

The Henderson Smaller Companies Investment Trust plc



Annual Report 2023

MANAGED BY

Janus Henderson
INVESTORS

Investment objective

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

Keeping in touch

We know how important it is to receive up-to-date information about the Company. Visit our website at www.hendersonsmallercompanies.com

Register for updates, insights and factsheets about the Company:



Register here to watch this year's Annual General Meeting by webinar:



The Board also welcomes you in person to the AGM. Please see more details about the AGM, attending in person or by webinar, in the Chair's Statement.

Please send your general enquiries about the Company to the Company Secretary at: itsecretariat@janushenderson.com.

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Strategic Report

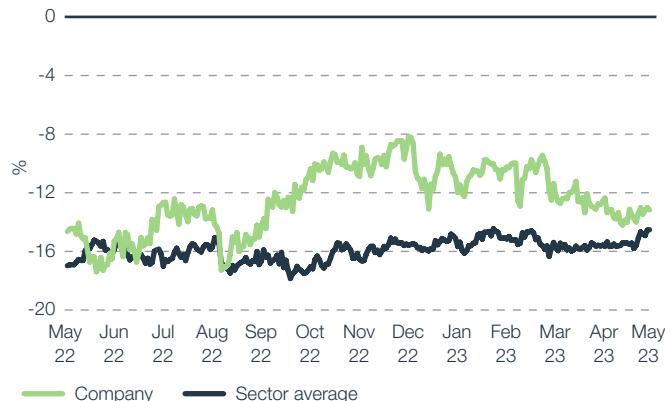
Photo: Oxford Instruments' ProteoxMX dilution refrigerator used for quantum applications

Performance

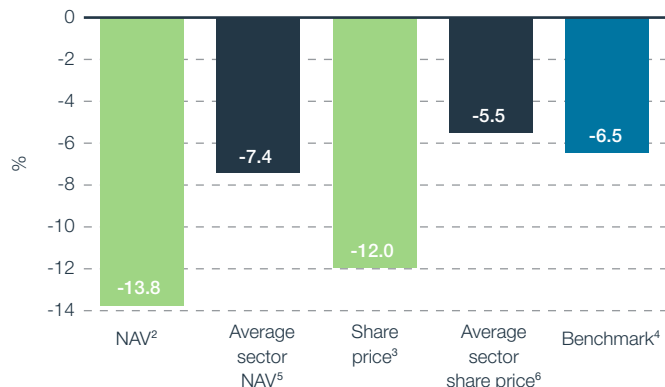
Total return performance to 31 May 2023¹



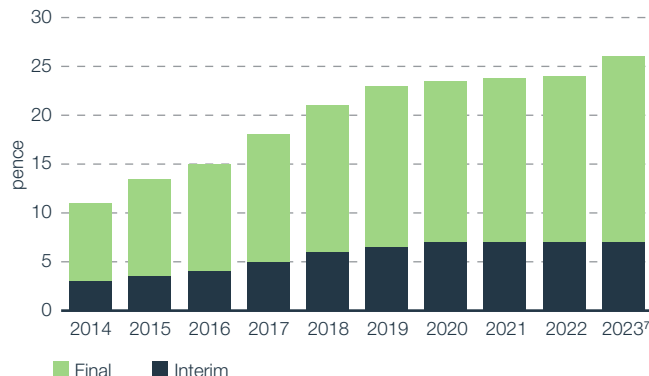
Discount data to 31 May 2023



Total return performance for the year ended 31 May 2023



Dividends for years ended 31 May



Total return performance for the period ended 31 May 2023

	1 year %	3 years %	5 years %	10 years %
NAV ²	-13.8	12.4	-3.4	108.0
Benchmark ⁴	-6.5	30.4	3.1	73.9
Average sector NAV ⁵	-7.4	26.1	5.5	100.8
Share price ³	-12.0	8.8	-7.9	118.7
AIC sector share price ⁶	-5.5	31.4	5.6	107.2
FTSE All-Share Index	0.4	33.9	15.2	67.5

1 Net asset value ("NAV") total return per ordinary share and share price total return compared to the total return of the benchmark over the year to 31 May 2023 rebased to 100
 2 NAV per ordinary share total return with income reinvested
 3 Share price total return using mid-market closing price with income reinvested
 4 Numis Smaller Companies Index (excluding investment companies) total return
 5 Average NAV total return of the Association of Investment Companies ("AIC") UK Smaller Companies sector
 6 Average share price total return of the AIC UK Smaller Companies sector
 7 The 2023 final dividend is subject to shareholder approval

A glossary of terms and explanations of alternative performance measures are included on pages 84-87

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream

Performance (continued)

Year to 31 May

NAV per share at year end

2023	2022
904.1p	1,074.4p

Share price at year end

2023	2022
785.0p	917.5p

Discount at year end¹

2023	2022
13.2%	14.6%

Gearing at year end

2023	2022
12.6%	11.2%

Dividend for year

2023	2022
26.00p²	24.00p

Revenue return per share

2023	2022
29.38p	24.57p

Dividend yield³

2023	2022
3.3%	2.6%

Total net assets

2023	2022
£675m	£803m

Ongoing charge⁴

2023	2022
0.44%	0.42%

¹ Calculated using the NAV and mid-market share price at year end

² This represents an interim dividend of 7.00p and a proposed final dividend of 19.00p. See page 6 for more details

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

⁴ No performance fee is included in this calculation as no performance fee was paid in 2023 or 2022

A glossary of terms and explanations of alternative performance measures are included on pages 84-87, including calculation of the AIC and Key Information Document ongoing charge methodologies

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream

Portfolio Information

Performance attribution

	Year ended 31 May	
	2023 %	2022 %
NAV total return	-13.8	-17.8
Benchmark total return	-6.5	-9.5
Relative performance	-7.3	-8.3
	Comprising:	
Stock selection without gearing	-5.4	-6.2
Gearing impact on stock selection	-0.6	-0.6
Gearing decision	-0.9	-1.1
Expenses	-0.4	-0.4

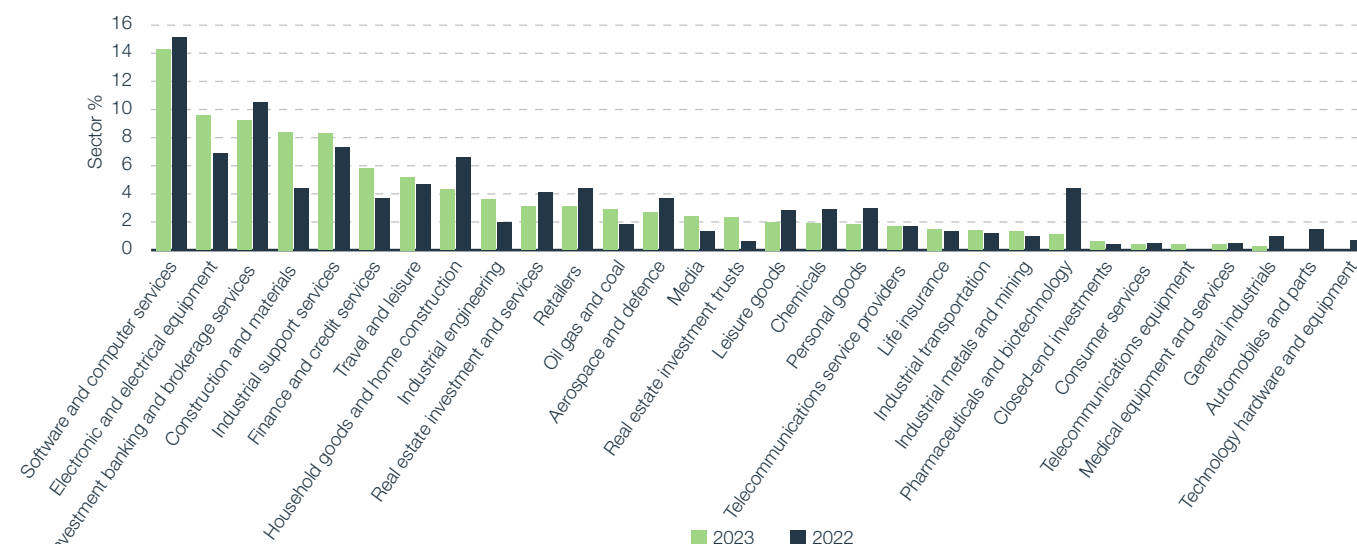
See the glossary of terms on page 84 for an explanation of the 'gearing impact on stock selection' and 'gearing decision'

Ten largest investments at 31 May 2023

Ranking 2023	Ranking 2022	Company	Principal activities	Valuation 2023 £'000	Portfolio %
1	2	Oxford Instruments	Advanced instrumentation equipment	27,826	3.7
2	1	Impax Asset Management	ESG-focused investment manager	22,801	3.0
3	4	Bellway	Housebuilder	21,338	2.8
4	14	Balfour Beatty	International contractor	21,274	2.8
5	5	OSB Group	Buy-to-let mortgage provider	19,258	2.5
6	7	Paragon Banking	Buy-to-let mortgage provider	17,232	2.3
7	21	Vesuvius	Ceramic engineering	17,140	2.3
8	13	Mitchells & Butlers	Hospitality operator	16,710	2.2
9	11	Team17	Games software developer	14,438	1.9
10	6	Watches of Switzerland	Luxury watch retailer	13,897	1.8
				191,914	25.3

Refer to the Fund Manager's Report on pages 8 to 13 for descriptions of stocks and reasons for ownership or disposal.

Analysis of the portfolio by sector at 31 May



As at 31 May 2023, the Company had no holdings in the following sectors: Automobiles and parts, Technology hardware and equipment

Sources: Factset, Janus Henderson

Chair's Statement



Penny Freer
Chair of the Board



“I am delighted to report that this will be our 20th consecutive year of growth in the annual dividend...”

Chair's Statement

Dear Shareholder

Performance

The year under review was disappointing: UK equity markets experienced difficult and volatile conditions and the Company suffered negative absolute returns. The Company also underperformed its benchmark, largely caused by growth stocks remaining out of favour. In the financial year to 31 May 2023, the Company's net asset value ("NAV") fell by 13.8% and the share price fell by 12.0%, versus a 6.5% fall in the Numis Smaller Companies Index benchmark, all on a total return basis. The AIC UK Smaller Companies NAV sector average total return declined by 7.4%. Over the longer term, however, your Company's NAV total return remains well ahead of the benchmark index; over the ten-year period to 31 May 2023 your Company outperformed the benchmark by 34.1%. The Fund Manager's Report on pages 8-13 provides a detailed review of the year.

Smaller companies underperformed the wider market in a turbulent environment of rising interest rates and higher bond yields. High-quality smaller growth stocks suffered as investors favoured larger liquid stocks. Some of our cyclical investments saw earnings downgrades, leading to de-ratings, although the majority of our companies continued to post strong results and saw no material change in their investment thesis, trading or outlook.

Dividend and earnings

Positively, the total revenue received from your Company's portfolio rose from £20.7 million to £24.4 million over the year, and our earnings per share rose from 24.6p at 31 May 2022 to 29.4p at 31 May 2023. This reflects the strong financial performance of the majority of our portfolio companies, which were able to increase their dividends.

The Board is pleased to recommend an increased final dividend of 19.0p per share which, subject to shareholder approval at the Annual General Meeting, will be paid on 9 October 2023 to shareholders on the register at 25 August 2023. When added to the interim payment of 7.0p, this brings the full year dividend to 26.0p per share, an 8.3% increase from the 2022 full-year distribution of 24.0p per share. This will be fully funded from current-year revenue. I am delighted to report that this will be our 20th consecutive year of growth in the annual dividend; the annualised increase in dividends paid since 2003 equates to 21.8%. Your Company will now gain the AIC accolade of 'Dividend Hero'.

During the year we commenced a tracing and engagement programme to locate shareholders who have not claimed their dividends for long periods of time. We believe it is important to reunite shareholders with their lost assets, and our project is designed to help them resolve the obstacles that may have hindered claims to ownership and to take the required action.

Share rating

Your Company's share price discount to NAV fluctuated over the year between 17.4% and 8.2%, averaging 12.4% and closing the year at 13.2%. The share price over the year fell from 917p to 785p, giving a total return of -12.0% and reflecting a slight narrowing of the discount to net asset value.

During the year to 31 May 2023 no shares were issued or bought back. Your Board continues to monitor the discount and regularly discusses the merits of buying back shares. We do not currently believe that share buy-backs represent the most effective way of generating long-term shareholder value.

Responsible investing

Our Fund Manager's approach to ESG investing has been embedded in the Company's investment process for over 20 years. With the awareness that ESG investment activities are increasingly important, I would refer shareholders to our 'ESG Matters' report on pages 28-32 for more information on how the Company positions itself and for a report on engagement case studies undertaken during the year.

Board developments

David Lamb, Senior Independent Director and marketing representative, retired from the Board on 30 September 2022. I would like to thank David for his many years of service and wise counsel on the Company's affairs. Kevin Carter has taken on the role of Senior Independent Director and Michael Warren is the Board's new marketing representative.

I am delighted that Yen Mei Lim joined the Board in April 2023 as our newest non-executive director, in line with our long-term succession planning. With over 20 years of experience in the financial services industry, and as a qualified lawyer and accountant, Mei brings deep insight and expertise across merger and acquisition activity, corporate development and finance, particularly in the field of growth potential for smaller businesses committed to resiliency, accessibility and sustainability.

We meet the national targets on gender and ethnic diversity, including the targets set by the FCA's Listing Rules for all FTSE 350 members. According to these targets, at least 40% of board members should be women, at least one woman should hold a senior position, and at least one director should be from an ethnic minority. As such we also meet the FTSE Women Leaders Review and Parker Review recommendations. Please refer to page 48 for a fuller disclosure about Board composition in the Governance report.

Chair's Statement (continued)

Annual General Meeting ("AGM")

We are pleased to invite shareholders to attend our AGM in person at our registered office on Thursday, 5 October 2023 at 11.30 am. We encourage shareholders to attend for the opportunity to meet the Board, the Fund Manager Neil Hermon, and Deputy Fund Manager Indriatti van Hien. Neil and Indriatti will give a presentation on the year under review and will discuss their outlook for the year ahead. There will be an opportunity to ask questions and debate, and to meet the Fund Manager, Deputy Fund Manager and directors after the formal proceedings. Shareholders unable to join in person will be able to join the meeting by Zoom.

We encourage all shareholders to submit your votes on the resolutions, all of which come with the Board's endorsement, ahead of the deadline of Tuesday, 3 October 2023 to ensure that their vote counts at the AGM. Please see pages 91-97 for the AGM Notice and more information on joining and voting.

The Fund Manager discusses these results and performance during the year in a video available at www.hendersonsmallercompanies.com. If you have any questions for the Board or the Fund Manager in advance of the AGM, please contact us at itsecretariat@janushenderson.com.

Outlook

It has been a difficult year and we remain cautious about the outlook, but are confident in the ability of our Fund Manager and his team and in the investment philosophy applied to the portfolio. The portfolio is weighted towards companies with well-capitalised balance sheets and entrepreneurial management teams, and as such we believe your Company is well positioned and prepared to take advantage of the investment opportunities that lie ahead despite the current uncertain market. In closing I would like to thank shareholders for your continued support.

Penny Freer
Chair of the Board
2 August 2023

Fund Manager's Report



Neil Hermon
Fund Manager

“...The operating performance of our portfolio companies has been robust. The companies are soundly financed and attractively valued... The smaller companies market continues to throw up exciting growth opportunities in which the Company can invest. We remain confident in our ability to generate significant value from a consistent and disciplined investment approach.”

Photo: Mitchells & Butlers Castle pub

Fund Manager's Report

Fund performance

The Company had a disappointing year in performance terms, falling in absolute terms and underperforming its benchmark. The share price fell by 12.0% and the net asset value by 13.8% on a total return basis. This compared with a decrease by 6.5% in the Company's benchmark total return, the Numis Smaller Companies Index (excluding investment companies). The underperformance came from a combination of the negative contributions from stock selection, gearing and expenses. Negative contributions from stock selection were principally a function of the underperformance of growth companies as they de-rated in valuation terms due to market concerns about the impact of rising interest rates and higher bond yields. In most cases, this was independent of the operational and financial performance of these businesses, which remained, on the whole, strong. Additionally, some of our cyclically exposed positions suffered as the global economy weakened, leading to selective earnings downgrades and consequent de-ratings. Despite it being a poor year for performance, as growth stocks de-rated following the increase in interest rates, the long-term record of the Company remains strong, outperforming its benchmark in 16 of the last 20 years.

Market – year under review

The year under review was a volatile and ultimately negative one for UK equity markets. Markets faced a number of challenges including a zero-tolerance policy to Covid in China which suppressed economic growth and exacerbated supply chain challenges, the ongoing conflict in Ukraine which kept energy prices high, particularly in Western Europe, the persistent cost-of-living crisis fuelled by high inflation and political instability in the UK, primarily focused around the short-lived tenure of Liz Truss as Prime Minister.

The principal driver of market returns, however, has remained central bank policy. Inflation projections continued to worsen throughout the initial part of the year and central banks, led by the Federal Reserve, European Central Bank and Bank of England, raised interest rates aggressively. Despite indications that headline inflation has peaked, core inflation has remained sticky. Whilst goods inflation has started to ease, services inflation, driven by supply side pressures and a tight labour market, has remained elevated. Consequently, the messaging from central banks has remained hawkish regarding the future path of interest rates. Rising interest rates and a move from quantitative easing to quantitative tightening led to a weakening in global economic growth in the period, putting pressure on corporate earnings.

The markets saw a continued flight to safety by investors who have taken refuge from uncertain macroeconomic conditions by investing in larger, more liquid and more international stocks. This has led to another year of underperformance by smaller companies versus larger companies.

Gearing

Gearing started the year at 11.2% and ended at 12.6%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% issued in 2016, £20 million 30-year unsecured loan notes at 2.77% which were issued in February 2022, and £85 million short-term bank borrowings.

As markets fell, the use of gearing was a negative contributor to performance in the year. Gearing, however, has made a significant positive contribution to investment performance over the 20 years I have managed the investment portfolio.

Attribution analysis

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

Principal contributors

	12 month return %	Relative contribution %
Balfour Beatty	+45.0	+0.9
National Express ¹	-58.1	+0.6
Oxford Instruments	+25.0	+0.6
RPS Group	+114.5	+0.5
John Wood ¹	-41.1	+0.4

¹ Not owned by the Company

Balfour Beatty is an international contractor and infrastructure investor. New management has transformed the business over the last few years, driving margins higher across all operational activities in the UK, US and Hong Kong whilst maintaining the significant value of the infrastructure investment portfolio. Significantly improved cashflow has allowed the business to accelerate returns to shareholders through ongoing share buybacks and increased dividends. Given likely increased infrastructure investment in its key markets, the company looks well placed to continue to deliver growth in earnings, cashflow and returns to investors.

National Express (now Mobico) is an international operator of bus and rail services. The business has struggled to rebuild profitability post-Covid as weaker demand and higher wage costs have impacted the business. Additionally, the business suffers from high levels of debt. The Company did not own a position in this stock.

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

RPS Group is an independent environmental, health, safety and risk consulting group, which provides scientific, planning and design advice to customers in the commercial and government sectors. Formed by a series of acquisitions, the group has gone through significant change, with self-help improvement, a refreshed management team and tighter strategic focus. The group is benefiting from buoyant infrastructure, renewables and energy markets. The business was acquired by a US competitor, Tetra Tech, during the year at a significant premium to the undisturbed share price.

Fund Manager's Report (continued)

John Wood is an international engineering, procurement and construction ("EPC") contractor for the oil and gas industry. Despite selling its 'Built Environment' business, the company still suffers from the perception of a weak balance sheet caused by provisions relating to historic loss-making contracts. The company was the subject of an abandoned takeover approach from Apollo. The Company did not own a position in this stock.

Principal detractors

	12 month return %	Relative contribution %
Future	-63.6	-1.3
Synthomer	-70.7	-0.9
GB Group	-46.2	-0.7
Bank of Georgia ¹	+102.3	-0.6
RWS Holdings	-40.5	-0.6

¹ Not owned by the Company

Future is a tech-enabled global platform for specialised media which targets consumers and business-to-business ("B2B") brands across Europe, America and Asia Pacific. The company creates specialised content to attract and grow high-value audiences. These audiences are then monetised through memberships and subscriptions, print and digital advertising, e-commerce sales and events. Future has both an organic and inorganic growth strategy. Management is focused on purchasing new brands and titles to leverage its scalable technology and drive digital growth using its revenue optimisation model. The shares have suffered from both earnings downgrades and a material de-rating during the year. Downgrades have been driven by greater-than-expected normalisation of spending in consumer technology post-pandemic, while the de-rating has been driven by concerns around advertising volumes and yields in an uncertain macroeconomic environment. There have also been more existential concerns around potential disruption to its business model from artificial intelligence ("AI"). Poorly handled communications around the retirement of the long-standing CEO in the period only added to investor nervousness. Whilst we cannot be certain the downgrade cycle has ended, we believe the rating has discounted much of this. A new CEO is now in place and the company has retained and, in some cases, improved on its leading market positions which gives us confidence that earnings can recover in improved macroeconomic conditions.

Synthomer is a diversified chemicals group. The group has expanded through acquisition which has diversified the company's end markets. The group enjoyed extremely buoyant market conditions in its nitrile latex market as demand for gloves rapidly expanded during the pandemic. A marked cooling in demand in this market in the last year combined with a cyclical downturn in the coatings, adhesives and general chemicals markets has led to a significant fall in profitability. Additionally, previous acquisition activity has left the company with elevated financial leverage. A new management team is in the process of reducing debt by

disposals and other balance sheet measures. We believe the business is well placed to benefit from a recovery in the nitrile latex market as demand recovers.

GB Group is a data identity, fraud prevention and address verification business. The company provides a combination of software and data to clients to help onboard their customers in an efficient and accurate manner whilst also reducing the risk of fraud. The company's end markets are growing rapidly as services move from offline to online channels, a trend which is expected to continue as new business models are formed. GB Group has grown both organically and through acquisition. The shares have fallen in the year due to weaker trading conditions for some of the group's financial service and internet economy customers as well as being impacted by the general market de-rating of growth companies.

Bank of Georgia is a leading retail and commercial bank in Georgia. Robust economic growth in the region has led to strong growth in profitability and an improving capital position for the business. The Company did not own a position in this stock.

RWS Holdings is a leading provider of translation software and services. Although the company is extracting the expected synergies from its acquisition of SDL plc, regulation change in its patent translation services business, weakness in demand from its large technology customers and a shift to SaaS from licence sales in its software division has led to modest falls in profitability. This has led to a de-rating in the valuation of the company. The business retains a strong net cash balance sheet and has significant potential for recovery once the negative drivers on profitability abate.

Portfolio activity

Trading activity in the portfolio was consistent with an average holding period of over five years. Our approach is to consider our investments as long term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise, we have been employing strong sell disciplines to cut out stocks that fail to meet these criteria.

Acquisitions

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

Ergomed provides specialised services to the pharmaceuticals industry in its operations as both a clinical research outsourcer ("CRO") and provider of pharmacovigilance services. It is a global business which operates 24 offices and services 140 countries although its main exposure comes from the US and Europe. The CRO business specialises in drug development for oncology and rare diseases, while its pharmacovigilance services benefit from the high burden of drug regulation. It is a capital-light business which generates high returns. The business has a net cash balance sheet which it is looking to deploy on acquisitions to further augment strong organic growth trends.

GlobalData is a leading business information and data provider. The business was formed by Mike Danson, who had previously

Fund Manager's Report (continued)

founded and then sold Datamonitor, a comparative business. He remains a majority shareholder of GlobalData. The company provides high-level data intelligence, analytics and insights across a wide range of industries principally to executive level customers at major organisations. The key product differentiator is the focus on live and real-time updated datasets and analysis rather than big reference 'big book reports'. The business is set to deliver strong growth through high retention rates, upselling to existing customers, price increases and new customer adds. With a cost base under control, margins are set to expand from current levels.

JTC is a global professional services firm operating in 20 jurisdictions covering fund, corporate and private client product offerings. It operates two divisions: Institutional Client Services, which focuses on provision of fund, corporate, and banking solutions to institutional clients, primarily fund managers, listed companies and multinationals; and Private Client Services, which provides trust, corporate and banking services for global wealth management firms, family offices and ultra-high-net-worth individuals. Our investment provides exposure to the growth in fund regulation and the continued trend of outsourcing fund administration. The business is still run by its founder so an entrepreneurial spirit prevails and there is a strong ethos of share ownership and alignment throughout the business.

Morgan Advanced Materials is a thermal and ceramic products business. The DNA of the business is knowledge of material science around ceramics and carbon. It services a wide range of end markets, customers and applications. The company is operating at the forefront of material science applications, making materials that need extreme precision in highly challenging operating environments, such as extreme temperatures, high altitudes or high winds. We think the company has materially improved its portfolio over recent years and recent organic growth has exceeded expectations. We felt that the low valuation the company was trading on did not reflect these positives. In addition, the company's balance sheet is strong which gives it the scope to supplement growth with accretive acquisitions.

Trainline is global ticketing platform operating in the rail and coach industry. It has a leading position in the UK and Europe as an e-commerce player that sells rail and coach tickets on behalf of carriers to both consumers and businesses. The platform is accessible through its highly rated mobile and desktop app. The investment case provides exposure to growth trends in online purchasing of e-tickets and the increased liberalisation of European rail. Earnings are being depressed by continued investment in Europe, while the valuation multiple is currently being impacted by the uncertainty surrounding UK rail regulation. Both factors provided a good entry point to buy the shares.

Wilmington is a training, events and education business. Based in the UK, the group is split into two units: Intelligence which provides a combination of risk and compliance data to insurance, pension and healthcare customers globally, and Training & Education which offers bespoke technical support for customers across the financial services and healthcare sectors. The group has attractive business fundamentals with high profit margins, operating in defensive areas of corporate

spend with growth opportunities as businesses expand on training and development activities. With a positive market backdrop and the potential for future value-enhancing acquisitions, Wilmington has a strong earnings outlook.

Disposals

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance. We sold our holding in **De La Rue**, a provider of currency and security products. Overcapacity in the market is leading to pressure on prices and capacity utilisation and earnings expectations have been guided down significantly. We also disposed of our holding in **Alphawave**, a semiconductor licensing and manufacturing company. Since its initial public offering ("IPO"), the business has had a poor record of meeting market expectations and the acquisition of Baniyas Labs, a loss-making Israeli semiconductor company, further depressed profitability and pushed the group into a net debt position. We sold our position in **Gym Group**, a low-cost gym operator, as membership recovery from Covid had been disappointing and may indicate a structural shift in the market. We also sold our position, in line with our stated policy, in **Dechra Pharmaceuticals**, a veterinary products supplier, as it was elevated to the FTSE 100.

Takeover activity

There was a decent level of takeover activity in the portfolio. This was consistent with the wider mid and small-cap equity markets aided by continued levels of interest from private equity. A number of takeover bids were received: for **Euromoney**, a B2B information provider, from a private equity consortium; for **RPS Group**, an international engineering consultancy, from Tetra Tech; for **EMIS**, an IT healthcare company, from United Health Group; and for **Hyve**, an exhibitions organiser, from Providence Equity Partners.

Top ten positions

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

Top ten positions at 31 May 2023	Portfolio %	Index weight %	Active weight %
Oxford Instruments	3.7	1.2	2.5
Impax Asset Management	3.0	–	3.0
Bellway	2.8	–	2.8
Balfour Beatty	2.8	–	2.8
OSB Group	2.5	–	2.5
Paragon Banking	2.3	0.9	1.4
Vesuvius	2.3	0.8	1.5
Mitchells & Butlers	2.2	0.9	1.3
Team17	1.9	–	1.9
Watches of Switzerland	1.8	–	1.8

Fund Manager's Report (continued)

A brief description of the largest positions (excluding Oxford Instruments and Balfour Beatty covered on page 9) follows:

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

Bellway is a national UK housebuilder. The company has an excellent long-term track record of controlled expansion whilst maintaining a strong balance sheet. Although the company has delivered strong operational and financial performance, the share price has fallen due to the weakness in the housing market, caused by the economic downturn and rising interest rates. Although future short-term profitability is likely to fall as house prices soften and volumes contract, the business remains well placed to benefit from any recovery. Additionally, valuation support is provided by the large discount to net asset value at which the shares currently trade.

OSB Group is a speciality lender with a primary focus on providing buy-to-let mortgages to professional landlords. Regulations on complex underwriting and the sophistication of its underwriting capability have allowed OSB to grow market share and, with landlord demand remaining robust, the business is poised to see further growth. The company has built a very strong capital position, and this is allowing the company to return significant cash to shareholders through share buy-backs and increased dividends.

Paragon Banking is a speciality lender with a primary focus on providing buy-to-let mortgages to professional landlords. The company has changed its structure in the last few years by obtaining a banking licence allowing the company to diversify its funding sources into the retail market. The company enjoys a very strong capital position, enabling it to pay higher dividends whilst buying back some of its own stock. Regulations on complex underwriting and the sophistication of its underwriting capability have allowed Paragon to grow market share from non-bank lenders which have suffered in this rising rate environment.

Vesuvius is a materials technology company. The company offers steel flow control, foundry technologies, advanced refractories and metal processing products and services to customers around the world. The business has gone through significant rationalisation over recent years removing excess capacity and improving returns on capital and margins. The company has demonstrated excellent pricing power during the recent inflationary period, validating its leading market position and high value add of its products. Although the steel industry is seeing the impact of global economic weakness, the business is well positioned to enjoy strong growth once markets recover.

Mitchells & Butlers is a national owner and operator of pubs in the UK. Its major brands include All Bar One, Browns, Harvester, Toby Carvery, O'Neill's, Miller & Carter, Nicholsons and Ember Inns. The vast majority of its pubs are owned freehold, meaning it has substantial asset value backing. After a difficult trading period impacted by lockdowns and restricted trading during Covid and more recently pressures from significant inflation in energy, food prices and labour costs, the outlook is looking brighter especially as consumer demand remains strong and cost pressures are starting to ease. The company is steadily repaying its securitised debt, enabling a transfer of value from debt to equity. Additionally, with its pension deficit now cleared, cashflow is improving, allowing the possibility of a resumption in dividends to shareholders.

Team17 is a developer and publisher of video games for PCs, consoles and mobile devices. The company focuses on the independent games market and selectively works with developers and third parties to launch new content on multiple platforms. The business listed in 2018 and has had a strong record of growth driven by well-received new releases, the monetisation of new content and improved profitability as the portfolio has expanded. With strong internal intellectual property and the balance sheet in a net cash position, the company is well set for future growth.

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

Portfolio weightings

As at 31 May 2023, the portfolio was weighted by company size as follows:

	Weighting %	
	31 May 2023	31 May 2022
FTSE 100	0.0	1.9
FTSE 250	70.2	63.5
FTSE Small Cap	14.3	16.5
FTSE AIM	28.1	29.3
Gearing	(12.6)	(11.2)

Market outlook

With inflation staying elevated against official targets, central banks, led by the US Federal Reserve, have remained hawkish. We have seen significant rises in interest rates globally and a move from quantitative easing to tightening. The market is forecasting further modest rises in interest rates

Fund Manager's Report (continued)

globally although it is clear we are much closer to the end rather than the start of the monetary policy tightening cycle. Oscillating confidence levels in central bankers' willingness and ability to strike the right balance between containing inflation and supporting economic growth are driving heightened levels of uncertainty and volatility in global bond and equity markets.

The rapid rise of inflation, driven by energy prices but also by a wider number of other components, and rising interest rates are putting pressure on consumers and businesses alike. Although the labour market is strong and wages are rising, real net disposable income is falling and consumer confidence is low. The delayed transmission mechanism of rising interest rates and their impact on the economy mean that economic conditions are likely to worsen in the short term.

Geopolitics remain challenging with the ongoing conflict in Ukraine and heightened tensions between China, the US and Europe. The longer-term economic implications of these are material. There is an urgent need to reduce European dependence on Russian oil and gas supplies and a requirement to decrease China's influence on the global supply chain through investment in nearshoring capability. We expect capital spending to increase as a result and pockets of inflation to remain as bottlenecks appear in the process of supply chain reorganisation.

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

After an active 2021, the IPO market has become considerably quieter as equity market confidence has diminished. There are no signs this is likely to change in the short term. Merger and acquisition ("M&A") activity has remained robust as acquirors, particularly private equity, look to exploit opportunities thrown up by the recent equity

market falls. We expect this to continue in the coming months as UK equity market valuations remain markedly depressed versus other developed markets.

In terms of valuations, the equity market is now trading below long-term averages. Corporate earnings rebounded sharply following the pandemic-induced shock in 2020. Lead indicators suggest this rebound is likely to continue to fade as economic activity weakens further. Rising interest costs and increasing tax burdens are putting further pressure on corporate earnings growth. The view that the UK economy is entering a moderate recession is now consensual and the debate is now focused on whether the trough will be deeper than expected.

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

In conclusion, the year under review has been a disappointing one for the Company. Absolute performance was negative and the Company underperformed its benchmark. The operating performance of our portfolio companies, however, has been robust. The companies are soundly financed and attractively valued. Additionally, the smaller companies market continues to throw up exciting growth opportunities in which the Company can invest. We remain confident in our ability to generate significant value from a consistent and disciplined investment approach.

Neil Hermon
Fund Manager
2 August 2023

Fund Management Team



Neil Hermon
Fund Manager
30 years experience
Joined Janus Henderson 2002



Indriatti van Hien
Deputy Fund Manager
12 years experience
Joined Janus Henderson 2011



Shivam Sedani
Associate Portfolio Manager
6 years experience
Joined Janus Henderson 2017

The fund management team have shareholdings in the Company which align their interests to those of shareholders.

Investment Portfolio at 31 May 2023

Company	Principal activities	Valuation £'000	Portfolio %
Oxford Instruments	Advanced instrumentation equipment	27,826	3.66
Impax Asset Management ¹	ESG-focused investment manager	22,801	3.00
Bellway	Housebuilder	21,338	2.81
Balfour Beatty	International contractor	21,274	2.80
OSB Group	Buy-to-let mortgage provider	19,258	2.53
Paragon Banking	Buy-to-let mortgage provider	17,232	2.27
Vesuvius	Ceramic engineering	17,140	2.25
Mitchells & Butlers	Hospitality operator	16,710	2.20
Team17 ¹	Games software developer	14,438	1.90
Watches of Switzerland	Luxury watch retailer	13,897	1.83
10 largest		191,914	25.25
Ascential	Exhibition organiser and data services	13,688	1.80
Alpha Financial Markets ¹	Investment management consultancy	13,233	1.74
Learning Technologies ¹	E-learning	12,806	1.68
Spectris	Electronic control and process instrumentation	12,693	1.67
Renishaw	Precision measuring and calibration equipment	12,638	1.66
Gamma Communications ¹	Telecommunications	12,628	1.66
Computacenter	IT reseller	12,528	1.65
Volution	Producer of ventilation products	12,505	1.65
Softcat	Software reseller	11,671	1.54
Future	Specialist internet, website and magazine company	11,552	1.52
20 largest		317,856	41.82
IntegraFin	B2B financial platform	11,196	1.47
Just Group	Enhanced annuity provider	11,043	1.45
Bytes Technology	Software reseller	10,965	1.44
Victrex	Speciality chemicals	10,062	1.32
Serco	Outsourcing services	9,996	1.31
Rathbones	Private client wealth manager	9,970	1.31
Bodycote	Engineering group	9,889	1.30
Workspace	Real estate investment and services	9,809	1.29
Moneysupermarket.Com	Price comparison website	9,789	1.29
Foresight	Specialist fund manager	9,680	1.27
30 largest		420,255	55.27
Savills	Property transactional consulting services	9,555	1.26
Serica Energy ¹	Oil & gas exploration and production	9,448	1.24
GB Group ¹	Data intelligence services	9,379	1.23
Tyman	Building products	9,095	1.20
Chemring	Technology products and services	9,070	1.19
RWS Holdings ¹	Patent translation services	8,809	1.16
Crest Nicholson	Housebuilder	8,719	1.15
Redde Northgate	Commercial vehicle hire	8,672	1.14
Hollywood Bowl	Ten pin bowling operator	8,137	1.07
SigmaRoc ¹	Aggregates supplier	8,098	1.07
40 largest		509,237	66.98

¹ Quoted on the Alternative Investment Market

Investment Portfolio at 31 May 2023 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Midwich ¹	Audio-visual equipment distributor	7,788	1.02
Qinetiq	Defence services	7,543	0.99
Next Fifteen Communications ¹	PR and media services	7,430	0.98
Burford Capital ¹	Litigation finance	7,324	0.96
Liontrust Asset Management	Specialist fund management	7,163	0.94
Auction Technology	Online auction software provider	6,720	0.88
Morgan Advanced Materials	Engineering group	6,670	0.88
Pagegroup	Recruitment company	6,199	0.82
Genuit	Building products	6,176	0.81
Bridgepoint	Private equity fund manager	6,110	0.80
50 largest		578,360	76.06
CLS	Real estate investment and services	5,952	0.78
Trainline	Online ticket retailer	5,936	0.78
Luceco	Electrical products	5,913	0.78
Wickes	DIY retailer	5,856	0.77
Harworth	Urban regeneration and property investment	5,421	0.71
Videndum	Broadcast and camera systems	5,239	0.69
SThree	Recruitment company	5,081	0.67
XP Power	Electrical power products	5,056	0.67
Smart Metering Systems ¹	Energy smart meters	5,030	0.66
AB Dynamics ¹	Automotive testing and measurement products	4,925	0.65
60 largest		632,769	83.22
Restore ¹	Office service provider	4,778	0.63
DFS	Furniture retailer	4,748	0.62
Harbour Energy	Oil and gas exploration and production	4,663	0.61
Synthomer	Speciality chemicals	4,582	0.60
Howden Joinery	Kitchen manufacturer and retailer	4,459	0.59
Moonpig	Online card and gift retailer	4,387	0.58
Gresham House ¹	Specialist fund manager	4,322	0.57
Stelrad	Radiator manufacturer	4,271	0.56
Capricon Energy	Oil and gas exploration and production	3,961	0.52
Empiric	Student accommodation	3,865	0.51
70 largest		676,805	89.01
Wilmington	B2B information provider	3,836	0.51
Hunting	Oil equipment and services	3,832	0.50
Helical	Office property investor and developer	3,766	0.50
Avon Protection	Defence products	3,690	0.49
Pebble ¹	Promotional products and services	3,689	0.49
Alliance Pharma ¹	Pharmaceutical products	3,438	0.45
GlobalData ¹	B2B information provider	3,402	0.45
RM	Education software and services	3,330	0.44
Spirent Communications	Telecom testing services	3,276	0.43
JTC	Fund administrator	3,121	0.41
80 largest		712,185	93.68

¹ Quoted on the Alternative Investment Market

Investment Portfolio at 31 May 2023 (continued)

Company	Principal activities	Valuation £'000	Portfolio %
Young & Co's share class A ¹	Pub operator	3,009	0.40
Grainger	Residential property investor	2,981	0.39
Advanced Medical Solutions ¹	Medical supplies manufacturer	2,912	0.38
Aptitude Software	Software retailer	2,880	0.38
Young & Co's share class NV ¹	Pub operator	2,851	0.38
Halfords	Cycling and automotive products retailer	2,727	0.36
Headlam	Floor coverings distributor	2,651	0.35
Benchmark Holdings ¹	Aquaculture services	2,630	0.35
Restaurant Group	Restaurant and pub operator	2,611	0.34
Blancco Technology ¹	Data erasure software	2,600	0.34
90 largest		740,037	97.35
Severfield	Structural steel products	2,488	0.33
Essentra	Industrial distributor	2,374	0.31
Clarkson	Shipping services	2,302	0.30
Access Intelligence ¹	Marketing services software provider	2,238	0.29
Tribal ¹	Educational support services and software	2,232	0.29
Eurocell	Building products	2,072	0.27
Ergomed ¹	Clinical trial services	2,028	0.27
Thruvision ¹	Detection technology	1,800	0.24
Safestyle ¹	Window and door retailer	1,710	0.23
Focusrite ¹	Audio production equipment	875	0.12
100 largest		760,156	100.00
Total equity investments		760,156	100.00

There were no convertible or fixed interest securities at 31 May 2023 (2022: None).

¹ Quoted on the Alternative Investment Market

Historical Record

At 31 May	Net assets £'000	NAV with debt at par p	NAV with debt at market value p	Mid- market price p	Discount with debt at par %	Discount with debt at market value %	Profit/(loss) for year £'000	Revenue return p	Capital return p	Total return p	Dividends p	Ongoing charges excl perf fee %	Ongoing charges incl perf fee %
2014	476,281	637.6	634.3	547.0	(14.2)	(13.8)	79,958	12.67	94.37	107.04	11.00	0.44	0.56
2015	563,321	754.1	752.1	686.0	(9.0)	(8.8)	95,631	15.04	112.98	128.02	13.50	0.46	0.88
2016 ¹	546,080	731.0	731.0	616.5	(15.7)	(15.6)	(6,783)	15.92	(25.00)	(9.08)	15.00	0.44	0.44
2017	688,460	921.6	921.6	799.0	(13.3)	(13.3)	154,332	19.57	187.03	206.60	18.00	0.43	1.01
2018	782,068	1,046.9	1,046.9	966.0	(7.7)	(7.7)	107,801	22.79	121.52	144.31	21.00	0.42	0.99
2019	716,145	958.7	958.7	858.0	(10.5)	(10.5)	(49,862)	23.59	(90.34)	(66.75)	23.00	0.42	0.42
2020	641,796	859.1	859.1	777.0	(9.6)	(9.6)	(56,799)	16.73	(92.76)	(76.03)	23.50	0.42	0.42
2021	992,898	1,329.1	1,329.1	1,280.0	(3.7)	(3.7)	368,651	13.86	479.64	493.50	23.75	0.39	0.98
2022	802,599	1,074.4	1,074.4	917.5	(14.6)	(14.6)	(172,565)	24.57	(255.58)	(231.01)	24.00	0.42	0.42
2023	675,387	904.1	904.1	785.0	(13.2)	(13.2)	(109,287)	29.38	(175.68)	(146.30)	26.00	0.44	0.44

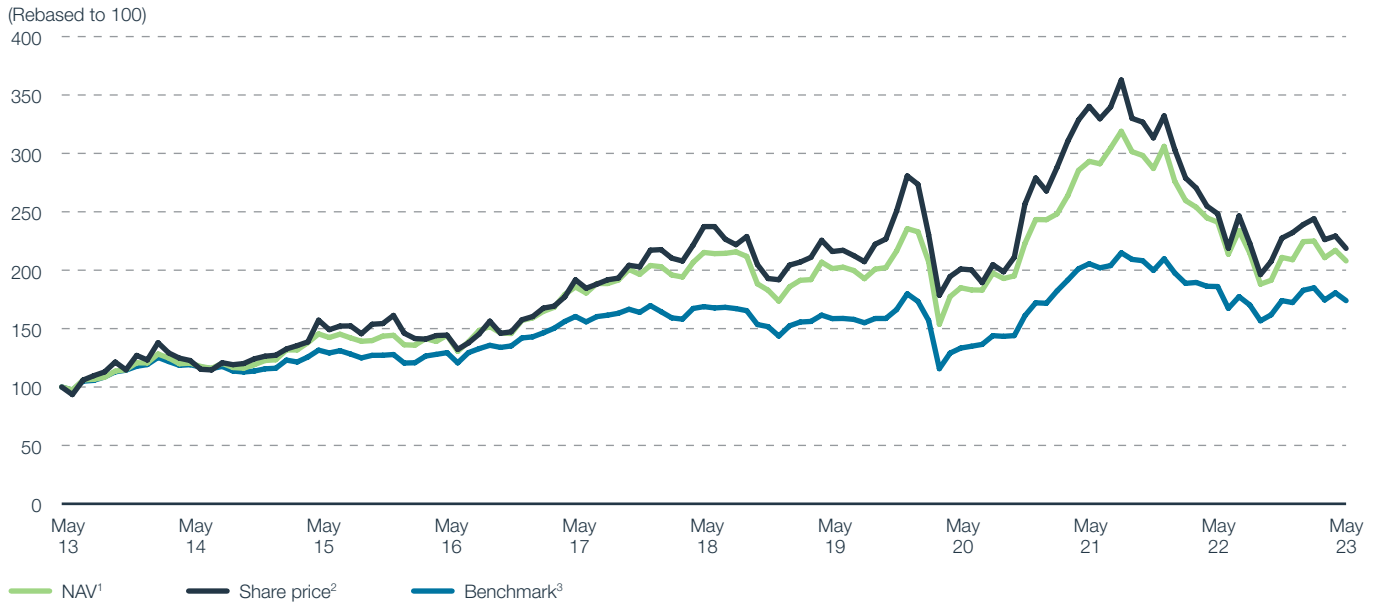
¹ Since the redemption of the Debenture Stock on 31 May 2016, the Company's NAV and discount with debt at par or market value are identical because there is no difference in the values of the remaining debt liabilities

A glossary of terms and explanations of alternative performance measures are included on pages 84-87

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream

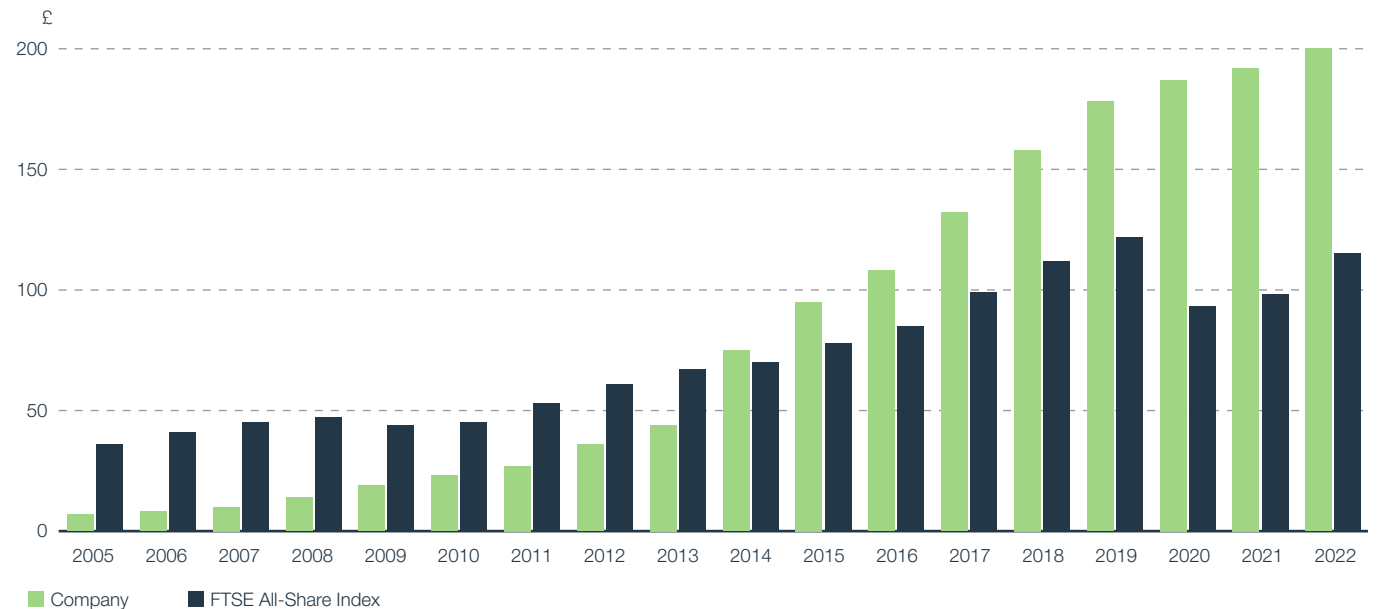
Historical Performance

Total return performance over the 10 years to 31 May 2023



Historical dividend growth

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



See page 16 for further historical data.

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

Sources: Morningstar Direct, Janus Henderson, Refinitiv Datastream

Business model

Our purpose

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

Our culture and values

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

Our strategy

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

Status

The Company is registered as a public limited company, founded in 1887, and is an investment company as defined in section 833 Companies Act 2006 (the "Act"). The Company operates as an investment trust in accordance with section 1158 Corporation Tax Act 2010 ("s1158") as amended and has obtained approval from HMRC for its status. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with s1158, and is not a 'close company' as defined under the Act. The directors believe that the Company has conducted its affairs in compliance with s1158 since approval was granted and intends to continue to do so.

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

Investment objective

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

Investment policy

Smaller companies are defined as any company outside the FTSE 100 Index. Once a portfolio company enters the FTSE 100 Index, the Fund Manager has, in normal circumstances, six months to sell the position.

Investments may include shares, securities and related financial instruments, including derivatives. The following investment ranges apply:

- Equities: 80% – 100% of total gross assets
- Fixed Income and Cash: 0% – 20%

The Company maintains a diversified portfolio and cannot:

- Invest more than 5% of its total gross assets in any one holding; or
- Hold more than 10% of an investee company's equity,

in each case measured at the time of investment (or additional investment). The Board may give approval to the Manager to exceed these limits to as far as 10% and 20% respectively but only in exceptional circumstances.

It is the stated investment policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

Derivatives

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

Gearing

Net gearing (defined as all borrowings less cash balances and investments in cash funds) is limited by the Board to a maximum of 30% of shareholders' funds.

Business model (continued)

Management

The Company qualifies as an ‘alternative investment fund’ in accordance with the Alternative Investment Fund Managers Directive (“AIFMD”).

The Company’s affairs are overseen by a non-executive Board which at 31 May 2023 comprised six directors: four women and two men. Their biographies are set out on pages 34-35 and details of gender and ethnic representation are on page 48. The Board’s diversity policy is set out on pages 47-48.

We, as a Board, appointed Janus Henderson Fund Management UK Limited (“JHFM”) to act as its alternative investment fund manager (“AIFM”). JHFM delegates investment management services to Janus Henderson Investors UK Limited (“JHIUK”) in accordance with an agreement which was effective from 22 July 2014. The management agreement with JHFM is reviewed annually by the Management Engagement Committee (see page 46), and can be terminated with six months’ notice. Both JHFM and JHIUK are authorised and regulated by the FCA and are part of the Janus Henderson Investors group of companies. References to ‘Janus Henderson’, ‘JHI’, or the ‘Manager’ refer to the services provided to the Company by Janus Henderson Investors.

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

The Company does not have employees, premises or operations. Janus Henderson and its subsidiaries provide accounting, company secretarial, sales, marketing and general administrative services. Some of the administration and accounting services are carried out, on behalf of the Manager, by BNP Paribas. Janus Henderson Secretarial Services UK Limited acts as corporate secretary.

Business ethics

As the Company’s operations are delegated to service providers, the Board seeks assurances, at least annually, from its service providers that they comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010, Criminal Finances Act 2017, and sanctions element of the Economic Crime (Transparency and Enforcement) Act 2022. The Company has received assurances from its main suppliers that they maintain a zero-tolerance policy towards the provision of illegal services.

Investment selection

The Fund Manager uses rigorous research to identify high-quality smaller companies with strong growth potential. The benchmark is the Numis Smaller Companies Index

(excluding investment companies). Generally, new investments are made in constituents of the benchmark index but they may continue to be held when the underlying companies grow out of the smaller companies sector. Our Fund Manager’s investment approach is selective, aiming to deliver higher returns than our equity benchmark. The Manager is not a passive or indexed investor. Reflecting this, our portfolio’s active share at 31 May 2023 was 71.5% (76.2% at 31 May 2022).

Borrowings

The Company has access to borrowings up to £135 million (2022: £135 million), comprising £50 million unsecured loan notes and a £85 million committed bank facility with BNP Paribas, London Branch. In addition, the Company has a small amount of preference stock in issue (see page 76 for more details).

Promoting the success of the Company

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

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

Stakeholder map

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



Business model (continued)

Interaction with stakeholders

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

Stakeholders	Engagement	Outcome
Shareholders	<p>Key mechanisms of engagement included:</p> <ul style="list-style-type: none"> encouraging investors to attend and vote at annual general meetings (“AGMs”). Shareholders have the opportunity to address questions to all directors, the Fund Manager and the company secretary; the Company’s website, which hosts annual and half-year reports, daily NAV per share information, monthly factsheets, press releases, key information documents, videos recorded by the Fund Manager, proxy voting results, and other information on governance and decision making; use of social media channels (see page 90); providing regular market commentary; investor meetings with directors in attendance, one-to-one investor meetings with the Fund Manager, presentations to investors and analysts following the publication of annual results, and a programme of events to foster understanding and good relations with wealth managers and underlying investors; a shareholder tracing and engagement programme commenced during the year, whose purpose is to locate and reunite shareholders with their unclaimed or ‘lost’ entitlements to shares and dividends; promoting the Company through marketing and public relations initiatives, as we believe that the Company provides a credible investment choice for all types of investors. <p>The Chair and all the directors invite shareholders to make contact with them directly. Shareholders are welcome to write to the Chair or Senior Independent Director at the registered office (see page 90), or by email to itsecretariat@janushenderson.com with any feedback, queries or concerns. The Board reviews all shareholder correspondence addressed to it.</p> <p>The Board is pleased to invite shareholders to attend the AGM and Fund Manager’s presentation for the year ended 31 May 2023. More details are on pages 7 and 54, and in the AGM Notice on pages 91-97.</p>	<p>Shareholders make informed decisions about their investments. Clear communication of our strategy and the Company’s performance against our objective can help the share price trade at a narrower discount to its net asset value which benefits shareholders.</p> <p>Close interaction with shareholders enables the Board to run the Company in line with shareholders’ interests as a whole and for the Company’s long-term success.</p> <p>Our new shareholder tracing and engagement programme has already had good results, reuniting several shareholders with their assets, which they may not previously have been aware of or have not been able to claim.</p> <p>During the year, the Fund Manager met many investors, attended several meetings of professional investors and held discussions with wealth managers. Feedback from all meetings between the Fund Manager and shareholders was shared directly with the Chair and, at its following meeting, with the full Board. The directors also received updates from the broker and JHI sales team containing feedback from shareholders. Investors gave positive feedback in respect of the Fund Manager, the good long-term track record, clear investment strategy, articulation of investment activity and low fee. Some investors liked the wider discount, making the shares excellent value. Investors also expressed concerns over the outlook for UK consumers and potential for economic data to deteriorate.</p> <p>The Chair also met directly with some shareholders who wished for meetings during the year, and discussed the investment performance, the Fund Manager’s ESG approach, Board governance and performance prospects. The Chair’s meeting notes were shared with the Board.</p>
Potential investors	<p>The Board and Manager liaise to engage with the wider investor community through various forums to understand their requirements in addition to those of current shareholders. The material made available to current shareholders, as set out above, is also publicly available for the benefit of potential investors.</p>	<p>By understanding the Company’s activities, performance, risks and prospects, potential investors will also be able to make informed decisions about their investments.</p>

Business model (continued)

Stakeholders	Engagement	Outcome
<p>Janus Henderson as fund management group and AIFM</p> <p>Activities include:</p> <ul style="list-style-type: none"> • Fund management • Sales and marketing • Company secretarial • Financial reporting • Internal controls functions • Internal audit • Investment accounting and administration (outsourced by Janus Henderson to BNP Paribas) 	<p>We, as your Board of directors, set and oversee parameters for the Manager's activities, including asset allocation, gearing, stock and sector selection as well as risk management. The Board holds our Manager to account in managing the Company's assets.</p> <p>The Board regularly reviews performance against investment objective, policy and guidelines, and receives presentations from the Fund Manager and other representatives of the Manager at each board meeting to exercise effective oversight of portfolio, performance and strategic objectives. The Manager's performance in all respects is reviewed formally by the Management Engagement Committee ("MEC") each year (see MEC Report on page 46).</p> <p>The directors work closely with the fund management group outside scheduled board meetings on matters relating to portfolio management, administration and governance oversight, including stakeholder engagement and relationships with third parties. The Board also meets with key staff outside board meetings to develop strategy, including plans to promote the Company with the aim of raising its profile.</p> <p>Recognising that sustainability is fundamental to achieving long-term success, the Board has continued to work closely with the Manager to achieve the Company's investment objective in an effective, responsible and sustainable way in the interests of shareholders, future investors and society at large. We support the Manager's approach, which focuses on engagement with investee companies on ESG issues and empowers each investment team to define the ESG considerations pertinent to their own investment approach, as set out on pages 28 to 32. We continue to be supportive of the fund management team's regular engagement with investee companies on specific topics, with examples given on page 30. We review at each board meeting all the votes on portfolio companies' resolutions cast since the previous meeting and how they align with the Manager's ESG investment principles.</p> <p>The Board encourages and supports the Manager in attracting and retaining talent, so that the Company has the resources to implement its strategy and manage third-party relationships successfully.</p> <p>The Board monitors the Manager's culture, values and aspirations each year to ensure that these remain aligned with the Board's own culture and values, as part of the overall assessment of the service provided.</p>	<p>The portfolio activities undertaken by our Manager and the impact of decisions are set out in the Fund Manager's Report on pages 8 to 13.</p> <p>Our close relationship enables both the Manager and directors to explore and understand performance and what may be expected in the future.</p> <p>The Board monitors investment management costs, keeps them competitive and ensures the Manager is paid in accordance with the management agreement.</p> <p>The Board monitors succession planning within Janus Henderson for all key positions supporting the Company.</p> <p>The Board is proud of the diversity in the fund management team. It takes a keen interest in the diversity initiatives in place at its service providers and in particular, supports and encourages the Manager's diversity training and initiatives to improve any imbalances. These include Janus Henderson's gender and ethnicity pay gap analysis, returnship, trainee, apprenticeship and internship programmes, such as INROADS, Girls Who Invest, Investment 2020 and #100 Black Interns. The Board monitors the culture at Janus Henderson and appreciates that the Manager fosters and maintains an environment that values the unique talents and contributions of individuals, and strives to cultivate and practise inclusiveness for the long-term success of the business and for the benefit of its employees, investors and shareholders.</p>

Business model (continued)

Stakeholders	Engagement	Outcome
<p>Third-party service providers, including:</p> <ul style="list-style-type: none"> • Depository and custodian • Fund accountant and administrator (outsourced by the Manager) • Registrar • Corporate broker • Recruitment agent • Legal counsel 	<p>Representatives of all the main service provider functions present regularly to the Board. The Company contracts directly for depository and registrar services, and indirectly for fund administration and accounting services.</p> <p>The Board and Manager work with the broker, including its research and sales teams, to provide access to the market and liquidity in the Company's shares. The Board invites representatives of the broker to provide regular analysis of shareholder movements and voting patterns at shareholder meetings, industry changes and contact with investors.</p> <p>At the MEC meeting held in May 2023, the directors reviewed the contractual terms, fees and performance of all the Company's service providers (see MEC Report on page 46). The key service providers gave updates on any material changes in organisational structure/ ownership and information regarding staff turnover and other cultural/leadership matters.</p> <p>The Board relies on the Manager to provide reports on suppliers' performance at each meeting of the MEC, while the directors remain responsible for assessing each supplier's internal controls and risk management systems, ESG matters, information security and business continuity plans. This is achieved through the assessment of suppliers' assurance reports (see pages 43-44) and feedback from the Manager to identify any issues or concerns.</p>	<p>The Company is supported by experienced and capable third parties for all the services required to be a well-functioning company.</p> <p>The liquidity of the Company's shares benefits shareholders and potential investors as they can buy and sell shares in a timely, efficient and cost-effective way.</p> <p>Monitoring and ensuring these third parties undertake their roles diligently and correctly is necessary for the Company's success.</p> <p>This regular interaction provides an environment where topics, issues and business development needs can be dealt with efficiently and collegiately. The Board is then able to ensure that service levels and fees remain in the best interests of shareholders.</p> <p>During the year, the Board appointed Edison Investment Research Limited as a third-party research provider after a competitive selection process. Since the year-end the Board has decided not to renew its contract with Edison, on the basis that the content did not generate sufficient value for shareholders at the present time.</p>
<p>Investee companies as listed on pages 14 to 16</p>	<p>The Board sets the investment objective and discusses stock selection, asset allocation, and engagement with investee companies with the Fund Manager at each board meeting.</p> <p>The Manager engages with the investee companies on behalf of the Company to exercise good stewardship practices. The Manager has a dedicated Governance and Stewardship Team which supports the Fund Manager in the investment process.</p>	<p>The fund management team has conducted face-to-face and/or virtual meetings with all our portfolio companies' management teams in the past year to enable them to understand current trading and business prospects, and ensure that the ESG investment principles and approach are understood. The Manager is a responsible investor.</p>

Business model (continued)

Stakeholders	Engagement	Outcome
Lenders <ul style="list-style-type: none"> BNP Paribas, London Branch (since 8 February 2023) Industrial and Commercial Bank of China Limited, London Branch ("ICBC") (to 7 February 2023) Loan noteholders 	<p>The Company employs gearing to enhance shareholder returns and confirms compliance with the loan covenants of both its short-term and long-term gearing facilities on a monthly basis.</p> <p>Janus Henderson provides the Board with regular financial covenant compliance validation and financial reporting.</p>	<p>The Company maintains long-term borrowings at low rates through the use of loan notes and a revolving credit facility.</p> <p>During the year, the Board held a competitive tender for provision of a £85 million revolving credit facility ("RCF"), as its RCF with ICBC expired in February 2023. The Board reviewed proposals from several potential lenders. BNP Paribas, London Branch, provided the most competitive terms for a one-year RCF and consequently was engaged following expiry of the ICBC contract.</p> <p>The Company maintains a good relationship with its lenders and is well positioned to raise financing to operate effectively as an investment trust.</p> <p>Our strategic gearing (12.6% at 31 May 2023) positions us well to continue to enhance long-term returns over many years to come.</p>
Auditor	<p>The auditor attends at least two audit and risk committee ("ARC") meetings each year and maintains regular contact with the corporate secretary, the Manager and the ARC Chair between meetings.</p> <p>Through close engagement, the directors ensure that the auditor in office is committed to the investment trust audit market and provides the best quality service for an appropriate fee level.</p>	Shareholders, potential investors and wider stakeholders place reliance on the Company's audited annual report and financial statements.
The Association of Investment Companies ("AIC")	The Company is a member of the AIC which is an organisation that looks after the interests of investment trusts.	The Board chooses to report under the AIC Code of Corporate Governance as this better reflects the unique aspects of an investment trust in the context of good corporate governance.

Performance measurement and key performance indicators

To measure the success of the Company in meeting its objective and to evaluate the performance of the Manager, the directors take into account the following key performance indicators ("KPIs"). The charts, tables and data on pages 2 to 4 show how the Company has performed against these KPIs, and a glossary of terms and alternative performance measures is included on pages 84 to 87.

KPI	Action
Performance measured against the benchmark	At every meeting, the Board reviews and compares the performance of the portfolio as well as the net asset value ("NAV") and share price for the Company against the performance of the Company's benchmark.
Performance against the Company's peer group	The Board considers the Company's performance against the AIC's UK Smaller Companies sector, which represents the Company's peer group.
Discount/premium to NAV	The Board monitors the discount to NAV at which the Company's shares trade and reviews the average discount for the AIC UK Smaller Companies sector at each meeting. The Board considers whether to use share buy-backs to enhance shareholder value. Shares are only bought back at a price below the prevailing NAV, thereby increasing the NAV for the remaining shareholders. The Company publishes a NAV per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula.
Ongoing charge	The Board monitors the costs of running the Company calculated using the AIC methodology for the ongoing charge.

Business model (continued)

Board decision making

The Board is always mindful of acting in the best interests of shareholders as a whole and to have regard to other s172 factors. The Board takes into consideration the Company's purpose, investment objective and investment policy as well as the interests of the Company's stakeholders when discussing matters and making decisions. In addition to regular, detailed discussions about the Company's investment portfolio, strategy and market performance, the following are examples of the key discussions held and decisions made by the Board during the financial year ended 31 May 2023:

- The directors held specific discussions about the **deteriorating macroeconomic and geopolitical environment**, notably the ongoing conflict in Ukraine, continuing tensions between the US, Europe and China and the related disruption to global supply chains, the broader impact of the cost-of-living crisis in the UK and the changing appetite among bank lenders. The Board examined the implications of these heightened risks for our investment portfolio and the Company's balance sheet and cash flows.
- The Board reviewed the Company's **structural debt and borrowing position**. Taking into consideration the long-term advantages of gearing for an investment trust and the Fund Manager's investment strategy over the longer term, the Board approved the renewal of a one-year loan facility agreement with BNP Paribas, London Branch, after considering multiple indicative quotes from potential lenders, to take advantage of the most competitive rates and terms on offer.
- Following an **extensive recruitment process** conducted with an experienced independent external search consultancy, Yen Mei Lim joined the Board on 3 April 2023. Mei has extensive experience in corporate finance, M&A, commercial strategies and business development, with an ESG-focused approach, all of which will be invaluable to the Company's continued progress.
- **Ensuring the Company's directors, suppliers and culture remain appropriate.** During the year, the Board reviewed its own effectiveness, that of its Committees and the performance of its Manager using an external evaluator, Lintstock Ltd, so that the review was as objective and in-depth as possible. As part of the process, the directors received updates on the staff working for the Company among the various service providers, and any changes in suppliers' culture, mission, values and purpose, and changes in governance structures. The results of the review are described on pages 46-49. The Board is keen to ensure it remains a place where all members thrive and contribute optimally in an honest, respectful and collegial environment. We are also delighted to report that the Board met its targets for gender and ethnic diversity, more on which can be read on page 48.
- **The directors carefully assessed the size of the dividend and the strength of the Company's balance sheet.** They agreed that, subject to shareholder approval, the final dividend should be increased without using capital reserves. This will benefit shareholders and align their interests with those of the Fund Manager.
- **At each board meeting, the directors discussed the Fund Manager's approach to investing responsibly**, including his analysis of the impact that the portfolio companies' approach to environmental, social and governance matters has on the wider community. Case studies on engagement with portfolio companies are on page 30.
- **The Board agreed resolutions to be put to shareholders** at the AGM in 2023 including the remuneration policy vote.
- **The Board arranged for the Company's half-year and annual results to be prepared**, and approved these for release to the market and to shareholders. By presenting the financial results to shareholders in the Half-Year Update and Annual Report as well as the market announcements, and making them available on the website to other stakeholders, the Company enabled shareholders and potential investors to make informed decisions about their investment in the Company.

Business model (continued)

Principal risks and uncertainties

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal and emerging risks facing the Company which relate to the activity of investing in the shares of smaller companies that are listed (or quoted) in the United Kingdom.

The directors seek assurance that the risks are appropriately evaluated, their possible outcomes considered, and that effective mitigating controls are in place. To support this process, the Audit and Risk Committee (“ARC”) maintains a detailed risk matrix which identifies the substantial risks to which the Company is exposed and methods of mitigating against them as far as practicable. The ARC considers the Company’s principal and emerging risks at each meeting, with a thorough review at least once per year, using heat maps derived from the detailed risk matrix. Every year each director undertakes an individual assessment of each risk. The individual ratings are collated and reviewed at a meeting, which triggers fresh critical debate. The Board regularly considers these and does not consider the principal risks to have changed during the course of the reporting period and up to the date of this report.

Throughout the year the Board has considered the impact of macroeconomic events with a global impact and heightened market volatility, including the aftermath of Covid-19 and the ongoing ramifications of the Russia/Ukraine conflict. The Board has assessed the impact of mitigation measures on manufacturing supply lines and on heightened uncertainty in the business environment. The Board has also considered the wider consequences of the recent specific problems in the US and Swiss banking sectors, and continues to monitor economic uncertainty and the cost-of-living crisis in the UK, and the UK banks’ appetite for lending to the corporate sector.

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

The principal risks fall broadly under the following categories:

Risk	Controls and mitigation
Investment activity and strategy Poor long-term investment performance (significantly below agreed benchmark or market/industry average) Loss of the Fund Manager or management team Impact of political, environmental, health or other emergencies (e.g. Covid-19, war and a changing macroeconomic environment) on the Company’s investments Approach to ESG matters Material climate-related impacts (both physical and transition risks) Market appetite – investment objective and/or policy not appropriate in the current market or not sought by investors resulting in a wide discount	<p>The Board reviews investment strategy at each board meeting. An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may lead to underperformance against the Company’s benchmark and the companies in its peer group; it may also result in the Company’s shares trading at a wider discount to net asset value (“NAV”) per share. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with investment limits and restrictions determined by the Board; these include limits on the extent to which borrowings may be used. The Board reviews its investment limits and restrictions regularly and the Manager confirms its compliance with them each month. The Manager provides the directors with management information, including performance data and reports and shareholder analysis. The Board monitors the implementation and results of the investment process with the Fund Manager, and regularly reviews data that monitor portfolio risk factors.</p> <p>The Fund Manager reports to each board meeting on his close oversight of the portfolio, and more frequently in the event of a crisis. Performance is monitored by JHI’s internal teams, any of which would escalate directly to the Board in the event of matters of concern. At each meeting, the Board reviews the Fund Manager’s ESG engagement with portfolio companies and their governance structures, ESG risks reports, and votes cast against management. The Board also reviews JHI’s ESG-related marketing activity specific to the Company.</p> <p>The performance of the Company relative to its benchmark and its peers and the discount/premium to NAV per share are key performance indicators measured by the Board on a continual basis and are reported on pages 2 to 4.</p> <p>The Board obtains assurances from the Manager that the UK Smaller Companies team is suitably resourced, and the Fund Manager is appropriately remunerated and incentivised in this role. The Board also considers the succession plan for the fund management team on an annual basis.</p> <p>See page 20 for a description of the engagement with shareholders and potential investors undertaken by the Board and Manager to keep the market informed about Company developments.</p>

Business model (continued)

Risk	Controls and mitigation
<p>Legal and regulatory</p> <p>Loss of investment trust status</p> <p>Breach of company law or Listing Rules resulting in suspension</p>	<p>In order to qualify as an investment trust, the Company must comply with s1158 Corporation Tax Act 2010 ("s1158"). A breach of s1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to corporation tax. The s1158 criteria are monitored by the Manager and the results are reported to the directors at each board meeting. The Company must comply with the provisions of the Companies Act 2006 (the "Act") and, as the Company has a premium listing on the London Stock Exchange, the Company must comply with the Listing, Prospectus and Disclosure Guidance and Transparency Rules of the FCA.</p> <p>A breach of the Act could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. A breach of the FCA Rules could result in suspension of the Company's shares which would in turn lead to a breach of s1158. The Board relies on its corporate secretary and its professional advisers to ensure compliance with the Act and FCA Rules.</p>
<p>Operational</p> <p>Failure of, disruption to or inadequate service levels by key third-party service provider</p> <p>Cyber-crime leading to loss of confidential data</p> <p>Breach of internal controls</p> <p>Impact of political, environmental, health or other emergencies (e.g. Covid-19, war and a changing macroeconomic environment) on the Company's operations and those of its service providers</p>	<p>Disruption to, or failure of, the Manager's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Manager has contracted some of its operational functions, principally those relating to trade processing, investment administration and accounting, to BNP Paribas. Details of how the Board monitors the services provided by Janus Henderson and its other suppliers, and the key elements designed to provide effective internal control and risk management, such as review of service providers' assurance reports, are explained further on pages 43 to 45.</p> <p>Cybersecurity is closely monitored by the ARC as part of quarterly internal controls reports, and the ARC receives an annual presentation from Janus Henderson's Chief Information Security Officer.</p> <p>The Board monitors effectiveness and efficiency of service providers' processes through ongoing compliance and operational reporting. There were no disruptions to the services provided to the Company in the year under review.</p>
<p>Financial instruments and the management of risk</p>	<p>By its nature as an investment trust, the Company is exposed in varying degrees to market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk. An analysis of these financial risks and the Company's policies for managing them are set out in note 15 on pages 77 to 80.</p>

Emerging risks

At each meeting, the Board considers emerging risks which it defines as potential trends, sudden events or changing risks which are characterised by a high degree of uncertainty in terms of occurrence probability and possible effects on the Company. Once emerging risks become sufficiently clear, they may be treated as specific risks and enter the Company's matrix of significant risks. During the year, the directors agreed that emerging risks would include disruption to markets, the global economy and society through artificial intelligence ("AI") such as ChatGPT, and UK banks' appetite for lending to the UK corporate sector, including investment trusts. The directors also considered the trend for UK-listed companies to de-list from the London Stock Exchange and seek an alternative listing in the US, and agreed that potentially more relevant for smaller UK-focused companies would be a de-listing and move to private equity.

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

Viability statement and continuation vote

The Company is a long-term investor. The Board believes it is appropriate to assess the Company's viability over a five-year period in recognition of the Company's long-term horizon and what the Board believes to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as documented in the Strategic Report.

The assessment has considered the impact of the likelihood of the principal risks and uncertainties facing the Company, in particular investment strategy and performance against benchmark, whether from asset allocation or the level of gearing, and market risk, in severe but plausible scenarios, and the effectiveness of any mitigating controls in place.

The Board took into account the liquidity of the portfolio and the borrowings in place when considering the viability of the Company over the next five years and the Company's ability to meet liabilities as they fall due. This included consideration of the duration of the Company's loan and borrowing facilities and how a breach of any covenants could impact the Company's NAV and share price, recognising the current strength of the covenants, liquidity of the portfolio and capital reserves available. The Board used a five-year cash-flow forecast and sensitivity analysis to support its deliberations.

Business model (continued)

The Board considers revenue and expense forecasts at each meeting, with additional focus at the time of reviewing half-year and year-end results. At the same time the Board discusses the impact on the Company of decreases in revenue and the impact that would have on revenue and capital reserves available to pay dividends.

The Board does not expect there to be any significant change in the principal risks and adequacy of the mitigating controls in place, nor does the Board envisage any change in strategy or objective or any events that would prevent the Company from continuing to operate over the next five years; the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. In coming to this conclusion, the Board has considered rigorously the aftermath of the Covid-19 pandemic, the continued macroeconomic and geopolitical uncertainty following Russia's invasion of Ukraine and impact on global supply chains, and the current cost-of-living crisis. The Board considers that these events have highlighted the advantages of holding an investment trust.

The Board does not believe that these factors will have a long-term impact on the viability of the Company and its ability to continue in operation, notwithstanding the short-term uncertainty these events have caused in the markets and specific shorter-term issues, such as supply chain disruption, inflation and labour shortages.

The continuation vote at the 2022 AGM was passed with support of 99.2% of votes cast and the Board expects shareholders to support continuation at the 2025 AGM which is within the viability assessment period.

Based on their assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years to 31 May 2028.

Fee arrangements with the Manager

Management fee

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

Performance fee

The management agreement also provides for payment of a performance fee, calculated as 15% of any outperformance of the benchmark index, on a total return basis, over the Company's accounting year using net assets at the financial year end, compared with net assets at the beginning of the period. This is subject to a limit on the total management fee and performance fee payable in any one year of 0.9% of the average value of the monthly net assets of the Company during the year.

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

No performance fee is payable for the year ended 31 May 2023 (2022: nil).

Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of the cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years. It can only offset underperformance so that underperformance does not prevent a fee from being earned in a future period and will never earn a fee itself. For the year ended 31 May 2023, no unrewarded outperformance is carried forward, although an adjustment has been made to the carried-forward amount for underperformance in the year.

Category of cost	2023		2022	
	£'000	% of average net assets ¹	£'000	% of average net assets ¹
Management fee ²	2,367	0.34	3,347	0.35
Performance fee	–	–	–	–
Total	2,367	0.34	3,347	0.35

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

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

Ongoing charge

The Board believes that the ongoing charge of 0.44% during the year (2022: 0.42%) represented good value for money for shareholders. The ongoing charge calculation is explained on page 85. A breakdown of the main cost headings in monetary terms and as a percentage of average daily net assets is on page 86. The cost ratio used in the Key Information Document, which is based on a different calculation, is also described in the glossary on page 85.

Penny Freer
Chair of the Board
2 August 2023

ESG matters



Photo: Fordie sustainability project, Forestry site in Scotland, Foresight Group

ESG matters

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

Defining ESG

- **Environmental** factors include climate change, energy efficiency, resource depletion, water and waste management.
- **Social** factors include employee and community relations, diversity, quality of life, enhancements in knowledge and advances in supportive technology for improved sustainability.
- **Governance** factors include mitigating risks such as bribery and corruption, questioning board diversity, executive pay, accounting standards and shareholder rights, and positively influencing corporate behaviour.

Investment approach and ESG engagement

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

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

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

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

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

Company engagement

The Team's combined experience in the UK market has created a deep knowledge base. The Team's analysis is further supplemented by a body of increasingly sophisticated ESG-related data, broker research and company meetings. The Team is wary of the fact that individual ESG data points are not always material to company performance or even comparable between peers. However, the Team is conscious that management's overall attention to a collection of impactful ESG or sustainability issues can be interpreted as a leading indicator of quality, long-term oriented leadership and so impacts the ability to deliver enduring success.

The general level of governance at listed companies in the UK is of a very high standard in terms of best practice principles. The Team makes strong use of this market feature to augment traditional corporate governance and company research. As active managers in the UK marketplace, the Team is committed to the principles of good stewardship and attends approximately 300 company meetings per year. These opportunities are used to challenge strategy and hold management to account where issues have occurred. In addition to engaging with company management, the Team will often engage with the boards of portfolio companies where they believe concerns need to be escalated. If the Team does not feel that shareholder concerns are being addressed when engaging with a company, they will consider disinvesting.

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

Of the circa 300 meetings, the Team undertook 126 ESG interactions or engagements with investee companies during the year to 31 May 2023. During these exchanges, the Team raised environmental issues at 60 of the meetings, social issues at 48 of the meetings and governance issues at 57 of the meetings.

Engagement over the year

The Team carried out thematic engagement during the year to 31 May 2023 with companies in the portfolio on ESG topics. These themes included carbon reduction targets for industrial companies, employee welfare through the cost-of-living crisis, and efforts to promote a circular economy as set out on page 30. The Team continues to engage with investee companies to monitor progress.

ESG matters (continued)

Engagement on circular economy



Reason for engagement: Changing regulation, new technology and shifting consumer demand are fuelling the transition to a circular economy.

As a result, it is becoming increasingly important to understand how companies are embracing this change. Circular business models offer solutions to problems such as waste, pollution, climate change and biodiversity; when adopted effectively by management teams companies should benefit from changes in consumer tastes and mitigate future costs of industry regulation.



Objective of engagement: To understand how companies are participating in the circular economy with respect to recycling, waste management and disposal at the end of a product's lifecycle. Our engagement included conversations with DFS, the UK's leading sofa retailer, Videndum, a global camera equipment manufacturer, and Victrex, a specialist producer of thermoplastics.



Scope and process: Calls were held with the appropriate ESG lead at each of the three companies and topics focused on progress made with regards to recycling, customer adoption of recycling schemes and use of recycled material in new products.



Outcome: All three companies demonstrated the importance of recycling to their organisation and the desire to become a more sustainable business. The current level of recycling and circularity however varied depending on regulation, the customer recycling experience and length of product lifecycle. For example, in the case of DFS, the limiting factor has been UK/EU regulation whereas, for Victrex, the long product lifecycles have resulted in low recycling rates. Nevertheless, all companies talked of improving the ability to recycle and reuse material. For instance, Videndum has made a concerted effort to build sustainability criteria into product design. Overall, we were encouraged by each company's strategy on the circular economy and steps to encourage product recycling at their various industry forums. Whilst progress is currently limited, we expect significant improvement going forward as internal initiatives are accomplished. We look forward to monitoring and engaging with these companies in the future.

Engagement on employee welfare through the cost-of-living crisis



Reason for engagement: Following the rapid increase in energy and food prices after the Russian invasion of Ukraine, the UK consumer faced an unprecedented price shock and a significant squeeze on disposable income. Given this challenging backdrop, it was important to understand how companies provided support to employees through this period.



Objective of engagement: To assess what companies were doing to support the financial wellbeing of their workforce during the cost-of-living crisis. Given the labour-intensive nature of the businesses surveyed, it was important for us to engage as we believe that a well managed, appropriately compensated and engaged workforce would lead to improved performance and financial results.



Scope and process: Calls were held with management teams of Wickes, a leading DIY retailer, and Serco, a global contracting business respectively. These engagements focused on the support provided to employees over the course of 2022 and beyond, the steps taken to manage staff well-being and thoughts around employee welfare.



Outcome: Both companies surveyed operate with a large UK workforce with a significant proportion of employees being paid the minimum wage. Alongside providing a general increase in salaries in line with government guidance, both Wickes and Serco operated a hardship fund to support employees through this time. In addition, further benefits were provided in the form of employee discount vouchers for basic goods and access to other financial wellbeing tools were provided. In the case of Serco, the group also compensated non-management grade staff with a one-off payment to cover the immediate inflationary burden. Overall, it was evident that both companies were acutely aware of the cost-of-living crisis and offered support to employees where possible. Management saw these actions as both a form of support as well as an important part of employee retention. We plan to monitor and engage with these businesses in the future to understand the impact on retention and other employee engagement statistics.

ESG matters (continued)

Voting

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

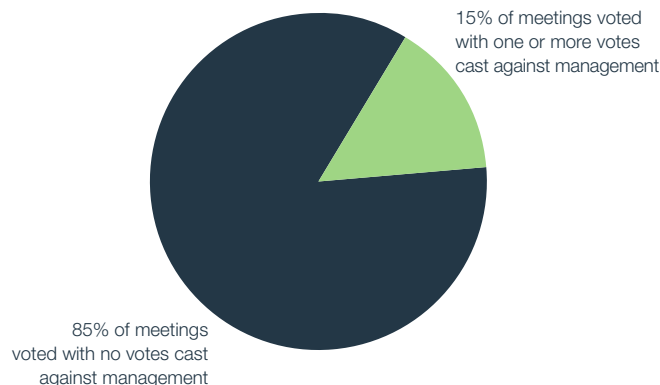
The decision on how to vote is guided by the best interests of investors and based on an in-depth understanding of the respective companies’ operations. Voting decisions are made in keeping with the provisions of the Manager’s ESG Investment Policy and is publicly available at www.janushenderson.com. To retain oversight of the process, the directors receive reporting at each board meeting on how the Manager has voted the shares held in the Company’s portfolio. The directors review the Manager’s ESG Investment Policy, Stewardship Policy, Proxy Voting Policy and Procedures at least annually.

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

During the year to 31 May 2023, the key issues which the Fund Manager voted against concerned director remuneration, overboarding, diversity and independence. In total, the Company voted at 119 shareholder meetings during the year to 31 May 2023, being 99.2% of portfolio companies’ general meetings. At 18 of these meetings (15.0%), the Company placed a vote against management or abstained.

The Company voted against 28 resolutions in total, being 1.6% of all resolutions voted on during the year, and abstained on six resolutions (0.4%).

Voting record



Stewardship

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

ESG matters (continued)

The environment

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

Our Manager recognises the importance of managing its operational activities in a sustainable way and minimising any adverse impact on the environment. In 2021, JHI reached its three-year target to reduce its carbon footprint by 15% per full-time employee ("FTE") from 2018 levels. In 2022, using guidance from the Science-Based Target Initiative, JHI set ambitious new five-year reduction targets:

- reduction target of 29.4% in Scope 1 (fuel) and Scope 2 (electricity) emissions;
- reduction target of 17.5% in Scope 3 (business travel, freight, paper, water, waste) emissions; and
- reduction target of 17.5% on water and waste consumption by FTEs.

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

JHI discloses its carbon emissions annually through regulatory and voluntary reporting frameworks, including SECR and the Carbon Disclosure Project ("CDP"), as well as in its **2022 Annual Report** and **2022 Impact Report**, which provide more information.

Penny Freer
Chair of the Board
2 August 2023

Governance



Photo: Serco, RNAS Culdrose. Apprentice and experienced engineers work on a Merlin helicopter engine.

Corporate Governance Report

Board of Directors

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



Penny Freer

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

Date of appointment: 14 September 2018

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

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

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



Alexandra Mackesy

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

Date of appointment: 14 September 2018

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

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

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



Kevin Carter

Position: Senior Independent Director
(from 1 October 2022)

Date of appointment: 1 May 2021

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

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

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

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

Corporate Governance Report (continued)

Board of Directors (continued)



Yen Mei Lim

Position: Director

Date of appointment: 3 April 2023

Experience and contribution: Mei is a chartered accountant and qualified lawyer. With over 20 years' experience in the financial services industry, Mei brings a deep understanding of corporate finance, M&A, strategy, transformational change and business development to Board deliberations. She has an ESG-focused approach, particularly around diversity and inclusion.

Other appointments: Mei is Chief Financial Officer and Head of Corporate Development at Anthemis, a venture capital investor with an embedded finance and impact investment focus. Prior to joining Anthemis, Mei was a managing director at Barclays for over a decade in a variety of different areas, notably corporate development, strategy, principal investments and finance. Mei's earlier career spans investment banking at Macquarie Bank in M&A for financial institutions, Ernst & Young LLP ("EY") in transaction advisory support and Goldman Sachs as an associate, having qualified as a chartered accountant with EY in 2004.



Victoria Sant

Position: Director

Date of appointment: 23 September 2016

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

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

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



Michael Warren

Position: Director

Date of appointment: 1 March 2021

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

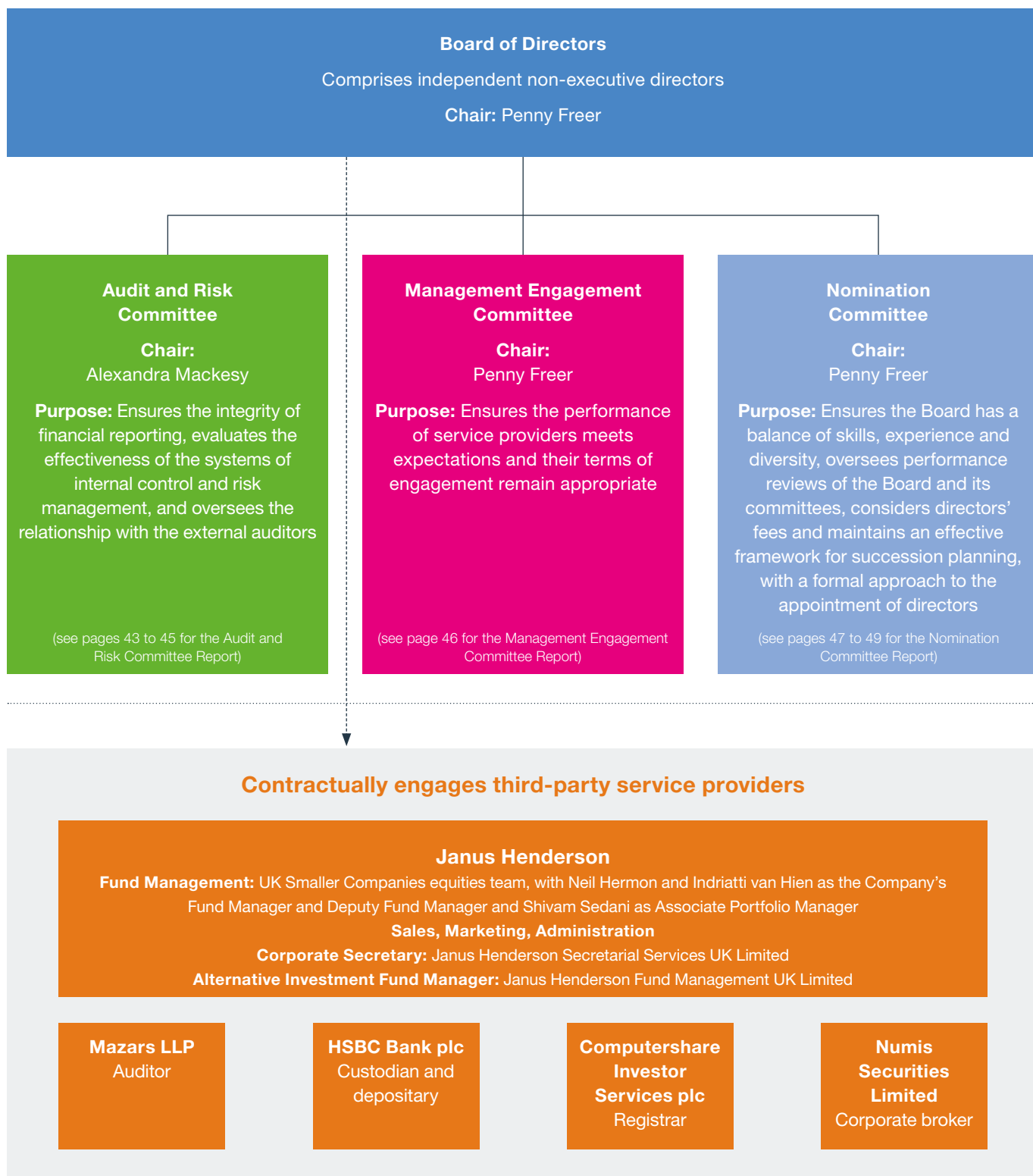
Other appointments: Michael is a non-executive director of Fidelity Asian Values PLC, where he chairs the management engagement committee, and a non-executive director of Carrington Wealth Management, Rathbone Unit Trust Management Limited and EdenTree Investment Management Limited. Michael also acts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

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

¹ The Company has a holding in Gresham House Asset Management, as set out on page 15 in the investment portfolio listing

Corporate Governance Report (continued)

Governance structure



The terms of reference for each of the committees of the Board are kept under regular review and are available at www.hendersonsmallercompanies.com or via the corporate secretary.

Corporate Governance Report (continued)

Chair's Statement on corporate governance

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

Compliance with corporate governance codes

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

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

Statement of compliance

The Board confirms that the Company has applied the principles and adhered to the provisions of the AIC Code in the year under review and up to the date of this report.

The Company has no chief executive or other executive directors and therefore has no need to consider the remuneration of executive directors. A separate remuneration committee has not been established, as the Board comprises only non-executive directors and the Company has no employees. The remit of the Nomination Committee includes

responsibility for non-executive directors' remuneration. The Board Chair does not act as Nomination Committee Chair when that committee considers matters relating to her performance, succession or remuneration.

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

Governance overview

The Board has three principal committees: Audit and Risk Committee, Management Engagement Committee and Nomination Committee, as set out in the governance structure chart on page 36. Committee membership is noted on page 34.

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

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

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

Corporate Governance Report (continued)

Leadership, roles and division of responsibilities

Role	Primary responsibilities
Board	<ul style="list-style-type: none"> Responsible for providing leadership of the Company's affairs Setting the Company's investment objective, policy and strategy Establishing a robust internal control framework enabling effective risk management Appointing and monitoring the performance of service providers within the parameters of the control framework Setting the Company's culture and values Ensuring that obligations to shareholders and other stakeholders are understood and met No directors are linked via any other directorships
Chair	<ul style="list-style-type: none"> Leading and managing Board business and ensuring the timely flow of information from service providers to the Board Providing effective leadership of the Board, including setting its agenda and determining its governance framework, culture and values, with the support of other directors and the corporate secretary Leading the Board's relationship and engagement with shareholders and other stakeholders Managing the relationship with the Manager
Committee Chairs	<ul style="list-style-type: none"> The leadership and governance of their Committee Maintaining the relationships with specialist service providers delivering services within the remit of their Committee Reporting on the activities of their Committee to the Board Seeking approval from the Board for the responsibilities set out in their respective terms of reference
Senior Independent Director ("SID")	<ul style="list-style-type: none"> Fulfilling the role of sounding board for the Chair and intermediary for the other directors as necessary Leading the effectiveness review of the Chair Acting as a channel of communication for shareholders in the event that contact through the Chair is inappropriate
Independent non-executive directors	<ul style="list-style-type: none"> Providing constructive and effective challenge, especially to the decisions of the Manager Scrutinising and holding to account the performance of: <ul style="list-style-type: none"> – the Fund Manager in meeting the investment objective – Janus Henderson in the promotion of the Company and day-to-day smooth operations of the Company's business Providing strategic guidance and offering specialist advice
Company Secretary	<ul style="list-style-type: none"> Responsible to the Board for compliance with Board and committee procedures, rules and regulations Minutes board and committee meetings, with any director's concerns recorded in the minutes Board has the power to appoint or remove the secretary in accordance with terms of the management agreement
Manager (AIFM)	<ul style="list-style-type: none"> Promoting the Company's investment proposition to professional and retail investors Making the necessary reporting to the FCA regarding the Company's status as an AIF Providing accounting, company secretarial and administrative services to the Company ensuring compliance with the applicable statutory and regulatory provisions Coordinating the delivery of services provided by the Company's other third-party service providers
Fund Manager	<ul style="list-style-type: none"> Selecting the stocks held within the portfolio Diversification and risk management through stock selection and size of investment Determining the volume and timing of acquisitions and disposals Determining the frequency and level of gearing within the overall limits set by the Board
Shareholders	<ul style="list-style-type: none"> Approving material changes to the Company's investment policy Approving the final dividend Making decisions on changes to the Company's constitution Electing and re-electing directors to the Board, or removing them from office if deemed appropriate Determining the overall limit for directors' remuneration

Corporate Governance Report (continued)

Operation of the Board

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

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

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

The Chair is invited to meetings of all the chairs of the investment trust companies managed by JHI, which provide a forum to discuss industry matters, and then reports back to the Board. A fundamental consideration in the Board's decision-making is its awareness of the interests of shareholders and other key stakeholders, as explained on page 19.

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

Corporate secretary

The Board has direct access to the advice and services of the nominated chartered secretary, who has been appointed by the corporate secretary Janus Henderson Secretarial Services UK Limited, a subsidiary of JHI with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the two entities, particularly when dealing with any conflicts or issues between the Company and JHI.

Directors' appointment and tenure

Appointment and retirement

The Board may appoint directors at any time during the year. Any director so appointed will stand for election by shareholders at the following annual general meeting in accordance with the provisions of the Company's articles of

association. Each director receives a letter of appointment that sets out, amongst other matters, what is expected of them in terms of time commitment.

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

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

Tenure

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

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

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

Following the Nomination Committee's review of the contribution and performance of each director (see pages 47-49), the continuing appointment of all directors was agreed for resolution by shareholders at the AGM.

Professional development

An induction process is in place for new appointees and all directors are encouraged to attend relevant internal and external training courses and seminars throughout the year, including bespoke investment trust director development sessions provided by JHI. Ongoing individual training requirements are considered as part of the annual evaluation process led by the Chair of the Board.

Directors' independence

All directors have a wide range of other interests and are not dependent financially on the Company. At the Nomination Committee meeting in May 2023, the directors reviewed their independence and confirmed that they all remained wholly

Corporate Governance Report (continued)

independent of the Manager. In line with provision 13 of the AIC Code, the directors agreed that Penny Freer as Chair was independent on her appointment to the Board in 2018 and continues to be independent, having no relationships that may create a conflict between her interests and those of shareholders.

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

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

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

Directors' conflicts of interest

The Company's articles of association permit the Board to consider and, if it sees fit, authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meeting's minutes and the register of interests.

Board attendance

The following table sets out the number of scheduled board and committee meetings held during the year under review and the number of meetings attended by each director. With the exception of Yen Mei Lim, all directors in office at the date of this report attended the AGM on 30 September 2022. Each director attended every board and committee meeting to which they were entitled throughout the year. Outside the formal meetings in the table, the Board or committees had regular interaction on various corporate activities, such as to receive a special investment performance update from the Fund Manager, and met additionally to undertake business such as the approval of the Company's results, dividends, the BNP Paribas revolving credit facility, and the appointment of Mei as director.

	Board	ARC	MEC	NC
Number of meetings				
Penny Freer	6	3	1	1
Alexandra Mackesy	6	3	1	1
Victoria Sant	6	3	1	1
Kevin Carter	6	3	1	1
Michael Warren	6	3	1	1
Yen Mei Lim ¹	2	1	1	1

Notes:

1 Appointed as director from 3 April 2023

ARC: Audit and Risk Committee

MEC: Management Engagement Committee

NC: Nomination Committee

Directors' insurance and indemnification

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

Internal control and risk management

The Board has overall responsibility for the Company's system of internal control and risk management, and for reviewing its effectiveness, as set out in the following chart "System of Internal Controls". The ARC supports the Board in the continuous monitoring of the Company's internal controls and risk management framework, which includes those of its key service providers. Its considerations in this respect are set out on pages 43-45.

The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company (see pages 25-26), aligning with the FRC's Guidance on Risk Management, Internal Control and Related Business and Financial Reporting. The system was in operation throughout the year under review and up to the date of this report and is designed to meet the specific risks faced by the Company. It takes account of the nature of the Company's reliance on its service providers and their internal controls environments. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

The key components of the internal control framework include:

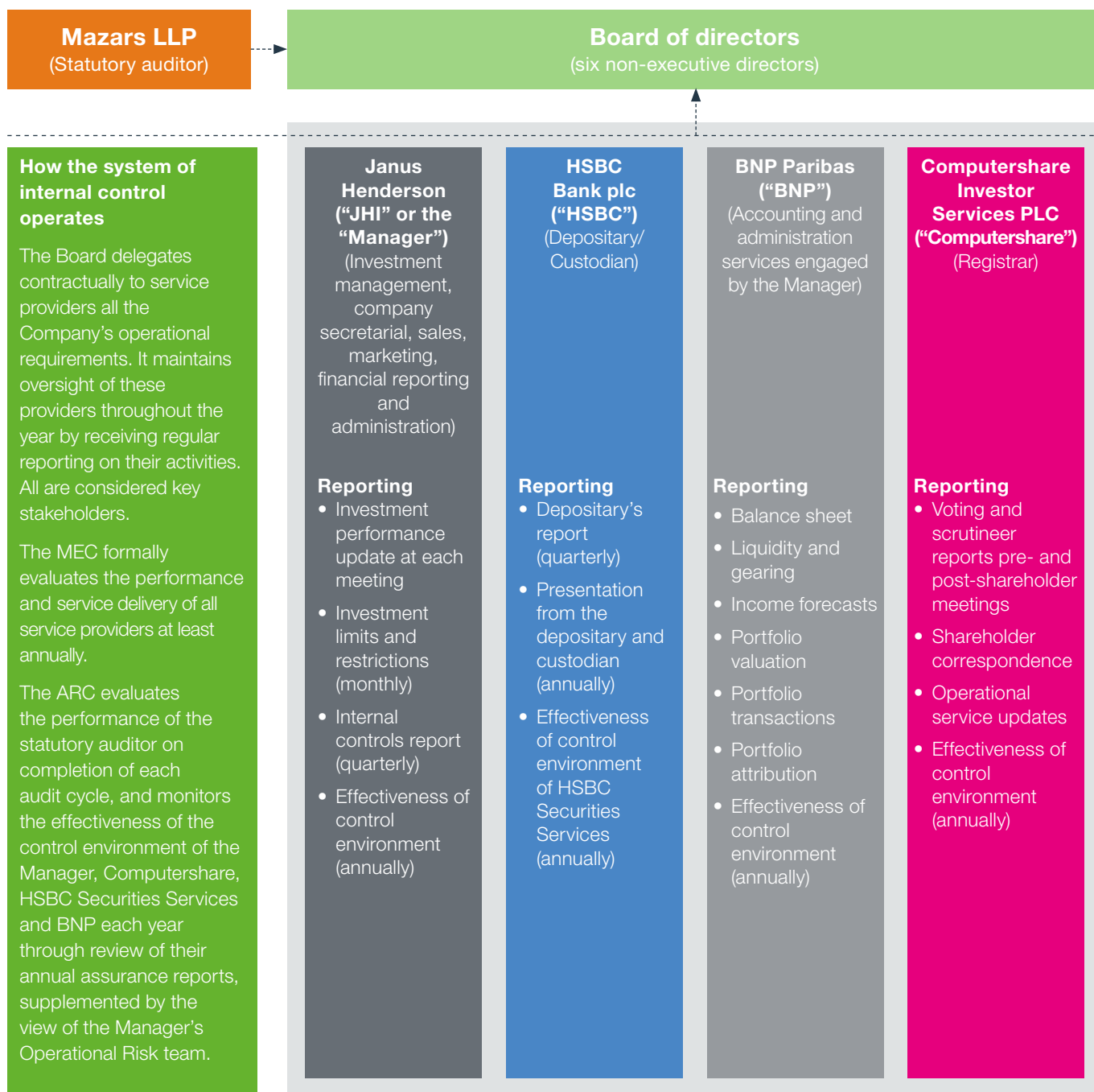
- clearly defined investment criteria which specify levels of authority and exposure limits. The Board reviews reports on compliance with the criteria at each meeting;
- regular reporting that allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;

Corporate Governance Report (continued)

- the contractual agreements with the Manager and other service providers. The Board reviews performance levels and adherence to relevant provisions of the agreements on a regular basis. The Management Engagement Committee conducts a formal evaluation of the overall level of service from third-party providers at least annually (see page 46); and
- the review of controls (including financial, operational and compliance) at the Manager and other third-party service providers. The Board receives quarterly reporting from the Manager and Depositary, reviews annual assurance reports on the effectiveness of the control environments at the Company’s key service providers; and
- review of additional reporting provided by:
 - the Manager’s Risk team on the control environment in operation at the Manager and their view of the control environments of the key third-party service providers used by the Company; and
 - the Manager’s Internal Audit team on areas of operation which are relevant to the Company.

The Board has carried out a review of the effectiveness of the Company’s system of internal controls for the year ended 31 May 2023. During the course of its review the Board did not identify and was not advised of any failings or weaknesses relating to the Company’s portfolio that have been determined as material.

System of internal controls



Corporate Governance Report (continued)

Internal audit function

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

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

By order of the Board
For and on behalf of
Janus Henderson Secretarial Services UK Limited
Corporate Secretary
2 August 2023

Audit and Risk Committee Report

I am pleased to present my formal report to shareholders as Chair of the Audit and Risk Committee (the “Committee”) for the year ended 31 May 2023.

Role and responsibilities

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

Membership and meetings

The members of the Audit and Risk Committee during the year were myself as Chair, David Lamb (until his retirement from the Board on 30 September 2022), Kevin Carter, Victoria Sant, Michael Warren and Yen Mei Lim (since her appointment on 3 April 2023). Mei is a chartered accountant, and the Board considers that other members of the Committee, including myself, have recent and relevant financial experience from their senior management roles elsewhere. Penny Freer attends the Committee’s meetings by invitation only.

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

- to review the Annual Report and final dividend;
- to review the half-year results and interim dividend; and
- to focus on its broader responsibilities overseeing internal controls.

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

Activities during the year

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

- appropriateness of the Company’s accounting policies and the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Janus Henderson (“JHI”);
- half-year results and the Annual Report. This includes whether the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position and performance, business model and strategy;
- dividends to be paid by the Company for recommendation to the Board;
- internal controls in place at JHI, BNP, HSBC Securities Services, and Computershare;
- JHI’s policies and activities in relation to information security and business resilience, meeting with representatives of JHI’s internal audit, information security and risk departments;
- key and emerging risks, risk management systems in place and the Company’s risk register and strategic heat map. The Committee uses its strategic ‘heat map’ of key risks to better analyse risks holistically, collating each director’s individual rating for each risk each year and analysing reasons for any divergence in detail;
- policies and procedures in place to prevent tax evasion, including the Company’s anti-bribery policy;
- nature and scope of the external audit and its findings;
- any need for an internal audit function;
- reappointment of the auditor, their performance, remuneration and tenure of appointment, their independence, objectivity, effectiveness and quality of reporting;
- audit plan, including the principal areas of focus;
- JHI’s and other key service providers’ whistleblowing policies for their staff to raise concerns in confidence about possible improprieties, including in relation to the Company;
- particular focus on the calculation and presentation of the management fee, performance fee and ongoing charge calculations, to ensure the greatest possible clarity for shareholders;
- annual confirmation from the Company’s depositary; and
- liquidity analysis of cross-holdings across the Manager’s funds.

Audit and Risk Committee Report (continued)

Annual Report for the year ended 31 May 2023

The Committee considered the following significant matters in respect of the Annual Report for the year ended 31 May 2023:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The directors have appointed the Manager to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required, the Manager has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third-party pricing vendors. Ownership of listed investments is verified by reconciliation to the custodian's records.
Correct calculation of the performance fee	The performance fee calculation is prepared by BNP and reviewed in depth by the Manager and by the Committee, all with reference to the management agreement, verifying that no performance fee is due for the year.
Compliance with section 1158 Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving supporting documentation from the Manager and BNP.
Maintaining internal controls	The Committee receives regular reports on internal controls from JHI, BNP, Computershare and HSBC Securities Services and its delegates and has access to the relevant personnel of JHI who have a responsibility for risk management and internal audit. The assurance report for one of the Company's service providers was qualified by the respective service auditor. The Committee thoroughly reviewed the instances giving rise to the qualification and received confirmation that the exceptions identified had no impact on the Company.
Recognition of dividend income	Income received is accounted for in line with the Company's accounting policies (as set out on page 69) and is reviewed by the Committee at each meeting. JHI is required to allocate between revenue and capital, and the Committee reviews the rationale provided and approves the treatment.
Viability	The Committee scrutinised assumptions around the viability statement set out on pages 26-27, especially factors behind post-Covid 19 disruption, macroeconomic and geopolitical uncertainties, the UK's cost-of-living crisis and economic uncertainties, to satisfy itself of the Company's resilience over the five-year time frame.
Going concern	The Committee scrutinised assumptions around the going concern statement set out on page 68 and the Company's ability to continue in operational existence for at least twelve months from the date of approval of the financial statements, concluding that the Company's financial statements should be produced on a going concern basis.

Appointment, review and tenure of the external auditor

Regulations in force require the Company to rotate audit firms after a period of ten years, which may be extended where audit tenders are carried out or where more than one audit firm is appointed to carry out the audit. The Committee last carried out an audit tender process in 2021 and appointed Mazars LLP as external auditor starting from the year ended 31 May 2022. The auditor is required to rotate partners every five years, and this is the second year the current audit partner has been in place.

The Company complies with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. This order relates to the frequency and governance of tenders for the appointment of the external auditors and setting policy on the provision of non-audit services.

Policy on non-audit services

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

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

Audit and Risk Committee Report (continued)

Independence of the external auditor

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

- approval of the non-audit services policy;
- assessing the appropriateness of the fees paid to the auditor for their work; and
- by reviewing the information and assurances provided by the auditor on their compliance with the relevant ethical standards.

For the year ended 31 May 2023, Mazars confirmed that all partners and staff involved with the audit were independent of any links to the Company, and that these individuals had complied with their ethics and independence policies and procedures which are consistent with the FRC's Ethical Standards. Mazars has confirmed to the Committee its policy on independence, which stipulates that its partners and staff involved with the Company's audit are not permitted to have any direct or material indirect interest in the Company. Adherence to this policy of independence is reaffirmed each year in writing by each staff member involved in the Company's audit.

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

Effectiveness of the external audit

The Committee evaluated the effectiveness of the external audit, assessing the auditor's performance during the year together with a post-audit assessment, led by the Committee Chair. Consideration was also given to the findings of the FRC's audit quality inspection report, which monitors audit quality across the major audit firms in the UK. Mazars presented and discussed the findings of the latest audit quality inspection report and reported on the progress made by the firm in addressing the areas identified for improvement in the prior year's report.

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

The Committee considers that the audit quality for the year ended 31 May 2023 has been high and that the Manager and Mazars have worked together effectively to enhance reporting to shareholders. Having completed the assessment, the Committee is satisfied with the effectiveness of Mazars' audit and recommended to the Board its continuing appointment. Mazars has indicated its willingness to continue in office and so the Board is proposing resolutions for the 2023 AGM reappointing Mazars as auditor to the Company and authorising the Committee to determine their remuneration.

Committee effectiveness review

The activities of the Committee were considered as part of the external Board review, completed in accordance with standard governance arrangements summarised on page 47.

Alexandra Mackesy
Chair of the Audit and Risk Committee
2 August 2023

Management Engagement Committee Report

Role and responsibilities

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

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

Membership and meetings

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

Activities during the year

In discharging its duties over the course of the period, the MEC commissioned an external review of the performance of the Manager by Lintstock Ltd ("Lintstock"). All directors answered an online questionnaire and Lintstock subsequently interviewed all directors, other than Yen Mei Lim who was not yet appointed to the Board. The directors also reviewed the performance of other third-party services providers. The following key items were considered during the review process:

- the investment performance of the Company, taking account of the benchmark and performance of competitors in the closed-ended sector, the share price, level of premium/discount and gearing;
- the management of the portfolio's risk profile and the use of gearing;
- the fee structures of the Company's competitors in the AIC peer group and other Janus Henderson-managed investment companies;
- the quality and experience of the teams involved in managing of the Company's business and a review of the stability of the management group and its business priorities;
- the key clauses of the management agreement, the principal clauses of which are set out on pages 19 and 27, how the Manager had fulfilled them and whether they continued to be appropriate. The Committee agreed that the fees paid to the Manager were aligned with the Company's purpose, values and successful delivery of its long-term strategy;

- the culture, values, senior management and any organisational changes of the key service providers and particularly of the Manager;
- the performance and fees of the Company's other service providers, including the Company's broker (Numis Securities), depository (HSBC) and registrar (Computershare);
- the Company's service providers in their roles as stakeholders and whether there was an appropriate level of engagement with them;
- the benefits to the Company and to shareholders of entering into a new marketing strategy for more effective promotion of the Company to retail shareholders;
- closer liaison with senior management at JHI to understand and gain assurance regarding changes in senior management; and
- any points of conflict which may arise between the service providers.

Continued appointment of the Manager and other service providers

Lintstock presented its report on effectiveness of the Manager at the May 2023 MEC meeting and facilitated a discussion on the key findings. The findings were positive overall and the exercise identified some priorities for the Manager to consider over the coming year around entering into a new marketing strategy for more effective promotion of the Company to retail shareholders, and further enhancements to attribution analysis reporting to the Board. Following completion of the review, the MEC recommended to the Board that the continued appointment of the Manager on the terms agreed was in the interests of the Company's shareholders as a whole and its long-term sustainable success. The MEC also recommended the continuation of the other key third-party service providers. The Board subsequently approved the MEC's recommendations.

MEC effectiveness review

The activities of the MEC were considered as part of the external Board review, completed in accordance with standard governance arrangements summarised on page 47.

Penny Freer
Chair of the Management Engagement Committee
2 August 2023

Report of the Nomination Committee

Role and responsibilities

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

Membership and meetings

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

Activities during the year

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

- the structure and size of the Board and its composition, particularly in terms of succession planning, the experience and skills of the individual directors and diversity across the Board as a whole;
- the Board's diversity policy;
- the directors' and the Chair's tenure policy and remuneration level;
- selection of an external evaluator to carry out a review of the effectiveness of the Board, its Committees and Manager, following consideration of proposals and quotes from a range of evaluators;
- recruitment and appointment of a candidate for the role of non-executive director, led by the Chair;
- effectiveness of the Board, its committees, the Chair and each individual director, following an external evaluation and review of the results; and
- reappointment of directors standing for re-election at annual general meeting.

Board effectiveness review

The Company engaged Lintstock to conduct an external review of Board performance. Lintstock is an advisory firm that specialises in Board reviews, and had no pre-existing connections with the Company.

The first stage of the exercise involved Lintstock engaging with the Chair and the Company Secretary to set the context for the review, and to tailor the scope to the Company.

All Board members completed an online survey addressing the performance of the Board, the Chair, the Manager, as well as the contribution of individual directors. Lintstock subsequently interviewed each director (other than Yen Mei Lim who was not yet appointed to the Board), enabling them to expand on the key findings from the survey stage, and to raise any further issues they wished to discuss.

As well as addressing core aspects of Board and committee performance, the exercise had a particular focus on the following areas:

- the role of the Board in supporting the Company in a difficult market, including the level of support and challenge provided to the Fund Manager and his team;
- the understanding of investor views and mechanisms for differentiating and marketing the Company;
- the Board's engagement and communication with Janus Henderson and other third-party service providers, including the quality of support they provide;
- the induction and integration of the new director to ensure that the Board fully benefits from its strengthened composition and continues to build its mutual understanding; and
- the evolution of the flow of information through regular Board papers and other ad-hoc updates.

Lintstock presented its reports at the May 2023 NC meeting and facilitated a discussion on the key findings, which were positive overall. Lintstock also provided a comparison with the Lintstock Governance Index, which helped to place the performance of the Board into context with over 60 other similar reviews that Lintstock had conducted recently for UK investment companies.

As a result of the Review, the Board considered opportunities to increase effectiveness. Priorities identified by the review included further developing the Company's marketing plan, providing continued support and challenge to the Fund Manager, and ensuring the successful induction of the new director.

Board composition and diversity policy

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

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

Report of the Nomination Committee (continued)

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

Board diversity at 31 May 2023

The current gender balance of four women and two men as directors continues to exceed the target of 33% of women on FTSE 350 company boards set under The Hampton-Alexander Review. As a result of the process completed in April 2023 to recruit a successor to Victoria Sant, we meet the FCA requirement that, with effect from the financial year ended 31 May 2023, the Board has at least one director from an ethnic minority background, following the recommendation of the Parker Review Committee. The Board will strive to ensure it is composed of individuals with diverse and complementary thought, skills and experience to meet the Company's objectives.

In accordance with Listing Rule 9.8.6R (9), (10) and (11), and using the AIC's definitions, the Board provides the following information about its diversity:

Gender identity and sex

	Number of directors	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)
Men	2	33%	Not applicable*
Women	4	67%	
Total	6	100%	n/a

Ethnic background

	Number of directors	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)
White British or other White (including minority white groups)	5	83%	Not applicable*
Other ethnic group, including Arab	1	17%	
Total	6	100%	n/a

* This column is not applicable as the Company is externally managed and does not have executive management functions, specifically the roles of CEO and CFO. The Board considers that chairing the Board, its permanent committees and the role of senior independent director are all senior positions in an investment company context. Accordingly, the Chair of the Board, the Nomination and Management Engagement Committees, and the Chair of the Audit and Risk Committee are both women. The Senior Independent Director is a man. These positions are currently held by individuals who consider themselves 'White British or Other White (including minority white groups)'

The information included in the above tables has been obtained through questionnaires completed by the individual directors. The categories for ethnic groups which are not represented on the Board are not included in the ethnic background table. No changes have occurred between 31 May 2023 up to the date of approval of this Report which

could affect the Company's ability to meet the targets in LR 9.8.6R (9)(d).

Appointment of director

In line with the Board's succession plan to seek a replacement director, given Mrs Sant's projected retirement in 2025, a formal job description was drawn up to ensure that the search for a new director took place under clearly defined criteria produced by the Committee, which focused on accounting/financial reporting matters, ESG oversight, and development of the Company's overall strategy. It was also a priority to the Committee that the Company's ethnic diversity composition be broadened appropriately with the right candidate, in accordance with the Board's diversity policy.

The firm Odgers Berndtson was chosen as external recruitment agent after a full tender process for executive search firms. A long list of candidates with diverse characteristics was prepared by Odgers Berndtson and discussed with the Committee. The preferred candidates were invited for interviews first with Penny Freer, Kevin Carter and Victoria Sant, then with Alexandra Mackesy and Michael Warren, and finally for discussions with the Fund Manager and Deputy Fund Manager.

Candidates were evaluated based on their business experience, focusing in particular on the skills and expertise that the NC wished to retain on the Board, and their cognitive and personal strengths. The candidates' other qualities and commitments were also considered as part of the process.

On conclusion, the Committee was pleased to recommend to the Board the appointment of Yen Mei Lim, whose biography is set out on page 35, and who the Board appointed with effect from 3 April 2023.

The services provided by Odgers Berndtson were for the sole purpose of recruiting the eventual appointee. Odgers Berndtson has not provided any other services to the Company and has no connection with any of the directors.

Election and re-election of directors

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

The NC considered the Chair's external appointments. Penny Freer is a non-executive chair of two listed companies, one of which is a venture capital trust ("VCT"), and chair of a private venture capital fund. Following careful consideration of her interests and appointments, and being conscious of the reduced obligations and time commitment required as an investment company and VCT director compared with those

Report of the Nomination Committee (continued)

of a director of operating companies, the NC concluded that the Chair has sufficient time available. Moreover, she has demonstrated clear commitment to all aspects of her role as Chair.

Following completion of its reviews, the NC concluded that the Board, its committees, the individual directors and the Chair continued to operate effectively and each director was independent. Taking into account the FRC's guidance on board effectiveness, the NC agreed that each director had sufficient time to dedicate to their respective roles. The NC accordingly recommended to the Board that it should support the re-election of Penny Freer, Kevin Carter, Alexandra Mackesy, Victoria Sant and Michael Warren, and the election of Yen Mei Lim at the 2023 AGM.

NC effectiveness evaluation

The activities of the NC were considered as part of the external Board review, completed in accordance with standard governance arrangements, as reported on page 47.

Penny Freer
Chair of the Nomination Committee
2 August 2023

Directors' Remuneration Report

Report on implementation

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended (the "Regulations"). This report also meets the relevant requirements of the Companies Act 2006 ("Act") and the Listing Rules of the FCA and describes how the Board has applied the principles relating to directors' remuneration. The Company's auditor is required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All directors are non-executive and the Company has no chief executive officer or employees; as such some reporting requirements contained in the Regulations are not applicable and have not been reported on. The directors believe that all relevant information is disclosed within this report in an appropriate format. While the directors review annually the fees paid to the directors of comparable investment trust companies, the Board has not been provided with advice or services by any person in respect of its consideration of the directors' remuneration.

Remuneration policy

Shareholders will be asked to approve the Remuneration Policy at the 2023 Annual General Meeting, being a triennial vote. The Board may amend the level of remuneration paid to individual directors within the parameters of the Remuneration Policy. Further details can be found in the Notice of AGM which is on pages 92-97. In determining the Remuneration Policy, the Board takes into account all factors which it deems necessary, including relevant legal and regulatory requirements and the provisions and recommendations of the AIC Code of Corporate Governance.

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

Directors are remunerated in the form of fees, payable quarterly in arrears. The Company's articles of association limit the fees payable to the directors in aggregate to £250,000 per annum. Subject to the overall limit, the Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors, and should be sufficient to promote the long-term success of the Company.

The policy is to review fee rates annually, although this will not necessarily result in any change to the rates. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties. No director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable. No director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

Recruitment principles

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

Views of shareholders

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

Annual statement from the Chair

Directors' remuneration is determined by the Board as a whole within the parameters of the Remuneration Policy approved by shareholders, following review and recommendations on an annual basis by the Nomination Committee as to the appropriate level of fees. All directors are members of the Nomination Committee. As the Company has no employees and the Board comprises entirely non-executive directors, the Board has not established a separate remuneration committee.

During the year, the directors reviewed fee levels, covering a review of external published reviews of fees in the investment trust industry as a whole, in the AIC UK smaller companies sector and taking into account the impact of inflation. The Board believes that both the individual remuneration and the aggregate fee levels take account of the needs of a very engaged non-executive Board of experienced practitioners in the sector with increasing legal and regulatory responsibilities. Following careful consideration, the Board agreed an increase in directors' fees as set out in the table below:

	Chair £	Audit and Risk Committee Chair £	Directors £
Rate in the year to 31 May 2023	41,500	33,200	28,500
Rate from 1 June 2023	43,000	34,500	29,500
% Increase	3.6	3.9	3.5

There have been no other major decisions on directors' remuneration or any other changes to the remuneration paid to each individual director in the year under review. Prior to the 1 June 2023 increase, fees were last increased effective 1 June 2022.

Directors' Remuneration Report (continued)

Directors' interests in shares (audited)

The interests of the directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table below.

	Ordinary shares of 25p	
	31 May 2023	1 June 2022
Penny Freer	2,400	2,400
Kevin Carter	10,500	8,500
Alexandra Mackesy	2,200	2,200
Victoria Sant	1,670	1,040
Michael Warren	5,000	3,000
Yen Mei Lim ¹	0	n/a
David Lamb ²	n/a	5,802

1 Appointed as director on 3 April 2023

2 Retired as director on 30 September 2022

Since the year end and to the date of this report, the following share purchases have taken place:

- Penny Freer bought 1,000 shares on 8 June 2023;
- Kevin Carter bought 1,500 shares on 9 June 2023; and
- Michael Warren bought 1,000 shares on 5 June 2023.

No director has an interest in the preference stock of the Company.

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

Directors' remuneration (audited)

The remuneration paid to the directors who served during the years ended 31 May 2023 and 31 May 2022 was as follows:

	Year ended 31 May 2023 Total salary and fees £	Year ended 31 May 2022 Total salary and fees £
Penny Freer ¹	41,500	35,866
Alexandra Mackesy ²	33,200	32,000
Kevin Carter	28,500	27,500
Victoria Sant	28,500	27,500
Michael Warren	28,500	27,500
David Lamb ³	9,558	27,500
Yen Mei Lim ⁴	4,750	–
Jamie Cayzer-Colvin ⁵	–	13,438
Total	174,508	191,304

Notes:

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

1 Chair of the Board and highest paid director in the year to 31 May 2023

2 Chair of the Audit and Risk Committee

3 Retired from the Board on 30 September 2022

4 Appointed to the Board on 3 April 2023

5 Retired from the Board on 1 October 2021

No expenses or taxable benefits were paid to any director in the years to 31 May 2023 and 31 May 2022. No remuneration or compensation was paid or payable by the Company during the period to any of the current or former directors or third parties specified by them other than as set out in the table. Increases reflect changes of Board roles, including appointments and retirements during the period under review. The incremental increases to fee levels over time are explained in the table below.

Spend on pay

As the Company has no employees, the directors do not consider it relevant to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to directors are shown in the adjacent 'Directors' remuneration' table. Distributions to shareholders are set out in note 9 on page 74; in the year to 31 May 2023, total dividends paid amounted to £17.9 million.

Annual percentage change

The table below sets out the annual percentage change in directors' fees over the previous three years in respect of those directors who served for a minimum of two full years since the financial year beginning 1 June 2020.

	Year to 31 May 2023 %	Year to 31 May 2022 %	Year to 31 May 2021 %
Penny Freer ¹	15.7	49.4	0
Alexandra Mackesy ²	3.8	14.3	5.1
Kevin Carter ³	3.6	n/a	n/a
Michael Warren ³	3.6	n/a	n/a
Victoria Sant ⁴	3.6	14.6	0
Yen Mei Lim ⁵	n/a	n/a	n/a
David Lamb ⁶	n/a	14.6	0
Jamie Cayzer-Colvin ⁶	n/a	n/a	0

1 The increases reflect both changes in directors' fees and Penny's succession as Chair in the year to 31 May 2022

2 The increases reflect Alexandra's appointment as Chair of the Audit and Risk Committee in the year to 31 May 2020 and changes in directors' fees

3 Appointed in the year to 31 May 2022, so first full year is to 31 May 2023

4 Reflecting annual increases in directors' fees

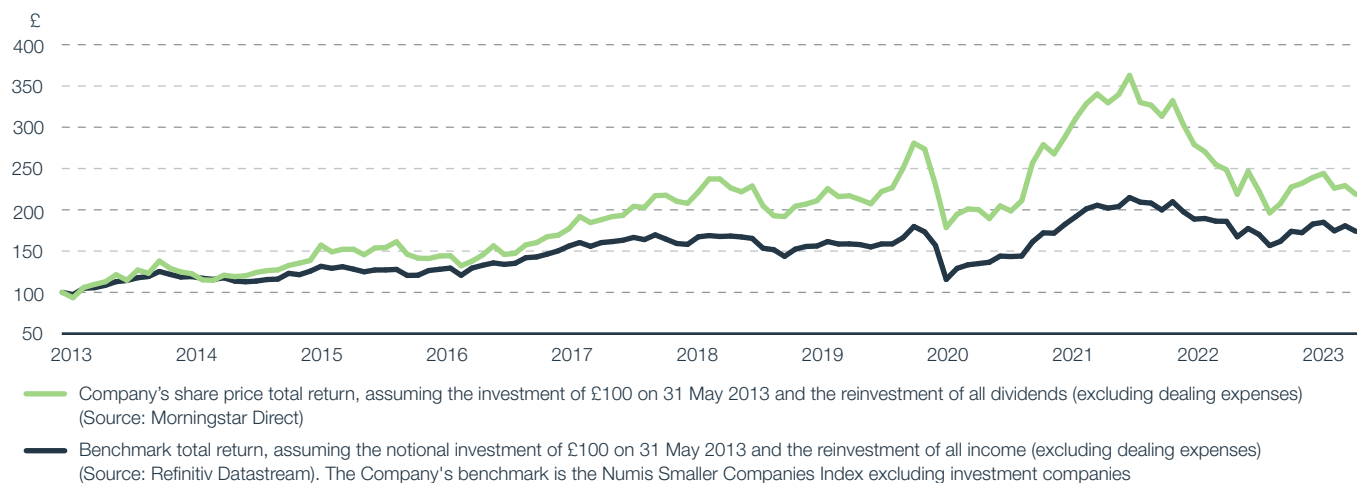
5 Appointed during the year to 31 May 2023

6 David and Jamie retired from the Board on 30 September 2022 and 1 October 2021 respectively

Directors' Remuneration Report (continued)

Performance

The graph below compares the mid-market price of the Company's ordinary shares over the ten-year period ended 31 May 2023 with the benchmark return over the same period.



Statement of voting at AGM

At the Company's AGM on 30 September 2022, shareholders approved the remuneration report for the year ended 31 May 2022. Shareholders last approved the directors' remuneration policy at the AGM on 21 September 2020. The following votes were received on these two resolutions at each respective AGM:

Resolution	For (including discretionary)	% votes ¹	Against	% votes ¹	Withheld
Remuneration policy (poll votes at the 2020 AGM)	26,257,421	99.8	62,455	0.2	62,533
Remuneration report (proxy votes at the 2022 AGM)	27,510,369	99.6	109,053	0.4	54,715

¹ Excluding votes withheld

On behalf of the Board

Penny Freer
Chair of the Board
2 August 2023

Report of the Directors

The directors present the audited financial statements of The Henderson Smaller Companies Investment Trust plc (the “Company”) and their report for the year ended 31 May 2023. The Company (registered and domiciled in England & Wales with registration number 00025526) was active throughout the year under review and was not dormant.

The Investment Portfolio on pages 14 to 16, Corporate Governance Report on pages 34 to 42, Audit and Risk Committee Report, Management Engagement Committee Report and Nomination Committee Report on pages 43 to 49, Statement of Directors’ Responsibilities on page 55, the explanations of AGM resolutions on pages 94 to 95 and the glossary, alternative performance measures and general shareholder and corporate information on pages 84 to 90, all form part of the Report of the Directors.

Directors

The directors and their appointments are listed on pages 34 and 35. Information on directors’ insurance and indemnification is given on page 40.

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 2023 and 31 May 2022 the number of shares in issue, and thus the number of voting rights, was 74,701,796. This represents 99.98% of the Company’s share capital. There are no restrictions on the transfer of the Company’s shares or voting rights, no shares which carry specific rights with regard to the control of the Company and no agreement to which the Company is party that would affect its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue and capital reserves) are available for distribution by way of dividends to the holders of the shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their shareholdings.

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 2023 and 31 May 2022 there were 4,257 preference stock units in issue. This represents 0.02% of the Company’s share capital. Further details are in Note 14 of the financial statements.

The directors seek annual authority from the shareholders to allot new shares, to disapply pre-emption rights of existing shareholders and to buy back shares for cancellation or to be held in Treasury. The Company’s articles of association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital reserves. No shares or preference stock units were issued or bought back during the year.

At the annual general meeting (“AGM”) held on 30 September 2022, the directors were granted authority to buy back 11,197,799 shares (being 14.99% of issued ordinary share capital). In the period from 1 June 2022 to 31 July 2023, being the latest practicable date prior to publication of this Annual Report, the Company did not issue or buy back any shares, and total voting rights were 74,701,796. There remained 11,197,799 shares available within the buy-back authority granted in 2022. This authority will expire at the conclusion of the 2023 AGM. The directors intend to renew this authority subject to shareholder approval. Shares are not bought back unless the result is an increase in net asset value per share.

Holdings in the Company’s shares

Declarations of interests in the voting rights of the Company as at 31 May 2023 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

Shareholder	% voting rights
Evelyn Partners	8.1
Allspring Global Investments	4.0
Lazard Asset Management LLC	4.4
Royal London Asset Management	2.4

Donations

The Board supports a number of UK-focused charities, all of which are personally selected on an annual basis by the directors. These charities span a variety of different causes including food poverty, literacy and education for children excluded from school. In respect of the year under review, the Company will make charitable donations totalling £6,000 (2022: £6,000).

Disclosure of information to the auditor

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

Related-party transactions

The Company’s transactions with related parties in the year were with the directors and the Manager. There were no material transactions between the Company and its directors, and the only amounts paid to them were in respect of remuneration. Remuneration is paid quarterly in arrears and amounts for April and May 2023 were therefore accrued as at the year end. There were no other outstanding amounts payable at the year end. The directors did not claim any expenses during the years to 31 May 2023 or 31 May 2022. Directors’ shareholdings are listed on page 51.

Report of the Directors (continued)

In respect of the Manager's service provision during the year, other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties, there were no material transactions with the Manager affecting the financial position of the Company. More details on transactions with the Manager, including amounts outstanding at the year end, are on page 82.

Independent auditor

The auditor Mazars LLP has indicated willingness to continue in office. Resolutions 11 and 12 are being submitted to the 2023 AGM to propose Mazars' reappointment and authorise the Audit and Risk Committee to determine their remuneration for the coming year.

Financial Instruments

The Company's policy on the use of financial instruments is set out in the Investment Policy on page 18.

Future developments

The future success of the Company is dependent primarily on the performance of its investment portfolio, which will, to a significant degree, reflect the performance of the stock market and the skill of the Manager. While the Company invests in companies that are listed (or quoted) in the United Kingdom, the underlying businesses of those companies are affected by external factors, many of an international nature. The Board's intention is that the Company will continue to pursue its stated investment objective and strategy as explained on page 18. The Chair's Statement and the Fund Manager's Report from pages 5 to 13 give commentary on the outlook for the Company. Other information on recommended dividends and financial risks is detailed in the Strategic Report and in notes 9 and 15 to the financial statements.

Other information

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross-reference table indicating where the information is set out. The directors confirm that there are no disclosures to be made in this regard. The Company's environmental statements are set out in the Strategy Report on pages 29 to 32. This Report of the Directors has been approved by the Board.

Post-balance sheet event

Since the year end, the Board has given notice to terminate its contract with Edison Investment Research Limited for provision of third-party research services.

Annual general meeting ("AGM")

We are pleased to invite you to attend our AGM on Thursday, 5 October 2023 at 11.30 am at 201 Bishopsgate, London EC2M 3AE. If you prefer to attend virtually, we also welcome you to join by conferencing software Zoom. Attending either in person or by Zoom will allow you to watch a presentation from your Fund Manager Neil Hermon, and Deputy Fund Manager Indriatti van Hien, and ask questions.

As is our normal practice, there will be live voting for those physically present at the AGM. We cannot offer live voting by Zoom, and so we request all shareholders, and particularly those who cannot attend physically, to submit their votes by proxy, ahead of the deadline of 11.30 am on Tuesday, 3 October 2023, to ensure that your vote counts at the AGM. If you hold your shares in a nominee account, such as through a share dealing service or platform, you will need to contact your provider and ask them to submit the proxy votes on your behalf. For further instructions on proxy voting please refer to pages 95-97.

To join the AGM by conferencing software Zoom, please visit www.janushenderson.com/trustslive to register.

If you are an institutional investor, you may be able to appoint a proxy electronically via the Proximity platform. For further information regarding Proximity, please go to www.proximity.io. Your proxy must be lodged by 11.30 am on Tuesday, 3 October 2023 to be valid.

The Notice of AGM can be found on pages 92 to 97, together with an explanation of each resolution. If shareholders would like to submit any questions in advance of the AGM, you are welcome to send these to the corporate secretary at itsecretariat@janushenderson.com.

Voting recommendation

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

By order of the Board
Janus Henderson Secretarial Services UK Limited
Corporate Secretary
2 August 2023

Statement of Directors' Responsibilities

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have prepared the Company's financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, a strategic report and a directors' remuneration report which comply with the requirements of the Companies Act 2006.

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

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

Statement under DTR 4.1.12

Each director, who is listed on pages 34 and 35, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit/loss of the Company; and
- the Strategic Report and financial statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Penny Freer
Chair of the Board
2 August 2023

Financial Statements



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

Opinion

We have audited the financial statements of The Henderson Smaller Companies Investment Trust plc (the 'Company') for the year ended 31 May 2023 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flows and notes to the financial statements on pages 68 to 82, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2023 and of the Company's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

- undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Company's ability to continue as a going concern;
- making enquiries of the Directors to understand the period of assessment that they considered, assessing and challenging the appropriateness of the Directors' key assumptions in their income and expense projections and implication of those when assessing severe but plausible scenarios;
- assessing the Company's ability to continue to operate within its financial covenants and the liquidity of the portfolio through reviewing Management's assessment of how quickly the portfolio could be liquidated if required;
- assessing the Company's performance to date; and
- evaluating the appropriateness of the Directors' disclosures in the financial statements on going concern and viability statement including the consideration of when the next continuation vote is.

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Key Audit Matter	How our scope addressed this matter
<p>Accuracy and completeness of revenue recognition through incorrect classification of special dividends</p> <p>(as described on page 44 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 69).</p> <p>According to the Statement of Recommended Practice issued by the Association of Investment Companies ('AIC SORP'), recognition of revenue relies upon dividend notifications to be received from the investment portfolio. Depending on the reason behind the payment, dividends recognised are either revenue or capital in nature; therefore the Directors are required to exercise judgment in determining whether the special dividends should be classified as revenue or capital. The Company has recognised income from investments in the Statement of Comprehensive Income of £24.30m (out of which £1.18m relates to special dividends earned during the year) for the year ended 31 May 2023 (2022: £20.65m).</p> <p>In order to maintain investment trust status, the Company is required to distribute at least 85% of its income for the accounting period. The revenue column of the Statement of Comprehensive Income is the main driver of this minimum dividend calculation.</p> <p>There is a risk that an incorrect classification could result in understated income which could put the Company's investment trust status at risk. There is also a risk that an incorrect classification could result in overstated income to increase the dividends paid to shareholders.</p> <p>We therefore assess the risk of fraud in revenue recognition as being principally in relation to accuracy and completeness of revenue recognition through incorrect classification of the special dividends as revenue or capital items in the Statement of Comprehensive Income.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • understanding Management's process on revenue recognition and allocation of special dividends through discussions with Management, examination of control reports from third-party service organisation and performing a walkthrough to evaluate the design and effectiveness of controls; • for all special dividends recognised in the year, agreeing each dividend to an independent source, checking the point of recognition, testing the allocation of dividend income between revenue and capital (by assessing the reason for the dividend distributions and the consistency of the classification with the underlying nature of the payments) and tracing to bank statements; • for all investments, checking all dividend announcements declared by those securities in the year to an independent source and agreeing the recognition of such dividends to the income report and capital report; • testing special dividends announced one month either side of the year end covering the period after which announced dividends should be received to ensure dividends should be recorded in the correct period; and • to address the risk of management override, testing all journal entries and other adjustments made in the preparation of the financial statements relating to special dividends. <p>Our observations</p> <p>We have no matters to communicate with respect to the procedures in response to the accuracy and completeness of revenue recognition through incorrect classification of special dividends.</p>

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

Valuation and existence of the investment portfolio

(as described on page 44 in the Report of the Audit and Risk Committee and as per the accounting policy set out on page 69).

Investments held as of 31 May 2023 were valued at £760.16m as at 31 May 2023 (2022: £892.40m). The investment portfolio comprises of solely level one investments.

Investments make up 112.6% of the net asset value of the Company as of 31 May 2023 (111.2% of the net asset value as of 31 May 2022) and are considered to be the key driver of the performance of the Company.

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

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

Our audit procedures included, but were not limited to:

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

Our observations

We have no matters to communicate with regards to the valuation and existence of the investment portfolio held at 31 May 2023.

The key audit matters in the table above are consistent with those we disclosed in our 2022 independent auditor's report, with the exception of the accuracy of performance fees which we have chosen to exclude in the current year as there have been no performance fees in the Company for the last two years. Should there be a performance fee accrued in the future, we will reintroduce the associated key audit matter.

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

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

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

Materiality

Overall materiality	£6.75m (2022: £8.03m).
How we determined it	1% of net assets (2022: 1% of net assets).
Rationale for benchmark applied	<p>Net assets have been identified as the principal benchmark within the financial statements as they are considered to be the main focus of the shareholders.</p> <p>Whilst valuation processes for these investments are not considered to be complex, there is a risk that errors in valuation could cause a material misstatement. 1% has been chosen as it is a generally accepted auditing practice for investment trust audits and the Company is a public interest entity.</p>
Performance materiality	<p>Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.</p> <p>On the basis of our risk assessments and together with our assessment of the overall control environment, we determined 70% (2022: 65%) of overall materiality, amounting to £4.73m (2022: £5.22m).</p> <p>We also determined a specific materiality for the revenue column of the Statement of Comprehensive Income at £1.10m (2022: £0.92m), being 5% (2022: £5%) of revenue profit before tax.</p>
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.20m (2022: £0.24m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

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

Corporate governance statement

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

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 55;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on pages 26-27;
- Directors' statement on fair, balanced and understandable, set out on page 55;

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

- Board's confirmation that it has carried out a robust assessment of the e-merging and principal risks, set out on page 25;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on pages 40-41; and;
- The section describing the work of the audit committee, set out on pages 43-45.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

Other matters which we are required to address

Following the recommendation of the Audit & Risk Committee, we were appointed we were appointed on 1 September 2021 to audit the financial statements for the year ending 31 May 2022. The period of total uninterrupted engagement is two years, covering the year ending 31 May 2022 and the year ending 31 May 2023.

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

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

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

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ("ESEF RTS"). This auditor's report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

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

2 August 2023

Statement of Comprehensive Income

Notes	Year ended 31 May 2023			Year ended 31 May 2022			
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000	
2	Investment income	24,295	–	24,295	20,648	–	20,648
3	Other income	95	–	95	2	–	2
10	Losses on investments held at fair value through profit or loss	–	(127,252)	(127,252)	–	(187,266)	(187,266)
	Currency losses	–	–	–	–	(1)	(1)
	Total income/(loss)	24,390	(127,252)	(102,862)	20,650	(187,267)	(166,617)
	Expenses						
4	Management fees	(710)	(1,657)	(2,367)	(1,004)	(2,343)	(3,347)
5	Other expenses	(731)	–	(731)	(728)	–	(728)
	Profit/(loss) before finance costs and taxation	22,949	(128,909)	(105,960)	18,918	(189,610)	(170,692)
6	Finance costs	(997)	(2,325)	(3,322)	(562)	(1,310)	(1,872)
	Profit/(loss) before taxation	21,952	(131,234)	(109,282)	18,356	(190,920)	(172,564)
7	Taxation	(5)	–	(5)	(1)	–	(1)
	Profit/(loss) for the year and total comprehensive income	21,947	(131,234)	(109,287)	18,355	(190,920)	(172,565)
	Earnings/(loss) per ordinary share – basic and diluted	29.38p	(175.68p)	(146.30p)	24.57p	(255.58p)	(231.01p)

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

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

Statement of Changes in Equity

Notes	Year ended 31 May 2023	Share capital £'000	Capital redemption reserve £'000	Retained earnings		Total equity £'000
				Capital reserves £'000	Revenue reserve £'000	
	Total equity at 1 June 2022	18,676	26,745	744,044	13,134	802,599
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(131,234)	21,947	(109,287)
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(17,925)	(17,925)
	Total equity at 31 May 2023	18,676	26,745	612,810	17,156	675,387

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

Balance Sheet

Notes	At 31 May 2023 £'000	At 31 May 2022 £'000	
	Non-current assets		
10	Investments held at fair value through profit or loss	760,156	892,397
	Current assets		
12	Receivables	3,187	4,229
	Cash and cash equivalents	13,338	8,991
		16,525	13,220
	Total assets	776,681	905,617
	Current liabilities		
13	Payables	(851)	(2,990)
15 i)	Bank loans	(50,672)	(50,268)
		(51,523)	(53,258)
	Total assets less current liabilities	725,158	852,359
	Non-current liabilities		
14	Financial liabilities	(49,771)	(49,760)
	Net assets	675,387	802,599
	Equity attributable to equity shareholders		
16	Share capital	18,676	18,676
17	Capital redemption reserve	26,745	26,745
	Retained earnings:		
17	Capital reserves	612,810	744,044
18	Revenue reserve	17,156	13,134
	Total equity	675,387	802,599
19	Net asset value per ordinary share	904.1p	1,074.4p

These financial statements on pages 64 to 82 were approved and authorised for issue by the board of directors on 2 August 2023 and were signed on its behalf by:

Penny Freer
Chair of the Board

Statement of Cash Flows

Notes	For the year ended	
	31 May 2023 £'000	31 May 2022 £'000
Operating activities		
Loss before taxation	(109,282)	(172,564)
Add back interest payable	3,322	1,872
10 Losses on investments held at fair value through profit or loss	127,252	187,266
10 Purchases of investments	(109,395)	(165,877)
10 Sales of investments	114,384	166,572
Increase in receivables	(38)	(1)
Decrease in amounts due from brokers	1,394	1,179
Increase in accrued income	(316)	(412)
Decrease in payables	(66)	(4,545)
13 (Decrease)/increase in amounts due to brokers	(2,081)	1,607
Net cash inflow from operating activities before interest and taxation	25,174	15,097
Interest paid	(3,303)	(1,659)
Net cash inflow from operating activities¹	21,871	13,438
Financing activities		
9 Equity dividends paid	(17,928)	(17,734)
(Repayment)/drawdown of bank loans	404	(9,592)
Issue of unsecured private placement notes	–	20,000
Direct expenses on issue of unsecured private placement notes	–	(82)
Net cash outflow from financing activities	(17,524)	(7,408)
Increase in cash and cash equivalents	4,347	6,030
Currency losses	–	(1)
Cash and cash equivalents at the start of the year	8,991	2,962
Cash and cash equivalents at the end of the year	13,338	8,991

¹ In accordance with IAS 7.31 cash inflow from dividends was £24,000,000 (2022: £20,243,000) and cash inflow from interest was £74,000 (2022: £2,000)

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Henderson Smaller Companies Investment Trust plc (the “Company”) is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (the “Act”). The financial statements of the Company for the year ended 31 May 2023 have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Act. These comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the IFRS Interpretations Committee (“IFRS IC”) that remain in effect, to the extent that IFRS have been adopted by the United Kingdom.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice (the “SORP”) for investment trusts issued by the Association of Investment Companies (the “AIC”) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

Accounting standards

i) The following new and amended standards are relevant and applicable to the Company and have been adopted. There has been no impact on the financial statements as a result of these new and amended standards.

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

Standards	Effective for annual periods beginning on or after
No applicable standards	

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

Standards		Effective for annual periods beginning on or after
IAS 1 Amendments	Classification of Liabilities as current or non-current	1 January 2023
IAS 1 Amendments	Disclosure of Accounting Policies	1 January 2023
IAS 1 Amendments	Non-current Liabilities with Covenants	1 January 2024
IAS 8 Amendments	Definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

Interpretations

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

b) Going concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. In coming to this conclusion, the directors have also considered the aftermath of the Covid-19 pandemic and its residual impact on the Company, the continued macroeconomic and geopolitical uncertainty following Russia’s invasion of Ukraine and impact on supply chains, the nature of the Company’s covenants, the strength of the Company’s distributable reserves and the liquidity of the portfolio. They have concluded that the Company is able to meet its financial obligations, including the repayment of the bank loan, as they fall due for a period of at least twelve months from the date of issuance.

Having assessed these factors, the principal risks and other matters discussed in connection with the Viability Statement on pages 26 to 27, the Board has therefore determined that it is appropriate for the financial statements to be prepared on a going concern basis. The Company’s shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was put to the Annual General Meeting (“AGM”) held on 30 September 2022 and passed by a substantial majority of the shareholders. The next continuation vote will take place at the AGM in 2025.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

c) Investments held at fair value through profit or loss

All investments are classified upon initial recognition as held at fair value through profit or loss, and are measured initially and subsequently at fair value. Investment transactions are accounted for on a trade date basis. Assets are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price or the last traded price depending on the convention of the exchange on which the investment is quoted at the balance sheet date, without deduction of the estimated future selling costs. There were no unquoted investments during the current year or prior year.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as "Losses/gains on investments held at fair value through profit or loss". Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

d) Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns are no longer prohibited to be distributed by way of dividend where authority is given within the Company's articles of association. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends represent dividends paid by the investee companies that are additional to the normal or expected dividend cycle for that company. Special dividends are treated as revenue return or capital return, depending on the facts and circumstances of each individual case. Dividends which have clearly arisen out of the investee company's reconstruction or reorganisation are usually considered to be capital in nature and allocated to capital return. Other special dividends will usually be considered as revenue in nature unless evidence suggests otherwise. Interest is recognised on an accruals basis.

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

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. Consequently 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 losses on investments held at fair value through profit or loss.

g) Taxation

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

The tax effect of different items of expenditure is allocated between the capital and the revenue using the Company's effective rate of tax for the year. In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) Taxation (continued)

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

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

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

h) Foreign currency

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

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and investments held at fair value through profit or loss which are denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Gains or losses arising on the retranslation of investments held at fair value through profit or loss are included within the "Losses on investments held at fair value through profit or loss".

i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

j) Borrowings

Interest-bearing bank loans, overdrafts, unsecured loan notes and Preference Stock are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The Preference Stock has been classified as a liability as it represents a contractual obligation on behalf of the Company to deliver to the stockholders a fixed and determinable amount at the date of redemption.

k) Operating segments

The directors consider that the Company has one operating segment, being the activity of investing in shares and securities primarily for capital appreciation in accordance with the Company's published investment objective. The Company operates within the United Kingdom.

l) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid or, in the case of final dividends, when they are approved by shareholders. Dividends are recorded in the Statement of Changes in Equity.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

m) Capital and reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposals of investments;
- expenses and finance costs allocated to capital net of tax relief;
- realised foreign exchange differences of a capital nature; and
- costs of repurchasing ordinary share capital.

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

Revenue reserve

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

Capital redemption reserve

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled.

n) Distributable reserves

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

o) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable Preference Stock is classified as a liability. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

Share capital represents the nominal value of ordinary shares issued.

p) Key estimates and assumptions

Estimates and assumptions used in preparing the financial statements are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these estimates and assumptions form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

There are no estimates and assumptions that may cause material adjustment to the carrying value of assets and liabilities. The decision to allocate special dividends as income or capital is a judgement, and further details are provided in note 1(e). The decision to include Purchases and Sales of investments within Operating activities in the Cash Flow Statement is considered appropriate because these are core activities of the Company's operations. Given the nature of the Company as an investment trust, this is not deemed to be a significant judgement in the context of the financial statements as a whole. There are no significant judgements made in the preparation of these financial statements.

2 Investment income

	2023 £'000	2022 £'000
Income from companies listed or quoted in the United Kingdom:		
Dividends	22,553	18,939
Special dividends	1,177	1,577
Property income distributions	565	132
Total investment income	24,295	20,648

Notes to the Financial Statements (continued)

3 Other income

	2023 £'000	2022 £'000
Bank and other interest	95	2
	95	2

4 Management fees

	2023			2022		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Management fee	710	1,657	2,367	1,004	2,343	3,347
	710	1,657	2,367	1,004	2,343	3,347

A summary of the fee arrangements in the management agreement is given on page 27.

5 Other expenses

	2023 £'000	2022 £'000
Directors' fees (see the Directors' Remuneration Report on pages 50 to 52)	175	191
Auditor's remuneration for the audit of the Company and the financial statements	47	43
Other professional fees	128	53
FCA and London Stock Exchange fees	72	58
Registration costs	25	24
Annual and half-year reports and shareholder circulars: printing and distribution	15	29
Insurances	9	15
AIC subscriptions	21	21
Custody and other bank charges	38	47
Bank facilities: commitment fees ¹	–	64
Charitable donations	6	6
Depositary charges	47	50
Other expenses payable to the management company ²	144	78
Other expenses	4	49
	731	728

1 Non-utilisation loan fees are included in Finance Costs from 1 June 2022

2 Other expenses payable to management company ("Janus Henderson") relate to marketing activities as described in Note 21

All transactions with directors are disclosed in the Directors' Remuneration Report and are related-party transactions. All the above expenses include VAT where VAT is applied to them. There were no non-audit services in the period (2022: nil).

Notes to the Financial Statements (continued)

6 Finance costs

	2023			2022		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Bank overdraft and loan interest ¹	527	1,230	1,757	205	479	684
Interest on unsecured loan notes ²	470	1,095	1,565	357	831	1,188
Total	997	2,325	3,322	562	1,310	1,872

1 Includes non-utilisation fees from 1 June 2022

2 Includes amortisation of direct issue costs and will therefore vary from year to year

7 Taxation

a) Analysis of charge for the year

	2023			2022		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Overseas tax suffered	5	–	5	1	–	1
Current and total tax charge for the year	5	–	5	1	–	1

b) Factors affecting the tax charge for the year

UK corporation tax is charged at an effective rate of 20% being the weighted average corporation tax rate effective during the year under review (2022: effective rate of 19%). Approved investment trusts are exempt from corporation tax on chargeable gains made by the investment trust.

The tax assessed for the year is lower than the average standard rate of corporation tax in the UK of 20% (2022: 19%) for the year ended 31 May 2023.

	2023			2022		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Profit/(loss) before taxation	21,952	(131,234)	(109,282)	18,356	(190,920)	(172,564)
Corporation tax at 20.00% (2022: 19.00%)	4,390	(26,247)	(21,857)	3,488	(36,275)	(32,787)
Effects of:						
Non-taxable UK dividends	(4,517)	–	(4,517)	(3,822)	–	(3,822)
Non-taxable overseas dividends	(229)	–	(229)	(76)	–	(76)
Expenses not deductible for tax purposes	1	–	1	1	–	1
Excess management expenses and loan deficits	281	625	906	409	694	1,103
Overseas withholding tax	5	–	5	1	–	1
Non-taxable capital items	–	25,450	25,450	–	35,581	35,581
Corporate interest restrictions	74	172	246	–	–	–
Current and total tax charge for the year	5	–	5	1	–	1

c) Provision for deferred taxation

No provision has been made for deferred tax on income.

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

d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £28,929,000 (2022: £27,797,000) arising as a result of having unutilised management expenses and deficits on loan relationships of £115,710,000 (2022: £111,183,000). 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. There is no expiry date for these deferred tax assets and no expectation for these to be utilised.

Notes to the Financial Statements (continued)

8 (Loss)/earnings per ordinary share

The earnings per ordinary share figure is based on the net loss for the year of £109,287,000 (2022: net loss of £172,565,000) and on 74,701,796 (2022: 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:

	2023 £'000	2022 £'000
Net revenue profit	21,947	18,355
Net capital loss	(131,234)	(190,920)
Net total loss	(109,287)	(172,565)
Weighted average number of ordinary shares in issue during the year	74,701,796	74,701,796
	2023	2022
Revenue earnings per ordinary share	29.38p	24.57p
Capital loss per ordinary share	(175.68p)	(255.58p)
Total loss per ordinary share	(146.30p)	(231.01p)

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

9 Ordinary dividends

	Record Date	Pay Date	2023 £'000	2022 £'000
Final dividend 17.00p (2022: 16.75p) for the year ended 31 May 2022	26 August 2022	10 October 2022	12,699	12,513
Interim dividend of 7.00p (2022: 7.00p) for the year ended 31 May 2023	9 February 2023	6 March 2023	5,229	5,229
Unclaimed dividends over 12 years old			(3)	(8)
			17,925	17,734

Subject to approval at the AGM, the proposed final dividend of 19.00p per ordinary share will be paid on 9 October 2023 to shareholders on the register of members at the close of business on 25 August 2023. The shares will be quoted ex-dividend on 24 August 2023.

The proposed final dividend for the year ended 31 May 2023 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by shareholders.

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

	2023 £'000	2022 £'000
Revenue available for distribution by way of dividends for the year	21,947	18,355
Interim dividend for the year ended 31 May 2023 of 7.00p (2022: 7.00p) per ordinary share	(5,229)	(5,229)
Final dividend for the year ended 31 May 2022 of 17.00p (based on the 74,701,796 shares in issue at 2 August 2022)	–	(12,699)
Proposed final dividend for the year ended 31 May 2023 of 19.00p (based on 74,701,796 shares in issue at 1 August 2023)	(14,193)	–
Transfer to reserves	2,525	427

Notes to the Financial Statements (continued)

10 Investments held at fair value through profit or loss

	2023 £'000	2022 £'000
Cost at start of year	697,987	627,497
Investment holding gains at start of year	194,410	452,861
Valuation at start of year	892,397	1,080,358
Movements in the year:		
Acquisitions at cost	109,395	165,877
Disposals at cost	(118,002)	(95,387)
Movement in investment holding (losses)/gains	(123,634)	(258,451)
Valuation at year end	760,156	892,397
Cost at end of the year	689,380	697,987
Investment holding gains	70,776	194,410
Valuation at year end	760,156	892,397

The Company received £114,384,000 (2022: £166,572,000) from investments sold in the year. The book cost of these investments when they were purchased was £118,002,000 (2022: £95,387,000). These investments have been revalued over time and until they were sold, any unrealised gains/losses were included in the fair value of the investments.

Purchase and sale transaction costs for the year ended 31 May 2023 were £479,000 and £53,000 respectively (2022: transaction costs of purchases £605,000; transaction costs of sales £76,000). These comprise mainly stamp duty and commission.

Analysis of investments at fair value

	2023 £'000	2022 £'000
Equity investments:		
Listed on London Stock Exchange	571,505	658,879
Listed on Alternative Investment Market ("AIM")	188,651	233,518
	760,156	892,397

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

Total capital (losses)/gains from investments

	2023 £'000	2022 £'000
(Losses)/gains on the sale of investments based on historical cost	(3,618)	71,185
Revaluation losses/(gains) recognised in previous years	2,917	(54,621)
(Losses)/gains on investments sold in the year based on the carrying value at the previous balance sheet date	(701)	16,564
Net movement in investment holding	(126,551)	(203,830)
Losses on investments held at fair value through profit or loss	(127,252)	(187,266)

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

Notes to the Financial Statements (continued)

11 Substantial interests

The Company held interests of 3% or more of any class of share capital in three investee companies (2022: two investee companies). These investments are not considered by the directors to be significant in the context of these financial statements.

	Valuation £'000	% of voting rights
RM	3,330	4.4
Safestyle	1,710	6.5
Thruvision	1,800	5.1

12 Receivables

	2023 £'000	2022 £'000
Securities sold for future settlement	506	1,900
Prepayments and accrued income	2,681	2,329
	3,187	4,229

13 Payables

	2023 £'000	2022 £'000
Securities purchased for future settlement	–	2,081
Management fee	392	485
Accruals and deferred income	459	424
	851	2,990

14 Financial liabilities

	2023 £'000	2022 £'000
Unsecured Loan Notes:		
3.33% Unsecured Loan Notes 2036 (redeemable at par on 23 May 2036)	29,846	29,837
2.77% Unsecured Loan Notes 2052 (redeemable at par on 2 February 2052)	19,921	19,919
Preference Stock:		
4,257 Preference Stock units of £1 each (2022: 4,257)	4	4
	49,771	49,760

The Preference Stock units carry the right to receive a non-cumulative dividend at a final rate of 0.001% payable on 1 June each year. On a winding-up of the Company, preference stockholders are entitled to repayment of the capital paid up thereon. The Preference Stock does not entitle the holder to attend or vote at any general meeting of the Company except where the dividend is six months in arrears or on a resolution to liquidate the Company.

On 23 May 2016, the Company issued £30,000,000 (nominal) 3.33% unsecured loan notes, net of issue costs totalling £213,000. The issue costs will be amortised over the life of the notes. The loan notes do not carry voting rights and the 3.33% interest rate would be cumulative if unpaid in any period.

On 2 February 2022, the Company issued £20,000,000 (nominal) 2.75% unsecured loan notes, net of direct issue costs totalling £82,000. The direct issue costs will be amortised over the life of the notes. The loan notes do not carry voting rights and the 2.77% interest rate would be cumulative if unpaid in any period.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures

The directors manage investment risk principally through setting an investment policy, approved by shareholders, which incorporates risk parameters (see pages 25-26), by contracting management of the Company's investments to an investment manager (Janus Henderson) under a contract which incorporates appropriate duties and restrictions and by monitoring performance in relation to these. The Board's relationship with Janus Henderson is discussed in the Strategic Report (pages 19 and 27). Internal control and the Board's approach to risk management is also on pages 40-42. There have been no material changes to the management or nature of the Company's investment risks from the prior year.

The main risks arising from the Company's pursuit of its investment objective are market risk, credit risk and liquidity risk. The effects of these can also be increased by gearing.

The Board and Janus Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below:

- Straight-through processing via a deal order and management system ("OMS") is utilised for listed securities.
- Portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third-party software applications: Charles River Development OMS and/or Imagine.
- Fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas) which utilises Hiportfolio software.
- The IT tools to which the Janus Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
 - Charles River Compliance module for investment restrictions monitoring;
 - SAI Global Bwise operational risk database;
 - RiskMetrics, UBS Delta, Style Research, Cognity and Barra for market risk measurement;
 - Bloomberg for market data and price-checking; and
 - Hiportfolio for portfolio holdings and valuations.

a) Market risk

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

b) Market price risk

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

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board regularly reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objectives and is directly responsible for investment strategy.

The Company's exposure to changes in market prices at 31 May 2023 on its equity investments was £760,156,000 (2022: £892,397,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 14 to 16 and a sector analysis is set out on page 4. At 31 May 2023 all the investments were in companies listed or quoted in London, most of them being companies established in and operating from the United Kingdom. Accordingly, there is a concentration of exposure to the UK, although it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

b) Market price risk (continued)

Market price risk sensitivity

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

The impact of a 25% increase in the value of the investments on the revenue return as at 31 May 2023 is a decrease of £199,000 (2022: £234,000) and on the capital return is an increase of £189,573,000 (2022: £222,553,000). Accordingly, the total impact on shareholders' funds is an increase of £189,374,000 (2022: £222,319,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2023 is a increase of £199,000 (2022: £234,000) and on the capital return is an decrease of £189,573,000 (2022: £222,553,000). Accordingly, the total impact on shareholders' funds is a decrease of £189,374,000 (2022: £222,319,000).

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 2023, the Company did not hold any non-sterling denominated investments (2022: nil).

d) Interest rate risk

Interest rate movements may affect:

- the level of income receivable from cash at bank and on deposit; and
- the interest payable on the Company's short-term borrowings.

Interest rate changes may also have an impact on the market value of the Company's equity investments. In particular, the effect of the interest rate changes on the earnings of companies held within the portfolio may have a significant impact on the valuations of those companies.

Management of the risk

The possible effects on the fair value of the investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. At 31 May 2023 the Company had committed bank borrowing facilities for a total of £50.7 million (2022: £50.3 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 2023 that give exposure to fixed interest rate risk are set out in note 14.

The exposure to floating interest rates can be found on the Balance Sheet (cash and cash equivalents and bank loans).

These amounts are not necessarily representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down or repaid, and the mix of borrowings subject to floating or to fixed interest rate changes.

Interest rate sensitivity

The Company is not materially exposed to changes in interest rates. As at 31 May 2023, the Company's one-year revolving loan facility provided by BNP Paribas, London branch (2022: provided by the Industrial and Commercial Bank of China Limited London Branch ("ICBC")), and effective from 8 February 2023, allowed borrowings to a maximum of £85 million, the interest rate exposure on which is 0.80% plus SONIA (Sterling Overnight Index Average). The bank loan at 31 May 2023 was £50,672,000 (2022: £50,268,000) and if interest rates changed by 100 basis points (up or down) this would decrease or increase shareholder funds by approximately £507,000 (2022: £503,000). The interest payable on the Company's £30 million issue of unsecured loan notes is fixed at 3.33% and on the £20 million issue of unsecured loan notes is fixed at 2.77%.

Notes to the Financial Statements (continued)

15 Risk management policies and procedures (continued)

e) Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £30 million by its issue in 2016 of 3.33% unsecured loan notes 2036 and a further £20 million by its issue in 2022 of 2.77% unsecured loan notes 2052. The Company is able to draw short-term borrowings of up to £85 million from its committed borrowing facility with BNP Paribas, London branch (2022: £85 million with ICBC). There were borrowings of £50.7 million drawn down under the facility at 31 May 2023 (2022: £50.3 million).

Accordingly, the Company has access to borrowings of up to £135 million: the £50 million of fixed debt represented by the issue of unsecured loan notes and a committed bank facility of £85 million.

The Board gives guidance to the Manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should remain fully invested in normal market conditions and that short-term borrowings should be used to fund short-term cash requirements.

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 May 2023, based on the earliest date on which payment could be required, was as follows:

	2023			2022		
	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000	Due within 1 year £'000	Due between 1 and 5 years £'000	Due more than 5 years £'000
Preference Stock ¹	–	–	–	–	–	–
Unsecured loan notes 2036 ²	999	3,996	37,970	999	3,996	38,991
Unsecured loan notes 2052 ²	554	2,216	33,117	554	2,216	33,850
Bank loans and interest	51,073	–	–	50,374	–	–
Payables	587	–	–	2,720	–	–
	53,213	6,212	71,087	54,647	6,212	72,841

1 See also note 14. The Company has in issue Preference Stock without a set redemption date with a total par value of £4,000 (2022: £4,000) which has a negligible ongoing finance cost

2 The amounts due include unsecured loan note interest

f) Credit risk

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

Management of the risk

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

- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed regularly by Janus Henderson, and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high-quality external credit ratings.

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

In summary, the maximum exposure to credit risk at 31 May 2023 was to cash and cash equivalents of £13,338,000 (2022: £8,991,000), and to receivables of £3,187,000 (2022: £4,229,000) (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 2023 the fair value of the Preference Stock was £4,000 (2022: £4,000). The fair value of the Preference Stock is estimated using the prices quoted on the exchange on which the investment trades. The Preference Stock is carried in the Balance Sheet at par.

The unsecured loan notes are carried in the Balance Sheet at par less the issue costs which are amortised over the life of the notes. In order to comply with fair value accounting disclosures only, the fair value of the unsecured loan notes has been estimated to be £36,068,000 (2022: £46,255,000) and is categorised as Level 3 in the fair value hierarchy as described below. However, for the purpose of the daily NAV announcements, the unsecured loan notes are valued at par in the fair value NAV because they are not traded and the directors have assessed that par value is the most appropriate value to be applied for this purpose.

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

h) Fair value hierarchy disclosures

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

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

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

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

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

The valuation techniques used by the Company are explained in note 1c).

Fair value hierarchy – 2023

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	760,156	–	–	760,156
	760,156	–	–	760,156

Fair value hierarchy – 2022

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

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 shareholders' funds.

The Company's total capital at 31 May 2023 was £776,063,000 (2022: £902,871,000) comprising £50,672,000 (2022: £50,268,000) of unsecured bank loans, £50,000,000 (2022: £50,000,000) of unsecured loan notes, £4,000 (2022: £4,000) of Preference Stock and £675,387,000 (2022: £802,599,000) of equity share capital and reserves.

The Company has a £85 million revolving credit facility with BNP Paribas, London branch (2022: ICBC). The Company had drawn down £50,672,000 under these facilities as at 31 May 2023 (2022: £50,268,000). The Company was fully compliant with the terms of the facilities, as they existed, for the period 1 June 2022 to the date of this Annual Report.

Notes to the Financial Statements (continued)

16 Share capital

	2023 £'000	2022 £'000
Allotted, issued, authorised and fully paid:		
74,701,796 ordinary shares of 25p each (2022: 74,701,796)	18,676	18,676

During the year the Company made no purchases of its own issued ordinary shares (2022: nil). Up to the date of this Report, the Company has not purchased any ordinary shares. The holders of ordinary shares are entitled to all the capital growth in the Company and all the income from the Company that is resolved by the directors to be distributed. Each holder of ordinary shares present at a general meeting has one vote on a show of hands and on a poll every member present in person or by proxy has one vote for each ordinary share held.

17 Capital redemption reserve and capital reserves

2023	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2022	26,745	194,410	549,634	744,044
Transfer on disposal of investments (see note 10)	–	2,917	(2,917)	–
Net capital losses for the year	–	(126,551)	(701)	(127,252)
Expenses charged to capital	–	–	(3,982)	(3,982)
At 31 May 2023	26,745	70,776	542,034	612,810

2022	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2021	26,745	452,861	482,446	935,307
Transfer on disposal of investments (see note 10)	–	(54,621)	54,621	–
Net capital losses for the year	–	(203,830)	16,564	(187,266)
Currency losses	–	–	(1)	(1)
Ordinary dividend paid from capital	–	–	(343)	(343)
Expenses charged to capital	–	–	(3,653)	(3,653)
At 31 May 2022	26,745	194,410	549,634	744,044

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

18 Revenue reserve

	2023 £'000	2022 £'000
At start of year	13,134	12,170
Ordinary dividends paid	(17,925)	(17,391)
Revenue profit for the year	21,947	18,355
At 31 May	17,156	13,134

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

The NAV per ordinary share is based on the net assets attributable to the ordinary shares of £675,387,000 (2022: £802,599,000) and on the 74,701,796 ordinary shares in issue at 31 May 2023 (2022: 74,701,796). The Company has no securities in issue that could dilute the NAV per ordinary share.

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

	2023 £'000	2022 £'000
Net assets attributable to ordinary shares at 1 June	802,599	992,898
Net losses for the year	(109,287)	(172,565)
Ordinary dividends paid in the year	(17,925)	(17,734)
Net assets attributable to ordinary shares at 31 May	675,387	802,599

Notes to the Financial Statements (continued)

20 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments at 31 May 2023 (2022: £nil).

Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting commitments at 31 May 2023 (2022: nil).

21 Transactions with the Manager and related parties

Under the terms of an agreement effective from 22 July 2014, the Company appointed Janus Henderson as Manager to provide investment management, accounting, administrative and secretarial services. The Manager has contracted with BNP Paribas to provide accounting and administration services.

Details of the management fee arrangements for these services are given in the Strategic Report on page 27. The fees paid or payable under this agreement to the Manager in respect of the year ended 31 May 2023 were £2,367,000 (2022: £3,347,000) (see note 4). The amount outstanding at 31 May 2023 was £392,000 payable to Janus Henderson (2022: £485,000).

No performance fee is payable to Janus Henderson in respect of the year ended 31 May 2023 (2022: £nil).

In addition to the above services, the Manager facilitates marketing activities with third parties which are recharged to the Company. Total amounts paid to the Manager in respect of marketing for the year ended 31 May 2023 amounted to £144,000 (2022: £78,000).

Directors' interests in the ordinary shares of the Company and fees paid to the directors are considered to be transactions with related parties. Details are shown in the Directors' Remuneration Report and in note 5. At 31 May 2023, an amount of £31,000 (2022: £31,000) had been accrued in respect of April and May 2023 directors' fees and is included with accruals in note 13. This was paid in the June 2023 quarterly payroll, as directors are remunerated in the form of fees, payable quarterly in arrears.

22 Changes in financial liabilities

The following table shows the movements during the year in financial liabilities in the Balance Sheet:

Notes	At 1 June 2022 £'000	Cash flows £'000	Non-cash changes		At 31 May 2023 £'000
			Currency losses £'000	Fair value changes £'000	
Financing activities					
	(50,268)	(404)	–	–	(50,672)
14	(49,760)	–	–	(11)	(49,771)
	(100,028)	(404)	–	(11)	(100,443)
Non-financing activities					
	8,991	4,347	–	–	13,338
	8,991	4,347	–	–	13,338
Total	(91,037)	3,943	–	(11)	(87,105)

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

Additional Information



Photo: Balfour Beatty, HS2 Civil Engineering Contracts, West Midlands

Glossary

Alternative Investment Fund Managers Directive (“AIFMD”)

The AIFMD classifies certain investment vehicles, including investment companies, as alternative investment funds (“AIFs”) and requires them to appoint an alternative investment fund manager (“AIFM”) and depositary to manage and oversee the operations of the investment vehicle. The Board retains responsibility for strategy, operations and compliance and the directors retain a fiduciary duty to shareholders.

Association of Investment Companies (“AIC”)

The Company is a member of the AIC, which is the trade body for investment companies and represents the industry in matters which impact the regulation of such entities. The Company is a constituent of the AIC’s UK Smaller Companies sector.

Benchmark

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

Custodian

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

Depositary

As an AIF, the Company is required to appoint a depositary who has responsibility for overseeing the operations of the Company, including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings, and is responsible for the appointment of a custodian. The depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. No such notification has been made. The Company’s depositary has confirmed that, in all material respects, the Company has been managed in accordance with the FCA’s Investment Funds Sourcebook, the Company’s articles of association and as required by the AIFMD.

Dividend dates

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

Gearing

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

Gearing impact on stock selection and gearing decision

When the Company has a geared portfolio, the impact of ‘stock selection’ compared to the benchmark is amplified as a consequence of being geared. Without gearing, portfolio performance would have been higher and the residual of the impact is allocated to the ‘decision’ to be geared. Splitting the impact in this way can be helpful to show the effect of debt on portfolio performance and disaggregating this from the impact of the decision to gear.

The performance attribution on page 4 shows the impact of gearing on performance. This is split between ‘gearing impact on stock selection’, being a comparison of the performance of the ungeared investments within the Company’s portfolio compared to the index where the effects are not amplified, and the residual which is the impact of the ‘gearing decision’.

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.

Glossary (continued)

Management fee

This is a fee charged by a management company for managing a portfolio, normally based on a percentage of the assets under management. The Company's management fee is charged at 0.35% per annum (0.0875% per quarter) of net assets calculated on the last day of each calendar quarter and is paid to Janus Henderson each calendar quarter in advance.

Ongoing charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The ongoing charge is based on the premise that actual costs incurred in the year (see notes 4 and 5) are the best estimate of future costs, excluding any performance fees, in accordance with the AIC methodology.

The ongoing charge is the annualised charge expressed as a percentage of the average aggregate NAV in the period (see page 86). Management fees and other administrative expenses are included in the calculation, such as directors' fees and the auditor's fees, and the figure therefore exceeds the rate of the management fee paid to Janus Henderson. The cap of 0.90% relates only to management fees and performance fees under the Company's management agreement, and excludes any other expenses. Total expenses for periods where a performance fee is payable can therefore be greater than 0.90%. The AIC's ongoing charge methodology differs from the PRIIPs methodology for ongoing costs which are disclosed in the key investor document ("KID").

The Company's latest available KID was published with an effective date of 1 January 2023. The KID sets out portfolio transaction costs of 0.11%, other ongoing costs of 0.62% and performance fees of 0.22%. These are calculated under the prescribed methodologies for calculating costs disclosed in the KID. The KID is reissued periodically and the costs disclosed in the KID may be revised at a subsequent reissue date.

Performance fee

This is a fee paid on top of the management fee if an investment company's performance during the financial year meets certain conditions. Under the terms of its management agreement, if the Company has outperformed, it will pay Janus Henderson a performance fee totalling 15% of any outperformance of the benchmark index, on a total return basis, over the financial year, subject to meeting other criteria. There is also a cap on any performance fee paid in any one year, notably that total management and performance fees combined may not exceed 0.9% of average net assets in the year. Average net assets for this purpose are calculated as the average of net assets at each month end during the financial year under review. No performance fee is payable if either the share price total return or NAV per share total return has decreased during the year. Further details on the performance fee are set out on page 27.

Alternative Performance Measures

The Company uses the following alternative performance measures (“APMs”) throughout the Annual Report, financial statements and notes to the financial statements. An APM is a measure of performance or financial position that is not defined in accounting standards and cannot be taken directly from the financial statements. The APMs are reconciled to the financial statements through the narrative below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders to help assess the Company’s performance against its peer group.

Capital return per share

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

Discount or premium

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

	NAV pence	Share price pence	Premium/ (discount) to NAV
At 31 May 2022	1,074.4	917.5	(14.6%)
At 31 May 2023	904.1	785.0	(13.2%)

Gearing/(net cash)

Gearing represents the excess amount above shareholders’ funds of total investments, expressed as a percentage of the shareholders’ funds. If the amount calculated is negative, this is a ‘net cash’ position without gearing.

		2023	2022
Investments held at fair value through profit or loss (£’000) (page 66)	(A)	760,156	892,397
Net assets (£’000) (page 66)	(B)	675,387	802,599
Gearing (C = (A/B) -1) (%)	(C)	12.6%	11.2%

Net asset value (“NAV”) per ordinary share

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

Ongoing charge

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

	2023 £’000	2022 £’000
Management fees (note 4)	2,367	3,347
Other administrative expenses (note 5)	731	728
Less: non-recurring expenses	(42)	(68)
Ongoing charges	3,056	4,007
Average net assets¹	701,958	948,784
Ongoing charges ratio (excluding performance fee)	0.44%	0.42%

¹ Calculated using the average daily NAV (with debt at fair value)

The ongoing costs ratio provided in the Company’s key investor document (“KID”) is calculated in line with the PRIIPs regulations. This calculation includes finance costs and look through to costs incurred by other investment trusts and funds in which the Company invests. The non-recurring expenses include certain professional and legal fees (2022: non-utilisation loan fees and certain legal fees). See the glossary for the cost ratio from the KID on page 85.

Alternative Performance Measures (continued)

Revenue return per share

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

Total return

The return on the share price or NAV taking into account both the rise and fall of NAV or share prices and dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return). Dividends paid and payable are set out in note 9.

NAV per share at 31 May 2022 and 31 May 2021 (p)	1,074.4	1,329.1
NAV per share at 31 May 2023 and 31 May 2022 (p)	904.1	1,074.4
	2023	2022
Change in the year (%)	(15.9)	(19.2)
Impact of dividends reinvested (%)	2.5	1.8
NAV total return for the year (%)	(13.8)	(17.8)
Share price per share at 31 May 2022 and 31 May 2021 (p)	917.5	1,280.0
Share price per share at 31 May 2023 and 31 May 2022 (p)	785.0	917.5
	2023	2022
Change in the year (%)	(14.4)	(28.3)
Impact of dividends reinvested (%)	2.9	1.9
Share price total return for the year (%)	(12.0)	(27.0)

Yield

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

		31 May 2023	31 May 2022
Annual dividend (p)	(A)	26.00	24.00
Share price (p)	(B)	785.0	917.5
Yield (C=A/B) (%)	(C)	3.3	2.6

Warning to shareholders

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

It is unlikely that either the Company or the Company's registrar would make unsolicited telephone calls to shareholders. Any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call about the Company, please call the corporate secretary on 020 7818 1818.

General Shareholder Information

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

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

BACS

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services). Mandate forms for this purpose are available from the registrar, Computershare Investor Services plc. Alternatively, shareholders can write to the registrar at the address on page 90 to give their instructions, including the bank account name, account number and sort code to which payments are to be made.

Common Reporting Standard ("CRS")

Under tax legislation, the Company must provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information is given annually to the local tax authority of the tax residencies of non-UK based certificated shareholders and corporate entities.

Equality Act 2010

This report and other documents issued by the Company are available from the corporate secretary. If needed, copies can be made available in a variety of formats, including Braille or larger type.

You can contact the registrar, which has installed textphones to allow speech and hearing-impaired people who have their own textphone to contact them directly, without the need for an intermediate operator, by dialling 0370 702 0005. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People), dial 18001 followed by the number you wish to dial.

Environmental, social and governance ("ESG")

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

Foreign Account Tax Compliance ("FATCA")

FATCA is a United States federal law whose intent is to enforce the requirement for United States persons (including those living outside the USA) to file reports each year on their non-USA financial accounts. Each year investment trusts need to monitor the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company makes an annual assessment to determine if the shares represent financial accounts and, where they do, reports USA accounts to HMRC.

General Data Protection Regulation ("GDPR")

A privacy statement can be found at www.janushenderson.com.

History

The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name The Trustees, Executors and Securities Insurance Corporation, Limited. The name was changed in August 1917 to The Trustees Corporation Limited, in April 1982 to TR Trustees Corporation PLC, in October 1990 to TR Smaller Companies Investment Trust PLC and in September 1997 to The Henderson Smaller Companies Investment Trust plc.

Individual Savings Account ("ISA")

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

Non-mainstream pooled investments ("NMPI") status

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

General Shareholder Information (continued)

Packaged Retail and Insurance-based Investment Products Regulation (“PRIIPs”)/Key Information Document (“KID”)

Investors should be aware that PRIIPs requires the Manager, as the PRIIPs manufacturer, to prepare a KID for the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Company’s website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by legislation. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed. See the glossary on page 85 for the cost ratio used in the KID.

Performance details/share price information

The Company’s NAV is published daily. Details of the Company’s share price and NAV per share can be found at www.hendersonsmallercompanies.com and in the London Stock Exchange Daily Official List.

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

Shareholder details

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

Taxonomy Regulation

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

Corporate Information

Registered office

201 Bishopsgate
London EC2M 3AE

Service providers

Alternative Investment Fund Manager

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

Corporate Secretary

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

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1057
Email: web.queries@computershare.co.uk

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

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

Broker

Numis Securities Limited
45 Gresham Street
London EC2V 7BF

Independent Auditor

Mazars LLP
30 Old Bailey
London
EC4M 7AU

Financial calendar

Annual results	3 August 2023
Ex-dividend date	24 August 2023
Dividend record date	25 August 2023
Annual general meeting	5 October 2023
Final dividend payable	9 October 2023
Half-year results	January 2024
Interim dividend payable	March 2024

Information sources

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

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



Follow Janus Henderson Investment Trusts, UK on LinkedIn

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on our website.

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

Notice of Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (“AGM”) of The Henderson Smaller Companies Investment Trust plc will be held at the offices of Janus Henderson Investors at 201 Bishopsgate, London EC2M 3AE on **Thursday, 5 October 2023 at 11.30 a.m.** for the purpose of considering and, if thought fit, passing the following resolutions:

Ordinary resolutions

- 1 To receive the Annual Report and the audited financial statements for the year ended 31 May 2023.
- 2 To approve the Directors’ Remuneration Report for the year ended 31 May 2023.
- 3 To approve the Directors’ Remuneration Policy.
- 4 To approve a final dividend of 19.0p per ordinary share.
- 5 To appoint Yen Mei Lim as a director of the Company.
- 6 To re-appoint Penny Freer as a director of the Company.
- 7 To re-appoint Kevin Carter as a director of the Company.
- 8 To re-appoint Alexandra Mackesy as a director of the Company.
- 9 To re-appoint Victoria Sant as a director of the Company.
- 10 To re-appoint Michael Warren as a director of the Company.
- 11 To re-appoint Mazars LLP as the statutory auditor of the Company.
- 12 To authorise the Audit and Risk Committee to determine the statutory auditor’s remuneration.
- 13 THAT in substitution for all existing authorities, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “Act”) to exercise all powers of the Company to allot relevant securities (within the meaning of section 551 of the Act) up to an aggregate nominal amount of £1,867,544 (or such other amount as shall be equivalent to 10% of the Company’s issued ordinary share capital, excluding treasury shares, at the date of the passing of this resolution) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next AGM of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special resolutions

- 14 THAT in substitution for all existing authorities and subject to resolution 13 being passed, the directors be empowered pursuant to section 570 and section 573 of the Act to allot equity securities (within the meaning of

section 560 of the Act), and/or where such allotment constitutes an allotment of equity securities by virtue of section 560 of the Act, for cash pursuant to the authority conferred by resolution 13, as if section 561 of the Act did not apply to any such allotment and to sell relevant shares (within the meaning of section 560 of the Act) held by the Company immediately before the sale as treasury shares (as defined in section 724 of the Act) for cash as if section 561 of the Act did not apply to any such sale.

This power shall be limited to:

- (a) the allotment or sale of equity securities, whether by way of a rights issue, open offer or otherwise in favour of ordinary shareholders on the register of members at such record date as the directors may determine, where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (or as nearly as may be) to the respective numbers of ordinary shares held by them (or are otherwise allotted in accordance with the rights attaching to such equity securities), subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or local or practical problems arising under the laws of, or the requirements of any regulatory body or stock exchange in any territory or otherwise howsoever;
- (b) the allotment or sale (otherwise than pursuant to subparagraph (a) above) of equity securities up to an aggregate nominal value of £1,867,544 (or such other amount as shall be equivalent to 10% of the issued ordinary share capital, excluding treasury shares, at the date of the passing of the resolution); and
- (c) to the allotment or sale of equity securities at a price of no less than the net asset value per share;

and shall expire at the earlier of the date falling 15 months after the passing of this resolution or the conclusion of the next AGM of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or sold after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

- 15 THAT in substitution for existing authorities, the Company be generally and unconditionally authorised in accordance with section 694 of the Act to purchase (within the meaning of section 693 of the Act) the preference stock units of £1 each in the capital of the Company (prior to 1 May 1999, the 4½ per cent cumulative preference stock units of £1 each in the capital of the Company) (the “Preference Stock”) pursuant to contracts arising from acceptance of the offer to purchase Preference Stock made by the Company on the terms described in the

Notice of Annual General Meeting (continued)

circular to holders of ordinary shares and Preference Stock dated 24 February 1999, such authority to expire at the conclusion of the next AGM of the Company in 2024 or, if sooner, 15 months from the date of the passing of this resolution.

16 THAT in substitution for existing authorities, the Company be generally and unconditionally authorised in accordance with section 701 of the Act to make market purchases (within the meaning of section 693 of the Act) of ordinary shares in issue of 25p each, excluding treasury shares, in the capital of the Company ("ordinary shares"), on such terms and in such manner as the directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares that may be purchased shall be 14.99% of the Company's issued ordinary share capital (equivalent to 11,197,799 shares at the date of this Notice) at the date of the passing of this resolution;

(b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is 25p, being the nominal value per share;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not exceed the higher of:

- (i) 105% of the average of the middle market quotations for the shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase; and

(ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange;

(d) the authority hereby conferred will expire on the earlier of the conclusion of the next AGM of the Company after the passing of this resolution or 15 months from the date of the passing of this resolution, unless such authority is renewed prior to such time;

(e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to such contract; and

(f) any shares so purchased shall be cancelled or, in accordance with the provisions of the Act, if the directors so determine, be held, sold, transferred or otherwise dealt with as treasury shares.

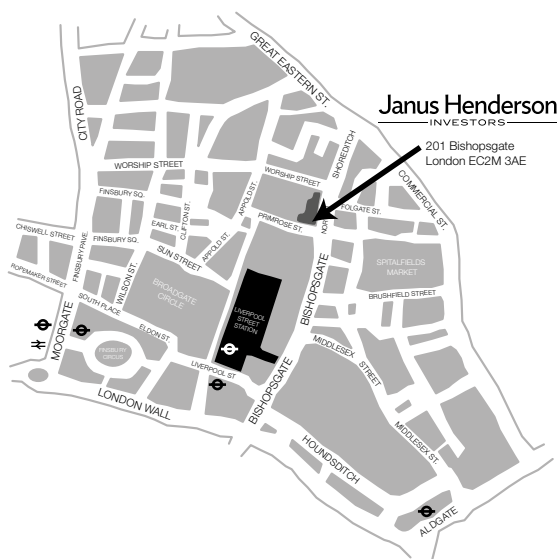
17 THAT a general meeting other than an AGM may be called on not less than 14 clear days' notice, such authority to expire at the conclusion of the AGM of the Company in 2024.

By order of the Board

Janus Henderson Secretarial Services UK Limited
Corporate Secretary
2 August 2023

Registered office:
201 Bishopsgate, London EC2M 3AE

Annual General Meeting venue



The 2023 AGM will be held at 201 Bishopsgate, London EC2M 3AE. It is a few minutes' walk from Liverpool Street Station and from Moorgate Station.

Notice of Annual General Meeting (continued)

Explanation of AGM resolutions

The information set out below is an explanation of the business to be considered at the 2023 Annual General Meeting (the "AGM"). You are welcome to join the AGM in person or by conferencing software Zoom. If you wish to join by Zoom, please visit www.janushenderson.com/trustslive to register.

Resolutions 1 to 13 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 14 to 17 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

Resolution 1: Annual Report and audited financial statements

The directors are required to lay before the AGM the annual report and audited financial statements of the Company for the financial year ended 31 May 2023 (the "Annual Report"). Shareholders will be given an opportunity at the AGM to ask questions on these items and are invited to receive the Annual Report.

Resolutions 2 and 3: Approval of the Directors' Remuneration Report and Remuneration Policy

Shareholders are asked to approve the Directors' Remuneration Report for the year ended 31 May 2023 and the Remuneration Policy (see pages 50 to 52 for the Directors' Remuneration Report which sets out the Remuneration Policy). The vote on the Remuneration Report is advisory and does not affect the remuneration payable to any individual director, though the Board will take feedback from shareholders and incorporate this into any future remuneration discussions. The vote on the Directors' Remuneration Policy is binding and put to shareholders every three years. The Remuneration Policy was last approved at the AGM in 2020.

Resolution 4: Final Dividend

The directors propose a final dividend of 19.0p per ordinary share. The payment of a final dividend is subject to the approval of shareholders, although the scope to pay a lesser amount would be restricted by the Company's status as an investment trust. If approved, the dividend will be paid on 9 October 2023 to shareholders on the register on 25 August 2023. The shares will be quoted ex-dividend on 24 August 2023.

Resolutions 5 to 10: Appointment and re-appointment of directors

Under the AIC Code of Corporate Governance, as endorsed by the Financial Reporting Council, directors are expected to stand for re-appointment by shareholders annually. At its meeting in May 2023, the Nomination Committee reviewed the performance, contribution and commitment of the members of the Board and concluded that each director standing for appointment and re-appointment brought

extensive, current and relevant business experience that allows them to contribute effectively to the leadership of the Company, in terms of both performance and time commitment.

The biographies of each director, including their skills, experience and qualifications relevant for the sustainable success of the Company are set out on pages 34 and 35. All directors standing for re-appointment by shareholders held office throughout the year under review. Yen Mei Lim is standing for appointment by shareholders, having taken office as a director on 3 April 2023.

Resolutions 11 and 12: Statutory auditor

In accordance with sections 489 and 492 of the Companies Act 2006 (the "Act"), shareholders are required to approve the appointment of the Company's auditor each year and give directors the authority to determine the auditor's remuneration. Resolution 11 relates to their appointment and resolution 12 relates to the determination of Mazars LLP's remuneration. In accordance with sections 489 and 492 of the Act, shareholders are required to approve the appointment of the Company's auditor each year and give authority to the directors to determine their remuneration. The Board is pleased to ask shareholders to re-appoint Mazars LLP as the Company's auditor for what would be their third year in office.

Resolutions 13 and 14: Authority to issue new shares and disapply pre-emption rights

At the 2022 AGM the directors were granted authority to allot a limited number of new ordinary shares. No shares have been allotted under this authority, which will expire at the forthcoming AGM. The directors are seeking the power to allot new ordinary shares for cash on a non pre-emptive basis. Renewal of the resolutions, if passed, will give the directors authority to allot ordinary shares for cash on a non pre-emptive basis up to an aggregate nominal amount of £1,867,544 (or such other amount as shall be equivalent to 10% of the issued ordinary share capital at the date of the passing of the resolution). The directors intend to use the authority to issue ordinary shares only if and when they believe it to be advantageous to the Company's existing shareholders to do so. In particular, shares, whether new ordinary shares or ordinary shares held in treasury, will never be allotted or sold other than at a premium to the net asset value per ordinary share. The authority will lapse unless renewed at the earlier of 15 months from the passing of this resolution or the conclusion of the next AGM of the Company.

Resolution 15: Preference Stock

In a circular to shareholders and preference stockholders dated 24 February 1999, the Company proposed to offer to purchase for cancellation all the Company's outstanding preference stock at £1 per unit, being the par value of the preference stock units. At an extraordinary general meeting of the Company held on 22 March 1999, these proposals, together with the related changes to the articles of

Notice of Annual General Meeting (continued)

association, were approved. At 31 May 2023, 4,257 preference stock units of £1 each were still in issue. It is intended that the offer will remain open until such time as all the preference stock has been acquired. This resolution renews for a further year the Company's powers to purchase for cancellation the outstanding preference stock. This authority will expire at the conclusion of the next AGM of the Company or if sooner, 15 months from the date of the passing of this resolution.

Resolution 16: Repurchase of the Company's ordinary shares

At the 2022 AGM, the directors were granted authority to repurchase 11,197,799 ordinary shares for cancellation or to be held in treasury. No shares were bought back under this authority as at the date of this Notice. 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. The Board considers that the Company should continue to have authority to buy back its own ordinary shares to be held in treasury or for cancellation. Resolution 16 authorises the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue at the date of the AGM (equivalent to 11,197,799 ordinary shares with a nominal value of £2,799,449 if there is no change in the issued ordinary share capital between now and the AGM).

Under the Listing Rules of the Financial Conduct Authority, this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority. The directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make purchases within guidelines set from time to time by the Board and if or when market conditions are suitable, with the aim of maximising the benefit to the remaining shareholders.

The directors will not use this authority unless to do so would result in an increase in the net asset value per ordinary share. The minimum price (exclusive of expenses) which may be paid for an ordinary share is 25p, being the nominal value per share. The authority will expire at the earlier of the date falling 15 months after the passing of this resolution or the conclusion of the next AGM of the Company.

Resolution 17: Notice of General Meetings

The Act and the Company's articles of association provide that all general meetings other than AGMs can be convened on 14 days' notice. However, one of the requirements of the Shareholder Rights Directive is that all general meetings must be held on 21 clear days' notice, unless shareholders agree to a shorter notice period. The Board is of the view that it is in the Company's interests to have a shorter notice period which complies with the provisions of the Act, and the Company's articles allow all general meetings (other than an AGM) to be called on 14 clear days' notice. The passing of Resolution 17 would constitute shareholders' agreement for

the purposes of the Shareholder Rights Directive (for which agreement is required annually) and would therefore preserve the Company's ability to call general meetings other than an AGM on '14 clear days' notice. The Board would utilise this authority to provide flexibility only when merited and would not use it as a matter of routine. The Board intends to seek a renewal of such authority at subsequent AGMs.

Notes to the Notice of Annual General Meeting (the "AGM")

1. Voting record date

Only those shareholders registered in the register of members of the Company at close of business on Tuesday, 3 October 2023 (the "voting record date") shall be entitled to vote at the AGM in respect of the number of voting rights registered in their name at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend, speak and vote at the AGM.

If the AGM is adjourned for no more than 48 hours after the original time, the same voting record date will also apply for the purpose of determining the entitlement of members to attend, speak and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If the AGM is adjourned for more than 48 hours then the voting record date will be close of business on the day which is two days (excluding non-working days) before the day of the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice. In the case of joint holders of a voting right, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

2. Right to attend and vote

Holders of ordinary shares are entitled to attend and vote at the AGM or at any adjournment(s) thereof. On a poll vote, each ordinary shareholder has one vote for each share held. On a vote on a show of hands, each ordinary shareholder or proxy has one vote.

If a proxy is appointed by more than one member and all such members have instructed the proxy to vote in the same way, the proxy will only be entitled on a show of hands to vote 'for' or 'against' as applicable. If a proxy is appointed by more than one member, but such members have given different voting instructions, the proxy may on a show of hands vote both 'for' and 'against' in order to reflect the different voting instructions.

On a poll all or any of the voting rights of the members may be exercised by one or more duly appointed proxies. However, where a member appoints more than one proxy, section 285(4) of the Companies Act 2006 (the "Act") does not authorise the exercise by the proxies taken together of more extensive voting rights than could be exercised by the member in person.

Notice of Annual General Meeting (continued)

Corporate representatives are entitled to attend and vote on behalf of the corporate member in accordance with section 323 of the Act. Shareholders are invited to send their letters of corporate representation in advance of the AGM to itsecretariat@janushenderson.com.

This Notice is available to holders of preference stock for information only. Preference stockholders are not entitled to attend or vote at the AGM.

3. Right to appoint proxies

Pursuant to section 324 of the Act, a member entitled to attend and vote at the AGM may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to shares held by him or her. A proxy need not be a member of the Company. A form of proxy is enclosed. The completion of the form of proxy or any CREST proxy instruction will not preclude a shareholder from attending.

Persons nominated to receive information rights have been sent this Notice of AGM and are hereby informed, in accordance with section 149(2) of the Act, that they may have the right under an agreement with the registered member by whom they are nominated to be appointed, or to have someone else appointed, as a proxy for this AGM. If they have no such right or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements. The statement of rights of shareholders for the appointment of proxies does not apply to nominated persons.

If you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11.30 am on Tuesday, 3 October 2023 to be considered valid.

Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

4. Receipt and termination of proxies

To be valid, the enclosed Form of Proxy must be received by the Company's Registrar (Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY) before 11.30 am on Tuesday, 3 October 2023 (or, in the case of an adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting).

As an alternative to completing and returning the printed Form of Proxy, you may submit your proxy electronically by accessing www.investorcentre.co.uk/eproxy. For security purposes, you will be asked to enter the control number,

your shareholder reference number ("SRN") and personal identification number ("PIN") to validate the submission of your proxy online. The control number and members' individual SRN and PIN numbers are shown on the Form of Proxy.

A member may terminate a proxy's authority at any time before the commencement of the Meeting. Termination must be provided in writing and submitted to the Company's Registrar.

In accordance with the Company's Articles of Association, in determining the deadline for receipt of proxies, no account shall be taken of any part of a day that is not a working day.

5. Electronic receipt of proxies

CREST members who wish to appoint a proxy or proxies by following the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by using the procedures described in the CREST manual, which is available to download from the Euroclear website www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time for receipt of proxy appointments specified in note 4 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

Notice of Annual General Meeting (continued)

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

6. Communication with the Company

Members may not use any electronic address provided either in the Notice or in any related documents (including the form of proxy) to communicate with the Company for any purpose other than those expressly stated.

7. Questions at the AGM

Section 319A of the Act requires the directors to answer any question raised at the AGM which relates to the business of the AGM, although no answer need be given:

- (a) if to do so would interfere unduly with the preparation of the AGM or involve disclosure of confidential information;
- (b) if the answer has already been given on the Company's website; or
- (c) if it is undesirable in the best interests of the Company or the good order of the AGM that the question be answered.

8. Members' statement of audit concerns

Members satisfying the thresholds in section 527 of the Act can require the Company to publish a statement on its website setting out any matter relating to:

- (a) the audit of the Company's accounts (including the Auditor's Report and the conduct of the audit) that are to be laid before the AGM; or
- (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last AGM, that the members propose to raise at the AGM.

The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's auditor no later than the time at which it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website.

9. Total voting rights

As at 31 July 2023 (being the last practicable date prior to the publication of this Notice) the Company's issued ordinary share capital consisted of 74,701,796 ordinary shares of 25p each, carrying one vote each.

10. Documents available for inspection

The directors' letters of appointment may be inspected at the registered office of the Company, 201 Bishopsgate, London EC2M 3AE during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will be available at the AGM from 15 minutes prior to its commencement until its conclusion. No director has a contract of service with the Company. If shareholders unable to attend the AGM physically wish to inspect the directors'

letters of appointment, please contact the corporate secretary at itsecretariat@janushenderson.com.

11. Members' power to circulate resolutions

Under section 338 and section 338A of the Act, members meeting the threshold requirements in those sections have the right to require the Company to:

- (i) give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or
- (ii) include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious.

Such a request must: identify the resolution of which notice is to be given or the matter to be included in the business; be signed by the person or persons making it; state the full name(s) and address of the person making it; provide evidence of the number of shares held; be received by the Company not later than six clear weeks before the meeting; and (in the case of a matter to be included in the business only) be accompanied by a statement setting out the grounds for the request.

The request may be made in hard copy to the Corporate Secretary, The Henderson Smaller Companies Investment Trust plc at 201 Bishopsgate, London EC2M 3AE or in electronic form to itsecretariat@janushenderson.com.

12. Website

The Company's Annual Report which contains this Notice of Meeting is available at www.hendersonsmallercompanies.com, together with these explanatory notes.

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

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

Telephone: **0800 832 832**
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MANAGED BY
Janus Henderson
INVESTORS

aic
The Association of
Investment Companies



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