

# The Henderson Smaller Companies Investment Trust plc



**Annual Report 2022**

MANAGED BY

**Janus Henderson**  
— INVESTORS —

## Objective

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

### Strategic Report

Performance	2-3
Chair's Statement	4-5
Portfolio Information	6
Fund Manager's Report	7-12
Investment Portfolio	13-15
Historical Performance	16
Business Model	17-26
Environmental, Social and Governance ("ESG") Matters	27-30

### Governance

Corporate Governance Report	31-39
Audit and Risk Committee Report	40-42
Management Engagement Committee Report	43
Nomination Committee Report	44-45
Directors' Remuneration Report	46-48
Report of the Directors	49-50
Statement of Directors' Responsibilities	50

### Financial Statements

Independent Auditor's Report to Members	53-59
Financial Statements	60-63
Notes to the Financial Statements	64-78

### Additional Information

Glossary	80
Alternative Performance Measures	81-82
General Shareholder Information	83-84
Corporate Information	85
Historical Record	86

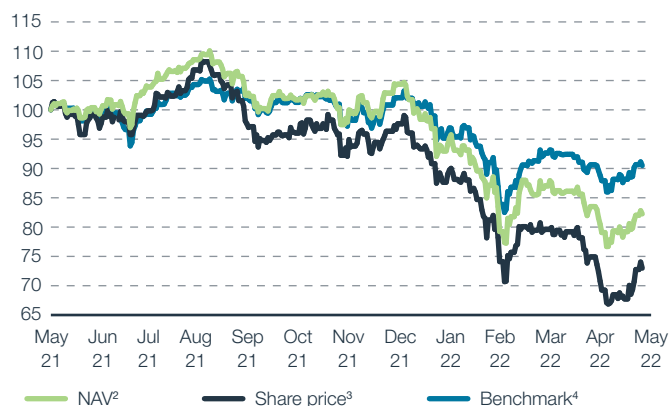


# Strategic Report

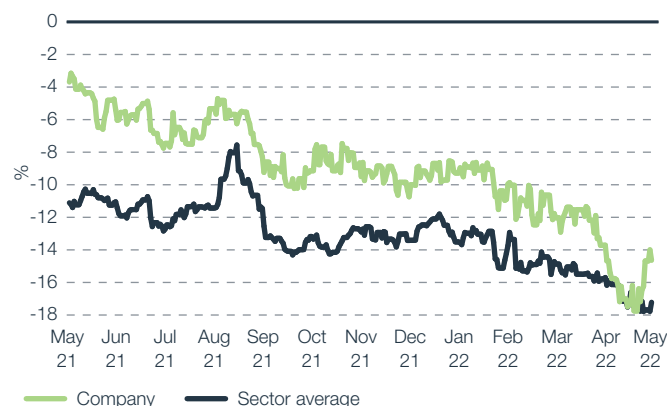


# Performance

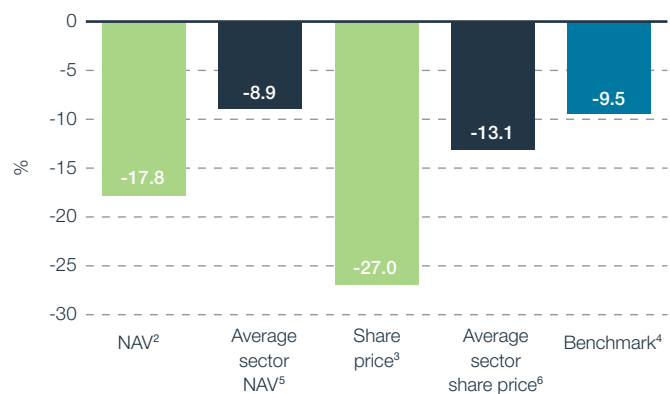
## Total return performance to 31 May 2022<sup>1</sup>



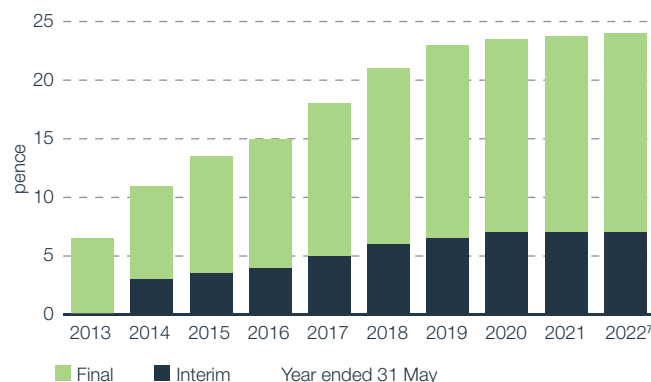
## Discount data to 31 May 2022



## Total return performance for the year ended 31 May 2022



## Dividends



## Total return performance for the period ended 31 May 2022

	1 year %	3 years %	5 years %	10 years %
Average sector NAV <sup>5</sup>	-8.9	18.6	20.3	186.9
NAV <sup>2</sup>	-17.8	19.8	29.9	255.2
Benchmark <sup>4</sup>	-9.5	17.3	16.0	159.0
Average sector share price <sup>6</sup>	-13.1	14.8	19.0	205.4
Share price <sup>3</sup>	-27.0	15.0	29.5	303.2
FTSE All-Share Index	8.3	18.4	22.2	117.0

<sup>1</sup> Net asset value ("NAV") total return per ordinary share and share price total return compared to the total return of the benchmark over the year to 31 May 2022 rebased to 100

<sup>2</sup> NAV per ordinary share total return with income reinvested

<sup>3</sup> Share price total return using mid-market closing price with income reinvested

<sup>4</sup> Numis Smaller Companies Index (excluding investment companies) total return

<sup>5</sup> Average NAV total return of the Association of Investment Companies ("AIC") UK Smaller Companies sector

<sup>6</sup> Average share price total return of the AIC UK Smaller Companies sector

<sup>7</sup> The 2022 final dividend is subject to shareholder approval

A glossary of terms and explanations of alternative performance measures are included on pages 80-82.

# Performance (continued)

## Year to 31 May

NAV per share at year end		Share price at year end	
2022	2021	2022	2021
<b>1,074.4p</b>	<b>1,329.1p</b>	<b>917.5p</b>	<b>1,280.0p</b>
Discount at year end <sup>1</sup>		Gearing at year end	
2022	2021	2022	2021
<b>14.6%</b>	<b>3.7%</b>	<b>11.2%</b>	<b>8.8%</b>
Dividend for year		Revenue return per share	
2022	2021	2022	2021
<b>24.00p<sup>2</sup></b>	<b>23.75p</b>	<b>24.57p</b>	<b>13.86p</b>
Dividend yield <sup>3</sup>		Total net assets	
2022	2021	2022	2021
<b>2.6%</b>	<b>1.9%</b>	<b>£803m</b>	<b>£993m</b>
Ongoing charge excluding performance fee		Ongoing charge including performance fee	
2022	2021	2022 <sup>4</sup>	2021
<b>0.42%</b>	<b>0.39%</b>	<b>0.42%</b>	<b>0.98%</b>

<sup>1</sup> Calculated using the NAV and mid-market share price at year end

<sup>2</sup> This represents an interim dividend of 7.00p and a proposed final dividend of 17.00p. See page 5 for more details

<sup>3</sup> Based on the ordinary dividends paid and payable for the year and the mid-market share price at year end

<sup>4</sup> No performance fee was payable in 2022

A glossary of terms and explanations of alternative performance measures are included on pages 80-82, including calculation of the AIC's ongoing charge methodology.

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream



# Chair's Statement



**Penny Freer**

Chair of the Board

**“It was a disappointing year for investors in smaller companies, which significantly underperformed larger stocks, as investors favoured the defensive and liquid characteristics of larger companies.**

**Despite this, your fund management team has an excellent long-term track record, outperforming in 16 of the last 19 years and maintaining its record for paying an increased dividend, this year being the 19th consecutive year of increase. We are optimistic that the Manager's disciplined approach will continue to generate value.”**



# Chair's Statement

It has been a disappointing year for your Company with the net asset value falling in absolute terms and underperforming its benchmark. The market background has been volatile with Covid-19 continuing to dominate the news headlines during the first part of the financial year while the recent conflict in Ukraine has added to the pressure on equity markets. Concerns over rising inflation have led to increased bond yields and a severe de-rating in the valuation of growth companies, despite often strong underlying operational and financial performance. The report from your Fund Manager on pages 7 to 12 provides a detailed insight into how this has impacted the performance of the portfolio.

## Performance

Smaller companies have materially underperformed larger companies during the year, as investors favoured the defensive and liquid characteristics of larger stocks. The Company's underperformance in the past year is largely due to the de-rating of growth companies with the characteristics of the underlying portfolio remaining strong. The Board closely monitors the Company's investment strategy and process to ensure that we are continuing to meet shareholder expectations. Your Company has outperformed in 16 of the last 19 years and continues to show strong returns over the medium and longer term.

In the financial year to 31 May 2022, the Company's NAV total return fell by 17.8% (2021: +58.5%), underperforming our Numis Smaller Companies Index benchmark by 8.3% (2021: outperformance of 4.4%), in what has been a very challenging year for UK smaller companies. The AIC UK Smaller Companies sector average returned -8.9% (2021: +49.4%). The share price total return was -27.0% (2021: +69.3%), reflecting a widening of the share price discount to NAV. Over the longer term, the NAV total return remains well ahead of the benchmark index on three, five, seven and ten-year periods to 31 May 2022. The price per ordinary share over the period fell from 1,280p at 31 May 2021 to 917p at the end of our 2022 financial year.

No performance fee will be payable this year (2021: £4,537,000).

## Dividend and earnings

The total revenue received from your Company's portfolio rose from £12.3 million to £20.7 million over the year, and our earnings per share rose from 13.9p at 31 May 2021 to 24.6p at 31 May 2022. This reflects the rapid recovery of dividends from our portfolio companies as the impact of Covid-19 waned and corporate profitability and cashflow recovered.

The Board is pleased to recommend an increased final dividend of 17.00p per share (2021: 16.75p) which, subject to shareholder approval at the Annual General Meeting, will be paid on 10 October 2022 to shareholders on the register at 26 August 2022. When added to the interim payment of 7.00p (2021: 7.00p), this brings the full year dividend to 24.00p per share, a 1.1% increase from the 2021 full year distribution of 23.75p per share. This will be fully funded from current year revenue. This will be our 19th consecutive year of growth in the annual dividend.

## Share rating

Your Company's share price discount to NAV fluctuated widely over the year with highs and lows of 17.8% and 3.2% respectively, averaging 9.1%. This compares favourably with the sector average of 13.1%. The Company ended the year at a 14.6% discount compared with 3.7% on 31 May 2021.

Your Board continues to monitor the discount and to discuss the merits of buying back shares. We do not currently believe that share buy-backs represent the most effective way of generating

long-term shareholder value. During the year to 31 May 2022, therefore, no shares were bought back.

## Responsible investing

We believe that integrating environmental, social and governance ("ESG") factors into our investment decision-making and ownership practices is fundamental to delivering our investment objective. We also recognise that the ESG landscape is still maturing and influencing our people, our culture and our choices in various ways. We are confident that our focus on integrating best-in-class ESG practices as they continue to evolve will help us to meet our stated investment objective. For more information on the work undertaken on ESG by the Manager, please refer pages 28 to 30.

## Board

David Lamb, our Senior Independent Director and marketing representative, who has been a board member for nine years, will retire at the conclusion of the 2022 AGM. During 2021 we appointed two new directors: Kevin Carter will take on the role of Senior Independent Director and Michael Warren will become the Board's marketing representative.

The Board intends to make a further appointment during the coming year in line with our long-term succession programme and to meet the FCA's diversity targets.

## Annual general meeting ("AGM")

We are pleased to invite shareholders to attend the AGM in person at our registered office on Friday, 30 September 2022 at 11.30 am. We encourage shareholders to attend for the opportunity to meet the Board and the Fund Manager, Neil Hermon, who will give a presentation reviewing the year and looking forward to the year ahead, and to ask questions and debate with Neil and the Board. For any shareholders unable to travel, we will also be welcoming you to join by conferencing software Zoom. As is our normal practice, there will be live voting for those physically present at the AGM. We are not able to offer live voting by Zoom, and we therefore request all shareholders, and particularly those who cannot attend physically, to submit their votes by proxy, ahead of the deadline of 28 September 2022, to ensure that their vote counts at the AGM.

## Continuation

Our shareholders are asked every three years to vote for the continuation of the Company, and a resolution to this effect will be put to the AGM this year. Your Company has shown that active investment management, well executed within the transparent and low-cost structure of an investment trust, is a highly effective means of gaining exposure to this class of equity. The Board's deliberations on the Company's continuation are explained in more detail in the Viability Statement on pages 25-26. We therefore recommend that shareholders vote for the Company to continue.

## Outlook

Your portfolio is based on our long-term approach to investing with a focus on stocks which we believe will show good growth, have strong financial characteristics and strong management but trade at a valuation level that does not reflect these strengths. Your fund management team has an excellent long-term track record and we are optimistic that their disciplined approach will continue to generate value.

Penny Freer  
Chair of the Board  
3 August 2022

# Portfolio Information

## Performance attribution

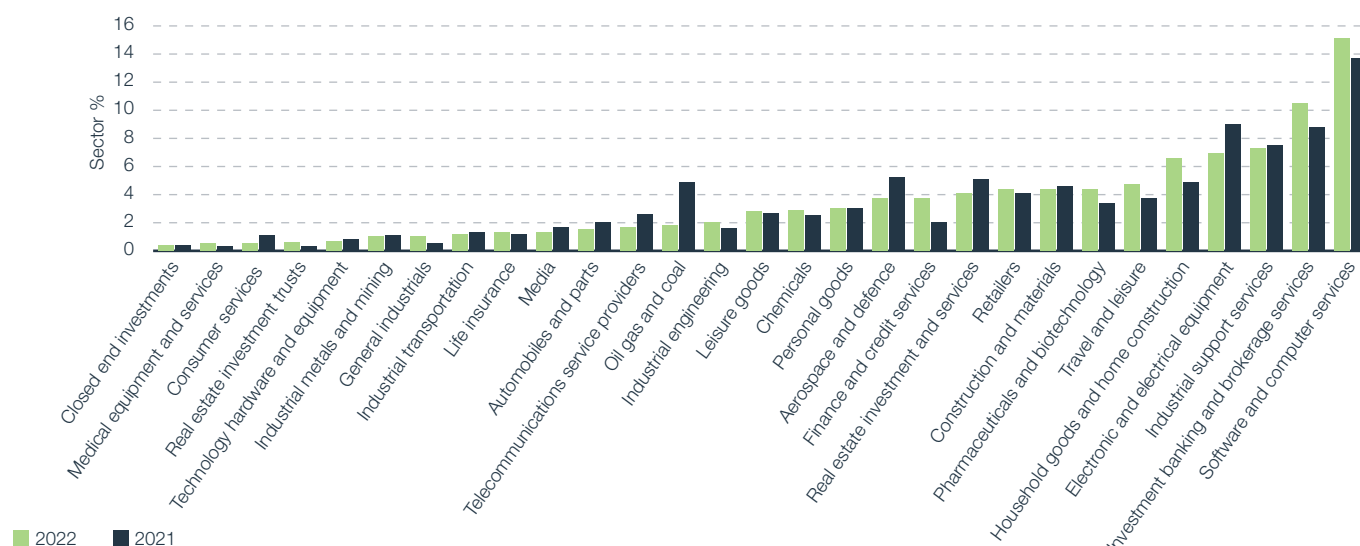
	Year ended 31 May	
	2022 %	2021 %
NAV total return	-17.8	58.5
Benchmark total return	-9.5	54.1
<b>Relative performance</b>	<b>-8.3</b>	<b>4.4</b>
	Comprising:	
Stock selection	-6.2	-1.0
Gearing impact on stock selection	-0.6	-0.1
Gearing decision	-1.1	6.5
Expenses	-0.4	-1.0

## Ten largest investments at 31 May 2022

Ranking 2022	Ranking 2021	Company	Principal activities	Valuation 2022 £'000	Portfolio %
1	1	Impax Asset Management	SRI investment management company	24,108	2.7
2	9	Oxford Instruments	Advanced instrumentation equipment	23,696	2.7
3	2	Future	Specialist internet, website and magazine company	22,759	2.5
4	3	Bellway	Housebuilder	20,790	2.3
5	15	OSB Group	Buy-to-let mortgage provider	20,261	2.3
6	10	Watches of Switzerland	Luxury watch retailer	18,806	2.1
7	16	Paragon Banking	Buy-to-let mortgage provider	17,877	2.0
8	12	Learning Technologies	E-learning	16,695	1.9
9	24	Ultra Electronics	Defence and aerospace products	15,714	1.8
10	14	Synthomer	Speciality chemicals	15,425	1.7
				<b>196,131</b>	<b>22.0</b>

Refer to the Fund Manager's Report on page 7 to 12 for descriptions of stocks and reasons for ownership or disposal.

## Analysis of the portfolio by sector at 31 May



As at 31 May 2022, the Company had no holdings in the following sectors: Health care providers and Industrial materials

Sources: Factset, Janus Henderson



# Fund Manager's Report



**Neil Hermon**  
Fund Manager

**“Despite it being a poor year for performance, as growth stocks de-rated following the increase in interest rates and a spike in inflation, the long-term record of the Company remains strong and we remain confident in our ability to generate significant value from a consistent and disciplined investment approach.”**

# Fund Manager's Report

## Fund performance

The Company had a disappointing year in performance terms, falling in absolute terms and underperforming its benchmark. The share price fell by 27.0% and the net asset value by 17.8% on a total return basis. This compared with a decrease of 9.5% total return by the Numis Smaller Companies Index (excluding investment companies). The underperformance came from a combination of negative contribution from stock selection, gearing and expenses. Negative contribution from stock selection was principally a function of the significant underperformance of growth companies as they de-rated in valuation terms due to rising interest rates and higher bond yields. In the vast majority of cases, this was independent of the operational and financial performance of these businesses, which remained strong. Despite it being a poor year for performance, as growth stocks de-rated following the increase in interest rates, the long-term record of the Company remains strong, outperforming its benchmark in 16 of the last 19 years.

## Market – year under review

The year under review was a volatile and ultimately negative one for equity markets. Covid-19 continued to dominate the minds of investors and news headlines for the initial part of the year. Restrictions were gradually relaxed with life returning to some sort of normal despite new variants such as Delta and Omicron threatening to derail progress.

Global bond yields oscillated during the period which resulted in changing factor leadership in equity markets. Inflation projections continued to worsen throughout the year and after an initial view that inflation was transitory, central banks, led by the Federal Reserve, became increasingly hawkish. By the end of the year, bond yields had spiked, interest rates were climbing globally and quantitative tightening had replaced quantitative easing. The increase in bond yields led to a severe de-rating of growth companies, irrespective of their operational and financial performance.

Conflict in Ukraine added to pressure on equity markets. Although direct exposure of Western corporates to the Russian and Ukrainian economies is limited, the indirect impacts of the conflict were significant. Oil and other commodity prices increased significantly and the pressure on global supply chains intensified. All of this added to the inflationary pressures being seen globally.

Smaller companies materially underperformed larger companies over the year. This was due to a general flight to the safety, defensiveness and liquidity of large capitalisation stocks and the higher weighting of oil and gas and mining sectors in the FTSE 100 which benefited from a spike in commodity prices.

## Gearing

Gearing started the year at 8.8% and ended it at 11.2%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% issued in 2016,

£20 million 30-year unsecured loan notes at 2.77% which were issued in February 2022, and £85 million short-term bank borrowings. As markets fell, the use of gearing was a negative contributor to performance in the year. Gearing, however, has made a significant positive contribution to investment performance over the 19 years I have managed the investment portfolio.

## Attribution analysis

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

### Principal contributors

	12 month return %	Relative contribution %
Serica Energy	+131.3	+0.6
Petropavlosk <sup>1</sup>	-93.7	+0.6
Trustpilot <sup>1</sup>	-70.8	+0.5
Cineworld <sup>1</sup>	-72.2	+0.5
Ultra Electronics	+58.4	+0.5

<sup>1</sup> Not owned by the Company

**Serica Energy** is a North Sea oil and gas producer. After significant acquisitions in 2017, the company accounts for around 5% of total UK gas production. The company has benefited from the significant rise in gas prices in the last year. Even though the company will be subject to the new windfall tax on North Sea operators, it is generating significant cashflow and has a very strong balance sheet. This will allow Serica the opportunity to make further value-enhancing acquisitions.

**Petropavlosk** is a Russian gold explorer and producer. The Ukrainian conflict severely constrained the company's ability to trade and finance its borrowings. The Company did not own a position in this stock.

**Trustpilot** provides a digital platform for consumer insights and reviews. The shares have declined as the market has rotated away from growth companies in addition to the company guiding to increased investment and a consequent delay in reaching profitability. The Company did not own a position in this stock.

**Cineworld** is an international cinema operator. The company has significant financial liabilities and, with cinema box office receipts still well below pre-pandemic levels, the business is failing to generate any free cashflow. Its financial position appears very tenuous. The Company did not own a position in this stock.

**Ultra Electronics** is a supplier of electronic equipment and systems which are primarily used for defence and security applications globally. The company has a unique set of products with high levels of intellectual property in the marine, aerospace and communications sectors. During the year, the



# Fund Manager's Report (continued)

company received a bid approach from Cobham Limited, which is ultimately controlled by Advent International, a private equity vehicle. The deal is currently going through a review by the UK Government and conclusion of the transaction is expected in 2022.

## Principal detractors

	12 month return %	Relative contribution %
Energean <sup>1</sup>	+73.4	-0.8
Future	-30.2	-0.6
Team17	-37.1	-0.6
Bellway	-31.6	-0.6
Gamma Communications	-39.4	-0.6

<sup>1</sup> Not owned by the Company

**Energean** is an oil and gas producer and developer with particular focus in the Mediterranean. The company benefited from a rise in the gas price and continued progress in its large offshore Israeli development. The Company did not own a position in this stock.

**Future** is a tech-enabled global platform for specialised media which targets consumers and business-to-business ("B2B") brands across Europe, America and Asia Pacific. The company creates specialised content to attract and grow high-value audiences. These audiences are then monetised through memberships and subscriptions, print and digital advertising, e-commerce sales and events. Future has both an organic and inorganic growth strategy. Management is focused on purchasing new brands and titles to leverage its scalable technology and drive digital growth using its revenue optimisation model. The shares have fallen in the last year, even though management has upgraded their earnings expectations on a number of occasions, as growth companies have de-rated and the market has become bearish on the outlook for digital advertising and e-commerce spend.

**Team17** is a developer and publisher of video games for PCs, consoles and mobile devices. The company focuses on the independent games market and selectively works with developers and third parties to launch new content on multiple platforms. The business listed in 2018 and has had a strong record of growth driven by well-received new releases, the monetisation of new content and improved profitability as the portfolio expands. With a balance sheet in a net cash position, the company has made a number of acquisitions of complementary assets. The decline in the share price in the last year was mostly due to the de-rating of growth companies and some small pressure on profitability from wage inflation.

**Bellway** is a national UK housebuilder. The housing market has remained very robust in the last year and demand for new

houses is strong. House price inflation has offset materials and labour cost increases and margins have improved. The company has an excellent long-term track record of controlled expansion whilst maintaining a strong balance sheet. Although the company has delivered strong operational and financial performance, the share price has fallen due to the requirement for Bellway to take a large provision to cover the cost of remediating all fire safety deficiencies on buildings it has constructed over 11 metres high in the last 30 years. Additionally, the housebuilding sector has seen reduced investor confidence due to rising interest rates and potential economic slowdown.

**Gamma Communications** provides voice, data, mobile and internet-based telecoms to small and medium-sized enterprises in the UK and Europe. The company is focused on selling cloud-based telephony solutions, a market which is rapidly growing as users switch to more flexible services. The company has been highly successful with this approach in the UK and has recently expanded through acquisitions in Germany, Netherlands and Spain to replicate this strategy. We expect this positive growth to continue both organically and through further acquisitions in Europe. The share price decline in the year under review is due to the wider market de-rating of growth companies.

## Portfolio activity

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

## Acquisitions

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

**Harworth** is a brownfield land developer. Its sites are focused in the Midlands and North of England and around half the portfolio comes from ex-British Coal sites. The core skills of the business are in assembling land, undertaking remediation and achieving planning success. Principal end markets are industrial and logistics sectors and land for housebuilders, all of which are currently seeing strong demand. The company has an objective to double net asset value in the next 5 to 7 years and has made a strong start to achieving this goal.

**Qinetiq** is an engineering, research and development services company for the defence industry. The company was formed out of the Ministry of Defence in 2001 and has operations in the UK, US, Germany and Australia. Following the invasion of Ukraine, the outlook for the defence industry has materially changed as nations reconsider the priority of defence



# Fund Manager's Report (continued)

budgets. Whilst this demand will take time to filter into revenues, we expect to see expanding order books as new budgets are formed. Qinetiq should be a beneficiary of this market environment and with its net cash balance sheet, the company is in a strong position to take advantage of this positive backdrop.

**Rathbones** is a private client wealth manager. It operates in a structurally growing market with drivers including wealth growth and ageing demographics leading to increasing demand for wealth management and financial advice. The sector is seeing increased interest from larger financial institutions as evidenced by the recent bid for Brewin Dolphin from Royal Bank of Canada. Rathbones' profitability is currently being depressed by elevated IT investment but margins should trend higher as this comes to an end. Growth is also likely to be supplemented by bolt-on acquisitions, an area in which Rathbones has been active in recent years.

**RPS** is an independent environmental, health, safety and risk consulting group, which provides scientific, planning and design advice to customers in the commercial and government sectors. Formed by a series of acquisitions, the group has gone through significant change and inward reflection over the last four years. Much of the required self-help improvement has been made and it is now a much more joined-up business with a refreshed management team and tighter strategic focus. The group is well placed to benefit from buoyant infrastructure, renewables and energy markets and is seeing strong growth in profitability as it works towards its medium-term margin targets. In a sector which has seen significant consolidation, the company is increasingly vulnerable to acquisition from a larger peer.

**SigmaRoc** is an aggregates and concrete business. Since formation in 2016, it has been expanding by buying a series of businesses with geographic focus around countries bordering the North Sea. The business is focused around local hubs serving local customers in well-structured markets with defensible positions. Management intends to continue with an acquisition focus and the recent purchase of Nordkalk has given the company the scale and cashflow to accelerate this process. With synergies extracted from acquisitions and strong end markets, the company is well placed to continue to replicate its historic success.

**Workspace** is a provider of flexible office space in London. The group primarily caters to small and medium-sized businesses that are in the early stages of growth and are looking for dynamic office solutions to cater for their changing space needs. Following the pandemic, the London office environment has changed as both employees and businesses are more receptive to a hybrid work environment. This should benefit Workspace as they are able to offer flexible office solutions through their well-located asset network. Over the medium term, we expect to see strong growth in utilisation and new asset development to lead to a positive earnings outlook.

## Disposals

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 **Frontier Developments**, a computer games publisher and developer. The company has had a number of disappointing new title releases and earnings expectations have been revised downwards. The company is also under pressure from rising labour inflation. We also disposed of our holding in **Knights**, the legal services firm. A profit warning citing reduced staff utilisation due to Covid-19 and lower business confidence was out of kilter with its peer group and could indicate more intrinsic problems with integrating a series of acquisitions. We sold our positions in **Rotork**, an actuation company, and **Johnson Service Group**, a workwear and line rental business, as strong recoveries in both companies' share prices left them fully valued. We also sold most of our position, in line with our stated policy, in **Dechra Pharmaceuticals**, a veterinary products supplier, as it was elevated to the FTSE 100.

## Takeover activity

There was a good level of takeover activity in the portfolio. This was consistent with the wider mid and small-cap equity market aided by heightened levels of interest from private equity. A number of takeover bids were received: for **Brewin Dolphin**, a private client wealth manager, from Royal Bank of Canada; for **Clinigen**, a pharmaceutical products and services group, from Triton Advisors; for **Marshall Motors**, an automotive retailer, from Constellation Automotive; for **Sanne**, a fund administrator, from Apex; and for **Ultra Electronics**, a defence equipment manufacturer, from Advent International.

## Portfolio outlook

The following table shows the Company's top 10 stock positions and their active positions versus the Numis Smaller Companies Index (excluding investment companies):

Top ten positions at 31 May 2022	Portfolio %	Index weight %	Active weight %
Impax Asset Management	2.7	–	2.7
Oxford Instruments	2.7	1.0	1.7
Future	2.5	–	2.5
Bellway	2.3	–	2.3
OSB Group	2.3	–	2.3
Watches of Switzerland	2.1	–	2.1
Paragon Banking	2.0	0.9	1.1
Learning Technologies	1.9	–	1.9
Ultra Electronics	1.8	–	1.8
Synthomer	1.7	–	1.7

A brief description of the largest positions (excluding Future, Bellway and Ultra Electronics which were covered earlier) follows:

# Fund Manager's Report (continued)

**Impax Asset Management** is an environmentally and socially responsible focused asset manager based in the UK. The company was formed in 1998 by the current CEO Ian Simm, and has several funds spanning public equities, bonds and private equity assets. Demand for these types of funds is growing as sustainability agendas have become top priorities for governments, consumers and investors alike. Consequently, the business has seen continued rapid growth in assets under management, and we expect this to continue as the group's strong performance track record and distribution agreements should lead to further inflows.

**Oxford Instruments** is a manufacturer of advanced instrumentation equipment. The company benefits from servicing a number of high-growth industries such as semiconductors, quantum computing, life sciences and advanced materials. In addition, its 'Horizon' programme of business improvement is driving sales, profit and margin growth. With a very strong balance sheet and a positive outlook for its end markets, the company is well placed for the future.

**OSB Group** is a speciality lender with a primary focus on providing buy-to-let mortgages to professional landlords. Regulations on complex underwriting and the sophistication of its underwriting capability has allowed OSB to grow market share and with landlord demand remaining strong, the business is poised to see further growth. The company has built a very strong capital position and, once new capital adequacy rules are in place, the company will be in a good position to return significant cash to shareholders.

**Watches of Switzerland** is a leading retailer of luxury watches and jewellery in the UK and US. The group trades under the banner of four prestigious retail brands: Watches of Switzerland, Mappin & Webb, Goldsmiths and Mayors. The group has a 40% share of the UK luxury watch market and 10%+ share of the US luxury watch market. Over 50% of revenues are generated from the sale of Rolex watches. In addition to driving sales densities across existing stores through improved marketing and stock availability, management's growth strategy is centred around expansion in the US and Europe where there is significant potential for market share gains.

**Paragon Banking** is a speciality lender with a primary focus on providing buy-to-let mortgages to professional landlords. The company has changed its structure in the last few years by obtaining a banking licence allowing the company to diversify 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. Regulations on complex underwriting and the sophistication of its underwriting capability has allowed Paragon to grow market share and with landlord demand remaining strong, the business is poised to see further growth.

**Learning Technologies** is a provider of e-learning services and learning software platforms. The company has grown strongly over the last few years through a combination of organic and acquisitive growth with the most recent acquisition, GP Strategies, providing significant opportunity to accelerate earnings growth. It operates in a growth market as corporate learning transitions from the classroom to online, a trend likely to accelerate post-Covid. With an ambitious management team and strong balance sheet, one can expect additional earnings-accretive merger and acquisition ("M&A") activity in the future.

**Synthomer** is a diversified chemicals group. The group has expanded through acquisition which has diversified the company's end markets and allowed for the extraction of significant financial and operational benefits. The group enjoyed extremely buoyant market conditions in its nitrile latex market as demand for gloves rapidly expanded during the pandemic. Although this demand has now cooled, the nitrile market remains an attractive long-term growth opportunity.

As at 31 May 2022, the portfolio was weighted by company size as follows:

	Weighting %	
	31 May 2022	31 May 2021
FTSE 100	1.9	1.6
FTSE 250	63.5	63.0
FTSE Small Cap	16.5	13.4
FTSE AIM	29.3	30.8
Gearing	(11.2)	(8.8)

## Market outlook

Just as the impact of the Covid-19 pandemic on the global economy was starting to abate, the world is faced with a new crisis. The conflict between Russia and Ukraine has dramatically shifted the balance of global geopolitics. In the short term, this has led to a significant jump in oil and other commodity prices, sanctions on the Russian economy and a humanitarian crisis in Ukraine. The longer-term implications are probably as material, with the isolation of Russia as a pariah state, a stronger, more unified Europe and NATO, materially higher defence spending and an urgent need to reduce European dependence on Russian oil and gas supplies. This has exacerbated inflation, added to the burden on government spending, dampened animal spirits and hurt economic growth.

With inflation pointers continuing to remain elevated against both official targets and market forecasts, central banks, led by the Federal Reserve, have become increasingly hawkish. The market is now forecasting further significant rises in interest rates globally and a move from quantitative easing to tightening. Oscillating confidence levels in central bankers' willingness and ability to strike the right balance between containing inflation and supporting economic growth is driving heightened levels of uncertainty and volatility in global equity markets.

## Fund Manager's Report (continued)

The rapid rise of inflation driven particularly by energy prices but also by a wider number of other components is putting pressure on consumers. Although the labour market is strong and wages are rising, real net disposable income is falling and consumer confidence is low. Higher energy prices particularly impact lower income households, prompting the UK Government to bring in measures to help this socio-economic group. Sectors exposed to consumer spending are likely to face tougher trading as we move through 2022 and into 2023.

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

We saw a noticeable pick-up in corporate activity last year. However, after an active 2021, the initial public offering ("IPO") market has become considerably quieter as equity market confidence has diminished. M&A activity has remained robust as private equity in particular looks to exploit opportunities thrown up by Covid-19 and the recent equity market pull-back. We expect this to continue in the coming months as UK equity market valuations remain markedly depressed versus other developed markets.

In terms of valuations, the equity market is now trading below long-term averages. Corporate earnings were sharply down in

2020 although we have seen a sharp recovery in 2021.

We think it is likely to continue in 2022, although a weakening economic environment is likely to dampen expectations.

Although uncertainty remains around short-term economic conditions, we think that the portfolio is well positioned to deal with the likely issues this will create. The movements in equity markets have thrown up some fantastic buying opportunities. However, it is important to be selective as the strength of franchise, market positioning and balance sheets will likely determine the winners from the losers.

In conclusion, the year under review has been a disappointing one for the Company. Absolute performance was negative and the Company underperformed its benchmark. However, our portfolio companies have performed robustly, are soundly financed and attractively valued. Additionally, the smaller companies 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  
3 August 2022

## Fund Management Team



**Neil Hermon**

Fund Manager

29 years experience

Joined Janus Henderson 2002



**Indriatti van Hien**

Deputy Fund Manager

11 years experience

Joined Janus Henderson 2011



**Shivam Sedani**

Research analyst

5 years experience

Joined Janus Henderson 2017



# Investment Portfolio at 31 May 2022

Company	Principal activities	Valuation £'000	Portfolio %
Impax Asset Management <sup>1</sup>	SRI investment management company	24,108	2.70
Oxford Instruments	Advanced instrumentation equipment	23,696	2.66
Future	Specialist internet, website and magazine company	22,759	2.55
Bellway	Housebuilder	20,790	2.33
OSB Group	Buy-to-let mortgage provider	20,261	2.27
Watches of Switzerland	Luxury watch retailer	18,806	2.11
Paragon Banking	Buy-to-let mortgage provider	17,877	2.00
Learning Technologies <sup>1</sup>	E-learning	16,695	1.87
Ultra Electronics	Defence and aerospace products	15,714	1.76
Synthomer	Speciality chemicals	15,425	1.73
<b>10 largest</b>		<b>196,131</b>	<b>21.98</b>
Team17 <sup>1</sup>	Games software developer	15,353	1.72
Euromoney Institutional Investor	B2B information	15,225	1.71
Mitchells & Butlers	Hospitality operator	15,155	1.70
Balfour Beatty	International contractor	15,103	1.69
RWS <sup>1</sup>	Patent translation services	14,979	1.68
GB Group <sup>1</sup>	Data intelligence services	14,317	1.60
Savills	Property transactional consulting services	13,665	1.53
Computacenter	IT reseller	13,314	1.49
Gamma Communications <sup>1</sup>	Telecommunication	13,080	1.47
Renishaw	Precision measuring and calibration equipment	13,005	1.46
<b>20 largest</b>		<b>339,327</b>	<b>38.03</b>
Vesuvius	Ceramic engineering	12,877	1.44
Ascential	Exhibition organiser and data services	12,432	1.39
Serco	Outsourcing services	12,334	1.38
Chemring	Technology products and services	12,191	1.37
Softcat	Software reseller	12,150	1.36
TI Fluid Systems	Automotive supplier	11,823	1.32
Volution	Producer of ventilation products	11,470	1.29
Alpha Financial Markets <sup>1</sup>	Investment management consultancy	11,469	1.29
Serica Energy <sup>1</sup>	Oil & gas exploration and production	10,701	1.20
Just Group	Enhanced annuity provider	10,677	1.20
<b>30 largest</b>		<b>457,451</b>	<b>51.27</b>
Midwich <sup>1</sup>	Audio-visual equipment distributor	10,325	1.16
Spectris	Electronic control and process instrumentation	10,258	1.15
Next Fifteen Communications <sup>1</sup>	PR and media services	10,241	1.15
Vitec	Broadcast and camera systems	10,067	1.13
CLS	Real estate investment and services	9,804	1.10
Tyman	Building products	9,792	1.10
Bytes Technology	Software reseller	9,553	1.07
Wickes	DIY retailer	9,475	1.06
Hunting	Oil equipment and services	9,384	1.05
IntegraFin	B2B financial platform	9,331	1.05
<b>40 largest</b>		<b>555,681</b>	<b>62.29</b>

<sup>1</sup> Quoted on the Alternative Investment Market

# Investment Portfolio at 31 May 2022 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Victrex	Speciality chemicals	9,188	1.03
Redde Northgate	Commercial vehicle hire	8,935	1.00
Crest Nicholson	Housebuilder	8,867	0.99
Bodycote	Engineering group	8,755	0.98
Foresight Group	Specialist fund manager	8,460	0.95
Moonpig	Online card and gift retailer	8,398	0.94
Inspects <sup>1</sup>	Eyewear maker and designer	8,288	0.93
Restore <sup>1</sup>	Office service provider	8,213	0.92
Capricorn Energy	Oil and gas exploration and production	8,153	0.91
Auction Technology	Online auction software provider	8,090	0.91
<b>50 largest</b>		<b>641,028</b>	<b>71.85</b>
Liontrust Asset Management	Specialist fund management	8,062	0.90
Genuit	Building products	7,829	0.88
DFS	Furniture retailer	7,675	0.86
Rathbones	Private client wealth manager	7,655	0.86
XP Power	Electrical power products	7,626	0.85
Hollywood Bowl Group	Ten pin bowling operator	7,332	0.82
Alliance Pharma <sup>1</sup>	Pharmaceutical products	7,319	0.82
Moneysupermarket.Com	Price comparison website	6,929	0.78
Helical	Office property investor and developer	6,626	0.74
Qinetiq	Defence services	6,410	0.72
<b>60 largest</b>		<b>714,491</b>	<b>80.08</b>
Luceco	Electrical products	5,631	0.63
Harworth	Urban regeneration and property investment	5,591	0.62
Tribal Group <sup>1</sup>	Educational support services and software	5,512	0.62
Howden Joinery	Kitchen manufacturer and retailer	5,456	0.61
SThree	Recruitment company	5,450	0.61
Gym Group	Gym operator	5,427	0.61
Smart Metering Systems <sup>1</sup>	Energy smart meters	5,357	0.60
Stelrad Group	Radiator manufacturer	5,291	0.59
Gresham House <sup>1</sup>	Specialist fund manager	5,280	0.59
Avon Protection	Defence products	5,247	0.59
<b>70 largest</b>		<b>768,733</b>	<b>86.15</b>
Dechra Pharmaceuticals	Veterinary pharmaceuticals	5,082	0.57
Harbour Energy	Oil and gas exploration and production	4,991	0.56
SigmaRoc <sup>1</sup>	Aggregates supplier	4,949	0.55
Workspace Group	Real estate investment and services	4,784	0.54
RPS	Engineering consultant	4,638	0.52
Alphawave IP	Semiconductor IP	4,522	0.51
Bridgepoint Group	Private equity fund manager	4,427	0.50
Hyve	Exhibition and conference organiser	4,188	0.47
Eurocell	Building products	4,120	0.46
Advanced Medical Solutions <sup>1</sup>	Medical supplies manufacturer	4,063	0.45
<b>80 largest</b>		<b>814,497</b>	<b>91.28</b>

<sup>1</sup> Quoted on the Alternative Investment Market

# Investment Portfolio at 31 May 2022 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Burford Capital <sup>1</sup>	Litigation finance	3,993	0.45
Empiric	Student accommodation	3,984	0.45
Grainger	Residential property investor	3,706	0.42
EMIS <sup>1</sup>	Healthcare software	3,705	0.42
Safestyle <sup>1</sup>	Window and door retailer	3,699	0.41
Pebble Group <sup>1</sup>	Promotional products and services	3,685	0.41
Halfords Group	Cycling and automotive products retailer	3,587	0.40
Headlam	Floor coverings distributor	3,440	0.38
Pagegroup	Recruitment company	3,326	0.37
Benchmark Holdings <sup>1</sup>	Pharmaceuticals and Biotechnology	3,287	0.37
<b>90 largest</b>		<b>850,909</b>	<b>95.36</b>
Young & Co's share class A <sup>1</sup>	Pub operator	3,266	0.37
Aptitude Software	Software retailer	3,217	0.36
RM	Education software and services	3,184	0.36
Access Intelligence <sup>1</sup>	Marketing services software provider	3,121	0.35
Volex <sup>1</sup>	Power products	3,106	0.35
Restaurant	Restaurant and pub operator	2,955	0.33
AB Dynamics <sup>1</sup>	Automotive testing and measurement products	2,900	0.32
Blancco Technology <sup>1</sup>	Data erasure software	2,828	0.31
De La Rue	Currency and authentication products	2,650	0.30
Young & Co's share class NV <sup>1</sup>	Pub operator	2,646	0.30
<b>100 largest</b>		<b>880,782</b>	<b>98.71</b>
Severfield	Industrial engineering	2,326	0.26
Devolver Digital <sup>1</sup>	Games software developer	2,264	0.25
Fisher (James) & Sons	Marine, oil and gas specialised services provider	2,256	0.25
Gooch & Housego <sup>1</sup>	Optical components manufacturer	1,811	0.20
Thruvision <sup>1</sup>	Detection technology	1,723	0.19
Joules <sup>1</sup>	Clothing retailer	1,235	0.14
<b>Total equity investments</b>		<b>892,397</b>	<b>100.00</b>

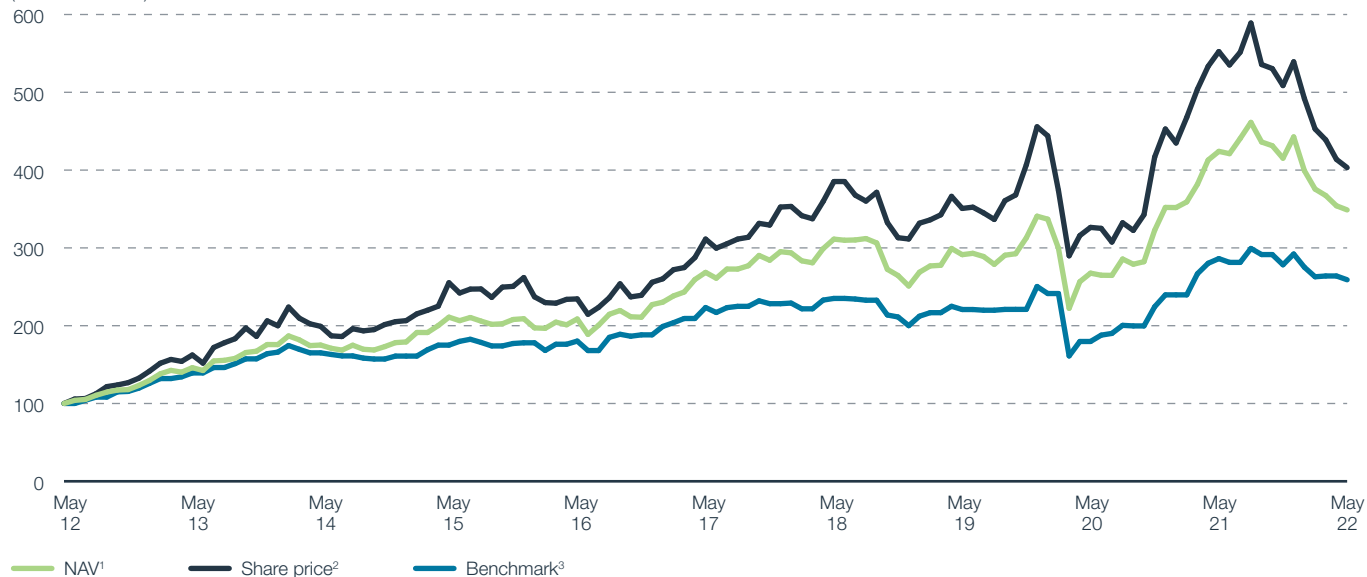
There were no convertible or fixed interest securities at 31 May 2022 (2021: None)



# Historical Performance

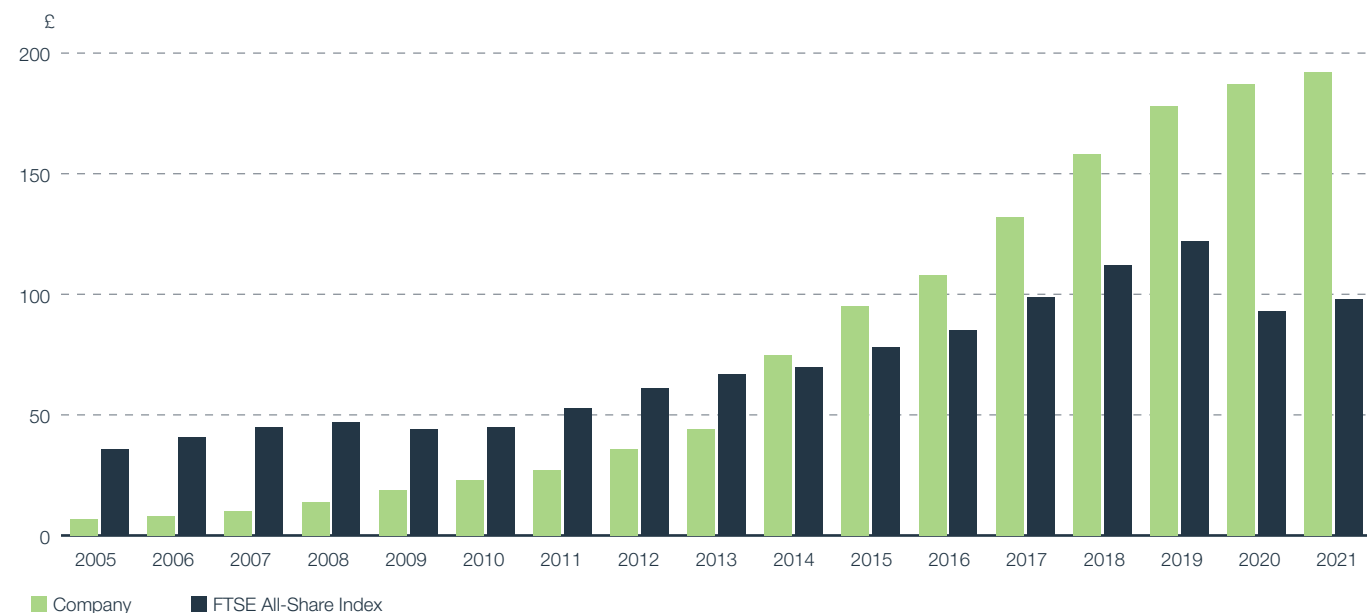
## Total return performance over the 10 years to 31 May 2022

(Rebased to 100)



## Historical dividend growth

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



See page 86 for further historical data.

- 1 Net asset value ("NAV") per ordinary share total return with income reinvested
- 2 Share price total return using mid-market closing price with income reinvested
- 3 Numis Smaller Companies Index (excluding investment companies) total return

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream

# Business model

## Our purpose

Our purpose is to provide shareholders with long-term growth through investing in UK smaller companies and making this form of investment accessible to investors, both large and small. We do this by following a disciplined process of investment in a diversified portfolio of companies which benefit from sustainable growth trends, and by controlling costs and using borrowings to enhance returns.

## Our culture and values

Throughout our long history we have achieved our investment objective supported by investment capability and values characterised by openness, challenge, diversity, adaptation and integrity. This openness and constructive challenge extends to our interaction with our service providers. We expect all the Company's service providers to uphold the same values as the Board, and particularly the Manager, who is responsible for the management of the Company's portfolio. Given the long-term nature of our investment proposition, these factors remain core elements of our culture and continue to influence our long-term strategy.

## Our strategy

We fulfil our purpose by operating as an investment company, enabling us to delegate operational matters to specialised service providers. Their performance is monitored and challenged by us as a board of independent non-executive directors (the "Board") which retains oversight of the Company's operations. The framework of delegation provides the Company with a cost-effective mechanism for delivering operations whilst allowing us to benefit from capital gains treatment afforded to investment trusts under the Corporation Tax Act 2010. The closed-ended nature of the Company permits the Fund Manager to hold a long-term view on investments and remain fully invested while taking advantage of illiquidity in normal and volatile market conditions, as redemptions do not arise. The Company may use leverage to increase returns for shareholders, which provides us with a significant advantage over other investment fund structures.

## Status

The Company is registered as a public limited company, founded in 1887, and is an investment company as defined in section 833 Companies Act 2006 (the "Act"). The Company operates as an investment trust in accordance with section 1158 Corporation Tax Act 2010 ("s1158") as amended and has obtained approval from HMRC for its status. 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 s1158, and is not a 'close company' as defined under the Act. The directors believe that the Company has conducted its affairs in compliance with s1158 since approval was granted and intends to continue to do so.

The Board is accountable to shareholders, who have the ability to remove a director from office where they deem it to be in the best interests of the Company. The Company is governed by its articles of association, amendments to which must be approved by shareholders through a special resolution. The Company is listed on the Main Market of the London Stock Exchange and is subject to the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority ("FCA"). The Company is a member of the Association of Investment Companies ("AIC").

## 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).

## Derivatives

The Company may use financial instruments known as derivatives for the purpose of efficient portfolio management.

## 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.

# Business model (continued)

## Management

The Company qualifies as an 'alternative investment fund' in accordance with the Alternative Investment Fund Managers Directive ("AIFMD").

We, as a Board, appointed Janus Henderson Fund Management UK Limited ("JHFM") to act as its alternative investment fund manager ("AIFM"). JHFM delegates investment management services to Janus Henderson Investors UK Limited ("JHIUK") in accordance with an agreement which was effective from 22 July 2014. The management agreement with JHFM is reviewed annually by the Management Engagement Committee (see page 43), and can be terminated with six months' notice. Both JHFM and JHIUK are authorised and regulated by the Financial Conduct Authority ("FCA") and are part of the Janus Henderson group of companies. References to 'Janus Henderson', 'JHI', or the 'Manager' refer to the services provided to the Company by the Manager's group.\*

The fund management team is led by Neil Hermon, who was appointed as the Company's Fund Manager with effect from November 2002. Neil's team receives a proportion of any performance fee paid by the Company to the Manager and a proportion of that is deferred into shares in the Company. Indriatti van Hien was appointed Deputy Fund Manager with effect from June 2016. Neil and Indriatti have shareholdings in the Company.

The Company does not have employees, premises or operations. Janus Henderson and its subsidiaries provide accounting, company secretarial, sales, 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. Janus Henderson Secretarial Services UK Limited\* acts as corporate secretary.

## Business ethics

As the Company's operations are delegated to service providers, the Board seeks assurances, at least annually, from its service providers, that they comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Finances Act 2017. The Company has received assurances from its main suppliers that they maintain a zero-tolerance policy towards the provision of illegal services.

## 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. Our Fund Manager's investment approach is selective,

aiming to deliver higher returns than our equity benchmark. The Manager is not a passive or indexed investor. Reflecting this, our portfolio's active share at 31 May 2022 was 76.2% (72.2% at 31 May 2021).

## Borrowings

The Company has access to borrowings up to £135 million (2021: £115 million), comprising £50 million unsecured loan notes and a £85 million committed bank facility with Industrial and Commercial Bank of China Limited London Branch ("ICBC"). In addition, the Company has a small amount of preference stock in issue (see page 72 for more details).

## Promoting the success of the Company

We, as directors, acting collectively as the Board, act to promote the success of the Company for the benefit of our shareholders as a whole. In so doing, we have regard to the matters set out in s172(1) of the Act. This includes the likely consequences of our decisions in the longer term, taking wider stakeholders' needs into account. The Board's strategy is facilitated by engaging with a wide range of stakeholders through virtual and physical meetings, research and presentations and through our service providers' interactions within the investment community and beyond.

As an investment company with no employees, our key stakeholders are our shareholders, service providers and investee companies. Understanding stakeholders, their interests and views, enables the Company to fulfil its purpose and enables the directors to promote the success of the Company for the benefit of shareholders as a whole, with constant awareness of other stakeholders and their interests.

## Stakeholder map

As a Board, we have adopted a map to support us in identifying and understanding our stakeholders and fostering the appropriate level and form of interaction with them.



\*Janus Henderson Fund Management UK Limited, Janus Henderson Investors UK Limited and Janus Henderson Secretarial Services UK Limited changed their names in March 2022 from Henderson Investment Funds Limited, Henderson Global Investors Limited and Henderson Secretarial Services Limited respectively.



# Business model (continued)

## Interaction with stakeholders

Set out below are examples of the ways in which we, as your Board, and the Company have interacted with our key stakeholders in the year under review, in line with s172 of the Act.

Stakeholders	Engagement	Outcome
Shareholders	<p>Key mechanisms of engagement included:</p> <ul style="list-style-type: none"> <li>encouraging investors to attend and vote at annual general meetings (“AGMs”). Shareholders have the opportunity to address questions to all directors, the Fund Manager and the company secretary;</li> <li>the Company’s website, which hosts annual and half-year reports, daily NAV per share monthly factsheets, press releases, key information documents, videos recorded by the Fund Manager, proxy voting results, and other information on governance and decision making;</li> <li>use of social media channels (see page 85);</li> <li>providing regular market commentary;</li> <li>investor meetings with directors in attendance, one-to-one investor meetings with the Fund Manager, presentations to investors and analysts following the publication of annual results, and a programme of events to foster understanding and good relations with wealth managers and underlying investors;</li> <li>promoting the Company through marketing and public relations initiatives, as we believe that the Company provides a credible investment choice for all types of investors.</li> </ul> <p>Feedback on all meetings with investors is reported to the Board, and the Board reviews shareholder correspondence addressed to it.</p>	<p>Shareholders make informed decisions about their investments. Clear communication of our strategy and the Company’s performance against our objective can help the share price trade at a narrower discount to its net asset value which benefits shareholders.</p> <p>Close interaction with shareholders enables the Board to run the Company in line with shareholders’ interests as a whole and for the Company’s long-term success.</p> <p>The Chair and all the directors invite shareholders to make contact with them directly. Shareholders are welcome to write to the Chair or Senior Independent Director at the registered office (see page 85), or by email to <a href="mailto:itsecretariat@janushenderson.com">itsecretariat@janushenderson.com</a> with any feedback, queries or concerns.</p> <p>The Board is pleased to invite shareholders to attend the AGM and Fund Manager’s presentation for the year ended 31 May 2022. More details are on page 5, page 50 and in the AGM Notice.</p>
Potential investors	<p>The Board and Manager liaise to engage with the wider investor community through various forums to understand their requirements in addition to those of the current shareholders. The material made available to current shareholders, as set out above, is also publicly available for the benefit of potential investors.</p>	<p>By understanding the Company’s activities, performance, risks and prospects, potential investors will also be able to make informed decisions about their investments.</p>

# Business model (continued)

Stakeholders	Engagement	Outcome
<p><b>Janus Henderson as fund management group and AIFM</b></p> <p><b>Activities include:</b></p> <ul style="list-style-type: none"> <li>• <b>Fund management</b></li> <li>• <b>Sales and marketing</b></li> <li>• <b>Company secretarial</b></li> <li>• <b>Financial reporting</b></li> <li>• <b>Internal controls functions</b></li> <li>• <b>Internal audit</b></li> <li>• <b>Investment accounting and administration (outsourced by Janus Henderson to BNP Paribas)</b></li> </ul>	<p>We, as your board of directors, set and oversee parameters for the Manager's activities, including asset allocation, gearing, stock and sector selection as well as risk management. The Board holds our Manager to account in managing the Company's assets.</p> <p>The Board regularly reviews performance against objective, policy and guidelines, and receives presentations from the Fund Manager and other representatives of the Manager at each board meeting to exercise effective oversight of portfolio, performance and strategic objectives. The Manager's performance in all respects is reviewed formally by the Management Engagement Committee ("MEC") each year.</p> <p>The directors work closely with the fund management group outside scheduled board meetings on matters relating to portfolio management, administration and governance oversight, including stakeholder engagement and relationships with third parties. The Board also meets with key staff outside board meetings to develop strategy, including plans to promote the Company with the aim of raising its profile.</p> <p>Recognising that sustainability is fundamental to achieving long-term success, the Board has continued to work closely with the Manager to achieve the Company's investment objective in an effective, responsible and sustainable way in the interests of shareholders, future investors and society at large. We support the Manager's approach, which focuses on engagement with investee companies on ESG issues and empowers each investment team to define the ESG considerations pertinent to their own investment approach, as set out on pages 27 to 30. We continue to be supportive of the fund management team's regular engagement with investee companies on specific topics. As set out on page 29, this engagement included a focus on employee welfare in the pub and restaurant sector, and supply chain management in the retail sector. We review at each board meeting all the votes on portfolio companies' resolutions cast since the previous meeting and how they align with the Manager's ESG investment principles.</p> <p>The Board encourages and supports the Manager in attracting and retaining talent, so that the Company has the resources to implement its strategy and manage third-party relationships successfully.</p> <p>The Board monitors the Manager's culture, values and aspirations each year to ensure that these remain aligned with the Board's own culture and values, as part of the overall assessment of the service provided.</p>	<p>The portfolio activities undertaken by our Manager and the impact of decisions are set out in the Fund Manager's Report on pages 7 to 12.</p> <p>Our close relationship enables both the Manager and directors to explore and understand performance and what may be expected in the future.</p> <p>The Board monitors investment management costs, keeps them competitive and ensures the Manager is paid in accordance with the management agreement.</p> <p>The Board monitors succession planning within Janus Henderson for all key positions supporting the Company. At the MEC meeting in April 2022, the directors received a formal update on staffing and succession within Janus Henderson as a firm and within the Investment Trusts team. The directors raised queries regarding changes within Janus Henderson due to the retirement of Dick Weil as CEO and James de Sausmarez as director of the AIFM and Head of Investment Trusts, and the appointments of incoming CEO Ali Dibadj and the new Head of Investment Trusts, Dan Howe. After consultation with the Fund Manager, Mr Howe and discussions with the Co-Head of Equities and other senior managers, the directors were satisfied that any impact from the changes in senior management were beneficial and welcomed by the teams that supported their Company, including the fund management team.</p>

# Business model (continued)

Stakeholders	Engagement	Outcome
<p><b>Third-party service providers, including:</b></p> <ul style="list-style-type: none"> <li>• <b>Depository and custodian</b></li> <li>• <b>Fund accountant and administrator (outsourced by the Manager)</b></li> <li>• <b>Registrar</b></li> <li>• <b>Corporate broker</b></li> <li>• <b>Recruitment agent</b></li> <li>• <b>Legal counsel</b></li> <li>• <b>Third-party research provider</b></li> </ul>	<p>Representatives of all the main service provider functions present regularly to the Board. The Company contracts directly for custodian, depository and registrar services, and indirectly for fund administration and accounting services.</p> <p>The Board and Manager work with the broker, including its research and sales teams, to provide access to the market and liquidity in the Company's shares. The Board invites representatives of the broker to provide regular analysis of shareholder movements and voting patterns at shareholder meetings, industry changes and contact with investors.</p> <p>Monitoring and ensuring these third parties undertake their roles diligently and correctly is necessary for the Company's success.</p> <p>This regular interaction provides an environment where topics, issues and business development needs can be dealt with efficiently and collegiately. The Board is then able to ensure that service levels and fees remain in the best interests of shareholders.</p> <p>The Board relies on the Manager to provide reports on suppliers' performance at each meeting of the MEC, while the directors remain responsible for assessing each supplier's internal controls and risk management systems, ESG matters, information security and business continuity plans. This is achieved through the assessment of suppliers' assurance reports (see pages 40 and 41 of the Audit and Risk Committee Report) and feedback from the Manager to identify any issues or concerns.</p>	<p>The Company is supported by experienced and capable third parties for all the services required to be a well-functioning Company.</p> <p>The liquidity of the Company's shares benefits shareholders and potential investors as they can buy and sell shares in a timely, efficient and cost-effective way.</p> <p>At the MEC meeting held in April 2022, the directors reviewed the contractual terms, fees and performance of all the Company's service providers. The key service providers gave updates on any material changes in organisational structure/ownership and information regarding staff turnover and other cultural/leadership matters.</p> <p>The directors identified a need for research notes from an external research provider, ensuring equal access to information on the Company to all investors, explaining the features, objectives, performance attribution, ESG stance and current positioning of the Company in an independent professional format. Since the year end, Edison Investment Research Limited has been appointed as third-party research provider, after a competitive selection process. Edison's notes are available on the Company's website and at <a href="http://www.edisongroup.com/company/henderson-smaller-companies-investment-trust">www.edisongroup.com/company/henderson-smaller-companies-investment-trust</a>.</p>
<p><b>Investee companies as listed on pages 13 to 15</b></p>	<p>The Board sets the investment objective and discusses stock selection, asset allocation, and engagement with investee companies with the Fund Manager at each board meeting.</p> <p>The Manager engages with the investee companies on behalf of the Company to exercise good stewardship practices including on ESG matters. The Manager has a dedicated Governance and Stewardship Team which supports the Fund Manager in the investment process.</p>	<p>The fund management team has conducted face-to-face and/or virtual meetings with all our portfolio companies' management teams in the past year to enable them to understand current trading and prospects for their businesses, and ensure that the ESG investment principles and approach are understood. The Manager is a responsible investor.</p>

# Business model (continued)

Stakeholders	Engagement	Outcome
<b>Lenders</b> <ul style="list-style-type: none"> <li>Industrial and Commercial Bank of China Limited London Branch</li> <li>Loan note holders</li> </ul>	<p>The Company employs gearing to enhance shareholder returns and confirms compliance with the loan covenants of both its short-term and long-term gearing facilities on a monthly basis.</p> <p>Janus Henderson provides the Board with regular financial covenant compliance validation and financial reports.</p>	<p>The Company maintains long-term borrowings at low rates through the use of loan notes and a revolving credit facility.</p> <p>During the year, the Board issued a further £20 million loan notes to the current loan noteholder, as the directors believe that this financing provides attractively priced, long-term capital for the benefit of shareholders.</p> <p>The Company maintains a good relationship with its lenders and is well positioned to raise financing to operate effectively as an investment trust.</p> <p>Our strategic gearing (11.2% at 31 May 2022) positions us well to continue to enhance long-term returns over many years to come.</p>
<b>Auditor</b>	<p>The auditor attends at least two audit and risk committee ("ARC") meetings each year and maintains regular contact with the corporate secretary, the Manager and the ARC Chair between meetings.</p> <p>Through close engagement, the directors ensure that the auditor in office is committed to the investment trust audit market and providing the best quality service for an appropriate fee level.</p>	<p>Shareholders, potential investors and wider stakeholders place reliance on the Company's audited annual report and financial statements.</p> <p>Following an audit tender in 2021, Mazars LLP have carried out their first audit on the Company for the year under review. More background on the audit can be found in the Audit and Risk Committee Report on pages 40 to 42.</p>
<b>The Association of Investment Companies ("AIC")</b>	The Company is a member of the AIC which is an organisation that looks after the interests of investment trusts.	The Board chooses to report under the AIC Code of Corporate Governance as this better reflects the unique aspects of an investment trust in the context of good corporate governance.

## Performance measurement and key performance indicators

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 key performance indicators ("KPIs"). The charts, tables and data on pages 2, 3 and 6 show how the Company has performed against these KPIs, and a glossary of terms and alternative performance measures is included on pages 80 to 82.

KPI	Action
<b>Performance measured against the benchmark</b>	At every meeting, the Board reviews and compares the performance of the portfolio as well as the net asset value ("NAV") and share price for the Company against the performance of the Company's benchmark.
<b>Performance against the Company's peer group</b>	The Company is included in the AIC's UK Smaller Companies sector, which represents the Company's peer group. The Board also considers the Company's performance against the peer group, as shown on page 2.
<b>Discount/premium to NAV</b>	The Board monitors the discount to NAV at which the Company's shares trade and reviews the average discount for the AIC UK Smaller Companies sector 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 per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula.
<b>Ongoing charge</b>	The Board monitors the costs of running the Company calculated using the AIC methodology for the ongoing charge.



# Business model (continued)

## Board decision making

The Board takes into consideration the Company's purpose, investment objective and investment policy as well as the interests of the Company's stakeholders when discussing matters and making decisions. The following are examples of the key discussions held and decisions made by the Board during the financial year ended 31 May 2022:

- **As geopolitical disruption ensued following Russia's invasion of Ukraine** and international imposition of sanctions, the Board met several times for additional ad hoc meetings to have separate detailed discussions and interrogate the Manager about the potential impact of the macroeconomic uncertainties on the Company's portfolio and performance. After careful deliberation, they were satisfied that there was no need to make any change to the investment discipline and approach, as there would be no benefit to shareholders in doing so.
- **The directors reviewed the Company's gearing and long-term debt structure** to find the optimal way to increase the Company's debt capacity. In view of the growth in net assets over recent years, the facilities in place at the start of the year, which provided £115m in long-term and short-term borrowings, were far below the Board-set gearing limit of 15% of net assets. After a thorough review of the costs and benefits of the various options, the Board issued a further £20m loan notes to the current loan noteholder.
- **The directors carefully considered the viability and going concern assessment for the Annual Report**, particularly in view of the impact of Covid-19 and the increase in geopolitical risk and uncertainty following the Russian invasion of Ukraine. While direct effects on our portfolio companies have been very minor, the impact of sanctions on the UK economy and globally has been significant. Rising commodity prices and further disruption to supply chains will exacerbate inflationary pressure and it will also create a negative impact on global growth, with UK smaller companies particularly sensitive to supply shortages, inflation and the 'margin squeeze'. These discussions included consideration of the position and duration of the Company's loan facilities, how a breach of any covenants could impact the Company's NAV and share price, income and cash flow forecasts, the Company's ability to meet its investment objective and our 2022 continuation vote. Pages 25 and 26 set out the viability assessment in full, note 1b) on page 64 gives the going concern assessment, and the discussion of risk follows on pages 24 to 25.
- **The directors had many discussions about succession planning and recruitment**, which culminated in implementing an early search process for a candidate meeting ethnic diversity criteria who will bring additional diversity of thought, skills and experience to the Board (see pages 44 to 45).
- **The directors carefully assessed the size of the dividend and the strength of the Company's balance sheet.** They agreed that, subject to shareholder approval, the final dividend should be increased without using capital reserves. This will benefit shareholders and align their interests with those of the Fund Manager.
- **At each board meeting, the directors discussed the Fund Manager's approach to investing responsibly**, including his analysis of the impact that the portfolio companies' approach to environmental, social and governance matters has on the wider community. Case studies on engagement with portfolio companies are on page 29.
- **The directors held a dedicated strategy meeting and validated the Company's policy and strategic approach to investment.** This included ensuring alignment with ownership interests, as well as potential interests in the future. The directors considered in detail the structure, costs and promotion of the Company to the secondary market, and assessed the policy on share buybacks and discount control.
- **Early in the financial year, the Audit and Risk Committee completed an audit tender** prompted by a potential substantial increase in audit fees to ensure that shareholders were receiving value for money and the best service from the statutory auditor. Mazars LLP was selected by the Board and has concluded its first audit of the Company. See pages 40 to 42 for more information on this.
- **The Board agreed resolutions to be put to shareholders** at the AGM in 2022 including the triannual continuation vote.
- **The Board arranged for the Company's half-year and annual results to be prepared**, and approved these for release to the market and to shareholders. By presenting the financial results to shareholders in the Half-Year Update and Annual Report as well as the market announcements, and making them available on the website to other stakeholders, the Company enabled shareholders and potential investors to make informed decisions about their investment in the Company.

# Business model (continued)

## Principal risks and uncertainties

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal and emerging 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.

The directors seek assurance that the risks are appropriately evaluated and that effective mitigating controls are in place. To support this process, the Audit and Risk Committee ("ARC") maintains a detailed risk matrix which identifies the substantial risks to which the Company is exposed and methods of mitigating against them as far as practicable. The Board regularly considers these and does not consider the principal risks to have changed during the course of the reporting period and up to the date of the report. The impact of Brexit is now no longer considered as a separate legal/regulatory risk, but incorporated within the wider review of the potential impact of political change or emergencies on the Company's investments or operations.

Throughout the year the Board has considered the impact of macroeconomic events, notably Covid-19 and the broader ramifications of the Russian invasion of Ukraine. Although the Company invests 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.

While uncertainty remains around short-term economic conditions, the Board has concluded that the Company's portfolio and the Manager's investment approach should prove resilient. The Fund Manager's long-standing philosophy is that, over the long term, smaller companies are able to deliver superior returns than the broader market, driven by his fund management team's fundamental, qualitative analysis, engagement with management teams and strong valuation discipline.

The principal risks fall broadly under the following categories:

Risk	Controls and mitigation
<b>Investment activity and strategy</b>  Poor long-term investment performance (significantly below agreed benchmark or market/industry average)  Loss of the Fund Manager or management team  Impact of political, environmental, health or other emergencies (e.g. Covid-19, war and a changing macroeconomic environment) on the Company's investments  Approach to ESG matters  Material climate-related impacts (both physical and transition risks)	<p>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 net asset value ("NAV") 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 regularly reviews data that monitor portfolio risk factors.</p> <p>The Fund Manager reports to each board meeting on his close oversight of the portfolio, and more frequently in the event of a crisis. Performance is monitored by JHI's internal teams, any of whom would escalate directly to the Board in the event of matters of concern regarding political or economic events. At each meeting, the Board reviews the Fund Manager's ESG engagement with portfolio companies and their governance structures, ESG risks reports, and votes cast against management. The Board also reviews JHI's ESG-related marketing activity specific to the Company.</p> <p>The performance of the Company relative to its benchmark and its peers and the discount/premium to NAV per share are key performance indicators measured by the Board on a continual basis and are reported on pages 2, 3 and 6.</p> <p>The Board obtains assurances from the Manager that the UK Smaller Companies team is suitably resourced, and the Fund Manager is appropriately remunerated and incentivised in this role. The Board also considers the succession plan for the fund management team on an annual basis.</p>

# Business model (continued)

Risk	Controls and mitigation
<b>Legal and regulatory</b>  Loss of investment trust status  Breach of company law or Listing Rules resulting in suspension	<p>In order to qualify as an investment trust, the Company must comply with s1158 Corporation Tax Act 2010 ("s1158"). A breach of s1158 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 s1158 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 (the "Act") and, as the Company has a premium listing on the London Stock Exchange, the Company must comply with the Listing, Prospectus and Disclosure Guidance and Transparency Rules of the FCA.</p> <p>A breach of the Act could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. A breach of the FCA Rules could result in suspension of the Company's shares which would in turn lead to a breach of s1158. The Board relies on its corporate secretary and its professional advisers to ensure compliance with the Act and FCA Rules.</p>
<b>Operational</b>  Failure of, disruption to or inadequate service levels by key third-party service provider  Cyber-crime leading to loss of confidential data  Breach of internal controls  Impact of political, environmental, health or other emergencies (e.g. Covid-19, war and a changing macroeconomic environment) on the Company's operations	<p>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. The Manager 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 and risk management, such as review of service providers' assurance reports, are explained further on pages 38 to 43.</p> <p>Cybersecurity is closely monitored by the ARC as part of quarterly internal controls reports, and the ARC receives an annual presentation from Janus Henderson's Chief Information Security Officer.</p> <p>The Board monitors effectiveness and efficiency of service providers' processes through ongoing compliance and operational reporting. There were no disruptions to the services provided to the Company in the year under review.</p>
<b>Financial instruments and the management of risk</b>	<p>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 73 to 76.</p>

## Emerging risks

At each meeting, the Board considers emerging risks which it defines as potential trends, sudden events or changing risks which are characterised by a high degree of uncertainty in terms of occurrence probability and possible effects on the Company. Once emerging risks become sufficiently clear, they may be treated as specific risks and enter the Company's matrix of significant risks. During the year, the directors agreed that emerging risks would include a rapidly changing macroeconomic environment, exacerbated by the Russian invasion of Ukraine, which rapidly became a fully developed risk, and the heightened alert of major cybersecurity attacks on national and international infrastructure.

The Board receives reporting on risks from the Manager and other service providers in addition to any ad hoc reports on specialist topics from professional advisors. The Board monitors effectively the changing risk landscape and potential threats to the Company with the support of regular reports and ad hoc reports as required, the directors' own experience and external insights gained from industry and shareholder events.

## Viability statement and continuation vote

The Company is a long-term investor. The Board believes 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 believes 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 the Strategic Report.

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 the Company's 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 the Company's NAV and share price.

## Business model (continued)

The Board does not expect there to be any significant change in the principal risks and adequacy of the mitigating controls in place, nor does the Board envisage any change in strategy or objective or any events that would prevent the Company from continuing to operate over the next five years: the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. In coming to this conclusion, the Board has considered rigorously the aftermath of the Covid-19 pandemic and heightened macroeconomic uncertainty following Russia's invasion of Ukraine, and considers that these events have highlighted the advantages of holding an investment trust. The Board does not believe that they will have a long-term impact on the viability of the Company and its ability to continue in operation, notwithstanding the short-term uncertainty these events have caused in the markets and specific shorter-term issues, such as supply chain disruption, inflation and labour shortages.

As explained in the Chair's Statement on page 5, the triennial continuation vote is to be held at the AGM on 30 September 2022 and the Board recommends to shareholders that they support the continuation of the Company. The continuation vote at the 2019 AGM was passed with support of 99.7% of votes cast and the Board expects shareholders to support continuation at the 2022 AGM.

Based on their assessment, the directors have 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 years to 31 May 2027.

### Fee arrangements with the Manager

#### Management fee

The management agreement provides for the payment of a composite management fee. The fee is charged at 0.35% of net assets per annum, payable quarterly in advance at a rate of 0.0875% based on net assets at the end of the previous quarter. Any holdings in funds managed by Janus Henderson, of which there were none, would be excluded from calculation of the management fee.

#### Performance fee

The management agreement also provides for 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 using net assets at the financial year end, compared with net assets at the beginning of the period. 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 monthly net assets of the Company during the year.

There is a further cap to the effect that any enhancement to NAV 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 NAV 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 NAV per share as at the preceding year end, the performance fee payable will be restricted to such amount, if any, as will result in the NAV per share being higher than the NAV per share at the preceding year end.

No performance fee is payable for the year ended 31 May 2022 (2021: £4,537,000).

Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of the cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years. It can only offset underperformance so that underperformance does not prevent a fee from being earned in a future period and will never earn a fee itself. For the year ended 31 May 2022, no unrewarded outperformance is carried forward, although an adjustment has been made to the carried-forward amount for underperformance in the year.

Category of cost	2022 £'000	2022 % of average net assets <sup>1</sup>	2021 £'000	2021 % of average net assets <sup>1</sup>
Management fee	3,347	0.35	2,496	0.32 <sup>2</sup>
Performance fee	–	–	4,537	0.58
<b>Total</b>	<b>3,347</b>	<b>0.35</b>	<b>7,033</b>	<b>0.90</b>

1 Calculated as a percentage of average monthly net assets, which is the basis on which the management and performance fee cap is calculated

2 This percentage is calculated on the average of the month-end net assets, which is the basis on which the cap is assessed. The actual management fee is calculated and charged quarterly in advance on the net assets at the end of the previous quarter

### Ongoing charge

The Board believes that the ongoing charge, excluding the performance fee, of 0.42% (2021: 0.39%) during the year represented good value for money for shareholders. The ongoing charge calculation is explained in the glossary on page 80. A breakdown of the main cost headings in monetary terms and as a percentage of average daily net assets is on page 81.

Penny Freer  
Chair of the Board  
3 August 2022



# ESG matters

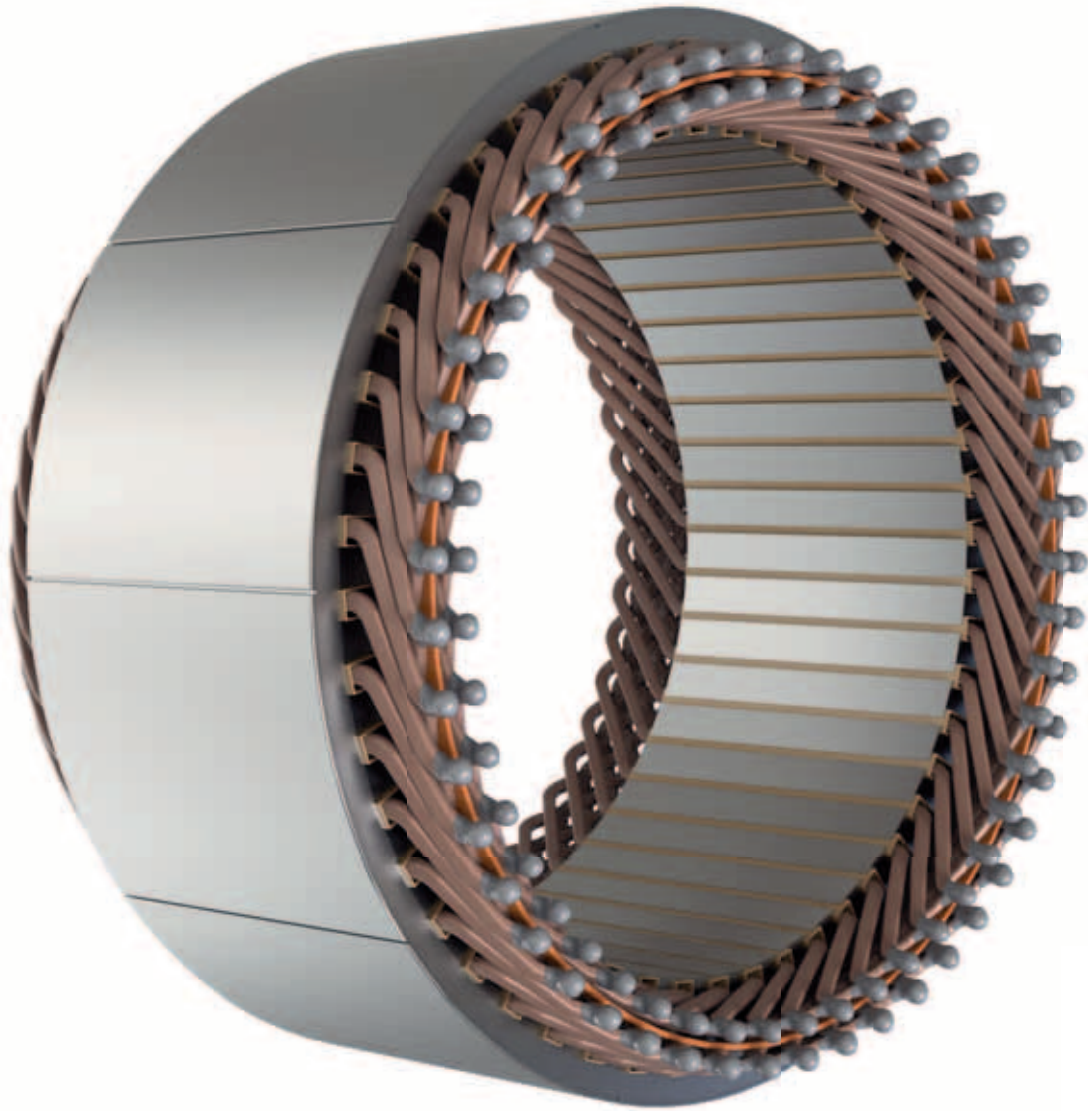


Photo: Victrex's e-motor hairpin wire insulation part. A special feature of the electric motors is the 'hairpin' winding of the stator coils. This technology makes it possible to incorporate more copper in the stator, increasing power output and torque while maintaining the same component volume.

# ESG matters

The Board believes in the power of engaged, long-term ownership as a force for positive change. The Board therefore supports the Fund Manager's responsible approach to environmental, social and corporate governance ("ESG") matters, the way it is incorporated into investment decisions by the UK Smaller Companies fund management team (the "Team"), their company engagement, and voting at investee companies' shareholder meetings. As one of the largest investors in listed UK small and mid-cap companies, we recognise the meaningful impact we can have on the way our portfolio companies conduct their business and understand it is our duty to exercise this influence.

## Investment approach and ESG engagement

The Team uses a combination of bottom-up and top-down approaches to find companies that have undervalued long-term growth potential. ESG issues are identified as part of the Team's well-established "4Ms" process to analyse portfolio companies' models, management, money and momentum.

A key part of the philosophy is focused on the sustainability of business models. The Team's core belief is that the most successful management teams over time will be those which score well on ESG and sustainability factors, have a long-term focus, a good track record of shareholder alignment and an understanding of industry themes. The conviction and focus on the long term are reflected in the Company's average holding period of over five years.

Sustainability themes regularly inform capital allocation decisions. Companies offering goods and services which address issues such as aging populations, urbanisation, cyber-crime and the savings gap have all been attractive propositions from a growth perspective. The Team is also cognisant of the risks accompanying ESG-themed investing: policy instability, uncertainty around customer adoption and technological obsolescence.

The Team believes that ESG factors impact all parts of an investment case often implicitly, not explicitly. The effectiveness of a company's governance structure and the impact a company has on the environment and society are just as important as more traditional indicators of quality such as cash flow or returns on invested capital.

A company's ESG characteristics directly impact how it is valued. All these factors influence the valuation multiples the market is willing to attribute to a company's earnings or the cost of capital used to discount its cash flows. The Fund Manager's core belief is that companies that score well on ESG and sustainability factors warrant a premium over time.

## Company engagement

The Team's combined experience in the UK market has created a deep knowledge base. The Team's analysis is further supplemented by a body of increasingly sophisticated ESG-related data, broker research and company meetings.

The Team is wary of the fact that individual ESG data points are not always material to company performance or even comparable between peers. However, the Team is conscious that management's overall attention to a collection of impactful ESG or sustainability issues can be interpreted as a leading indicator of quality, long-term oriented leadership and so impacts the ability to deliver enduring success.

The general level of governance at listed companies in the UK is of a very high standard in terms of best practice principles. The Team makes strong use of this market feature to augment traditional corporate governance and company research. As active managers in the UK marketplace, the Team is committed to the principles of good stewardship and attends more than 300 company meetings per year. These opportunities are used to challenge strategy and hold management to account where issues have occurred. In addition to engaging with company management, the Team will often engage with the boards of portfolio companies where they believe concerns need to be escalated.

The Team collaborates closely with JHI's in-house Governance and Stewardship ("G&S") team, as a specialist resource on ESG issues. The G&S team screens portfolios for major ESG issues and highlights important ESG engagement topics ahead of company meetings. In addition, the G&S team and Fund Manager work together to coordinate a pipeline of proactive engagement with companies on a range of ESG themes.

If the Team does not feel that shareholder concerns are being addressed when engaging with a company, they will consider disinvesting.

## Engagement over the year

Following the success of the Team's 2021 "Dear Chair" letter to each portfolio company on ESG matters, the Team carried out thematic engagement during the year to 31 May 2022 with companies in the portfolio on ESG topics. These themes included employee engagement and welfare in the pub and restaurant sector, supply chain management in the retail sector, cybersecurity and recycling, as set out on page 29. The Team continues to engage with every investee company to monitor progress.

## Voting

The Board believes that voting at general meetings is an integral part of exercising responsible corporate stewardship and provides an effective means of signalling shareholder views on board policy, practices and performance. We have chosen to delegate voting responsibility to the Manager for the rights attached to the shares held in the Company's portfolio, and the Manager votes actively at shareholder meetings and engages with companies as part of the voting process.

Voting decisions are guided by the best interests of investors and made in consultation with the Team, which has an

## ESG matters (continued)

in-depth understanding of the respective companies' operations. Voting decisions are made in keeping with the provisions of the Manager's ESG Investment Principles which set out the Manager's approach to corporate governance and compliance with the Stewardship Code and are publicly available at [www.janushenderson.com](http://www.janushenderson.com). To retain oversight of the process, the directors receive reporting at each board meeting on how the Manager has voted the shares held in the Company's portfolio, and they review the ESG Investment Principles at least annually.

The Fund Manager has a strong focus on good governance practice and an active approach to voting. Where appropriate, the Manager will vote against resolutions at general meetings. In most cases this is done following engagement or consultation with the company prior to general meetings.

During the year to 31 May 2022, the UK Smaller Companies team engaged with directors of various portfolio companies to discuss corporate governance issues and to help shape their policies on such matters. The key issues which the Fund Manager voted against concerned director remuneration, overboarding, diversity and independence. The Fund Manager also voted against the payment of dividends by companies which had used the UK Coronavirus Job Retention Scheme and not repaid it in the same financial year the dividend was announced. In total, the Company voted at 125 shareholder meetings during the year to 31 May 2022, being 99.2% of portfolio companies' general meetings. At 15 of these meetings (11.9%), the Company placed a vote against management or abstained.

### Engagement on employee welfare in the pub and restaurant sector



**Reason for engagement:** A proactive engagement with three UK-listed pub and restaurant businesses to consider workforce-related challenges faced by this sector post-pandemic.



**Objective of engagement:** To assess measures taken by each company in relation to recruitment, employee retention, welfare and to compare practices with peers.



**Scope and process:** Calls were arranged with the chief executives and human resource heads at each of the three companies. Discussions were focused on company policies in human capital management, future commitments to improve working conditions and employee engagements. Operational policies around shift management, wages and tip sharing were also discussed. Prior to the meetings, Glassdoor reviews were studied to understand employee criticisms regarding senior management, resourcing and pay.



**Outcome:** The engagements highlighted the specific challenges faced by the companies in talent retention, wage inflation and staff shortages. It was clear that all the businesses recognise that employee welfare is a top priority. It was encouraging to see that all had taken steps to improve time management; for example, allowing employees to directly swap shifts or make changes to the rota system autonomously. Positively, it was clear that senior management actively consult with employees through town hall meetings and feedback surveys. Whilst all three businesses are not uniform in approach, with the larger companies using data more actively to review employee statistics, all are taking positive steps to improve employee welfare. Given the importance of retaining employees, we suggested, in certain cases, that management compensation include specific workforce KPIs. Going forward, we plan to monitor progress on these initiatives.

### Engagement on supply chain review of the retail sector



**Reason for engagement:** Engagement with two retail companies to review supply chain practices given the issues on transparency in the industry.



**Objective of engagement:** To understand company oversight and audit of supply chains, particularly in the high-risk areas of sourcing and manufacturing.



**Scope and process:** Calls were arranged with the relevant executives at each of the companies.



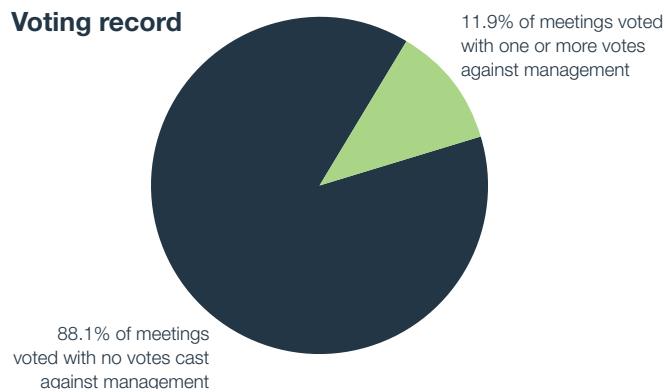
**Outcome:** Both companies considered supply chain management as a material risk to operations and have actively taken steps to

improve oversight and practices. It was encouraging to see how one retailer undertakes internal auditing of its supply chain rather than relying on third-party affirmations. Whilst the reliance on third parties is a generally accepted practice, more detailed reviews are required to gain comfort on processes. In that respect, we made recommendations to the other retailer to follow a similar approach. Sustainability is a theme for both businesses and they are actively trying to source more local and recycled materials. Overall supply chain and channel checks have become increasingly important from both a governance and environmental point of view. With both retailers directing more resource into the area, we are encouraged by the progress made to date.

## ESG matters (continued)

The Company voted against 23 resolutions in total, being 1.3% of all resolutions voted on during the year, and abstained on one resolution (0.1%)

### Voting record



### Stewardship

Stewardship is an integral and natural part of JHI's long-term, active approach to investment management. Strong ownership practices, such as management engagement and proxy voting, can help protect and enhance long-term shareholder value. JHI supports stewardship codes and broader initiatives around the world, including being a founder signatory of the UN Principles for Responsible Investment, and is a signatory of the FRC's Stewardship Code. The intensive research by fund managers and analysts involves conducting thousands of interviews with senior executives and chairs of companies throughout the world each year. These teams develop long-term relationships with the management of firms in which they invest. Should concerns arise over a firm's practices or performance, they seek to leverage these constructive relationships by engaging with company management or expressing their views through voting on management or shareholder proposals. Escalation of the engagement activities depends on a company's individual circumstances.

### The environment

The UK Smaller Companies team engages with portfolio companies on environmental matters where they arise. As an investment trust, the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The Company's indirect impact occurs through its investments and the Fund Manager monitors the carbon footprint of the portfolio as a measure of its carbon intensity. For these reasons, the Board considers that the Company is a low-energy user under the Streamlined Energy & Carbon Reporting regulations ("SECR") and is therefore not required to disclose energy and carbon information.

Our Manager recognises the importance of managing its operational activities in a sustainable way and minimising any adverse impact on the environment. In 2019 JHI committed to reducing its carbon footprint by 15% per full-time employee

over three years based on 2018 consumption. In 2021 JHI reached this target and set new five-year targets in 2022 in line with guidance from the Science-Based Target Initiative to reduce Scope 1 (fuel) and Scope 2 (electricity) emissions by 29.4%, as well as Scope 3 (business travel, hotel stays, freight, paper consumption, water, waste) operational emissions by 17.5%.

In addition to this, JHI has maintained a CarbonNatural® certification since 2007 and offsets all its operational Scope 1, Scope 2 and Scope 3 emissions each year. Through this process, JHI has invested in a variety of offset projects around the world, delivering financial support to essential renewable energy, forestry and resource conservation projects that support reductions in greenhouse gas emissions. All projects JHI supports have been classified as 'additional' by an independent third party, meaning that they would not happen without the sale of carbon credits.

JHI discloses its carbon emissions annually through regulatory and voluntary reporting frameworks, including SECR and CDP, as well as in its Annual Report and **2021 Impact Report**, which provide more information.

### Board diversity

The Company's affairs are overseen by a Board comprising six non-executive directors – three women and three men, a gender balance of 50% female/male. This exceeds the gender diversity target set by the FTSE Women Leaders Review. Together, the directors offer a broad range of experience and skills gained in the UK and overseas, bringing knowledge of investment markets, corporate operations, financial services, stakeholder and governance expertise to discussions on the Company's business. The diversity policy is set out on page 45.

The directors have discussed the Parker Review recommendations and the FCA's rules announced in April 2022 on diversity and inclusion on company boards and executive management. They have decided to bring forward the recruitment of a director to succeed Mrs Sant, who will meet the ethnic diversity requirements as well as bringing additional diversity of thought, skills and experience to the Board. The Board, therefore, intends to meet its targets under the Parker Review and the FCA rules within the current financial year.

The Board is proud of the diversity in the fund management team. It takes a keen interest in the diversity initiatives in place at its service providers and in particular, supports and encourages the Manager's diversity training and initiatives to improve any imbalances. These include Janus Henderson's ethnicity pay gap analysis, returnship, trainee, apprenticeship and internship programmes, such as INROADS, Girls Who Invest, Investment 2020 and #100 Black Interns. The Board monitors the culture at Janus Henderson and appreciates that the Manager fosters and maintains an environment that values the unique talents and contributions of individuals, and strives to cultivate and practise inclusiveness for the long-term success of the business and for the benefit of its employees, investors and shareholders.

Penny Freer  
Chair of the Board  
3 August 2022



# Governance



Photo: All Board members at a meeting, with David Lamb joining by videoconference. Also in attendance are Neil Hermon (Fund Manager), Shiv Sedani (Research Analyst) and Johana Woodruff (chartered secretary and nominated representative of the Corporate Secretary).

# Corporate Governance Report

## Board of Directors

The directors appointed to the Board at the date of this Annual Report are set out below:



**Penny Freer**

**Position:** Chair of the Board  
(from 1 October 2021)

**Date of appointment:** 14 September 2018

**Experience and contribution:** Penny is an experienced board director who brings in-depth investment expertise and leadership skills to the Board. In particular, she has many years of experience of UK smaller companies, both as a director and as an investment banker advising companies in this sector.

**Other appointments:** Penny is chair of AP Ventures LLP. She holds non-executive board positions at Crown Place VCT PLC and Empresaria Group plc, where she is chair and interim chair respectively.

From 2000 to 2004 Penny led Robert W Baird's UK equities division; prior to this she spent eight years at Credit Lyonnais Securities where she headed the small and mid-cap equities business. Penny was previously a non-executive director of Advanced Medical Solutions Group plc.



**Alexandra Mackesy**

**Position:** Chair of the Audit and Risk Committee (from 4 October 2019)

**Date of appointment:** 14 September 2018

**Experience and contribution:** Alexandra brings a specialist governance perspective and particular experience of global smaller companies to the Board. She has a strong financial and risk management background. Alexandra has 18 years' experience as a non-executive director, audit chair and senior independent director of UK-listed investment trusts.

**Other appointments:** Alexandra is non-executive chair of JPMorgan China Growth & Income Investment Trust plc and non-executive director of Murray International Trust PLC. In addition, Alexandra works as a consultant, providing external board evaluation services, and as advisory member of the investment committee of Oriel College, Oxford. In her charity activity, Alexandra is trustee of the Longborough Festival Opera.

During her executive career in the investment industry, Alexandra worked in senior equity research roles with Credit Suisse, JPMorgan and SG Warburg in Asia.



**David Lamb**

**Position:** Senior Independent Director  
(from 4 October 2019)

**Date of appointment:** 1 August 2013

**Experience and contribution:** David brings in-depth knowledge, leadership skills, expertise and experience in investment management. He provides guidance to the Manager's investment trust marketing team in establishing the necessary infrastructure and initiatives for effective delivery of the Company's investment proposition and access to its shares.

**Other appointments:** David is chairman of the boards of Polar Capital Holdings plc and the University of the West of England.

David held senior executive roles at St James's Place plc for nearly 30 years, notably as managing director, group business development director and board member until 2019. Before joining St James's Place, he was investment manager at Friends Life and chief research actuary at Allied Dunbar.

All the directors are independent and non-executive. All directors are members of the Management Engagement Committee and the Nomination Committee, both of which are chaired by Penny Freer. The Audit and Risk Committee is chaired by Alexandra Mackesy, the other members of which are Kevin Carter, David Lamb, Victoria Sant and Michael Warren.

# Corporate Governance Report (continued)

## Board of Directors (continued)



**Kevin Carter**

**Position:** Director

**Date of appointment:** 1 May 2021

**Experience and contribution:** Kevin brings wide experience of investment management and leadership skills to the Board, both as a fund manager and managing director of investment firms. Having been a non-executive chair of Murray International Trust plc and director of Lowland Investment Company plc, Kevin is an experienced investment trust director. Kevin is a CFA charter holder and has a doctorate in mathematical statistics with a research subject in financial economics.

**Other appointments:** Kevin is non-executive chair of the board of JPMorgan American Investment Trust plc and a director of Aspect Capital Limited and Newton Investment Management Limited. Kevin is also a trustee director of the BBC Pension Scheme and chair of its investment committee.

During his executive career, Kevin led the European investment practice of Watson Wyatt Limited and was chief executive officer of Old Mutual Asset Managers.



**Victoria Sant**

**Position:** Director

**Date of appointment:** 23 September 2016

**Experience and contribution:** Victoria brings a wide governance and stakeholder perspective to the Board with her in-depth ESG/SRI knowledge and experience, particularly through her roles at the Investor Forum and an endowment asset owner.

**Other appointments:** Victoria is managing director of the Investor Forum, a not-for-profit organisation facilitating engagement between institutional investors and UK-listed companies on long-term strategic and governance issues. Victoria is chair of the investment committee of Crop Trust, a member of the investment committee of the National Trust endowment, and a member of the advisory board of Ownership Capital B.V., which is a Dutch equity manager focused on active ownership and ESG integration.

Prior to this, Victoria was an investment manager at the Wellcome Trust, where she was responsible for the outsourced long-only equity portion of the £18bn investment portfolio, and a trustee director of the pension scheme.



**Michael Warren**

**Position:** Director

**Date of appointment:** 1 March 2021

**Experience and contribution:** Michael brings a combination of investment, operational and CEO-level management experience, with expertise in managing money, people and organisations. A particular management specialism is Michael's experience of leading sales and marketing divisions.

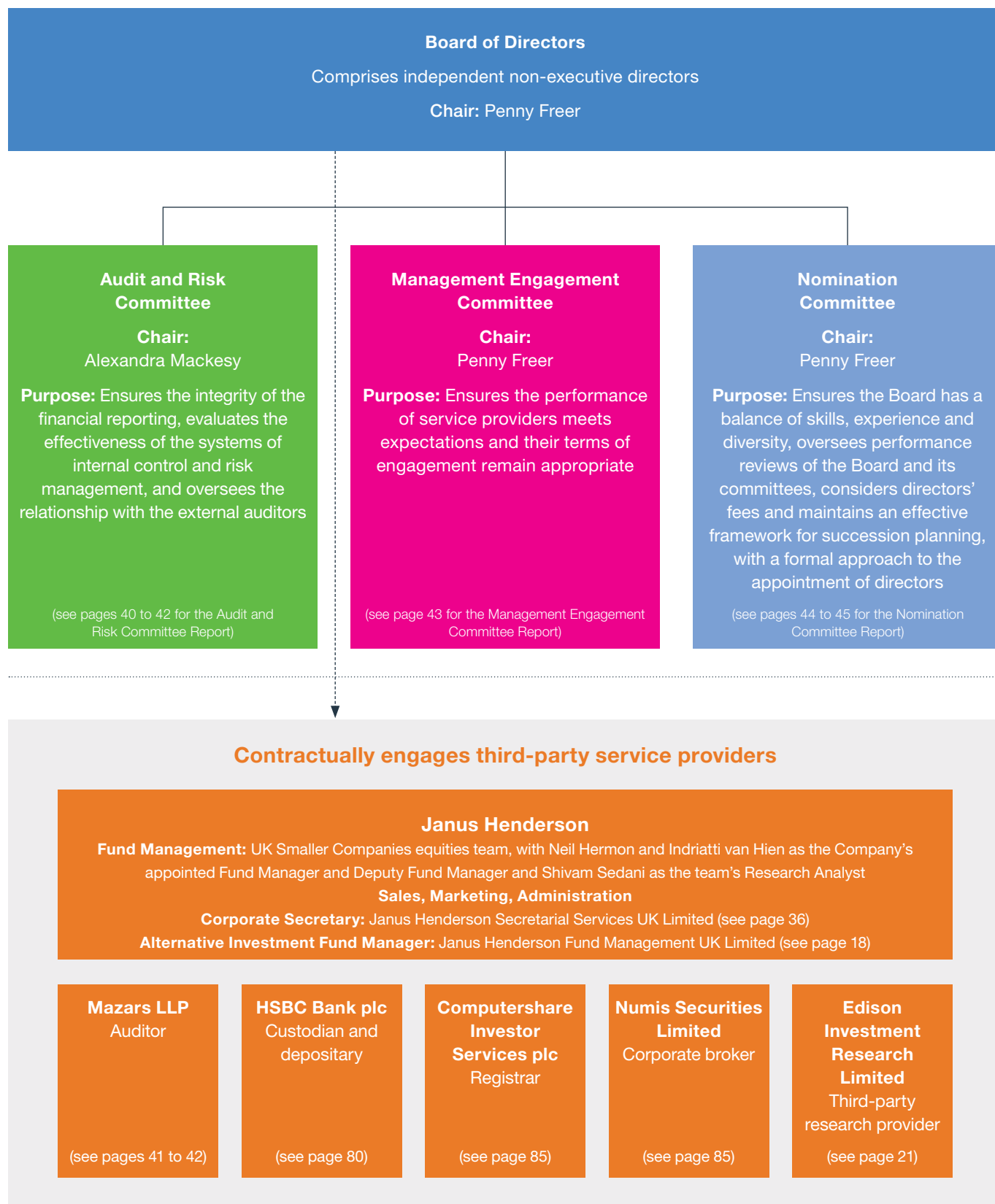
**Other appointments:** Michael is a non-executive director of Fidelity Asian Values PLC, where he chairs the management engagement committee, and a non-executive director of Carrington Wealth Management and Rathbone Unit Trust Management Limited. Michael also acts as an adviser to Gresham House Asset Management.<sup>1</sup>

During his executive career, Michael held several senior management and investment roles. He was an investment director of Thames River Capital, a board member and the managing director of the sales and marketing divisions of HSBC Investments UK Ltd, managing director and head of retail for DWS, the UK mutual fund business of Deutsche Asset Management and director and global equity portfolio manager of Baring Asset Management.

<sup>1</sup> The Company has a holding in Gresham House Asset Management, as set out on page 14 in the investment portfolio listing

# Corporate Governance Report (continued)

## Governance structure



The terms of reference for each of the committees of the Board are kept under regular review and are available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com) or via the corporate secretary.



# Corporate Governance Report (continued)

## Chair's Statement on corporate governance

Your Board is pleased to report on our approach to the governance of your Company and how the principles of the applicable codes have been applied during the year. As a Board, we believe that good governance creates value and we are committed to high standards of corporate governance, business ethics and transparency.

## Compliance with corporate governance codes

By virtue of the Company's premium listing on the London Stock Exchange, the Board is required to report on how the principles of the 2018 UK Corporate Governance Code (the "UK Code") have been applied. The 2019 AIC Code of Corporate Governance (the "AIC Code") addresses the principles and provisions of the UK Code as well as additional provisions of specific relevance to investment companies, and has been endorsed by the Financial Reporting Council. This enables investment company boards to report against the AIC Code and still meet their obligations under the UK Code and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules. The Board has chosen to report under the AIC Code, as it considers reporting against the AIC Code provides more relevant information to the Company's shareholders about its governance arrangements.

The AIC Code and the UK Code can be found on the respective organisations' websites: [www.theaic.co.uk](http://www.theaic.co.uk) and [www.frc.org.uk](http://www.frc.org.uk).

## Statement of compliance

The Board confirms that the Company has applied the principles and adhered to the provisions of the AIC Code in the year under review and up to the date of this report, other than in respect of the expectation under provision 26 that the Board's annual performance evaluation be facilitated externally every three years, as a FTSE 350 company. Following careful consideration of the benefits and expenses for shareholders, the Board postponed its external review to the following financial year ending 31 May 2023 for maximum value, determining that an external evaluation in the year under review be premature in view of the recent refreshment of the Board, as the Chair had been in the role only since October 2021, and two new directors joined in 2021. In its place, a detailed and rigorous internal interview-style evaluation was conducted to optimise learning and strengthen Board relationships, as described on pages 44 and 45.

A separate remuneration committee has not been established, as the Board comprises only non-executive directors and the Company has no employees or executive directors. The remit of the Nomination Committee includes responsibility for non-executive directors' remuneration. The Board Chair does not act as Nomination Committee Chair when that committee considers matters relating to her performance, succession or remuneration. In addition, the Company does not have any

internal operations and therefore does not maintain an internal audit function, though the Audit and Risk Committee considers the need for such a function at least annually.

## Governance overview

The Board has three principal committees: Audit and Risk Committee, Management Engagement Committee and Nomination Committee, as set out in the governance structure chart on page 34. Committee membership is noted on page 32.

The Board has engaged third-party service providers to deliver the operations of the Company. Management of the investment portfolio has been delegated contractually to Janus Henderson ("JHI"), which also provides the day-to-day accounting, company secretarial, administrative, sales and marketing activities. The Company has appointed a depositary, which in turn appoints the custodian which is responsible for the safe custody of the Company's assets. The Company has appointed a registrar to maintain the register of members and assist shareholders with queries in respect of their holdings.

The Company entered into each of these principal contracts after full and proper consideration of the quality and cost of the services offered, including the operation of the service providers' control systems in relation to the affairs of the Company. The Board and its committees maintain oversight of third-party service providers through regular and ad hoc reporting and ongoing monitoring by the Manager. The Board meets annually with representatives from the depositary and custodian to discuss, amongst other matters, performance, service levels, their value for money, information security and business continuity plans.

The Board meets formally at least six times a year, with additional board or committee meetings arranged when required. The directors have regular contact with the Fund Manager, the corporate secretary and other employees of the Manager between meetings.

## Operation of the Board

### Directors

The Board comprises six non-executive directors, whose biographies are included on pages 32 to 33. These biographies demonstrate the breadth of investment, financial, commercial and professional experience relevant to their positions as directors. Jamie Cayzer-Colvin retired from the Board as director and Chair on 1 October 2021. All other directors served throughout the year and all are resident in the UK.

### Board leadership and purpose

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 enables 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 other stakeholders are understood and met. The Board sets the Company's strategic

# Corporate Governance Report (continued)

aims, subject to the Company's articles of association and approval by 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. Information relating to the Company's purpose, values and culture can be found on page 17.

## Division of responsibilities

The Chair, Penny Freer, is responsible for leading the Board and ensuring it continues to deal effectively with all aspects of its role, promoting a culture of openness, challenge and robust debate. Penny leads the Board's relationship and engagement with the Manager, shareholders and other stakeholders.

The Board has a formal schedule of matters reserved for its decision, available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com), which includes setting strategy and providing oversight of performance against agreed measures. All matters that are not delegated to the Manager under the management agreement are reserved for the Board. It approves any changes to the governance structure, capital arrangements, board composition, oversees financial reporting and assesses the effectiveness of the internal control framework.

Each board meeting follows a formal agenda, set by the Chair in conjunction with the company secretary, and includes a review of the Company's investment performance, financial position, compliance with investment parameters and the investment objective, a review of shareholder movements, along with any sales and marketing activities and any other relevant business matters, to ensure that control is maintained over the Company's affairs.

The Manager ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information to allow them to discharge their responsibilities and enable smooth functioning of the Board and its committees. Representatives of the Manager attend each board meeting enabling the directors to probe further on matters of interest or concern.

The Chair is invited to meetings of all the chairs of the investment trust companies managed by JHI which provide a forum to discuss industry matters and are then reported back to the Board as necessary. A fundamental consideration in the Board's decision-making is its awareness of the interests of shareholders and other key stakeholders, as explained on page 23.

David Lamb, as Senior Independent Director ("SID"), acts as an experienced sounding board for the Chair and an intermediary for other directors, shareholders and other stakeholders. He is also the director nominated to lead the dialogue with the Manager on marketing and promotional matters, due to his experience managing operations at St James' Place. As SID, David leads in place of the Chair on other occasions, as required. David will retire from the Board on conclusion of the 2022 AGM, having served as director for nine years. Kevin Carter will succeed David as SID.

Any correspondence from shareholders addressed to the Chair or the Company received by JHI is forwarded to the Chair in line with audited procedures in place, and is submitted to the next board meeting as appropriate. Any urgent or important correspondence would be circulated promptly at the request of the Chair.

## Corporate secretary

The Board has direct access to the advice and services of the nominated chartered secretary, who has been appointed by the corporate secretary Janus Henderson Secretarial Services UK Limited, a subsidiary of JHI 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 JHI.

The secretary is responsible to the Board for ensuring compliance with Board and committee procedures and applicable rules and regulations. The proceedings at all board and committee meetings are fully minuted, with any director's concerns recorded in the minutes. The Board has the power to appoint or remove the secretary in accordance with the terms of the management agreement.

## Directors' appointment and tenure

### Appointment and retirement

The Board may appoint directors at any time during the year. Any director so appointed will stand for election by shareholders at the following annual general meeting in accordance with the provisions of the Company's articles of association. Each director receives a letter of appointment that sets out, amongst other matters, what is expected of them in terms of time commitment.

The Board considers a potential candidate's other commitments on appointment and then annually through the performance evaluation process to ensure that directors have sufficient time to commit to the Company. A schedule of directors' other commitments is reviewed at each board meeting and directors are required to seek the Chair's approval prior to accepting further appointments. The Chair seeks the SID's approval before accepting further appointments.

The Company's articles of association permit shareholders to remove a director before the end of his or her term by passing a special resolution at a general meeting. An appointment may be terminated by either party giving written notice without compensation payable.

### Tenure

Directors are generally expected to serve two terms of three years, which may be extended to a third term at the discretion of the Board and subject to satisfactory performance evaluation and re-election by shareholders each year. This ensures the regular refreshment of the Board and its committees, and forms an integral part of succession planning.

# Corporate Governance Report (continued)

Given the entirely non-executive nature of the Board and the fact that the Chair may not be appointed as such at the time of their initial appointment as a director, the Chair's tenure may be longer where this is considered by the Board to be in the best interests of the Company.

The appointment of all directors is subject to satisfactory performance evaluation and annual re-election by shareholders. The directors are cognisant of the benefits of regularly refreshing Board membership and seek to do so while retaining a balance of knowledge of the Company and the key relationship with the Fund Manager.

Following the Nomination Committee's review of the contribution and performance of each director (see pages 44 and 45), the continuing appointment of all directors was agreed for resolution by shareholders at the AGM, other than that of David Lamb who will be retiring, as set out in the Chair's Statement.

## Professional development

An induction process is in place for new appointees and all directors are encouraged to attend relevant internal and external training courses and seminars throughout the year. Ongoing individual training requirements are considered as part of the annual evaluation process led by the Chair of the Board.

## Directors' independence

All directors have a wide range of other interests and are not dependent financially on the Company. At the Nomination Committee meeting in May 2022, the directors reviewed their independence and confirmed that they all remained wholly independent of the Manager. In line with provision 13 of the AIC Code, the directors agreed that Penny Freer as Chair was independent on her appointment to the Board in 2018 and continues to be independent, having no relationships that may create a conflict between her interests and those of shareholders.

The role and contribution of any longer serving director (over six years in tenure) are subject to particularly rigorous review. The Board has concurred with the Nomination Committee's assessment that two longer serving directors, David Lamb and Victoria Sant, are independent in character and judgement, and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders.

There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No director has a service contract with the Company and there are no agreements between the Company and its directors concerning compensation for loss of office.

The Board has adopted a procedure for directors to take independent professional advice in the furtherance of their duties at the expense of the Company.

## Directors' conflicts of interest

The Company's articles of association permit the Board to consider and, if it sees fit, 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 meeting's minutes and the register of interests.

## Board attendance

The table below sets out the number of scheduled board and committee meetings held during the year under review and the number of meetings attended by each director. All directors in office at the date of this report attended the AGM on 1 October 2021. The directors and committees of the Board also met during the year on several separate occasions to undertake specific business including the approval of the Company's results, dividends, a further private placement of loan notes, and for deeper updates on investment performance. One additional meeting of the Audit and Risk Committee took place in the year under review as part of the audit tender process.

	Board	ARC	MEC	NC
<b>Number of meetings</b>				
Jamie Cayzer-Colvin <sup>1</sup>	2	1	n/a	n/a
Penny Freer <sup>2</sup>	6	4	1	1
David Lamb	6	4	1	1
Alexandra Mackesy	6	4	1	1
Victoria Sant	6	4	1	1
Kevin Carter	6	4	1	1
Michael Warren	6	4	1	1

### Notes:

1 Attendance at ARC meetings by invitation only. Retired from the Board on 1 October 2021

2 Attendance at ARC meetings by invitation only since appointment as Board Chair on 1 October 2022

ARC: Audit and Risk Committee

MEC: Management Engagement Committee

NC: Nomination Committee

## Directors' insurance and indemnification

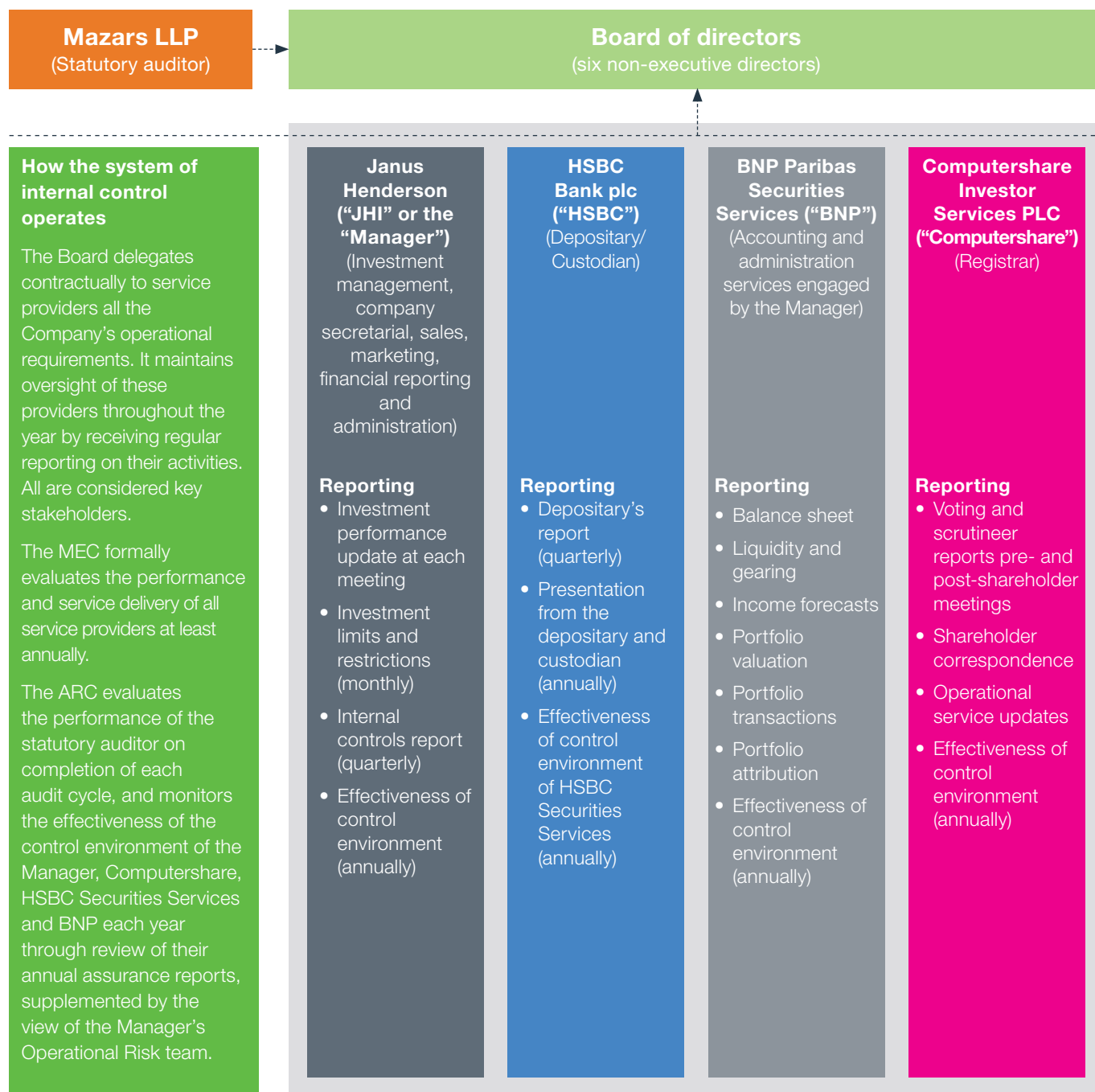
Directors' and officers' liability insurance cover was in place throughout the financial year and remains in place at the date of this report. The Company's articles of association provide, subject to UK legislation, an indemnity for directors in respect of costs they may incur relating to defence of any proceedings brought against them arising from their positions as directors, in which they are acquitted or judgment is given in their favour by the Court. No indemnity was given during the year or to the date of this report.

# Corporate Governance Report (continued)

## Internal control and risk management

The Board has overall responsibility for the Company's system of internal control and risk management, and for reviewing its effectiveness, as set out in the following chart "System of Internal Controls". The Audit and Risk Committee (the "ARC") supports the Board in the continuous monitoring of the Company's internal controls and risk management framework, which includes those of its key service providers. Its considerations in this respect are set out on pages 40 to 42.

## System of internal controls





# Corporate Governance Report (continued)

The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company (see pages 24 to 25), aligning with the FRC's Guidance on Risk Management, Internal Control and Related Business and Financial Reporting. The system was in operation throughout the year under review and up to the date of this report and is designed to meet the specific risks faced by the Company. It takes account of the nature of the Company's reliance on its service providers and their internal controls environments. 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 which specify levels of authority and exposure limits. The Board reviews reports on compliance with the criteria at each meeting;
- regular reporting that allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- the contractual agreements with the Manager and other service providers. The Board reviews performance levels and adherence to relevant provisions of the agreements on a regular basis. The Management Engagement Committee conducts a formal evaluation of the overall level of service from third-party providers at least annually (see page 43); and
- the review of controls (including financial, operational and compliance) at the Manager and other third-party service providers. The Board receives quarterly reporting from the Manager and Depositary, 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 Risk team on the control environment in operation at the Manager and their view of the control environments of the key 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 has carried out a review of the effectiveness of the Company's system of internal controls for the year ended 31 May 2022. During the course of its review the Board did not identify and was not advised of any failings or weaknesses relating to the Company's portfolio that have been determined as material.

## Internal audit function

Systems are in operation to safeguard the Company's assets and shareholders' investments, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. Being an investment trust, with no employees and all executive activities delegated to third-party service providers, the Board relies on the Company's framework of internal control and the ARC's views on reporting received from specific teams, particularly at the Manager.

As noted above, the Manager's Operational Risk Team supports the ARC in considering the independently audited reports on the effectiveness of internal controls in place at the third-party service providers. The Manager's Internal Audit Team provides regular reporting to the Board on the operations at the Manager and presents to the ARC at least annually. The Board has therefore concluded that it is not necessary at the present time for the Company to have its own internal audit function.

By order of the Board  
For and on behalf of  
Janus Henderson Secretarial Services UK Limited  
Corporate Secretary  
3 August 2022

# Audit and Risk Committee Report

I am pleased to present my formal report to shareholders as Chair of the Audit and Risk Committee (the “Committee”) for the year ended 31 May 2022.

## Role and responsibilities

The primary responsibilities of the Committee are to ensure the integrity of the Company’s financial reporting, the appropriateness of internal controls and risk management systems at the Manager and the Company’s other service providers and to make recommendations to the Board on approvals and any changes needed. The Committee also oversees the relationship with the external auditor, and through a mandate directly from the shareholders, determines the auditor’s appointment and fees. The Committee formally reports to the Board after each meeting and its responsibilities are set out in terms of reference which are reviewed at each meeting and available on the Company’s website.

## Membership and meetings

The members of the Audit and Risk Committee during the year were myself as Chair, David Lamb, Victoria Sant, Michael Warren, Kevin Carter, and until her appointment as Chair of the Board, Penny Freer. Since 1 October 2021, Penny attends the Committee’s meetings by invitation only. Although the members of the Committee are not accountants by profession, the Board considers that several of the members, including myself, have recent and relevant financial experience from their senior management roles elsewhere.

The Committee met four times in the year under review with the following focal points:

- to review the Annual Report and final dividend;
- to review the half-year results and interim dividend;
- to focus on its broader responsibilities overseeing internal controls; and
- to consider tender presentations from potential auditors (prior to selecting Mazars).

The Company’s external auditor, the Fund Manager, Deputy Fund Manager and the Manager’s Financial Reporting Manager for investment trusts are invited to attend meetings of the Committee on a regular basis. Other representatives of the Manager (including Heads of Operational Risk, Internal Audit, Business Continuity and the Chief Information Security Officer) also attend meetings on an annual basis, and more frequently as helpful to the Committee.

## Activities during the year

In the year under review the Committee assessed the following matters:

- appropriateness of the Company’s accounting policies and 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 (“JHI”);
- half-year results and the Annual Report. This includes whether the Annual 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;
- dividends to be paid by the Company for recommendation to the Board;
- internal controls in place at JHI, BNP, HSBC Securities Services, and Computershare;
- JHI’s policies and activities in relation to information security and business resilience meeting with representatives of JHI’s internal audit, information security and risk departments;
- key and emerging risks, risk management systems in place and the Company’s risk map. The Committee drew up an additional strategic ‘heat map’ of key risks to better analyse risks holistically, which collated each director’s individual rating for each risk with reasons for any variations for divergence considered in detail;
- policies and procedures in place to prevent tax evasion, including the Company’s anti-bribery policy;
- nature and scope of the external audit and its findings;
- any a need for an internal audit function;
- appointment of the auditor, their performance, remuneration and tenure of appointment, their independence, objectivity, effectiveness, and quality of reporting;
- benefits of an audit tender, potential audit firms and their audit tender presentations;
- audit plan, including the principal areas of focus;
- JHI’s and other key service providers’ whistleblowing policies for their staff to raise concerns in confidence about possible improprieties, including in relation to the Company;
- particular focus on the calculation and presentation of the management fee, performance fee and ongoing charge calculations, to ensure the greatest possible clarity for shareholders;
- annual confirmation from the Company’s depository; and
- liquidity analysis of cross-holdings across the Manager’s funds.

# Audit and Risk Committee Report (continued)

## Annual Report for the year ended 31 May 2022

The Committee considered the following significant matters in respect of the Annual Report for the year ended 31 May 2022:

Significant issue	How the issue was addressed
<b>Valuation and ownership of the Company's investments</b>	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, 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.
<b>Correct calculation of the performance fee</b>	The performance fee calculation is prepared by BNP and reviewed in depth by the Manager and by the Committee, all with reference to the management agreement.
<b>Compliance with section 1158 Corporation Tax Act 2010</b>	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.
<b>Maintaining internal controls</b>	The Committee receives regular reports on internal controls from JHI, BNP, Computershare and HSBC Securities Services and its delegates and has access to the relevant personnel of JHI who have a responsibility for risk management and internal audit. The assurance report for one of the Company's service providers was qualified by the respective service auditor. The Committee reviewed the instances giving rise to the qualification and received confirmation that the exceptions identified had no impact on the Company.
<b>Recognition of dividend income</b>	Income received is accounted for in line with the Company's accounting policies (as set out on page 65) and is reviewed by the Committee at each meeting. JHI is required to allocate between revenue and capital, and the Committee reviews the rationale provided and approves the treatment.
<b>Viability and going concern</b>	The Committee scrutinised assumptions around the viability and going concern statements set out on pages 25, 26 and 64 respectively, especially factors behind pandemic disruption, macro inflation and geopolitical disruption, to satisfy itself of the Company's resilience over the five-year time frame.

## Appointment, review and tenure of the external auditor

Regulations in force require the Company to rotate audit firms after a period of ten years, which may be extended where audit tenders are carried out or where more than one audit firm is appointed to carry out the audit. The Committee last carried out an audit tender process in 2021 and appointed Mazars LLP as external auditor starting from the year ended 31 May 2022. The auditor is required to rotate partners every five years, and this is the first year the current audit partner has been in place. The Company complies with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. This order relates to the frequency and governance of tenders for the appointment of the external auditors and setting policy on the provision of non-audit services.

## Policy on non-audit services

The Committee keeps under regular review its policy on the provision of non-audit services by the auditor. The policy sets

out that the Company's auditor will only be considered for non-audit work where this is not prohibited by regulations and where it does not appear to affect the independence and objectivity of the auditor. Any provision of non-audit services by the auditor is not permitted to exceed 70% of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period to which the cap applies. Such services would require approval in advance by the Committee or the Committee Chair.

No fees were paid or payable to the auditor for non-audit services in the year under review or since their appointment.

## Independence of the external auditor

The Committee monitors the auditor's independence and objectivity through three aspects of its work:

- approval of the non-audit services policy (see previous section);
- assessing the appropriateness of the fees paid to the auditor for all work undertaken by them; and
- by reviewing the information and assurances provided by the auditor on their compliance with the relevant ethical standards.

# Audit and Risk Committee Report (continued)

For the year ended 31 May 2022, Mazars confirmed that all partners and staff involved with the audit were independent of any links to the Company, and that these individuals had complied with their ethics and independence policies and procedures which are consistent with the FRC's Ethical Standards. Mazars has confirmed to the Committee its policy on independence, which stipulates that all of its partners and staff involved with the audit of the Company are not permitted to have any direct or materially indirect interest in the Company. Adherence to this policy of independence is reaffirmed in writing by each member of professional staff involved in the Company's audit annually at Mazars.

This being Mazars' first year in office as the Company's auditor and the fact that Mazars does not provide any non-audit services to the Company, the Committee is satisfied that auditor independence and objectivity are safeguarded.

## Effectiveness of the external audit

The Committee evaluates the effectiveness of the external audit by reviewing the findings of the FRC's Audit Quality Inspection Report and conducting a post-audit assessment led by the Committee Chair.

The Committee discussed the service provided by Mazars with JHI's Financial Reporting Manager for investment trusts and the company secretary, who have the most hands-on involvement in the audit each year. The Committee also reviewed and assessed the robustness of the audit, level of challenge offered by the audit team, the quality of the audit team and timeliness of delivering the tasks required for the audit and reporting for the Committee, benchmarking Mazars' performance against their recent experience with other firms gained through their other commitments. The Committee also met privately with the Audit Partner to discuss how the audit operated from Mazars' perspective.

The Committee considers that the audit quality for the year ended 31 May 2022 has been high and that the Manager and Mazars have worked together effectively to enhance and improve reporting to shareholders. Having completed the assessment, the Committee is satisfied with the effectiveness of Mazars' audit and recommended to the Board their continuing appointment. Mazars has indicated its willingness to continue in office and so the Board is proposing resolutions for the 2022 AGM reappointing Mazars as auditor to the Company and authorising the Committee to determine their remuneration.

Alexandra Mackesy  
Chair of the Audit and Risk Committee  
3 August 2022



# Management Engagement Committee Report

## Role and responsibilities

The primary role of the Management Engagement Committee ("MEC") is to review the management agreement and monitor the performance of the Manager for the investment, company secretarial, financial reporting, administration, sales, marketing and support services that it provides under that agreement. Its review of the terms of the agreement include the level and structure of fees payable, the length of notice period and best practice provisions generally.

The MEC is also responsible for formally evaluating the overall performance of other third-party service providers engaged by the Company and for considering whether their continuing appointment is in the interests of the Company and its long-term sustainable success.

## Membership and meetings

All directors are members of the MEC and the Chair of the Board is the MEC Chair. The MEC met once during the year.

## Activities during the year

In discharging its duties over the course of the period, the MEC completed a questionnaire about the performance of the Manager and other third-party service providers and considered:

- the investment performance of the Company, taking account of the benchmark and performance of competitors in the closed-ended sector, the share price, level of premium/discount and gearing;
- the management of the portfolio's risk profile and the use of gearing;
- the fee structures of the Company's competitors in the AIC peer group and other Janus Henderson-managed investment companies;
- the quality and experience of the team involved in managing all aspects of the Company's business and a review of the stability of the management group and its business priorities;
- the key clauses of the management agreement, the principal clauses of which are set out on page 26, how the Manager had fulfilled these and whether these continued to be appropriate. The Committee agreed that the fees paid to the Manager were aligned with the Company's purpose, values and the successful delivery of its long-term strategy;
- the culture, values, senior management and organisational changes of the key service providers and particularly that of the Manager;
- the performance and fees of the Company's other service providers, including the Company's broker (Numis Securities), depositary (HSBC) and registrar (Computershare);

- the Company's service providers in their roles as stakeholders and whether there was an appropriate level of engagement with them;
- the benefits to the Company and to shareholders of appointing a third-party research provider;
- closer liaison with senior management at JHI to understand and gain reassurance regarding changes in senior management; and
- any points of conflict which may arise between the service providers.

## Continued appointment of the Manager and other service providers

Following completion of the review, the MEC recommended to the Board that the continued appointment of the Manager on the terms agreed was in the interests of the Company's shareholders as a whole and its long-term sustainable success. The MEC also recommended the continuation of the other key third-party service providers. The Board subsequently approved the MEC's recommendations.

## MEC effectiveness review

The activities of the MEC were considered as part of the internal board review, completed in accordance with standard governance arrangements as summarised on page 44.

Penny Freer  
Chair of the Management Engagement Committee  
3 August 2022

# Report of the Nomination Committee

## Role and responsibilities

The Nomination Committee ("NC") is responsible for reviewing Board succession planning, tenure policy, directors' fees, the effectiveness of the Board as a whole and its committees and the appointment of new directors through a formal procedure.

## Membership and meetings

All directors are members of the NC. The Chair of the Board is the NC Chair but does not chair meetings when the NC is dealing with the Chair's fees, performance or successor. The NC met once during the year under review.

## Activities during the year

In discharging its duties, the Committee monitored and reviewed the following matters, and made recommendations to the Board on:

- the structure and size of the Board and its composition, particularly in terms of succession planning and the experience and skills of the individual directors and diversity across the Board as a whole;
- the directors' and the Chair's tenure policy and remuneration level;
- determining the criteria for the next Board appointment and the method of recruitment, selection and appointment;
- commencing recruitment of a candidate for the role of non-executive director, led by the Chair;
- appointment of the Senior Independent Director's successor;
- appointment of the successor to David Lamb as the Board's representative on marketing activities; and
- reappointment of directors standing for re-election at annual general meetings.

## Board effectiveness review

### Format

The Nomination Committee met in May 2022 and considered the results of the annual Board review. As outlined on page 35, an internally facilitated performance review of the Board, its committees, individual directors and the Chair was carried out for the financial year ending 31 May 2022 after the Board agreed that an externally facilitated review would be premature at this stage, in view of the recent large-scale transition of Board members, and so is planned for the financial year ending 31 May 2023.

In the year under review, interviews were held between the Chair and each director, the Fund Manager and the AIFM Director/Head of Investment Trusts with a list of salient topics to cover, including delivering value for shareholders, board processes and decision making, succession planning, objectives, strategy, dividends, supervision of the service providers, Fund Manager, consideration of stakeholders'

interests, communication with investors, responsiveness to developments in the investment trust industry and market trends. Led by the Chair, this review considered each director's contribution, performance and individual training requirements.

The Senior Independent Director led a review of the performance of the Chair. Mr Lamb gathered feedback in writing in advance of the meeting and chaired a discussion at the meeting without the Chair present.

## Results

The review concluded that the Board oversees the management of the Company effectively and has the appropriate skills and expertise to safeguard shareholders' interests. The Board, the Fund Manager, Deputy Fund Manager and company secretary were found to operate in a co-operative and open environment. Each director made a valuable and active contribution to the Board and its discussions, brought different qualities to the Board, challenged the Manager constructively, remained independent in character and judgement, and dedicated sufficient time to their respective roles on the Board. Board composition, dynamics and structure worked well. The recruitment process in the previous financial year was found to have been managed effectively with a successful outcome.

The committees were found to be operating effectively, with the right balance of membership, experience and skills. It was noted that the Audit and Risk Committee members continued to undertake relevant training in technical and regulatory areas.

The Chair's performance was considered by all directors to be excellent. Enabling open, inclusive and fair debate at meetings, and working alongside the company secretary and the Fund Manager, the Chair ensured that the Board was provided with accurate, timely and clear information, and facilitated objective oversight of the business and challenge to service providers.

## Actions

The appraisal did not identify any areas of material weakness or concern, but found areas for enhancement, including:

- bringing forward recruitment of a director to succeed Mrs Sant, with the aim of increasing ethnic diversity on the Board;
- succession/contingency planning in the event of the unexpected incapacitation of the Chair of the Board or of the Audit and Risk Committee. The Board approved the NC's recommendation that, in this event, Kevin Carter would act as Chair pro tempore for both the Board and the ARC due to his relevant experience of chairmanship, finance and deep knowledge of JHI operations and business, despite not having formal audit qualifications. It was agreed that if either Chair were unable to continue in their role on a longer term or ongoing basis, further recruitment would be required;

# Report of the Nomination Committee (continued)

- the benefits of the Chair building relationships with the chairs of other JHI-managed investment trusts; and
- continued deepening of interaction with shareholders and delivering value to shareholders given the current uncertain macro conditions.

## Board composition and diversity policy

All Board appointments are subject to a formal, rigorous and transparent procedure. The Committee considers the Company's leadership needs regularly and seeks to ensure that any Board vacancies are filled by the most qualified candidates based on objective criteria and merit and in the context of the specific skills, knowledge and experience needed to lead the Company effectively and achieve its investment objective. Review of the individual performance and contribution of each director remains an integral element of the Company's approach.

When considering succession planning and tenure, the NC bears in mind the balance of skills, knowledge, experience, gender, background and diversity on the Board, the achievement of the Company's investment objective and compliance with the Company's articles of association and the AIC Code. The NC also considers diversity of gender, social and ethnic backgrounds, cognitive and personal strengths and experience as part of the annual performance review. The directors believe that diversity is important to ensure that the Company can draw on a broad range of backgrounds, skills, knowledge, experience and perspectives to achieve effective stewardship of the Company. Further details on Board diversity are set out on page 30.

The directors confirm that, in all the NC's activities, there will be no discrimination on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability.

## Succession planning

A job specification is being agreed for the next appointee to the Board, setting out the preferred experience and background for the new director. The directors are carefully considering recruitment agencies to ensure that the appropriate agency with access to the desired pools of diverse candidates will be selected. The Chair is leading recruitment, with the aim of making an appointment during the 2022/23 financial year.

The Board accepted the NC's recommendation that Kevin Carter should succeed David Lamb as Senior Independent Director from the conclusion of the 2022 AGM and Michael Warren should succeed David Lamb as the Board's representative on marketing activities, subject to shareholder approval of Mr Carter's and Mr Warren's re-election.

## Re-election of directors

The NC reviews and recommends to the Board the directors seeking election/re-election. Recommendation is not automatic and will follow a process of evaluation of each director's performance, consideration of the director's independence, and the mix of skills and experience of the current Board members. Any director serving for longer than six years is subject to particularly rigorous assessment of their contribution.

The NC considered the Chair's external appointments. These include chair of two listed companies, one of which is a venture capital trust ("VCT") and for the other she is temporary interim chair. In addition, Ms Freer is chair of a private venture capital fund. Following careful consideration of her interests and appointments, and being conscious of the reduced obligations and time commitment required as an investment company and VCT director compared with those of a director of operating companies, the NC concluded that the Chair has sufficient time available. Moreover, she has demonstrated clear commitment to all aspects of her role as Chair.

Following completion of its reviews, the NC concluded that the Board, its committees, the individual directors and the Chair continued to operate effectively. Taking into account the FRC's guidance on board effectiveness, the NC agreed that each director had sufficient time to dedicate to their respective roles. The NC accordingly recommended to the Board that it should support the re-election of Penny Freer, Kevin Carter, Alexandra Mackesy, Victoria Sant and Mike Warren at the 2022 AGM.

## NC evaluation

The activities of the NC were considered as part of the Board appraisal process completed in accordance with standard governance arrangements, as reported on page 44.

Penny Freer  
Chair of the Nomination Committee  
3 August 2022

# Directors' Remuneration Report

## Report on implementation

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 (the "Regulations"). This report also meets the relevant requirements of the Companies Act 2006 ("Act") and the Listing Rules of the FCA and describes how the Board has applied the principles relating to directors' remuneration. The Company's auditor is 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 reporting requirements contained in the Regulations are not applicable and have not been reported on. The directors believe that all relevant information is disclosed within this report in an appropriate format. The Nomination Committee considers directors' fees and makes recommendations to the Board for its determination, and there is therefore no separate remuneration committee to consider such matters (see page 35). While the directors review annually the fees paid to the directors of comparable investment trust companies, the Board has not been provided with advice or services by any person in respect of its consideration of the directors' remuneration.

## Remuneration policy

Shareholders last approved the Remuneration Policy at the AGM in 2020. The Board may amend the level of remuneration paid to individual directors within the parameters of the Policy. Further details can be found in the Notice of AGM which is available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com). In determining the Remuneration Policy, the Board takes into account all factors which it deems necessary, including relevant legal and regulatory requirements and the provisions and recommendations of the AIC Code.

The objective of the Remuneration Policy is to attract, retain and motivate non-executive directors of the quality required to manage the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The Board obtains up-to-date information about remuneration in other companies of comparable scale and complexity to avoid and manage conflicts of interest in determining remuneration levels. The directors review the appropriateness and relevance of the Remuneration Policy at least annually, with a focus on supporting the Company's long-term sustainable success. Individual directors do not participate in discussions relating to their own remuneration.

Directors are remunerated in the form of fees, payable quarterly in arrears. The Company's articles of association limit the fees payable to the directors in aggregate to £250,000 per annum. Subject to the overall limit, 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 to review fee rates annually, although this will not necessarily result in any change to the rates. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties. No director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable. No director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

## Recruitment principles

All directors, including those newly appointed, are paid at the same rate, apart from the Chair of the Board and the Chair of the Audit and Risk Committee who are paid a higher fee in recognition of their additional responsibilities.

## Views of shareholders

Any views expressed by shareholders on the fees being paid to directors would be taken into consideration by the Board, when reviewing levels of remuneration.

## Annual statement

Directors' remuneration is determined by the Board as a whole within the parameters of the Policy approved by shareholders, following recommendations by the Nomination Committee as to the appropriate level of fees. Directors' fees for the year under review were: £40,000 for the Chair; £32,000 for the Chair of the Audit and Risk Committee; and all remaining directors were paid £27,500 per annum.

The Board has agreed an increase in directors' fees to take effect from 1 June 2022. Fees payable to directors from 1 June 2022 are (previous rates in brackets); Chair of the Board £41,500 (£40,000), Chair of Audit and Risk Committee £33,200 (£32,000) and director £28,500 (£27,500). Prior to the 1 June 2022 increase, fees were last increased effective 1 June 2021. The changes follow a review of fee levels which utilised external published reviews of fees in the investment trust industry as a whole, in the AIC UK smaller companies sector and taking into account the impact of inflation. The Board believes that both the individual remuneration and the aggregate fee levels take account of the needs of a very engaged non-executive Board of experienced practitioners in the sector, and the likely need to continue to attract and retain candidates of a suitable calibre to govern the Company effectively. There have been no other major decisions on directors' remuneration or any other changes to the remuneration paid to each individual director in the year under review.



# Directors' Remuneration Report (continued)

## Directors' interests in shares (audited)

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 table below.

	Ordinary shares of 25p	
	31 May 2022	1 June 2021
Penny Freer	1,400	1,400
David Lamb	5,802	5,802
Alexandra Mackesy	2,200	2,200
Victoria Sant	1,040	640
Michael Warren	3,000	1,000
Kevin Carter	7,000	2,500
Jamie Cayzer-Colvin <sup>1</sup>	n/a	12,000

1 Retired as director on 1 October 2021

Since the year end and to the date of this report, the following purchases in the Company's shares were made: Penny Freer bought 1,000 shares, Victoria Sant bought 230 shares, and Kevin Carter bought 1,500 shares. No director has an interest in the preference stock of the Company.

## Directors' remuneration (audited)

The remuneration paid to the directors who served during the years ended 31 May 2022 and 31 May 2021 was as follows:

	Year ended 31 May 2022 Total salary and fees £	Year ended 31 May 2021 Total salary and fees £
Penny Freer <sup>1</sup>	35,866	24,000
Alexandra Mackesy <sup>2</sup>	32,000	28,000
David Lamb <sup>3</sup>	27,500	24,000
Kevin Carter <sup>4</sup>	27,500	2,044
Victoria Sant	27,500	24,000
Michael Warren <sup>5</sup>	27,500	6,067
Jamie Cayzer-Colvin <sup>6</sup>	13,438	35,000
<b>Total</b>	<b>191,304</b>	<b>143,111</b>

### Notes:

The table above omits other columns set out in the relevant regulations because no payments of other types were made, such as performance-related pay, vesting performance-related pay and pension-related benefits

1 Appointed Chair of the Board from 1 October 2021 and highest paid director in the year to 31 May 2022

2 Chair of the Audit and Risk Committee

3 Senior Independent Director

4 Appointed to the Board on 1 May 2021

5 Appointed to the Board on 1 March 2021

6 Retired from the Board on 1 October 2021

No expenses or taxable benefits were paid to any director in the years to 31 May 2021 and 31 May 2022. No remuneration or compensation was paid or payable by the Company during the period to any of the current or former directors or third parties specified by them other than as set out in the table above. Increases reflect changes of Board roles, including appointments and retirements during the period under review, and the incremental increases to fee levels over time explained on page 46.

Under the Company's articles of association, no director is required to hold shares in the Company by way of qualification. However, to reflect the governance standards expected in investee companies, the Board requests each director to invest in the Company's shares and to retain those shares for as long as they remain on the Board. The overarching aim is for each director's holding to equate to 25% of their fees earned by the end of their projected nine-year tenure.

## Spend on pay

As the Company has no employees, the directors do not consider it relevant to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to directors are shown in the adjacent 'Directors' remuneration' table.

## Annual percentage change

The table below sets out the annual percentage change in fees for each director who served in the year under review.

	Year to 31 May 2022 %	Year to 31 May 2021 %	Year to 31 May 2020 %
Penny Freer <sup>1</sup>	49.4	0	n/a
Alexandra Mackesy <sup>2</sup>	14.3	5.1	n/a
David Lamb <sup>3</sup>	14.6	0	2.1
Victoria Sant <sup>3</sup>	14.6	0	2.1
Michael Warren <sup>4</sup>	n/a	n/a	n/a
Kevin Carter <sup>4</sup>	n/a	n/a	n/a
Jamie Cayzer-Colvin <sup>5</sup>	n/a	0	1.5

1 The increase reflects both the increase in directors' fees from 1 June 2021 and the change of role to become Chair in the year to 31 May 2022

2 The increase reflects Mrs Mackesy's appointment as Chair of the Audit and Risk Committee in the year to 31 May 2020 and then the increase in directors' fees from 1 June 2021

3 Reflecting the increase in directors' fees from 1 June 2021 and in the year to 31 May 2020

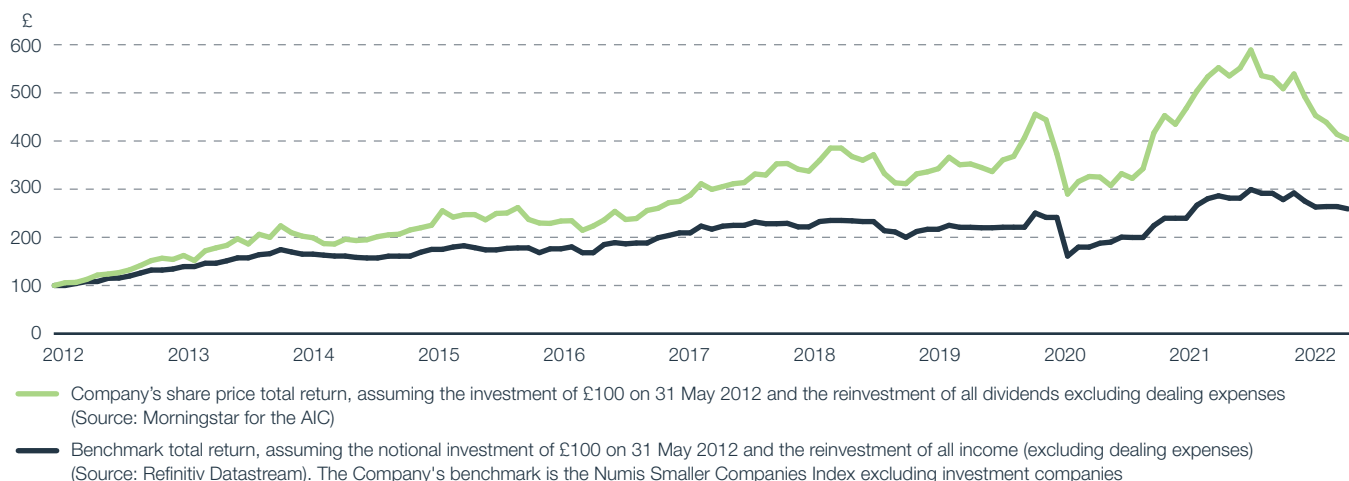
4 Not directors for the full year to 31 May 2021, so no relevant increase to show

5 Retired from the board during the current year

# Directors' Remuneration Report (continued)

## Performance

The graph below compares the mid-market price of the Company's ordinary shares over the ten-year period ended 31 May 2022 with the benchmark return over the same period.



## Statement of voting at AGM

At the Company's AGM on 1 October 2021, shareholders approved the directors' remuneration report for the year ended 31 May 2021. Shareholders last approved the directors' remuneration policy at the previous AGM on 21 September 2020. The following votes were received on the two resolutions at each respective AGM:

Resolution	For (including discretionary)	% votes <sup>1</sup>	Against	% votes <sup>1</sup>	Withheld
Remuneration policy (poll votes at the 2020 AGM)	26,257,421	99.5	62,455	0.2	62,533
Remuneration report (proxy votes at the 2021 AGM)	26,139,256	99.8	57,144	0.2	37,455

<sup>1</sup> Excluding votes withheld

On behalf of the Board

Penny Freer  
Chair of the Board  
3 August 2022

# Report of the Directors

The directors present the audited financial statements of The Henderson Smaller Companies Investment Trust plc (the “Company”) and their report for the year ended 31 May 2022. The Company (registered and domiciled in England & Wales with registration number 00025526) was active throughout the year under review and was not dormant.

The Investment Portfolio on pages 13 to 15, Corporate Governance Report on pages 32 to 39, Audit and Risk Committee Report, Management Engagement Committee Report and Nomination Committee Report on pages 40 to 45, Statement of Directors’ Responsibilities on page 51, and the glossary, alternative performance measures and other information on pages 80 to 86, all form part of the Report of the Directors.

## Directors

The directors and their appointments are listed on pages 32 and 33. Information on directors’ insurance and indemnification is given on page 37.

## 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 2022 and 31 May 2021 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. There are no restrictions on the transfer of the Company’s shares or voting rights, no shares which carry specific rights with regard to the control of the Company and no agreement to which the Company is party that would affect its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue and capital reserves) are available for distribution by way of dividends to the holders of the shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holdings of shares.

**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 2022 and 31 May 2021 there were 4,257 preference stock units in issue. This represents 0.02% of the Company’s share capital. Further details are in Note 14 of the financial statements.

The directors seek annual authority from the shareholders to allot new shares, to disapply pre-emption rights of existing shareholders and to buy back shares for cancellation or to be held in Treasury. 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. No shares or preference stock units were issued or bought back during the year.

At the annual general meeting (“AGM”) held in October 2021, the directors were granted authority to buy back 11,197,799 shares (being 14.99% of the issued ordinary share capital as at 1 October 2021). In the period from 1 June 2021 to 2 August 2022, being the latest practicable date prior to publication of this Annual Report, the Company did not issue or buy back any shares, and total voting rights were 74,701,796. There remained 11,197,799 shares available within the buy-back authority granted in 2021. This authority will expire at the conclusion of the 2022 AGM. The directors intend to renew this authority subject to shareholder approval. Shares are not bought back unless the result is an increase in net asset value per share.

## Holdings in the Company’s shares

Declarations of interests in the voting rights of the Company as at 31 May 2022 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

Shareholder	% voting rights
Evelyn Partners	9.3
Lazard Asset Management LLC	4.3
Royal London Asset Management	2.4

In respect of notifications since the year end, Allspring Global Investment Holdings, LLC notified the Company of their holding of 5.00% at 1 July 2022, following by a subsequent notification of their decreased holding of 4.98% on 21 July 2022.

## Donations

The Board supports a number of UK-focused charities, all of which are personally selected on an annual basis by the directors. These charities span a variety of different causes including food poverty, literacy, and education for children excluded from school. In respect of the year under review, the Company will make charitable donations totalling £6,000 (2021: £12,900). In 2021, the amount was increased as dividends unclaimed for over 12 years were donated to support a Covid-19 related charity.

## Disclosure of information to the auditor

Each director who is a member 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 of which the Company’s auditor 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 auditor is aware of that information.

## Related-party transactions

The Company’s transactions with related parties in the year were with the directors and the Manager. There were no material transactions between the Company and its directors,

# Report of the Directors (continued)

and the only amounts paid to them were in respect of remuneration, for which there were no outstanding amounts payable at the year end. The directors did not claim any expenses during the years to 31 May 2022 or 31 May 2021. Directors' shareholdings are listed on page 47.

In respect of the Manager's service provision during the year, other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties, there were no material transactions with the Manager affecting the financial position of the Company. More details on transactions with the Manager, including amounts outstanding at the year end, are on page 78.

## Appointment of auditor

As explained on page 41, Mazars LLP was appointed to conduct its first audit for the year ended 31 May 2022. A resolution authorising the Audit and Risk Committee to determine its remuneration for the current year will be put to shareholders at the 2022 AGM.

## Financial Instruments

The Company's policy on the use of financial instruments is set out in the Investment Policy on page 17.

## Future developments

The future success of the Company is dependent primarily on the performance of its investment portfolio, which will, to a significant degree, reflect the performance of the stock market and the skill of the Manager. While the Company invests in companies that are listed (or quoted) in the United Kingdom, the underlying businesses of those companies are affected by external factors, many of an international nature. The Board's intention is that the Company will continue to pursue its stated investment objective and strategy as explained on page 17. The Chair's Statement and the Fund Manager's Report on pages 5 and 8 to 12 give commentary on the outlook for the Company. Other information on recommended dividends and financial risks is detailed in the Strategic Report and in notes 9 and 15 to the financial statements.

## Other information

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. For details of the Company's responsibilities in respect of global greenhouse gas emissions, see page 30. This Report of the Directors has been approved by the Board.

## Post-balance sheet events

As noted on page 21, Edison Investment Research Limited was appointed as third-party research service provider in June 2022.

## Annual general meeting ("AGM")

The Company's AGM will be held at 11.30 am on Friday, 30 September 2022. The Board invites shareholders to attend the meeting at the registered office at 201 Bishopsgate, London EC2M 3AE, or via Zoom webinar if preferable. The Fund Manager will present his review of the year and thoughts on the future and both he and the Board will be pleased to answer your questions.

To register for the live broadcast webinar, please visit [www.janushenderson.com/trustslive](http://www.janushenderson.com/trustslive). As is our normal practice, there will be live voting for those physically present at the AGM. We cannot currently offer voting by Zoom, so we therefore request all shareholders, particularly those who cannot attend physically, to submit their votes by proxy, ahead of the deadline of 28 September 2022.

If you hold your shares in a nominee account, such as through a share dealing service or platform, you will need to contact your provider and ask them to submit the proxy votes on your behalf. If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform.

For further information regarding Proxymity, please see [www.proxymity.io](http://www.proxymity.io). Any change to the format of the AGM will be notified to shareholders via a Regulatory Information Service announcement and the Company's website.

Instructions on attending the meeting and details of resolutions to be put to the AGM are included in the Notice of AGM sent with this Annual Report and are available at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com). If shareholders would like to submit any questions in advance of the AGM, they are welcome to send these to the corporate secretary at [itsecretariat@janushenderson.com](mailto:itsecretariat@janushenderson.com).

## Voting recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of the shareholders as a whole. The Board therefore recommends that shareholders vote in favour of each resolution, as the directors intend to do in respect of their own beneficial holdings.

By order of the Board  
Janus Henderson Secretarial Services UK Limited  
Corporate Secretary  
3 August 2022



# Statement of Directors' Responsibilities

## Directors' responsibilities

The directors are responsible for preparing the Annual 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 Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, a strategic report and a directors' remuneration report which comply with the requirements of the Companies Act 2006.

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 DTR 4.1.12

Each director, who is listed on pages 32 and 33, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 and financial statements include 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.

On behalf of the Board

Penny Freer  
Chair of the Board  
3 August 2022



# Financial Statements





# Independent Auditor's Report to the Members of The Henderson Smaller Companies Investment Trust plc

## Opinion

We have audited the financial statements of The Henderson Smaller Companies Investment Trust plc (the 'Company') for the year ended 31 May 2022 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flows and notes to the financial statements on pages 64 to 78, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2022 and the Company's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Company's ability to continue as a going concern;
- making enquiries of the directors to understand the period of assessment that they considered, assessing and challenging the appropriateness of the directors' key assumptions in their income and expense projections and implication of those when assessing severe but plausible scenarios;
- assessing the Company's ability to continue to operate within its financial covenants and the liquidity of the portfolio through reviewing management's assessment of how quickly the portfolio could be liquidated if required;
- assessing the Company's performance to date;
- reviewing the shareholder register and making enquiries of the broker to understand whether there were any unusual shareholder movements over the year and up to the signing date that may have an adverse impact on the continuation vote to be held at the Annual General Meeting on 30 September 2022; and
- evaluating the appropriateness of the directors' disclosures in the financial statements on going concern and viability statement.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) we identified, 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 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.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
<p><b>Accuracy and completeness of revenue recognition through incorrect classification of special dividends</b></p> <p>(as described on page 41 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 65).</p> <p>According to the Statement of Recommended Practice issued by the Association of Investment Companies ('AIC SORP'), recognition of revenue relies upon dividend notifications to be received from the investment portfolio. Depending on the reason behind the payment, dividends recognised are either revenue or capital in nature; therefore the directors are required to exercise judgement in determining whether the special dividends should be classified as revenue or capital. The Company has recognised income from investments in the Statement of Comprehensive Income of £20.65m (out of which £1.58m relates to special dividends earned during the year) for the year ended 31 May 2022 (2021: £12.27m).</p> <p>In order to maintain investment trust status, the Company is required to distribute at least 85% of its income for the accounting period. The revenue column of the Statement of Comprehensive Income is the main driver of this minimum dividend calculation.</p> <p>There is a risk that an incorrect classification could result in understated income which could put the Company's investment trust status at risk. There is also a risk that an incorrect classification could result in overstated income to increase the dividends paid to shareholders.</p> <p>We therefore assess the risk of fraud in revenue recognition as being principally in relation to accuracy and completeness of revenue recognition through incorrect classification of the special dividends as revenue or capital items in the Statement of Comprehensive Income.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• understanding management's process on revenue recognition and allocation of special dividends through discussions with management, examination of control reports from third-party service organisations and performing a walkthrough to evaluate the design and effectiveness of controls;</li> <li>• for all special dividends recognised in the year, agreeing each dividend to an independent source, checking the point of recognition, testing the allocation of dividend income between revenue and capital (by assessing the reason for the dividend distributions and the consistency of the classification with the underlying nature of the payments) and tracing to bank statements;</li> <li>• for all investments, checking all dividend announcements declared by those securities in the year to an independent source and agreeing the recognition of such dividends to the income report and capital report;</li> <li>• testing special dividends announced one month either side of the year end covering the period after which announced dividends should be received to ensure dividends have been recorded in the correct period; and</li> <li>• to address the risk of management override, testing all journal entries and other adjustments made in the preparation of the financial statements relating to special dividends.</li> </ul> <p><b>Our observations</b></p> <p>We have no matters to communicate with respect to the procedures in response to the accuracy and completeness of revenue recognition through incorrect classification of special dividends.</p>



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

## Valuation, existence and ownership of the investment portfolio

(as described on page 41 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 65).

Investments held as of 31 May 2022 were valued at £892.40m as at 31 May 2022 (2021: £1,080.36m). The investment portfolio comprises of solely level one investments.

Investments make up 111.2% of the net asset value of the Company as of 31 May 2022 (108.8% of the net asset value as of 31 May 2021) and are considered to be the key driver of the performance of the Company.

The investments are made up of quoted investments that are classified upon initial recognition as held at fair value through profit or loss, and are measured initially and subsequently at fair value which is based on their quoted bid prices at the close of business on the year-end date. There is a risk that investments recorded might not exist or might not be owned by the Company. Although the investments are valued at quoted bid prices, there is a risk that errors in valuation can have a significant impact on the numbers presented.

We therefore identified valuation, existence and ownership of investments as a key audit matter as it had the greatest effect on our overall audit strategy and allocation of resources.

## Accuracy of performance fees

(as described on page 41 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 65).

The Company accrued no performance fees to the Manager (Janus Henderson Fund Management UK Limited) for the year ended 31 May 2022 (2021: £4.54m). The performance fee is set up to reward the Manager. It is calculated as 15% of any outperformance in excess of the benchmark index on a total return basis.

As this is a transaction with the Manager and is deemed to be a complex calculation with external inputs and various adjustments, there is a risk that performance fees are not calculated correctly in line with the underlying agreements. We therefore identified accuracy of performance fees as a significant risk and a key audit matter.

Our audit procedures included, but were not limited to:

- understanding management's process to record and value investments through discussions with management and examination of control reports from the third-party service organisations;
- for all investments in the portfolio, agreeing investment holdings to an independent custodian confirmation and an independent depositary confirmation in order to obtain comfort over existence and ownership;
- for all investments in the portfolio, comparing to market prices independently obtained from a source vendor and recalculating the investment valuations as at the year-end; and
- for all investments in the portfolio, assessing the frequency of trading to identify any prices that have not changed and testing whether the listed price is a valid fair value to ensure appropriateness of fair value classification.

## Our observations

We have no matters to communicate with regards to the valuation, existence and ownership of the investment portfolio held at 31 May 2022.

Our audit procedures included, but were not limited to:

- understanding management's processes and controls surrounding performance fee calculation and allocation and performing a walkthrough to evaluate the design and implementation of controls;
- reviewing the Investment Management Agreement ('IMA') to assess the conditions of the IMA that result in a performance fee payable;
- agreeing all inputs used in the calculation to accounting records or the investment management agreement and, in the case of the benchmark data, to third-party source information; and
- reperforming the administrator's (BNP Paribas Securities Services) calculation of the performance fees payable.

## Our observations

We have no matters to communicate with regards to accuracy of performance fees.

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

## Our application of materiality and an overview of the scope of our audit

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

### Materiality

Overall materiality	£8.03 million
How we determined it	1% of net assets
Rationale for benchmark applied	<p>Net assets have been identified as the principal benchmark within the financial statements as they are considered to be the main focus of the shareholders.</p> <p>Whilst valuation processes for these investments are not considered to be complex, there is a risk that errors in valuation could cause a material misstatement. 1% has been chosen as it is a generally accepted auditing practice for investment trust audits and the Company is a public interest entity.</p>
Performance materiality and specific materiality	<p>Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.</p> <p>On the basis of our risk assessments and together with our assessment of the overall control environment, we determined 65% of overall materiality, amounting to £5.22m, to be appropriate performance materiality which reflects that this is the first year of the audit for Mazars.</p> <p>We also determined a specific materiality for the revenue column of the Statement of Comprehensive Income at £0.92m, being 5% of revenue profit before tax.</p>
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.24m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Company, its environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

## Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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 course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, Management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the:

- Strategic Report or the Directors' Report; or
- information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

## Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 51;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on pages 25-26;
- Directors' statement on fair, balanced and understandable, set out on page 51;

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

- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 24;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 38; and;
- The section describing the work of the Audit and Risk Committee, set out on pages 40-42.

## Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

## Auditor's 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 auditor's 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: International Accounting Standards in conformity with the Companies Act 2006, the Companies Act 2006, the Listing Rules, UK Corporate Governance Code, the Association of Investment Companies' Code and Statement of Recommended Practice, Section 1158 of the Corporation Tax Act 2010 and The Companies (Miscellaneous Reporting) Regulations 2018.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Company, the industry in which they operate, and the structure of the Company, and considering the risk of acts by the Company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as the Statement of Recommended Practice issued by the Association of Investment Companies, the Companies Act 2006 and UK tax legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, particularly in relation to special dividends, revenue recognition (which we pinpointed to the accuracy and completeness assertions), and significant one-off or unusual transactions.



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

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by designing and performing procedures including journal entry testing; and
- Reviewing the accounting estimates in relation to special dividends for evidence of management bias and performing procedures to respond to the fraud risk in revenue recognition.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Other matters which we are required to address

Following the recommendation of the Audit and Risk Committee, we were appointed on 1 September 2021 to audit the financial statements for the year ending 31 May 2022. The period of total uninterrupted engagement is one year, covering the year ending 31 May 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with our additional report to the Audit and Risk Committee.

## Use of the audit report

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Nargis Shaheen Yunis (Senior Statutory Auditor)  
for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
30 Old Bailey  
London EC4M 7AU

3 August 2022

# Statement of Comprehensive Income

Notes		Year ended 31 May 2022			Year ended 31 May 2021		
		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	20,648	–	20,648	12,269	–	12,269
3	Other income	2	–	2	–	–	–
10	(Losses)/gains on investments held at fair value through profit or loss	–	(187,266)	(187,266)	–	365,577	365,577
	Currency losses	–	(1)	(1)	–	–	–
	<b>Total income/(loss)</b>	<b>20,650</b>	<b>(187,267)</b>	<b>(166,617)</b>	<b>12,269</b>	<b>365,577</b>	<b>377,846</b>
	Expenses						
4	Management and performance fees	(1,004)	(2,343)	(3,347)	(749)	(6,284)	(7,033)
5	Other expenses	(728)	–	(728)	(726)	–	(726)
	<b>Profit/(loss) before finance costs and taxation</b>	<b>18,918</b>	<b>(189,610)</b>	<b>(170,692)</b>	<b>10,794</b>	<b>359,293</b>	<b>370,087</b>
6	Finance costs	(562)	(1,310)	(1,872)	(427)	(995)	(1,422)
	<b>Profit/(loss) before taxation</b>	<b>18,356</b>	<b>(190,920)</b>	<b>(172,564)</b>	<b>10,367</b>	<b>358,298</b>	<b>368,665</b>
7	Taxation	(1)	–	(1)	(14)	–	(14)
	<b>Profit/(loss) for the year and total comprehensive income</b>	<b>18,355</b>	<b>(190,920)</b>	<b>(172,565)</b>	<b>10,353</b>	<b>358,298</b>	<b>368,651</b>
	Earnings/(loss) per ordinary share – basic and diluted	24.57p	(255.58p)	(231.01p)	13.86p	479.64p	493.50p

The total columns of this statement represent the Statement of Comprehensive Income, prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

# Statement of Changes in Equity

		Retained earnings				
		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
Notes	Year ended 31 May 2022					
	Total equity at 1 June 2021	18,676	26,745	935,307	12,170	992,898
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(190,920)	18,355	(172,565)
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	(343)	(17,391)	(17,734)
	<b>Total equity at 31 May 2022</b>	<b>18,676</b>	<b>26,745</b>	<b>744,044</b>	<b>13,134</b>	<b>802,599</b>

			Retained earnings			
		Share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total equity £'000
Notes	Year ended 31 May 2021					
	Total equity at 1 June 2020	18,676	26,745	577,009	19,366	641,796
	Total comprehensive income:					
	Profit for the year	–	–	358,298	10,353	368,651
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(17,549)	(17,549)
	<b>Total equity at 31 May 2021</b>	<b>18,676</b>	<b>26,745</b>	<b>935,307</b>	<b>12,170</b>	<b>992,898</b>

# Balance Sheet

Notes		At 31 May 2022 £'000	At 31 May 2021 £'000
	<b>Non current assets</b>		
10	Investments held at fair value through profit or loss	892,397	1,080,358
	<b>Current assets</b>		
12	Receivables	4,229	4,987
	Tax recoverable	–	9
	Cash and cash equivalents	8,991	2,962
		<b>13,220</b>	<b>7,958</b>
	<b>Total assets</b>	<b>905,617</b>	<b>1,088,316</b>
	<b>Current liabilities</b>		
13	Payables	(2,990)	(5,726)
15 i)	Bank loans	(50,268)	(59,860)
		<b>(53,258)</b>	<b>(65,586)</b>
	<b>Total assets less current liabilities</b>	<b>852,359</b>	<b>1,022,730</b>
	<b>Non current liabilities</b>		
14	Financial liabilities	(49,760)	(29,832)
	<b>Net assets</b>	<b>802,599</b>	<b>992,898</b>
	<b>Equity attributable to equity shareholders</b>		
16	Share capital	18,676	18,676
17	Capital redemption reserve	26,745	26,745
	Retained earnings:		
17	Capital reserves	744,044	935,307
18	Revenue reserve	13,134	12,170
	<b>Total equity</b>	<b>802,599</b>	<b>992,898</b>
19	<b>Net asset value per ordinary share</b>	<b>1,074.4p</b>	<b>1,329.1p</b>

These financial statements on pages 60 to 78 were approved and authorised for issue by the board of directors on 3 August 2022 and were signed on its behalf by:

Penny Freer  
Chair of the Board



# Statement of Cash Flows

Notes	For the year ended	
	31 May 2022 £'000	31 May 2021 £'000
<b>Operating activities</b>		
(Loss)/gains before taxation	(172,564)	368,665
Add back interest payable	1,872	1,422
10 Losses/(gains) on investments held at fair value through profit or loss	187,266	(365,577)
10 Purchases of investments	(165,877)	(157,850)
10 Sales of investments	166,572	155,399
(Increase)/decrease in receivables	(1)	20
Decrease/(increase) in amounts due from brokers	1,179	(340)
Increase in accrued income	(412)	(1,546)
(Decrease)/increase in payables	(4,545)	4,743
13 Increase/(decrease) in amounts due to brokers	1,607	(2,527)
<b>Net cash inflow from operating activities before interest and taxation<sup>1</sup></b>	<b>15,097</b>	<b>2,409</b>
Interest paid	(1,659)	(1,392)
<b>Net cash inflow from operating activities</b>	<b>13,438</b>	<b>1,017</b>
<b>Financing activities</b>		
9 Equity dividends paid	(17,734)	(17,549)
(Repayment)/drawdown of bank loans	(9,592)	14,753
14 Issue of unsecured private placement notes	20,000	–
14 Direct expenses on issue of unsecured private placement notes	(82)	–
<b>Net cash outflow from financing activities</b>	<b>(7,408)</b>	<b>(2,796)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>6,030</b>	<b>(1,779)</b>
Currency losses	(1)	–
Cash and cash equivalents at the start of the year	2,962	4,741
<b>Cash and cash equivalents at the end of the year</b>	<b>8,991</b>	<b>2,962</b>

<sup>1</sup> In accordance with IAS 7.31 cash inflow from dividends was £20,243,000 (2021: £10,715,000) cash inflow from interest was £2,000 (2021: £nil)

# 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 "Act"). The financial statements of the Company for the year ended 31 May 2022 have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Act. 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 United Kingdom.

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") 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. There has been no impact on the financial statements as a result of these new and amended standards.

Amendments to International Accounting Standards in conformity with the requirements of the Act issued and effective for the current year end:

Standards	Effective for annual periods beginning on or after
IAS 39, IFRS 4, 7, 9 and 16 Amendments	Interest Rate Benchmark Reform (Phase 2) 1 January 2021

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

Standards	Effective for annual periods beginning on or after
IAS 1 Amendments	Classification of Liabilities as current or non-current 1 January 2023
IAS 1 Amendments	Disclosure of Accounting Policies 1 January 2023
IAS 8 Amendments	Definition of Accounting Estimates 1 January 2023
IAS 16 Amendments	Proceeds before intended use 1 January 2022
IAS 41, IFRS 1, 9 and 16 Amendments	Annual Improvements 2018-20 Cycle 1 January 2022

#### Interpretations

It is expected that these new standards and amendments will have no impact on the financial statements.

### b) Going concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The directors have also considered the impact of Covid-19 and the risks arising from the wider ramifications of the conflict between Russia and Ukraine, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio. They have concluded that they are able to meet their financial obligations, including the repayment of the bank loan, as they fall due for a period of at least twelve months from the date of issuance. Having assessed these factors, the principal risks and other matters discussed in connection with the Viability Statement on pages 24 to 26, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

The Company's shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was last put to the annual general meeting ("AGM") held on 4 October 2019 and passed by a substantial majority of the shareholders. The next continuation vote will take place at the AGM on 30 September 2022. The Board has discussed the upcoming vote and asked for feedback at meetings with shareholders. Following full consideration, the Board has concluded that the Company should continue.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### c) Investments held at fair value through profit or loss

All investments are classified upon initial recognition as held at fair value through profit or loss, and are measured initially and subsequently at fair value. 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. There were no unquoted investments during the current year or prior year.

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 “(Losses)/gains on investments held at fair value through 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 on an accruals basis.

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.

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, commission income is allocated to the revenue return. Gains or losses arising from the take up of shares are allocated to the capital return.

### 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.

### 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.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### g) Taxation (continued)

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 pound 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 or losses arising on the retranslation of investments held at fair value through profit or loss are included within the "(Losses)/gains on investments held at fair value through profit or loss".

### 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

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.



# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### m) Capital and revenue 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 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 and assumptions

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.

## 2 Investment income

	2022 £'000	2021 £'000
Income from companies listed or quoted in the United Kingdom:		
Dividends	18,939	11,669
Special dividends	1,577	351
Property income distributions	132	249
<b>Total investment income</b>	<b>20,648</b>	<b>12,269</b>

# Notes to the Financial Statements (continued)

## 3 Other income

	2022 £'000	2021 £'000
Bank and other interest	2	–
	<b>2</b>	<b>–</b>

## 4 Management and performance fees

	2022			2021		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Management fee	1,004	2,343	3,347	749	1,747	2,496
Performance fee	–	–	–	–	4,537	4,537
	<b>1,004</b>	<b>2,343</b>	<b>3,347</b>	<b>749</b>	<b>6,284</b>	<b>7,033</b>

A summary of the management agreement is given on page 26.

## 5 Other expenses

	2022 £'000	2021 £'000
Directors' fees (see the Directors' Remuneration Report on pages 46 to 48)	191	143
Auditors' remuneration for the audit of the Company and the financial statements	43	39
Other professional fees	53	111
FCA and London Stock Exchange fees	58	51
Registration costs	24	24
Annual and half year reports and shareholder circulars: printing and distribution	29	32
Insurances	15	6
AIC subscriptions	21	21
Custody and other bank charges	47	41
Bank facilities: commitment fees	64	102
Charitable donations	6	13
Depository charges	50	48
Other expenses payable to the management company <sup>1</sup>	78	76
Share price listings in newspapers and websites	7	7
Other expenses	42	12
	<b>728</b>	<b>726</b>

<sup>1</sup> Other expenses payable to management company ("Janus Henderson") relate to marketing activities as described in Note 21

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 (2021: nil).

# Notes to the Financial Statements (continued)

## 6 Finance costs

	Revenue return £'000	2022 Capital return £'000	Total return £'000	Revenue return £'000	2021 Capital return £'000	Total return £'000
Bank overdraft and loan interest	205	479	684	125	290	415
Interest on unsecured loan notes <sup>1</sup>	357	831	1,188	302	705	1,007
<b>Total</b>	<b>562</b>	<b>1,310</b>	<b>1,872</b>	<b>427</b>	<b>995</b>	<b>1,422</b>

<sup>1</sup> Includes amortisation of direct issue costs and will therefore vary from year to year

## 7 Taxation

### a) Analysis of charge for the year

	Revenue return £'000	2022 Capital return £'000	Total return £'000	Revenue return £'000	2021 Capital return £'000	Total return £'000
Overseas tax suffered	1	–	1	14	–	14
<b>Current and total tax charge for the year</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>14</b>	<b>–</b>	<b>14</b>

### b) Factors affecting the tax charge for the year

UK corporation tax is charged at 19% (2021: 19%). 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% (2021: 19%) for the year ended 31 May 2022.

	Revenue return £'000	2022 Capital return £'000	Total return £'000	Revenue return £'000	2021 Capital return £'000	Total return £'000
<b>Profit/(loss) before taxation</b>	<b>18,356</b>	<b>(190,920)</b>	<b>(172,564)</b>	<b>10,367</b>	<b>358,298</b>	<b>368,665</b>
Corporation tax at 19.00% (2021: 19.00%)	3,488	(36,275)	(32,787)	1,970	68,077	70,047
Effects of:						
Non-taxable UK dividends	(3,822)	–	(3,822)	(2,141)	–	(2,141)
Non-taxable overseas dividends	(76)	–	(76)	(143)	–	(143)
Expenses not deductible for tax purposes	1	–	1	1	–	1
Excess management expenses and loan deficits	409	694	1,103	313	1,383	1,696
Overseas withholding tax	1	–	1	14	–	14
Non taxable capital items	–	35,581	35,581	–	(69,460)	(69,460)
<b>Current and total tax charge for the year</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>14</b>	<b>–</b>	<b>14</b>

### c) Provision for deferred taxation

No provision has been made for deferred tax on income.

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 £27,797,000 (2021: £20,023,000) 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 (Loss)/earnings per ordinary share

The earnings per ordinary share figure is based on the net loss for the year of £172,565,000 (2021: net gain of £368,651,000) and on 74,701,796 (2021: 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:

	2022 £'000	2021 £'000
Net revenue profit	18,355	10,353
Net capital (loss)/profit	(190,920)	358,298
<b>Net total (loss)/profit</b>	<b>(172,565)</b>	<b>368,651</b>
Weighted average number of ordinary shares in issue during the year	74,701,796	74,701,796
	2022	2021
Revenue earnings per ordinary share	24.57p	13.86p
Capital (loss)/earnings per ordinary share	(255.58p)	479.64p
<b>Total (loss)/earnings per ordinary share</b>	<b>(231.01p)</b>	<b>493.50p</b>

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.

## 9 Ordinary dividends

	Record Date	Pay Date	2022 £'000	2021 £'000
Final dividend 16.75p (2021: 16.50p) for the year ended 31 May 2021	26 August 2021	11 October 2021	12,513	12,326
Interim dividend of 7.0p (2021: 7.0p) for the year ended 31 May 2022	10 February 2022	7 March 2022	5,229	5,229
Unclaimed dividends over 12 years old			(8)	(6)
			<b>17,734</b>	<b>17,549</b>

Subject to approval at the AGM, the proposed final dividend of 17.0p per ordinary share will be paid on 10 October 2022 to shareholders on the register of members at the close of business on 26 August 2022. The shares will be quoted ex-dividend on 25 August 2022.

The proposed final dividend for the year ended 31 May 2022 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by shareholders.

The total dividends payable in respect of the financial year which form the basis of the test under section 1158 Corporation Tax Act 2010 are set out below:

	2022 £'000	2021 £'000
Revenue available for distribution by way of dividends for the year	18,355	10,353
Interim dividend for the year ended 31 May 2022 of 7.0p (2021: 7.0p) per ordinary share	(5,229)	(5,229)
Final dividend for the year ended 31 May 2021 of 16.75p (based on the 74,701,796 shares in issue at 3 August 2021)	–	(12,513)
Proposed final dividend for the year ended 31 May 2022 of 17.0p (based on 74,701,796 shares in issue at 2 August 2022)	(12,699)	–
<b>Transfer to/(from) reserves</b>	<b>427</b>	<b>(7,389)</b>

# Notes to the Financial Statements (continued)

## 10 Investments held at fair value through profit or loss

	2022 £'000	2021 £'000
Cost at start of year	627,497	580,973
Investment holding gains at start of year	452,861	131,357
<b>Valuation at start of year</b>	<b>1,080,358</b>	<b>712,330</b>
Movements in the year:		
Acquisitions at cost	165,877	157,850
Disposals at cost	(95,387)	(111,326)
Movement in investment holding (losses)/gains	(258,451)	321,504
<b>Valuation at year end</b>	<b>892,397</b>	<b>1,080,358</b>
Cost at end of the year	697,987	627,497
Investment holding gains	194,410	452,861
<b>Valuation at year end</b>	<b>892,397</b>	<b>1,080,358</b>

The Company received £166,572,000 (2021: £155,399,000) from investments sold in the year. The book cost of these investments when they were purchased was £95,387,000 (2021: £111,326,000). These investments have been revalued over time and until they were sold, any unrealised gains/losses were included in the fair value of the investments.

Purchase and sale transaction costs for the year ended 31 May 2022 were £605,000 and £76,000 respectively (2021: transaction costs of purchases £487,000; transaction costs of sales £68,000). These comprise mainly stamp duty and commission.

### Analysis of investments at fair value

	2022 £'000	2021 £'000
Equity investments:		
Listed on London Stock Exchange	658,879	775,780
Listed on Alternative Investment Market (AIM)	233,518	304,578
	<b>892,397</b>	<b>1,080,358</b>

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 (losses)/gains from investments

	2022 £'000	2021 £'000
Gains on the sale of investments based on historical cost	71,185	44,073
Revaluation gains recognised in previous years	(54,621)	(13,158)
<b>Gains on investments sold in the year based on the carrying value at the previous balance sheet date</b>	<b>16,564</b>	<b>30,915</b>
Net movement in investment holding (losses)/gains	(203,830)	334,662
<b>(Losses)/gains on investments held at fair value through profit or loss</b>	<b>(187,266)</b>	<b>365,577</b>

All capital (losses)/gains are from investments that are listed (or quoted 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 two investee companies (2021: four 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
Safestyle	3,699	6.5
Thruvision	1,723	4.1

## 12 Receivables

	2022 £'000	2021 £'000
Securities sold for future settlement	1,900	3,079
Prepayments and accrued income	2,329	1,908
	<b>4,229</b>	<b>4,987</b>

## 13 Payables

	2022 £'000	2021 £'000
Securities purchased for future settlement	2,081	474
Management fee	485	514
Performance fee	–	4,537
Accruals and deferred income	424	201
	<b>2,990</b>	<b>5,726</b>

## 14 Financial liabilities

	2022 £'000	2021 £'000
<b>Unsecured Loan Notes:</b>		
3.33% Unsecured Loan Notes 2036 (redeemable at par on 23 May 2036)	29,837	29,828
2.77% Unsecured Loan Notes 2052 (redeemable at par on 2 February 2052)	19,919	–
<b>Preference Stock:</b>		
4,257 Preference Stock units of £1 each (2021: 4,257)	4	4
	<b>49,760</b>	<b>29,832</b>

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 direct issue costs totalling £213,000. The direct 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.

On 2 February 2022, the Company issued £20,000,000 (nominal) 2.77% unsecured loan notes, net of direct issue costs totalling £82,000. The direct issue costs will be amortised over the life of the notes. The loan notes do not carry voting rights and the 2.77% 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, approved by shareholders, which incorporates risk parameters (see pages 24 to 25) 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 in the Strategic Report (pages 18 and 26). Internal control and the Board's approach to risk management is also on pages 38 and 39. 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 modelling 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;
  - Nasdaq Bwise operational risk database;
  - RiskMetrics, UBS Delta, Style Research, Cognition and Barra 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 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 2022 on its equity investments was £892,397,000 (2021: £1,080,358,000).

#### Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 13 to 15 and a sector analysis is set out on page 6. At 31 May 2022 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)

### b) Market price risk (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 2022 is a decrease of £234,000 (2021: £284,000) and on the capital return is an increase of £222,553,000 (2021: £269,428,000). Accordingly, the total impact on shareholders' funds is an increase of £222,319,000 (2021: £269,144,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2022 is an increase of £234,000 (2021: £284,000) and on the capital return is a decrease of £222,553,000 (2021: £269,428,000). Accordingly, the total impact on shareholders' funds is a decrease of £222,319,000 (2021: £269,144,000).

### 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 2022, the Company did not hold any non-sterling denominated investments (2021: 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 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 2022 the Company had committed bank borrowing facilities for a total of £50.3 million (2021: £59.9 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 2022 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 2022 the Company's two-year revolving loan facility provided by Commercial Bank of China Limited London Branch ("ICBC") allowed borrowings to a maximum of £85 million, the interest rate exposure on which is 0.85% plus SONIA (Sterling Overnight Index Average). The change to the interest applied became effective from 1 January 2022 (2021: 0.85% plus LIBOR). The interest payable on the Company's £30 million issue of unsecured loan notes is fixed at 3.33% and on the £20 million issue of unsecured loan notes is fixed at 2.77%.

# 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 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 and a further £20 million by its issue in 2022 of 2.77% unsecured loan notes 2052. The Company is able to draw short term borrowings of up to £85 million from its committed borrowing facility with ICBC. There were borrowings of £50.3 million drawn down under the facility at 31 May 2022 (2021: £59.9 million).

Accordingly, the Company has access to borrowings of up to £135 million: the £50 million of fixed debt represented by the issue of unsecured loan notes and a committed bank facility of £85 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 2022, based on the earliest date on which payment could be required, were as follows:

	2022			2021		
	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 <sup>1</sup>	–	–	–	–	–	–
Unsecured loan notes 2036 <sup>2</sup>	999	3,996	38,991	999	3,996	39,990
Unsecured loan notes 2052 <sup>2</sup>	554	2,216	33,850	–	–	–
Bank loans and interest	50,374	–	–	59,942	–	–
Payables	2,720	–	–	5,656	–	–
	<b>54,647</b>	<b>6,212</b>	<b>72,841</b>	<b>66,597</b>	<b>3,996</b>	<b>39,990</b>

1 See also note 14. The Company has in issue Preference Stock without a set redemption date with a total par value of £4,000 (2021: £4,000) which has a negligible ongoing finance cost

2 The amounts due include unsecured loan note interest

### f) Credit risk

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

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

None of the Company's financial assets are past their due date and the adoption of the expected credit loss model for impairment under IFRS 9 has not had a material impact on the Company.

In summary, the maximum exposure to credit risk at 31 May 2022 was to cash and cash equivalent of £8,991,000 (2021: £2,962,000), and to receivables of £4,229,000 (2021: £4,987,000) (see note 12).

# 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 2022 the fair value of the Preference Stock was £4,000 (2021: £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 £46,255,000 (2021: £34,035,000) 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.

The fair value of the unsecured loan notes is calculated using a discount rate which reflects the yield of a UK Gilt of similar maturity plus a suitable credit spread.

### 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).

#### Fair value hierarchy – 2022

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	892,397	–	–	892,397
	892,397	–	–	892,397

#### Fair value hierarchy – 2021

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	1,080,358	–	–	1,080,358
	1,080,358	–	–	1,080,358

There were 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 2022 was £902,871,000 (2021: £1,082,762,000) comprising £50,268,000 (2021: £59,860,000) of unsecured bank loans, £50,000,000 (2021: £30,000,000) of unsecured loan notes, £4,000 (2021: £4,000) of Preference Stock and £802,599,000 (2021: £992,898,000) of equity share capital and reserves.

The Company has a £85 million revolving credit facility with ICBC Bank. The Company had drawn down £50,268,000 under these facilities as at 31 May 2022 (2021: £59,860,000). The Company was fully compliant with the terms of the facilities, as they existed, for the period 1 June 2021 to the date of this Annual Report.



# Notes to the Financial Statements (continued)

## 16 Share capital

	2022 £'000	2021 £'000
Allotted, issued, authorised and fully paid:		
74,701,796 ordinary shares of 25p each (2021: 74,701,796)	18,676	18,676

During the year the Company made no purchases of its own issued ordinary shares (2021: nil). Up to the date of this Report, the Company has not purchased any ordinary shares. The holders of ordinary shares are entitled to all the capital growth in the Company and all the income from the Company that is resolved by the directors to be distributed. Each holder of ordinary shares present at a general meeting has one vote on a show of hands and on a poll every member present in person or by proxy has one vote for each ordinary share held.

## 17 Capital redemption reserve and capital reserves

2022	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 2021	26,745	452,861	482,446	935,307
Transfer on disposal of investments (see note 10)	–	(54,621)	54,621	–
Net capital losses for the year	–	(203,830)	16,564	(187,266)
Currency losses	–	–	(1)	(1)
Ordinary dividend paid from capital	–	–	(343)	(343)
Expenses charged to capital	–	–	(3,653)	(3,653)
<b>At 31 May 2022</b>	<b>26,745</b>	<b>194,410</b>	<b>549,634</b>	<b>744,044</b>

2021	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 2020	26,745	131,357	445,652	577,009
Transfer on disposal of investments (see note 10)	–	(13,158)	13,158	–
Net capital gains for the year	–	334,662	30,915	365,577
Expenses charged to capital	–	–	(7,279)	(7,279)
<b>At 31 May 2021</b>	<b>26,745</b>	<b>452,861</b>	<b>482,446</b>	<b>935,307</b>

The capital reserve arising on investments sold (i.e. realised capital profits) may be distributed by way of a dividend.

## 18 Revenue reserve

	2022 £'000	2021 £'000
At start of year	12,170	19,366
Ordinary dividend paid	(17,391)	(17,549)
Revenue profit for the year	18,355	10,353
<b>At 31 May</b>	<b>13,134</b>	<b>12,170</b>

## 19 Net asset value (“NAV”) per ordinary share

The NAV per ordinary share is based on the net assets attributable to the ordinary shares of £802,599,000 (2021: £992,898,000) and on the 74,701,796 ordinary shares in issue at 31 May 2022 (2021: 74,701,796).

The Company has no securities in issue that could dilute the NAV per ordinary share.

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

	2022 £'000	2021 £'000
Net assets attributable to ordinary shares at 1 June	992,898	641,796
Net (losses)/gains for the year	(172,565)	368,651
Ordinary dividends paid in the year	(17,734)	(17,549)
<b>Net assets attributable to ordinary shares at 31 May</b>	<b>802,599</b>	<b>992,898</b>

# Notes to the Financial Statements (continued)

## 20 Capital commitments and contingent liabilities

### Capital commitments

There were no capital commitments as at 31 May 2022 (2021: £nil).

### Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting commitments as at 31 May 2022 (2021: nil).

## 21 Transactions with the Manager and related parties

Under the terms of an agreement effective from 22 July 2022, the Company appointed Janus Henderson as Manager to provide investment management, accounting, administrative and secretarial services. The Manager has contracted with BNP Paribas Securities Services to provide accounting and administration services.

Details of the management fee arrangements for these services are given in the Strategic Report on page 26. The fees paid or payable under this agreement to the Manager in respect of the year ended 31 May 2022 were £3,347,000 (2021: £2,496,000) (see note 4). The amount outstanding at 31 May 2022 was £485,000 payable to Janus Henderson (2021: £514,000). No performance fee is payable to Janus Henderson in respect of the year ended 31 May 2022 (2021: £4,537,000).

In addition to the above services, the Manager facilitates marketing activities with third parties which are recharged to the Company. Total amounts paid to the Manager in respect of marketing for the year ended 31 May 2022 amounted to £78,000 (2021: £76,000).

The remuneration payable to key management personnel was £191,000 (2021: £143,000) and relates wholly to fees payable to the directors for the year under review; the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 46 to 48 provides more details. The Company has no employees.

## 22 Changes in financial liabilities

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

Notes	At 1 June 2021 £'000	Cash flows £'000	Non-cash changes		At 31 May 2022 £'000
			Currency losses £'000	Fair value changes £'000	
<b>Financing activities</b>					
Bank loans	(59,860)	9,592	–	–	(50,268)
14 Financial liabilities	(29,832)	(19,918)	–	(10)	(49,760)
	<b>(89,692)</b>	<b>(10,326)</b>	<b>–</b>	<b>(10)</b>	<b>(100,028)</b>
<b>Non-financing activities</b>					
Cash and cash equivalents	2,962	6,030	(1)	–	8,991
	<b>2,962</b>	<b>6,030</b>	<b>(1)</b>	<b>–</b>	<b>8,991</b>
<b>Total</b>	<b>(86,730)</b>	<b>(4,296)</b>	<b>(1)</b>	<b>(10)</b>	<b>(91,037)</b>

Notes	At 1 June 2020 £'000	Cash flows £'000	Non-cash changes		At 31 May 2021 £'000
			Currency gains/(losses) £'000	Fair value changes £'000	
<b>Financing activities</b>					
Bank loans	(45,107)	(14,753)	–	–	(59,860)
14 Financial liabilities	(29,823)	–	–	(9)	(29,832)
	<b>(74,930)</b>	<b>(14,753)</b>	<b>–</b>	<b>(9)</b>	<b>(89,692)</b>
<b>Non-financing activities</b>					
Cash and cash equivalents	4,741	(1,779)	–	–	2,962
	<b>4,741</b>	<b>(1,779)</b>	<b>–</b>	<b>–</b>	<b>2,962</b>
<b>Total</b>	<b>(70,189)</b>	<b>(16,532)</b>	<b>–</b>	<b>(9)</b>	<b>(86,730)</b>

# Additional Information



Photo: The Boathouse, Instow, Young's & Co Brewery

# Glossary

## Alternative Investment Fund Managers Directive (“AIFMD”)

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 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 respect of various matters which impact the regulation of such entities. The Company is a constituent of the AIC’s UK Smaller Companies sector.

## 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

As an AIF, the Company is required to appoint a depositary who 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 has discharged its liability in certain markets. The Company’s depositary has confirmed that it has not discharged liability in relation to any of the Company’s assets. The depositary further confirms that, in all material respects, the Company has been managed in accordance with the FCA’s Investment Funds Sourcebook, the Company’s articles of association and as required by the AIFMD.

## Dividend dates

When declared or announced, 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 registrar 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 and share price will be disclosed ex-dividend.

## Gearing

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

## 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.

## 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 the premise that actual costs incurred in the year (see notes 4 and 5) are the best estimate of future costs, excluding any performance fees, in accordance with the AIC methodology.

The ongoing charge is the annualised charge expressed as a percentage of the average aggregate NAV in the period (see page 81). Management fees and other administrative expenses are included in the calculation, such as directors’ fees and the auditor’s fees, and the figure therefore exceeds the rate of the management fee paid to Janus Henderson. The cap of 0.90% relates only to management fees and performance fees under the Company’s management agreement, and excludes any other expenses. Total expenses for periods where a performance fee is payable can therefore be greater than 0.90%. The AIC’s ongoing charge methodology differs from the PRIIPs methodology for ongoing costs which are disclosed in the KID.



# Alternative Performance Measures

The Company uses the following alternative performance measures (“APMs”) throughout the Annual Report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders to help assess the Company’s performance against its peer group.

## Capital return per share

The capital return per share is the capital profit for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year (see note 8).

## Discount or premium

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

	NAV pence	Share price pence	Premium/ (discount) to NAV %
At 31 May 2021	1,329.1	1,280.0	(3.7%)
At 31 May 2022	1,074.4	917.5	(14.6%)

## Gearing/(net cash)

Gearing represents the excess amount above shareholders’ funds of total investments, expressed as a percentage of the shareholders’ funds. If the amount calculated is negative, this is a ‘net cash’ position and not gearing.

		2022	2021
Investments held at fair value through profit or loss (£'000) (page 62)	(A)	892,397	1,080,358
Net assets (£'000) (page 62)	(B)	802,599	992,898
Gearing (C = (A/B) -1) (%)	(C)	11.2	8.8

## Net asset value (“NAV”) per ordinary share

The value of the Company’s assets (i.e. investments held at fair value through profit or loss (see note 10) and cash held (see Balance Sheet)) less any liabilities (i.e. financial liabilities (see note 13)) for which the Company is responsible divided by the number of ordinary shares in issue (see note 16). The aggregate NAV is also referred to as total equity, in the Balance Sheet. The NAV per ordinary share is published daily and the year end NAV can be found on page 3 and further information is available in note 19 within the notes to the financial statements.

## Ongoing charge

The ongoing charge has been calculated in accordance with the guidance issued by the AIC as the total investment management fees and administrative expenses expressed as a percentage of the average NAV throughout the year.

	2022 £'000	2021 £'000
Management fees (note 4)	3,347	2,496
Other administrative expenses (note 5)	728	726
Less: non-recurring expenses	(68)	(174)
<b>Ongoing charges</b>	<b>4,007</b>	<b>3,048</b>
<b>Average net assets<sup>1</sup></b>	<b>948,784</b>	<b>773,615</b>
<b>Ongoing charges ratio (excluding performance fee)</b>	<b>0.42%</b>	<b>0.39%</b>

<sup>1</sup> Calculated using the average daily NAV (with debt at fair value)

The ongoing costs provided in the Company’s Key Investor Document (“KID”) is calculated in line with the PRIIPs regulations. The ongoing costs in the KID include finance costs and look through to costs incurred by other investment trusts and funds that the Company invests in. The non-recurring expenses include non-utilisation loan fees and certain legal fees (2021: non-utilisation loan fees, director recruitment and certain legal fees).



# Alternative Performance Measures (continued)

## Revenue return per share

The revenue return per share is the revenue return for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year (see note 8).

## Total return

The return on the share price or NAV taking into account both the rise and fall of NAV or share prices and dividends 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). Dividends paid and payable are set out in note 9.

NAV per share at 31 May 2021 and 31 May 2020 (p)	1,329.1	859.1
NAV per share at 31 May 2022 and 31 May 2021 (p)	1,074.4	1,329.1
	<b>2022</b>	2021
Change in the year (%)	(19.2)	54.7
Impact of dividends reinvested (%)	1.8	2.5
NAV total return for the year (%)	(17.8)	58.5
	<b>2022</b>	2021
Share price per share at 31 May 2021 and 31 May 2020 (p)	1,280.0	777.0
Share price per share at 31 May 2022 and 31 May 2021 (p)	917.5	1,280.0
	<b>2022</b>	2021
Change in the year (%)	(28.3)	64.7
Impact of dividends reinvested (%)	1.9	2.7
Share price total return for the year (%)	(27.0)	69.3

## Yield

The yield is the annual dividend expressed as a percentage of the year-end share price.

		<b>31 May 2022</b>	31 May 2021
Annual dividend (p)	(A)	24.00	23.75
Share price (p)	(B)	917.5	1,280.0
Yield (C=A/B) (%)	(C)	2.6	1.9

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

It is unlikely that either the Company or the Company's registrar would make unsolicited telephone calls to shareholders. 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 about the Company the corporate secretary on 020 7818 1818.

# General Shareholder Information

## Alternative Investment Fund Manager's Directive ("AIFMD") disclosures

In accordance with the AIFMD, information about the Company's leverage and remuneration of Janus Henderson Fund Management UK Limited, as the Company's alternative investment fund manager ("AIFM"), is required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document entitled AIFMD Disclosure which can be found at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com).

## BACS

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services). Mandate forms for this purpose are available from the registrar, Computershare Investor Services plc. Alternatively, shareholders can write to the registrar at the address overleaf to give their instructions, including 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")

Under tax legislation introduced through the Organisation for Economic Cooperation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information, the Company must provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information is given annually to the local tax authority of the tax residencies of non-UK based certificated shareholders and corporate entities.

## Equality Act 2010

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.

You can contact the registrar, 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.

## Environmental, social and governance ("ESG")

Matters relating to environmental, social and governance activities which are increasingly factored into the analysis of how corporate entities, including investment companies, conduct their activities.

## Foreign Account Tax Compliance ("FATCA")

FATCA is a United States federal law 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. Each year investment trusts need to monitor the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company makes an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, needs to identify and report USA reportable accounts to HMRC.

## General Data Protection Regulation ("GDPR")

A privacy statement can be found at [www.janushenderson.com](http://www.janushenderson.com).

## History

The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name 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.

## Individual Savings Account ("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 independent financial advisors ("IFAs") to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules regarding 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 PRIIPs requires the Manager, as the PRIIPs manufacturer, to prepare a KID for 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

The Company’s NAV is published daily. Details of the Company’s share price and NAV per share can be found at **[www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com)** and in the London Stock Exchange Daily Official List.

The market price of the Company’s ordinary shares is also published daily in the Daily Telegraph and on Trustnet.

## Shareholder details

Shareholders who hold their shares in certificated form can check their shareholding with the registrar, Computershare Investor Services plc, via **[www.investorcentre.co.uk](http://www.investorcentre.co.uk)**. To gain access to your details on the Computershare site, you will need the holder reference number shown on your share certificate.

## Taxonomy Regulation

Regulation (EU) 2020/852 establishes the basis for the EU taxonomy. The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities to provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In accordance with the Taxonomy Regulation, the Company confirms that the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

# Corporate Information

## Registered office

201 Bishopsgate  
London EC2M 3AE

## Service providers

### Alternative Investment Fund Manager\*

Janus Henderson Fund Management UK Limited  
201 Bishopsgate  
London EC2M 3AE

### Corporate Secretary\*

Janus Henderson Secretarial Services UK Limited  
201 Bishopsgate  
London EC2M 3AE  
Telephone: 020 7818 1818  
Email: [itsecretariat@janushenderson.com](mailto:itsecretariat@janushenderson.com)

### Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone: 0370 707 4033  
Email: [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

Investors with share certificates (i.e. not those in a share plan or ISA) can check their holdings at [www.investorcentre.co.uk](http://www.investorcentre.co.uk)

### Depositary and Custodian

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### Broker

Numis Securities Limited  
45 Gresham Street  
London EC2V 7BF

## Independent Auditor

Mazars LLP  
30 Old Bailey  
London  
EC4M 7AU

## Financial calendar

Annual results	4 August 2022
Ex-dividend date	25 August 2022
Dividend record date	26 August 2022
Annual general meeting	30 September 2022
Final dividend payable	10 October 2022
Half-year results	January 2023
Interim dividend payable	March 2023

## Information sources

For more information about the Company, visit the website at [www.hendersonsmallercompanies.com](http://www.hendersonsmallercompanies.com). This includes factsheets, interviews, current information on the Company and up-to-date share price and net asset value details.

To receive regular insights on investment trusts from Janus Henderson, visit <https://www.janushenderson.com/en-gb/investor/subscriptions>



Follow Janus Henderson investment trusts on LinkedIn

## 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 our website.

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 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 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 Chair.

\*Janus Henderson Fund Management UK Limited and Janus Henderson Secretarial Services UK Limited changed their names in March 2022 from Henderson Investment Funds Limited and Henderson Secretarial Services Limited respectively.

# Historical Record

At 31 May	Net assets £'000	NAV with debt at par p	NAV with debt at market value p	Mid- market price p	Discount with debt at par %	Discount with debt at market value %	Profit/(loss) for year £'000	Revenue return p	Capital return p	Total return p	Dividends p	Ongoing charges excl perf fee %	Ongoing charges incl perf fee %
2013	403,420	540.0	535.0	454.0	(15.9)	(15.1)	127,718	6.24	164.72	170.96	6.50	0.47	1.07
2014	476,281	637.6	634.3	547.0	(14.2)	(13.8)	79,958	12.67	94.37	107.04	11.00	0.44	0.56
2015	563,321	754.1	752.1	686.0	(9.0)	(8.8)	95,631	15.04	112.98	128.02	13.50	0.46	0.88
2016 <sup>1</sup>	546,080	731.0	731.0	616.5	(15.7)	(15.6)	(6,783)	15.92	(25.00)	(9.08)	15.00	0.44	0.44
2017	688,460	921.6	921.6	799.0	(13.3)	(13.3)	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	(7.7)	(7.7)	107,801	22.79	121.52	144.31	21.00	0.42	0.99
2019	716,145	958.7	958.7	858.0	(10.5)	(10.5)	(49,862)	23.59	(90.34)	(66.75)	23.00	0.42	0.42
2020	641,796	859.1	859.1	777.0	(9.6)	(9.6)	(56,799)	16.73	(92.76)	(76.03)	23.50	0.42	0.42
2021	992,898	1,329.1	1,329.1	1,280.0	(3.7)	(3.7)	368,651	13.86	479.64	493.50	23.75	0.39	0.98
<b>2022</b>	<b>802,599</b>	<b>1,074.4</b>	<b>1,074.4</b>	<b>917.5</b>	<b>(14.6)</b>	<b>(14.6)</b>	<b>(172,565)</b>	<b>24.57</b>	<b>(255.58)</b>	<b>(231.01)</b>	<b>24.00</b>	<b>0.42</b>	<b>0.42</b>

1 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 Direct, Janus Henderson, Refinitiv Datastream





The Henderson Smaller Companies Investment Trust plc  
Registered as an investment company in England and Wales  
Registration number: 00025526  
Registered office: 201 Bishopsgate, London EC2M 3AE

ISIN number/SEDOL Ordinary Shares: GB0009065060/0906506  
London Stock Exchange (TIDM) Code: HSL  
Global Intermediary Identification Number (GIIN): WZD8S7.99999.SL.826  
Legal Entity Identifier (LEI): 213800NE2NCQ67M2M998

Telephone: **0800 832 832**

Email: **support@janushenderson.com**

**www.hendersonsmallercompanies.com**

MANAGED BY  
**Janus Henderson**  
INVESTORS

**aic**  
The Association of  
Investment Companies



This report is printed on Revive silk 100% recycled, contains 100% recycled waste and is manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).

Front cover image: Custom House, King's Lynn.

Designed and typeset by 2112 Communications, London

Printed by DG3 Leycol, London

JHI9226/22