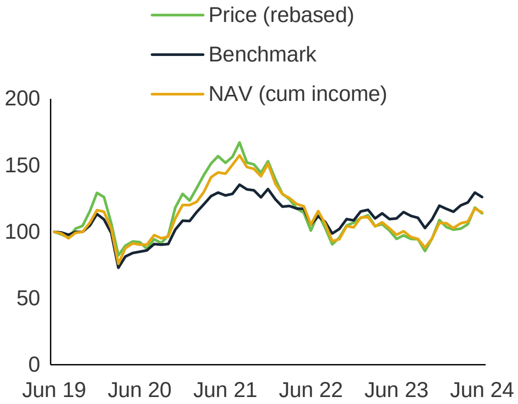
# THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC (HSL) ISIN: GB0009065060

Janus Henderson INVESTORS

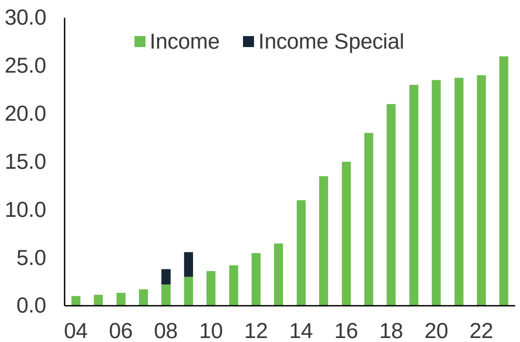
Factsheet - at 30 June 2024

Marketing Communication

## Share price performance (total return)




## Dividend history (pence/share)




Please note that this chart could include dividends that have been declared but not yet paid.

| Performance over (%) | 6m | 1y | 3y | 5y | 10y |
|---|---|---|---|---|---|
| Share price (Total return) | 4.8 | 20.3 | -25.0 | 13.9 | 114.7 |
| NAV (Total return) | 7.5 | 17.2 | -20.3 | 14.5 | 97.4 |
| Benchmark (Total return) | 5.4 | 14.5 | -1.0 | 26.1 | 70.9 |
| Relative NAV (Total return) | 2.0 | 2.7 | -19.3 | -11.5 | 26.5 |

| Discrete year performance (%) | Share price (total return) | NAV (total return) |
|---|---|---|
| 30/6/2023 to 30/6/2024 | 20.3 | 17.2 |
| 30/6/2022 to 30/6/2023 | -6.1 | -7.4 |
| 30/6/2021 to 30/6/2022 | -33.6 | -26.6 |
| 30/6/2020 to 30/6/2021 | 64.6 | 59.0 |
| 30/6/2019 to 30/6/2020 | -7.7 | -9.6 |

All performance, cumulative growth and annual growth data is sourced from Morningstar.



## Commentary at a glance

### Performance

In the month under review the Company's NAV total return was -2.6% and the Deutsche Numis Smaller Companies ex Investment Companies Index total return was -2.7%.

### Contributors/detractors (for the quarter)

Shares in Future rallied strongly following its interim results, while shares in Impax Asset Management fell after it reported continued fund outflows.

### Outlook

Although uncertainty remains around short-term economic conditions, we believe the portfolio is well positioned to withstand an economic downturn and exploit opportunities it presents.

See full commentary on page 3.

References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

## Company overview

### Objective

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

## Company information

| | |
|---|---|
| NAV (cum income) | 977.3p |
| NAV (ex income) | 953.0p |
| Share price | 856.0p |
| Discount(-)/premium(+) | -12.4% |
| Yield | 3.1% |
| Net gearing | 12% |
| Net cash | - |
| Total assets<br>Net assets | £817m<br>£727m |
| Market capitalisation | £637m |
| Total voting rights | 74,385,131 |
| Total number of holdings | 101 |
| Ongoing charges (year end 31 May 2023) | 0.44% |
| Benchmark | Deutsche Numis Smaller Companies ex Investment Companies Index |

Source: BNP Paribas for holdings information and Morningstar for all other data. Differences in calculation may occur due to the methodology used.

Please note that the total voting rights in the Company do not include shares held in Treasury.

Please remember that past performance does not predict future returns. The value of an investment and the income from it can rise as well as fall as a result of market and currency fluctuations, and you may not get back the amount originally invested. Please refer to the glossary for the definition of share price total return.

### How to invest

Go to www.janushenderson.com/howtoinvest

### Find out more

Go to www.hendersonsmallercompanies.com

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## Top 10 holdings

| Top 10 holdings | (%) |
|---|---|
| Paragon Banking | 3.2 |
| Bellway | 2.9 |
| Mitchells & Butlers | 2.9 |
| Oxford Instruments | 2.7 |
| Balfour Beatty | 2.6 |
| Future | 2.6 |
| OSB Group | 2.3 |
| Vesuvius | 2.3 |
| Gamma Communications | 1.9 |
| Computacenter | 1.8 |

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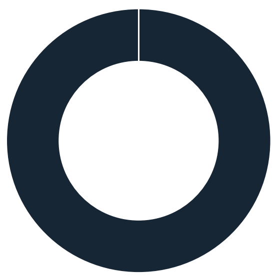
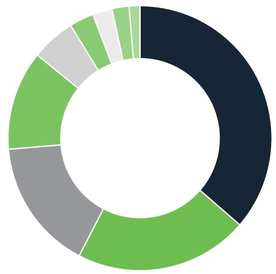
## Geographical focus (%)




## Sector breakdown (%)




The above sector breakdown may not add up to 100% due to rounding.

## Key information

| | |
|---|---|
| Stock code | HSL |
| AIC sector | AIC UK Smaller Companies |
| Benchmark | Deutsche Numis Smaller Companies ex Investment Companies Index |
| Company type | Conventional (Ords) |
| Launch date | 1887 |
| Financial year | 31-May |
| Dividend payment | March, October |
| Management fee | 0.35% of net assets |
| Performance fee | Yes |

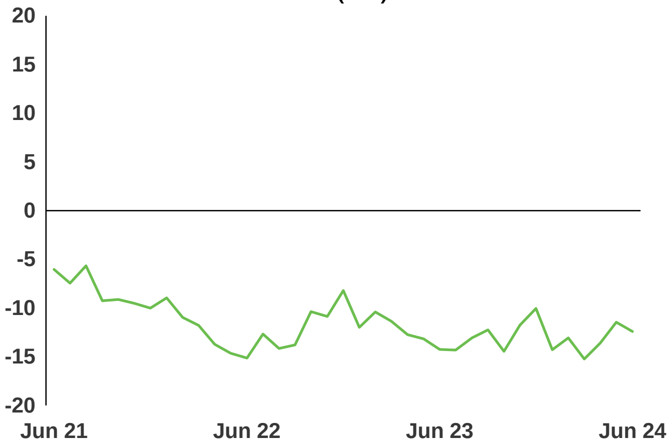
(See Annual Report & Key Information Document for more information)

| | |
|---|---|
| Regional focus | UK |
| Fund manager appointment | Neil Hermon 2002<br>Indriatti van Hien 2016 |

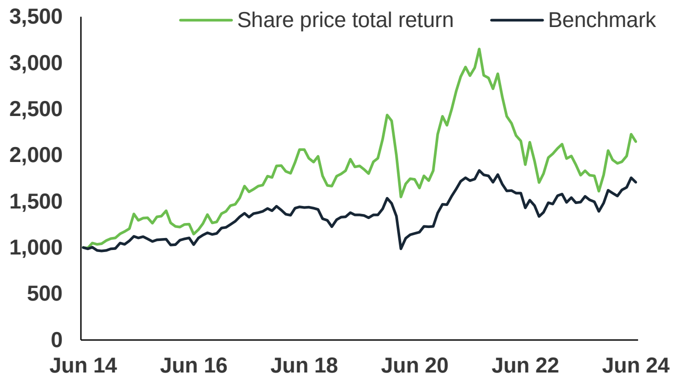
Neil Hermon
Fund Manager

Indriatti van Hien
Deputy Fund Manager

## Premium/(discount) of share price to NAV at fair value (%)




## 10 year total return of £1,000




All performance, cumulative growth and annual growth data is sourced from Morningstar. Share price total return is calculated using mid-market share price with dividends reinvested.

Please remember that past performance does not predict future returns. The value of an investment and the income from it can rise as well as fall as a result of market and currency fluctuations, and you may not get back the amount originally invested. Please refer to the glossary for the definition of share price total return.

**How to invest**
Go to www.janushenderson.com/howtoinvest

**Customer services**
0800 832 832

# Fund Manager commentary (for the quarter)

**Investment environment**

UK equities rose in the second quarter. Gross domestic product (GDP) bounced back from the brief recession the economy experienced at the end of last year.

UK inflation fell and eventually reached the Bank of England (BoE)'s 2% target. BoE Governor Andrew Bailey said he was "optimistic things are moving in the right direction". While inflation is now at its lowest level since the summer of 2021, evidence of sticky services inflation have made the Bank of England hesitant to ease the highest borrowing costs in 16 years. The BoE hinted, however, that rate cuts might happen by the end of summer.

In the US, there were initial signs of a slowing economy as consumer spending cooled amid sticky inflation. Yet in May, US producer prices unexpectedly declined by the most in seven months, adding to evidence that inflationary pressures are moderating.

Investors sought stocks with positive cash flows, namely large-cap technology stocks, which helped to fuel the S&P 500 Index to record highs this year.

Oil prices dropped slightly given softer demand and OPEC+ production cuts. Sterling remained broadly flat against the US dollar.

The Numis Small Companies Index outperformed the FTSE All-Share Index.

**Portfolio review**

The company's biggest positive contributors to performance included Future and Alpha Markets Consulting. Shares in Future rallied strongly following its interim results, which highlighted green shoots of recovery in the US digital advertising market, and the announcement of a new share buyback program. Shares in Alpha Markets Consulting, the financial services consultancy, rose
after the company received an agreed bid from Bridgepoint.

The biggest detractors from performance included Impax Asset Management and Renishaw. Shares in Impax Asset Management, a specialist fund management group, fell after it reported continued fund outflows. Despite reporting sequential improvement in revenue trends, shares in Renishaw, an instrumentation group, fell following a trading update which narrowed its earnings guidance (forecast) towards the bottom end of the range of expectations.

In terms of activity, we initiated a position in Dominos Pizza UK, the leading branded pizza takeaway company in the UK. Its store base is triple the size of its closest rivals and its predominantly franchised model enables the company to operate a capital light business model and generate attractive returns. Our investment thesis is centred around the ambitious growth plans set out by the firm's new management team, which combines a mixture of store roll-outs and using its inaugural loyalty program to reaccelerate delivery, collection and lunch orders.

We took the opportunity to initiate a position in RaspberryPi during the company's initial public offering (IPO). RaspberryPi is a designer of single-board computers, microcontrollers and accessories. The group has a unique background and was initially founded as a charity to serve the education markets, but subsequently saw commercial success in selling to industrial customers. RaspberryPi's products are designed to maximise performance and minimise cost and therefore is a compelling solution in certain business applications. Our investment thesis is centred around the group's ambitious growth plans to capitalise on the industrial end markets by moving to a direct sales model and growing through co-designed platforms.

Elsewhere, we disposed of the position in Restore, given its higher valuation and increasingly negative outlook for its legacy business exposure. And following a competing and higher offer for Spirent from its peer Keysight, we took the opportunity to trim the position.

**Manager outlook**

While inflation has fallen significantly over the last year, it remains above official targets. Hence central banks, led by the US Federal Reserve (Fed), have retained their generally hawkish stance. However, it is clear we have reached the end of the monetary policy tightening cycle and that the next movement in rates will be downwards.

What is not clear is the timing of when rates will start to fall and the speed of their descent. So far in 2024, economic data - particularly services and wage inflation and labour market activity - has surprised negatively, pushing expectations of interest rate cuts further into the future. In the meantime, the delayed transmission mechanism of rising interest rates and their impact means that economic conditions are likely to remain challenging in the short term. Notwithstanding this, we think the prospect of a monetary policy easing cycle is likely to support global equity markets.

Geopolitics remain challenging with the ongoing conflicts in Ukraine and the Middle East and heightened tensions between China and the US. The longer-term economic implications of this are material. There is an urgent need to reduce European dependence on Russian oil and gas supplies and a requirement to decrease China's influence on the global supply chain through investment in nearshoring capability. In addition, domestic politics are likely to be an area of volatility with up to half of the global population going to the polls in 2024 with key elections in the UK, the US, France, India, Mexico, South Korea and the EU. In the UK, a surprise early election has resulted in a Labour landslide win. This does provide the UK with a likely stable political backdrop, something it has lacked recently, and a government intent on fostering growth and investment.

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

The initial public offering (IPO) market has been exceptionally quiet as equity market confidence has diminished. There are some signs that this is likely to improve in the short to medium-term with the recent successful float of Raspberry Pi providing evidence that the UK equity market remains open for attractive, growing businesses. Merger and acquisition (M&A) activity has remained robust as acquirers, particularly private equity, looks to exploit opportunities thrown up by the recent equity market falls. We expect this to continue in the coming months as UK equity market valuations remain markedly depressed versus other developed markets.

In terms of valuations, the equity market is trading below long-term averages. In addition, smaller companies are trading at a historically high discount to their larger counterparts. A sharp rebound in corporate earnings following the pandemic induced shock in 2020 has now faded. Weak economic activity led to subdued corporate earnings growth in 2023 compounded by rising interest costs and a higher corporate tax burden. The outlook for 2024 looks more favourable as cost pressures ease and demand remains generally robust.

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

# Glossary

**Discount/Premium**

The amount by which the price per share of an investment company is either lower (at a discount) or higher (at a premium) than the net asset value per share (cum income), expressed as a percentage of the net asset value per share.

**Gearing**

The effect of borrowing money for investment purposes (financial gearing). The amount a company can "gear" is the amount it can borrow in order to invest. Gearing is used in the expectation that the returns on the investments bought will exceed the costs of the borrowings that funded the purchase. This Company can also use synthetic gearing through derivatives and foreign exchange hedging and/or other non-fully funded instruments or techniques.

**Leverage**

The Company's leverage is the sum of financial gearing and synthetic gearing. Details of the Company's leverage limits can be found in both the Key Information Document and Annual Report. Where a company utilises leverage, the profits and losses incurred by the company can be greater than those of a company that does not use leverage.

**Market capitalisation**

Share price multiplied by the number of shares in issue, excluding treasury shares, at month end. Shares typically priced mid-market at month-end closing.

**Net Asset Value (NAV)**

The total value of a Company's assets less its liabilities.

**NAV (Cum Income)**

The value of investments and cash, including current year revenue, less liabilities (prior charges such as loans, debenture stock and preference shares at fair value).

**NAV (Ex Income)**

The value of investments and cash, excluding current year revenue, less liabilities (prior charges such as loans, debenture stock and preference shares at fair value).

**NAV total return**

The theoretical total return on shareholders' funds per share reflecting the change in Net Asset Value (NAV) assuming that dividends paid to shareholders were reinvested at NAV at the time the shares were quoted ex-dividend. A way of measuring investment management performance of investment trusts which is not affected by movements in discounts/premiums.

**Net assets**

Total assets minus any liabilities such as bank loans or creditors.

**Net cash**

A company's net exposure to cash/cash equivalents expressed as a percentage of shareholders' funds, after any offset against its gearing. This is only shown for companies that have gearing in place.

**Net gearing**

A company's total assets (less cash/cash equivalents) divided by shareholders' funds expressed as a percentage.

**Ongoing charges**

The total expenses for the financial year (excluding performance fee), divided by the average daily net assets, multiplied by 100.

**Risk rating**

The key measure used to assess risk is volatility of returns, using historic net asset value (NAV) performance of the Company over 1 and 3 years. In this instance volatility measures how much a company's NAV fluctuates over time in relation to the UK Equity market. The higher a volatility figure, the more the NAV has fluctuated (both up and down) over time. Please note that risk categorisations are indicative and based principally on historic data and should not be solely relied upon when making investment decisions.

**Share price**

Closing mid-market share price at month end.

**Share price total return**

The theoretical total return to the investor assuming that all dividends received were reinvested in the shares of the company at the time the shares were quoted ex-dividend. Transaction costs are not taken into account.

**Total assets**

Cum Income NAV multiplied by the number of shares, plus prior charges at fair value.

**Yield**

Calculated by dividing the current financial year's dividends per share (this will include prospective dividends) by the current price per share, then multiplying by 100 to arrive at a percentage figure.

For a full list of terms please visit:
https://www.janushenderson.com/en-gb/investor/glossary/

## Source for fund ratings/awards

Overall Morningstar Rating™ is shown for an investment company achieving a rating of 4 or 5.

## Company specific risks

- This Company is suitable to be used as one component of several within a diversified investment portfolio. Investors should consider carefully the proportion of their portfolio invested in this Company.
- Active management techniques that have worked well in normal market conditions could prove ineffective or negative for performance at other times.
- The Company could lose money if a counterparty with which it trades becomes unwilling or unable to meet its obligations to the Company.
- Shares can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result.
- The return on your investment is directly related to the prevailing market price of the Company's shares, which will trade at a varying discount (or premium) relative to the value of the underlying assets of the Company. As a result, losses (or gains) may be higher or lower than those of the Company's assets.
- If a Company's portfolio is concentrated towards a particular country or geographical region, the investment carries greater risk than a portfolio that is diversified across more countries.
- Most of the investments in this portfolio are in smaller companies shares. They may be more difficult to buy and sell, and their share prices may fluctuate more than those of larger companies.
- Using derivatives exposes the Company to risks different from - and potentially greater than - the risks associated with investing directly in securities. It may therefore result in additional loss, which could be significantly greater than the cost of the derivative.
- The Company may use gearing (borrowing to invest) as part of its investment strategy. If the Company utilises its ability to gear, the profits and losses incurred by the Company can be greater than those of a Company that does not use gearing.

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