV”) per ordinary share

The value of the Company’s assets (i.e. investments held at fair value through profit or loss (see note 10) and cash held (see Balance Sheet)) less any liabilities (i.e. financial liabilities (see note 13)) for which the Company is responsible divided by the number of ordinary shares in issue (see note 16). The aggregate NAV is also referred to as total equity, in the Balance Sheet. The NAV per ordinary share is published daily and the year end NAV can be found on page 3 and further information is available in note 19 within the notes to the financial statements.

## Ongoing charge

The ongoing charge has been calculated in accordance with the guidance issued by the AIC as the total investment management fees and administrative expenses expressed as a percentage of the average NAV throughout the year.

	2021 £'000	2020 £'000
Management fees (note 4)	2,496	2,437
Other administrative expenses (note 5)	726	560
Less: non-recurring expenses	(174)	(35)
<b>Ongoing charges</b>	<b>3,048</b>	<b>2,962</b>
<b>Average net assets<sup>1</sup></b>	<b>773,615</b>	<b>699,474</b>
<b>Ongoing charges ratio (excluding performance fee)</b>	<b>0.39%</b>	<b>0.42%</b>

<sup>1</sup> Calculated using the average daily NAV (with debt at fair value)

The ongoing costs provided in the Company’s Key Investor Document (‘KID’) are calculated in line with the PRIIPs regulations. The ongoing costs in the KID include finance costs and look through to costs incurred by other investment trusts and funds that the Company invests in.

# Alternative Performance Measures (continued)

## Revenue return per share

The revenue return per share is the revenue return for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year (see note 8).

## Total return

The return on the share price or NAV taking into account both the rise and fall of NAV or share prices and dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return). Dividends paid and payable are set out in note 9.

NAV per share at 31 May 2020 and 31 May 2019 (p)	859.1	958.7
NAV per share at 31 May 2021 and 31 May 2020 (p)	1,329.1	859.1
	<b>2021</b>	2020
Change in the year (%)	54.7	(10.4)
Impact of dividends reinvested (%)	2.5	2.5
NAV total return for the year (%)	58.5	(8.2)
	<b>2021</b>	2020
Share price per share at 31 May 2020 and 31 May 2019 (p)	777.0	858.0
Share price per share at 31 May 2021 and 31 May 2020 (p)	1,280.0	777.0
	<b>2021</b>	2020
Change in the year (%)	64.7	(9.4)
Impact of dividends reinvested (%)	2.7	2.8
Share price total return for the year (%)	69.3	(6.9)

## Yield

The yield is the annual dividend expressed as a percentage of the year end share price.

		<b>31 May 2021</b>	31 May 2020
Annual dividend (p)	(A)	23.75	23.50
Share price (p)	(B)	1,280.0	777.0
Yield (C=A/B) (%)	(C)	1.9	3.0

## 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 wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is unlikely that either the Company or the Company's registrar 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 87.



# General Shareholder Information

## AIFMD disclosures

In accordance with the AIFMD, information about the Company's leverage and remuneration of Henderson Investment Funds Limited, as the Company's AIFM, is required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document entitled AIFMD Disclosure which can be found at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.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 on page 87) to give their instructions, including the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

## Common Reporting Standard ("CRS")

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced with effect from 1 January 2016. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information is provided annually to the local tax authority of the tax residencies of non-UK based certificated shareholders and corporate entities.

## Equality Act

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

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 702 0005. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People), dial 18001 followed by the number you wish to dial.

## Foreign Account Tax Compliance ("FATCA")

FATCA is a United States federal law whose intent is to enforce the requirement for United States persons (including those living outside the USA) to file yearly reports on their non-USA financial accounts. Each year investment trusts need to monitor the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company makes an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, identify and report USA reportable accounts to HMRC, as required.

## General Data Protection Regulation ("GDPR")

A privacy statement can be found at [www.janushenderson.com](http://www.janushenderson.com).

## History

The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name The Trustees, Executors and Securities Insurance Corporation, Limited. The name was changed in August 1917 to The Trustees Corporation Limited, in April 1982 to TR Trustees Corporation PLC, in October 1990 to TR Smaller Companies Investment Trust PLC and in September 1997 to The Henderson Smaller Companies Investment Trust plc.

## 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 ("NMPI") status

The Company currently conducts its affairs so that its ordinary shares of 25p each can be recommended by independent financial advisors ("IFAs") to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules regarding 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 because they are shares in an investment trust.

# General Shareholder Information (continued)

## Packaged Retail and Insurance-based Investment Products Regulation (“PRIIPs”)/Key Information Document (“KID”)

Investors should be aware that PRIIPs requires the Manager, as the PRIIPs manufacturer, to prepare a KID for the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Company’s website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by legislation. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

## Performance details/share price information

The Company’s NAV is published daily. Details of the Company’s share price and NAV per share can be found at **[www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com)** and in the London Stock Exchange Daily Official List.

The market price of the Company’s ordinary shares is also published daily in the Daily Telegraph and on Trustnet.

## Shareholder details

Shareholders who hold their shares in certificated form can check their shareholding with the registrar via **[www.computershare.com](http://www.computershare.com)**. To gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

# Corporate Information

## Registered office

201 Bishopsgate  
London EC2M 3AE

## Service providers

### Alternative Investment Fund Manager

Henderson Investment Funds Limited  
201 Bishopsgate  
London EC2M 3AE

### Corporate Secretary

Henderson Secretarial Services Limited  
201 Bishopsgate  
London EC2M 3AE  
Telephone: 020 7818 1818  
Email: [support@janushenderson.com](mailto:support@janushenderson.com)

### Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone: 0370 707 1057  
Email: [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

### Depository and Custodian

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### Broker

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 7LT

## Independent Auditor

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London  
E14 5EY

## Financial calendar

Annual results	4 August 2021
Ex-dividend date	26 August 2021
Dividend record date	27 August 2021
Annual general meeting	1 October 2021
Final dividend payable	11 October 2021
Half-year results	January 2022
Interim dividend payable	March 2022

## Information sources

For more information about the Company, visit the website at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com). This includes factsheets, interviews, current information on the Company and up-to-date share price and net asset value details.

To receive regular insights on investment trusts from Janus Henderson, visit <https://www.janushenderson.com/en-gb/investor/subscriptions>

## Follow Investment Trusts 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 our website.

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 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.

# Historical Record

At 31 May	Net assets £'000	NAV with debt at par p	NAV with debt at market value p	Mid- market price per ordinary share p	Discount with debt at par %	Discount with debt at market value %	Profit/(loss) for year £'000	Revenue return p	Capital return p	Total return p	Dividends p	Ongoing charges excl perf fee %	Ongoing charges excl perf fee %
2012	279,926	374.5	367.9	284.3	(24.1)	(22.7)	(14,622)	6.07	(25.62)	(19.55)	5.50	0.50	(0.50)
2013	403,420	540.0	535.0	454.0	(15.9)	(15.1)	127,718	6.24	164.72	170.96	6.50	0.47	(1.07)
2014	476,281	637.6	634.3	547.0	(14.2)	(13.8)	79,958	12.67	94.37	107.04	11.00	0.44	(0.56)
2015	563,321	754.1	752.1	686.0	(9.0)	(8.8)	95,631	15.04	112.98	128.02	13.50	0.46	(0.88)
2016 <sup>1</sup>	546,080	731.0	731.0	616.5	(15.7)	(15.6)	(6,783)	15.92	(25.00)	(9.08)	15.00	0.44	(0.44)
2017	688,460	921.6	921.6	799.0	(13.3)	(13.3)	154,332	19.57	187.03	206.60	18.00	0.43	(1.01)
2018	782,068	1,046.9	1,046.9	966.0	(7.7)	(7.7)	107,801	22.79	121.52	144.31	21.00	0.42	(0.99)
2019	716,145	958.7	958.7	858.0	(10.5)	(10.5)	(49,862)	23.59	(90.34)	(66.75)	23.00	0.42	(0.42)
2020	641,796	859.1	859.1	777.0	(9.6)	(9.6)	(56,799)	16.73	(92.76)	(76.03)	23.50	0.42	(0.42)
<b>2021</b>	<b>992,898</b>	<b>1,329.1</b>	<b>1,329.1</b>	<b>1,280.0</b>	<b>(3.7)</b>	<b>(3.7)</b>	<b>368,651</b>	<b>13.86</b>	<b>479.64</b>	<b>493.50</b>	<b>23.75</b>	<b>0.39</b>	<b>(0.98)</b>

<sup>1</sup> Since the redemption of the Debenture Stock on 31 May 2016, the Company's NAV and discount with debt at par or market value are identical because there is no difference in the values of the remaining debt liabilities

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream





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