

# Henderson Diversified Income Trust plc

Update for the half year ended  
31 October 2022



MANAGED BY

**Janus Henderson**  
— INVESTORS —



This update contains material extracted from the unaudited half-year results of the Company for the six months ended 31 October 2022. The unabridged results for the period are available on the Company's website.

# Performance summary

Total return performance for the six months ended 31 October 2022



Total return performance over 5 years



Total return performance to 31 October⁴

	6 months %	1 year %	3 years %	5 years %	7 years %	10 years %
NAV¹	-10.4	-20.1	-10.6	-2.6	13.0	42.5
Benchmark²	-6.9	-14.5	-6.6	-0.5	15.7	32.4
Share Price³	-10.6	-17.7	-11.8	-12.0	3.5	38.1

¹ Net asset value total return including dividends reinvested and excluding transaction costs

² 60% Global High Yield Credit (ICE BofA Global High Yield Constrained Index), 25% Global Investment Grade Corporate Credit (ICE BofA Global BBB Corporate Bond Index) and 15% European Loans (Credit Suisse Western European Leveraged Loan Index). Prior to 16 September 2021 the benchmark was three-month sterling LIBOR + 2%

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

⁴ Performance prior to 27 April 2017 reflects the performance of the predecessor company, Henderson Diversified Income Limited, that was launched on 18 July 2007

Sources: Janus Henderson, Refinitiv DataStream and Morningstar Direct

# Chairman's Statement

## Introduction

In addition to the Ukraine war, the six month period under review includes the resignation of Boris Johnson, the appointment of Ms Truss, a rise in UK base rates from 0.75% to 2.25%, the death of HM The Queen, the collapse of the Gilt market in response to the "mini Budget", the resignation of Ms Truss and, in the last week of the period, the appointment of Rishi Sunak as Prime Minister. This represents an unusual concentration of some of the more remarkable events in recent British political and economic history into just a six month reporting period.

It should therefore come as no surprise that the volatility experienced in our last financial year increased during this period. Inflation expectations rose steadily, as did the probability of a recession in the UK. The NAV total return in the six months to 31 October 2022 was -10.4%. The share price total return was -10.6%, reflecting a small widening of the discount.

## Performance

The portfolio again underperformed its benchmark during the period which fell by 6.9%. It is important to recognise that benchmarks are tools for helping to analyse performance rather than to measure it. We do not expect performance to mirror the benchmark every year, but over the longer term the Fund Managers do expect to outperform it. This is an actively managed portfolio and this means sometimes there will be periods of underperformance: it is important to understand why.

As you will see in the Fund Managers' report, the main contributor was that they held considerably more of the portfolio in higher quality, safer investment grade bonds than the benchmark. This reflected the managers' very cautious outlook. They are positioning the portfolio for a fall in inflation and the possibility of a hard landing for the economy. If this proves to be the case then a lower risk portfolio is potentially very attractive relative to the benchmark's riskier composition.

In order to provide the Fund Managers with the greatest possibility of flexibility to react to what could be very volatile markets, the Board resolved earlier this year that if necessary the dividend can be paid in part from reserves rather than current year income. This potentially allows greater flexibility for the Fund Managers to reduce gearing and invest in lower risk, lower yielding assets should this be their preference. Both the Board and the managers are very conscious that maintaining the dividend is important for shareholders. We therefore wish to be able to maintain the dividend while giving the manager freedom to react to events.

They took advantage of this earlier in the year and we do not anticipate that dividends for the financial year ending 30 April 2023 will be fully covered by income. The Board continues to monitor the situation.

# Chairman's Statement (continued)

## Dividends

A first interim dividend for the year ended 30 April 2023 of 1.10p (2022: 1.10p) per ordinary share was paid to shareholders on 30 September 2022 to shareholders on the register at close of business on 2 September 2022.

A second interim dividend for the year ended 30 April 2023 of 1.10p (2022: 1.10p) per ordinary share was paid on 30 December 2022 to shareholders on the register at close of business on 2 December 2022. The shares were quoted ex-dividend on 1 December 2022.

## Buying Back Shares

As previously notified to shareholders, the Board has a policy which gives discretion to the Fund Managers to buy-back the Company's shares, where it is deemed accretive to shareholders to do so. During the period 3.8 million shares were bought back at an average discount of 6.63%. The Board continues to work with both the Fund Managers and its broker to enhance the market in the Company's shares.

## Outlook

For the moment at least markets have stabilised and interest rate expectations are falling. Since the period end, we have seen some encouraging signs that performance has started to pick up, and we hope that markets may be beginning to reward the cautious approach taken by the Managers.

Looking forward to the full year, critical questions are whether inflation has peaked and whether Central Banks have achieved this without triggering a hard landing for global economies. The managers remain cautious on this point and the focus on investment grade bonds reflects this.

**Angus Macpherson**  
**Chairman**  
**6 January 2023**

# Fund Managers' Report

## Performance

The Company's net asset value fell by 10.4% over the six months to 31 October 2022, underperforming the benchmark which returned -6.9%. The under-performance is predominantly driven by a larger holding in investment grade. The share price return was -10.6% (all figures on a total return basis) which reflected a widening in the discount. Earnings remain relatively stable and we remain confident in maintaining the dividend in the medium term, using revenue reserves as permitted by the Board if necessary. We continued buying back shares in the quarter and will look to continue to do so in the market if we consider it to be accretive for the shareholders.

## Macro

The first six months under review have been difficult for financial markets. In developed economies, government bonds were hit by rising interest rate expectations to combat high inflation, terminal rates are now at 5% in the US, 4.7% in the UK, and 2.9% in Europe and have kept climbing during the period under review. For stocks and credit markets too, it's been a tough six months. It has only been the US dollar and commodities like oil that performed well during this period.

The worry among investors is that the cumulative effect of all these rate increases will be enough to push economies into a recession. The current argument is centred around whether this will be a hard or soft landing for the global economy. It is clear that the UK and some European countries have entered a recession but the response by country differs. The UK is pursuing relatively tight fiscal policies which may prolong the downturn but is necessary to re-establish credibility post the ex-Chancellor Kwarteng's budget at the end of September.

Europe has no such issues and is pursuing looser fiscal measures to buffer the effects of the downturn. The US has proved resilient so far, buoyed by a strong labour market as well as excess savings from the pandemic. We can, however, see the reversal in the housing market and tightening of financial conditions engineered by the Fed. Even there, it's in the process of turning down, but it's taking time to do so, and it's more likely to be a story for 2023. It is consensual amongst economists now to forecast a recession but it's the depth which provokes disagreements.

The COVID period has marked a return to boom-bust economics which are easier to forecast and predict from a growth perspective – over stimulus followed by contraction. The difficulty has been the return and cause of inflation and how to put the inflation issue “back in the bottle”. We have seen encouraging signs in the US with both core and headline falling in the last print and forecasters predicting a declining trajectory. Europe and the UK will take a little longer and we should see declines post-winter when energy costs will ease. There is one truism in economics which is that recessions kill inflation cycles and central banks agree with this and want to undo the fiscal and monetary splurge from COVID by keeping policy tight.

During this period however rates and spreads have made huge adjustments to a level where we think some parts of the fixed income markets start looking attractive. We think 2023's theme will not be inflation but growth, or the lack of it.



# Fund Managers' Report (continued)

## Asset Allocation & Stock Selection

The Board gave us permission to reduce gearing if we felt necessary which we used during the summer on our fears of a hard landing. Into the autumn we foresaw a tactical rally in the credit markets and chose to add gearing back to take part in the rally through a combination of financial gearing (borrowing money and investing at a better yield than the cost of debt) and synthetic gearing (the use of credit derivatives). We will continue to use some of the gearing facility in a tactical sense as opportunities present themselves given the continued volatility of market prices, which at times seem devoid of fundamentals.

In terms of activity, we spent time making the portfolio more defensive during the period as we saw growth turning down and reduced our high yield weighting and increased investment grade weighting. This usually works in a cycle as the investment grade holding has a lower beta to growth than sub-investment credit like high yield and loans and therefore outperforms. It has been an unusual cycle in terms of inflation proving to be a more important factor driving market returns this year than growth. However, we expect this to correct itself in the coming financial year with inflation falling and think the portfolio is well set up for that. We think the aggressive rate hikes means the odds of a hard landing have increased but it's hard to quantify the lagged impact on policy tightening but we remain cautious. In terms of performance both our high yield and loan holdings outperformed their relative benchmark but our greater weighting to investment grade detracted.

Notable additions to the portfolio include the short dated senior paper in banks such as JP Morgan, Lloyds and Barclays. We added corporate investment grade bonds too including Abbvie (pharmaceuticals), T-Mobile (US mobile phone operator) and AB Inbev (beverages) to the portfolio.

This more defensive positioning we think will benefit holders; whilst 2022 saw both rates and spreads sell off in unison, in 2023 we foresee a more traditional relationship will ensue where rates and spreads may move in opposite directions but the carry from investment grade will ensure a decent cushion to generate a positive return.

## ESG

We have seen no material change to our investment policy following the amendments to the investment objective and policy that we made for ESG considerations. Those amendments largely reflect the strategy and processes employed by the Investment Manager on behalf of the Company.

## Outlook

We feel that the market now understands and prices monetary policy risks increasingly well, but fundamental risks are not in the price. We remain cautious on gearing and credit in the short term given current valuations and possible hard landing outlook. We feel a hard economic landing outlook is much more likely than a soft landing. Consequently, we are taking a more defensive stance against default risk:- by favouring investment grade bonds over high yield bonds (and secured loans). We feel the Company would be better positioned, in a relative sense, with this asset class bias. However, if a softer economic landing were to occur, the Company would be expected to perform reasonably well but with a lower beta to the upside. Further, if we were to experience increased risk aversion, which we do expect, we would be well positioned to add more high yield bonds at more attractive yields going forwards.

**John Pattullo, Jenna Barnard and Nicholas Ware**  
**Fund Managers**  
**6 January 2023**

# Portfolio information

## Summary of portfolio as at 31 October<sup>1</sup>

	2022 %	2021 %
High yield bonds	52.1	65.3
Investment grade bonds	36.1	24.9
Secured loans	8.0	5.1
Equities	3.3	4.1
Asset backed securities	0.5	0.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Currency denomination of portfolio as at 31 October<sup>1,2</sup>

	2022 %	2021 %
Sterling	23.2	23.7
Euro	9.9	12.9
US dollar	65.6	62.4
Australian dollar	1.3	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Excluding credit default swaps

<sup>2</sup> The Company hedges its foreign currency exposure back to sterling. There was therefore no material currency exposure at 31 October 2022 (2021: same)

## Twenty largest investments as at 31 October 2022

Company	Industry	Currency	Geographical area	Market value £'000	% of portfolio
T-Mobile	Communications	€/\$	US	4,082	2.90
Crown Castle	Industrials	\$	US	3,937	2.79
Virgin Media	Communications	£/\$	UK	3,461	2.46
Service Corp	Consumer non-cyclical	\$	US	3,455	2.45
BUPA	Financials	£	UK	2,904	2.06
Restaurant Brands International	Consumer cyclical	\$	Canada	2,883	2.05
Nationwide Building Society	Financials	£	UK	2,872	2.04
Anheuser	Consumer non-cyclical	\$	US	2,857	2.03
Sirius	Communications	\$	US	2,846	2.02
Barclays	Financials	£	UK	2,833	2.01
Altice	Communications	€/\$	US	2,687	1.91
Ziggo	Communications	€/\$	US	2,613	1.85
Lloyds Group	Financials	£/\$	UK	2,541	1.80
UBS	Financials	\$	Switzerland	2,530	1.80
CPUK Finance	Consumer cyclical	£	UK	2,487	1.76
Phoenix	Financials	£	UK	2,288	1.62
CCO	Communications	\$	US	2,187	1.55
Constellation Brands	Consumer non-cyclical	\$	US	2,185	1.55
Co-Operative Group	Consumer non-cyclical	£	UK	2,165	1.54
Hasbro	Consumer cyclical	\$	US	2,039	1.45

These investments total £55,852,000 or 39.6% of the portfolio.



# Financial summary

Extract from the Condensed Statement of Comprehensive Income (unaudited)	Half year ended			Half year ended
	31 Oct 2022 Revenue return £'000	31 Oct 2022 Capital return £'000	31 Oct 2022 Total return £'000	31 Oct 2021 Total return £'000
Losses on investments held at fair value through profit or loss	-	(15,823)	(15,823)	(2,329)
(Losses)/gains on foreign exchange	-	(2,769)	(2,769)	1,549
Investment income	4,290	-	4,290	4,907
Other operating income	19	-	19	8
Expenses, finance costs and taxation	(607)	(367)	(974)	(963)
<b>Profit/(loss) for the period</b>	<b>3,702</b>	<b>(18,959)</b>	<b>(15,257)</b>	<b>3,172</b>
<b>Return per ordinary share</b>	<b>2.00p</b>	<b>(10.25p)</b>	<b>(8.25p)</b>	<b>1.67p</b>

Extract from the Condensed Statement of Financial Position (unaudited except 30 Apr 2021 figures)	Half year ended		Year ended
	31 Oct 2022 £'000	31 Oct 2021 £'000	30 Apr 2022 £'000
Investments held at fair value through profit or loss	140,914	197,582	173,224
Current assets	3,747	8,370	12,364
Current liabilities	(18,586)	(33,391)	(37,171)
<b>Net assets</b>	<b>126,075</b>	<b>172,561</b>	<b>148,417</b>
<b>Net asset value per ordinary share</b>	<b>69.24p</b>	<b>91.42p</b>	<b>79.55p</b>

## Going concern

The directors have considered the impact of the conflict in Ukraine, and the ongoing impact of the COVID-19 pandemic, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio. Thus, after making due enquiry, the directors believe that

the Company has adequate financial resources to meet its financial obligations, including the repayment of any borrowings, and to continue in operational existence for at least twelve months from the date of approval of the financial statements. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

# Corporate information

## Dividends

The following dividends have been paid during the period, or will be paid, as interest distributions for UK tax purposes from the Company's revenue account.

A fourth interim dividend for the year ended 30 April 2022 of 1.10p (2021: 1.10p) per ordinary share was paid to shareholders on 30 June 2022 to shareholders on the register at close of business on 6 June 2022.

A first interim dividend for the year ended 30 April 2023 of 1.10p (2022: 1.10p) per ordinary share was paid to shareholders on 30 September 2022 to shareholders on the register at close of business on 9 September 2022.

A second interim dividend for the year ended 30 April 2023 of 1.10p (2022: 1.10p) per ordinary share was paid on 30 December 2022 to shareholders on the register at close of business on 2 December 2022.

## Principal risks and uncertainties

The principal risks and uncertainties associated with the Company's business can be divided into the following main areas:

- General market risks associated with the Company's investments, including interest rate, credit and currency risks.
- Operational risks, including:
  - Continued interest and commitment of the Fund Managers and Investment Manager.
  - Janus Henderson's effective operation of systems of internal control and management reporting.
  - Credit standing and quality of service of the Depositary.
  - Reliance on service providers.

Information on these risks and uncertainties and how they are managed are given in the annual report for the year ended 30 April 2022.

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

## Statement of directors' responsibilities

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

- (a) the condensed set of financial statements for the half year ended 31 October 2022 have been prepared in accordance with UK adopted international accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- (b) this report and condensed set of financial statements include a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the six month period and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) this report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

**For and on behalf of the Board**  
**Angus Macpherson**  
**Chairman**  
**6 January 2023**



Henderson Diversified Income Trust plc  
201 Bishopsgate  
London  
EC2M 3AE

MANAGED BY  
**Janus Henderson**  
INVESTORS

**aic**  
The Association of  
Investment Companies



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