The Henderson Smaller Companies Investment Trust plc

Update for the half-year ended 30 November 2020

MANAGED BY
Janus Henderson
INVESTORS

Investment objective

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

This update contains material extracted from the unaudited half-year results of the Company for the six months ended 30 November 2020. The unabridged results for the half-year are available on the Company's website:

www.hendersonsmallercompanies.com

Performance

Performance for the six months to 30 November 2020

NAV[1] 20.6%

Benchmark[2] 20.8%

Share price[3] 27.7%

Interim dividend[4] 7.0p

NAV per share at period end

30 Nov 2020
1,017.4p

31 May 2020
859.1p

Share price at period end

30 Nov 2020
972.0p

31 May 2020
777.0p

Net Assets

30 Nov 2020
£760.0m

31 May 2020
£641.8m

Total return performance (including dividends reinvested)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV[1]	20.6	3.1	13.6	55.4	278.9
Benchmark[2]	20.8	-3.1	-1.7	26.7	143.3
Share price[3]	27.7	2.4	26.6	66.4	354.5
Average sector NAV[5]	14.3	-0.5	-0.7	36.4	176.4
Average sector share price[6]	10.6	-8.5	-8.2	9.5	163.2
FTSE All-Share Index	6.9	-10.3	-1.9	22.1	77.3

Sources: Morningstar for the AIC, Janus Henderson, Refinitiv Datastream

1 Net asset value ('NAV') per ordinary share total return with income reinvested
2 Numis Smaller Companies Index (excluding investment companies) total return
3 Share price total return using mid-market closing price
4 The interim dividend has been maintained at 7.0p (2019: 7.0p) to be paid to shareholders on 8 March 2021
5 Average NAV total return of the AIC UK Smaller Companies sector
6 Average share price total return of the AIC UK Smaller Companies sector

Financial Summary

Extract from the Statement of Comprehensive Income (unaudited)	Half year ended 30 November 2020 Revenue return £'000	Half year ended 30 November 2020 Capital return £'000	Half year ended 30 November 2020 Total return £'000	Half year ended 30 November 2019 Total return £'000
Investment income	4,555	–	4,555	9,354
Other income	–	–	–	14
Gains on investments held at fair value through profit or loss	–	128,062	128,062	47,876
Total income	4,555	128,062	132,617	57,244
Expenses, finance costs & taxation[1]	(822)	(1,219)	(2,041)	(5,517)
Profit for the period	3,733	126,843	130,576	51,727
Earnings per ordinary share	**5.00p**	**169.80p**	**174.80p**	**69.24p**

[1] Expenses, finance costs and taxation include provision for a performance fee when the relevant criteria have been met. There was no performance fee provision for the six months to 30 November 2020 (30 November 2019: £3,275,000; 31 May 2020: £nil). Any provision for a performance fee is charged 100% to capital. The actual performance fee, if any, payable to Janus Henderson for the year to 31 May 2021 will depend on outperformance over the full financial year, subject to a cap on the total fees paid to Janus Henderson of 0.9% of the average value of the net assets of the Company during the year. No performance fee is payable if on the last day of the accounting year the Company's share price or NAV is lower than the share price and NAV at the preceding year-end. Details of the performance fee arrangements are set out in the Annual Report for the year ended 31 May 2020.

Extract from Balance Sheet (unaudited except May 2020 figures)	Half year ended 30 November 2020 £'000	Half year ended 30 November 2019 £'000	Year ended 31 May 2020 £'000
Investments held at fair value through profit or loss	834,939	824,007	712,330
Net current liabilities	(45,065)	(38,627)	(40,711)
Non current liabilities	(29,828)	(29,829)	(29,823)
Net assets	**760,046**	**755,551**	**641,796**
Net asset value per ordinary share	1,017.4p	1,011.4p	859.1p

Chairman's Statement

In my statement in last year's annual report, I commented that it is extraordinary how quickly things can change with a severe market correction following the rapid spread of Covid-19 across the globe. I am pleased to report that over the six months under review and subsequently, your Company's share price and net asset value have steadily recovered thanks to renewed optimism from the roll-out of vaccines, a Brexit deal being agreed and a consensus view that the UK economy is well placed for recovery.

Performance

Over the six months under review, the net asset value total return per ordinary share rose 20.6%, just behind our benchmark Numis Smaller Companies Index which increased by 20.8%. This was 6.3% better than the average of our peers in the AIC UK Smaller Companies sector due to the strength of our fund management team, their disciplined approach and stock-picking ability. The share price rose by 27.7% on a total return basis, reflecting strong performance with the discount narrowing from 9.6% at 31 May 2020 to 4.5% at 30 November 2020.

Dividend

The Board has decided to maintain the interim dividend at 7.0p per share (30 November 2019: 7.0p). The income from your Company's investment portfolio has inevitably been adversely hit by dividend cuts as our investee companies seek to manage their businesses in these extraordinary times. However, investment trust companies have the benefit of being able to build revenue reserves in the good years which can be used to support dividend payments in years where income from the portfolio falls. Your Board will consider dipping into these reserves if necessary, but will not decide the level of final dividend until the year end when the trajectory of the current economic recovery is better known.

Board changes

I am pleased to report that significant progress has been made in refreshing your Board in accordance with good corporate governance. Following a detailed review, Penny Freer will step up to succeed me as Chairman of the Board from the conclusion of our AGM in October 2021 when I retire after ten years on the Board. Her skills and experience in the investment world make her very well suited for the role. In addition, two new directors will be appointed to the Board in 2021: Michael Warren will be appointed with effect from 1 March 2021 and Kevin Carter will join the Board on 1 May 2021. Both have had distinguished careers in the asset management industry. Michael in particular has expertise in the areas of sales and marketing whilst Kevin is a former CEO of Old Mutual Asset Managers with a background in asset management consulting and a wealth of experience as a non-executive director of investment trusts.

Outlook

Looking forward into 2021, I think there are many reasons to be optimistic about the prospects for UK smaller companies. The roll out of the Covid-19 vaccines may result in a return to some sort of normality and the Brexit free trade deal means that business can continue with Europe, albeit with an increase in paperwork. Strength of franchise, market positioning and balance sheet will determine the winners from the losers in the post Covid-19 world and, thanks to the diligence of our Fund Managers, these companies are well represented in our portfolio.

Jamie Cayzer-Colvin
Chairman
26 January 2021

Fund Manager's Report

Market Review – Six Months to 30 November 2020

UK and global equity markets rallied strongly in the period. Despite a summer marked by increasing virus caseloads globally which saw the re-imposition of local lockdowns, news that three separate vaccine trials had passed the first efficacy and safety hurdles marked a turning point in the world's fight against Covid-19. Value stocks rallied at the expense of growth stocks and oil and commodity prices rose. At the virtually held annual Jackson Hole meeting, the Federal Reserve stated that it was willing to tolerate inflation above the 2% target in a signal that rates were likely to stay lower for longer. After a protracted vote count in the US, Joe Biden was proclaimed the winner of the presidential election which raised hopes of further fiscal stimulus. Elsewhere the UK and EU continued their trade negotiations with a deal signed just before the end of the transition period of 31 December 2020.

Smaller companies outperformed larger companies over the period. This was driven principally by a recovery from the significant underperformance of smaller companies during the initial phase of the Covid-19 crisis as investors took a more positive view on the likelihood of an economic recovery in 2021.

Fund Performance

The Company performed broadly in line with the benchmark during the period. The net asset value rose by 20.6% on a total return basis. This compares with an increase of 20.8% (total return) in the Numis Smaller Companies Index (excluding investment companies).

Gearing

Gearing started the period at 11% and ended it at 9.9%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% and £60 million of short-term bank borrowings.

Attribution Analysis

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

Top five contributors	6 month return %	Relative contribution %
Centamin*	-30.3	+0.8
Renishaw	+45.4	+0.5
Impax Asset Management	+50.8	+0.5
Codemasters	+63.5	+0.5
Team17	+41.4	+0.4

Top five detractors	6 month return %	Relative contribution %
Clinigen	-24.9	-1.2
William Hill*	+100.8	-0.8
S4 Capital*	+107.8	-0.8
RWS Holdings	-12.9	-0.8
AO World*	+155.1	-0.8

* In benchmark index but not held by the Company

Principal Contributors

Centamin is an Egyptian gold miner; Renishaw is a manufacturer of high technology precision measuring and calibration equipment; Impax Asset Management is a specialist fund manager; Codemasters is a video games company specialising in the development of racing titles; and Team17 is a video game publisher and developer.

Principal Detractors

Clinigen is a pharmaceutical services and products group; William Hill is a gaming and licensed betting company; S4 Capital is a marketing services and advertising business; RWS Holdings is a specialist translation company; and AO World is an online retailer of electrical products.

Portfolio Activity

Our approach is to consider our investments as long-term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound

Fund Manager's Report (continued)

financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise, we have been employing strong sell disciplines to dispose of stocks that fail to meet these criteria.

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

New additions to the portfolio include: De La Rue, a supplier of banknotes and security products; Empiric Student Property, a provider of student accommodation; Gresham House, an alternative asset manager; Headlam, a floorcoverings distributor; Volex, a provider of integrated manufacturing services and power products; and Youngs Brewery, an owner and operator of pubs.

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance or where the valuation had become extended, including the holdings in Safestore, Scapa and Tekmar. Additionally we sold our holdings in AA Group and Urban & Civic, after these companies received agreed takeover bids, and our position in Intermediate Capital, after the company was elevated to the FTSE 100 Index.

Market Outlook

The Covid-19 outbreak has dramatically changed expectations for global economic growth. The lockdown measures we have seen across the globe are having a profound effect on economic growth and have caused an unprecedented demand shock. Government actions to protect consumers and businesses from the worst impact of this shock will soften 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 should recover. However, the shape and magnitude of the recovery are, at this point, uncertain. In the UK social distancing measures and national lockdown had an initial positive impact on infection and death rates but a 'Second Wave' has seen restrictions tighten again. The positive vaccine news announced in November has raised the very real possibility that life may return to some sort of 'normal' during 2021 with a consequent sharp rebound in economic activity.

Outside of Covid-19 there has been positive progress on other 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 has now been reached. Hopefully a Biden presidency should see a more conciliatory and pragmatic approach to US foreign and trade policy.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-2009. Balance sheets are, in particular, more robust. However, the scale of economic shock means that this 'strength' will be severely tested and key questions for investors today revolve around a company's available liquidity, leverage, bank covenants and ability to see the economic downturn through. 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.

In terms of valuations, the equity market is now trading below long-term averages if we apply historic earnings. However, corporate earnings will be sharply down in 2020 and the extent of recovery in 2021 and beyond is uncertain. Additionally a significant proportion of corporates have suspended or cancelled dividends, preserving cash to shore up their balance sheets.

Although much uncertainty remains around short-term economic conditions, the virus will pass and we should see a 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.

Neil Hermon
Fund Manager
26 January 2021

Investment Portfolio at 30 November 2020

Position	Company	Valuation £'000	Portfolio %
1	Bellway	23,356	2.80
2	Team17*	22,869	2.74
3	RWS*	19,686	2.36
4	Oxford Instruments	19,065	2.28
5	GB Group*	17,323	2.07
6	Impax Asset Management*	17,100	2.05
7	Gamma Communications*	16,972	2.03
8	Renishaw	16,800	2.01
9	Avon Rubber	16,224	1.94
10	Clinigen*	15,763	1.89
10 largest		**185,158**	**22.17**
11	Learning Technologies*	15,698	1.88
12	Ultra Electronics	15,264	1.83
13	Synthomer	15,064	1.80
14	Paragon	14,782	1.77
15	OSB Group	14,376	1.72
16	Dechra Pharmaceuticals	13,733	1.64
17	IntegraFin	13,225	1.58
18	Balfour Beatty	13,153	1.58
19	TI Fluid Systems	13,126	1.57
20	Ascential	12,684	1.52
20 largest		**326,263**	**39.06**
21	Vesuvius	12,495	1.50
22	Future	12,238	1.47
23	Codemasters*	12,000	1.44
24	Savills	11,730	1.40
25	John Laing	11,707	1.40
26	Watches Of Switzerland	11,577	1.39
27	Computacenter	11,454	1.37
28	Mitchells & Butlers	10,761	1.29
29	Countryside	10,685	1.28
30	Softcat	10,637	1.27
30 largest		**441,547**	**52.87**

* Quoted on the Alternative Investment Market ('AIM')

Investment Portfolio (continued)

Position	Company	Valuation £'000	Portfolio %
31	XP Power	10,595	1.27
32	Tyman	10,546	1.26
33	Sanne	10,402	1.25
34	Cairn Energy	10,234	1.23
35	Victrex	9,960	1.19
36	Luceco	9,207	1.10
37	Brewin Dolphin	9,027	1.08
38	CLS	8,967	1.07
39	Goco Group	8,941	1.07
40	DFS	8,720	1.04
40 largest		**538,146**	**64.43**
41	Chemring	8,715	1.04
42	St Modwen Properties	8,712	1.04
43	Euromoney Institutional Investor	8,415	1.01
44	Spectris	7,983	0.96
45	Crest Nicholson	7,639	0.91
46	Bodycote	7,487	0.90
47	Midwich*	7,480	0.90
48	Just Group	7,280	0.87
49	Liontrust Asset Management	7,099	0.85
50	Gym Group	6,752	0.81
50 largest		**615,708**	**73.72**
51	Coats	6,736	0.81
52	Frontier Developments*	6,403	0.77
53	Vitec	6,293	0.75
54	Alpha Financial Markets*	6,215	0.74
55	Volution	6,153	0.74
56	Redde Northgate	6,098	0.73
57	Howden Joinery	5,993	0.72
58	Rotork	5,849	0.71
59	Helical	5,642	0.68
60	Grainger	5,572	0.67
60 largest		**676,662**	**81.04**
Remaining 46		158,277	18.96
Total portfolio		**834,939**	**100.00**

* Quoted on the Alternative Investment Market ('AIM')

Dividends

The Board has declared an interim dividend of 7.0p (2019: 7.0p) to be paid on 8 March 2021 to shareholders on the register at the close of business on 12 February 2021. The ex-dividend date will be 11 February 2021. No provision has been made for the interim dividend in these condensed financial statements.

The final dividend of 16.5p per ordinary share, paid on 12 October 2020, in respect of the year ended 31 May 2020, has been recognised as a distribution in the period.

Share Capital

At 30 November 2020 there were 74,701,796 ordinary shares in issue (30 November 2019: 74,701,796; 31 May 2020: 74,701,796). During the half-year ended 30 November 2020 the Company did not buy back or issue any shares (half-year ended 30 November 2019: nil; year ended 31 May 2020: nil). No shares have been bought back or issued since the period end.

Principal Risks and Uncertainties

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

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

Detailed information on these risks is given in the Strategic Report and in the Notes to the Financial Statements in the Company's Annual Report for the year ended 31 May 2020.

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

Related-Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position of the Company during the period. Details of related-party transactions are contained in the Annual Report for the year ended 31 May 2020.

Going Concern

The assets of the Company consist mainly of securities that are listed and readily realisable. The directors have performed a Covid-19 impact analysis which included 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 and have concluded that the Company has adequate financial resources to meet its financial obligations, including repayment of the revolving loan facility, as they fall due for a period of at least twelve months from the date of approval of the financial statements. Having assessed these factors, as well as the principal risks and other matters discussed in connection with the Viability Statement in the Annual Report for the year ended 31 May 2020, the directors confirm that the financial statements have been prepared on a going concern basis.

Directors' Responsibility Statement

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

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting;
- the Interim Management Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related-party transactions and changes therein).

For and on behalf of the Board
Jamie Cayzer-Colvin
Chairman
26 January 2021

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