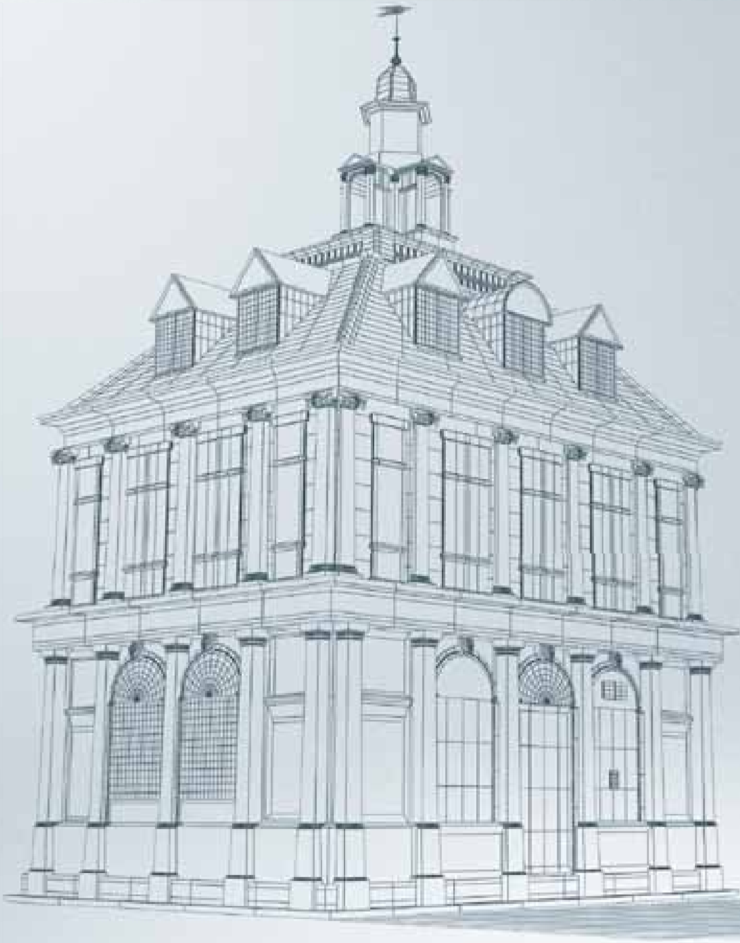
THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Annual Report 2018



MANAGED BY
Janus Henderson
INVESTORS

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The image on the front cover is based on Custom House in King's Lynn.

Strategic Report

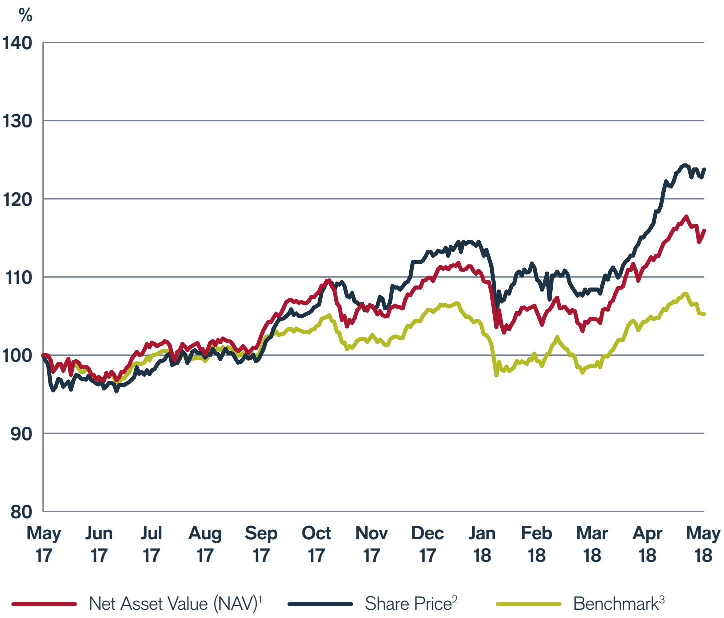
"It is with great pleasure I can report that yet again your Company has had an excellent year."

Jamie Cayzer-Colvin, Chairman

Chairman's Report

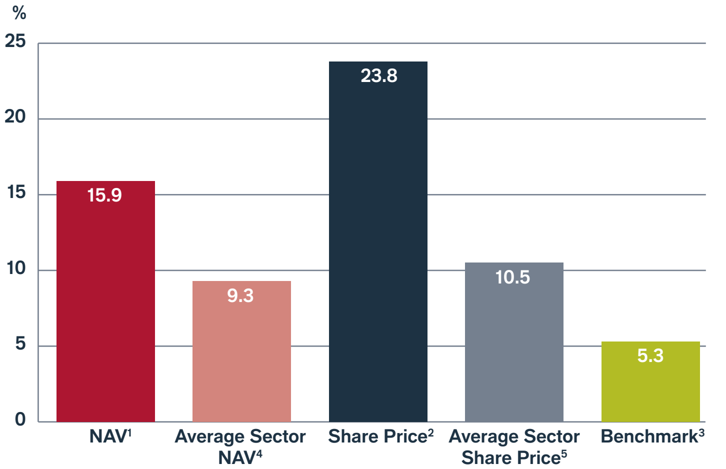
The Strategic Report of the Company is on pages 2 to 20. A glossary of terms and Alternative Performance Measures is included on pages 21 and 22.

Total Return Performance to 31 May 2018

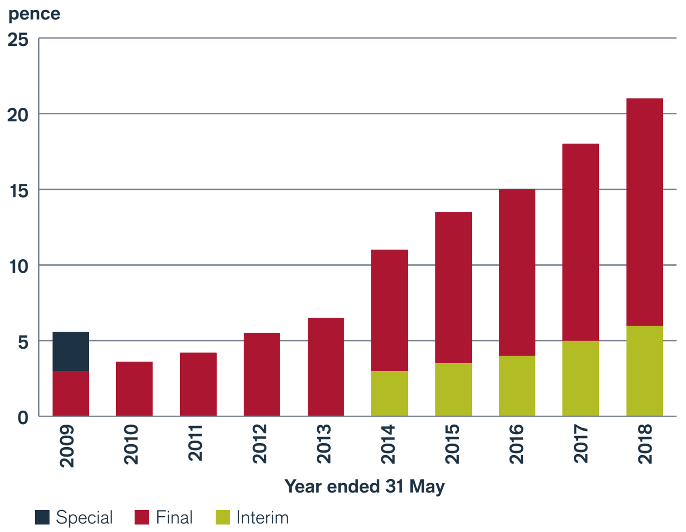


Discount data to 31 May 2018

Total Return Performance to 31 May 2018



Dividends[6]



Total Return Performance for the period ended 31 May 2018

	1 year %	3 years %	5 years %	10 years %
NAV[1]	15.9	48.0	115.2	299.0
Share Price[2]	23.8	51.0	137.3	368.9
Benchmark[3]	5.3	28.3	68.8	199.8
Average Sector NAV[4]	9.3	49.4	103.6	228.1
Average Sector Share Price[5]	10.5	50.4	105.9	244.7
FTSE All-Share Index	6.5	24.3	45.4	96.6

Chairman's Report (continued)

Measure	2018	2017
NAV per share at year end	1,046.9p	921.6p
Share price at year end	966.0p	799.0p
Discount at year end[7]	7.7%	13.3%
Gearing at year end	8.5%	9.2%
Dividend for year[8]	21.0p	18.0p
Revenue return per share	22.79p	19.57p
Dividend yield[9]	2.2%	2.3%
Total net assets	£782m	£688m
Ongoing charge excluding performance fee	0.42%	0.43%
Ongoing charge including performance fee	0.99%	1.01%

1 Net Asset Value per ordinary share total return with income reinvested
2 Share price total return using mid-market closing price
3 Numis Smaller Companies Index (excluding investment companies) total return
4 Average NAV total return of the AIC UK Smaller Companies sector
5 Average share price total return of the AIC UK Smaller Companies sector
6 In 2009 a special dividend was paid in respect of a VAT refund and interest on the refund
7 Calculated using published daily NAVs with debt at par including current year revenue
8 This represents an interim dividend of 6.0p and a proposed final dividend of 15.0p. See page 50 for more details
9 Based on the ordinary dividends paid and payable for the year and the mid-market share price at year end

Sources: Morningstar for the AIC, Janus Henderson, Datastream
A glossary of terms including Alternative Performance Measures is included on pages 21 and 22

Chairman's Report

The Chairman of the Company, Jamie Cayzer-Colvin, reports on the year to 31 May 2018

It is with great pleasure I can report that yet again your Company has had an excellent year. The share price has risen by 23.8%, and the net assets by 15.9%, substantially outperforming our benchmark, the Numis Smaller Companies Index (excluding investment companies), by 10.6% on a total return basis.

Our Fund Manager, Neil Hermon, and his team have now outperformed the benchmark in 14 of the 15 years in which he has managed the investment portfolio, as well as outperforming over the last one, three, five and ten years. And I am delighted to be able to report a 17% increase in the proposed total dividend for the year, our 15th consecutive year of dividend growth. Over the ten years to 31 May 2018, our net asset value total return is 299.0%, versus a total return from the benchmark of 199.8%. This is an impressive compound annual return to shareholders of 14.8% and the 10-year outperformance of 99.2% is clear evidence that thoughtful stock-picking can genuinely add value.

I would like to thank Neil and his colleagues in the Janus Henderson UK Equity team who include Indriatti van Hien, our Deputy Fund Manager, Shiv Sedani, Analyst, and Colin Hughes, a UK Small Cap Fund Manager at Janus Henderson, for the excellent job they have done for shareholders. I would also like to thank all the Janus Henderson staff and my Board for their efforts throughout the year on behalf of shareholders.

This year sees the retirement of Colin Hughes who has been at Janus Henderson Investors, or the companies that are in the group, for 46 years. I know all shareholders and the Board would want me to express our sincere thanks to him and wish him a very happy and long retirement.

Board Changes

At this year's AGM, Mary Ann Sieghart, our Senior Independent Director, will step down from the Board. I would like to thank her for the wise and professional advice and the great commitment she has given your Company over the last 10 years. We are in the process of recruiting a new Board member. Beatrice Hollond will assume the role of Senior Independent Director.

Revenue and Dividend

The revenue return per share has increased to 22.8p, compared with 19.6p for the previous year. The Board is proposing a final dividend for the year of 15.0p per share, making a total dividend for the year of 21.0p (2017: 18.0p), as an interim dividend of 6.0p was paid in March. This marks a 17% increase on the previous financial year and is our 15th consecutive year of dividend growth. The final dividend is, of course, subject to shareholder approval at the Annual General Meeting to be held in September.

Ongoing Charge

The Board regularly reviews the Ongoing Charge and monitors the expenses incurred by the Company. For the year ended 31 May 2018 the Ongoing Charge was 0.42%, which compares to a charge of 0.43% for the year ended 31 May 2017, when excluding the performance fee. The charge including the performance fee was 0.99% for the year ended 31 May 2018, this compares with the charge including performance fee of 1.01% last year. Further details of the Ongoing Charge are contained on page 15.

Discount and Share Buy-backs

During the year, the AIC UK Smaller Companies sector as a whole traded at an average discount of 12.0% to NAV, with highs and lows of 13.3% and 10.1% respectively. I am pleased to report that at the year end, the Company's shares traded at a discount of 7.7%. The Company's discount ranged from 16.3% to 7.1%, with the average discount over the year being 12.5%.

The Board continues to monitor the discount and will consider the merits of buying back shares as markets evolve, though 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 in the Company.

Outlook

Last year I wrote that two events had dominated, Brexit and Trump. Not much has changed in twelve months. Rarely a day goes past without Brexit and Trump commanding the news. There is genuine concern about the Brexit outcome and the potential fallout of the US entering into a period of trade wars with the rest of the world. However, global markets have continued to grow, companies have posted strong earnings growth and equity markets have remained robust. In some respects, the UK market feels less strong, with fears of job losses at companies that may be affected by Brexit, household names such as BT, M&S and RBS undergoing major changes in order to survive, and the footfall on high streets declining. But there is plenty of good news too: unemployment is at its lowest level since 1975, wages are at last increasing, and UK corporate profits hit a record high in 2017. As I have said in the past, active management is the only way to navigate these difficult markets and this year's results demonstrate that in Neil Hermon, your Company has a very effective active manager who will continue to seek out quality growth at the right price.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.30am on 14 September 2018 at the Registered Office, 201 Bishopsgate, London EC2M 3AE. We would encourage as many shareholders as possible to attend for the opportunity to meet the Board and to watch a presentation from Neil Hermon reviewing the year and looking forward to the year ahead.

The Company's AGM will be broadcast live on the internet. If you are unable to attend in person, you can watch the meeting as it happens by visiting **www.janushenderson.com/trustslive** and will also be able to ask questions.

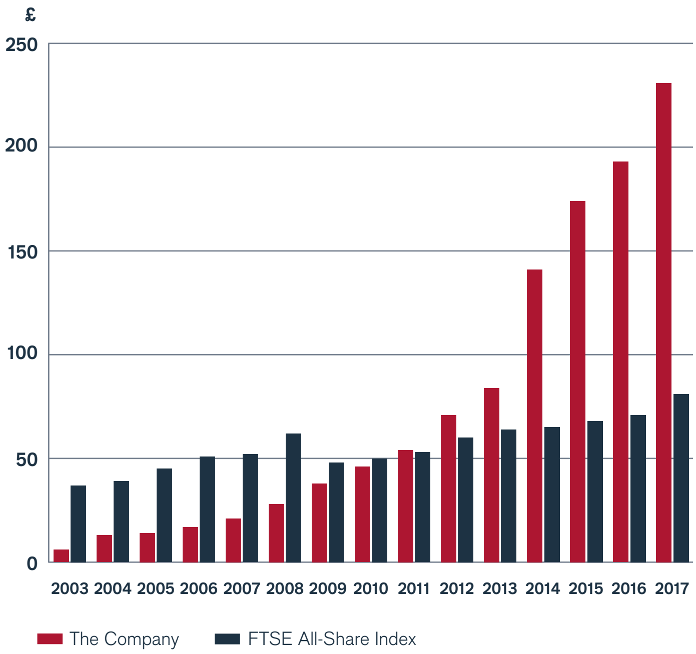
Jamie Cayzer-Colvin
Chairman

Historical Performance, Dividend Growth and Financial Information

Total Return Performance over the 10 years to 31 May 2018

Historical Dividend Growth

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



Financial Information

		NAV per ordinary share			Discount							
At 31 May	Net assets £'000	With debt at par p	With debt at market value p	Mid-market price per ordinary share p	With debt at par %	With debt at market value %	Profit/(loss) for year £'000	Revenue return p	Capital return p	Total return p	Dividends[4] p	Expenses[5] %
2009	156,349	202.1	196.9	167.0	(17.37)	(15.19)	(90,365)	6.30	(121.71)	(115.41)	5.60	0.51 (0.51)
2010	207,533	277.1	269.7	216.0	(22.05)	(19.91)	59,540	4.59	74.70	79.29	3.60	0.58 (0.58)
2011	298,184	398.1	392.5	319.4	(19.77)	(18.62)	93,342	4.91	119.70	124.61	4.20	0.50 (1.16)
2012	279,926	374.5	367.9	284.3	(24.09)	(22.72)	(14,622)	6.07	(25.62)	(19.55)	5.50	0.50 (0.50)
2013	403,420	540.0	535.0	454.0	(15.93)	(15.14)	127,718	6.24	164.72	170.96	6.50	0.47 (1.07)
2014	476,281	637.6	634.3	547.0	(14.21)	(13.76)	79,958	12.67	94.37	107.04	11.00	0.44 (0.56)
2015	563,321	754.1	752.1	686.0	(9.03)	(8.79)	95,631	15.04	112.98	128.02	13.50	0.46 (0.88)
2016[6]	546,080	731.0	731.0	616.5	(15.66)	(15.66)	(6,783)	15.92	(25.00)	(9.08)	15.00	0.44 (0.44)
2017	688,460	921.6	921.6	799.0	(13.30)	(13.30)	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**	**(7.73)**	**(7.73)**	**107,801**	**22.79**	**121.52**	**144.31**	**21.00**	**0.42 (0.99)**

1 Net Asset Value per ordinary share total return with income reinvested
2 Share Price total return using mid-market closing price
3 Numis Smaller Companies Index (excluding investment companies)
4 In 2009 a special dividend was paid in respect of a VAT refund and interest on the refund
5 Using Total Expense Ratio methodology for 2011 and previous years; Ongoing Charge methodology thereafter, figures excluding performance fee (figures in brackets including performance fee)
6 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 for the AIC, Janus Henderson, Datastream

Portfolio Information

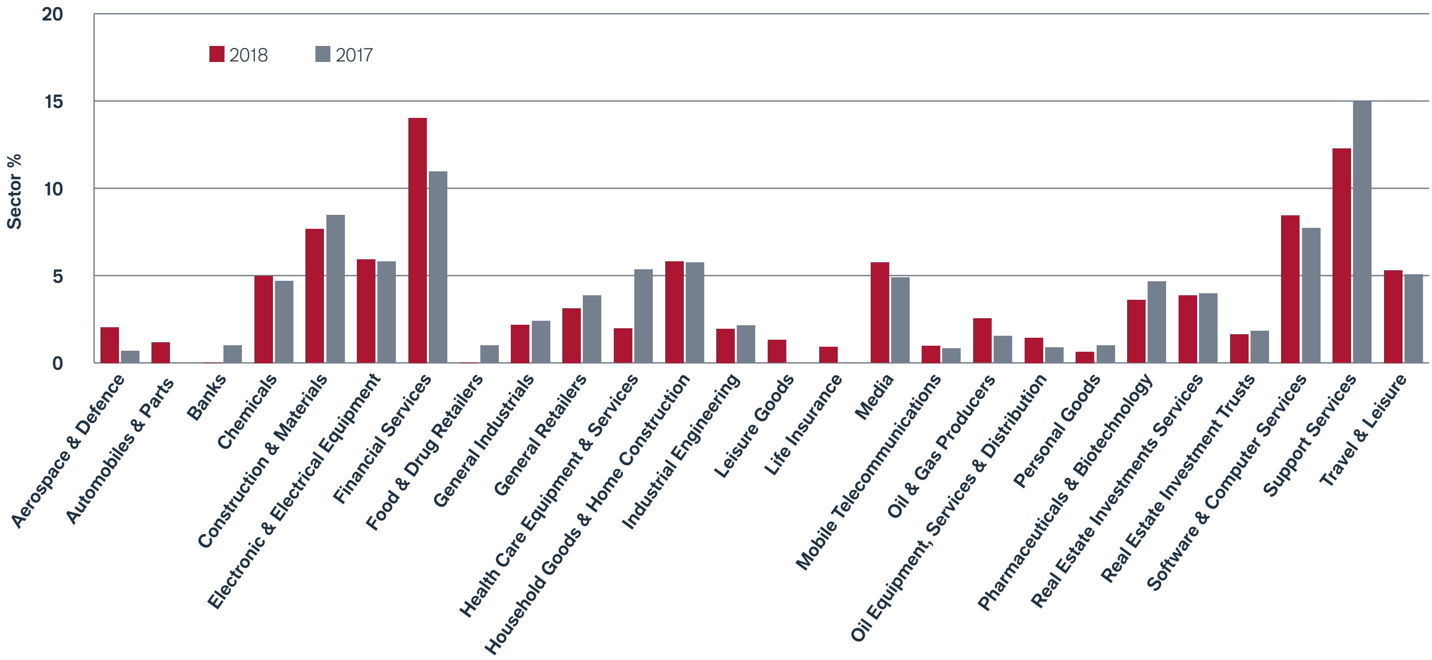
Performance Attribution

	Year ended 31 May	
	2018 %	2017 %
NAV total return	15.9	28.7
Benchmark total return	5.3	23.9
Relative performance	**10.6**	**4.8**
Comprising:		
Stock selection	11.3	4.1
Gearing	0.3	1.8
Expenses	-1.0	-1.1

Ten Largest Investments at 31 May 2018

Ranking 2018	Ranking 2017	Company	Principal activities	Valuation 2018 £'000	Portfolio %
1	2	Bellway	housebuilder	26,264	3.1
2	5	Intermediate Capital	mezzanine finance	21,946	2.6
3	8	Renishaw	precision measuring and calibration equipment	20,406	2.4
4	3	Melrose Industries	engineering group	19,588	2.3
5	10	Victrex	speciality chemicals	18,269	2.2
6	29	Cineworld	cinema operator	17,595	2.1
7	4	Paragon	buy to let mortgage provider	17,233	2.0
8	7	Clinigen	pharmaceuticals	16,439	1.9
9	15	Dechra Pharmaceuticals	veterinary pharmaceuticals	14,232	1.7
10	13	John Laing	infrastructure investor	14,168	1.7
				186,140	**22.0**

Analysis of the Portfolio by Sector at 31 May



At 31 May 2018 the Company had no holdings in the following sectors: Banks, Technology Hardware & Equipment and Food & Drug Retailers
Sources: Factset, Janus Henderson

Fund Manager's Report

The Fund Manager of the portfolio, Neil Hermon, reports on the year to 31 May 2018

Fund Performance

The Company had an excellent year in performance terms – rising strongly in absolute terms and substantially outperforming its benchmark. The share price rose by 23.8% and the net asset value by 15.9%, on a total return basis. This compared to a rise of 5.3% (total return) from the Numis Smaller Companies Index (excluding investment companies). The outperformance came from a combination of underlying positive portfolio performance and a positive contribution from gearing in the Company. We have now outperformed the benchmark in 14 of the 15 years in which I have managed the investment portfolio.

Market – year in review

The year under review was a positive one for equity markets. Global economic conditions improved, with stronger growth around the world. Monetary conditions remained benign with supportive monetary policies from developed world central banks. Global geo-political concerns remained heightened with conflict in the Middle East, a deterioration of relations between Russia and the West and increased tensions on the Korean peninsula. Commodity prices rebounded with robust global economic growth and production cutbacks aiding a recovery in oil and metal prices.

In the UK the Conservative Government failed to gain a majority in the general election and is now reliant on a 'confidence and supply' arrangement with the Democratic Unionist Party. Meanwhile Brexit negotiations have made patchy progress.

The fundamentals of the corporate sector remained robust. Companies continued to grow their dividends whilst balance sheets remained strong. UK corporate earnings saw strong growth, helped by improving economic conditions and the weakness of sterling increasing the value of overseas earnings for UK companies.

Smaller companies marginally underperformed larger companies over the year. This is only the second year that the Numis Smaller Companies Index (excluding investment companies) has underperformed the FTSE All-Share Index in the last ten years.

Gearing

Gearing started the year at 9.2% and ended it at 8.5%. 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. The controlled use of gearing was a positive contributor to performance in the year as markets rose and has been a significant positive over the 15 years I have managed the investment portfolio.

Attribution Analysis

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

Principal contributors

	12 month return %	Relative contribution %
NMC Health	+55.1	+1.4
Renishaw	+46.7	+0.8
Victrex	+53.7	+0.8
Burford Capital	+79.8	+0.8
Intermediate Capital	+34.0	+0.7

NMC Health is a Middle Eastern based healthcare operation. Its main facilities are in the United Arab Emirates, particularly Dubai and Abu Dhabi. NMC has grown strongly since its IPO in 2012 through the building of new facilities and acquisitions. This growth looks set to continue, particularly given the positive structural opportunities in the UAE, driven by an underprovision of state provided healthcare, the continued roll-out of mandatory health insurance and positive demographics. The acquisition strategy has supplemented the organic strategy by diversifying the business by geography and medical discipline. The company was elevated to the FTSE 100 Index in September 2017 and in line with our stated policy we divested the position by our financial year end.

Renishaw designs, develops and manufactures high technology precision measuring and calibration equipment. The business is a global leader in its field with strong patent protection. The company invests heavily in research and development to maintain its market leading technological position. Over the medium term the organic growth delivered has been one of the strongest in the capital goods sector. It has expanded its operations by diversifying into healthcare and additive manufacturing markets, both of which offer long term attractive growth. In the short term the company is enjoying the recovery in industrial capital expenditure, new investment in the smartphone production chain and, as a major exporter, the competitive benefits of a weaker pound. Renishaw, with a very strong balance sheet and a well invested production base, is superbly positioned for the long term.

Victrex is a manufacturer of a speciality thermoplastic PEEK. It is the world leader in its field with a dominant market share. Victrex has shown consistent long term growth as demand for PEEK has grown as customers look to replace metals with lighter plastics with similar thermal properties. Although demand for PEEK is subject to the

Fund Manager's Report (continued)

vagaries of the economic cycle, longer term its use will continue to increase. Additionally Victrex has developed a very successful medical business with PEEK used particularly in spinal and arthroscopy operations. Victrex has recently expanded capacity as there are significant opportunities for growth in the medical, oil and gas, aerospace and smartphone markets.

Burford Capital is a provider of investment capital and risk solutions for the litigation industry. The company has an integrated business model as it takes both on-balance-sheet risk and derives fee revenues from its fund management business. Litigation is a nascent and growing market where returns are fundamentally uncorrelated to the stock market or business cycle. Burford is the largest player in this market globally. This investment provides us with exposure to structural growth in demand for litigation financing which has been driven by the practical solution it provides to the unfavourable accounting treatment of litigation on corporates and the temporary nature of equity in law firms. Management run a conservative balance sheet which provides optionality given the historically strong track record of generating high returns.

Intermediate Capital is an alternative finance provider and asset manager. It is a leading provider of mezzanine finance to LBO markets. It also owns a highly successful mezzanine, property lending and credit fund management operation. Its portfolio of investments are performing well but the primary growth engine of the business is the fund management operation where it is having real success in growing assets due to the strength of its performance, the quality of the team and underlying demand for its product in an income-hungry world. The management have also boosted the company's return on equity by returning substantial surplus capital.

Principal detractors

	12 month return %	Relative contribution %
Safestyle	-79.4	-0.5
AA	-45.1	-0.5
Conviviality	-100.0	-0.5
Wizz Air[1]	+61.5	-0.5
Ferrexpo[1]	+73.9	-0.4

1 Not owned by the Company. Returns shown are for the seven month period to 31 December 2017 when the stock ceased to be included in the benchmark index.

Safestyle is a provider of windows, doors and conservatories. The last year has been tough for the business as market demand has softened due to a decline in consumer spending, particularly in large ticket items such as replacement double glazing. In addition the company has been targeted by a new competitor which was set up by the original founder of Safestyle. Although market conditions remain difficult, Safestyle benefits from a well invested manufacturing facility and a strong balance sheet and when market conditions recover the company is well placed for a sharp rebound in profitability.

AA is a roadside assistance and insurance group. The company has suffered from a combination of volatile demand for roadside assistance combined with an inflexibility in its cost base and an increase in insurance premium tax which reduced the ability to raise prices. In addition, upgrading the IT platform has taken longer and proved more costly than expected. Management have been changed after the high profile departure of the Executive Chairman. Although the company has high debt levels we still believe its franchise is strong and if the company delivers on its revised business plans then there is substantial upside in the share price.

Conviviality was a convenience store and drinks wholesaling business. After a very successful period of growth, boosted by organic and acquisitive growth, the company issued a severe profits warning in March 2018, citing margin pressure and a spreadsheet error in its forecasting model. This warning severely dented our confidence in the business and the management team and we sold our position. Subsequent to our sale the company discovered unrecorded cash flow liabilities and after failing to raise additional equity it went into administration.

Wizz Air is a low cost airline operator. The Company had no holding in Wizz Air. Wizz performed strongly, aided by capacity expansion, low fuel prices and strong growth in Eastern European economies.

Ferrexpo is an Ukranian provider of iron-ore. The Company had no holding in Ferrexpo. The iron-ore market was strong in 2017 with robust Chinese economic growth and production cutbacks aiding a recovery in prices. The Company has typically had an underweight position in the mining sector due to the volatile nature of commodity prices, the high leverage these companies usually employ, their position as price takers with little influence over the value of their output and their poor corporate governance.

Portfolio Activity

Trading activity in the portfolio was consistent with an average holding period of 4 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.

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

Impax Asset Management is a specialist asset manager focused on sustainable investing. There has been an increased demand for ethically focused investment products from investors and as a result, Impax has been able to significantly grow its assets under management over the last 18 months. The company recently completed the acquisition of a US asset manager, Pax World Funds, which will add distribution scale and diversity to its business. With strong fund performance over 5 years, the increased demand for sustainable investment products and the Pax acquisition, Impax should be able to accelerate its assets under management over the medium term.

Fund Manager's Report (continued)

IntegraFin operates an investment platform, Transact, which is designed for use by independent financial advisers for their clients. The platform operates as a low cost investment wrapper that specialises in providing a portal for UK investment products including SIPPs and ISAs. The high quality customer service and active account management acts as a differentiator against competition and the business has seen good growth in funds under management since inception in 2000. With the company requiring little capital to grow, it is a high returns business which should be able to consistently return cash to shareholders.

Spire Healthcare is a leading private hospital operator in the UK with 39 hospitals, 11 clinics and 1 specialist cancer centre. We believe that Spire is a strategic asset in the context of the well-publicised issues the NHS faces. It has three main revenue streams; private medical insurance, self-pay and NHS patients. Our investment in Spire is premised on; a credible and more capital light growth strategy put in place by the new management team and an attractive starting valuation. We are aware of the earnings risk posed by NHS revenues, but we believe downside protection exists in the form of book value per share (Spire is the freeholder of a number of its assets) and the potential for its 30% owner (Mediclinic) to launch another bid for the company.

Ultra Electronics is a global aerospace and defence company specialising in the manufacture of marine products. The company had a tough 2017 as a result of the announcement of a UK defence review, but with global defence spending on the rise, led by the increased US defence budget, Ultra should benefit in the future. In addition, with the recent appointment of a new CEO and a substantial return of capital through a share buyback, the company should benefit from positive momentum over the medium term.

Victoria is a pan-European floor coverings manufacturer. The company has successfully bought, rationalised and integrated a number of UK carpet manufacturers, driving returns and margins higher whilst taking a significant market share. It has more recently expanded into the ceramic market in Europe through acquisitions in Italy and Spain. Led by a highly successful and ambitious management team the company is set to continue this consolidation phase, which should drive strong returns for shareholders.

In addition to the companies mentioned above, we invested in a number of initial public offerings (IPOs) in the year. These included **Alpha Financial Markets**, a consultancy for the investment management industry, **Team17**, a software games developer and publisher and **TI Fluid Systems**, a supplier of fluid carrying systems, fuel tanks and filter tubes to the automotive sector.

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 **Dunelm**, a homewares retailer, where the company has suffered from increased competition and a weaker housing market. We also disposed of our holding in **Interserve**, an international contractor and support services group, as losses on its Energy for Waste construction contracts increased debts to a level where the financial viability of the company was threatened. Other companies we sold due to a belief that they were structurally challenged or suffering from poor operational performance included **Medica**, a radiology services company; **RPC**, a plastic packaging group; **UP Global Sourcing Group**, a home products company; and **Vectura**, a developer of therapies for respiratory diseases.

We benefited from a level of takeover activity in the year. Eight portfolio companies received agreed bids. All the bidders, apart from one, were either foreign corporates or private equity groups. This reflects the open nature of the UK market, the strength of global corporate balance sheets and the low cost of debt. Within our portfolio, takeover bids were received for **Aldermore**, a challenger bank, from First Rand; **Fenner**, a mining and industrial equipment group, from Michelin; **Imagination Technologies**, a semiconductor company, from Canyon Bridge; **Paysafe**, a payment processing company, from Blackstone/CVC; **Quantum Pharmaceuticals**, a speciality drugs company, from Clinigen; **Servelec**, a healthcare IT provider, from Montagu Private Equity; **SQS**, an IT services company, from Assystem and ZPG, a comparison website and property portal group, from Silver Lake.

Portfolio Outlook

The following table shows the Company's top 10 stock positions and their active position versus the Numis Smaller Companies Index (excluding investment companies) at the end of May 2018.

Top ten active positions at 31 May 2018	Holding %	Index Weight %	Active Weight %
Bellway	3.1	–	3.1
Intermediate Capital	2.6	–	2.6
Renishaw	2.4	–	2.4
Melrose Industries	2.3	–	2.3
Victrex	2.2	–	2.2
Cineworld	2.1	–	2.1
Paragon	2.0	0.8	1.2
Clinigen	1.9	–	1.9
Dechra Pharmaceuticals	1.7	–	1.7
John Laing	1.7	0.7	1.0

A brief description of the largest active positions (excluding Intermediate Capital, Renishaw and Victrex, which are covered earlier) follows:

Bellway is a national UK housebuilder. The UK new housing market has seen an impressive recovery in the last few years, due to robust consumer confidence, low interest rates and Government initiatives, particularly Help to Buy. Margins, volumes and profits have been rising strongly. Bellway is looking to exploit these conditions by expanding its national footprint, whilst maintaining a strong land-bank and balance sheet. The outlook for the sector is aided by a benign land market as the number of competitors has reduced from the previous cycle, the structural under-supply of housing in the UK and the capital discipline Bellway and its peers are displaying.

Fund Manager's Report (continued)

Melrose Industries is a diversified engineering group whose raison d'être is to buy underperforming businesses, improve them and then sell the assets on. Essentially it is deploying a private equity model in the public markets. The company has had significant success in the past with its acquisitions of Dynacast, McKechnie, FKI and Elster, all of which have been sold for significant profit on cost. The management team are highly rated due to their demonstrable track record of making money for shareholders. In late 2016 Melrose acquired Nortek, a US based provider of building products. Indications are that the improvements to Nortek margins and return on capital employed are running ahead of plan. More recently Melrose acquired GKN, an aerospace and automotive supplier, and we believe there is substantial scope to improve margins and return on capital in its businesses.

Cineworld is an international cinema operator. The company has market leading positions in the UK, Israel and Eastern Europe. Historically growth has been driven by a rapid roll out of new capacity, particularly in Eastern Europe where cinema visits per capita markedly lag more developed economies. The company made a significant expansion in the year by acquiring Regal Entertainment, a leading US cinema chain. Although the US is a mature market, Regal's valuation was depressed by poor 2017 financial results, which were a consequence of a weak film release schedule, particularly over the summer months. This provided Cineworld an opportunity to acquire a good asset at a knock-down valuation. With a much stronger film slate and an opportunity to invest in a tired Regal asset base, the prospects for growth look good.

Paragon is principally a provider of buy-to-let mortgages. The company has changed its structure in the last few years by obtaining a banking licence, growing its lending in asset-backed, car finance and specialist residential markets and diversifying its funding sources into the retail market. The company enjoys a very strong capital position, enabling it to pay higher dividends whilst buying back some of its own stock. The introduction of new regulations on complex underwriting should help the specialist lenders like Paragon grow market share, and at a modest premium to asset value, we believe Paragon is good value.

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 think they can enhance performance through additional regulatory approval or increased targeted marketing. The company has seen strong growth since its IPO in 2012 and this is likely to continue given the strength of the management team and the positive structural growth of its end markets.

Dechra Pharmaceuticals is an international specialist pharmaceuticals business that develops, manufactures and sells products exclusively for vets. It does this for companion animals, equine animals and food producing animals. Key product focus areas include dermatology, ophthalmology, endocrinology and antibiotics and vaccinations for food producing animals. Company strategy has been to grow the business both organically and inorganically and the long-standing CEO has successfully done this through growing the pipeline, diversifying geographically (most notably in the US) and undertaking some value accretive acquisitions. Our investment provides us with exposure to growing demand for veterinary pharmaceuticals as the trends of; the humanisation of pets and increase in demand for protein continue.

John Laing is an international originator, active investor and manager of infrastructure projects. Its business is focused on major transport, social and environmental infrastructure projects awarded under governmental public private partnership (PPP) programmes and renewable energy projects. It does this across a range of international markets including the UK, Europe, Asia Pacific and North America. Our investment in the company provides us with exposure to growing infrastructural expenditure globally. The company has a large and growing pipeline of opportunities and has recently raised further equity to capitalise on these opportunities. The stock trades at a discount to book value despite providing healthy NAV growth. We believe this discount should narrow over time.

Market Outlook

The UK economy is showing anaemic growth. Brexit negotiations stumble on, with intermittent progress. The date for the UK leaving the European Union is looming into view. There is clearly a range of outcomes but what deal the UK will end up with is, at this point, unclear. Extra complication is added by the weak position of the minority Conservative Government led by Theresa May who is struggling to deal with the conflicting demands of her MPs on Brexit.

This political uncertainty has made UK consumers cautious. Although unemployment is historically low, net disposable income growth has been constrained by the rising cost of living. Weakness in consumer spending and low consumer confidence is demonstrated by a moribund second hand housing market and weak sales of high ticket items such as cars, carpets and double glazing.

Outside the UK, economic conditions have improved, particularly in the US and Europe. Escalating trade tensions do provide a threat to this. The recent rises in US interest rates have flagged to investors that loose global monetary conditions are reversing. However the 'normalisation' of monetary policy will probably be a slow and measured process.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-9. Balance sheets are more robust and dividends are growing. In addition, a large proportion of UK corporate earnings comes from overseas, even among smaller companies, and should be boosted by the strength of the global economy and the relative weakness of sterling.

Fund Manager's Report (continued)

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

In conclusion, the year under review has been an excellent one for the Company. Absolute and relative performance was very strong and our portfolio companies have, overall, performed robustly. Our investments are generally trading well, soundly financed and attractively valued. Additionally, the smaller company 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

Investment Portfolio at 31 May 2018

Company	Principal activities	Valuation £'000	Portfolio %
Bellway	*housebuilder*	**26,264**	**3.10**
Intermediate Capital	*mezzanine finance*	**21,946**	**2.59**
Renishaw	*precision measuring and calibration equipment*	**20,406**	**2.41**
Melrose Industries	*engineering group*	**19,588**	**2.31**
Victrex	*speciality chemicals*	**18,269**	**2.15**
Cineworld	*cinema operator*	**17,595**	**2.07**
Paragon	*buy to let mortgage provider*	**17,233**	**2.03**
Clinigen[1]	*pharmaceuticals*	**16,439**	**1.94**
Dechra Pharmaceuticals	*veterinary pharmaceuticals*	**14,232**	**1.68**
John Laing	*infrastructure investor*	**14,168**	**1.67**
10 largest		**186,140**	**21.95**
Burford Capital[1]	*litigation finance*	13,532	1.59
Balfour Beatty	*international contractor*	12,682	1.49
Hunting	*oil equipment and services*	12,322	1.45
Ibstock	*bricks manufacturer*	11,480	1.35
Synthomer	*speciality chemicals*	11,293	1.33
Spectris	*electronic control and process instrumentation*	11,164	1.32
Vesuvius	*materials technology for steel and foundry industry*	11,138	1.31
Ultra Electronics	*defence and aerospace products*	10,888	1.28
OneSavings Bank	*banks*	10,735	1.27
St Modwen Properties	*real estate investment and services*	10,484	1.24
20 largest		**301,858**	**35.58**
ZPG	*price comparison website and property portal*	10,412	1.23
Aveva Group	*design software*	10,327	1.22
TI Fluid Systems	*automotive supplier*	10,048	1.18
Scapa[1]	*technical tapes*	9,856	1.16
Countryside	*housebuilder*	9,710	1.15
Sanne	*investment management services*	9,666	1.14
Northgate	*commercial vehicle hire*	9,582	1.13
RWS[1]	*patent translation services*	9,424	1.11
SIG	*building materials distributor*	9,359	1.10
Euromoney Institutional Investor	*business to business information*	9,236	1.09
30 largest		**399,478**	**47.09**
Oxford Instruments	*advanced instrumentation equipment*	9,170	1.08
Accesso[1]	*leisure software provider*	9,108	1.07
Jupiter Fund Management	*investment management company*	9,078	1.07
Ascential	*exhibition organiser and data services*	9,055	1.07
Brewin Dolphin	*wealth management*	8,837	1.04
Cairn Energy	*oil & gas exploration and production*	8,828	1.04
Spire Healthcare	*hospital operator*	8,765	1.03
GB Group[1]	*data intelligence services*	8,648	1.02
Learning Technologies Group[1]	*e-learning*	8,559	1.01
Victoria[1]	*floor covering manufacturer*	8,460	1.00
40 largest		**487,986**	**57.52**
IntegraFin	*B2B financial platform*	8,370	0.99
Midwich[1]	*AV equipment distributor*	8,330	0.98
Playtech	*internet gaming software*	8,326	0.98
Gamma Communications[1]	*telecommunication services*	8,316	0.98
NCC	*IT security*	8,079	0.95
Consort Medical	*healthcare products*	8,071	0.95
Softcat	*software reseller*	7,851	0.93
Just	*enhanced annuity provider*	7,729	0.91
Premier Oil	*oil & gas exploration and production*	7,554	0.89
Coats	*global threads provider*	7,535	0.89
50 largest		**568,147**	**66.97**
Team17[1]	*games software developer*	7,453	0.88
Rotork	*process control solutions*	7,341	0.87
CLS	*real estate investment and services*	7,294	0.86
Grainger	*residential property investor*	6,570	0.77
Avon Rubber	*defence and dairy industry products*	6,558	0.77
Tarsus Group	*exhibition organiser*	6,548	0.77
Bodycote	*engineering group*	6,358	0.75
Alpha Financial Markets[1]	*investment management consultancy*	6,291	0.74
Eurocell	*building products*	6,264	0.74
Ricardo	*engineering consultancy*	6,074	0.72
60 largest		**634,898**	**74.84**

Investment Portfolio at 31 May 2018 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Computacenter	*IT reseller*	5,971	0.70
Tyman	*building products*	5,967	0.70
Equiniti	*financial services outsourcer*	5,796	0.68
Restore[1]	*office service provider*	5,555	0.66
AA	*roadside assistance*	5,456	0.64
Smart Metering Systems[1]	*energy smart meters*	5,395	0.64
Ted Baker	*clothing retailer*	5,364	0.63
Hollywood Bowl Group	*ten pin bowling operator*	5,358	0.63
Alfa Financial Software	*financial services software*	5,355	0.63
XP Power	*electrical power products*	5,301	0.63
70 largest		**690,416**	**81.38**
Faroe Petroleum[1]	*oil & gas exploration and production*	5,284	0.62
Howden Joinery	*kitchen manufacturer and retailer*	5,263	0.62
Lookers	*automotive retailer*	5,243	0.62
Gocompare.com	*price comparison website*	5,204	0.61
Crest Nicholson	*housebuilder*	5,175	0.61
Gym Group	*gym operator*	5,062	0.60
Sherborne Investors (Guernsey) C	*speciality finance*	4,999	0.59
Footasylum[1]	*sportswear and footwear retailer*	4,995	0.59
Polypipe	*building products*	4,992	0.59
Impax Asset Management[1]	*SRI investment management company*	4,987	0.59
80 largest		**741,620**	**87.42**
DFS	*furniture retailer*	4,840	0.57
Helical	*office property investor and developer*	4,837	0.57
XPS Pensions Group	*pension consultant*	4,781	0.57
Unite Group	*student accommodation investor*	4,757	0.56
Capital & Regional	*retail property investor*	4,620	0.54
Next Fifteen Communications[1]	*PR and media services*	4,592	0.54
Safestore Holdings	*self storage operator*	4,572	0.54
SDL	*language software service provider*	4,500	0.53
Tribal Group[1]	*education support services & software*	4,498	0.53
GVC	*online gaming operator*	4,415	0.52
90 largest		**788,032**	**92.89**
Go-Ahead Group	*bus and rail group*	4,414	0.52
Costain	*contractor*	4,307	0.51
SThree	*recruitment company*	4,012	0.47
ITE Group	*exhibition organiser*	3,987	0.47
Joules[1]	*clothing retailer*	3,939	0.46
Urban & Civic	*real estate investment and services*	3,927	0.46
Codemasters[1]	*games software developer*	3,544	0.42
RM	*education software and services*	3,317	0.39
Charles Taylor	*insurance management services*	3,247	0.38
Brown (N) Group	*clothing retailer*	3,203	0.38
100 largest		**825,929**	**97.35**
Elementis	*chemicals*	3,100	0.37
Marshall Motor[1]	*automotive retailer*	2,997	0.35
Severfield	*industrial engineering*	2,916	0.34
Blue Prism[1]	*robot processing automation*	2,742	0.32
Xaar	*electronic equipment*	2,623	0.31
Luceco	*electrical products*	1,833	0.22
Blancco Technology[1]	*data erasure software*	1,660	0.20
WYG[1]	*engineering consultancy*	1,512	0.18
Safestyle[1]	*window replacement retailer*	1,398	0.16
Sherborne Investors (Guernsey) B	*specialty finance*	812	0.10
110 largest		**847,522**	**99.90**
Thruvision[1]	*detection technology*	808	0.10
Total equity investments		**848,330**	**100.00**

There were no convertible, fixed interest securities or non-equity holdings at 31 May 2018 (2017: None)

1 quoted on the Alternative Investment Market (AIM)

Business Model

Strategy
The strategy of the Company is to pursue its investment objective by operating as an investment trust company. The investment trust company structure allows the shareholders, whether institutions or private investors, to access a diversified portfolio of investments that is professionally managed. The principal activity remained unchanged throughout the year ended 31 May 2018.

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.

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). In practice, the Company does not normally invest in other listed investment companies.

Derivatives
The Company may use financial instruments known as derivatives for the purpose of efficient portfolio management while maintaining a level of risk consistent with the risk profile of the Company.

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.

Management
The Company has an independent Board of Directors which has appointed Henderson Investment Funds Limited ("HIFL") to act as its Alternative Investment Fund Manager. HIFL delegates investment management services to Henderson Global Investors Limited in accordance with an agreement which was effective from 22 July 2014 and can be terminated on six months' notice. Both entities are authorised and regulated by the Financial Conduct Authority ("FCA"). References to the Manager within this report refer to the services provided by both entities. Both entities are wholly owned subsidiaries of Janus Henderson Group plc, 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 Hermon has a shareholding in the ordinary shares of the Company. He receives a proportion of any performance fee paid by the Company to the Manager and a proportion of that is deferred into further shares in the Company. Indriatti van Hien was appointed Deputy Fund Manager with effect from 1 June 2016.

Janus Henderson and its subsidiaries also provide accounting, company secretarial, 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. Rachel Peat FCIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

Fees

Management fee
The annual management fee payable to the Manager is 0.35%. This is calculated and paid quarterly at a rate of 0.0875% per quarter of the value of the net assets under management on the last day of the quarter preceding the quarter in respect of which the calculation is made. Assets under management for the purpose of calculating the management fee exclude any holdings in funds managed by Janus Henderson of which there were none. The management fee is payable quarterly in advance.

Performance fee
In addition, the management agreement provides for the 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 (calculated monthly).

Other charges excluding transaction costs took the total Ongoing Charge including the performance fee to 0.99%, as set out on page 3.

There is a further cap to the effect that any enhancement to net asset value 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 net asset value 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 net asset value per

Business Model (continued)

share as at the preceding year end, the performance fee payable will be restricted to such amount, if any, as will result in the net asset value per share being higher than the net asset value per share at the preceding year end.

The performance fee payable in respect of the year ended 31 May 2018 is £4,086,000 (2017: £3,324,000).

Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of a cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years.

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 actual costs incurred in the year as being the best estimate of future costs, in accordance with the AIC methodology.

The Board believes that the Ongoing Charge during the year represented good value for money for shareholders. Below is a breakdown of the main cost headings in monetary terms and as a percentage of average net assets. The numbers reported below will differ from those in the Company's PRIIPs KID. The ongoing costs in the KID include finance costs; the performance fee is based on an average over a 5 year period; and the transactions costs are based on an average over a 3 year period and also include an implicit 'market slippage' cost.

Category of cost	2018 £'000	2018 % of average net assets[1]	2017 £'000	2017 % of average net assets[1]
Management fee	2,409	0.34%	1,929	0.34%
Other expenses	536	0.08%	563	0.09%
Ongoing Charge (excl performance fee)	**2,945**	**0.42%**	**2,492**	**0.43%**
Performance fee	4,086	0.57%	3,324	0.58%
Ongoing Charge (incl performance fee)	**7,031**	**0.99%**	**5,816**	**1.01%**
Transaction costs[2]	715	0.10%	751	0.13%

1 Calculated on average daily net assets (in accordance with the AIC methodology)

2 Transaction costs are the costs of buying and selling investments in the Company's portfolio, they comprise mainly stamp duty and commission

A glossary of terms including Alternative Performance Measures is included on pages 21 and 22.

Directors' Biographies

Directors

The Directors appointed to the Board during the year end and at the date of this report are:

Jamie Cayzer-Colvin (Age 53)
Position: Chairman of the Board
Date of appointment: 13 May 2011 (Chairman in September 2011)
Jamie is an Executive Director of Caledonia Investments plc and among other appointments, he is a Director of Polar Capital Holdings plc, chairs the Royal Horticultural Society pension scheme, and is a Trustee of the Heritage of London Trust, plus a number of unquoted companies and charities. Previously, Jamie served as a Non Executive Director on the Boards of Close Brothers plc and Rathbone Brothers plc.

Beatrice Hollond (Age 57)
Position: Director and Chairman of the Audit Committee
Date of appointment: 23 July 2010 (Audit Committee Chairman in September 2010 will become Senior Independent Director with effect from 14 September 2018)
Beatrice is Chairman of Keystone Investment Trust plc and a Director of Templeton Emerging Markets Investment Trust PLC, Foreign & Colonial Investment Trust PLC, Telecom Plus PLC, M&G Group Limited and is on the Board of Brown Advisory. She is also Chairman of Millbank Financial Services Limited, a Trustee of the Esmée Fairbairn Foundation and chairs the Investment Committee of the Endowment Fund of Pembroke College Oxford.

David Lamb (Age 61)
Position: Director
Date of appointment: 1 August 2013
David is Managing Director of St James's Place plc. He is a Chairman of the Investment Committee and a Trustee of the St. James's Place Foundation. David is also a Governor of the University of the West of England.

Victoria Sant (Age 41)
Position: Director
Date of appointment: 23 September 2016
Victoria was an Investment Manager at the Wellcome Trust for ten years, where she was responsible for the out-sourced long-only equity portion of the £18bn endowment portfolio, and a Trustee Director of the pension scheme. She is currently a Senior Adviser at the Investor Forum, with an active role engaging with UK-listed companies on strategic and governance issues. She is also a member of the Investment Committee of the National Trust.

Mary Ann Sieghart (Age 56)
Position: Senior Independent Director
Date of appointment: 18 July 2008
Mary Ann is a non-executive Director of The Merchants Trust plc. She Chairs the Social Market Foundation, sits on the Advisory Council of Into University, and is a Trustee of the Kennedy Memorial Trust. She presents occasional programmes on Radio 4. She was Assistant Editor of The Times from 1998 to 2007 and is also a former City Editor and Lex Columnist.

All the Directors are independent. No Directors are linked via any other directorships. All Directors are members of the Management Engagement Committee and the Nomination Committee, both are chaired by Jamie Cayzer-Colvin.

The Audit Committee is chaired by Beatrice Hollond, the other members of which are David Lamb, Victoria Sant and Mary Ann Sieghart.

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

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1057

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

Broker

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

Independent Auditors

Chartered Accountants and Statutory Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Financial Calendar

Annual results	August 2018
Ex-dividend date	30 August 2018
Dividend record date	31 August 2018
Annual General Meeting[1]	14 September 2018
Final dividend payable	28 September 2018
Half year results	January 2019
Interim dividend payable	March 2019

Information Sources

For more information about the Company, visit the website at
www.hendersonsmallercompanies.com

HGi

HGi is a content platform provided by Janus Henderson that offers online personalisation where you can "follow" investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Janus Henderson's investment expertise.

Scan the QR code or use this short URL to register for HGi:
http://HGi.co/rb

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 the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 22 55 25, email **customercare.HSDL@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

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 back 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. Investors via Halifax Share Dealing receive all shareholder communications and a voting instruction form is provided to facilitate voting at General Meetings of the Company.

1 At the Company's Registered Office at 11.30am

Corporate Information (continued)

Status

The Company is registered as a public limited company and is an investment company as defined in Section 833 of the Companies Act 2006 (the "Companies Act"). The Company operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ("Section 1158") as amended. The Company has obtained approval from HMRC of its status as an investment trust under Section 1158; the Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. 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 Section 1158.

The Company is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

Principal Risks and Uncertainties

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal 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. In carrying out this assessment, the Board has considered the market uncertainty arising from the result of the UK referendum to leave the European Union. Although the Company invests almost 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. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. The Board considers regularly the principal risks facing the Company in order to mitigate them as far as practicable. A fuller description of the principal risks and uncertainties follows. With the assistance of the Manager, the Board has drawn up a risk matrix which identifies the key risks to the Company. The Board policy on risk management has not materially changed from last year. The principal risks fall broadly under the following categories:

Investment activity and strategy

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 the net asset value 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 reviews regularly data that monitors risk factors in respect of the portfolio.

Accounting, legal and regulatory

In order to qualify as an investment trust the Company must comply with Section 1158 of the Corporation Tax Act 2010. A breach of Section 1158 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 Section 1158 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 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 UKLA.

A breach of the Companies Act could result in the Company and/or the Directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of Section 1158. The Board relies on its Company Secretary and its professional advisers to ensure compliance with the Companies Act and UKLA Rules.

Operational

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. Janus Henderson 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, are explained further in the internal control section of the Corporate Governance Statement on page 31.

Financial instruments and the management of risk

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 53 to 56.

Borrowings

The Company has access to borrowings up to £90 million (2017: £90 million) comprising, £30 million of unsecured loan notes and a committed bank facility with Scotiabank for £60 million. In addition the Company has a small amount of Preference Stock in issue (see page 52 for more details).

Viability Statement

The Company is a long term investor; the Board believe 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 believe 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 this Strategic Report.

Corporate Information (continued)

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 net asset value and share price.

The Board does not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place. Also the Directors do not envisage any change in strategy or objective or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Only a substantial financial crisis affecting the global economy could have an impact on this assessment. Whilst there is currently uncertainty in the markets due to the UK's negotiations to leave the European Union, the Board does not believe that this will have a long term impact on the viability of the Company and its ability to continue in operation.

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 year period.

Future Developments

The future success of the Company is dependent primarily on the performance of its investments, which will to a significant degree reflect the performance of the stock market and the Manager. Although the Company invests in companies that are listed (or quoted) in the United Kingdom, the underlying businesses of those companies are affected by various economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective in accordance with its investment policy. Further comment on the outlook for the Company is given in the Chairman's Report and in the Fund Manager's Report.

Key Performance Indicators ("KPIs")

In order 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 KPIs. The charts, tables and data on pages 2, 3 and 5 show how the Company has performed against these KPIs:

Performance measured against the Benchmark

The Board reviews, at each of its meetings, the performance of the portfolio, the net asset value per share ("NAV") and the share price and compares them with the performance of the Company's benchmark.

Performance measured against the 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 benchmark, the Board also considers the performance against the peer group.

Discount

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 peer group 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 figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula.

Corporate Responsibility

Responsible Investment

Janus Henderson is responsible for reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical ("SEE") issues) in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance ("ESG") issues into mainstream investment decision-making and ownership practices. The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is considered by Janus Henderson's Risk Team but investments are not ruled out on social and environmental grounds only.

Voting Policy and the UK Stewardship Code

The Manager has a responsible investment policy in place which sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how the Stewardship Code is implemented. The Company has reviewed the policy and has delegated responsibility for voting to the Manager. The Board receives regular reports on the voting undertaken by the Manager on behalf of the Company. The Board and the Manager believe that voting at General Meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. The Manager actively votes at shareholder meetings and engages with companies as part of the voting process. Voting decisions are made in close consultation with the Fund Manager, with regular dialogue between fund managers and corporate governance specialists.

Practical difficulties may prevent voting in some markets. In particular, various factors, including restrictions on dealing and costs, may inhibit voting in some international markets and must be taken into account.

Corporate Information (continued)

The responsible investment policy and further details of responsible investment activities can be found on the website **www.janushenderson.com**.

Employees, Social, Community, Human Rights and Environmental Matters

The Company's core activities are undertaken by Janus Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues here; Janus Henderson's policies are included in its annual report which can be found on its website.

Janus Henderson's corporate responsibility statement is included on the website detailed above. In 2012 Henderson was granted CarbonNeutral Company status which it committed to maintain at least until the end of 2018.

The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as CarbonNeutral®.

Modern Slavery Act 2015

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

Board Diversity

At the year end, the Board comprised of five Directors, three of whom are female. The Directors' appointment to the Board was based on skills and experience. More information on the Board's consideration of diversity is given in the Corporate Governance Statement. The Company has no employees and therefore, there is nothing further to report in respect of gender representation within the Company.

For and on behalf of the Board

Jamie Cayzer-Colvin
Chairman
3 August 2018

Glossary and Alternative Performance Measures

Alternative Investment Fund Managers Directive ("AIFMD")

Agreed by the European Parliament and the Council of the European Union and transposed 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 of the Company 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 relation to various matters which impact the regulation of such entities.

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

From 22 July 2014 all AIFs were required to appoint a Depositary which 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 is has discharged its liability in certain markets. The Depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts.

Dividend Dates

When declared or recommended, 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 Registrars 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 will be disclosed ex-dividend.

Gearing

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

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.

Market Capitalisation ("Market Cap")

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

Glossary and Alternative Performance Measures
(continued)

Net Asset Value ("NAV") per Ordinary Share
The value of the Company's assets (i.e. investments (see note 10) and cash held (see Balance Sheet)) less any liabilities (i.e. bank borrowings and debt securities (see notes 13, 14 and 15)) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV is published daily.

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 actual costs incurred in the year (see notes 4 and 5) as being the best estimate of future costs, excluding any performance fee in accordance with the AIC methodology and is the annualised ongoing charge expressed as a percentage of the average aggregate NAV in the period.

Premium/Discount
The amount by which the market price per share (see page 3) of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per ordinary share.

Revenue Return Per Share
The revenue return per share is the revenue return profit for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year.

Total Return Performance
This is the return on the share price (see page 3) or NAV (see NAV per Ordinary Share) taking into account both the rise and fall of share prices and the dividends and interest 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).

Yield
The annual dividend (see note 9) expressed as a percentage of the share price (see page 3).

Corporate Report

Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 June 2017 to 31 May 2018. The Henderson Smaller Companies Investment Trust plc (the "Company") (registered in England & Wales on 16 December 1887 with company registration number 00025526) was active throughout the year under review and was not dormant.

Directors' Remuneration and Shareholdings

The Directors' Remuneration Report on pages 27 and 28 provides information on the remuneration and share interests of the Directors.

Directors' Conflicts of Interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to 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 prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continues to operate effectively.

Directors' Insurance and Indemnity

Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity out of the assets of the Company for every Director or other officer of the Company against any liability which he or she may incur as a Director or other officer of the Company in defending any proceedings (whether civil or criminal) in which judgement is given in his or her favour, or he or she is acquitted, or in connection with any application under the Companies Act 2006 in which he or she is granted relief by the court.

Donations

The Board supports a number of charities, all of which are personally selected on an annual basis by the Directors. These charities span a variety of different causes including further education, building restoration projects and hospices for people living with life-limiting illness.

During the year the Company made charitable donations totalling £5,000 (2017: £5,000). The Company does not make political donations (2017: £nil).

Related Party Transactions

The Company's transactions with related parties in the year were with the Directors and the Manager. There have been no material transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of expenses and remuneration for which there were no outstanding amounts payable at the year end. Directors' shareholdings are disclosed on page 27.

In relation to the provision of services by the Manager, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services there have been no material transactions with the Manager affecting the financial position of the Company during the year under review. More details on transactions with the Manager, including amounts outstanding at the year end, are given in note 21 on page 58.

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 2018 and 31 May 2017 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.

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 2018 and 31 May 2017 there were 4,257 preference stock units in issue. This represents 0.02% of the Company's share capital.

There are no restrictions on the transfer of the Company's share capital and there are no shares or stock which carry specific rights with regards to control of the Company.

The Directors seek annual authority from shareholders to allot new ordinary shares, to dis-apply the pre-emption rights of existing shareholders and to buy-back for cancellation or to be held in treasury the Company's ordinary shares. 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.

At the Annual General Meeting in October 2017 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2018, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 11,197,799 shares (being 14.99% of the issued ordinary share capital as at 5 October 2017). In the period from 31 May 2018 to 3 August 2018 the Company did not buy back any ordinary shares. There remained 11,197,799 ordinary shares available within the buy-back authority granted in 2017. A fresh buy-back authority will be sought at the Annual General Meeting in September. Shares are not bought back unless the result is an increase in the NAV per ordinary share.

The Company also seeks annual authority to buy-back preference stock units. No preference stock units were bought back during the year. A fresh buy-back authority will be sought at the Annual General Meeting in September. Further details of the preference stock units are given in note 14 on page 52.

Report of the Directors (continued)

Holdings in the Company's Shares

Declarations of interests in the voting rights of the Company as at 31 May 2018 in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules were as follows:

	Number of ordinary shares held	% of voting rights
Lazard Asset Management LLC	5,873,714	7.9
East Riding of Yorkshire Council	4,454,111	6.0
Standard Life Aberdeen plc	3,924,597	5.2
1607 Capital Partners LLC	3,710,573	5.0
Newton Investment Management Limited	3,697,223	4.9
Royal London Asset Management Limited	2,893,256	3.9

There have been no further changes notified in the period to 3 August 2018.

The Board is aware that, as at 31 May 2018, 4.0% of the issued ordinary shares are held on behalf of participants in Halifax Share Dealing products run by Halifax Share Dealing Limited ("HSDL"). In accordance with the arrangements made between HSDL and Janus Henderson, the participants in this scheme are given the opportunity to instruct HSDL's nominee company to exercise the voting rights appertaining to their shares in respect of all General Meetings of the Company.

Life of the Company

The Board announced on 27 September 2002 that it proposed to introduce regular continuation votes for the Company. A continuation vote was put to the Annual General Meeting of the Company held in 2004 and every third year thereafter, most recently at the 2016 AGM. The next continuation vote will be put to shareholders in 2019. In the event of the shareholders in General Meeting voting against the continuation of the Company, the Directors would expect to convene a further General Meeting, as soon as practicable, at which proposals to liquidate, reorganise or reconstruct the Company would be put forward.

Annual General Meeting ("AGM")

The AGM will be held on 14 September 2018 at 11.30am at the Company's Registered Office. The Notice and details of the resolutions to be put at the AGM are contained in the circular being sent to shareholders with this report.

Corporate Governance

The Corporate Governance Statement set out on pages 29 to 32 forms part of the Report of the Directors.

Other Information

Information on recommended dividends, future developments and financial risks are detailed in the Strategic Report.

Directors' Statement as to Disclosure of Information to the Auditors

Each of the Directors who were members 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 which the Company's Auditors 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 Auditors is aware of that information.

Global Greenhouse Gas Emissions

As an externally managed investment trust company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 May 2018 (2017: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Listing Rule 9.8.4

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.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
3 August 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 Financial Reporting Standards ("IFRS") as adopted by the European Union. 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 IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 Disclosure Guidance and Transparency Rule 4.1.12

Each of the Directors, who are listed on page 16, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union 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 includes 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

Jamie Cayzer-Colvin
Chairman
3 August 2018

The financial statements are published on **www.hendersonsmallercompanies.com** which is a website maintained by the Manager.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The maintenance and integrity of the website is the responsibility of the Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

Directors' Remuneration Report

Introduction

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 in August 2013 (the "Regulations"). The report also meets the relevant requirements of the Companies Act 2006 (the "Act") and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. The Company's remuneration policy was originally approved by shareholders at the AGM in 2014 and again in 2017 in accordance with section 439A of the Act. The policy will remain in place until 2020, unless amended by way of an ordinary resolution put to shareholders at a General Meeting. No changes to the policy are currently proposed.

The Company's Auditors are 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 of the 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 each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

The Board as a whole considers Directors' remuneration. Therefore, the Board has not appointed a Remuneration Committee to consider such matters. The Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors review annually the fees paid to the boards of directors of other comparable investment trust companies).

Remuneration Policy

The Board consists entirely of non-executive Directors who meet formally at least five times a year to deal with the important aspects of the Company's affairs. New Directors are appointed with the expectation that they will serve for a minimum period of three years. Directors' appointments are reviewed formally every three years thereafter by the Board as a whole. None of the Directors have a contract of service or a contract for services and a Director may resign by notice in writing to the Board at any time; there are no set notice periods.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally or to a third party specified by him or her. There are no long-term incentive schemes and the fees are not specifically related to the Directors' performance, either individually or collectively.

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. The policy is for the Chairman of the Board and the Chairman of the Audit Committee to be paid higher fees than the other Directors in recognition of their more onerous roles. The policy is to review the fee rates annually, although such review will not necessarily result in any change to them. The Company's Articles of Association limit the fees payable to the Directors to £200,000 per annum.

Annual Statement

As Chairman, Jamie Cayzer-Colvin reports that there have been no changes in fees for the year ended 31 May 2018. However, following an annual review of fees in April 2018, Directors' fees will be increased with effect from 1 June 2018. These increases were made after consideration of the fees paid to other investment trusts in the sector of an equivalent size and also in relation to the fees paid to directors of other Janus Henderson managed trusts. These increases ensure the Directors' are properly remunerated for their services to the Company and that the Company can remain competitive when seeking new Directors. There have been no other major decisions on Directors' remuneration or any other changes to remuneration in the year under review.

Annual Report on Remuneration

Directors' interests in shares (audited)

	Ordinary shares of 25p	
	31 May 2018	1 June 2017
Jamie Cayzer-Colvin	12,000	12,000
Beatrice Hollond	5,700	5,700
David Lamb	5,802	5,802
Victoria Sant	500	500
Mary Ann Sieghart	9,038	7,538

No Director has an interest in the Preference Stock of the Company.

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 above table. There have been no other changes to any of the Directors' holdings in the period to 3 August 2018.

Relative Importance of Spend on Pay

In order to show the relative importance of spend on pay, the table below sets out the total level of remuneration compared to the distributions paid to shareholders by way of dividends. There were no share buy-backs during the year. There were no other significant distributions, payments or other uses of the Company's profit or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2018 £	2017 £	Change £
Total remuneration	130,000	130,807	(807)
Ordinary dividends paid during the year	14,193,341	11,952,287	2,241,054

Statement of Voting at AGM

At the 2017 AGM 34,886,852 votes were received (99.6%) voting for the resolution seeking approval of the Directors' Remuneration Report, 57,554 (0.2%) were against, 72,844 (0.2%) were discretionary and 32,086 were withheld; the percentage of votes excludes votes withheld. In relation to the approval of the Company's Remuneration Policy, also approved at the 2017 AGM, 34,888,365 votes (99.6%) were received voting for the resolution, 52,722 (0.2%) were against, 72,844 (0.2%) were discretionary and 35,405 were withheld.

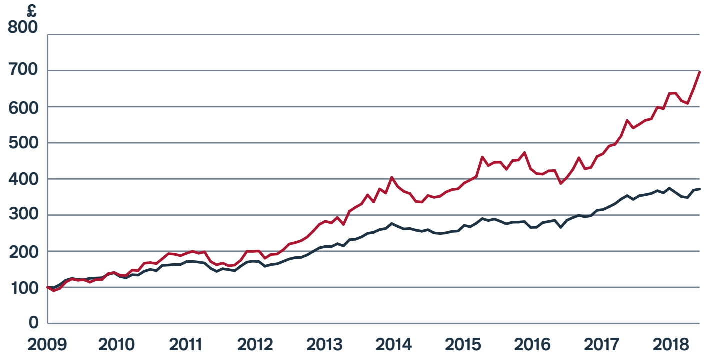
Directors' Remuneration Report (continued)

Performance

The graph below compares the mid-market price of the Company's ordinary shares over the nine year period ended 31 May 2018 with the return from the Numis Smaller Companies Index (excluding investment companies) on a total return basis in sterling terms ("Benchmark") over the same period.

Company's share price total return, assuming the investment of £100 on 31 May 2009 and the reinvestment of all dividends (excluding dealing expenses) (Source: Morningstar for the AIC)

Benchmark total return, assuming the notional investment of £100 on 31 May 2009 and the reinvestment of all income (excluding dealing expenses) (Source: Datastream)



Directors' Remuneration (audited)

The remuneration paid to the Directors who served during the years ended 31 May 2018 and 31 May 2017 was as follows:

	2018 Total salary and fees £	2017 Total salary and fees £	2018 Expenses and taxable benefits £	2017 Expenses and taxable benefits £	2018 Total £	2017 Total £
Jamie Cayzer-Colvin[1]	34,000	34,000	–	–	34,000	34,000
Beatrice Hollond[2]	27,000	27,000	–	303	27,000	27,303
David Lamb	23,000	23,000	–	–	23,000	23,000
Keith Percy[3]	–	7,667	–	–	–	7,667
Victoria Sant[4]	23,000	15,837	–	–	23,000	15,837
Mary Ann Sieghart	23,000	23,000	–	–	23,000	23,000
Total	**130,000**	**130,504**	**–**	**303**	**130,000**	**130,807**

Notes:
The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made
1 Chairman and highest paid Director
2 Chairman of the Audit Committee
3 Retired from the Board on 23 September 2016
4 Appointed a Director on 23 September 2016

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.

Since 1 June 2018 the fees payable to the Directors are as follows (previous rates are shown in brackets): Chairman £34,500 (£34,000), Audit Committee Chairman £27,500 (£27,000) and Director £23,500 (£23,000).

For and on behalf of the Board

Jamie Cayzer-Colvin
Chairman
3 August 2018

Corporate Governance Statement

The Corporate Governance Statement forms part of the Report of the Directors.

Applicable Corporate Governance Codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment company, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council ("FRC") in April 2016 are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in July 2016 (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: **www.theaic.co.uk** and **www.frc.org.uk**.

The Board have noted that the FRC has issued a revised code which the Company will be required to report against for the financial year ending 31 May 2020.

Statement of Compliance

The Directors believe that the Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350 Index) during the year under review and up to the date of this report and thereby the provisions of the UK Code except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations.

The Board

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 of the 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.

The Board currently consists of five non-executive Directors. All Directors have a wide range of other interests and are not dependent on the Company itself. At a Board meeting in April 2018 the Directors reviewed their independence and confirmed that all Directors remain wholly independent of the Manager. Their biographical details, set out on page 16, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

The Board meets formally at least five times a year and deals with the important aspects of the Company's affairs, including the setting of parameters for and the monitoring of investment strategy and the review of investment performance. The Board sets limits on the size and concentration of new investments, on any use of derivatives and on the extent to which borrowings may be used. The application of these and other restrictions, including those which govern the Company's tax status as an investment trust, are reviewed regularly at meetings of the Board. The Manager takes decisions as to the purchase and sale of individual investments and is responsible for effecting those decisions on the best available terms.

The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. In particular, he ensures that the Manager provides the Directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of the Manager attend each Board meeting, enabling the Directors to seek clarification on specific issues or to probe further on matters of concern. The Board has a formal schedule of matters specifically reserved for its decision, which include strategy, management and structure, financial reporting and other communications, Board membership and other appointments, contracts, internal controls and corporate governance. There is an agreed procedure for Directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense. The Directors have access to the advice and services of the Corporate Secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

The Board may appoint Directors to the Board without shareholder approval. Any Director so appointed must stand for election by the shareholders at the next Annual General Meeting in accordance with the Articles of Association. The total number of Directors shall not be less than two nor more than fifteen.

In addition, under the Articles of Association, shareholders may remove a Director before the end of his or her term by passing a special resolution at a General Meeting of the Company. A special resolution is passed if more than 75% of the votes cast, in person or by proxy, are in favour of the resolution.

When a Director is appointed he or she is offered an induction programme organised by the Manager at the request of the Chairman. Directors are also provided, on a regular basis, with key

Corporate Governance Statement (continued)

information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are encouraged to attend suitable training courses on an ongoing basis at the Company's expense.

The Board has agreed that all Directors will stand for re-election on an annual basis.

The Board's tenure and succession policy seeks to ensure that the Board is well balanced and refreshed regularly by the appointment of new Directors with the skills and experience necessary, in particular, to replace those lost by Directors' retirements. Directors must be able to demonstrate their commitment, including in terms of time, to the Company. The Board is of the view that length of service does not of itself impair a Director's ability to act independently. Rather, a long serving Director can offer a perspective that adds value to the deliberations of a well-balanced investment trust company board. Accordingly, the Board does not consider that Directors lose their independence solely by virtue of length of service but the roles and contributions of long-serving Directors will be subject to particularly rigorous review every year.

Board Evaluation

The Board's procedure in the current year for evaluating the performance of the Board, its Committees and the individual Directors has been by means of questionnaire. The evaluation process is designed to show whether individual Directors continue to contribute effectively to the Board and to clarify the strengths and weaknesses of the Board's composition and processes. The Chairman takes the lead in acting on the results of the evaluation process. In respect of the Chairman, a meeting of the Directors was held under the chairmanship of the Senior Independent Director, without the Chairman present, to evaluate his performance.

The Chairman of the Company is an independent non executive Director. Mary Ann Sieghart is the Company's Senior Independent Director. Beatrice Holland will become the Senior Independent Director when Mary Ann Sieghart steps down from the Board at the forthcoming AGM. The Board considers that all the Directors have different qualities and areas of expertise on which they may lead when issues arise.

Board Committees

The Board has established Audit, Management Engagement and Nomination Committees with defined terms of reference and duties. All three Committees comprise non-executive Directors appointed by the Board; the Board also appoints the Chairman of each of the Committees. The membership of these Committees is set out on page 16. A record of the meetings held during the year is set out on page 31.

The terms of reference of the three Committees are available on the Company's website **www.hendersonsmallercompanies.com** or on application to the Corporate Secretary.

Audit Committee

The Report of the Audit Committee can be found on pages 33 and 34.

Management Engagement Committee

All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board. The Management Engagement Committee is responsible for the regular review of the terms of the management contract with the Manager. The Management Engagement Committee met once formally during the year. The details of the management arrangements are set out on pages 15 and 16.

Nomination Committee

All Directors are members of the Nomination Committee, which is chaired by the Chairman of the Board (who would not chair the Committee when the Chairman's successor was being considered). The Committee is responsible for reviewing Board succession planning and tenure policy, the performance of the Board as a whole and the Board Committees and the appointment of new Directors through an established formal procedure.

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the Board although does not consider it appropriate to have set targets in relation to diversity. The Nomination Committee considers diversity as part of the annual performance evaluation and it is felt that there is a broad range of backgrounds, experience and gender and each Director brings different qualities to the Board and its discussions. The Nomination Committee will recommend when the recruitment of additional non-executive Directors is required to enhance the diversity on the Board. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up. The Committee will use external agencies as and when the requirement to recruit an additional Board member becomes necessary. Odgers Berndtson, who have not provided any other services to the Company, have been engaged during the year to recruit an additional Director as Mary Ann Sieghart is stepping down from the Board at the AGM in September 2018. The Committee also reviews and recommends to the Board the Directors seeking re-election on an annual basis. Recommendation is not automatic and will follow a process of evaluation of each Director's performance and consideration of the Director's independence. The Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the UK Code any Director serving for longer than six years is subject to particularly rigorous assessment of his or her contribution.

The Committee meets annually to carry out its review of the Board, its composition and size and its Committees.

Corporate Governance Statement (continued)

Board attendance

The table below sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in October 2017, with the exception of the Chairman who was absent due to illness.

	Board	AC[1]	MEC	NC
Number of meetings	**5**	**3**	**1**	**1**
Jamie Cayzer-Colvin	4	3	1	1
Beatrice Hollond	5	3	1	1
David Lamb	5	3	1	1
Victoria Sant	5	3	1	1
Mary Ann Sieghart	5	3	1	1

AC: Audit Committee
MEC: Management Engagement Committee
NC: Nomination Committee
1 Jamie Cayzer-Colvin is not a member of the Audit Committee but attends meetings by invitation

The Directors and committees of the Board also met during the year to undertake business such as approval of the Company's results.

Internal Controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The process accords with the FRC's guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in September 2014. The system was in operation throughout the period 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, specifying levels of authority and exposure limits. The Board reviews reports on investment performance against and compliance with the criteria at each meeting;
- Regular financial reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- Contractual agreements with the Manager and all other third party service providers. The Board reviews performance levels and adherence to relevant provisions in the agreements on a regular basis through reporting to the Board and conducts a formal evaluation of the overall level of service provided at least annually;
- The review of controls at the Manager and other third party service providers. The Board receives quarterly reporting from the Manager and Depositary, and reviews annual assurance reports on the effectiveness of the control environments at the Company's key service providers; and
- Review of additional reporting provided by:
  - the Manager's Operational Risk team on the control environment in operation at the Manager and their view of the control environments in place at the third party service providers used by the Company; and
  - the Manager's Internal Audit team on areas of operation which are relevant to the Company.

The Board noted the service auditors' qualification in respect of the assurance reports of one of the Company's third party service providers which covered controls during the reporting period. The Board is aware that the Audit Committee has sought additional clarification in respect of the exceptions which resulted in the qualification and is satisfied that the matter has been considered in sufficient detail. The Board has reviewed the effectiveness of the Company's system of internal controls for the period ended 31 May 2018. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant.

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's management functions are delegated to third parties and the Board monitors the controls in place with support from the Manager's internal audit department. As such the Board has determined that there is currently no need for the Company to have its own internal audit function. The Board will continue to review on an annual basis.

Accountability and Relationship with Janus Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 26, the Independent Auditors' Report on pages 35 to 39 and the Viability Statement on pages 18 and 19.

The Board has delegated contractually to external third parties, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 21), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provides a forum to discuss industry matters which would then be reported to the Board.

Corporate Governance Statement (continued)

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of Janus Henderson attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Corporate Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board and the Manager operate in a supportive, co-operative and open environment.

The Corporate Secretary, Henderson Secretarial Services Limited, is 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. Any correspondence from shareholders addressed to the Chairman or the Company received at Janus Henderson's offices is forwarded to the Chairman of the Company in line with the audited procedures in place. Any correspondence is submitted to the next Board meeting.

Janus Henderson and BNP Paribas Securities Services, which acts for Janus Henderson, have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

Bribery Act 2010

The Company has no employees. The Board has reviewed the implications of the Bribery Act 2010 and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers that they maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Criminal Finances Act 2017

The Board has also considered the changes made by the Criminal Finances Act 2017, which came into effect in September 2017, which introduced a new corporate criminal offence of failing to take reasonable steps to prevent the facilitation of tax evasion. The Company has received assurances from the Company's main contractors and suppliers that they maintain a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

Continued Appointment of the Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the management agreement with the Manager are contained on pages 15 and 16.

In addition to the monitoring of investment performance at each meeting, through the Management Engagement Committee an annual review of the Company's investment performance over both the short and longer terms, together with the quality of other services provided by the Manager, including company secretarial and accounting, is undertaken.

Following an annual review, it is the Directors' opinion that the continuing appointment of the Manager on the existing terms is in the interest of the Company and its shareholders as a whole.

Share Capital

Please see the Report of the Directors on page 24.

Relations with Shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the website. Janus Henderson also provides information on the Company and Fund Manager videos on the website, via various social media channels and through its HGi content platform, more details of which are included on page 17.

The Board considers that shareholders should be encouraged to attend and participate in the AGM, which will also be available to watch as it happens by visiting **www.janushenderson.com/trustslive**. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other Directors at the meeting and the Fund Manager will make a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and notice of AGM be issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also available on the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Chairman via the Corporate Secretary at the address given on page 17.

General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
3 August 2018

Report of the Audit Committee

The Audit Committee is chaired by Beatrice Hollond, the other members are David Lamb, Mary Ann Sieghart and Victoria Sant. Jamie Cayzer-Colvin attends the Audit Committee meetings by invitation. Although none of the members of the Audit Committee are by profession an accountant, the Board considers that several of the Directors, including the Chairman of the Audit Committee, have recent and relevant financial experience from their senior management roles elsewhere.

Meetings

The Audit Committee's usual programme is to meet at least three times a year: in advance of the publication of both the annual and the half year results and on at least one other occasion with an agenda that is focused on its broader responsibilities. The Company's Auditors are invited to attend meetings of the Audit Committee on a regular basis. Representatives of the Manager and BNP Paribas Securities Services may also be invited to attend if deemed necessary by the Audit Committee.

Role and Responsibilities

The role of the Audit Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Auditors. The Audit Committee formally reports to the Board, the Committee's responsibilities are set out in formal terms of reference which are reviewed at least annually.

In the year under review the main duties undertaken were:

- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and 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 in order to make recommendations to the Board. In assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying their respective knowledge and expertise;
- consideration of 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;
- conducting the audit tender for the financial year ending 31 May 2019;
- consideration of the internal controls in place at Janus Henderson, BNP Paribas Securities Services as administrator and HSBC Bank plc as Depository and Custodian;
- consideration of Janus Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Janus Henderson's internal audit and risk departments periodically;
- consideration of the whistle blowing policy that Janus Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action;
- consideration of the key risks, risk management systems in place and the Company's risk matrix;
- consideration of the Company's Anti-Bribery Policy;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of the appointment of the Auditors, the Auditors' effectiveness, performance and remuneration;
- consideration of the Auditors' independence and objectivity and the provision of any non-audit services;
- consideration of the annual confirmation from the Company's Depositary; and
- consideration of the appropriate level of dividend to be paid by the Company.

Policy on Non-Audit Services

In July 2016 the Audit Committee adopted a new policy on the provision of non-audit services, in accordance with the Financial Reporting Council's (FRC's) Guidance on Audit Committees and the FRC's Revised Ethical Standards 2016. The policy is reviewed regularly. The Audit Committee has determined that the Auditors will not be engaged to provide any non-audit services where the Committee considers there to be any significant risk of their independence, objectivity and effectiveness being compromised by the provision of such services. The Audit Committee may approve the provision of non-audit services if it considers such services to be:

- relevant to the statutory audit work;
- more efficiently provided by the external audit firm than by a third party; and
- at low risk of impairing the independence, objectivity and effectiveness of the audit.

The Audit Committee will refer to the Board any engagement with a cost or potential cost greater than £20,000 (or the cost, excluding VAT, of the most recent annual audit if higher). All engagements for non-audit services will be determined on a case-by-case basis.

No non-audit services were provided in the year under review.

Report of the Audit Committee (continued)

Annual Report for the year ended 31 May 2018

In relation to the financial statements for the year ended 31 May 2018 the following significant issues were considered by the Committee:

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 under the AIFMD rules, 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 Paribas Securities Services (Administrator) and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the investment management agreement.
Compliance with Section 1158 of the 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 Paribas Securities Services.
Maintaining internal controls	The Committee receives regular reports on internal controls from Janus Henderson, BNP Paribas Securities Services and HSBC Bank plc and its delegates and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit.
Recognition of dividend income	Income received is accounted for in line with the Company's accounting policies (as set out on page 45) and is reviewed by the Committee at each meeting.

The Committee is satisfied that the Annual Report for the year ended 31 May 2018, 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.

External Audit, Review and Tender

The Committee discuss the audit process with the Auditors without representatives of the Manager present and consider the effectiveness of the audit process after each audit. The Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP.

The Committee is satisfied that the Auditors are independent of the Company. The Auditors are required to rotate partners every five years and this is the fifth year that the current partner has been in place.

As announced during the year the Board, on the recommendation of the Audit Committee, put the audit for the year ending 31 May 2019 out to tender. Legislation required the Company to put the audit out to tender for the 2021 year end. However, the Board agreed that the timing of the tender be brought forward in light of the partner rotation requirements above. PricewaterhouseCoopers LLP have been Auditors to the Company since at least 1975, which is the earliest record located.

Following a formal tender process led by the Audit Committee, the Board approved the appointment of Ernst & Young LLP as Statutory Auditors for the financial year ending 31 May 2019, subject to completing the necessary processes. Their appointment will be subject to shareholder approval at the Annual General Meeting in September 2018.

We extend our thanks to PricewaterhouseCoopers LLP who have been Auditors to the Company for at least 43 years and provided many years of excellent service.

Beatrice Hollond
Chairman of the Audit Committee
3 August 2018

Independent Auditors' Report to the Members of The Henderson Smaller Companies Investment Trust plc

Report on the audit of the financial statements

Opinion

In our opinion, The Henderson Smaller Companies Investment Trust plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 May 2018; the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 June 2017 to 31 May 2018.

Our audit approach

Overview

- Overall materiality: £7.8 million (2017: £6.8 million), based on 1% of net assets.

- The Company is a standalone Investment Trust Company and appoints Henderson Investment Funds Limited (the "Manager") to manage its assets.
- We conducted our audit of the financial statements using information from BNP Paribas Securities Services (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at both the Manager and the Administrator, and adopted a fully substantive testing approach using reports obtained from the Administrator.

- Investments.
- Dividend income.
- Performance fee.

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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to, the Companies Act 2006 and section 1158 of the Corporation Tax Act 2010. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries with those charged with governance and testing the Company's compliance with section 1158 in the current year. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Investments Refer to page 34 (Report of the Audit Committee), page 45 (Accounting Policies) and page 51 (Notes to the Financial Statements). The investment portfolio at the year-end comprised listed equity investments valued at £848 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the Financial Statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. We tested the existence of the investment portfolio by agreeing investment holdings to an independent custodian confirmation. No material issues were identified.
Dividend income Refer to page 34 (Report of the Audit Committee), page 45 (Accounting Policies) and page 48 (Notes to the Financial Statements). We focused on the accuracy, occurrence and completeness of dividend income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. We also focused on the accounting policy for income recognition and the presentation of dividend income in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP") as incorrect application could indicate a misstatement in income recognition.	We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We tested the accuracy of dividend receipts by agreeing the dividend rates from investments to independent market data. To test for completeness, we tested that all dividends declared in the market by all investment holdings had been recorded. We tested occurrence by testing that all dividends recorded in the year had been declared in the market by investment holdings. We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income. No material issues were identified.

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

Key audit matter	How our audit addressed the key audit matter
Performance fee Refer to page 34 (Report of the Audit Committee), page 45 (Accounting Policies) and page 48 (Notes to the Financial Statements). A performance fee of £4.1 million is payable for the year. We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager.	We tested the calculation of the performance fee to check that it complied with the methodology as set out in the Investment Management Agreement, and agreed the inputs to the calculation, including the benchmark data, to independent third party sources, where applicable. We also tested the allocation of the performance fee between the revenue and capital return columns of the Statement of Comprehensive Income with reference to the accounting policy. No material issues were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company's accounting is delegated to the Administrator who maintains the Company's accounting records and who has implemented controls over those accounting records.

We obtained our audit evidence from substantive tests. However, as part of our risk assessment, we understood and assessed the internal controls in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and analysing the relevant control reports issued by the independent service auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£7.8 million (2017: £6.8 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £391,000 (2017: £344,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. 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.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 May 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. (CA06)

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 18 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on pages 18 and 19 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 26, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 33 and 34 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; 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.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the Directors prior to 1975, which is as early as records have been located, therefore the period of total uninterrupted engagement is at least 43 years to 31 May 2018.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 August 2018

Statement of Comprehensive Income

Notes		Year ended 31 May 2018 Revenue return £'000	Year ended 31 May 2018 Capital return £'000	Year ended 31 May 2018 Total £'000	Year ended 31 May 2017 Revenue return £'000	Year ended 31 May 2017 Capital return £'000	Year ended 31 May 2017 Total £'000
2	Investment income	18,662	–	18,662	15,988	–	15,988
3	Other income	138	–	138	172	–	172
10	Gains on investments held at fair value through profit or loss	–	97,561	97,561	–	145,291	145,291
	Total income	**18,800**	**97,561**	**116,361**	**16,160**	**145,291**	**161,451**
	Expenses						
4	Management and performance fees	(723)	(5,772)	(6,495)	(579)	(4,674)	(5,253)
5	Other expenses	(622)	–	(622)	(566)	–	(566)
	Profit before finance costs and taxation	**17,455**	**91,789**	**109,244**	**15,015**	**140,617**	**155,632**
6	Finance costs	(433)	(1,010)	(1,443)	(387)	(903)	(1,290)
	Profit before taxation	**17,022**	**90,779**	**107,801**	**14,628**	**139,714**	**154,342**
7	Taxation	–	–	–	(10)	–	(10)
	Profit for the year and total comprehensive income	**17,022**	**90,779**	**107,801**	**14,618**	**139,714**	**154,332**
8	Earnings per ordinary share – basic and diluted	22.79p	121.52p	144.31p	19.57p	187.03p	206.60p

The total column of this statement represents the Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union.

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

The notes on pages 44 to 59 form part of these financial statements.

Statement of Changes in Equity

Notes		Year ended 31 May 2018				
				Retained earnings		
		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
	Total equity at 1 June 2017	18,676	26,745	623,009	20,030	688,460
	Total comprehensive income:					
	Profit for the year	–	–	90,779	17,022	107,801
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(14,193)	(14,193)
	Total equity at 31 May 2018	**18,676**	**26,745**	**713,788**	**22,859**	**782,068**

Notes		Year ended 31 May 2017				
				Retained earnings		
		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
	Total equity at 1 June 2016	18,676	26,745	483,295	17,364	546,080
	Total comprehensive income:					
	Profit for the year	–	–	139,714	14,618	154,332
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(11,952)	(11,952)
	Total equity at 31 May 2017	**18,676**	**26,745**	**623,009**	**20,030**	**688,460**

The notes on pages 44 to 59 form part of these financial statements.

Balance Sheet

Notes		At 31 May 2018 £'000	At 31 May 2017 £'000
	Non current assets		
10	Investments held at fair value through profit or loss	848,330	751,736
	Current assets		
12	Receivables	3,334	3,761
	Tax recoverable	19	19
	Cash and cash equivalents	4,889	3,829
		8,242	**7,609**
	Total assets	**856,572**	**759,345**
	Current liabilities		
13	Payables	(8,612)	(9,314)
15	Bank loans	(36,079)	(31,769)
		(44,691)	**(41,083)**
	Total assets less current liabilities	**811,881**	**718,262**
	Non current liabilities		
14	Financial liabilities	(29,813)	(29,802)
	Net assets	**782,068**	**688,460**
	Equity attributable to equity shareholders		
16	Share capital	18,676	18,676
17	Capital redemption reserve	26,745	26,745
	Retained earnings:		
17	Capital reserves	713,788	623,009
18	Revenue reserve	22,859	20,030
	Total equity	**782,068**	**688,460**
19	**Net asset value per ordinary share**	1,046.9p	921.6p

These financial statements on pages 40 to 59 were approved by the Board of Directors on 3 August 2018 and were signed on its behalf by:

Jamie Cayzer-Colvin
Chairman

The notes on pages 44 to 59 form part of these financial statements.

Statement of Cash Flows

Notes		For the year ended 31 May 2018 £'000	31 May 2017 £'000
	Operating activities		
	Profit before taxation	107,801	154,342
	Add back interest payable	1,443	1,290
10	Gains on investments held at fair value through profit or loss	(97,561)	(145,291)
10	Purchases of investments	(196,351)	(156,105)
10	Sales of investments	197,318	145,587
	Increase in receivables	(21)	(55)
	Decrease/(increase) in amounts due from brokers	866	(391)
	Increase in accrued income	(418)	(703)
	Increase in payables	774	3,132
	(Decrease)/increase in amounts due to brokers	(1,480)	5,393
	Taxation on investment income	–	(6)
	Net cash inflow from operating activities before interest	**12,371**	**7,193**
	Interest paid	(1,428)	(1,298)
	Net cash inflow from operating activities	**10,943**	**5,895**
	Financing activities		
9	Equity dividends paid	(14,193)	(11,952)
	Drawdown/(repayment) of bank loans	4,310	(338)
	Net cash outflow from financing activities	**(9,883)**	**(12,290)**
	Increase/(decrease) in cash and cash equivalents	**1,060**	**(6,395)**
	Cash and cash equivalents at the start of the year	3,829	10,224
	Cash and cash equivalents at the end of the year	**4,889**	**3,829**

The notes on pages 44 to 59 form part of these financial statements.

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 financial statements of the Company for the year ended 31 May 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. 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 November 2014 and updated in February 2018 with consequential amendments 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. The only impact on the financial statements is the addition of note 22 as an additional disclosure:

Standard		Effective for annual periods beginning on or after
IAS 7 Amendment	Disclosure Initiative	1 January 17
IAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 17
IFRS 12 Amendment (AI 2014-16)	Clarification of the scope of the Standard	1 January 17

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

Standard		Effective for annual periods beginning on or after
IFRS 15	Revenue from Contracts with Customers	1 January 18
IFRS 9	Financial Instruments	1 January 18
IFRS 15 Amendment	Effective date of IFRS 15	1 January 18
IFRS 15 Amendment	Clarifications	1 January 18
IFRS 1 Amendment (AI 2014-16)	Deletion of short-term exemptions for first-time adopters	1 January 18
IFRS 9 Amendment	Prepayment Features with Negative Compensation	1 January 19

The Directors have assessed the impact of these new standards, in particular IFRS 9 and IFRS 15. IFRS 9 should have no material impact because under the new standard, the Company will continue to classify, and account for, all its investment assets at fair value through profit and loss. The Preference Stock and unsecured loan notes will continue to be accounted for at amortised cost. All other financial assets and liabilities are currently accounted for at a reasonable approximation of fair value and this will not change under the new standard. IFRS 15 will have no impact because the Company's business is that of investing in financial instruments and investment income is outside the scope of IFRS 15.

b) Going concern

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 23 September 2016 and passed by a substantial majority of the shareholders. The assets of the Company consist almost entirely of securities that are listed (or listed on AIM) and, accordingly, the Directors believe that the Company has adequate financial resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having assessed these factors, the principal risks and other matters discussed in connection with the Viability Statement, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

c) Investments held at fair value through profit or loss

All investments are designated upon initial recognition as held at fair value through profit or loss. 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. Unquoted investments are valued by the Directors using primary valuation techniques such as earnings multiples, recent transactions and net assets. There were no unquoted investments during the current year or prior year. Where fair value cannot be reliably measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

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 or losses on investments held at fair value though 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 using the effective interest rate method. Interest from debt securities is accounted for on an accruals basis.

Where the Company enters into a commitment to sub-underwrite an issue of securities in exchange for the receipt of commission, a derivative financial instrument is created. Any such derivatives are recognised initially at fair value. They are re-measured subsequently at fair value, with the related gains and losses being reflected in the Statement of Comprehensive Income. Net losses arising from these derivatives, where the actual or expected loss from taking up the securities underwritten exceeds the commission income, are allocated to the capital return. Net gains are allocated to the revenue return.

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.

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 financials position are expressed in pounds 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 and losses arising on the retranslation of investments held at fair value through profit or loss are included within the "Gains or losses on investments held at fair value through profit or loss". Any foreign currency gains and losses are taken to capital in the Statement of Comprehensive Income.

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

Under IFRS 8, operating segments are considered to be components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Directors meet regularly to consider investment strategy and to monitor the Company's performance. The Fund Manager, who has been appointed to manage the Company's investments, attends all Board meetings at which investment strategy and performance are discussed.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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.

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. Dividends can be paid from both realised capital profits and the revenue reserve.

m) Capital and 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 or options 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, assumptions and judgements

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

	2018 £'000	2017 £'000
Income from companies listed or quoted in the United Kingdom:		
Dividends	15,906	14,253
Special dividends	2,133	1,164
Property income distributions	623	571
Total investment income	**18,662**	**15,988**

3 Other income

	2018 £'000	2017 £'000
Bank and other interest	2	1
Underwriting income (allocated to revenue)[1]	136	171
	138	**172**

1 None of the income receivable from sub-underwriting commitments was allocated to capital during the year (2017: £nil)

4 Management and performance fees

	2018			2017		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Management fee	723	1,686	2,409	579	1,350	1,929
Performance fee	–	4,086	4,086	–	3,324	3,324
	723	**5,772**	**6,495**	**579**	**4,674**	**5,253**

A summary of the management agreement is given on pages 15 and 16 of the Strategic Report.

5 Other expenses

	2018 £'000	2017 £'000
Directors' fees (see the Directors' Remuneration Report on page 28)	130	131
Auditors' remuneration for the audit of the Company and the financial statements	30	30
Other professional fees	78	48
FCA and London Stock Exchange fees	35	34
Registration costs	24	24
Annual and half year reports and shareholder circulars: printing and distribution	15	18
Insurances	8	9
AIC subscriptions	21	21
Custody and other bank charges	36	31
Bank facilities: commitment fees	86	58
Charitable donations	5	5
Depositary charges	55	50
Other expenses payable to the management company[1]	77	72
Share price listings in newspapers and websites	7	11
Other expenses	15	24
	622	**566**

1 Other expenses payable to the management company ("Janus Henderson") relate to sales and marketing services

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 (2017: nil).

Notes to the Financial Statements (continued)

6 Finance costs

	2018			2017		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Bank overdraft and loan interest	130	303	433	84	196	280
Interest on unsecured loan notes	300	699	999	300	699	999
Amortisation of unsecured loan notes expenses	3	8	11	3	8	11
Total	**433**	**1,010**	**1,443**	**387**	**903**	**1,290**

7 Taxation

a) Analysis of charge for the year

	2018			2017		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Overseas tax suffered	–	–	–	10	–	10
Current and total tax charge for the year	**–**	**–**	**–**	**10**	**–**	**10**

b) Factors affecting the tax charge for the year

UK corporation tax is charged at 19% (2017: effective rate 19.83%). 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% (2017: 19.83%) for the year ended 31 May 2018.

	2018			2017		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Profit before taxation	**17,022**	**90,779**	**107,801**	**14,628**	**139,714**	**154,342**
Corporation tax at 19.00% (2017: 19.83%)	3,234	17,248	20,482	2,901	27,705	30,606
Effects of:						
Non-taxable UK dividends	(3,191)	–	(3,191)	(2,747)	–	(2,747)
Non-taxable overseas dividends	(245)	–	(245)	(357)	–	(357)
Expenses not deductible for tax purposes	4	–	4	1	–	1
Excess management expenses and loan deficits	198	1,289	1,487	202	1,106	1,308
Overseas withholding tax	–	–	–	10	–	10
Non taxable capital items	–	(18,537)	(18,537)	–	(28,811)	(28,811)
Current and total tax charge for the year	**–**	**–**	**–**	**10**	**–**	**10**

c) Provision for deferred taxation

No provision has been made for deferred tax on income outstanding at the end of the year and this will be covered by unrelieved business charges.

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 £15,008,000 (2017: £13,677,000) 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 profit for the year of £107,801,000 (2017: £154,332,000) and on 74,701,796 (2017: 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.

	2018 £'000	2017 £'000
Net revenue profit	17,022	14,618
Net capital profit	90,779	139,714
Net total profit	**107,801**	**154,332**
Weighted average number of ordinary shares in issue during the year	74,701,796	74,701,796

	2018	2017
Revenue earnings per ordinary share	22.79p	19.57p
Capital earnings per ordinary share	121.52p	187.03p
Total earnings per ordinary share	**144.31p**	**206.60p**

9 Dividends

	Record Date	Pay Date	2018 £'000	2017 £'000
Final dividend 13.0p (2016: 11.0p) for the year ended 31 May 2017	8 September 2017	9 October 2017	9,711	8,217
Interim dividend of 6.0p (2017: 5.0p) for the year ended 31 May 2018	16 February 2018	9 March 2018	4,482	3,735
			14,193	**11,952**

Subject to approval at the Annual General Meeting, the proposed final dividend of 15.0p per ordinary share will be paid on 28 September 2018 to shareholders on the register of members at the close of business on 31 August 2018.

The proposed final dividend for the year ended 31 May 2018 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by the shareholders. All dividends have been paid or will be paid out of revenue profits.

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:

	2018 £'000	2017 £'000
Revenue available for distribution by way of dividends for the year	17,022	14,618
Interim dividend for the year ended 31 May 2018 of 6.0p (2017: 5.0p) per ordinary share	(4,482)	(3,735)
Final dividend for the year ended 31 May 2017 13.0p (based on the 74,701,796 shares in issue at 10 August 2017)	–	(9,711)
Proposed final dividend for the year ended 31 May 2018 15.0p (based on 74,701,796 shares in issue at 3 August 2018)	(11,205)	–
	1,335	**1,172**

Notes to the Financial Statements (continued)

10 Investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Cost at 1 June 2017	464,126	405,510
Investment holding gains at 1 June 2017	287,610	190,417
Valuation at 1 June 2017	**751,736**	**595,927**
Movements in the year:		
Acquisitions at cost	196,351	156,105
Disposals at cost	(117,944)	(97,489)
Movement in investment holding gains	18,187	97,193
Valuation at 31 May 2018	**848,330**	**751,736**
Cost at the end of the year	542,533	464,126
Investment holding gains	305,797	287,610
Valuation at 31 May 2018	**848,330**	**751,736**

Purchase and sale transaction costs for the year ended 31 May 2018 were £609,000 and £106,000 respectively (2017: transaction costs of purchases £616,000; transaction costs of sales £135,000). These comprise mainly stamp duty and commission.

Analysis of investments at fair value

	2018 £'000	2017 £'000
Equity investments:		
Listed on the London Stock Exchange	680,008	631,223
Listed on the Alternative Investment Market (AIM)	168,322	120,513
	848,330	**751,736**

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 from investments

	2018 £'000	2017 £'000
Gains on the sale of investments based on historical cost	79,374	48,098
Revaluation gains recognised in previous years	(59,975)	(40,528)
Gains on investments sold in the year based on the carrying value at the previous balance sheet date	**19,399**	**7,570**
Investment holding gains	78,162	137,721
Gains on investments held at fair value through profit or loss	**97,561**	**145,291**

All capital gains/(losses) are from investments that are listed (or listed 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 (2017: two 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
WYG	1,512	5.0
Thruvision	808	3.6
Alpha Financial Markets	6,291	3.3
Blancco Technology	1,660	3.1

12 Receivables

	2018 £'000	2017 £'000
Securities sold for future settlement	195	1,061
Prepayments and accrued income	3,139	2,700
	3,334	**3,761**

13 Payables

	2018 £'000	2017 £'000
Securities purchased for future settlement	4,350	5,830
Performance fee	4,086	3,324
Accruals and deferred income	176	160
	8,612	**9,314**

14 Financial liabilities

	2018 £'000	2017 £'000
Unsecured Loan Notes:		
3.33% Unsecured Loan Notes 2036 (redeemable at par on 23 May 2036)	29,809	29,798
Preference Stock:		
4,257 Preference Stock units of £1 each (2017: 4,257)	4	4
	29,813	**29,802**

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 (that is approved by shareholders) which incorporates risk parameters (see page 15), 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 on page 31. Internal control and the Board's approach to risk is also on page 31. 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 modeling 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;
  - OneSumX operational risk database;
  - RiskMetrics, UBS Delta, Style Research, FinAnalytica and Barra Aegis 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 the investments.

Management of the 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 2018 on its equity investments was £848,330,000 (2017: £751,736,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 12 and 13 and a sector analysis is set out on page 6. At 31 May 2018 all the 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 of 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)

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 the investments on the revenue return as at 31 May 2018 is a decrease of £223,000 (2017: £197,000) and on the capital return is an increase of £211,563,000 (2017: £187,474,000). Accordingly, the total impact on shareholders' funds is an increase of £211,340,000 (2017: £187,277,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2018 is an increase of £223,000 (2017: £197,000) and on the capital return is a decrease of £211,563,000 (2017: £187,474,000). Accordingly, the total impact is a decrease of £211,340,000 (2017: £187,277,000).

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 2018, the Company did not hold any non-sterling denominated investments (2017: 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 the risk

The possible effects on the fair value of the 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 2018 the Company had committed bank borrowing facilities for a total of £36.1 million (2017: £31.8 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 2018 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 2018 the Company's bank facility allowed borrowings to a maximum of £60 million the interest rate exposure on which is 0.975% plus LIBOR; the interest payable on the Company's £30 million issue of unsecured loan notes is fixed at 3.33%.

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 the 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 by its issue in 2016 of 3.33% unsecured loan notes 2036. The Company is able to draw short term borrowings of up to £60 million from its committed borrowing facility which expires on 10 February 2019 with Scotiabank. There were borrowings of £36,079,000 drawn down under the facility at 31 May 2018 (2017: £31,769,000).

Accordingly, the Company has access to borrowings of up to £90 million: the £30 million of fixed debt represented by the issue of unsecured loan notes and a committed bank facility of £60 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 2018, based on the earliest date on which payment could be required, was as follows:

	2018			2017		
	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[1]	–	–	–	–	–	–
Unsecured loan notes[2]	999	3,996	42,987	999	3,996	43,986
Bank loans and interest	36,160	–	–	31,829	–	–
Payables	8,547	–	–	9,292	–	–
	45,706	**3,996**	**42,987**	**42,120**	**3,996**	**43,986**

1 See also note 14 on page 52. The Company has in issue Preference Stock without a set redemption date with a total par value of £4,000 (2017: £4,000) which has a negligible ongoing finance cost.
2 The amounts due include unsecured loan notes interest

f) Credit risk

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

Management of the 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 de due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings.

In summary, the maximum exposure to credit risk at 31 May 2018 was to cash and cash equivalent of £4,889,000 (2017: £3,829,000), and to receivables of £3,334,000 (2017: £3,761,000) (see note 12).

None of the Company's financial assets are past their due date or impaired.

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 the net current liabilities are held in the Balance Sheet at a reasonable approximation of fair value. At 31 May 2018 the fair value of the Preference Stock was £4,000 (2017: £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 £32,203,000 (2017: £32,163,000) 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.

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) on page 45.

Fair value hierarchy – 2018

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	848,330	–	–	848,330
	848,330	**–**	**–**	**848,330**

Fair value hierarchy – 2017

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	751,736	–	–	751,736
	751,736	**–**	**–**	**751,736**

There have been 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 the shareholders' funds.

The Company's total capital at 31 May 2018 was £848,151,000 (2017: £750,233,000) comprising £36,079,000 (2017: £31,769,000) of unsecured bank loans, £30,000,000 (2017: £30,000,000) of Unsecured Loan Notes, £4,000 (2017: £4,000) of Preference Stock and £782,068,000 (2017: £688,460,000) of equity share capital and reserves.

At 31 May 2018 the Company had a two year revolving credit facility with Scotiabank. The Company had drawn down £36,079,000 under these facilities as at 31 May 2018 (2017: £31,769,000). The Company was fully compliant with the terms of the facility, as it existed, for the period 1 June 2017 to the date of this Annual Report.

Notes to the Financial Statements (continued)

16 Share capital

	2018 £'000	2017 £'000
Allotted, issued, authorised and fully paid: 74,701,796 ordinary shares of 25p each (2017: 74,701,796)	18,676	18,676

During the year the Company made no purchases of its own issued ordinary shares (2017: nil). Since 31 May 2018 the Company has not purchased any ordinary shares.

17 Capital redemption reserve and capital reserve

2018	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2017	26,745	287,610	335,399	623,009
Transfer on disposal of investments (see note 10)	–	(59,975)	59,975	–
Net capital gains for the year	–	78,162	19,399	97,561
Expenses charged to capital	–	–	(6,782)	(6,782)
At 31 May 2018	**26,745**	**305,797**	**407,991**	**713,788**

2017	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2016	26,745	190,417	292,878	483,295
Transfer on disposal of investments (see note 10)	–	(40,528)	40,528	–
Net capital gains for the year	–	137,721	7,570	145,291
Expenses charged to capital	–	–	(5,577)	(5,577)
At 31 May 2017	**26,745**	**287,610**	**335,399**	**623,009**

18 Revenue reserve

	2018 £'000	2017 £'000
At 1 June	20,030	17,364
Ordinary dividends paid	(14,193)	(11,952)
Revenue profit for the year	17,022	14,618
At 31 May	**22,859**	**20,030**

Notes to the Financial Statements (continued)

19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £782,068,000 (2017: £688,460,000) and on the 74,701,796 ordinary shares in issue at 31 May 2018 (2017: 74,701,796).

The Company has no securities in issue that could dilute the net asset value per ordinary share.

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

	2018 £'000	2017 £'000
Net assets attributable to the ordinary shares at 1 June	688,460	546,080
Net gains for the year	107,801	154,332
Ordinary dividends paid in the year	(14,193)	(11,952)
Net assets attributable to the ordinary shares at 31 May	**782,068**	**688,460**

20 Capital commitments and contingent liabilities

Capital commitments
There were no capital commitments as at 31 May 2018 (2017: £nil).

Contingent liabilities
There were no contingent liabilities in respect of sub-underwriting commitments as at 31 May 2018 (2017: £nil).

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 company 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 pages 14 and 15. The management fees payable to Janus Henderson under the management agreement in respect of the year ended 31 May 2018 were £2,409,000 (2017: £1,929,000) of which £202,000 was a prepayment at 31 May 2018 (2017: prepayment of £177,000). VAT is no longer payable on management (including performance) fees.

The performance fee payable to Janus Henderson in respect of the year ended 31 May 2018 is £4,086,000 (2017: £3,324,000).

In addition to the above services, Janus Henderson has provided the Company with sales and marketing services. The total fees paid or payable for these services for the year ended 31 May 2018 amounted to £77,000 (2017: £72,000 including VAT), of which £27,000 was outstanding at 31 May 2018 (2017: £21,000).

The compensation payable to key management personnel in respect of short term employment benefits was £130,000. The disclosure relates wholly to the fees of £130,000 payable to the Directors in respect of the year (2017: £131,000); the Directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 27 and 28 provides more detail.
The Company has no employees.

Notes to the Financial Statements (continued)

22 Reconciliation of net debt

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

Notes		At 1 June 2017 £'000	Cash flows £'000	Non-cash changes: Fair value changes £'000	Non-cash changes: Foreign exchange movement £'000	At 31 May 2018 £'000
	Financing Activities					
15	Bank loans	(31,769)	(4,310)	–	–	(36,079)
14	Financial liabilities	(29,802)	–	(11)	–	(29,813)
		(61,571)	**(4,310)**	**(11)**	**–**	**(65,892)**
	Non-financing Activities					
	Cash and cash equivalents	3,829	1,060	–	–	4,889
		3,829	**1,060**	**–**	**–**	**4,889**
	Total	**(57,742)**	**(3,250)**	**(11)**	**–**	**(61,003)**

General Shareholder Information

AIFMD Disclosures

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), information in relation to the Company's leverage and remuneration of Henderson Investment Funds Limited, as the Company's Alternative Investment Fund Manager ("AIFM") are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document called AIFMD Disclosure which can be found on the Company's website **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 given on page 17) to give their instructions; these must include 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 a number of non-UK based certificated shareholders and corporate entities.

Equality Act 2010

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 as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, 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 enacted in 2010 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. As a result of HMRC's change of interpretation on the meaning of shares and securities 'regularly traded on an established securities market', investment trusts now need to monitor each year the trading volume and frequency of their shares and securities to assess whether they have financial accounts.
The Company will therefore need to make an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, will need to identify and report USA reportable accounts to HMRC, as required.

General Data Protection Regulation ("GDPR")

GDPR came into force on 25 May 2018. A privacy statement can be found on the website **www.janushenderson.com**.

History

The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name of 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. Whilst the Trustee Department operated until June 1978, the principal business of the Company has been that of an investment trust company.

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 IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to 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 the PRIIPs Regulation requires the Manager, as the PRIIP manufacturer, to prepare a key information document in respect of 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

Details of the Company's share price and NAV per share can be found on the website **www.hendersonsmallercompanies.com**. The Company's NAV is published daily.

The market price of the Company's ordinary shares is published daily in The Financial Times and the Daily Telegraph, which also shows figures for the estimated net asset value ("NAV") per share and discount.

Shareholder Details

Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, via **www.computershare.com**. Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

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

Please note that it is very 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 17.

The Henderson Smaller Companies Investment Trust plc
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Janus Henderson
INVESTORS

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The Association of Investment Companies

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