

THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Annual Report 2015



MANAGED BY

Henderson
GLOBAL INVESTORS

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Strategic Report

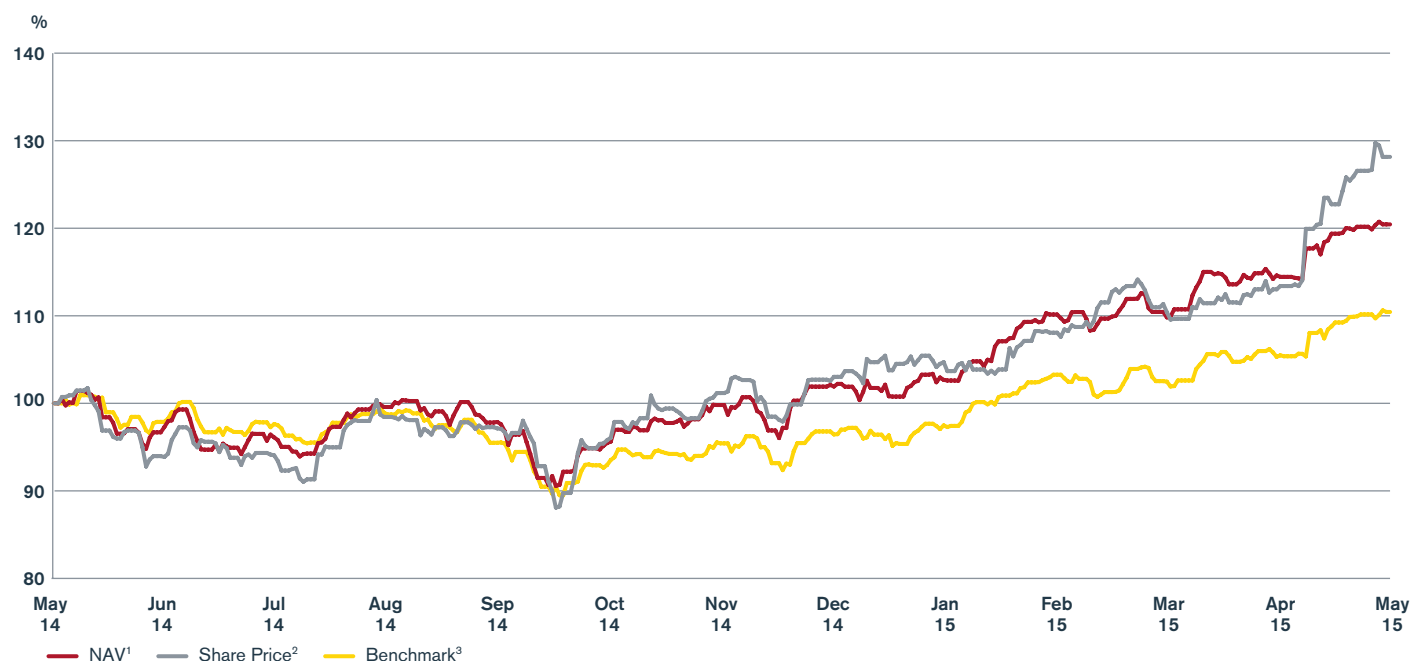
“It has been another excellent year for the Company with a 28.2% share price total return for shareholders. The net asset value of the Company increased by 20.4% in the year on a total return basis and substantially outperformed its benchmark, the Numis Smaller Companies Index (excluding investment companies), which increased by 10.4%.”

Jamie Cayzer-Colvin, Chairman

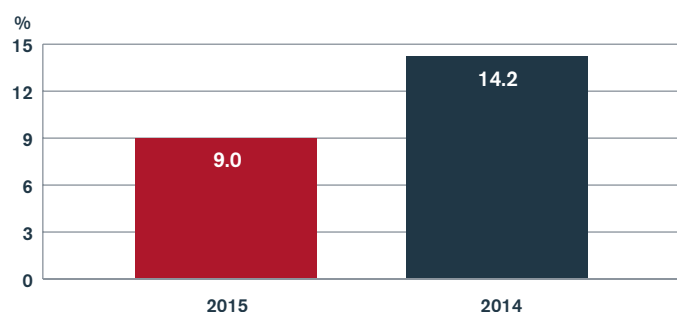


Strategic Report: Performance Highlights

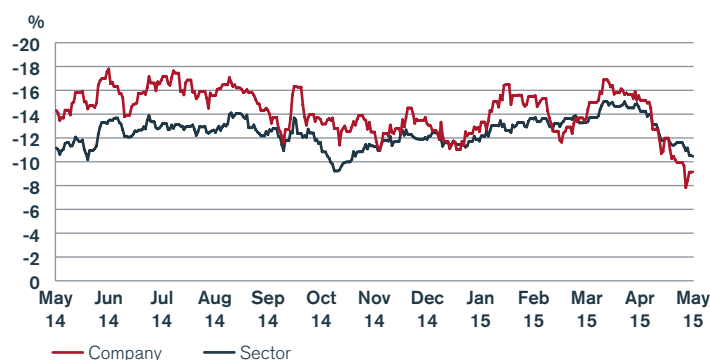
Total Return Performance over the year to 31 May 2015



Discount at year end⁴



Discount⁵



Total Return Performance for the periods ended 31 May 2015 (including dividends reinvested and excluding transaction costs)

	1 year %	3 years %	5 years %	10 years %
NAV¹	20.4	110.9	191.6	292.8
Share price²	28.2	155.2	246.3	370.0
Benchmark³	10.4	83.2	123.9	217.7
Average Sector NAV⁶	14.3	88.3	157.1	254.3
Average Sector Share Price⁷	16.1	107.5	190.8	304.4
FTSE All-Share Index	7.5	52.2	68.6	116.8
FTSE SmallCap Index (excluding investment companies)	8.6	96.5	119.4	104.7

Strategic Report: Performance Highlights (continued)

NAV per share at year end (debt at par)

2015 **754.1p** 2014 **637.6p**

Share price at year end

2015 **686.0p** 2014 **547.0p**

Dividend for year

2015 **13.5p⁸** 2014 **11.0p**

Ongoing Charge for year¹⁰

2015 **0.46%** 2014 **0.44%**

NAV per share at year end (debt at fair value)

2015 **752.1p** 2014 **634.3p**

Gearing at year end

2015 **7.5%** 2014 **9.1%**

Dividend yield⁹

2015 **2.0%** 2014 **2.0%**

Total net assets

2015 **£563m** 2014 **£476m**

1 Net asset value per ordinary share total return (including dividends reinvested and excluding transaction costs) with the Company's issue of Debenture Stock and Preference Stock included at par value

2 Share price total return using mid-market closing price

3 Numis Smaller Companies Index (excluding investment companies)

4 Calculated using published daily NAVs with debt at par including current year revenue

5 Graph shows the Company's share price discount to NAV compared with the average discount of the AIC UK Smaller Companies sector over the year to 31 May 2015

6 Average NAV of the AIC UK Smaller Companies sector

7 Average share price of the AIC UK Smaller Companies sector

8 This represents an interim dividend of 3.5p and a proposed final dividend of 10.0p. See page 49 for more details

9 Based on the ordinary dividends paid for the year and the mid-market share price at the year end

10 Ongoing charge excluding performance fee. Ongoing charge including performance fee is 0.88% (2014: 0.56%)

Sources: Morningstar Funddata, Morningstar Direct, Henderson, Datastream

A glossary of terms is included on pages 20 and 21

Strategic Report: Business Model

Strategy

The strategy of the Company is to pursue its investment objective by operating as an investment trust company. The investment trust company structure allows the shareholders, whether institutions or private investors, to access a diversified portfolio of investments that is professionally managed. The principal activity remained unchanged throughout the year ended 31 May 2015.

Investment Objective

The Company's investment objective is to maximise shareholders' total returns by investing mainly in smaller companies that are quoted in the United Kingdom. The strategy is to use rigorous research to identify high-quality smaller companies with strong growth potential. The benchmark is the Numis Smaller Companies Index (excluding investment companies) (previously called the Hoare Govett Smaller Companies Index). 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. Once a portfolio company enters the FTSE 100 Index the Fund Manager has, in normal circumstances, six months to sell the position.

Investment Policy

The Company's portfolio is managed within a framework of investment limits and restrictions determined by the Board, the primary purpose of which is to spread and mitigate investment risk.

Diversification

The Company maintains a diversified portfolio, which is detailed on pages 8, 14 and 15. The portfolio is actively managed by Henderson, who provide regular reports on investment activity and portfolio construction to the Directors at and between Board meetings. The Company will not invest more than 5% of its total gross assets, calculated as at the time of investment (or additional investment), in any one holding. The Company will not make any investment that, calculated at the time of investment (or additional investment), would result in it holding more than 10% of an investee company's equity. The Board may give approval to Henderson to exceed these limits to as far as 10% and 20% respectively but only in exceptional circumstances.

Asset Allocation

Generally, the Company will invest in smaller companies that are quoted in the United Kingdom. Investments may include shares, securities and related financial instruments, including derivatives.

Gearing

The Company will borrow money for investment purposes if the Board considers it appropriate. Net borrowings are limited to a maximum of 30% of the value of shareholders' funds.

General

In accordance with the Listing Rules of the UK Listing Authority, the Company will not invest more than 15% of its gross assets in the shares of other listed closed-ended investment funds, including investment trusts, and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of their gross assets in listed closed-ended investment funds.

Management

The Company has an independent Board of Directors which has appointed Henderson Investment Funds Limited ("HIFL") to act as its Alternative Investment Fund Manager. HIFL delegates investment management services to Henderson Global Investors Limited in accordance with an agreement which was effective from 22 July 2014 and can be terminated on six months' notice. Prior to 22 July 2014 Henderson Global Investors Limited was appointed as Investment Manager. Both entities are authorised and regulated by the Financial Conduct Authority ("FCA"). References to Henderson within this report refer to the services provided by both entities.

The fund management team is led by Neil Hermon, who was appointed as the Company's Fund Manager with effect from November 2002. Neil Hermon has a shareholding in the ordinary shares of the Company. He receives a proportion of any performance fee paid by the Company to Henderson and a proportion of that is deferred into further shares in the Company.

Henderson and its subsidiaries also provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of Henderson, by BNP Paribas Securities Services. Rachel Peat ACIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

The following details the fee arrangements for the year under review. The management fee payable to Henderson is calculated quarterly as a percentage of the value of the net chargeable assets (being total assets less current liabilities before deducting prior charges) under management on the last day of the quarter preceding the quarter in respect of which the calculation is made. Assets under management for the purpose of calculating the management fee exclude any holdings in funds managed by Henderson. The management fee is payable quarterly in advance. During the year ended 31 May 2015 the percentage fee rate was 0.0875% per quarter (0.35% per annum) (2014: the same).

In addition, the management agreement provides for the payment of a performance fee, calculated as 15% of any outperformance of the benchmark index, on a total return basis, over the Company's accounting year. This is subject to a limit on the total management fees payable in any one year of 1.0% of the average value of the net assets of the Company during the year (calculated monthly) and an absolute limit to the performance fee of £2,000,000 in any one year.

Strategic Report: Business Model (continued)

There is a further cap to the effect that any enhancement to net asset value resulting from share buy-backs in excess of 5% of the opening issued share capital is excluded from the calculation of the performance fee for the year. No performance fee is payable if on the last day of the Company's accounting year the Company's share price is lower than the share price as at the preceding year end. If on the last day of the Company's accounting year the net asset value per share, calculated, in accordance with the Company's accounting policies, net of costs (including any performance fee), is equal to or lower than the net asset value per share as at the preceding year end, the performance fee payable will be restricted to such amount, if any, as will result in the net asset value per share being higher than the net asset value per share at the preceding year end.

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

A performance fee of £2,000,000 is payable in respect of the year ended 31 May 2015 (2014: £551,000). The Historic Amount carried forward at 31 May 2015 was £59,797,100 (2014: £23,454,042).

Fee Review

The management agreement provides for a formal review every three years of the fee arrangements with Henderson. Following a review the Board and Henderson have agreed a revised fee basis effective from 1 June 2015. The Company's advisers confirmed it was not necessary to seek shareholder approval due to the nature of the changes, which are summarised below.

The management fee is now calculated on 0.35% of net assets (0.0875% per quarter).

The performance fee will continue to be calculated as 15% of any outperformance of the benchmark index, on a total return basis, over the Company's financial year. However, the £2,000,000 absolute limit on the performance fee in any one year has been removed.

The total management and performance fees payable in any one year from 1 June 2015 are subject to a limit of 0.9% of the average value of the net assets of the Company during the year (calculated monthly).

Provisions regarding the enhancement to net asset value resulting from share-buybacks, and the requirements for the share price and net asset value to be higher than at the preceding year end before a performance fee will be payable remain unchanged. Any underperformance relative to the benchmark, or any unrewarded outperformance will continue to be carried forward.

Strategic Report: Chairman's Statement



The Chairman of the Company, Jamie Cayzer-Colvin, reports on the year to 31 May 2015

Performance

It has been another excellent year for the Company with a 28.2% share price total return for shareholders. The net asset value of the Company increased by 20.4% in the year on a total return basis and substantially outperformed its benchmark, the Numis Smaller Companies Index (excluding investment companies), which increased by 10.4%.

Over the past ten years our net asset value total return has been 292.8% versus a total return from the Numis Smaller Companies Index (excluding investment companies) of 217.7%, the FTSE All-Share Index of 116.8% and the FTSE SmallCap Index (excluding investment companies) of 104.7%. This is a compound annual return to shareholders of 14.7% and is continuing testimony to the skills of our Fund Manager, Neil Hermon and his team.

I would, as always, like to thank all the Henderson staff and my Board for their efforts throughout the year on behalf of shareholders.

Revenue and Dividend

The revenue return per share has increased to 15.0p, compared with 12.7p for the previous year. The Board is proposing a final dividend for the year of 10.0p per share, making a total dividend for the year of 13.5p (2014: 11.0p) as an interim dividend of 3.5p was paid in March. The final dividend is of course subject to shareholder approval at the Annual General Meeting to be held in October.

Discount* and Share Buy-backs

During the year the AIC UK Smaller Companies sector as a whole traded at an average discount of 12.4% to NAV, with highs and lows of 14.9% and 9.1% respectively. At the year end, the Company's shares traded at a discount of 9.0%. The Company's discount ranged from 17.7% to 7.7% with the average discount over the year being 14.1%.

The Board continues to monitor the discount and will from time to time buy back shares, though we do not believe that share buy-backs have a significant effect on the discount other than in the short term.

Management Fee Arrangements

Your Board has reviewed the fee arrangements with Henderson and concluded that it continues to be in the best interests of shareholders to have a combination of a very low base management fee and a performance fee incentive. With effect from 1 June 2015 the base management fee will be 0.35% of net assets rather than gross assets meaning that not only will the base fee be lower but Henderson will only be rewarded for managing borrowings if those borrowings deliver investment outperformance that result in the payment of a performance fee. The performance fee arrangement remains unchanged save that the monetary limit of £2.0 million has been removed and the percentage cap on total fees in any one financial year has been reduced from 1.0% to 0.9%. The monetary cap was set when your Company was half its present size and your Board feels it is a more appropriate incentive to have a single lower percentage cap. Full details of the fee arrangements are set out on page 5. However, as an illustration of the impact of the fee, had the arrangements been in place in the year under review, total management fees would have been £4,378,000 rather than the actual £3,794,000, reflecting the exceptional outperformance achieved by Henderson for shareholders. Your Board is confident that these new management fee arrangements will properly incentivise Henderson to continue to outperform.

Outlook

The last six years have been very positive for equity markets and particularly the smaller companies sector. Recent events like the UK general election have bolstered that performance, so investors may be concerned about how long this can last. Yet bonds and cash remain unattractive to investors, so there will continue to be a steady flow of funds into equities, which should help to maintain present levels. Smaller companies' stocks are also less well-researched and followed than those of large companies, which means that value can be found by stock pickers like Neil. There will continue to be uncertainty about the UK's position in Europe until the referendum. But I am confident that Neil's style of investing is well suited to the challenges ahead.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.30am on Friday 2 October 2015 at the Registered Office, 201 Bishopsgate, London EC2M 3AE. The Notice of Meeting is set out in the accompanying circular to shareholders. We would encourage as many shareholders as possible to attend for the opportunity to meet the Board and to watch a presentation from Neil Hermon reviewing the year and looking forward to the year ahead.

For the first time, the Company's AGM will be broadcast live on the internet. If you are unable to attend in person you can watch the meeting as it happens by visiting www.henderson.com/trustslive.

Jamie Cayzer-Colvin
Chairman

*The annual discount is calculated as a simple average of the daily discounts downloaded from Datastream

Strategic Report: Historical Performance and Financial Information

Total Return Performance over the 10 years to 31 May 2015



Financial Information

At 31 May	Net assets £'000	NAV per ordinary share		Mid- market price per ordinary share p	Discount		Profit/ (loss) for year £'000	Revenue return p	Capital return p	Total return p	Dividend p	Expenses ⁴ %
		With debt at par p	With debt at market value p		With debt at par %	With debt at market value %						
2006	280,953	280.4	273.0	232.8	(16.98)	(14.73)	67,005	1.83	64.62	66.45	1.35	0.60 (0.83)
2007	339,700	392.1	385.1	323.5	(17.50)	(16.00)	96,768	2.12	102.59	104.71	1.70	0.55 (1.31)
2008	255,471	317.6	310.9	252.0	(20.65)	(18.94)	(66,112)	4.64	(83.96)	(79.32)	3.80	0.51 (0.51)
2009	156,349	202.1	196.9	167.0	(17.37)	(15.19)	(90,365)	6.30	(121.71)	(115.41)	5.60	0.51 (0.51)
2010	207,533	277.1	269.7	216.0	(22.05)	(19.91)	59,540	4.59	74.70	79.29	3.60	0.58 (0.58)
2011	298,184	398.1	392.5	319.4	(19.77)	(18.62)	93,342	4.91	119.70	124.61	4.20	0.50 (1.16)
2012	279,926	374.5	367.9	284.3	(24.09)	(22.72)	(14,622)	6.07	(25.62)	(19.55)	5.50	0.50 (0.50)
2013	403,420	540.0	535.0	454.0	(15.93)	(15.14)	127,718	6.24	164.72	170.96	6.50	0.47 (1.07)
2014	476,281	637.6	634.3	547.0	(14.21)	(13.76)	79,958	12.67	94.37	107.04	11.00	0.44 (0.56)
2015	563,321	754.1	752.1	686.0	(9.03)	(8.79)	95,631	15.04	112.98	128.02	13.50	0.46 (0.88)

1 Net asset value per ordinary share total return (including dividends reinvested and excluding transaction costs) with the Company's issue of Debenture Stock and Preference Stock included at par value

2 Share price total return using mid-market closing price

3 Numis Smaller Companies Index (excluding investment companies)

4 Using Total Expense Ratio methodology for 2011 and previous years; Ongoing Charge methodology thereafter, figures excluding performance fee (figures in brackets include performance fee)

Sources: Morningstar Funddata, Henderson, Datastream

Strategic Report: Portfolio Information

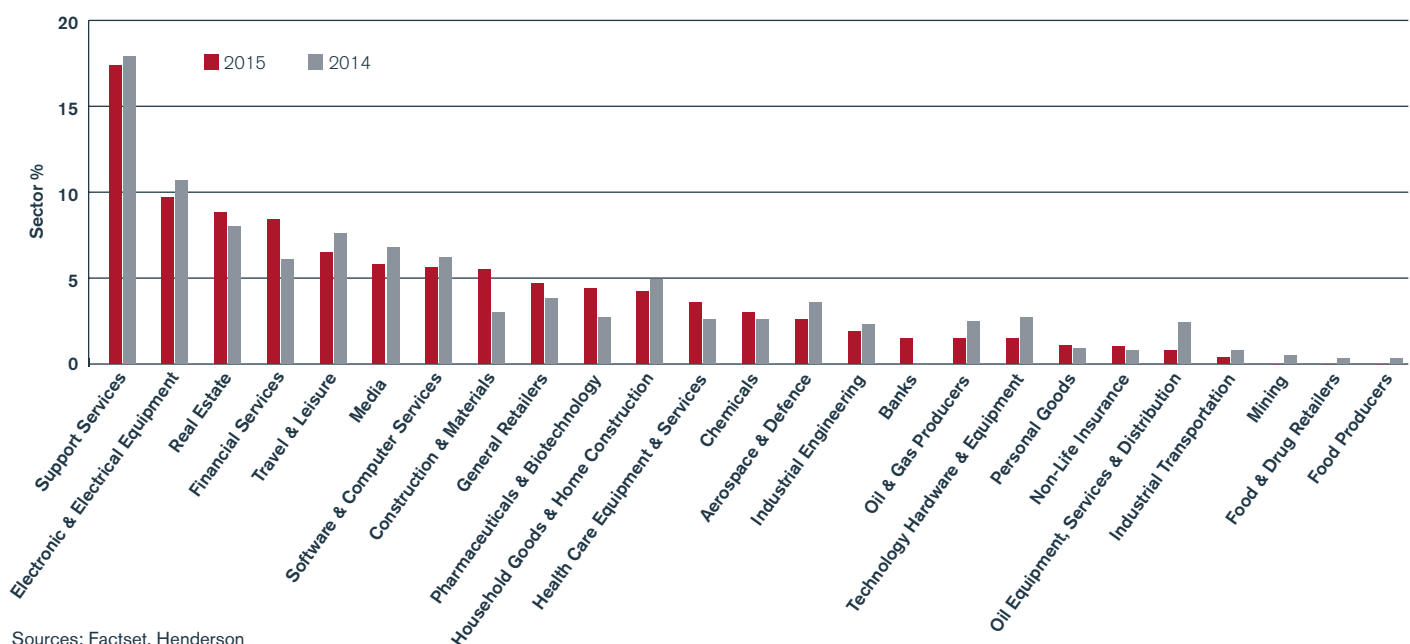
Performance Attribution

	Year ended 31 May	
	2015	2014
NAV total return	20.4	19.9
Benchmark total return	10.4	19.1
Relative performance	10.0	0.8
Made up:		
Stock selection	10.0	0.4
Gearing	0.9	0.9
Share buy backs	0.0	0.0
Expenses	-0.9	-0.5

Ten Largest Investments at 31 May 2015

Ranking 2015	Ranking 2014	Company	Principal activities	Valuation 2015 £'000	Portfolio %
1	1	Bellway	house building	20,489	3.4
2	6	e2v Technologies	electronic components	17,809	2.9
3	13	Howden Joinery	kitchen manufacturer and retailer	14,691	2.4
4	5	Paragon	buy to let mortgage provider	14,158	2.3
5	12	Intermediate Capital	mezzanine finance	12,579	2.1
6	7	Informa	business to business information	12,423	2.1
7	3	Interserve	international contractor	12,090	2.0
8	4	Spectris	electronic control and process instrumentation	11,690	1.9
9	10	Victrex	speciality chemicals	11,270	1.9
10	8	WS Atkins	engineering consultancy	11,200	1.9
				138,399	22.9

Analysis of the Portfolio by Sector at 31 May



Sources: Factset, Henderson

Strategic Report: Fund Manager's Report



The Fund Manager of the portfolio, Neil Hermon, reports on the year to 31 May 2015

Attribution Analysis

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

Principal contributors

	12 month return %	Relative contribution %
Bellway	+75.2	+1.6
Taylor Wimpey	+80.9	+1.5
AA	+64.9	+1.1
Howden Joinery	+63.0	+1.0
e2v Technologies	+58.2	+0.9

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

Taylor Wimpey is a national UK housebuilder. From the depths of the housing downturn in 2007/08 Taylor Wimpey has made an impressive recovery. It has strengthened its over leveraged balance sheet through the sale of its US operation and by raising money through a rights issue. Financial returns have been improving through the acquisition of higher margin land and cost reductions in the building process. Much of the housing market commentary written above also applies to Taylor Wimpey. The major difference between the two companies' strategies is that whilst Bellway is looking to expand its volumes (albeit from a much lower base), Taylor Wimpey is aiming to return significant amounts of cash, through dividends, to shareholders. This provides a very attractive prospective yield for investors. As noted later in the report our position in Taylor Wimpey has been sold due to size considerations.

AA is the UK's leading provider of roadside assistance. It also provides insurance broking and financial services. AA is a very strong business with fantastic brand recognition, limited competition, strong pricing power and good cash generation. AA was floated in June 2014 and a key attraction was the incoming management team. This was led by Bob McKenzie whose career has spanned BTR, Hanson, Sea Containers, Green Flag and more recently Northgate, in which the Company has a holding. AA floated with a highly leveraged balance sheet but this was understandable given the cash generation of the business. The investment upside was provided by a combination of a transfer of value from debt to equity as cash generation was used to pay down debt, planned faster growth of the core business driven by investment in marketing and systems and cost reduction in back office processes. The share price of AA has performed very well since IPO and we have booked substantial profits on our position.

Market – year in review

The year under review was a positive one for equity markets. This was due to supportive monetary policies from developed world Central Banks, a gently improving global macro-economic situation and the relative attractiveness of equities over other asset classes. The introduction of quantitative easing by the ECB and the surprise majority achieved by the Conservative Party in the UK general election were additional boosts to the UK equity market. The fundamentals of the corporate sector remained strong. Companies continued to grow their dividends whilst balance sheets remained robust. Corporate earnings growth, however, was subdued as profits in the oil and gas sector collapsed and the strength of sterling diluted the value of overseas earnings for UK companies.

Smaller companies materially outperformed larger companies over the year. The Numis Smaller Companies Index (excluding investment companies) has now outperformed the FTSE All-Share Index for the last seven years consecutively (and in fifteen of the last sixteen years).

Fund Performance

The Company had an exceptional year in performance terms – outperforming its benchmark and rising in absolute terms. The net asset value rose 20.4%, on a total return basis. This compares to a rise of 10.4% (total return) from the Numis Smaller Companies Index (excluding investment companies) and 8.6% (total return) from the FTSE Small Cap Index (excluding investment companies). The outperformance came from a combination of underlying positive portfolio performance and a positive contribution from gearing in the Company, which can be seen in the attribution analysis on page 8. The year under review is the eleventh year of outperformance of our benchmark, the Numis Smaller Companies Index (excluding investment companies), in the last twelve years.

Gearing

Gearing started the year at 9.1% and ended it at 7.5%. The gearing is provided by a combination of the £20 million 10.5% 2016 Debenture with the remainder by short term bank borrowings. Gearing was a positive contributor to performance in the year as markets rose and has been a significant positive over the 12 years I have managed the investment portfolio.

Strategic Report: Fund Manager's Report (continued)

Howden Joinery is a manufacturer and retailer of kitchens in the UK. From launch in 1990 it has organically grown to over 590 branches and taken a significant market share by providing a first class service to its client, the jobbing builder, with keen prices and excellent stock availability. The company is also very cash generative but in the past this cash has been consumed by pension and property issues it inherited from its former parent, MFI. However these issues have now been effectively worked through and Howden is starting to aggressively raise the dividend to shareholders. With branch roll-out continuing and the kitchen market beginning to recover Howden is well placed to grow profitability strongly.

e2v Technologies manufactures high technology electronic components. Although e2v is a company with significant technology and high margins, it has historically struggled to deliver consistent growth. This led to a below market valuation for the business. The appointment of a new chairman and CEO has led to a re-focusing of the business with cost taken out, a new customer-focused approach and de-cluttering of the organisations processes. The initial results of this new approach have been highly encouraging with results for the last financial year above market expectations. Its shares have enjoyed a significant re-rating and prospects for further growth look strong if the company continues to deliver on its strategic aims.

Principal detractors

	12 month return %	Relative contribution %
Afren	-98.0	-1.2
Premier Oil	-53.6	-0.7
Betfair ¹	+61.5	-0.5
Greggs ²	+133.8	-0.4
Moneysupermarket.com ²	+76.8	-0.4

¹Included in the benchmark index up to 31/12/14 but not owned by the Company (returns shown are those to 31/12/14)

²Included in the benchmark index but not owned by the Company

Afren is an international oil and gas production and exploration company with its main interests in Nigeria. Afren was hit by a number of problems in the year. First its CEO, COO and a number of other employees were suspended due to the discovery of unauthorised payments. Subsequently its reserves in Kurdistan were significantly written down after poor drilling results. Additionally the severe drop in the oil price affected the cashflows from the core Nigerian operations which left the company unable to service the debt costs of the business. Afren is currently undergoing a significant debt for equity swap and debt renegotiation, which will substantially dilute equity holders. We sold our position in Afren in early 2015.

Premier Oil is an international oil and gas production and exploration company. Like nearly every other oil and gas company on the stock market, the last year has been an exceptionally tough one. The collapse in oil prices in late 2014 has severely affected the market's perceptions of the value of Premier's oil and gas assets. Although Premier has reasonable levels of debt, the company remains financially sound. The company is poised to show good growth in near-term production from the Solan development in the North Sea in late 2015 and beyond that from the Catcher development and the wider North Falklands basin. Additionally Premier remains a strong proxy for the eventual recovery in oil prices.

Betfair is an online sports book and gaming operator and is the world's largest internet betting exchange. The strong share price performance has primarily been driven by upwards earnings upgrade surprises as heavy investment in its product and marketing has allowed it to take market share after years of decline between 2011 and 2013. Furthermore, the stock has benefitted from a re-rating as it has successfully de-emphasised its non-regulated earnings, favouring growth in regulated markets. The Company has no holding in Betfair.

Greggs is a vertically integrated, bakery related retailer. After a difficult period, Greggs has performed well as new management have driven the proposition from a high street baker to a bakery food-on-the-go operator with broad appeal in the quick service sector. Like-for-like sales growth has picked up and combined with lower input costs has meant that earnings growth has been above market expectations. The Company has no holding in Greggs.

Moneysupermarket.com is an operator of finance and travel price comparison websites. It is the market leader. The share price has performed well over the last year driven by a re-rating upwards of comparable internet companies. In addition earnings growth has been strong, driven in part by high levels of utility switching by consumers. The Company has no holding in Moneysupermarket.com.

Portfolio Activity

Trading activity in the portfolio was consistent with an average holding period of four years. Turnover was slightly higher than our typical average due to the high level of M&A and IPO activity in the portfolio and does not represent a shift in our approach, which is to consider our investments as long-term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise we have been employing strong sell disciplines to cut out stocks that fail to meet these criteria.

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

One Savings Bank (OSB) is one of the new challenger banks that have emerged post the financial crisis. It is a specialist lender focused on selected sub-sectors of the lending market. Formed from the ashes of Kent Reliance Building Society it started trading on 1 February 2011. The business was originally built by acquisitions of performing mortgage books and a short duration unsecured performing consumer loan book of Northern Rock. Since then it has grown its loan book and profitability rapidly. The outlook is positive as competition from capital-constrained large banks has reduced and credit risk remains low. With strong political will for challenger banks to succeed, the future looks bright for One Savings Bank.

Strategic Report: Fund Manager's Report (continued)

SSP is a food and beverage retailer at transport locations globally, principally airports and railway stations. The company runs a combination of its own brands, such as Upper Crust, to franchise operations for companies such as Marks and Spencer and McDonalds. Growth dynamics are positive, with drivers including new transport locations, market share gains at existing sites, increased passenger numbers and rising spend per head. A further positive is the arrival of Kate Swann as CEO. In her previous role she had particular success at turning round and growing WH Smith and her cost-cutting skills, attention to detail and returns focus should benefit SSP greatly.

Sanne is an independent and regulated provider of outsourced specialist corporate and fund administration and reporting services to alternative asset managers, financial institutions and other organisations. The specialism and complexity involved in the service it provides has historically allowed it to earn high margins which we view as sustainable in the medium run. Our investment in Sanne provides exposure to growing regulation in financial services, growth in alternative investments as an asset class, and continued trend of outsourcing back office functions. The company also benefits from a strong balance sheet, a sticky and diversified client base (90% of revenues are recurring) and plenty of M&A opportunities as larger administrators sell off non-core assets.

Cairn Energy is an international oil and gas exploration and production company. Although the recent collapse in oil prices has had a severe detrimental impact on the sector, Cairn benefits from a very strong balance sheet with a substantial net cash position. Current production is minimal, which means low oil prices today are not of huge relevance to Cairn. However it does have significant developments in the Kraken and Catcher fields in the North Sea which come on stream from 2017 and will provide substantial production and cash flow. An additional upside is provided by exposure to exciting oil exploration activity in offshore Senegal and the resolution of Cairn's dispute with Indian tax authorities.

SQS Software is a specialist independent computer software testing company based in Germany. Its services are focused on mitigating and managing any technological and commercial risks that might arise through the course of the software development lifecycle. Our investment in SQS should provide exposure to growth "software as service" and mobile app development as device proliferation increases complexity in software development. Recent acquisitions in the US, in conjunction with a potent mix of organic top line growth and margin expansion, should provide double-digit earnings growth over 3 to 5 years and we don't think the current valuation fully reflects this. Furthermore, the company operates in a consolidating industry and lacks sell-side broker coverage, which we think are positive catalysts for the stock.

Exova provides material testing, calibration and advisory services. It was a former division of Bodycote and was acquired by the private equity operation CD&R in 2008. The company was IPO'd in April 2014. Although we liked the growth dynamics of the business and quality of the management team, we felt the valuation placed on the company at that time was too high. A subsequent share price fall gave us an opportunity to invest in the business at a more appropriate valuation. Exova operates in an attractive market segment with increasing regulation driving faster than economic growth. The company plans to supplement this organic growth through bolt-on acquisitions funded from cashflow. Although in the short term growth is being constrained by an exposure to oil and gas markets, the long-term prospects are favourable.

In addition to the companies mentioned above, we invested in a number of IPOs (initial public offerings) in the year. These included – Aldemore Group and Virgin Money, UK challenger banks; DFS and SCS, the furniture retailers; Eurocell, a building products group specialising in PVC window, door and roofline products; Marshall Motors, a UK car retailer; and Quantum Pharmaceuticals, a pharmaceuticals company specialising in the provision of unlicensed and special obtain products.

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance. We disposed of our holding in Brammer, the industrial products distributor, where the company has suffered from weak UK and European end markets and margins have been under pressure from competitive pricing conditions. We also disposed of our holding in Go-Ahead, the bus and rail company, where after the award of the Greater Thameslink franchise, the shares reached what we felt was fair value. We also sold our positions in Ashted, the plant hire business, Dixons Carphone, the electrical products and mobile phone retailer, and Taylor Wimpey, the UK housebuilder. All these companies had reached the FTSE 100 and our policy is to sell holdings when companies reach this Index. This is a good discipline to apply as it represents a natural cut-off point given the Company is mandated to invest in 'smaller' companies. We invested in all these companies when they were much smaller entities and have made substantial profits over the period in which we have held them.

We benefited from an increased level of takeover activity in the year. Eight portfolio companies received agreed bids. The clear similarity in these bids was the nature of the buyers, with seven of the eight acquirers being overseas corporates. This reflects the open nature of the UK market, the strength of global corporate balance sheets and the low cost of debt. Within our portfolio, takeover bids were received for Asian Plantations, a palm oil producer, from Felda; CSR, a semiconductor supplier, from Qualcomm; Domino Printing, industrial printing equipment, from Brother International; Hyder Consulting, an international engineering consultancy, from Arcadis; Kentz, an oil services company, from SNC Lavalin; Mecom, a European printed media group, from Peers Group; Spirit Pub Company, an operator of managed and tenanted pubs, from Greene King; and Synergy Health, a healthcare services group, from Steris Corporation.

Strategic Report: Fund Manager's Report (continued)

Portfolio Outlook

The following table shows the Company's key stock positions versus the Numis Smaller Companies Index (excluding investment companies) at the end of May 2015.

Top ten active positions at 31 May 2015	Holding %	Index Weight %	Active Weight %
Bellway	3.4	–	3.4
e2v Technologies	2.9	0.3	2.6
Howden Joinery	2.4	–	2.4
Intermediate Capital	2.1	–	2.1
Informa	2.1	–	2.1
Spectris	1.9	–	1.9
Victrex	1.9	–	1.9
WS Atkins	1.9	–	1.9
Playtech	1.7	–	1.7
Renishaw	1.7	–	1.7

A brief description of the largest active positions (excluding Bellway, e2v Technologies and Howden Joinery which are covered earlier) follows:

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

Informa is a leading business-to-business information group. Its activities include the provision of academic journals, books, data services, trade exhibitions and conferences. The company produced a very resilient profit performance during the downturn, helped by aggressive cost cutting. Additionally the balance sheet has been strengthened and cash generation has been strong. A new CEO has been appointed and he has significantly strengthened the management team across the business. The aim is to re-invest in the areas that have struggled to deliver growth whilst expanding the fast growing exhibitions division by acquisition. If faster growth can be driven from a collection of high quality assets then the share price has scope to re-rate upwards.

Spectris manufactures, designs and markets products for the electronic control and process instrumentation sectors. The company has a number of subsidiaries which tend to be market leaders in global market niches. Cash generation is sound, the management team is well respected and the balance sheet is strong. Profit growth in 2013 and 2014 has been muted due to softness in end markets and sterling strength but longer term the company is well positioned for growth, especially if it deploys its balance sheet on acquisitions.

Victrex is a manufacturer of a speciality thermoplastic PEEK. It is the world leader in its field with a dominant market share. Victrex has shown consistent long-term growth as demand for PEEK has grown as customers look to replace metals with lighter plastics with similar thermal properties. This is best evidenced by the aerospace industry, where the most technologically advanced large commercial jet in the world, the Boeing 787, uses one tonne of PEEK per plane compared to minimal use in jets of a decade ago. Although demand for PEEK is subject to the vagaries of the economic cycle, longer term its use will continue to increase and drive Victrex's profitability upwards. Additionally Victrex has developed a very successful medical business with PEEK used particularly in spinal and arthroscopy operations, which is growing independent of the economic cycle. Victrex has recently expanded capacity as there are significant opportunities for growth in the medical, oil and gas, aerospace and smartphone markets.

WS Atkins is an international engineering consultant, with operations principally in the UK, USA, Middle East and Asia. A new management team has been re-structuring the company with low margin activities sold and operations rationalised. With this re-structuring mostly completed, the company is starting to see growth in profitability and future prospects look strong. The company also enjoys a cash-rich balance sheet and is looking to deploy this on acquisitions that will augment organic growth.

Playtech is one of the world's largest gaming and sports betting software suppliers. The company provides white label software products for online and mobile; casino, poker, bingo, sports betting and live dealer games and has most recently made acquisitions in the spread betting market. Playtech benefits from operating in an industry with high barriers to entry and strong supplier power (platform migrations are very risky for online B2C businesses). This in conjunction with long-term contracts (5-7 years and increasing) and relatively low levels of competition makes the company well placed to benefit from global growth in online gaming. We expect returns from Playtech to be driven by continued strong earnings momentum and a growing dividend. However, we believe the greatest returns should be made from a market re-rating; driven primarily by an increase in the proportion of regulated earnings and more credit given for its high, sustainable and cash-backed margins.

Renishaw designs, develops and manufactures high technology precision measuring and calibration equipment. The business is a global leader in its field with strong patent protection. The company invests heavily in research and development to maintain its market leading technological position. Over the medium term organic growth has been one of the strongest in the capital goods sector. More recently Renishaw has enjoyed exceptional growth driven by the investment by its Asian customers in modernising their production facilities. Much of this growth is rumoured to be driven by the smartphone supply chain. Although this growth may slow in the near term, Renishaw, with a very strong balance sheet and a well invested production base, is superbly positioned for the long term.

Strategic Report: Fund Manager's Report (continued)

Market Outlook

The year under review has been a positive one for equity markets. The global macro-economic environment has been gradually getting better with world GDP forecast to show good growth in the current year with some modest acceleration in 2016.

The UK economy has shown steady progress. The housing market has remained strong, with a rise in prices and solid transaction levels, aided by low interest rates and Government initiatives. The unemployment rate has fallen and there are signs that wage inflation is starting to rise. The unexpected majority that the Conservative government achieved also removed uncertainty about short-term political direction in the UK. All these factors are boosting consumer confidence. There remains the strong possibility of a rise in interest rates, but with inflation remaining low, the timing of the move has been pushed back to a consensus view of early 2016. However, as it currently stands, rates are expected to rise slowly and to levels well below historic levels, which should allow the UK economic recovery to continue.

After the rise in the past few years, stock market valuations are now at around long-run historic averages. Corporate profitability has proved robust but has not shown much growth in recent years. It is difficult to see the market making material progress from current levels without an increase in corporate earnings. However, given an improving economic backdrop, we are hopeful that the outlook for corporate profitability is improving. Mergers and acquisition activity has been relatively subdued as management teams are unwilling to take on financial leverage in the face of perceived economic uncertainty. But there are more recent signs, particularly in sectors such as healthcare, telecoms and technology, that this trend is reversing. An increase in M&A would be helpful for smaller companies in particular as mergers and acquisition activity tends to be focused in this area.

In conclusion, the year under review has been an excellent one for the Company. Relative performance was good and our portfolio companies have, overall, performed robustly. Our investments are generally trading well, soundly financed and attractively valued. Additionally, the small company market continues to throw up exciting growth opportunities in which the Company can invest.

Neil Hermon
Fund Manager

Investment Portfolio at 31 May 2015

Company	Principal activities	Valuation 2015 £'000	Portfolio %
Bellway	<i>house building</i>	20,489	3.38
e2v Technologies	<i>electronic components</i>	17,809	2.94
Howden Joinery	<i>kitchen manufacturer and retailer</i>	14,691	2.43
Paragon	<i>buy to let mortgage provider</i>	14,158	2.34
Intermediate Capital	<i>mezzanine finance</i>	12,579	2.08
Informa	<i>business to business information</i>	12,423	2.05
Interserve	<i>international contractor</i>	12,090	2.00
Spectris	<i>electronic control and process instrumentation</i>	11,690	1.93
Victrex	<i>speciality chemicals</i>	11,270	1.86
WS Atkins	<i>engineering consultancy</i>	11,200	1.85
10 largest		138,399	22.86
NMC Health	<i>healthcare provider</i>	10,926	1.80
Northgate	<i>commercial vehicle hire</i>	10,387	1.71
Playtech	<i>internet gaming software</i>	10,168	1.69
Renishaw	<i>precision measuring and calibration equipment</i>	10,080	1.66
Senior	<i>aerospace and automotive products</i>	10,071	1.66
Essentra	<i>speciality plastic producer and distribution</i>	10,000	1.65
Clinigen ¹	<i>pharmaceuticals</i>	9,714	1.60
Laird	<i>electronic products</i>	8,809	1.45
Oxford Instruments	<i>advanced instrumentation equipment</i>	8,771	1.45
Grainger	<i>residential property investor</i>	8,581	1.42
20 largest		235,906	38.95
Capital & Regional	<i>retail property investor</i>	8,239	1.36
Restaurant Group	<i>restaurants</i>	7,935	1.31
Balfour Beatty	<i>international contractor</i>	7,861	1.30
Optimal Payments ¹	<i>online money transfer service</i>	7,412	1.22
HellermannTyton	<i>cable management solutions</i>	7,392	1.22
Rotork	<i>process control solutions</i>	6,969	1.15
Ted Baker	<i>clothing retailer</i>	6,895	1.14
NCC	<i>IT security</i>	6,808	1.12
Aveva Group	<i>design software</i>	6,808	1.12
LSL Property Services	<i>real estate services</i>	6,736	1.11
30 largest		308,961	51.00
John Laing	<i>infrastructure investment</i>	6,286	1.04
Euromoney Institutional Investor	<i>business to business information</i>	6,148	1.01
Thomas Cook	<i>travel and leisure</i>	6,133	1.01
Jupiter Fund Management	<i>investment management company</i>	6,084	1.00
Countrywide	<i>real estate services</i>	5,992	0.99
Esure	<i>motor and property insurer</i>	5,918	0.98
One Savings Bank	<i>banks</i>	5,904	0.97
Spirit Pub	<i>pub operator</i>	5,725	0.95
Consort Medical	<i>healthcare products</i>	5,587	0.92
SIG	<i>builders merchant</i>	5,567	0.92
40 largest		368,305	60.79
Eurocell	<i>building products</i>	5,566	0.92
Cineworld	<i>cinema operator</i>	5,495	0.91
Ultra Electronic Holdings	<i>specialised defence contractor</i>	5,493	0.91
Tyman	<i>building products</i>	5,322	0.88
Synergy Health	<i>healthcare support services</i>	5,287	0.87
Brown (N) Group	<i>clothing retailer</i>	5,214	0.86
Crest Nicholson	<i>housebuilder</i>	5,150	0.85
Dechra Pharmaceuticals	<i>veterinary pharmaceuticals</i>	5,145	0.85
Hunting	<i>oil equipment and services</i>	4,928	0.81
Fidessa	<i>financial software</i>	4,795	0.79
50 largest		420,700	69.44
Aldermore	<i>banks</i>	4,792	0.80
Sanne	<i>investment management services</i>	4,778	0.79
St Modwen Properties	<i>real estate investment and services</i>	4,702	0.78
Elementis	<i>speciality chemicals</i>	4,662	0.77
CLS	<i>real estate investment and services</i>	4,652	0.77
Exova	<i>material testing</i>	4,616	0.76
Virgin Money	<i>banks</i>	4,567	0.75

Investment Portfolio at 31 May 2015 (continued)

Company	Principal activities	Valuation 2015 £'000	Portfolio %
Unite Group	student accommodation investor	4,539	0.75
Volution	building products	4,466	0.74
Dunelm	homewares retailer	4,432	0.73
60 largest		466,906	77.08
Keller	ground engineering services	4,424	0.72
AA	roadside assistance	4,294	0.71
Vectura	respiratory pharmaceuticals	4,094	0.68
SSP	contract catering	3,947	0.65
EMIS ¹	healthcare IT services	3,900	0.64
Tribal Group	education support services and software	3,825	0.63
Lookers	automotive retailer	3,772	0.62
Tarsus Group	exhibition organiser	3,765	0.62
DFS	furniture retailer	3,672	0.61
Premier Oil	oil and gas exploration and production	3,672	0.61
70 largest		506,271	83.57
Urban & Civic	real estate investment and services	3,584	0.59
Quantum Pharma ¹	speciality pharmaceuticals	3,578	0.59
Servelec	healthcare software provider	3,564	0.59
Hays	business training and employment agencies	3,553	0.59
ITE Group	exhibition organiser	3,505	0.58
Cairn Energy	oil and gas exploration and production	3,477	0.57
Anite	telecom software	3,474	0.57
Quintain Estates	real estate investment and services	3,472	0.57
Chime Communications	media agencies	3,249	0.54
Xaar	electronic equipment	3,171	0.52
80 largest		540,898	89.28
RWS ¹	patent translation services	3,168	0.52
Rathbone Brothers	private client asset management	3,140	0.52
John Menzies	news distributor and aviation services	3,120	0.52
Safestore Holdings	self storage operator	3,000	0.50
Speedy Hire	tool and plant hire	2,971	0.49
Safestyle ¹	window replacement retailer	2,940	0.49
Marshall Motor ¹	automotive retailer	2,936	0.48
Costain	contractor	2,880	0.48
SQS Software ¹	software testing	2,876	0.47
WYG ¹	engineering consultancy	2,850	0.47
90 largest		570,779	94.22
Polypipe	building products	2,826	0.47
Sherborne Investors	speciality finance	2,793	0.46
DX Group ¹	logistics and parcel distribution	2,640	0.44
Carpetright	carpet retailer	2,490	0.41
Fenner	industrial engineering	2,483	0.41
Abcam ¹	internet retailer of antibodies	2,383	0.39
UTV Media	radio and TV broadcaster	2,364	0.39
Synthomer	speciality chemicals	2,109	0.35
Next Fifteen Communications ¹	PR and media services	2,024	0.33
SCS	furniture retailer	1,859	0.31
100 largest		594,750	98.18
RM	education software and services	1,827	0.30
Severfield	industrial engineering	1,809	0.30
Ebiquity ¹	media agency	1,634	0.27
Faroe Petroleum ¹	oil and gas exploration and production	1,483	0.24
Horizon Discovery ¹	biotechnology research services	1,424	0.24
Koovs ¹	online fashion retailer	911	0.15
Digital Barriers ¹	digital security	645	0.11
Rockhopper Exploration ¹	oil and gas explorer	550	0.09
Scapa ¹	technical tapes	384	0.06
ISG ¹	contractor	359	0.06
Total equity investments		605,776	100.00

There were no convertible or fixed interest securities at 31 May 2015 (2014: none)

¹ quoted on the Alternative Investment Market

Strategic Report: Key Information

Directors

The Directors appointed to the Board at the date of this report are:

Jamie Cayzer-Colvin

Position: Chairman of the Board

Date of appointment: 13 May 2011 (Chairman in September 2011)

Jamie is an executive Director of Caledonia Investments plc and among other appointments, he is a Director of Polar Capital Holdings plc, plus a number of unquoted companies and charities.

Keith Percy

Position: Director (Senior Independent Director)

Date of appointment: 21 July 2006

Keith is chairman of Brunner Investment Trust plc and a Director of JPMorgan Japanese Investment Trust plc and Standard Life Equity Income Trust plc.

David Lamb

Position: Director

Date of appointment: 1 August 2013

David is Managing Director of St James's Place plc. He is a Chairman of the Investment Committee and a Trustee of the St. James's Place Foundation. David is also a Director of the Wealth Management Association and a Governor of the University of the West of England.

Mary Ann Sieghart

Position: Director

Date of appointment: 18 July 2008

Mary Ann was assistant editor of The Times from 1998 to 2007. She is also a former city editor and Lex columnist. She chairs the Social Market Foundation, sits on the council of Tate Modern and the advisory council of Into University and is a trustee of the Radcliffe Trust and a non-executive Director of The Merchants Trust plc and also DLN Digital Limited and the Content Board of Ofcom. She presents occasional programmes on Radio 4.

Beatrice Hollond

Position: Director and Chairman of the Audit Committee

Date of appointment: 23 July 2010 (Audit Committee Chairman in September 2010)

Beatrice is Deputy Chairman of Millbank Financial Services Limited, an independent family office, and Chairman of Millbank Investment Managers Limited, its investment management subsidiary. She is Chairman of Keystone Investment Trust plc and a Director of Templeton Emerging Markets Investment Trust PLC, Oldfield & Co. (London) Limited and on the International Advisory Board of Brown Advisory. Among other appointments she is a Trustee of the Esmée Fairbairn Foundation, Vice-Chairman of The Philanthropy Workshop (TPW), an Advisory Fellow of Pembroke College, Oxford and chairs the Investment Committee of its Endowment Fund.

All the Directors are independent and all are members of the Management Engagement Committee and the Nomination Committee, both are chaired by Jamie Cayzer-Colvin.

Beatrice Hollond chairs the Audit Committee, the other members of which are Keith Percy, Mary Ann Sieghart and David Lamb.

Strategic Report: Key Information (continued)

Service Providers

Alternative Investment Fund Manager
Henderson Investment Funds Limited
201 Bishopsgate
London EC2M 3AE

Corporate Secretary
Henderson Secretarial Services Limited
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818
Email: trusts@henderson.com

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

Depository and Custodian
HSBC Bank plc
8 Canada Square
London E14 5HQ

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

Independent Auditors

Chartered Accountants and
Statutory Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Financial Calendar

Annual results	July 2015
Ex-dividend date	17 September 2015
Dividend record date	18 September 2015
Annual General Meeting ¹	2 October 2015
Final dividend payable ²	9 October 2015
Half year results	January 2016
Interim dividend payable	March 2016

Website

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

HGi

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

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<http://HGi.co/rb>



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Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 08457 22 55 25, email **Henderson@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Nominee Share Code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend General Meetings and speak at them when invited to do so by the Chairman. Investors via Halifax Share Dealing receive all shareholder communications and a voting instruction form is provided to facilitate voting at General Meetings of the Company.

¹ At the Company's Registered Office at 11.30am

² This dividend will be paid to shareholders on the register on 18 September 2015

Strategic Report: Corporate Information

Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006 (the "Act") and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ("Section 1158"), is subject to the Listing Rules and is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company has obtained approval from HMRC of its status as an investment trust under Section 1158; the Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company relate to the activity of investing in the shares of smaller companies that are listed (or quoted) in the United Kingdom. Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly and it may not be possible to realise an investment at Henderson's assessment of its value. The companies in which investments are made may operate unsuccessfully, or fail entirely, such that shareholder value is lost. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. The Board considers regularly the principal risks facing the Company in order to mitigate them as far as practicable. A fuller description of the principal risks and uncertainties follows. With the assistance of Henderson, the Board has drawn up a risk matrix which identifies the key risks to the Company. The Board policy on risk management has not materially changed from last year. The key risks fall broadly under the following categories:

Investment activity and strategy

An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may lead to underperformance against the Company's benchmark and the companies in its peer group; it may also result in the Company's shares trading at a wider discount to the net asset value per share. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. Henderson 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 Henderson confirms its compliance with them each month. Henderson provides the Directors with management information, including performance data and reports and shareholder analysis. The Board monitors the implementation and results of the investment process with the Fund Manager, who attends all Board meetings, and reviews regularly data that monitors risk factors in respect of the portfolio. The Board reviews investment strategy at each Board meeting.

Accounting, legal and regulatory

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

Section 1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to Corporation Tax. The Section 1158 criteria are monitored by Henderson 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 Companies Act"), and, as the Company's shares are listed for trading on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules and the Prospectus Rules ("UKLA Rules"). A breach of the Companies Act could result in the Company and/or the Directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of Section 1158. The Board relies on its Company Secretary and its professional advisers to ensure compliance with the Companies Act and UKLA Rules.

Operational

Disruption to, or failure of, Henderson's accounting, dealing or payment systems or the Custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. Henderson has contracted some of its operational functions, principally those relating to trade processing, investment administration and accounting, to BNP Paribas Securities Services. Details of how the Board monitors the services provided by Henderson and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal control section of the Corporate Governance Statement on page 30.

Financial instruments and the management of risk

By its nature as an investment trust, the Company is exposed in varying degrees to market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk. An analysis of these financial risks and the Company's policies for managing them are set out in note 15 on pages 52 to 55.

Borrowing

The Company has access to borrowings of up to £60 million, £20 million of fixed debt represented by the issue of Debenture Stock and a committed bank facility with National Australia Bank for £40 million. In addition the Company has a small amount of Preference Stock in issue (see page 51 for more details).

Future Developments

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

Strategic Report: Corporate Information (continued)

Key Performance Indicators ("KPIs")

In order to measure the success of the Company in meeting its objective and to evaluate the performance of Henderson, the Directors take into account the following KPIs. The charts and tables on pages 2, 3 and 7 show how the Company has performed against these KPIs:

Performance measured against the benchmark

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

Performance measured against the peer group

The Company is included in the AIC's UK Smaller Companies sector, which represents the Company's peer group. In addition to comparison against the benchmark, the Board also considers the performance against the peer group.

Discount to the net asset value per share

The Board monitors the level of the discount to the NAV at which the Company's shares trade and reviews the average discount for the Company's relevant AIC sector (the UK Smaller Companies sector). The Board considers whether to use share buy-backs to enhance shareholder value. Shares are only bought back at a price below the prevailing NAV, thereby increasing the NAV for the remaining shareholders. The Company publishes a NAV figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula (and since 1 June 2008 includes current financial year revenue items).

Ongoing charges

The Board reviews the ongoing charges and monitors the expenses incurred by the Company. For the year ended 31 May 2015 the Ongoing Charge was 0.46% and 0.88% including performance fee (2014: 0.44% and 0.56% including performance fee).

Corporate Responsibility

Responsible Investment

Henderson is responsible for reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical ("SEE") issues) in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance ("ESG") issues into mainstream investment decision-making and ownership practices.

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is considered by Henderson's risk team but investments are not ruled out on social and environmental grounds only.

Voting Policy and the UK Stewardship Code

Henderson's responsible investment policy sets out its approach

to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to Henderson. The Board receives regular reports on the voting undertaken by Henderson on behalf of the Company. The Board and Henderson believe that voting at General Meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefor are fed back to the investee company prior to voting.

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

The Henderson responsible investment policy and further details of Henderson's responsible investment activities can be found on the Henderson website, www.henderson.com.

Employees, Social, Community, Human Rights and Environmental Matters

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

Henderson's corporate responsibility statement is included on the website detailed above. In 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2015.

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

Board Diversity

The Board comprises five Directors, two of which are female, thus 40% of the Board. The Directors' appointment to the Board was based on their skills and experience. More information on the Board's consideration of diversity is given in the Corporate Governance Statement. The Company has no employees and therefore, there is nothing further to report in respect of gender representation within the Company.

For and on behalf of the Board

Jamie Cayzer-Colvin

Chairman

3 August 2015

Strategic Report: Glossary

Alternative Investment Fund Managers Directive ("AIFMD")

Agreed by the European Parliament and the Council of the European Union and transposed into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ("AIFs") and requires them to appoint an Alternative Investment Fund Manager ("AIFM") and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

Association of Investment Companies ("AIC")

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

Benchmark

An index against which performance is compared. For the Company this is the Numis Smaller Companies Index (excluding investment companies).

Custodian

The custodian is responsible for ensuring the safe custody of the Company's assets and that all transactions in the underlying holdings are transacted in an accurate and timely manner.

Depositary

With effect from 22 July 2014 all AIFs were 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 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 Depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

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

Dividend Dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's Registrars to know which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value will be disclosed ex-dividend.

Gearing

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company has used to invest in the market and also takes into account the exposure to hedging and derivatives which have a gearing effect. This figure indicates the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall. This is calculated by taking the difference between quoted and unquoted investments and equity shareholders' funds divided by equity shareholders' funds and multiplied by 100.

Investment Trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

Market Capitalisation ("Market Cap")

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

Strategic Report: Glossary (continued)

Net Asset Value (“NAV”) per Ordinary Share

The value of the Company's assets (i.e. investments and cash held) less any liabilities (i.e. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the balance sheet. The NAV is published daily.

Ongoing Charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year as being the best estimate of future costs, excluding any performance fees in accordance with the AIC methodology.

Premium/Discount

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

Total Return Performance

This is the return on the share price or NAV taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return).

Yield

The annual dividend expressed as a percentage of the share price.

Corporate Report



Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 June 2014 to 31 May 2015. The Henderson Smaller Companies Investment Trust plc (the "Company") (registered in England & Wales on 16 December 1887 with company registration number 25526) was active throughout the year under review and was not dormant.

Directors' Remuneration and Shareholdings

The Directors' Remuneration Report on pages 26 and 27 provides information on the remuneration and share interests of the Directors.

Directors' Conflicts of Interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes and the register of interests. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continues to operate effectively.

Directors' Insurance and Indemnity

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

Donations

During the year the Company made charitable donations totalling £5,000 (2014: £5,000). No political donations were made (2014: £nil).

The Board supports a number of charities, all of which are personally selected on an annual basis by the Directors. These charities span a variety of different causes including further education, working with under privileged and deprived children and young people, motor neurone disease and the rehabilitation of prisoners.

Related Party Transactions

The Company's transactions with related parties in the year were with the Directors and Henderson. There have been no material

transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of expenses and remuneration for which there were no outstanding amounts payable at the year end. Directors' shareholdings are disclosed on page 26.

In relation to the provision of services by Henderson, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services there have been no material transactions with Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in note 21 on page 57.

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 2015 and 31 May 2014 the number of shares in issue, and thus the number of voting rights, was 74,701,796. This represents 99.98% of the Company's share capital.

Preference Stock units of £1 each ("preference stock units")

Preference stockholders have no rights to attend and vote at General Meetings (except where the dividend is six months in arrears or on a resolution to wind up the Company). At 31 May 2015 and 31 May 2014 there were 4,257 preference stock units in issue. This represents 0.02% of the Company's share capital.

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

The Directors seek annual authority from shareholders to allot new ordinary shares, to dis-apply the pre-emption rights of existing shareholders and to buy back for cancellation or to be held in treasury the Company's ordinary shares. The Company's Articles of Association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital reserves.

At the Annual General Meeting in October 2014 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2015, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 11,197,799 shares (being 14.99% of the issued ordinary share capital as at 3 October 2014). In the period from 31 May 2015 to 3 August 2015 the Company did not buy back any ordinary shares. There remained 11,197,799 ordinary shares available within the buy-back authority granted in 2014. A fresh buy-back authority will be sought at the Annual General Meeting in October. Shares are not bought back unless the result is an increase in the NAV per ordinary share.

The Company also seeks annual authority to buy back preference stock units. No preference stock units were bought back during the year. A fresh buy-back authority will be sought at the Annual General Meeting in October. Further details of the preference stock units are given in note 14 on page 51.

Report of the Directors (continued)

Holdings in the Company's Shares

Declarations of interests in the voting rights of the Company as at 31 May 2015 in accordance with the UK Listing Authority's Disclosure and Transparency Rules were as follows:

	Number of ordinary shares held	% of voting rights
Lazard Asset Management LLC	6,093,799	8.16
Standard Life Investments	5,054,695	6.76
East Riding of Yorkshire Council	4,454,111	5.96
1607 Capital Partners LLC	3,710,573	4.97
Newton Investment Management Ltd	3,697,223	4.94
Royal London Asset Management Ltd	3,691,666	4.93
Prudential plc Group of Companies	2,897,854	3.87

Since the year end Standard Life Investments have notified that their holding is now 4,352,074 (5.82%) and Royal London Asset Management Ltd have notified that their holding is now 2,893,256 (3.87%). There have been no further changes notified in the period to 3 August 2015.

The Board is aware that, as at 31 May 2015, 3.54% of the issued ordinary shares are held on behalf of participants in Halifax Share Dealing products run by Halifax Share Dealing Limited ("HSDL"). In accordance with the arrangements made between HSDL and Henderson, the participants in this scheme are given the opportunity to instruct HSDL's nominee company to exercise the voting rights appertaining to their shares in respect of all General Meetings of the Company.

Going Concern

The assets of the Company consist almost entirely of securities that are listed (or quoted on AIM) and accordingly the Directors believe that the Company has adequate financial resources to meet its liabilities and continue in operational existence for the foreseeable future. For these reasons, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reviewing the position as at the date of this report, the Board has considered "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council.

Life of the Company

The Board announced on 27 September 2002 that it proposed to introduce regular continuation votes for the Company. A continuation vote was put to the Annual General Meetings of the Company held in 2004, 2007, 2010 and 2013 and will be at every subsequent third Annual General Meeting. In the event of the shareholders in General Meeting voting against the continuation of the Company, the Directors would expect to convene a further General Meeting, as soon as practicable, at which proposals to liquidate, reorganise or reconstruct the Company would be put forward.

Annual General Meeting ("AGM")

The AGM will be held on Friday 2 October 2015 at 11.30 am at the Company's registered office. The Notice and details of the resolutions to be put at the AGM are contained in the circular being sent to shareholders with this report.

Corporate Governance

The Corporate Governance Statement set out on pages 28 to 31 forms part of the Report of the Directors.

Directors' Statement as to Disclosure of Information to the Auditors

Each of the Directors who were members of the Board at the date of approval of this report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report which the Company's Auditors is unaware and he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors is aware of that information.

Global Greenhouse Gas Emissions

As an externally managed investment trust company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 May 2015 (2014: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
3 August 2015

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report (which must be fair, balanced and understandable), the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Statement under DTR 4.1.12

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

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Jamie Cayzer-Colvin
Chairman
3 August 2015

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

The maintenance and integrity of the website is the responsibility of Henderson; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the

Auditors accept no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

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

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"). The report also meets the relevant requirements of the Companies Act 2006 (the "Act") and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by section 439 of the Act, an ordinary resolution to approve the report will be proposed at the Annual General Meeting ("AGM") on 2 October 2015. The Company's remuneration policy was approved by shareholders at the AGM in 2014 in accordance with section 439A of the Act. No changes to the policy are currently proposed.

The Company's Auditors are required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All Directors are non-executive and the Company has no chief executive officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

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

Remuneration Policy

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

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

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to promote the long-term success of the company. The policy is for the Chairman of the Board and the Chairman of the Audit Committee to be paid higher fees than the other Directors in recognition of their more onerous roles. The policy is to review the fee rates annually, although such review will not necessarily result in any change to them. The Company's Articles of Association limit the fees payable to the Directors to £200,000 per annum.

Annual Statement

As Chairman, Jamie Cayzer-Colvin reports that there have been no changes in fees for the year ended 31 May 2015. However, following an annual review of fees in March 2015, Directors' fees will be increased with effect from 1 June 2015. These increases were made after consideration of the fees paid to other investment trusts in the sector of an equivalent size and also in relation to the fees paid to directors of other Henderson managed trusts. These increases ensure the Directors' are properly remunerated for their services to the Company and that the Company can remain competitive when seeking new Directors. There have been no other major decisions on Directors' remuneration or any other changes to remuneration in the year under review.

Annual Report on Remuneration

Directors' interests in shares (audited)

	Ordinary shares of 25p	
	31 May 2015	1 June 2014
Jamie Cayzer-Colvin	12,000	12,000
Beatrice Hollond	5,700	5,700
David Lamb	4,143	2,485
Keith Percy	5,980	5,980
Mary Ann Sieghart	4,448	2,782

No Director had an interest in the Debenture Stock or Preference Stock of the Company.

The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the above table. There have been no changes to any of the Directors' holdings in the period 31 May to 3 August 2015.

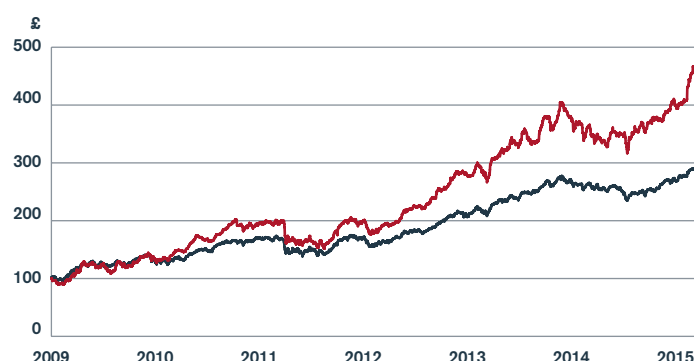
Directors' Remuneration Report (continued)

Performance

The graph compares the mid-market price of the Company's ordinary shares over the six year period ended 31 May 2015 with the return from the Numis Smaller Companies Index (excluding investment companies) on a total return basis in sterling terms ("Index") over the same period.

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

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



Directors' Fees and Expenses (audited)

The fees and expenses paid to the Directors who served during the years ended 31 May 2015 and 31 May 2014 were as follows:

	2015 Total salary and fees £	2014 Total salary and fees £	2015 Expenses and taxable benefits £	2014 Expenses and taxable benefits £	2015 Total £	2014 Total £
Jamie Cayzer-Colvin ¹	30,000	31,208	—	36	30,000	31,244
Beatrice Hollond ²	24,000	24,042	—	—	24,000	24,042
James Nelson ³	—	7,886	—	—	—	7,886
David Lamb ⁴	20,000	17,375	—	—	20,000	17,375
Keith Percy	20,000	20,375	94	—	20,094	20,375
Mary Ann Sieghart	20,000	20,375	—	—	20,000	20,375
Total	114,000	121,261	94	36	114,094	121,297

Notes:

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

1 Chairman and highest paid Director

2 Chairman of the Audit Committee

3 Ceased to be a Director on 4 October 2013

4 Appointed a Director on 1 August 2013

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former Directors or third parties specified by any of them.

Since 1 June 2015 the fees payable to the Directors are as follows (previous rates are shown in brackets): Chairman £34,000 (£30,000), Audit Committee Chairman £27,000 (£24,000) and Director £23,000 (£20,000).

Relative Importance of Spend on Pay

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

	2015 £	2014 £	Change £
Total remuneration	114,094	121,297	(7,203)
Ordinary dividends paid during the year	10,084,742	8,217,197	1,867,545

Statement of Voting at AGM

At the 2014 AGM 42,807,959 votes (99.54%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 126,937 (0.30%) were against, 68,688 (0.16%) were discretionary and 217,775 were withheld; the percentage of votes excludes votes withheld. In relation to the approval of the remuneration policy, 42,781,085 votes (99.50%) were received voting for the resolution, 163,259 (0.38%) were against, 53,268 (0.12%) were discretionary and 223,745 were withheld.

For and on behalf of the Board

Jamie Cayzer-Colvin
Chairman
3 August 2015

Corporate Governance Statement

Applicable Corporate Governance Codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment company, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council ("FRC") are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in February 2013 (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

The Board has noted that the FRC and the AIC have issued revised Codes which the Company will be required to report against next year.

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

Statement of Compliance

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

The UK Code includes provisions relating to:

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

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

The Board

The Board is collectively responsible for the success of the Company. Its role is to provide entrepreneurial leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board is responsible for setting the Company's standards and values and for ensuring that its obligations to its shareholders and others are understood and met. The Board sets the Company's strategic aims (subject to the Company's Articles of Association, and to such

approval of the shareholders in General Meeting as may be required from time to time) and ensures that the necessary resources are in place to enable the Company's objectives to be met.

The Board currently consists of five non-executive Directors, all of whom the Directors consider to be independent of Henderson. Their biographical details, set out on page 16, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

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

The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. In particular, he ensures that Henderson provides the Directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of Henderson attend each Board meeting, enabling the Directors to seek clarification on specific issues or to probe further on matters of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for Directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense. The Directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

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

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

When a Director is appointed he or she is offered an introductory programme organised by Henderson at the request of the Chairman. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are encouraged to attend suitable training courses on an ongoing basis at the Company's expense.

Corporate Governance Statement (continued)

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

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

Board Evaluation

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

The Chairman of the Company is an independent non executive Director. Keith Percy is the Company's Senior Independent Director. The Board considers that all the Directors have different qualities and areas of expertise on which they may lead when issues arise.

Board Committees

The Board has established Audit, Management Engagement and Nomination Committees with defined terms of reference and duties. All three Committees comprise non-executive Directors appointed by the Board; the Board also appoints the Chairman of each of the Committees. The membership of these Committees is set out on page 16. A record of the meetings held during the year is set out on page 30.

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

Audit Committee

The Audit Committee is chaired by Beatrice Hollond, the other members of which are Keith Percy, Mary Ann Sieghart and David Lamb. None of the members of the Audit Committee are accountants by profession but the Board consider some of the Directors, including the Audit Committee Chairman, to have recent and relevant financial experience. David Lamb is a qualified actuary. The Report of the Audit Committee can be found on pages 32 and 33.

Management Engagement Committee

All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board. The Management Engagement Committee is responsible for the regular review of the terms of the management contract with Henderson. The Management Engagement Committee met once formally during the year. The details of the management arrangements and the Board's review of them is set out on pages 4 and 5.

Nomination Committee

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

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

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

Corporate Governance Statement (continued)

Board attendance

The table below sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in October 2014.

	Board	AC	MEC	NC
Number of meetings	6	3	2	1
Jamie Cayzer-Colvin ¹	6	3	2	1
Keith Percy	6	3	2	1
David Lamb	6	3	2	1
Mary Ann Sieghart	5	3	2	1
Beatrice Hollond	6	3	2	1

AC: Audit Committee

MEC: Management Engagement Committee

NC: Nomination Committee

¹ Jamie Cayzer-Colvin is not a member of the Audit Committee but attends meetings by invitation

The Directors and committees of the Board also met during the year to undertake business such as approval of the Company's results and documentation arising from the introduction of the Alternative Investment Fund Managers Directive.

Internal Controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the FRC and is subject to regular review by the Board. The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 May 2015. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant. All business risks faced by the Company are recorded in a detailed risk map which is reviewed regularly.

Henderson has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by Henderson's compliance, internal audit and risk departments on a continuing basis. The Board receives a formal report on a quarterly basis which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of Henderson, and which reports the details of any known internal control failures. The Board receives a report on Henderson's internal controls each year which includes a report from Henderson's Auditors on the control policies and procedures in operation.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. Accordingly, in practice the Board must place reliance on Henderson

and its other contractors to ensure that they operate effective internal audit functions. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the Directors will review at least annually whether a function equivalent to an internal audit is needed.

Accountability and Relationship with Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 25, the Independent Auditors' Report on pages 34 to 38 and the statement of going concern on page 24.

The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 20), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

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

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

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

The Board has reviewed the implications of the Bribery Act 2010, which came into force on 1 July 2011, and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Corporate Governance Statement (continued)

Continued Appointment of Henderson

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the management agreement with Henderson are contained on pages 4 and 5.

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

Share Capital

Please see the Report of the Directors on page 23.

Relations with Shareholders

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

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

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

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
3 August 2015

Report of the Audit Committee

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

Meetings

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

Role and Responsibilities

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

In the year under review the main duties undertaken were:

- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy in order to make recommendations to the Board. In assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying their respective knowledge and expertise;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the internal controls in place at Henderson and BNP Paribas Securities Services as administrator, and Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Henderson's internal audit and risk departments periodically;
- consideration of the whistle blowing policy that Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action;

- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's Anti-Bribery Policy;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of the appointment of the Auditors, the Auditors performance and remuneration;
- consideration of the Auditors' independence and objectivity and the provision of any non-audit services; and
- consideration of the appropriate level of dividend to be paid by the Company.

Policy on Non-Audit Services

In July 2011 the Audit Committee adopted a new policy on the provision of non-audit services, in accordance with the Financial Reporting Council's Guidance on Audit Committees. The Committee has determined that the Auditors will not be engaged to provide any non-audit services where the Committee considers there to be any significant risk of their independence, objectivity and effectiveness being compromised by the provision of such services. The Committee may approve the provision of non-audit services if it considers such services to be (a) relevant to the statutory audit work; (b) more efficiently provided by the external audit firm than by a third party; and (c) at low risk of impairing the independence, objectivity and effectiveness of the audit. The Audit Committee will refer to the Board any engagement with a cost or potential cost greater than £20,000 (or the cost, excluding VAT, of the most recent annual audit if higher). All engagements for non-audit services will be determined on a case-by-case basis.

Report of the Audit Committee (continued)

Audit for the year ended 31 May 2015

In relation to the financial statements for the year ended 31 May 2015 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The Directors have appointed Henderson to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Henderson 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 are verified by reconciliation to the Custodian's records.
Correct calculation of the performance fee	The performance fee calculation is prepared by the Administrators (BNP Paribas Securities Services) and reviewed by Henderson and reviewed in depth by the Committee, all with reference to the investment management agreement.
Compliance with Section 1158 of the Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times.
Maintaining internal controls	The Committee receives regular reports on internal controls from Henderson and its delegates and has access to the relevant personnel of Henderson who have a responsibility for risk management and internal audit.
Recognition of income	Income received is accounted for in line with the Company's accounting policy (as set out on page 44) and is reviewed by the Committee at each meeting.

The Committee is satisfied that the Annual Report for the year ended 31 May 2015, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

External Audit, Review and Re-appointment

In 2014 the Company invited tenders for the Company's audit. After full consideration of the proposals, and the Auditors' performance, the Committee recommended to the Board that PricewaterhouseCoopers LLP continue as Auditors to the Company.

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

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

Resolutions to confirm the re-appointment of PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Audit Tendering

As a Public Interest Entity listed on the London Stock Exchange, the Company will in future be subject to the mandatory auditor rotation requirements of the European Union. Subject to the detailed implementation of the European requirements in the UK, this is likely to mean that the Company will put the external audit out to tender at least every ten years, and change Auditors at least every twenty years. The Audit Committee will, however, continue to consider annually the need to go to tender for audit quality or independence reasons.

Beatrice Hollond
Audit Committee Chairman
3 August 2015

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 May 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The Henderson Smaller Companies Investment Trust plc's financial statements comprise:

- the Balance Sheet as at 31 May 2015;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview



- Overall materiality: £5.6 million which represents 1% of net assets.

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

- Valuation and existence of investments
- Investment income
- Performance fee

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

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p>Valuation and existence of investments Refer to page 33 (Report of the Audit Committee), page 44 (Accounting Policies) and page 50 (Notes to the Financial Statements).</p> <p>The investment portfolio at the year-end principally comprised listed equity investments valued at £605.7 million.</p> <p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.</p>	<p>We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from HSBC Bank plc. No differences were identified.</p>
<p>Investment Income Refer to page 33 (Report of the Audit Committee), page 44 (Accounting Policies) and page 47 (Notes to the Financial Statements).</p> <p>We focused on the accuracy and completeness of dividend income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP").</p> <p>This is because incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover.</p>	<p>We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.</p> <p>We understood and assessed the design and implementation of relevant controls surrounding income recognition.</p> <p>In addition, we tested dividend receipts by agreeing the dividend rates from investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by investment holdings in the portfolio. Our testing did not identify any unrecorded dividends.</p> <p>We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP. We then tested the validity of special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP.</p>

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

Area of focus	How our audit addressed the area of focus
<p>Performance fee Refer to page 33 (Report of the Audit Committee), page 44 (Accounting Policies) and page 47 (Notes to the Financial Statements).</p> <p>A performance fee is payable for the year of £2.0 million. We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager.</p>	<p>We independently recalculated the performance fee of £2.0 million using the methodology set out in the Investment Management Agreement and agreed the inputs to the calculation, including the benchmark data, to independent third party sources, where applicable. No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>We tested the allocation of the performance fee between the revenue and capital return columns of the Statement of Comprehensive Income with reference to the accounting policy as set out on page 44. We found that the allocation of the performance fee was consistent with the accounting policy.</p>

How we tailored the audit scope

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

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls and report to the Manager and the Directors.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those relevant controls at the Administrator on which we could place reliance to provide audit evidence.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate 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:

Overall materiality	£5.6 million (2014: £4.7 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £281,000 (2014: £238,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 24, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

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

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

<ul style="list-style-type: none"> information in the Annual Report is: <ul style="list-style-type: none"> – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading. 	We have no exceptions to report arising from this responsibility.
<ul style="list-style-type: none"> the statement given by the Directors on page 25, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit. 	We have no exceptions to report arising from this responsibility.
<ul style="list-style-type: none"> the section of the Annual Report on page 33, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. 	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 August 2015

Statement of Comprehensive Income

Notes		Year ended 31 May 2015			Year ended 31 May 2014		
		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	12,838	–	12,838	11,050	–	11,050
3	Other income	207	–	207	121	–	121
10	Gains on investments held at fair value through profit or loss	–	89,494	89,494	–	73,959	73,959
	Total income	13,045	89,494	102,539	11,171	73,959	85,130
	Expenses						
4	Management and performance fees	(538)	(3,256)	(3,794)	(491)	(1,696)	(2,187)
5	Other expenses	(472)	–	(472)	(443)	–	(443)
	Profit before finance costs and taxation	12,035	86,238	98,273	10,237	72,263	82,500
6	Finance costs	(789)	(1,841)	(2,630)	(760)	(1,773)	(2,533)
	Profit before taxation	11,246	84,397	95,643	9,477	70,490	79,967
7	Taxation	(12)	–	(12)	(9)	–	(9)
	Profit for the year and total comprehensive income	11,234	84,397	95,631	9,468	70,490	79,958
8	Basic and diluted earnings per ordinary share	15.04p	112.98p	128.02p	12.67p	94.37p	107.04p

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

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

Statement of Changes in Equity

Notes		Year ended 31 May 2015				
		Called up share capital £'000	Capital redemption reserve £'000	Retained earnings Capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 1 June 2014	18,676	26,745	417,577	13,283	476,281
	Total comprehensive income:					
	Profit for the year	–	–	84,397	11,234	95,631
9	Transactions with owners, recorded directly to equity:					
	Ordinary dividends paid	–	–	–	(8,591)	(8,591)
	Total equity at 31 May 2015	18,676	26,745	501,974	15,926	563,321
Notes		For the year ended 31 May 2014				
		Called up share capital £'000	Capital redemption reserve £'000	Retained earnings Capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 1 June 2013	18,676	26,745	347,087	10,912	403,420
	Total comprehensive income:					
	Profit for the year	–	–	70,490	9,468	79,958
9	Transactions with owners, recorded directly to equity:					
	Ordinary dividends paid	–	–	–	(7,097)	(7,097)
	Total equity at 31 May 2014	18,676	26,745	417,577	13,283	476,281

The notes on pages 43 to 58 form part of these financial statements.

Balance Sheet

Notes		At 31 May 2015 £'000	At 31 May 2014 £'000
	Non current assets		
10	Investments held at fair value through profit or loss	605,776	519,552
	Current assets		
12	Receivables	2,734	2,687
	Tax recoverable	12	17
	Cash and cash equivalents	10,183	1,154
		12,929	3,858
	Total assets	618,705	523,410
	Current liabilities		
13	Payables	(3,179)	(1,095)
14	Financial liabilities	(20,000)	–
15	Bank loans	(32,201)	(26,030)
		(55,380)	(27,125)
	Total assets less current liabilities	563,325	496,285
	Non current liabilities		
14	Financial liabilities	(4)	(20,004)
	Net assets	563,321	476,281
	Equity attributable to equity shareholders		
16	Called up share capital	18,676	18,676
17	Capital redemption reserve	26,745	26,745
	Retained earnings		
17	Capital reserve	501,974	417,577
18	Revenue reserve	15,926	13,283
	Total equity	563,321	476,281
19	Basic and diluted net asset value per ordinary share	754.1p	637.6p

The financial statements on pages 39 to 58 were approved by the Board of Directors on 3 August 2015 and signed on their behalf by:

Jamie Cayzer-Colvin
Chairman

Cash Flow Statement

Notes		Year ended	
		31 May 2015 £'000	31 May 2014 £'000
	Operating activities		
6	Profit before taxation	95,643	79,967
	Add: interest payable	2,630	2,533
	Less: gains on investments held at fair value through profit or loss	(89,494)	(73,959)
	Purchases of investments	(135,283)	(121,204)
	Sales of investments	138,553	112,270
	(Increase)/decrease in receivables	(696)	133
	Decrease/(increase) in amounts due from brokers	640	(791)
	Decrease/(increase) in accrued income	9	(12)
	Increase/(decrease) in payables	1,517	(1,170)
	Increase/(decrease) in amounts due to brokers	584	(102)
	Taxation on investment income	(7)	(9)
	Net cash inflow/(outflow) from operating activities before interest and taxation	14,096	(2,344)
	Interest paid	(2,647)	(2,496)
	Income tax	–	(3)
	Net cash inflow/(outflow) from operating activities	11,449	(4,843)
	Financing activities		
9	Equity dividends paid	(8,591)	(7,097)
	Drawdown of bank loans	6,171	10,499
	Net cash (outflow)/inflow from financing activities	(2,420)	3,402
	Increase/(decrease) in cash and cash equivalents	9,029	(1,441)
	Cash and cash equivalents at the start of the year	1,154	2,595
	Cash and cash equivalents at the end of the year	10,183	1,154

The notes on pages 43 to 58 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Henderson Smaller Companies Investment Trust plc (the "Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The financial statements of the Company for the year ended 31 May 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Financial Reporting Standards Committee ("IFRSC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice (the "SORP") for investment trusts issued by the Association of Investment Companies (the "AIC") in January 2009 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) New and amended standards adopted by the Company:

- IAS 39, 'Financial instruments: Recognition and measurement' (effective for annual periods beginning on or after 1 January 2014) – narrow scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).
- IAS 32, 'Financial instruments: Presentation' (effective for financial periods beginning on or after 1 January 2014) – updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the Balance Sheet.

(ii) New standards, amendments and interpretations issued but not effective for the current financial year and not early adopted by the Company:

- IAS 1, 'Presentation of financial statements' (effective for financial periods beginning on or after 1 January 2015) – These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement.
- IFRS 9, 'Financial instruments' (effective for financial periods beginning on or after 1 January 2018) – addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018, subject to endorsement by the EU.

(iii) New standards, amendments and interpretations issued but not effective for the current financial year and not relevant to the company's operations:

- IAS 19, 'Employee benefits'
- IAS 16, 'Property, plant and equipment'
- IFRS 14, 'Regulatory deferral accounts'
- IAS 27, 'Separate financial statements'
- IAS 28, 'Investments in associates and joint ventures'
- IFRS 10, 'Consolidated financial statements'
- IFRS 11, 'Joint arrangements'

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

b) Going concern

The Company's shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was put to the Annual General Meeting ("AGM") held on 4 October 2013 and passed by a substantial majority of the shareholders. The assets of the Company consist almost entirely of securities that are listed (or listed on AIM) and, accordingly, the Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis.

c) Investments held at fair value through profit or loss

All investments are designated upon initial recognition as held at fair value through profit or loss. Investment transactions are accounted for on a trade date basis. Assets are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs. Unquoted investments are valued by the Directors using primary valuation techniques such as earnings multiples, recent transactions and net assets. Where fair value cannot be reliably measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as "Gains or losses on investments held at fair value 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 Association of Investment Companies ("the AIC"), supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns are no longer prohibited to be distributed by way of dividend where authority is given within the Company's Articles of Association. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Interest is recognised using the effective interest rate method. Interest from debt securities is accounted for on an accruals basis.

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

Income distributions from UK Real Estate Investment Trusts (UK REITs) will be split into two parts, a Property Income Distribution (PID) made up of rental revenue and a non-PID element, consisting of non-rental revenue. The PID element is subject to corporation tax as schedule A revenue, while the non-PID element will be treated as franked revenue.

f) Expenses

All expenses are accounted for on an accruals basis. The Board has determined that the capital return should reflect the indirect costs of earning capital returns. Since 1 June 2013, the Company has allocated 70% of its management fees and finance costs to the capital return of the Statement of Comprehensive Income with the remaining 30% being allocated to the revenue return.

All other administrative expenses are charged to the revenue return of the Statement of Comprehensive Income.

Any performance fees are charged wholly to the capital return.

Expenses which are incidental to the purchase or sale of an investment are recognised immediately in the capital return of the Statement of Comprehensive Income, and are included within the gains on investments held at fair value through profit or loss.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

h) Foreign currency

For the purposes of the financial statements, the results and financial position are expressed in pounds sterling, which is the functional currency and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and investments held at fair value through profit or loss which are denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Gains and losses arising on the retranslation of investments held at fair value through profit or loss are included within the "Gains/(losses) on investments held at fair value through profit or loss". Any foreign currency gains and losses are taken to capital in the Statement of Comprehensive Income.

i) Cash and cash equivalents

Cash comprises cash in hand and 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, Debenture Stock 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 charges, 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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

k) Operating segments

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

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.

m) Capital 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.

n) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) 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 and the related income tax effects, is included in equity attributable to the Company's equity holders.

o) 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 as described in note 15.

Notes to the Financial Statements (continued)

2 Investment income

	2015 £'000	2014 £'000
Franked income from companies listed or quoted in the United Kingdom:		
Dividends	10,873	9,129
Special dividends	1,499	1,079
Unfranked income from companies listed or quoted in the United Kingdom:		
Dividends	411	752
Property income distributions	55	90
Total investment income	12,838	11,050

3 Other income

	2015 £'000	2014 £'000
Bank interest	2	4
Underwriting income (allocated to revenue) ¹	205	117
	207	121

1 None of the income receivable from sub-underwriting commitments was allocated to capital during the year (2014: £nil).

4 Management and performance fees

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Management fee	538	1,256	1,794	491	1,145	1,636
Performance fee	–	2,000	2,000	–	551	551
	538	3,256	3,794	491	1,696	2,187

A summary of the management agreement is given on pages 4 and 5 of the Strategic Report.

5 Other expenses

	2015 £'000	2014 £'000
Directors' fees (see the Directors' Remuneration Report on pages 26 and 27)	114	121
Auditors' remuneration for the audit of the Company and the financial statements	24	23
Other professional fees	55	58
FCA and London Stock Exchange fees	29	24
Registration costs	13	15
Annual and half year reports and shareholder circulars: printing and distribution	21	13
Insurances	7	6
AIC subscriptions	22	24
Custody and other bank charges	27	34
Bank facilities: commitment fees	50	56
Charitable donations	5	5
Depository charges ¹	41	–
Other expenses payable to the management company ²	41	38
Share price listings in newspapers and websites	6	9
Other expenses ³	17	17
	472	443

1 Depository appointed on 22 July 2014 to meet the requirements of the AIFMD

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

3 Other expenses includes VAT payable on Auditors' remuneration

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.

Notes to the Financial Statements (continued)

6 Finance costs

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Bank overdraft and loan interest	159	371	530	130	303	433
Interest on debentures	630	1,470	2,100	630	1,470	2,100
	789	1,841	2,630	760	1,773	2,533

7 Taxation

a) Analysis of charge for the year

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas tax suffered	12	–	12	9	–	9
Current and total tax charge for the year	12	–	12	9	–	9

b) Factors affecting the tax charge for the year

UK corporation tax at 20.83% (2014: 22.67%). 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 20.83% (2014: 22.67%) for the year ended 31 May 2015. The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 20.83%. The differences are explained below.

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net profit on ordinary activities before taxation	11,246	84,397	95,643	9,477	70,490	79,967
Corporation tax at 20.83% (2014: 22.67%)	2,343	17,579	19,922	2,148	15,980	18,128
Effects of:						
Non-taxable UK dividends	(2,577)	–	(2,577)	(2,308)	–	(2,308)
Non-taxable overseas dividends	(86)	–	(86)	(164)	–	(164)
Excess management expenses and loan deficits	319	1,062	1,381	324	786	1,110
Overseas withholding tax	12	–	12	9	–	9
Disallowed expenses	1	–	1	–	–	–
Non taxable capital items	–	(18,641)	(18,641)	–	(16,766)	(16,766)
Tax charge	12	–	12	9	–	9

c) Provision for deferred taxation

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

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to maintain approval of such status in the foreseeable future, the Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments.

d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £13,931,000 (2014: £12,602,000) arising as a result of having unutilised management expenses and deficits on loan relationships. These expenses will only be utilised if the tax treatment of the Company's income and chargeable gains changes or if the Company's investment profile changes.

Notes to the Financial Statements (continued)

8 Earnings per ordinary share

The earnings per ordinary share figure is based on the net earnings for the year of £95,631,000 (2014: £79,958,000) and on 74,701,796 (2014: 74,701,796) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The earnings per ordinary share figure detailed above can be further analysed between revenue and capital, as below.

The Company has no securities in issue that could dilute the return per ordinary share. Therefore the basic and diluted earnings per ordinary share are the same.

	2015 £'000	2014 £'000
Net revenue profit	11,234	9,468
Net capital profit	84,397	70,490
Net total profit	95,631	79,958
Weighted average number of ordinary shares in issue during the year	74,701,796	74,701,796

	2015 pence	2014 pence
Revenue earnings per ordinary share	15.04	12.67
Capital earnings per ordinary share	112.98	94.37
Total earnings per ordinary share	128.02	107.04

9 Dividends

	2015 £'000	2014 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 May 2014 of 8.0p (2013: 6.5p) per ordinary share	5,976	4,856
Interim dividend for the year ended 31 May 2015 of 3.5p (2014: 3.0p) per ordinary share	2,615	2,241
	8,591	7,097

The final dividend of 8.0p per ordinary share in respect of the year ended 31 May 2014 was paid on 10 October 2014 to shareholders on the register of members at the close of business on 19 September 2014. The dividend paid amounted to £5,976,000 in total.

Subject to approval at the Annual General Meeting, the proposed final dividend of 10.0p per ordinary share will be paid on 9 October 2015 to shareholders on the register of members at the close of business on 18 September 2015.

The proposed final dividend for the year ended 31 May 2015 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by the shareholders.

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

	2015 £'000	2014 £'000
Revenue available for distribution by way of dividends for the year	11,234	9,468
Interim dividend for the year ended 31 May 2015 of 3.5p (2014: 3.0p) per ordinary share	(2,615)	(2,241)
Final dividend for the year ended 31 May 2014: 8.0p (based on the 74,701,796 shares in issue at 28 August 2014)	–	(5,976)
Proposed final dividend for the year ended 31 May 2015: 10.0p (based on the 74,701,796 shares in issue at 3 August 2015)	(7,470)	–
Retained revenue for year	1,149	1,251

Notes to the Financial Statements (continued)

10 Investments held at fair value through profit or loss

	2015 £'000	2014 £'000
Cost at 1 June 2014	300,392	254,985
Investment holding gains at 1 June 2014	219,160	181,674
Valuation at 1 June 2014	519,552	436,659
Movements in the year:		
Acquisitions at cost	135,283	121,204
Disposals at cost	(79,197)	(75,797)
Movement in investment holding gains	30,138	37,486
Valuation at 31 May 2015	605,776	519,552
Cost at 31 May 2015	356,478	300,392
Investment holding gains	249,298	219,160
Valuation at 31 May 2015	605,776	519,552

Purchase and sale transaction costs for the year ended 31 May 2015 were £391,000 and £144,000 respectively (2014: transaction costs of purchases £486,000; transaction costs of sales £116,000). These comprise mainly stamp duty and commission.

Analysis of investments at fair value

	2015 £'000	2014 £'000
Equity investments:		
Listed on London Stock Exchange	551,965	475,972
Listed on Alternative Investment Market	53,811	43,580
	605,776	519,552

All the investments are listed in the United Kingdom. The above categories are based on information obtained from the Stock Exchange Daily Official list.

Total capital gains from investments

	2015 £'000	2014 £'000
Gains on the sale of investments based on historical cost	59,356	36,473
Revaluation gains recognised in previous years	(43,669)	(25,165)
Gains on investments sold in the year based on the carrying value at the previous balance sheet date	15,687	11,308
Investment holding gains	73,807	62,651
	89,494	73,959

All capital gains/(losses) are from investments that are listed (or listed on AIM) in the United Kingdom.

Notes to the Financial Statements (continued)

11 Substantial interests

The Company held interests in 3% or more of any class of share capital in three investee companies (2014: 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
e2v Technologies	17,809	3.2
WYG	2,850	4.3
Koovs	911	5.2

12 Receivables

	2015 £'000	2014 £'000
Securities sold for future settlement	731	1,371
Prepayments and accrued income	2,003	1,316
	2,734	2,687

13 Payables

	2015 £'000	2014 £'000
Securities purchased for future settlement	679	95
Performance fee	2,000	551
Accruals and deferred income	500	449
	3,179	1,095

14 Financial liabilities

	2015 £'000	2014 £'000
Debenture Stock:		
10.5% Debenture Stock 2016 (redeemable at par on 31 May 2016)	20,000	20,000
Preference Stock:		
4,257 Preference Stock units of £1 each (2014: 4,257)	4	4
	20,004	20,004

The Company may at any time purchase any of the Debenture Stock, in accordance with the provisions of the trust deed constituting and securing the Debenture Stock. However, it is not the Company's present intention to redeem the Debenture Stock before the final redemption date. The Debenture Stock is secured by way of a floating charge on all of the Company's assets. Interest on the Debenture Stock is payable half yearly, on 31 May and 30 November.

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.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures

The Directors manage investment risk principally through setting an investment policy (that is approved by shareholders) which incorporates risk parameters (see page 4), by contracting management of the Company's investments to an investment manager (Henderson) under a contract which incorporates appropriate duties and restrictions and by monitoring performance in relation to these. The Board's relationship with Henderson is discussed on page 30. Internal control and the Board's approach to risk is also on page 30. 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 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 Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
 - Charles River Compliance module for investment restrictions monitoring;
 - ArcLogics operational risk database;
 - RiskMetrics, UBS Delta, Style Research, Finanalytica and Barra Aegis for market risk measurement;
 - Bloomberg for market data and price-checking; and
 - Hiportfolio for portfolio holdings and valuations.

a) Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 15 (b)), currency risk (see note 15 (c)) and interest rate risk (see note 15 (d)). The Board reviews and agrees policies for managing these risks. Henderson assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

b) Market price risk

Market price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of the investments. The Company's investments are susceptible to market price risk arising from uncertainties about the future prices of the investments.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Henderson. The Board regularly reviews investment performance. The Board monitors 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 2015 on its equity investments was £605,776,000 (2014: £519,552,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 14 and 15 and a sector analysis is set out on page 8. At 31 May 2015 all the investments were in companies listed or quoted in London, most of them being companies established in and operating from the United Kingdom. Accordingly, there is a concentration of exposure to the UK, although it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

Market price risk sensitivity

The sensitivity of (a) the return after taxation for the year and (b) the Company's net assets to an increase or decrease of 25% in the fair values of the Company's investments at each balance sheet date is given below. This level of change is considered to be reasonably possible, based on observation of current market conditions.

The impact of a 25% increase in the value of the investments on the revenue return as at 31 May 2015 is a decrease of £159,000 (2014: £137,000) and on the capital return is an increase of £151,073,000 (2014: £129,570,000). Accordingly, the total impact on shareholders' funds is an increase of £150,914,000 (2014: £129,433,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2015 is an increase of £159,000 (2014: £137,000) and on the capital return is a decrease of £151,073,000 (2014: £129,570,000). Accordingly, the total impact is a decrease of £150,914,000 (2014: £129,433,000).

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 2015, the Company did not hold any non-sterling denominated investments (2014: 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 interest rate changes on the earnings of companies held within the portfolio may have a significant impact on the valuations of those companies.

Management of the risk

The possible effects on the fair value of the investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. The Debenture Stock provides long-term finance at a fixed rate of interest; it was issued in 1987 to enable the Company to benefit from long term planned gearing. In addition, the Company makes use of short term borrowings. At 31 May 2015 the Company had committed bank borrowing facilities for a total of £40 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 2015 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 rates changes.

Interest rate sensitivity

The Company is not materially exposed to changes in interest rates. As at 31 May 2015 the Company's bank facility allowed borrowings to a maximum of £40 million the interest rate exposure on which is 0.80% plus LIBOR; the interest payable on the Company's £20 million issue of Debenture Stock is fixed at 10.5%.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

e) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities.

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £20 million by its issue in 1987 of £20 million 10.5% Debenture Stock 2016. The Company is able to draw short term borrowings of up to £40 million from its committed borrowing facility which expires on 10 February 2017 with National Australia Bank. There were borrowings of £32,201,000 drawn down under the facility at 31 May 2015 (2014: £26,030,000).

Accordingly, the Company has access to borrowings of up to £60 million: the £20 million of fixed debt represented by the issue of Debenture Stock and a committed bank facility for £40 million.

The Board gives guidance to Henderson 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 2015, based on the earliest date on which payment can be required, was as follows:

	2015		2014	
	Due within 1 year £'000	Due between 1 and 5 years £'000	Due within 1 year £'000	Due between 1 and 5 years £'000
Debenture Stock ¹	22,100	–	2,100	22,100
Preference Stock ²	–	–	–	–
Bank loans and interest	32,300	–	26,151	–
Payables	3,119	–	1,017	–
	57,519	–	29,268	22,100

¹ The amounts due include Debenture Stock interest

² See also note 14 on page 51. The Company has in issue Preference Stock without a set redemption date with a total par value of £4,000 (2014: £4,000) which has a negligible ongoing finance cost.

f) Credit risk

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

Management of the risk

The risk is not significant, and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed regularly by 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.

In summary, the maximum exposure to credit risk at 31 May 2015 was to cash and cash equivalents of £10,183,000 (2014: £1,154,000), and to receivables of £2,734,000 (2014: £2,687,000) (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 2015 the fair value of the Debenture Stock was £21,511,000 (2014: £22,447,000). The fair value of the Debenture Stock is calculated using the prices quoted on the exchange on which the instrument trades. The Debenture Stock is carried in the Balance Sheet at par. At 31 May 2015 the fair value of the Preference Stock was £4,000 (2014: £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 Debenture Stock and Preference Stock are categorised as level 1 in the fair value hierarchy (see 15 (h) below for definitions).

h) Fair value hierarchy disclosures

The table below sets out the fair value measurements using the IFRS 13 fair value hierarchy.

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset, as follows:

Level 1: valued using quoted prices in active markets for identical assets.

Level 2: valued by reference to valuation techniques using observable inputs other than quoted prices.

Level 3: valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in note 1(c) on page 44.

Fair value hierarchy – 2015

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	605,776	–	–	605,776

Fair value hierarchy – 2014

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	519,552	–	–	519,552

There have been no transfers during the year between any of the levels.

i) Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to secure long term capital growth for the shareholders by investment in quoted securities in the UK.

This is to be achieved through an appropriate balance of equity capital and gearing. The Company's policy is that its borrowings must not exceed 30% of the shareholders' funds.

The Company's total capital at 31 May 2015 was £615,526,000 (2014: £522,315,000) comprising £32,201,000 (2014: £26,030,000) of unsecured bank loans, £20,000,000 (2014: £20,000,000) of Debenture Stock, £4,000 (2014: £4,000) of Preference Stock and £563,321,000 (2014: £476,281,000) of equity share capital and reserves.

At 31 May 2015 the Company had a two year revolving credit facility with National Australia Bank. The Company had drawn down £32,201,000 under these facilities as at 31 May 2015. The Company was fully compliant with the terms of the facility, as it existed, for the period from 1 June 2014 to the date of this Annual Report.

Notes to the Financial Statements (continued)

16 Called up share capital

	2015 £'000	2014 £'000
Allotted, issued authorised and fully paid: 74,701,796 ordinary shares of 25p each (2014: 74,701,796)	18,676	18,676

During the year the Company made no purchases of its own issued ordinary shares (2014: nil) at a total cost of £nil (2014: £nil). Since 31 May 2015 the Company has not purchased any ordinary shares.

17 Capital redemption reserve and capital reserve

Investment holding gains at 31 May 2015 include £13,324,000 in respect of investments that are listed on AIM (2014: £13,125,000).

2015	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserve £'000
At 1 June 2014 as previously reported	26,745	218,507	199,070	417,577
Adjustment for investments previously written down to nil value	–	653	(653)	–
At 1 June 2014 adjusted	26,745	219,160	198,417	417,577
Transfer on disposal of investments (see note 10)	–	(43,669)	43,669	–
Net capital gains for the year	–	73,807	15,687	89,494
Expenses charged to capital	–	–	(5,097)	(5,097)
At 31 May 2015	26,745	249,298	252,676	501,974

2014	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserve £'000
At 1 June 2013	26,745	181,021	166,066	347,087
Transfer on disposal of investments (see note 10)	–	(25,165)	25,165	–
Net capital gains for the year	–	62,651	11,308	73,959
Expenses charged to capital	–	–	(3,469)	(3,469)
At 31 May 2014	26,745	218,507	199,070	417,577

18 Retained earnings – revenue reserve

	2015 £'000	2014 £'000
At 1 June	13,283	10,912
Ordinary dividend paid	(8,591)	(7,097)
Revenue profit for the year	11,234	9,468
At 31 May	15,926	13,283

Notes to the Financial Statements (continued)

19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £563,321,000 (2014: £476,281,000) and on the 74,701,796 ordinary shares in issue at 31 May 2015 (2014: 74,701,796).

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company, the Preference Stock and the Debenture Stock at their market (or fair) values rather than at their par (or book) values (see note 15 (g) on page 55). The net asset value per ordinary share at 31 May 2015 calculated on this basis was 752.1p (2014: 634.3p).

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

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

	2015 £'000	2014 £'000
Net assets attributable to the ordinary shares at 1 June	476,281	403,420
Net gains for the year	95,631	79,958
Ordinary dividend paid in the year	(8,591)	(7,097)
Net assets attributable to the ordinary shares at 31 May	563,321	476,281

20 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 31 May 2015 (2014: £nil).

Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting commitments as at 31 May 2015 (2014: £nil).

21 Transactions with the Manager and Related Parties

Under the terms of an agreement effective from 22 July 2014 (which replaced the agreement dated 29 September 2006 in order to reflect the appointment of an Alternative Investment Fund Manager in accordance with the requirements of the Alternative Investment Fund Managers Directive), the Company has appointed wholly owned subsidiaries of Henderson Group plc ("Henderson") to provide investment management, accounting, secretarial and administrative services. Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given on pages 4 and 5. The management fees payable to Henderson under the management agreement in respect of the year ended 31 May 2015 were £1,794,000 (2014: £1,636,000) of which £310,000 was accrued at 31 May 2015 (2014: accrued £296,000). VAT is no longer payable on management (including performance) fees.

The performance fee payable to Henderson in respect of the year ended 31 May 2015 is £2,000,000 (2014: £551,000).

In addition to the above services, Henderson has provided the Company with sales and marketing services. The total fees paid or payable for these services for the year ended 31 May 2015 amounted to £41,000 (including VAT) (2014: £38,000), of which £19,000 was outstanding at 31 May 2015 (2014: £4,000).

The compensation payable to key management personnel in respect of short term employment benefits was £114,000. This disclosure relates wholly to the fees of £114,000 payable to the Directors in respect of the year (2014: £121,000); the Directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 26 to 27 provides more detail. The Company has no employees.

Notes to the Financial Statements (continued)

22 Value Added Tax on management fees

A decision of the European Court of Justice in 2007 that Value Added Tax ("VAT") should not be charged on fees paid for management services provided to investment trust companies, resulted in the Company receiving, over the three financial years up to 31 May 2010, refunds of VAT totalling £2,943,000 (relating to management fees paid during the periods 1990 to 1996 and 2000 to 2007) and £985,000 of simple interest on those VAT refunds. The write-backs of VAT were allocated between revenue return and capital return according to the allocation of the amounts originally paid. The interest paid by HM Revenue & Customs ("HMRC") on the VAT recovered was included in other income.

There remain outstanding claims relating to the period 1996 to 2000 and claims for compound interest from 1990 onwards. No amounts have been recognised in respect of these claims as it is currently uncertain whether any further amounts will be recovered. The Company is a participant in on-going action against HMRC to recover these amounts.

General Shareholder Information

BACS

Dividends can be paid by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 17) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Equality Act 2010

Copies of this report and other documents issued by the Company are available from the Corporate Secretary. If needed, copies can be made available in a variety of formats, including Braille or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0870 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.

FCA Restrictions

The Company currently conducts its affairs so that its ordinary shares of 25p each can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

ISA

The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

Share Price Listings

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

Performance Details/Share Price information

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

Shareholder Details

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

History

The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name of The Trustees, Executors and Securities Insurance Corporation, Limited. The name was changed in August 1917 to The Trustees Corporation Limited, in April 1982 to TR Trustees Corporation PLC, in October 1990 to TR Smaller Companies Investment Trust PLC and in September 1997 to The Henderson Smaller Companies Investment Trust plc. Whilst the Trustee Department operated until June 1978, the principal business of the Company has been that of an investment trust company.

Warning to shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment "advice".

If you are in any doubt about the veracity of an unsolicited phone call, please call the Corporate Secretary at the number provided on page 17.

Alternative Investment Fund Managers Directive

(unaudited)

Henderson and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a Key Investor Information Document ("KIID") which can be found on the Company's website www.hendersonsmallercompanies.com. There have been no material changes to the disclosures contained within the KIID since publication in July 2014.

The periodic disclosures to investors are made below:

- information on the investment strategy, geographic and sector investment focus and principal stock exposures are included in the Strategic Report. A full list of portfolio holdings is included on pages 14 and 15;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report and note 15 to the accounts set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Henderson; and
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. It is therefore anticipated that the Henderson Remuneration Policy and associated financial disclosures will be made with the Company's Annual Report from 2016 following its first full performance period after the introduction of the AIFMD.

Leverage

Although leverage is often used as another term for gearing, under the AIFMD regulations leverage is expressed as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value ("NAV"). It defines two types of leverage, the gross method and the commitment method.

These are essentially the same other than the commitment method allows derivative instruments to be netted off to reflect "netting" or "hedging arrangements". Non-sterling cash is deemed to carry a currency exposure so is considered to be leverage. In accordance with the AIFMD the Company is obliged to disclose the maximum expected leverage levels under both methods and this is disclosed on page 61. In order to comply with the AIFMD the maximum leverage levels have been set in accordance with the maximum gearing allowable by the Company's Articles of Association. However, the day-to-day management of gearing and leverage levels will be conducted within the tighter limits set by the Company's investment policy.

Leverage may be applied to the portfolio by utilising financial gearing (such as bank borrowings and overdrafts) and synthetic gearing (through derivatives and/or other non-fully funded instruments or techniques for efficient portfolio management purposes such as stock-lending). Typically, leverage will arise through the use of index futures, forward foreign exchange contracts or contracts for difference, where cash is paid to the counterparty as a margin against the current mark-to-market value of the derivative contract; as a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may even result in further loss exceeding any margin deposited. The use of leverage therefore creates additional risks and may significantly increase the market and counterparty risk of the Company through non-fully funded exposure to underlying markets or securities.

Leverage is considered in terms of the Company's overall "exposure" to financial or synthetic gearing and includes any method by which the exposure of the Company is increased whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. Henderson is required, in accordance with the AIFMD, to calculate and monitor the level of leverage of the Company, expressed as the ratio between the total exposure of the Company and its NAV with exposure values being calculated by both the gross method and commitment method.

Exposure values under the gross method basis are calculated as the absolute value of all positions in the portfolio; this includes all eligible assets and liabilities, relevant borrowings, derivatives (converted into their equivalent underlying positions) and all other positions, even those held purely for risk reduction purposes, such as forward foreign exchange contracts held for currency hedging.

The gross method of exposure of the Company requires the calculation to:

- include the sum of all non-derivative assets (if applicable) held at market value, plus the absolute value of all such liabilities;
- exclude cash and cash equivalents which are highly liquid investments held in the base currency of the Company, that are readily convertible to a known amount of cash, which are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three month high quality bond;
- include derivative instruments which are converted into the equivalent position in their underlying assets;
- exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known;
- include exposures resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of cash borrowed; and

Alternative Investment Fund Managers Directive

(unaudited) (continued)

- include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements as applicable.

Exposure values under the commitment method basis are calculated on a similar basis to the above, but may take into account the effect of netting off instruments to reflect eligible netting and hedging arrangements on eligible assets and different treatment of certain cash and cash equivalent items in line with regulatory requirements.

The calculation of leverage assumes that a leverage percentage of 100% equates to zero leverage. A percentage above 100% would mean that the portfolio had leverage equal to the percentage amount above 100%.

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	As a percentage of net asset value	
	Gross method %	Commitment method %
Maximum level of leverage	200	200
Actual	107	109

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees granted under the leveraging arrangement.

Changes to the information contained either within this Annual Report or the KIID in relation to any special arrangements in place, the maximum level of leverage which Henderson may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

The Henderson Smaller Companies Investment Trust plc
Registered as an investment company in England and Wales
Registration Number 25526
Registered Office 201 Bishopsgate, London EC2M 3AE

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Legal Entity Identifier (LEI): 213800NE2NCQ67M2M998

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