Disclosure - Non-Independent Marketing Communication This is a non-independent marketing communication commissioned by Henderson Smaller Companies (HSL) . The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

Henderson Smaller Companies (HSL)

Strategy refinements and high gearing position HSL strongly for a UK small-cap recovery.

Jean-Baptiste Andrieux Jean-Baptiste@keplerpartners.com

Overview

Investment objective

To maximise shareholders' total returns by investing in smaller companies that are quoted in the United Kingdom.

Source: Morningstar

As at: 18/09/2026	Latest Market Capitalisation £511,494,761
Trust Name Henderson Smaller Companies	Latest Net Gearing (Cum Fair) 12%
Ticker HSL	Latest Ongoing Charge Ex Perf Fee 0.53%
Management Company Janus Henderson Investors	Shares Outstanding 53,615,803
Manager Name Indriatti van Hien	(Discount)/ Premium (Cum Fair) -9.5%
Association of Investment Companies (AIC) Sector UK Smaller Companies	Daily Closing Price 954p
Dividend Yield 3.0%	
Dividend Distribution Frequency Semi-Annually	

Henderson Smaller Companies (HSL) aims to own UK smaller companies with strong growth potential but that are underappreciated by the market. This approach has enabled the trust to build a strong long-term track record, with HSL having significantly outperformed the benchmark since its launch in October 2002. In September 2025, Indri van Hien, who has been involved in the **Management** of the strategy since 2013, assumed sole responsibility as manager of the trust, following the retirement of long-standing manager Neil Hermon. She was joined by deputy fund manager Cassie Herlihy in November 2025, who also brings significant experience in the UK small-cap space.

Although Indri has retained the underlying investment philosophy, she has made her mark by introducing some refinements aimed at addressing the headwinds the strategy has faced since 2022. This has notably included reducing the number of holdings from over 100 companies to a range of 70 to 80. As such, **Portfolio** turnover has been higher than usual over the past 12 months, although it is worth noting that this reflects a period of adjustment and turnover is expected to return to its normal level going forward. Activity has included the sale of stocks where the investment thesis had deteriorated, such as rail ticketing platform Trainline, which is facing pressure from the upcoming launch of a government-backed ticketing app. At the same time, Indri and Cassie have built new positions across different sectors and industries, reflecting their deliberate approach to diversification, rather than allowing diversification to be a byproduct of individual stock selection. New purchases since the start of the year have included, among others, Saga, a specialist provider of products and services for people aged over 50, and Chesnara, a life assurance and pension provider.

In FY 2026, HSL paid a total **Dividend** of 29p, resulting in a 3.0% historic yield. This also marked the trust's 23rd consecutive year of dividend growth, the joint longest track record in the AIC UK Smaller Companies sector, further

cementing its AIC Dividend Hero status. We also note that HSL is part of the 'AIC Millionaires' group: meaning an investor who had put their full annual ISA allowance into the trust every year between April 1999 and January 2026 and held throughout, would now have a pot worth more than £1m, according to AIC calculations.

Analyst's View

Taking a long-term view, we think this could be an attractive time to be buying UK smaller companies, as they offer the potential for a strong re-rating having been out of favour for some time. As a result, they are trading on valuations below their long-term averages and at a discount to large caps. While there have been periods in the past when this has happened, small caps typically command a premium over their large-cap peers, reflecting their stronger growth potential, which has translated into long-term outperformance of the FTSE 100 Index. Indri and Cassie argue that the value currently available in the UK small-cap space is already being recognised by strategic buyers and private equity firms, with the pace of M&A activity remaining elevated.

We believe HSL could be an attractive option for gaining exposure to this opportunity, with the trust boasting a strong long-term **Performance** track record despite some headwinds since 2022. Yet, the managers have introduced refinements to the strategy that could improve selectivity and sell discipline, in turn supporting potentially stronger relative returns. The portfolio is also well diversified across industries and end markets, reducing its reliance on any single theme to generate returns. In addition, HSL benefits from advantageous borrowing terms, with **Gearing** standing at 12%, one of the highest levels in the sector. As a result, we believe the trust is well positioned to benefit from a recovery in UK small caps.

We also view HSL as a cost-effective way to gain exposure to UK small caps, as its ongoing **Charges** ratio of 0.53% is the lowest in the AIC UK Smaller Companies sector. It also compares favourably with passive funds, and, in this regard, we would highlight that passive strategies focused on UK small caps are limited in number.

Bull

- UK smaller companies are attractively valued relative to their own history and large-cap peers
- New management team brings refinements to the strategy, which could result in stronger returns
- Attractive costs relative to peers and even passive funds

Bear

- Sentiment towards UK small caps remains subdued
- Has historically lagged in value-driven market environment
- High gearing can amplify both upside and downside potential

Portfolio

Henderson Smaller Companies (HSL) aims to maximise both capital and income growth by investing in UK smaller companies, a segment of the domestic equity market that has largely outperformed the FTSE 100 Index over the long term but tends to receive less analyst coverage. The manager, Indri van Hien, has been involved in the management of the trust since 2013 and assumed sole responsibility for managing the trust in September 2025, following the retirement of long-standing manager Neil Hermon. She was joined by deputy portfolio manager Cassie Herlihy in November 2025.

Indri and Cassie invest on a bottom-up basis, focusing on companies with a market capitalisation of at least £150m, and describe themselves as GARP (growth at a reasonable price) investors. This means that they are looking for companies with strong growth potential but that are underappreciated by the market. The managers also want the companies they invest in to offer quality characteristics, such as strong balance sheets and robust cash generation. As such, they do not invest in pre-revenue businesses. These requirements result in an investable universe of around 200 names.

From this investment universe, Indri and Cassie aim to hold 70 to 80 names, with stocks selected through a '4Ms' analysis, which stands for business model, management, money, and momentum. The business model assessment examines how a company generates returns, the sustainability of these returns, its market share and the industry trends that could support future growth. For management, Indri and Cassie analyse the track record of a management team and their incentive structure. The 'money' aspect reflects their emphasis on profitable, cash-generative companies that are able to self-fund their growth. Finally, momentum refers to earnings momentum, underpinned by the belief that this is strongly correlated with share price performance over the long term.

The 20 largest positions typically account for nearly half of the portfolio and are, therefore, expected to be the main drivers of performance. Indri and Cassie have usually identified catalysts that they believe will enable these stocks to reach their ascribed price targets quickly. One such stock is top ten holding Chemring, a provider of defence products and services. The managers view rising defence budgets globally as a structural growth tailwind for the company and argue that the market is underestimating some of its organic growth drivers, such as Chemring's investments to expand its energetics capacity. They also highlight its strong balance sheet, which leaves scope for the company to grow through M&A or return cash to shareholders via share buybacks. The next 30 to 40 positions, accounting for 30% to 40% of NAV, consist of quality compounders in which the managers have strong conviction, but where there is not necessarily a near-term catalyst in place. Finally, the remainder of the portfolio comprises what Indri and Cassie refer to as 'launch positions', small holdings, which they expect to add to over time as their confidence in these companies increases.

Disclosure – Non-Independent Marketing Communication This is a non-independent marketing communication commissioned by Henderson Smaller Companies (HSL) . The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

TOP 20 HOLDINGS

NAME	SECTOR	INDUSTRY	WEIGHT (%)
Balfour Beatty	Industrials	Engineering & Construction	3
Paragon Banking	Financial services	Mortgage finance	2.8
Computacenter	Technology	Information technology services	2.7
OSB Group	Financial services	Mortgage finance	2.6
Oxford Instruments	Technology	Scientific & technical instruments	2.5
Mitchells & Butlers	Consumer cyclical	Restaurants	2.4
Bellway	Consumer cyclical	Residential construction	2.3
Volution	Industrials	Building products & equipment	2.2
Renishaw	Technology	Scientific & technical instruments	2.1
Chemring	Industrials	Aerospace & defence	2.1
SigmaRoc	Basic materials	Building Materials	2
Softcat	Technology	Electronics & computer distribution	2
Bodycote	Industrials	Specialty industrial machinery	1.9
Bridgepoint	Financial services	Asset management	1.9
Serco	Industrials	Specialty business services	1.9
Serica Energy	Energy	Oil & gas E&P	1.9
Rathbones	Financial services	Asset management	1.8
Clarkson	Industrials	Marine shipping	1.7
Morgan Sindall	Industrials	Engineering & construction	1.7
AJ Bell	Financial services	Asset management	1.7
Total			43.2

Source: Janus Henderson as at 31/08/2026

Indri and Cassie aim to hold their companies for the long term, with annual turnover usually around 20% to 25%, implying an average holding period of four to five years. However, turnover has been higher over the past 12 months, above 30%, as Indri has introduced some refinements to the strategy, notably reducing the number of stocks held, with the portfolio having historically been invested in more than 100 names. She argues that holding fewer names increases competition for a place in the portfolio, resulting in fewer lower-conviction holdings and creating greater urgency to sell a stock when its upside potential has diminished or the investment thesis has broken down.

In fact, since the start of 2026, several stocks have been sold as the managers' investment thesis had deteriorated. These include, for example, rail ticketing platform Trainline, with the company coming under pressure due to the upcoming launch of a government-backed ticketing website and app. Indri and

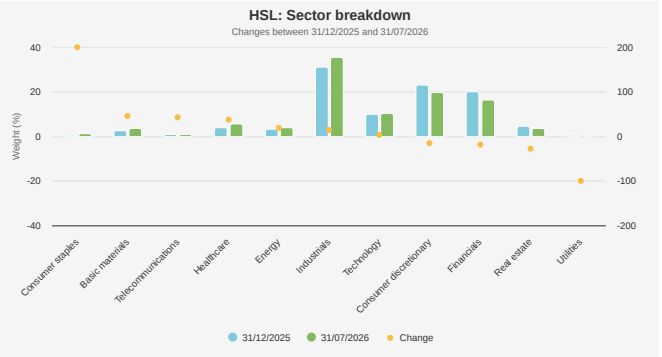
Cassie also disposed of their holdings in MONY Group, a technology-led price comparison platform, as they believe its business model could face disruption from AI. They also sold Telecom Plus, a utilities and telecommunications company, as they thought its valuation at the time of sale did not reflect its weakening growth prospects. This decision was vindicated as Telecom Plus subsequently issued a profit warning. In addition, Indri and Cassie have trimmed their positions in stocks that have performed strongly. One example is Luceco, a manufacturer of LED lighting, electrical wiring accessories, and EV chargers, whose shares have surged on the back of strong demand for its EV charging offering.

Several stocks also exited the portfolio due to M&A activity. These include, among others, Empiric Student Property, a REIT focusing on student accommodation, which was taken over by its larger competitor, Unite Group, as well as Just Group, a pension risk transfer specialist, which was acquired by Canadian investment company Brookfield. Indri and Cassie view the elevated number of takeovers in the portfolio as a reflection of the quality and growth potential of their holdings, as well as of their attractive valuations.

In line with the managers' aim of maintaining a well-diversified portfolio, the new positions built since the start of the year have been in companies operating across different sectors and exposed to distinct end markets. These include Greencore, a food manufacturer supplying many of the UK's major retailers with ready meals, salads and sandwiches. Indri and Cassie believe that Greencore's acquisition of Bakkavor, another food manufacturer specialising in products such as frozen pizzas, desserts and chilled dips, will establish the business as the clear leader in the chilled prepared foods market. In addition, they expect significant upside to earnings forecasts from cost synergies related to the deal. The managers also initiated a new position in Rosebank, an industrial company specialising in acquiring underperforming businesses with a view to improving them over a three- to five-year period. They assess that the company is trading on reasonable valuations in light of the potential upside and the management team's track record of creating value through operational improvements. Another example of a stock introduced in the portfolio is Saga, a specialist provider of products and services for people aged over 50, which include, among others, travel, cruises, and insurance broking. Indri and Cassie explain that the company has gone through a multi-year transformation process, aiming to simplify its business and deleverage its balance sheet. As such, they argue that the earnings growth potential from these changes is not yet reflected in Saga's valuation.

The chart below shows the changes in sector exposure since the start of the year. The largest increase is in the consumer staples sector, reflecting the introduction of Greencore into the portfolio. Conversely, the largest reduction was in the utilities sector, notably due to the sale of Telecom Plus. Meanwhile, industrials is, by far, the largest sector exposure in absolute terms. However, we would highlight that this is a very broad sector, with companies operating in unrelated industries and exposed to different end markets.

SECTOR ALLOCATION



Source: Janus Henderson

Past performance is not a reliable indicator of future results.

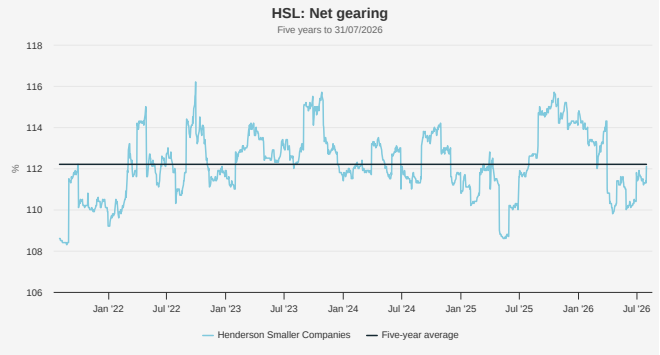
Gearing

Indri and Cassie view gearing as a key feature of investment trusts, which can enhance returns for long-term investors. They also believe that, given the attractive valuations in the UK small-cap space, a high level of gearing is warranted. As such, HSL's gearing stood at 12% at the end of July 2026, one of the highest levels in the AIC UK Smaller Companies sector, and the managers expect it to remain above 10% for the foreseeable future. Indri and Cassie have the flexibility to increase the trust's gearing to up to 15% without requiring the

board's permission, although maximum net gearing is capped at 30%.

HSL also benefits from advantageous borrowing arrangements, giving the trust a lower investment hurdle rate than many of its sector peers with more expensive debt. These comprise two unsecured loan notes: £30m maturing in 2036 at 3.33% and £20m maturing in 2052 at 2.77%. Together, these two notes give a blended borrowing rate of 3.11%, significantly below the yields on long-dated Gilts (e.g. 5.7% on 30-year Gilts) and also below the Bank of England's current bank rate of 3.75% (as at 02/09/2026). The trust also has £70m of short-term bank borrowings.

GEARING



Source: Morningstar

Past performance is not a reliable indicator of future results.

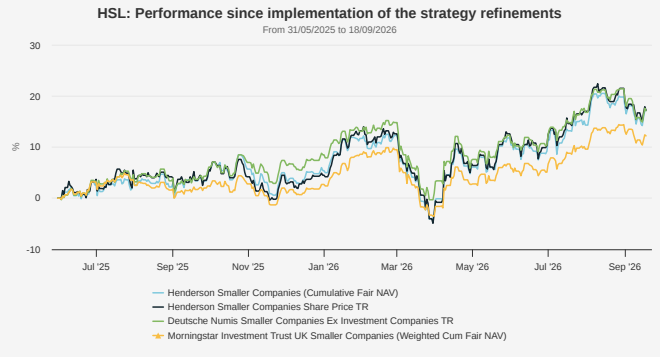
Performance

Indri was appointed co-manager of HSL in January 2025, having been involved in the management of the trust since 2013. Overall, she has retained the underlying investment philosophy, focusing on companies capable of delivering rapid earnings growth but that are underappreciated by the market, and which has underpinned the long-term success of the trust. For instance, HSL has delivered an annualised return of 12.2% between the strategy inception (on 31/10/2002) and 18/09/2026, compared with 10.6% for the Deutsche Numis Smaller Companies Index ex Investment Companies.

However, she has also sought to refine the investment process since her appointment as co-manager, looking to address the headwinds the trust has faced since 2022. This has notably included reducing the number of holdings from more than 100 to a target range of 70 to 80. Indri argues that the trust had previously held some stocks for too long, even after they had re-rated, leaving limited upside potential, or when the investment thesis had deteriorated. As such, holding fewer stocks results in greater competition for inclusion in the portfolio, which should strengthen selectivity and discipline around selling. For example, following her appointment, Indri sold HSL's holdings in IT services company Bytes Technology and used the proceeds to add to her position in industry peer Computacenter. This decision has borne fruit, as Computacenter has significantly outperformed Bytes Technology since then, with its Technology Sourcing and Professional Services divisions benefiting from strong revenue growth driven by demand from hyperscaler customers for AI-related projects and data-centre investments.

She considers that the changes to the portfolio were broadly completed by the end of May 2025. Since then, HSL has delivered outperformance versus its peer group, generating NAV and share price total returns (TRs) of 17.2% each, compared with a weighted average return of 12.2% for the Morningstar Investment Trust UK Smaller Companies sector. HSL has also kept up with the Deutsche Numis Smaller Companies Index ex Investment Companies, which has returned 17.1%. This is an encouraging start, in our view, and that the merits of these changes could become more evident over a full market cycle.

PERFORMANCE SINCE IMPLEMENTATION OF STRATEGY REFINEMENTS



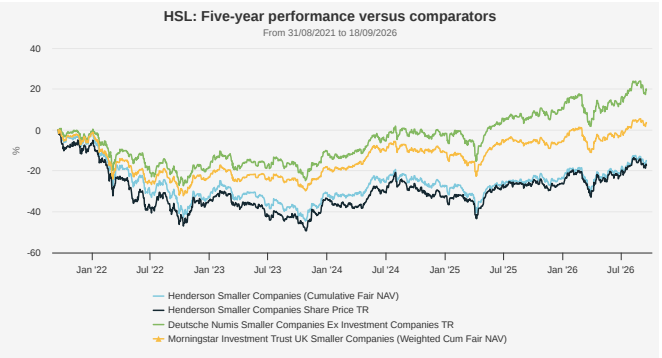
Source: Morningstar

Past performance is not a reliable indicator of future results

HSL's NAV TR of 12.1% over the past 12 months has been broadly in line with its benchmark, which returned 12.4%, with performance driven by companies exposed to the build-out of AI infrastructure. Beyond Computacenter, other beneficiaries have included engineering technology group Renishaw and Oxford Instruments, a provider of scientific technology tools used in research and high-technology manufacturing. Conversely, the decision not to hold some names detracted from returns, including Hochschild Mining, a precious-metals miner. We note that such businesses tend to have cyclical earnings, typically correlated with the prices of the underlying material they extract, and therefore tend to screen poorly against quality metrics. Among the stocks held, housebuilder Bellway was the largest detractor, as consumer confidence weakened due to higher oil prices, bond yields and borrowing costs following the outbreak of the conflict in Iran. Yet, Indri and Cassie remain constructive on the outlook for Bellway, which they believe could benefit strongly from an eventual recovery in the housebuilding industry, thanks to its well-invested land bank and strong track record. They also highlight the government's plans to ramp up housebuilding to address the undersupply of homes as a structural tailwind for the company.

However, performance over the past five years has been challenging, with the trust having generated NAV and share price TRs of -15.0% and -17.3%, respectively, compared with 19.6% for the Deutsche Numis Smaller Companies ex Investment Companies Index. HSL particularly suffered in 2022, when interest rates surged, compressing equity valuations and weighing particularly heavily on stocks trading on high multiples. We believe that the changes introduced by Indri, notably a greater readiness to sell stocks that have already experienced a strong re-rating, could help mitigate the impact of surging interest rates in the future. Moreover, HSL has faced stylistic headwinds, as the value factor has been in favour in the UK small-cap space over the period under review, while the portfolio has been more aligned with growth.

FIVE-YEAR PERFORMANCE



Source: Morningstar

Past performance is not a reliable indicator of future results

Dividend

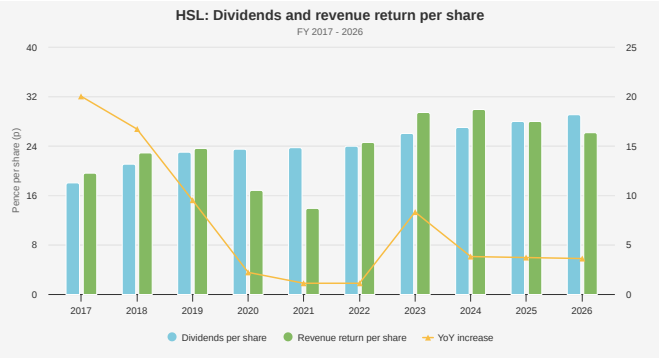
HSL aims to deliver growth in both capital and income, and has increased its dividend annually for 23 consecutive years, which is the joint longest track record in the AIC UK Smaller Companies sector. HSL is also one of the AIC's Dividend Heroes, a group of investment trusts that have raised their dividends for at least 20 consecutive years. We also note that HSL's dividend has grown at a compound annual rate of 16.5% between FY 2004 and FY 2026, well ahead of the 2.8% average annual rate of UK inflation over the same period, although there is no guarantee that this trend will continue.

The trust distributes its dividends in two instalments each financial year: an interim dividend followed by a typically higher final dividend. In FY 2026, HSL paid a total dividend of

29p, representing a 3.6% year-on-year increase, and resulting in a 3.0% historic yield, which is above the AIC UK Smaller Companies sector's median yield of 2.6%. The interim dividend for FY 2027 has not yet been declared.

The chart below shows HSL's dividends and revenue return per share between the trust's financial years 2017 and 2026. It is worth noting that the revenue return per share figures are calculated using the weighted average number of shares in issue during the year, rather than the share count at year end. Given HSL's ongoing share buyback programme, the share count at year end is meaningfully lower than the weighted average used in the calculation. This means that the revenue return per share figures appear lower than they would be based on the year-end share count. This should therefore be taken into account when assessing the apparent level of dividend cover. We also understand that HSL will only marginally dip into its revenue reserves when it pays its final dividend in October 2026, as the dividend will be paid based on the share count at the time it goes ex-dividend (on 01/10/2026). As at 31/05/2026, HSL had £19m of revenue reserves, and we estimate that, following payment of the final dividend, its remaining revenue reserves will be equivalent to 0.5x the total dividend for FY2026. Capital reserves are also available for distribution by way of dividends, providing support for future dividend growth. These stood at £495m at the end of May 2026.

DPS & RPS



Source: Janus Henderson

Past performance is not a reliable indicator of future results

Management

HSL is managed by Indri van Hien alongside deputy fund manager Cassie Herlihy. Indri is a portfolio manager on the UK Equities Team at Janus Henderson Investors and has been involved in the management of HSL since 2013, initially as deputy fund manager before being promoted to co-manager in January 2025. She assumed sole responsibility as fund manager of the trust following the retirement of long-standing manager Neil Hermon in September 2025, retaining the core investment philosophy while introducing some refinements to the approach (see **Portfolio**). Prior to joining Henderson in 2011, Indri worked at PwC, where she qualified as a chartered accountant.

Cassie joined Janus Henderson Investors in November 2025 and is also a portfolio manager on the UK Equities Team, with her appointment as deputy fund manager of HSL having taken effect in November. Prior to this, she worked at Gresham House, where she co-managed the Gresham House UK Smaller Companies Fund and was a member of the public equity team. Other previous roles include senior analyst in corporate broking at Citigroup and associate in the corporate and investment banking division of Investec.

Indri and Cassie also have access to Janus Henderson Investors' extensive resources, including equity trading, equity risk management, responsibility investment teams, as well as sector and regional specialists.

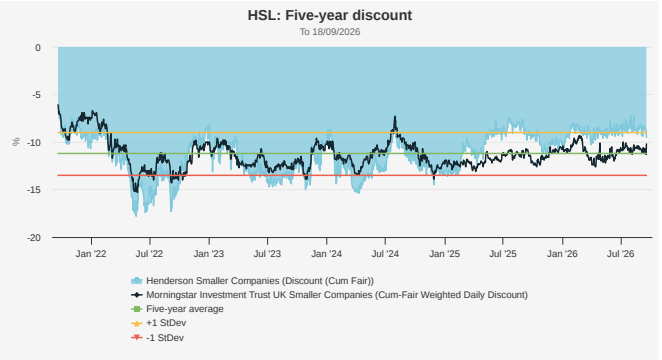
Discount

Discounts across the Morningstar Investment Trust UK Smaller Companies sector remain wide, with the weighted average standing at 10.2%. We believe this reflects the fact that UK small caps have been out of favour since 2016 as a result of political instability in the UK, a weak economy, and higher interest rates since 2022.

HSL is currently trading at a slightly narrower discount than the sector's weighted average, with the trust's discount having narrowed from c. 12% in early 2025 to 9.5% currently. We note that the board has bought back a significant number of shares over that period to help manage the discount, with c. 28% of the shares in issue having been repurchased between 01/01/2025 and 18/09/2026.

While the board sees share buybacks as a tool to manage the discount, they believe that a sustained re-rating can only be achieved in combination with strong performance and an improvement in sentiment towards UK smaller companies. Given HSL's strong long-term track record and market capitalisation of c. £511m, which is large enough to meet the liquidity requirements of a broad range of investors, we believe the trust is well positioned to see inflows if and when confidence in UK small caps returns. We also note that, with the proposed combination of JPMorgan UK Small Cap Growth & Income (JUGI) and Aberdeen UK Smaller Companies Growth Trust (AUSC), HSL faces less competition for capital, being one of the last three remaining trusts of scale with a growth focus in the AIC UK Smaller Companies sector.

DISCOUNT



Source: Morningstar

Past performance is not a reliable indicator of future results.

Charges

HSL is the most cost-competitive constituent in the AIC UK Smaller Companies sector, reporting an ongoing charges ratio (OCR) of 0.53% for the year ended 31/05/2026. This is nearly half the sector's 1.02% weighted average OCR. HSL's OCR also compares favourably with the fees of some passive UK small-cap strategies, such as 0.58% for the iShares MSCI UK Small Cap UCITS ETF. It is worth noting that the impact of the OCR is already reflected in the NAV and is not an additional cost deducted from the share price.

The trust's OCR includes an annual management fee of 0.35% charged on net assets. There is also a performance fee, payable when HSL outperforms its benchmark. It is calculated as 15% of any outperformance of the Deutsche Numis Smaller Companies ex Investment Companies Index, on a total return basis, over a financial year. However, the total management and performance fees payable in any one year are capped at 0.9%. No performance fee was charged for FY 2026.

ESG

HSL does not pursue a sustainable investment strategy and is not labelled under either the FCA or the EU's categorisations for sustainable investment products.

However, the managers believe that ESG characteristics affect the valuation multiples the market is willing to apply to companies' earnings and the cost of capital used to discount their cash flows, with businesses that have strong ESG and sustainability credentials likely to be rewarded with a valuation premium over time. As such, ESG considerations are integrated into HSL's investment process. The team is also committed to good stewardship, attending approximately 300 company meetings each year, with the aim of challenging strategies and holding companies to account where issues have arisen.

Morningstar has rated HSL as two out of five globes on its sustainability rating, with 93.4% of the portfolio covered as of 30/06/2026.

Disclaimer

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.