Henderson Diversified Income Trust plc

Update for the half year ended
31 October 2020

MANAGED BY
Janus Henderson
INVESTORS

Investment Objective and Policy

The Company's investment objective is to seek income and capital growth such that the total return on the net asset value of the Company exceeds the average return on a rolling annual basis of three month sterling Libor +2%.

The Company aims to deliver this outcome by investing in a diversified portfolio of global fixed and floating rate income asset classes including secured loans, government bonds, high yield (sub-investment grade) corporate bonds, unrated corporate bonds, investment grade corporate bonds and asset backed securities. The Company may also invest in high yielding equities and derivatives.

The Company uses a dynamic approach to portfolio allocation across asset classes and is permitted to invest in a single asset class if required. The Company seeks a sensible spread of risk at all times. It can invest in assets of any size, sector, currency or issued from any country.

The Company's full investment objective and policy can be found in the annual report which is available to view on the website: https://www.janushenderson.com/en-gb/investor/product/henderson-diversified-income-trust-plc/.

This update contains material extracted from the unaudited half-year results of the Company for the six months ended 31 October 2020. The unabridged results for the period are available on the Company's website.

Performance summary

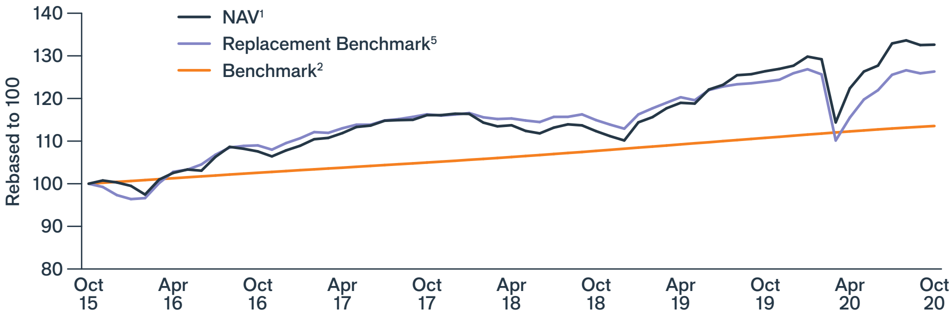
Total return performance for the six months ended 31 October 2020

NAV[1]
8.4%

Benchmark[2]
1.1%

Share price[3]
9.1%

Total return performance over 5 years[4]



Total return performance to 31 October[4]

	6 months %	1 year %	3 years %	5 years %	7 years %	10 years %
NAV[1]	8.4	4.9	14.2	32.6	49.4	89.1
Benchmark[2]	1.1	2.5	8.2	13.5	18.5	25.9
Share price[6]	9.1	8.6	8.3	27.4	40.8	94.1
Replacement benchmark[4]	9.4	1.9	8.6	26.3	34.5	69.4

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

[2] Benchmark is three month sterling Libor + 2%

[3] Share price total return using mid-market closing price

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

[5] 60% Global High Yield Credit (ICE BofA Global High Yield Constrained Index), 25% Global Investment Grade Corporate Credit (ICE BofA Global BBB Corporate Bond Index) and 15% European Loans (Credit Suisse Western European Leveraged Loan Index). This replacement benchmark is subject to both FCA and shareholder approval. Please refer to the Chairman's Statement for further information

[6] Share price total return using mid-market closing price with dividends reinvested

Sources: Janus Henderson, Refinitiv Datastream, Morningstar for the AIC and BNP IRP Service

Chairman's Statement

All of us have seen our lives and businesses disrupted by COVID-19. There will be many shareholders in this Company who will also have been affected by the illness or even death of a family member or friend. Thankfully, at the time of writing, a solution in the form of a vaccine appears to be a realistic probability.

The period under review in this report, from May to October of this year, encompasses a period of uncertainty, followed by the start of the second spike and a lockdown. A successful trial of the vaccine occurred afterwards. While we can anticipate that it is likely that considerable time will be spent assessing the efficacy of our government's response during this period, we do not have to wait to quantify the performance of the Fund Managers, who have described the investment environment during this period as "idyllic". This highlights the striking contrast between the political and societal reaction to the COVID-19 pandemic during this period and the performance of global debt and equity markets.

In last year's annual report, I observed that we are in an "event" driven crisis, where once the virus has been contained, recovery should be quite rapid. I also warned that it could easily become a financial crisis if any one of a number of potential risks materialised. During the period, investors appear to have determined that these risks were less likely.

Performance

Within markets, performance has been selective. The strong returns of your Company reflect the early recognition by the Fund Managers of the possibility of a benign credit cycle and their long-standing commitment to investing in "sensible income" from robust, strategically well-positioned issuers. Such companies have been the evident beneficiaries of the recovery.

Taken as a whole, your Company's performance, both in the downturn and the recovery phases of the crisis, has been very encouraging. A divergence in fortunes between many companies' debt and equity, especially for good quality companies on which the Fund Managers concentrate, led to significant outperformance of corporate debt over the same companies' equity.

In the six month period to 31 October 2020, the NAV total return to shareholders was 8.4% and the share price total return over the same period was 9.1%. This compares favourably to the Company's benchmark, three month sterling Libor + 2%, which produced a total return of 1.1% during the same period. It is worth noting that over the twelve months to October, which includes all of the period that COVID-19 affected markets, the NAV total return of the Company was 4.9%, compared to 2.5% for the Company's benchmark.

Replacement Benchmark

The Board has been exploring how to provide investors with a more meaningful tool for assessing the risks and returns of the portfolio that the existing benchmark of three month sterling Libor + 2% does not provide. While the existing benchmark provides an appropriate long term return target, it does not reflect the risk and reward of investing in bonds and other instruments across the cycle. In order to more accurately reflect both the areas of the markets to which the Company is exposed and the skill-set of the Fund Managers, proposals will be made to shareholders at the Annual General Meeting in 2021, to approve a benchmark based on a blended index denominated in sterling of 60% Global High Yield Credit (ICE BofA Global High Yield Constrained Index), 25% Global Investment Grade Corporate Credit (ICE BofA Global BBB Corporate Bond Index) and 15% European Loans (Credit Suisse Western European Leveraged Loan Index), to replace the existing benchmark.

For comparative purposes data on the blended index is shown in the total return performance table and graph on page 1. As you will see, this index generated returns of 9.4% in the six months under review and 1.9% over the last twelve months. We think this index better reflects the risk profile and returns of the instruments in which the Company invests. I would emphasise that there is no change to the investment strategy of the Company.

Chairman's Statement (continued)

Further information about this replacement benchmark will be included in the Company's Annual Report for the year-ended 30 April 2021. The change in benchmark is subject to approval by shareholders at the Annual General Meeting in 2021 and the Financial Conduct Authority (FCA).

Dividends and dividend policy

A first interim dividend of 1.10p per ordinary share was paid to shareholders on 30 September 2020. The Board has announced a second interim dividend of 1.10p per ordinary share to be paid on 31 December 2020.

These dividends have been paid, or will be paid, as interest distributions for UK tax purposes. More information about interest distributions can be found on the Company's website: https://www.janushenderson.com/en-gb/investor/product/henderson-diversified-income-trust-plc/.

Outlook

This is now very clearly an event driven correction. Balance sheets for many companies still need to be rebuilt and the deterioration of public finances will have an enduring impact on economic performance in some countries, however these costs are increasingly quantifiable. The question is now seen as being "when" not "if" recovery occurs.

Attention is now turning to less dramatic themes. The second half of the year has already seen significant change with the election of a new President of the United States and the ongoing Brexit negotiations. So far, the portfolio has performed well in the second half of the year to date, laying the foundations for a positive outcome for the year as a whole.

While total return is important, this is an income fund and rises in the capital value of bonds can also represent reduced reinvestment income opportunities. Valuable additional income was locked in by the Fund Managers' when markets were at lower levels, however they will need to be vigilant going forward that the pursuit of income does not leave the portfolio exposed to too much risk.

Fortunately, this does not look likely to be an issue for at least the balance of this year, beyond which point we are in the hands of the Fund Managers' as they navigate what will doubtless continue to be exciting markets.

Angus Macpherson
Chairman
8 December 2020

Fund Managers’ Report

“Idyllic” is the word we have been using to describe the investing environment for corporate bonds during the six months since the end of April 2020. This is clearly in stark contrast to the news flow surrounding the pandemic (the positive vaccine news only arrived in November) but a confluence of market factors served to make this economic crisis one which has had only minor ripples for credit markets. Indeed, it is worth observing that lenders (neither banks nor credit markets) are not the villains of the piece on this occasion as they have been in the last two economic downturns in which they either caused or exacerbated economic weakness. Rather, this time around, lenders have stepped up to bridge liquidity shortfalls for companies adversely affected by COVID-19, ensuring that a liquidity crisis has not become a widespread solvency crisis for the large companies that access public capital markets such as ours.

Defaults have been remarkably muted in aggregate and concentrated in obvious problem areas which have disappointed for years (e.g. energy fracking companies in the US, traditional retailers in structural decline). Clearly, government and central bank support have played a crucial part in encouraging this generosity and putting a floor under the economy and capital markets. However, it has been a most unusual credit cycle, different to any experienced in living memory. We are pleased to say that we diagnosed this correctly (liquidity rather than solvency crisis) in March and added a significant amount of credit risk at that time. The performance of the Company’s NAV and revenue generation since that time has been predictably strong, as others came around to this non-consensual view. Next, we will set out the remarkable backdrop and the performance of the Company.

Over the six month period to 31 October 2020 the NAV rose from 85.0p to 89.8p whilst the share price increased from 83.0p to 88.9p. Activity within the Company continued to be focused on underpinning the revenue generated from investments with a particular preference for adding to subordinated bank debt, high yield corporate bonds and reduction in low yielding investment grade corporate debt which recovered much faster from the ructions in March, and hence offered less relative value. In summary, we continued to add to high yielding and riskier areas of the credit market through relative value switches. The aggregate risk addition was done earlier in the year at the height of the crisis. Clearly, all new purchases were filtered through our permanent credit style and we continued to avoid low quality sectors which exhibit excessive cyclicality and low return on investment over time.

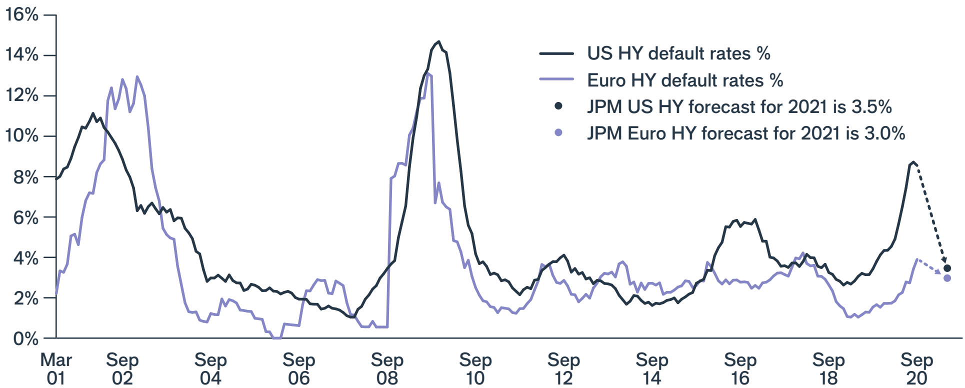
In the following paragraphs we will seek to give readers a sense of just how muted the credit cycle has been relative to the size of the economic shock. Before doing so, it is worth noting that at the time of writing we have already passed the peak in default rates, credit ratings downgrades and issuance whilst we sit at a peak in leverage (debt ratios) which is expected to fall as earnings recover in 2021. With the impressive efficacy of vaccine results to date we are ever more certain in this upbeat diagnosis on the outlook for defaults. Companies that have got this far will no doubt be supported to summer 2021, a point at which it would appear normalcy will begin to resume to a large extent. Balance sheet repair is likely to remain a theme of corporates for many months to come. Indeed, post the first vaccine news we saw companies in the cruise and airline industries immediately issue equity in order to reduce debt.

Fund Managers' Report (continued)

In the graph below one can see the actual defaults experienced in the riskiest area of the corporate bond market (those rated sub-investment grade) in the US (grey) and in Europe (purple). At the height of the market crisis in March it was common to see estimates of 10-14% default rates from analysts. Indeed, the rating agency Moody's forecast a 14% default rate using their top-down driven model which plugged in economic data and mechanically predicted a future default rate. In contrast, Europe has experienced no major default rate rise in 2020 and the US has suffered (again) from the enormous misallocation of capital to the shale fracking industry a decade ago. Excluding this sector and retail default rates are remarkably similar to Europe at 2.5%. The key factor underpinning the low generalised default rates across most sectors, as mentioned, was the willingness of credit (and in some cases equity) investors to provide monies to bridge a challenging twelve-month period. The high yield market reopened on March 30th with issuance from Yum! Brands (fast-food restaurants) and by April was wide open to all types of companies even those in directly impacted COVID sectors with no revenue whatsoever for months to come. This is a very different experience to the 2008 downturn when new issuance dried up for periods of time and corporates struggled to access much needed liquidity. This crisis also did not occur in the shadows of a binge of previous bad lending to inappropriate companies as it did from 2005-07 (e.g. Foxtons, EMI, semi-conductor companies being taken private with huge leverage).

If we turn now to the banking sector, a similar experience has also occurred whereby actual impairments have not been anywhere near as high as the expectation when banks aggressively provisioned for future losses in their second quarter results (based on what proved to be overly harsh macro-economic assumptions, particularly on house prices). Amazingly, for credit investors, this crisis has been beneficial for their bonds as banks across the UK, Europe and US actually built their equity capital levels despite this conservative provisioning.

2020 = Benign Default Cycle For High Yield (HY)



Source: Moody's, as at 30 September 2020
Note: For illustrative purposes

Fund Managers' Report (continued)

Benign Cycle For Bank Credit Investors

Rebased to a 100 from 28 October 2019 with monthly data points used thereafter
Source: Bloomberg & ICE Data Indices as at 25 November 2020

The reason for this was twofold: strong organic earnings (especially for banks with investment bank / trading arms) and the intervention of regulators who unilaterally banned ordinary dividends and share buybacks. The graph above shows how the second quarter results were viewed as the "all-clear" for credit investors in banks with the total return of the most subordinated, hybrid "CoCo" bonds recovering all their losses at this point (purple line) whereas the ordinary equity returns languished until very strong quarter three results convinced equity investors of this resiliency (grey line).

The outlook for credit investors remains positive, albeit tempered by the much lower yields on offer relative to spring / summer 2020. It is with this in mind that we are pleased to have locked in additional income for the Company earlier in the year (see previous annual report). The backdrop remains fundamentally positive for credit investors, it being an early cycle environment in which debt investors continue to be treated preferentially relative to equity investors. The positive vaccine news cements this outlook and 2021 looks set to be a more interesting year for central banks than credit investors. Should the economic recovery be stronger than their pessimistic forecasts, then the guidance of no rate hikes for circa 5+ years will be tested. As will their willingness and ability to monetise government debt via continued quantitative easing programmes. As a credit focused Company with relatively low duration exposure we shall watch this debate with much interest but relatively little "skin in the game".

John Pattullo and Jenna Barnard
Fund Managers
8 December 2020

Portfolio information

Summary of portfolio as at 31 October[1]

	2020 %	2019 %
High yield bonds	62.7	59.5
Investment grade bonds	28.8	33.2
Secured loans	4.9	4.3
Equities	2.7	2.1
Asset backed securities	0.9	0.9
Total	100.0	100.0

1 Excluding credit default swaps

Currency denomination of portfolio as at 31 October[1,2]

	2020 %	2019 %
Sterling	22.3	22.9
Euro	9.1	1.5
US dollar	67.5	74.6
Australian dollar	1.1	1.0
Total	100.0	100.0

1 Excluding credit default swaps
2 The Company hedges its foreign currency exposure back to sterling. There was therefore no material net currency exposure at 31 October 2020 (2019: same)

Twenty largest investments as at 31 October 2020

Company	Industry	Currency	Geographical area	Market value £'000	% of portfolio
Tesco	Consumer non-cyclical	£	UK	4,838	2.47
Verizon Communications	Communications	$/AUD	US	4,825	2.47
Crown Castle	Industrials	$	US	4,414	2.26
Nationwide Building Society VAR Perpetual	Financials	£	UK	4,317	2.21
Virgin Media	Communications	£	UK	4,305	2.20
IMS	Technology	$	US	4,248	2.17
Co-Operative Group	Consumer non-cyclical	£	UK	4,208	2.15
Phoenix	Financials	£	UK	4,177	2.14
Sirius	Communications	$	US	4,167	2.13
Restaurant Brands Inc.	Consumer cyclical	$	US	3,635	1.86
Ardagh	Industrials	Euro/$	Ireland	3,626	1.85
Altice	Communications	$	US	3,595	1.84
CSC	Communications	$	US	3,460	1.77
Lloyds Group	Financials	£/$	UK	3,283	1.68
T-Mobile	Communications	$	US	3,192	1.63
Service Corp	Consumer non-cyclical	$	US	3,063	1.57
Barclays	Financials	£/$	UK	3,002	1.53
Ziggo	Communications	$	US	2,975	1.52
Crown	Industrials	$	US	2,885	1.48
Catalent	Consumer non-cyclical	Euro/$	US	2,846	1.46

These investments total £75,061,000 or 38.39% of the portfolio.

Financial summary

Extract from the Condensed Statement of Comprehensive Income (unaudited)	Half year ended 31 Oct 2020 Revenue return £'000	31 Oct 2020 Capital return £'000	31 Oct 2020 Total return £'000	Half year ended 31 Oct 2019 Total return £'000
Gains on investments held at fair value through profit or loss	-	10,611	10,611	8,552
Losses on foreign exchange	-	(1,282)	(1,282)	(2,147)
Investment income	5,121	-	5,121	4,684
Other operating income	4	-	4	5
Expenses, finance costs and taxation	(634)	(366)	(1,000)	(980)
Profit for the period	4,491	8,963	13,454	10,114
Return per ordinary share	**2.35p**	**4.68p**	**7.03p**	**5.33p**

Extract from Condensed Statement of Financial Position (unaudited except 30 Apr 2020 figures)	Half year ended 31 Oct 2020 £'000	31 Oct 2019 £'000	Year ended 30 Apr 2020 £'000
Investments held at fair value through profit or loss	195,525	199,420	187,645
Current assets	7,972	10,209	9,862
Current liabilities	(31,628)	(39,069)	(34,883)
Net assets	171,869	170,560	162,624
Net asset value per ordinary share	**89.83p**	**89.95p**	**85.00p**

Going concern

The assets of the Company consist mainly of securities that are listed and readily realisable. The directors have performed a COVID-19 analysis which included cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio and have concluded that the Company has adequate financial resources to meet their financial obligations, including the repayment of the bank loan, as they fall due for a period of at least twelve months from the date of approval of the financial statements. Having assessed these factors, as well as the principal risks and other matters discussed in connection with the Viability Statement (please refer to the annual report for the year ended 30 April 2020) the directors confirm that 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.

Corporate information

Dividends

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

A fourth interim dividend for the year ended 30 April 2020 of 1.10p (2019: 1.10p) per ordinary share was paid to shareholders on 30 June 2020 to shareholders on the register at close of business on 5 June 2020.

A first interim dividend payment for the year ended 30 April 2021 of 1.10p (2020: 1.10p) per ordinary share was paid to shareholders on 30 September 2020 to shareholders on the register at close of business on 4 September 2020.

On 24 November 2020 the Board announced a second interim dividend payment for the year ended 30 April 2021 of 1.10p (2020: 1.10p) per ordinary share that will be paid on 31 December 2020 to shareholders on the register at close of business on 4 December 2020. The shares were quoted ex-dividend on 3 December 2020.

Principal risks and uncertainties

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

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

Information on these risks and uncertainties and how they are managed are given in the annual report for the year ended 30 April 2020. In the view of the Board these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the six months under review. In reviewing the risk register, the Board has considered the COVID-19 pandemic and the uncertainties that this can create in global debt and equity markets, as set out in the Chairman's Statement.

The alternative investment fund manager and the Company's other third-party service providers remain fully operational and have implemented appropriate business continuity plans to ensure that there has been no change in service while the majority of staff are working from home.

Statement of directors' responsibilities

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

(a) the condensed set of financial statements for the half year ended 31 October 2020 have been prepared in accordance with IFRS as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;

(b) this report and condensed set of financial statements include a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the six month period and description of principal risks and uncertainties for the remaining six months of the year); and

(c) this report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

For and on behalf of the Board
Angus Macpherson
Chairman
8 December 2020

Henderson Diversified Income Trust plc
201 Bishopsgate
London
EC2M 3AE

MANAGED BY
Janus Henderson
INVESTORS

The Association of Investment Companies

PREMIUM MAIN MARKET LONDON STOCK EXCHANGE

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