

The Henderson Smaller Companies Investment Trust plc



Update for the half-year
ended 30 November 2022

MANAGED BY
Janus Henderson
INVESTORS

Investment objective

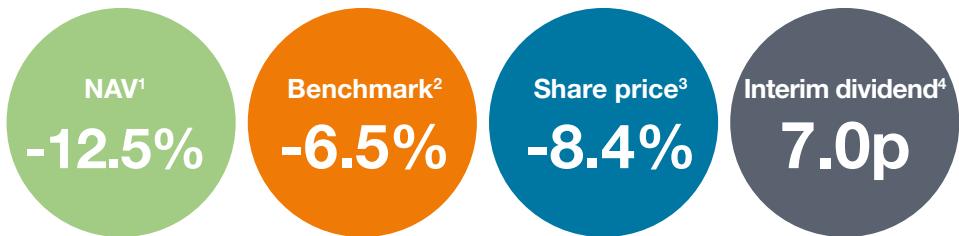
The Company aims to maximise shareholders' total returns (capital and income) by investing in smaller companies that are quoted in the United Kingdom.

This update contains material extracted from the unaudited half-year results of the Company for the six months ended 30 November 2022. 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 2022



NAV per share at period end

30 Nov 2022

923.4p

31 May 2022

1,074.4p

Share price at period end

30 Nov 2022

823.0p

31 May 2022

917.5p

Net Assets

30 Nov 2022

£689.8m

31 May 2022

£802.6m

Total return performance (including dividends reinvested)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV ¹	-12.5	-26.5	-2.5	7.4	162.5
Benchmark ²	-6.5	-12.9	4.6	6.1	109.7
Share price ³	-8.4	-27.4	-9.2	12.1	191.3
Average sector NAV ⁵	-7.6	-17.0	7.7	6.7	136.6
Average sector share price ⁶	-6.8	-18.6	3.4	6.5	145.1
FTSE All-Share Index	0.3	6.5	12.2	22.8	92.8

Sources: Morningstar Direct, 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 (30 November 2021: 7.0p) to be paid to shareholders on 6 March 2023

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

Chair's Statement

The period under review saw challenging global geopolitics, with increasing inflation and rising interest rates. In the UK, political turmoil led to volatility in sterling and turbulent bond markets, although by the end of November the domestic situation had calmed considerably. Your Company was not immune to the consequences of these challenges.

Performance

Your Company's net asset value ("NAV") total return fell during the period under review by 12.5%, underperforming the Numis Smaller Companies ex-Investment Companies Index which fell by 6.5%. It also underperformed the AIC UK Smaller Companies sector average NAV, which fell by 7.6%. Your Company's share price total return fell by 8.4% with the discount to NAV narrowing from 14.6% at 31 May 2022 to 10.9% at 30 November 2022.

The underperformance during the period was a combination of the de-rating of growth companies as they were negatively impacted by rising interest rates and higher bond yields, as well as the impact of gearing in the portfolio as markets fell. In most cases the de-rating of our portfolio companies was not representative of the robust underlying operational and financial performance of the businesses.

The longer-term performance record of the Company remains consistently strong, reflecting an unchanged strategy adopted by the Fund Manager and his team.

Dividend

Your Board has decided to pay an unchanged interim dividend at 7.0p per ordinary share (30 November 2021: 7.0p). This will be paid on 6 March 2023 from the Company's revenue account to shareholders on the register at 10 February 2023. The shares will be marked ex-dividend on 9 February 2023.

Board changes and succession planning

After serving for nine years as director, David Lamb retired from the Board on 30 September 2022. David had been the Board's marketing representative, and for three years, Senior Independent Director. Kevin Carter has now been appointed as the Board's Senior Independent Director and Michael Warren has taken on the role of marketing representative. In the 2022 Annual Report we commented that we intend to appoint an additional non-executive director during the current year, in line with our long-term succession programme and to meet the FCA's diversity targets. We are well advanced in this process and expect to make an appointment before the year end.

Outlook

These are challenging times in the UK with the ongoing conflict in Ukraine and the tension between the USA and China having both immediate and longer-term implications. High inflation and the consequent fiscal tightening and rises in interest rates have sapped consumer confidence. It is noteworthy, however, that in the corporate sector conditions are intrinsically stronger than during the Global Financial Crisis of 2008/9 particularly in terms of balance sheet strength. We are seeing a strong recovery in dividend payments and evidence of companies buying back shares. Valuations are now well below long-term averages, although 2023 earnings growth is likely to be muted. Your fund management team continues to follow a disciplined, long-term approach focused on bottom-up stock selection through the assessment of each company's market proposition, balance sheet strength and management. We believe your portfolio is both well-positioned to withstand the current uncertain environment and has the scope to exploit the opportunities that will progressively emerge as current conditions improve.

Penny Freer
Chair of the Board
25 January 2023

Fund Manager's Report

Market Review

The broad UK equity market was flat over the period. Market concerns focused around inflation, monetary policy tightening and the increasing likelihood of a global economic downturn with a consequent corporate earnings contraction. In the UK, GDP fell by 0.3% over the third quarter of 2022 following 0.2% growth in the second quarter, while business confidence slumped and consumer confidence remained close to an all-time low. It is possible the UK economy will have entered recession in the fourth quarter of 2022. The UK annual inflation rate rose to 11.1% in October 2022, a 40-year high. Central banks across the world, led by the Federal Reserve, European Central Bank and Bank of England, continued to raise interest rates. Despite indications that headline inflation had peaked in the US and was peaking elsewhere, the messaging from central banks remained hawkish regarding the future path of interest rates. The bond market turmoil in the UK caused by the Truss/Kwarteng 'mini' budget put a spotlight on the country's fiscal position, pushing sterling to lows against the US dollar. The replacement of Liz Truss by Rishi Sunak as Prime Minister and Jeremy Hunt's fiscally restrictive Autumn Statement calmed bond markets and saw sterling retrace earlier losses.

Smaller companies underperformed their larger counterparts, with the Numis Smaller Companies ex-Investment Companies Index down 6.5% against a rise in the FTSE All-Share Index of 0.3%. This was driven principally by concerns over the economic sensitivity of small caps in a recession.

Fund Performance

The Company had a disappointing period in performance terms, falling in absolute terms and underperforming its benchmark. The share price fell by 8.4% and the net asset value by 12.5% on a total return basis. This compared with a decrease of 6.5% (total return) by the Numis Smaller Companies Index (excluding investment companies). The underperformance came from a combination of the negative contribution from stock selection, gearing and expenses. The negative contribution from stock selection principally reflected the underperformance of growth companies as they de-rated in valuation terms due to rising interest rates and higher bond yields. In the vast majority of cases, this was independent of the operational and financial performance of these businesses, which remained robust.

Gearing

Gearing started the period at 11.2% and ended at 11.6%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% issued in 2016, £20m 30-year unsecured loan notes at 2.77% which were issued in February 2022 and £85 million short-term bank borrowings. As markets fell, the use of gearing was a negative contributor to performance in the period.

Attribution Analysis

The following tables show the top five contributors to, and detractors from, the Company's relative performance at 30 November 2022. Some of the stocks were included in the benchmark index but not held by the Company. These had an effect on relative performance.

Top five contributors	6 month return %	Relative contribution %
Balfour Beatty	+25.6	+0.5
RPS	+114.5	+0.5
John Wood*	-45.3	+0.5
Alpha Financial Markets	+25.1	+0.4
Euromoney	+33.1	+0.4

Top five detractors	6 month return %	Relative contribution %
Synthomer	-56.6	-0.8
GB Group	-41.1	-0.6
Future	-29.1	-0.6
Network International*	+55.0	-0.6
Telecom Plus*	+50.1	-0.6

* In benchmark index but not held by the Company

Principal Contributors

Balfour Beatty is an international construction and infrastructure group; RPS is an international consulting engineer; John Wood is an oil and gas EPC group; Alpha Financial Markets is a provider of consulting services to the asset management industry; and Euromoney is a global B2B information services business.

Fund Manager's Report (continued)

Principal Detractors

Synthomer is a speciality chemicals group; GB Group is a provider of software and services to identity verification and fraud prevention markets; Future is a special interest media group; Network International is a Middle Eastern payments business; and Telecom Plus is a provider of telecommunications, gas and electricity services.

Portfolio Activity

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

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

New additions to the portfolio include: Essentra, an international manufacturer and distributor of speciality products; Morgan Advanced Materials, a manufacturer of advanced ceramic and composite products; and Trainline, an online platform for the provision of rail and coach tickets.

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 Alphawave, De La Rue, James Fisher, Gooch & Housego, Inspecs and Joules. Additionally we sold our holdings in Euromoney, RPS and Ultra Electronics, after these companies received agreed takeover bids.

Market Outlook

Global geopolitics remain challenging, particularly with the ongoing conflict in Ukraine and heightened tensions between China and USA. The longer-term implications of this are material, with the isolation of Russia as a pariah state, a stronger and more unified Europe and NATO, materially higher defence spending and an urgent need to reduce European dependence on Russian oil and gas supplies. This has exacerbated inflation, particularly in Europe, added to the burden on government spending, damped animal spirits and hurt economic growth.

With inflation prints continuing to remain elevated against official targets, central banks, led by the US Federal Reserve, have remained hawkish. We have

seen significant rises in interest rates globally and a move from quantitative easing to tightening. The market is forecasting further global rises in interest rates although it is clear we are nearer to the end rather than the start of the monetary-policy tightening phase. Oscillating confidence levels in central bankers' willingness and ability to strike the right balance between containing inflation and supporting economic growth is driving heightened levels of uncertainty and volatility in global bond and equity markets.

The rapid rise of inflation, particularly driven by energy prices but also by a wider number of other components, is putting pressure on consumers. Although the labour market is strong and wages are rising, real net disposable income is falling and consumer confidence is low. Sectors exposed to consumer spending are likely to face tougher trading as we move further into 2023.

In the corporate sector, conditions are intrinsically stronger than they were during the Global Financial Crisis of 2008-2009. In particular, balance sheets are more robust. Dividends have been recovering strongly and we are seeing an increasing number of companies buying back their own stock.

After an active 2021, the initial public offering ("IPO") market has become considerably quieter as equity market confidence has diminished. There are no signs this is likely to change in the short term. Merger and acquisition ("M&A") activity has remained robust as acquirers look to exploit opportunities thrown up by the recent equity market pullback. We expect this to continue in the coming months as UK equity market valuations remain markedly depressed versus other developed markets although recent moves in the bond market are causing a pause in activity.

In terms of valuations, the equity market is now trading below long-term averages. Corporate earnings were sharply down in 2020 although we saw a sharp recovery in 2021 and 2022. This is likely to fade in 2023 as a weakening economic environment starts to bite.

Although uncertainty remains around short-term economic conditions, we believe that the portfolio is well positioned to withstand an economic downturn and exploit any opportunities it presents. The movements in equity markets have thrown up some fantastic buying opportunities. However, it will be important to be selective as the strength of franchise, market positioning and balance sheets will likely determine the winners from the losers.

Neil Hermon
Fund Manager
25 January 2023

Investment Portfolio

at 30 November 2022

Position	Company	Valuation £'000	Portfolio %
1	Impax Asset Management*	24,929	3.24
2	Oxford Instruments	22,951	2.98
3	Watches Of Switzerland	20,777	2.70
4	Balfour Beatty	18,769	2.44
5	OneSavings Bank	18,626	2.42
6	Bellway	18,054	2.35
7	Future	17,844	2.32
8	Paragon Banking	17,070	2.22
9	Learning Technologies*	16,588	2.15
10	Team17*	16,133	2.10
10 largest		191,741	24.92
11	Vesuvius	15,392	2.00
12	Alpha Financial Markets*	14,115	1.83
13	Serica Energy*	13,357	1.73
14	IntegraFin	12,965	1.68
15	RWS*	12,595	1.64
16	Gamma Communications*	12,034	1.56
17	Serco	11,977	1.56
18	Renishaw	11,531	1.50
19	Ascential	11,211	1.46
20	Spectris	10,871	1.41
20 largest		317,789	41.29
21	Softcat	10,833	1.41
22	Computacenter	10,708	1.39
23	Mitchells & Butlers	10,688	1.39
24	Chemring	10,652	1.38
25	Next Fifteen Communications*	10,460	1.36
26	Savills	10,401	1.35
27	Liontrust Asset Management	10,397	1.35
28	Rathbones	10,315	1.34
29	Volution	9,847	1.28
30	Capricorn Energy	9,727	1.26
30 largest		421,817	54.80

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

Investment Portfolio (continued)

Position	Company	Valuation £'000	Portfolio %
31	Just Group	9,694	1.26
32	GB Group*	9,564	1.24
33	Victrex	9,502	1.23
34	Vitec	9,134	1.19
35	Bodycote	8,998	1.17
36	Bytes Technology	8,858	1.15
37	Redde Northgate	8,742	1.14
38	Crest Nicholson	8,280	1.08
39	Foresight Group	8,031	1.04
40	Trainline	7,634	0.99
40 largest		510,254	66.29
41	Midwich*	7,525	0.98
42	TI Fluid Systems	7,513	0.98
43	Auction Technology	7,499	0.97
44	Tyman	7,497	0.97
45	QinetiQ	7,304	0.95
46	Workspace Group	7,085	0.92
47	Moneysupermarket.Com	7,019	0.91
48	SigmaRoc*	6,829	0.89
49	CLS	6,757	0.88
50	Wickes	6,658	0.86
50 largest		581,940	75.60
51	DFS	6,412	0.83
52	Restore*	6,353	0.83
53	Hollywood Bowl Group	6,337	0.82
54	Synthomer	6,251	0.81
55	Harbour Energy	5,972	0.78
56	Genuit	5,859	0.76
57	SThree	5,711	0.74
58	Hunting	5,304	0.69
59	Pagegroup	5,212	0.68
60	Helical	5,193	0.67
60 largest		640,544	83.21
Remaining 41		129,320	16.79
Total		769,864	100.00

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

Financial Summary

	Half-year ended			
	30 November 2022 Revenue return £'000	30 November 2022 Capital return £'000	30 November 2022 Total return £'000	30 November 2021 Total return £'000
Extract from the Statement of Comprehensive Income (unaudited)				
Investment income	10,553	–	10,553	8,088
Other income	23	–	23	–
Losses on investments held at fair value through profit or loss	–	(107,690)	(107,690)	(24,756)
Total income/(loss)	10,576	(107,690)	(97,114)	(16,668)
Expenses, finance costs & taxation ¹	(1,208)	(1,775)	(2,983)	(2,883)
Profit/(loss) for the period	9,368	(109,465)	(100,097)	(19,551)
Earnings per ordinary share	12.54p	(146.54p)	(134.00p)	(26.17p)

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 2022 (30 November 2021 £nil; May 2022: £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 2023 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 net asset value ('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 2022.

	Half-year ended 30 November 2022 £'000	Half-year ended 30 November 2021 £'000	Year ended 31 May 2022 £'000
Extract from Balance Sheet (unaudited except May 2022 figures)			
Investments held at fair value through profit or loss	769,864	1,062,598	892,397
Net-current liabilities	(33,536)	(83,259)	(53,258)
Non-current liabilities	(49,764)	(29,837)	(49,760)
Net assets	689,803	960,834	802,599
Net asset value per ordinary share	923.4p	1,286.2p	1,074.4p

Dividends

The Board has declared an interim dividend of 7.0p (30 November 2021: 7.0p) to be paid on 6 March 2023 to shareholders on the register at the close of business on 10 February 2023. The ex-dividend date will be 9 February 2023. No provision has been made for the interim dividend in these condensed financial statements.

The final dividend of 17.0p per ordinary share, paid on 5 October 2022, in respect of the year ended 31 May 2022, has been recognised as a distribution in the period.

Share Capital

At 30 November 2022 there were 74,701,796 ordinary shares in issue (30 November 2021: 74,701,796; 31 May 2022: 74,701,796). During the half-year ended 30 November 2022 the Company did not buy back or issue any shares (half-year ended 30 November 2021: nil; year ended 31 May 2022: 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;
- 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 2022.

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 2022.

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 and the risks arising from the wider ramifications of the conflict between Russia and Ukraine, 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 in the Annual Report for the year ended 31 May 2022, the directors confirm that the financial statements have been prepared on a going concern basis. The Company's shareholders are asked every three years to vote for the continuation of the Company. The last continuation vote took place at the AGM on 30 September 2022 and was passed by a substantial majority of shareholders. The next continuation vote will take place at the AGM in 2025.

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

Penny Freer
Chair of the Board
25 January 2023

The Henderson Smaller Companies Investment Trust plc
201 Bishopsgate
London EC2M 3AE



MANAGED BY
Janus Henderson
INVESTORS

aic
The Association of
Investment Companies



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