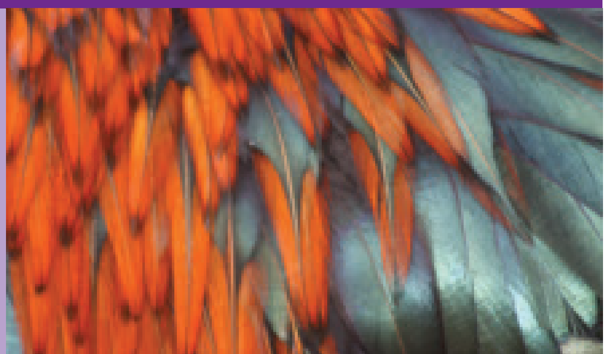
Henderson Diversified Income Limited

Report and Financial Statements for the year ended 31 October 2013



Objective

The Company's investment objective is to provide shareholders with a high level of income and capital growth over the longer term. The Company aims to deliver these outcomes by investing selectively across the full spectrum of fixed income asset classes including secured loans, high yield corporate bonds and investment grade corporate bonds.

The Manager is incentivised to provide shareholders with ongoing total returns of at least three month sterling LIBOR plus 1.25%.

History

Henderson Diversified Income Limited is a Jersey domiciled closed-ended investment company and was incorporated on 5 June 2007 and launched with £40.5 million of capital on 18 July 2007. The Company raised an additional £38.4 million in a placing of shares in May 2008. It is listed on the main market of the London Stock Exchange. The Company has an indefinite life and has a single class of ordinary shares of no par value. Dividends are paid quarterly.

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Strategic Report

Financial Highlights

	31 October 2013 £'000	**31 October 2013** per share	31 October 2012 £'000	31 October 2012 per share
Net asset value	**80,889**	**87.9p**	69,647	83.3p
Market price	**–**	**91.5p**	–	80.2p

	Year ended 31 October 2013 £'000	**Year ended 31 October 2013** per share	Year ended 31 October 2012 £'000	Year ended 31 October 2012 per share
Revenue earnings (based on weighted average number of shares)	**4,588**	**5.32p**	4,529	5.41p
Dividends (paid and payable)	**4,453**	**5.05p**	4,183	5.00p

Performance

	Year ended 31 October 2013
Net asset value (total return) *	**12.0%**
Share price (total return) *	**20.8%**
Benchmark (total return LIBOR + 1.25%) **	**1.8%**

Source: * Morningstar for the AIC
** Henderson Global Investors

Strategic Report
Chairman's Statement

Paul Manduca

The year under review saw no material change in the level of UK and European interest rates, which is a situation that is likely to continue for some time yet. Markets proved to be much more stable than has been the case in previous years and the consequential reduction in the risk premium resulted in our portfolio enjoying some capital appreciation. In addition, we have continued to beat our income target of 1.25% over 3 month sterling LIBOR and have been able to increase the fourth interim dividend by a modest amount and place a small amount of income in reserve to underpin future dividends. It is pleasing to report that your Company's net asset value total return for the year was 12.0% and the share price total return was 20.8%.

Performance

Your Company's net asset value per ordinary share increased from 83.3p to 87.9p over the year and the share price increased from 80.2p to 91.5p over the same period, reflecting the increased demand for the shares, which meant they moved from trading at a small discount to their net asset value to trading at a healthy premium.

For the year under review a performance fee of £703,000 is payable as a consequence of the Company's net asset value total return exceeding the benchmark target of the total return from LIBOR plus 1.25%.

Dividends and Dividend Policy

Given the stability of LIBOR and Euribor over the year under review, dividends remained flat at 1.25p per quarter although your Board did declare a fourth interim dividend of 1.30p making a total of 5.05p for the year. This equates to a yield of 5.5% based on the year end share price of 91.5p. In the absence of an increase in interest rates, the Board expects to revert to 1.25p per quarter in the current financial year.

Gearing

Your Board maintains an active gearing policy given the attractive arbitrage between the cost of debt and the yields that can be achieved in the portfolio. Traditional financial gearing, which is funded using a loan facility provided by Scotia Bank, was 9.2% at the year-end compared to 11.6% a year ago. In addition, your Board employs synthetic gearing, being the gearing effect of investing in credit derivatives, and this rose over the year from 13.5% to 15.1%. Total gearing, being the sum of net gearing and synthetic gearing, cannot exceed 30% of net assets.

Discount Management

Your Board aims to minimise the discount at which the shares trade relative to the net asset value per share as well as to reduce volatility and increase liquidity in the shares. In seeking to achieve this, your Board believes it should maintain flexibility and therefore does not operate a fixed discount management policy. Your Board intends, however, subject always to the overall impact on the portfolio, the pricing of other trusts and overall market conditions, to consider share buy-backs in addition to share issuance within a narrow band relative to net asset value.

Share Issue

On 17 December 2013, shareholders gave the Board authority to issue a further 46,002,482 new shares on a non-pre-emptive basis, representing 50% of the total ordinary share capital in issue on 17 December 2013. A prospectus is being published simultaneously with this annual report which sets out the reasons for seeking this authority and the plans to undertake a placing and offer for subscription for new shares in early February 2014. Your Board strongly believes that it is in Shareholders' interests to expand the size of the Company. In that regard, and as I stated in my statement last year your Board will if necessary distribute capital as income to the extent it needs to in order to cover new Shareholders paying capital for current year income on subscribing for new shares. By doing this, dividends payable to existing Shareholders will not be reduced as a consequence of the issue of new shares.

Management Fee Arrangements

Further to the Company's announcement of 23 September 2013, the Board is pleased to confirm that with effect from 1 February 2014, the base management fee will be reduced from 0.75% to 0.65%. The performance fee element is being retained as your Board believes that it is in the best interests of Shareholders for there to be a performance fee element, subject to a high watermark provision, and a competitive base fee. However the overall annual cap on total fees (base fee plus performance fee) has been reduced from 1.75% to 1.5% with effect from the current financial year.

Alternative Investment Fund Manager (AIFM) Directive

The UK is currently in the process of implementing the AIFM Directive, a piece of EU legislation which is targeted at the regulation of alternative investment funds and also catches within its scope all non UCITS funds including UK authorised investment trusts and offshore domiciled investment companies managed by an EU based manager. Having taken professional advice, your Board believes Shareholders' interests would be best served by fully complying with the Directive as if your Company were a UK domiciled fund. Accordingly, it is the Board's intention to appoint Henderson as its AIFM. A Depositary will also be appointed in order to complete the authorisation process by July 2014.

Outlook

We see loan prices continuing to be supported by strong investor demand for the asset class given the floating rate return whilst high yield bonds will continue to be our favoured bond asset until there is a rise in interest rates, which we do not anticipate until later in the year. In the event of an increase in interest rates, the income from our secured loan investments will rise even though potentially with a 3-6 months lag depending on how coupon payments are set by each borrower.

Annual General Meeting

Our seventh Annual General Meeting will be held on Friday 14 March 2014 at 11.00 a.m. at our registered office in Jersey. As in previous years an open presentation to Shareholders, including the opportunity to meet the Portfolio Managers, will be held on Tuesday 18 March 2014 at 10.30 a.m. at Henderson's offices in London.

Paul Manduca,
Chairman
13 January 2014

Strategic Report
Managers' Report

John Pattullo and Jenna Barnard

The most salient feature of the year under review was just how calm the investing environment proved to be. Indeed, this Managers' Report is the first report in three years that does not include an extensive discussion of the latest iterations of the Euro-crisis. Draghi's "whatever it takes" speech combined with the threat of European Central Bank action proved sufficient to put a halt to speculation of a disorderly break-up of the Eurozone. As a result, recovery and a return to normality characterised the markets in which the Company invests. The reduction in risk premium caused a significant rally in the net asset value per ordinary share of the Company from 83.3p at 31 October 2012 to 87.9p at this year-end, whilst the share price ended the year trading at a premium to this NAV of 4.1%. During the year under review, the Company commenced issuing shares (at a premium to NAV) on a non pre-emptive basis in order to satisfy additional demand for shares and help grow the Company. In the year to 31 October 2013 the maximum amount of 8,364,087 ordinary shares were issued highlighting the strong underlying demand from investors.

For the first time in many years the primary cause for concern amongst the investor community proved to be the threat of rising interest rates. This is noteworthy because it reflects the substantial progress in investor psychology compared to recent years when a systemic banking crisis in Europe and insolvent peripheral governments were the focus. Fear of rising rates is driven by a stronger growth outlook and rising asset prices. These factors caused the US Federal Reserve to openly speculate on whether it might "taper" down its bond purchases which are currently being made under their quantitative easing programme. The mere threat of this "taper" prompted a sharp sell-off in bond and equity markets which ultimately caused the US Central Bank to backtrack. The experiment proved how reliant many asset classes are on Central Bank support and that the journey to monetary policy normality (higher interest rates) will be a bumpy process.

Given the ultra-low level of interest rates around the world the Company has, for a number of years, focused its investments on assets which still offer sensible diversified income prospects for its Shareholders. These assets include high yield corporate bonds, subordinated bonds issued by banks and insurance companies, floating rate loans and high yielding blue chip equities. In the case of equities, this asset allocation is best viewed as an opportunistic one given the relatively high dividend yields available and the prospect of some capital appreciation. The decision was made to increase the small equity allocation in January 2013 with the help of Job Curtis, one of Henderson's most experienced UK blue chip stock pickers. Overall, the blend of assets combined with gearing allowed the Company to provide a stable quarterly dividend of 1.25 pence per share with a small increase in the fourth interim dividend to 1.30p.

We have maintained an active gearing policy throughout the year under review given the attractive arbitrage between the cost of debt and the yields that can be achieved in the portfolio. The loan facility with Scotia Bank was renewed during the year and at the year-end financial gearing was 9.2% compared to 11.6% a year ago. In addition, we use synthetic gearing in the form of credit default swaps, which are a credit derivative, and enable us to earn additional income by taking the default risk on certain bonds. This is very carefully managed and has proved a successful strategy for the Company over the years. At the year end, synthetic gearing represented 15.1% of the portfolio compared to 13.5% a year ago. The total gearing investment limit is 30% of net assets.

The dividend paid by the Company has now been stable at 1.25p per quarter for eight successive quarters. Throughout the history of the Company we have endeavoured to pay a yield significantly in excess of the Company's income target (3 month sterling LIBOR +125 bp) which would equate to 1.8% as of 31 October 2013. Shareholders have benefited from the significantly enhanced income which continues to be provided by the high yielding fixed rate coupons on the Company's bond holdings as can be seen in Chart 1. However, it must also be noted that the income provided by these holdings will not rise as and when interest rates rise. Only the floating rate secured loan portfolio will benefit from a higher yield when this happens. At present the loan holdings are diversified across UK, European and US holdings, each of which will have differing interest rate dynamics. The managers will aim to position the Company to benefit from the variety of interest rate cycles but it should be noted that, given the high yield currently provided by the Company, the ability to see the dividend rise in line with future UK only rate hikes will not be a one-for-one relationship.

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Managers' Report

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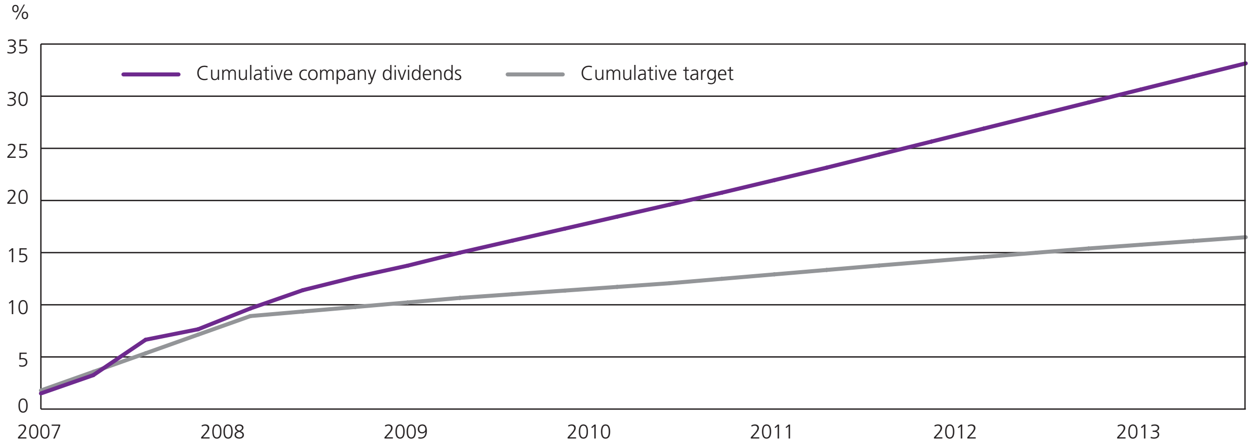
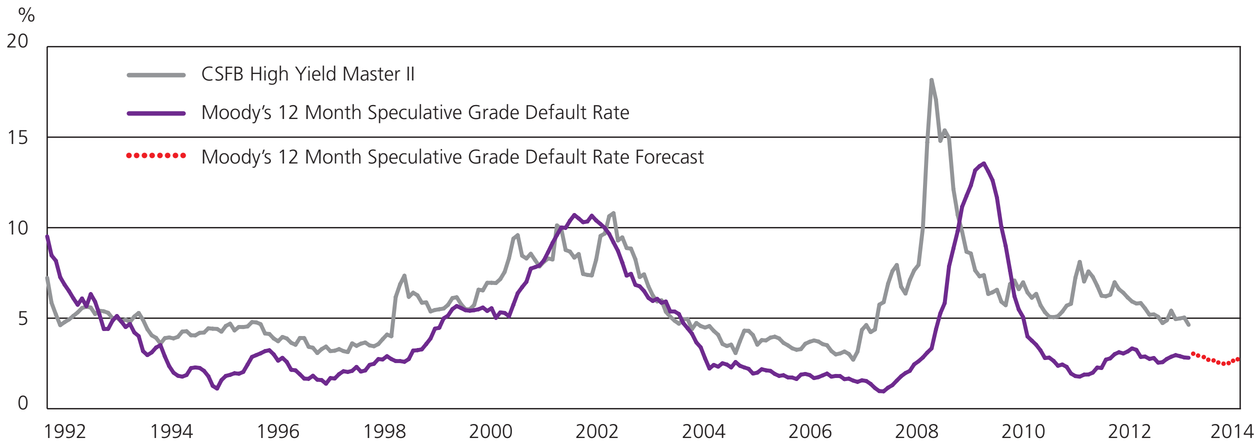
Chart 1 – Cumulative Dividends



Source: Henderson Global Investors Limited.

Chart 2 – Default Rates



Source: Credit Suisse & Moody's as at 31 October 2013.
Dotted line is Moody's default rate forecast. Forecast figures are estimates and not guaranteed.

Turning to the outlook for Shareholders' capital, it should be noted that the primary driver remains the default rate on the Company's investments. Fair value profit and loss will come and go but the ultimate determinant of the NAV over the long-term will be the level of losses experienced as a result of any defaults. In this context it is reassuring to note that default rates on the riskiest types of corporate bonds (speculative rated bonds) remain at very low levels and are likely to remain so over the coming year or more. There are no signs of a material rise in animal spirits amongst corporate bond investors that would result in a binge of bad lending decisions which might sow the seeds for a future rise in default rates. Most activity in this market remains refinancing of existing debt (a healthy sign) rather than companies taking on debt in order to pay dividends or make acquisitions (relatively unhealthy behaviour).

Secured Loan Portfolio:

As at 31 October 2013 53.3% of the Company's assets were floating rate (49.2% floating rate secured loans, 4.1% floating rate bonds) which can be broken down as follows:

- 22.2% in GBP floating rate
- 25.3% in EUR floating rate
- 5.7% in USD floating rate
- 0.1% in CHF floating rate

Strategic Report

Managers' Report

continued

Loans have continued to provide good absolute returns given the benign default environment. Secondary prices have been supported by strong demand and prices have rallied, including loans of weaker credit quality. In the second half of the year, we tended to invest more in primary issuances (new loans issued in the primary market) taking advantage of some well-priced opportunities, such as BMC Software, coming at a coupon of LIBOR+4.5% with a base rate "floor" of 1% (meaning LIBOR can never be lower than 1% for the interest calculation). BMC Software is a global software company ranking third in their sector after IBM and Computer Associates. High cash flows underpinned by long contracts characterise their business model and this gives us comfort in their ability to service their debt.

The year has shown an interesting evolution. We went from piece-meal repayment of very large transactions, as sponsors issued equity to repay some of the debt, to full repayment of others such as Lavena (whose underlying asset is a listed German broadcaster), and Merlin Entertainment, that IPOed in the UK market. The activity also evolved from refinancing loans in the bond market (such as Takko, a German discount retailer), to refinancing loans in the loans market (such as Xerium, an industrial global company), to prepayment of expensive parts of the debt structure (such as Alliance Boots), and finally to refinancing bonds in the loans market (such as Numericable, a French cable asset). All in all we see this trend, together with a very high flow of primary deals during the year, as a positive for loans. The days in which we were talking about the maturity wall risk appear to be behind us. Mirroring investors' higher degree of comfort with the loan market, a number of borrowers have been able to re-price more favourably their outstanding debt package. As such, margins for some of the best, more stable credits in Europe have seen a decrease in the main of 0.5%.

We expect the secured loan portfolio to generate a return of approximately 4.5-5.5% in 2014, through a combination of interest income, and attractive relative value trades. We also expect loan prices to continue to be supported by strong investor demand for the asset class given the floating rate return. In the event of an increase in LIBOR, loan coupons will adjust even though potentially with a 3-6 months lag depending on how coupon payments are set by each borrower.

Bond Portfolio:

The Company's holdings of bonds provided strong returns for the Company overall. The allocation to banking and insurance bonds proved particularly successful and a number of bonds were bought back by the issuers at a premium leading to some modest capital gains. Perhaps most notable were the Royal London bonds which were repurchased at 101p on the pound by the company as compared to a purchase price of 62.7p. High yield corporate bonds were also in favour during the year under review and a number of very attractive investments were added to the Company. A couple worth highlighting include the bonds issued by Automobile Association and Arqiva (broadcast towers) both with coupons of 9.5%. Given its focus on higher income opportunities the Company has had a very low exposure to bonds which are particularly sensitive to government bond prices. Credit risk rather than interest rate risk continues to characterise our approach to investment.

Small Equity Portfolio:

A mid-single digit percentage of the portfolio was invested in equities during the course of the year. The equities held were predominantly FTSE 100 companies with dividend yields of more than 4% but we also held two medium-sized companies and bought some Royal Mail in its IPO. Going forward, equities continue to offer an attractive combination of dividend yield and growth. They should also benefit from economic growth being experienced in the UK and US economies.

Outlook:

Last year we noted the relative attractiveness of loans compared to bonds in the Managers' Report. This opportunity set rapidly disappeared as a number of loan issuers sought to reduce the margin they paid on their debt, resulting in a lower income for investors. Instead the Company increased its weighting in high yield corporate bonds and equities. Given the improvement in the UK economy an opportunity to increase the Company's holdings in sterling loans may present itself but much will depend upon the Bank of England's stance on inflation and growth. Their current forward guidance communications strategy is keen to stress that an improvement in the unemployment rate down to 7% is a necessary but not sufficient condition to raising rates. The significant weight in higher yielding fixed rate bonds will be retained until interest rates rise.

The Company and its potential to make distributions will most benefit from a coordinated and meaningful rise in global interest rates which could be enhanced through an increase in exposure to loans in this scenario.

John Pattullo and Jenna Barnard
Portfolio Managers
13 January 2014

Strategic Report

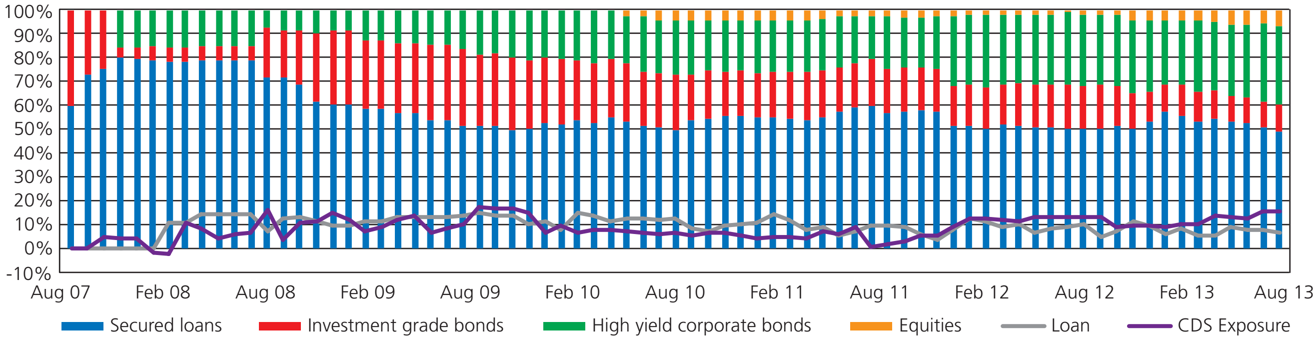
Managers' Report

continued

Data Appendium

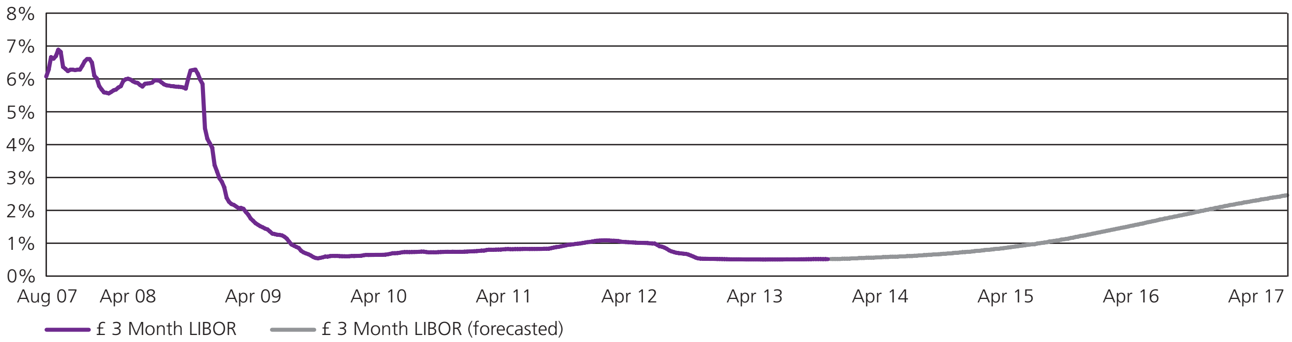
The following graphs may enhance the readers understanding of the risks and rewards faced by the Company.

Asset Allocation – this shows the movement in the Company's asset allocation through time. It also displays the gearing undertaken whether in synthetic form (via credit derivatives) or traditional financial gearing. Total gearing is the addition of these two values.



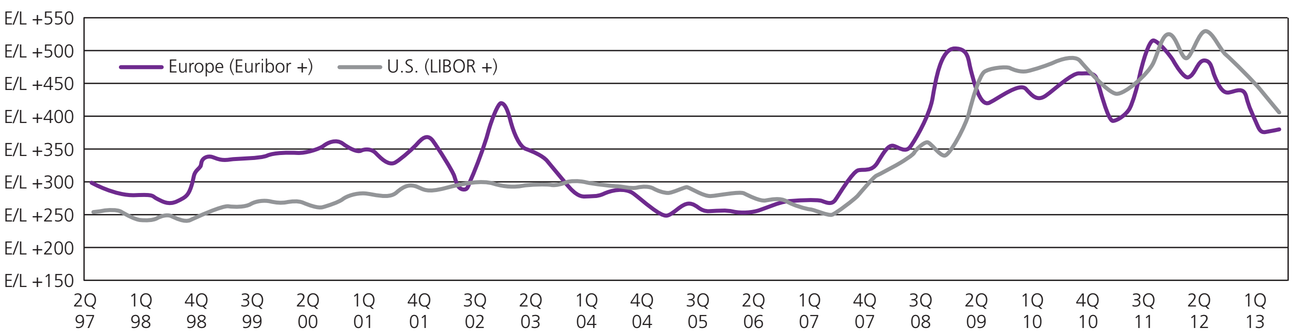
Source: BNP, Henderson Desk Estimate, as at 31 October 2013.

3 month £ LIBOR – this displays the market implied rates of future £ LIBOR as at 31 October 2013. This moves around daily but is the best estimate given current information implied from the forward market rates at that date.



Source: Bloomberg as at 31 October 2013.

New Issue loan spreads – this shows the new issue spreads for European & American loans over time. In some ways it shows two pricing regimes being before and after the financial crisis.



Source: S&P Capital IQ, 30 August 2013.

Strategic Report

Investment Portfolio

as at 31 October 2013

Secured Loans

These are loans entered into by companies and are typically at the most senior level of the capital structure, and are often secured by specific collateral including, but not limited to, trademarks, patents, accounts receivable, stock, equipment, buildings, real estate, franchises and the ordinary and preferred shares of the obligor and its subsidiaries. They are generally issued to finance internal growth, acquisitions, mergers, or share purchases. As a result of the additional debt incurred by the borrower in the course of the transactions, the borrower's creditworthiness would be judged by the rating agencies to be below investment grade. Some secured loans may be subordinated to other obligations of the borrower. Secured loans are not listed, but are, in normal market conditions, readily bought and sold. In periods of market turbulence, however, the liquidity of the market for such investments may be reduced.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Alliance Boots	**£**	**UK**	**Retail**	**1,993**	**2.26**
Firth Rixon	**£**	**UK**	**Engineering**	**1,717**	**1.94**
Flint	**Euro**	**Germany**	**Chemicals**	**1,577**	**1.79**
RBS Worldpay	**£**	**UK**	**Card Services**	**1,547**	**1.75**
Iglo Birds Eye	**£**	**UK**	**Beverages, Food & Tobacco**	**1,516**	**1.72**
Technicolour	**Euro**	**France**	**Media**	**1,424**	**1.61**
RAC	**£**	**UK**	**Commercial Services**	**1,411**	**1.60**
Gala Clubs	£	UK	Leisure	1,410	1.60
Polyconcept	Euro	US	Business Services	1,408	1.59
Delachaux	Euro	France	Transportation Equipment	1,300	1.47
Ahlsell	Euro	Sweden	Building Materials	1,281	1.45
Oxea	Euro	Germany	Chemicals	1,273	1.44
Houghton	Euro	US	Chemicals	1,266	1.43
Jack Wolfskin	Euro	Germany	Retail	1,184	1.34
Chesapeake	£	UK	Packaging & Containers	1,182	1.34
TNT Logistics	US$	US	Logistics	1,163	1.32
Foncia	Euro	France	Property Management	1,096	1.24
Autobar	Euro	Netherlands	Vending Machines	1,091	1.23
Mediq	Euro	Netherlands	Retail	1,087	1.23
Merlin	£	UK	Leisure	1,005	1.14
Northgate	£	UK	Business Services	985	1.11
Brake Brothers	£	UK	Food	964	1.09
United biscuits	£	UK	Food	951	1.08
Travelport	Euro	US	Travel Services	904	1.02
Infor(Lawson)	Euro	US	Software	880	1.00
Wood Mackenzie	£	UK	Corporate Services	876	0.99
Intertrust	Euro	Luxembourg	Diversified Financial Services	876	0.99
Wind	Euro	Italy	Telecommunications	841	0.95
Pret A Manger	£	UK	Food	792	0.90
TDF	Euro	France	Media	774	0.88
Dell	£	US	Computers	745	0.84
Iceland Foods	£	UK	Food	704	0.80
Tip Trailer	Euro	Netherlands	Trucking & Leasing	692	0.78
Oberthur	US$	France	Computers	672	0.76
Numericable	Euro	France	Media	603	0.68
Formula 1	US$	UK	Media	531	0.60
BMC Software	Euro	US	Software	524	0.59
Exopack	Euro	US	Packaging & Containers	471	0.53
Schaeffler	Euro	Germany	Auto Parts & Equipment	448	0.51
Springer	Euro	Germany	Media	439	0.50
Xerium	Euro	US	Forest Products & Paper	437	0.49
Ineos	Euro	Switzerland	Chemicals	416	0.47
Pets at Home	£	UK	Retail	336	0.38
IMS	Euro	US	Software	315	0.36
Lavena	Euro	Germany	Media	302	0.34
La Seda	Euro	Spain	Chemicals	79	0.09
WDAC	Euro	Netherlands	Directories	5	0.01
Total Secured Loans				**43,493**	**49.23**

All of the above investments would in Henderson's view, if rated, be BB+ or lower.

Strategic Report

Investment Portfolio

continued

High Yield Bonds

These bonds are considered more risky than investment grade bonds and as a result have to pay much higher coupons to attract investors. They generally mature in ten years or less and are less sensitive to interest rate changes than other bonds.

They are rated below BBB- (by Standard & Poor's, Moody's or a similar recognised rating agency). This rating signifies a higher risk of default compared to an investment grade bond.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Lloyds Group	**£**	**UK**	**Banks**	**1,895**	**2.14**
AA	**£**	**UK**	**Commercial Services**	**1,482**	**1.68**
Towergate	£	UK	Insurance	1,388	1.57
VUE	£	UK	Entertainment	1,336	1.51
Thomas cook	Euro	UK	Leisure Time	1,257	1.42
Unity Media	Euro	Germany	Media	1,254	1.42
Daily Mail & General Trust	£	UK	Media	1,223	1.38
AG Spring Finance	Euro	Germany	Diversified Financial Services	886	1.00
Ineos	Euro	Switzerland	Chemicals	823	0.93
Levi Strauss	Euro	US	Apparel	788	0.89
Matterhorn	CHF/Euro	Switzerland	Telecommunications	734	0.83
Wind	Euro	Italy	Telecommunications	721	0.82
Arqiva	£	UK	Media	677	0.77
Ontex	Euro	Belgium	Healthcare – Products	663	0.75
New Look	£	UK	Retail	634	0.72
Bakkavor	£	UK	Food	588	0.67
Rhiag	Euro	Italy	Auto Parts & Equipment	551	0.62
TMF	Euro	Netherlands	Commercial Services	549	0.62
Telenet	Euro	Belgium	Telecommunications	539	0.61
Europcar	US$	France	Commercial Services	534	0.60
DFS	£	UK	Home Furnishings	505	0.57
HCA	US$	US	Healthcare – Services	505	0.57
F&C Asset Management	£	UK	Diversified Financial Services	485	0.55
Digicel	US$	Bermuda	Telecommunications	480	0.54
Regal Cinemas	US$	US	Entertainment	461	0.52
Cabot Financial	£	UK	Diversified Financial Services	450	0.51
IDH	£	UK	Healthcare – Products	424	0.48
Norcell	SEK	Sweden	Electrical Comp & Equipment	416	0.47
Iron Mountain	US$	US	Commercial Services	408	0.46
Cerved Technologies	£	Italy	Internet	397	0.45
Virgin Media	£	UK	Telecommunications	391	0.44
Infor (Lawson)	Euro	US	Software	363	0.41
Trionista	Euro	Germany	Electronics	355	0.40
First Data	US$	US	Software	334	0.38
KPN	US$	Netherlands	Telecommunications	327	0.37
Centurylink	£	US	Telecommunications	316	0.36
Tenet	Euro	US	Healthcare – Services	305	0.35
SMCP	Euro	France	Apparel	274	0.31
Rexam	Euro	UK	Packaging & Containers	268	0.30
Domestic & General	£	UK	Insurance	261	0.30
Oberthur	Euro	France	Computers	261	0.30
Intelsat	Euro	US	Telecommunications	252	0.29
Sprint	US$	US	Telecommunications	236	0.27
Barclays	£	UK	Banks	230	0.26
Investec	£/Euro	UK	Diversified Financial Services	224	0.25
Anglian Water	£	UK	Water	217	0.25
Avis	US$/Euro	US	Commercial Services	217	0.25
BMC Software	US$	US	Software	197	0.22
Royal Bank of Scotland	£	UK	Banks	190	0.22
Telefónica	Euro	Spain	Telecommunications	182	0.21
Taminco	US$	US	Chemicals	160	0.18
Odeon	£	UK	Entertainment	158	0.18
Numericable	Euro	France	Media	140	0.16
Dufry	US$	Switzerland	Retail	126	0.14
National Westminster	£	UK	Banks	96	0.11
T-Mobile	US$	US	Telecommunications	63	0.07
UPC	Euro	Netherlands	Telecommunications	59	0.07
Findus	£	UK	Food	14	0.02
Total High Yield Bonds				**29,269**	**33.14**

Strategic Report

Investment Portfolio

continued

Investment Grade Bonds

These bonds pay a higher rate of interest than government bonds, known as the spread, to reflect the higher risk. Investment grade bonds are at the lower risk/lower return end of the corporate bond market and are typically issued by blue chip companies. They are rated BBB- and above (by Standard & Poor's, Moody's or a similar recognised rating agency). This rating signifies that historically such bonds suffer relatively low rates of default.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Scottish Widows	**£**	**UK**	**Insurance**	**1,431**	**1.62**
Barclays	£	UK	Banks	1,330	1.50
Royal London	£	UK	Insurance	1,221	1.38
BUPA	£	UK	Insurance	1,061	1.20
Friends Life	£	UK	Insurance	803	0.91
Axa	£	France	Insurance	741	0.84
Legal & General	£	UK	Insurance	697	0.79
BNP Paribas	£	France	Banks	648	0.73
Electricite de France	Euro	France	Utilities	624	0.71
HSBC	£	UK	Banks	540	0.61
Credit Agricole	Euro	France	Banks	268	0.30
Standard Life	£/Euro	UK	Insurance	241	0.27
RWE	£	Germany	Electrical	106	0.12
Prudential	US$	UK	Insurance	103	0.12
Total Investment Grade Bonds				**9,814**	**11.10**

Some of the above investment grade financial bonds trade as bonds but are considered perpetual, non step up preferred securities.

Equities

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Phoenix	£	UK	Insurance	895	1.01
GlaxoSmithKline	£	UK	Pharmaceuticals	822	0.93
Segro	£	UK	REITS	817	0.92
Direct Line	£	UK	Insurance	698	0.79
HSBC	£	UK	Banks	682	0.77
Royal Dutch	£	UK	Oil & Gas	643	0.73
Imperial Tobacco	£	UK	Tobacco	582	0.66
Royal Mail	£	UK	Transportation	539	0.61
British Vita	Euro	UK	Chemicals	93	0.11
Total Equities				**5,771**	**6.53**

Total Investments	**88,347**	**100.00**

Those investments shown in **bold** on pages 8 to 10 are the ten largest investments which by value account for £15,993,000 or 18.11% of the total value of investments (2012: 21.02%).

Strategic Report
Strategic Review

The Strategic Review is designed to provide information primarily about the Group's business and results for the year ended 31 October 2013. It should be read in conjunction with the Chairman's Statement on page 3 and with the Managers' Report on pages 4 to 7 which give a detailed review of the investment activities for the year and an outlook for the future.

a) Status

The Company is registered with limited liability in Jersey as a closed-ended investment company under the Companies (Jersey) Law 1991 with registered number 97669. In addition, the Company constitutes and is certified as a Collective Investment Fund under the Collective Investment Funds (Jersey) Law 1988. The Company has obtained a Fund Certificate under Article 7 of the Jersey Funds Law from the Jersey Financial Services Commission to operate as a Certified Fund within the Island of Jersey.

The Company is a member of the Association of Investment Companies ('AIC').

The Company intends to continue to manage its affairs so that its shares fully qualify for inclusion in an Individual Savings Account ('ISA').

b) Investment objective and policy

The Company's investment objective is to provide shareholders with a high level of income, capital growth over the long term and capital preservation over all periods.

The Company aims to deliver these investment outcomes for shareholders by investing selectively across the spectrum of fixed income asset classes; principally in secured loans, asset-backed securities, investment grade corporate bonds and high yield corporate bonds, but also in unrated bonds, gilts, preference and selective high yield equity shares, hybrid securities, convertible bonds and floating rate notes.

The portfolio is not managed by reference to any benchmark save for an income target of 1.25% over sterling 3 month LIBOR. The composition of the portfolio is therefore not constrained by concepts such as the size, sector or national origin of the issuer. The Company may use credit derivatives (including credit default swaps) in addition to interest rate futures and interest rate swaps. Both the credit derivatives and the interest rate derivatives are used in order to take a synthetic exposure to, or to hedge, an investment position where the derivative contract is more efficient or cost effective than a position in the underlying physical asset. The Company's exposure to credit derivatives is capped at a maximum net long or short position of 30% of the Company's net assets. The interest rate exposure of the Company is currently managed in a range of between 0 and 8 years.

The Company may employ gearing to enhance investment returns but borrowings may not exceed 30% of net assets.

c) Principal risks and uncertainties

The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions appropriate to the Company's investment objective and policy, in order to mitigate risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

- *Investment Strategy*

An inappropriate investment strategy, for example, in terms of asset allocation or level of gearing, may result in under performance against the companies in the peer group, and also in the Company's shares trading on a wider discount. 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 an investment limits and restrictions policy determined by the Board, which includes limits on the extent to which borrowings may be employed. The Board reviews the limits and restrictions on a regular basis and the Manager confirms adherence to them every month. The Manager provides the Board with management information, including performance data and reports and shareholder analyses. The Directors monitor the implementation and results of the investment process with the Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

- *Market*

Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in Note 14 on page 40.

- *Accounting, legal and regulatory*

The Company is regulated by the Jersey Financial Services Commission and complies with the regulatory requirements in Jersey. The Company must comply with the provisions of the Companies (Jersey) Law, 1991 and since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure

Strategic Report
Strategic Review
continued

Rules. A breach of company law could result in the Company and/or the directors being fined or the subject of criminal proceedings and financial and reputational damage. A breach of the UKLA Rules could result in the suspension of the Company's shares. The Board relies on its Company Secretary and advisers to ensure adherence to company law and UKLA Rules.

- *Operational*

Disruption to, or the failure of, the Manager's or the Administrator's accounting, dealing, or payment systems or the Custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. The Administrator, BNP Paribas Securities Services S.C.A. Jersey Branch, sub-contracts some of the operational functions (principally relating to trade processing, investment administration and accounting) to BNP Paribas Securities Services. Details of how the Board monitors the services provided by the Manager and other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section of the Corporate Governance Statement.

- *Financial*

The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in Note 14 on pages 39 to 44. Disclosures are provided in accordance with IFRS 7, Financial Instruments: Disclosures.

d) Management, administration, custody and registration arrangements

Investment management services are provided to the Company by wholly owned subsidiary companies of Henderson Group plc ('Henderson') under a management agreement.

The management fee is calculated and paid quarterly in arrears at the rate of 0.75% per annum of the net chargeable assets of the Company. A performance fee is also payable in certain circumstances. This fee is calculated and payable following the end of the Company's financial year if the Company's total return in that year exceeds the hurdle return for the year at a rate of 15% of such excess. The overall annual cap on total fees (base fee and performance fee) is 1.75% of net assets in any financial year. From 1 November 2013 the cap has been reduced to 1.5%. For the year under review, a performance fee of £703,000 was payable (2012: £606,000). This is the second year for which a performance fee has been paid.

From 1 February 2014, the base management fee will be reduced from 0.75% to 0.65%. The performance fee element is being retained as your Board believes that it is in the best interests of shareholders for there to be a performance fee element, subject to a high watermark provision, and a competitive base fee.

The management agreement may be terminated by either party, but in certain events the Company would be required to pay compensation to Henderson of 12 months' management charges. No compensation is payable if notice of termination of more than 12 months is given.

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Securities Services S.C.A. Jersey branch. BNP Paribas Securities Services Trust Company (Jersey) Limited acts as custodian to the Company's assets. Registrar services are provided by Computershare Investor Services (Jersey) Limited.

e) Related party transactions

Other than the relationship between the Company it's subsidiary and its Directors, the provision of services by Henderson is the only related party arrangement currently in place. Other than fees payable by the Company in the ordinary course of business, there have been no material transactions with these related parties affecting the financial position or the performance of the Company during the year under review.

f) Financial Review

- *Results for the year*

Net assets as at 31 October 2013 amounted to £80.889 million (2012: £69.647 million) and the net asset value per ordinary share was 87.9p (2012: 83.3p).

At 31 October 2013 there were 128 (2012: 104) separate investments, as detailed in the Investment Portfolio on pages 8 to 10.

Group net revenue after taxation for the year was £4.588 million (2012: £4.529 million).

- *Ongoing charges*

Ongoing charges are 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 investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges

Strategic Report
Strategic Review
continued

and gains or losses arising on investments. Ongoing charges are based on actual costs incurred in the year as being the best estimate of future costs. The Board reviews the ongoing charges and monitors the expenses incurred by the Company.

For the year ended 31 October 2013 the ongoing charge was 1.40% (2.35% including the performance fee) (2012: 1.46%, 2.38% including the performance fee).

- *Dividends*

It is the intention of the Company to continue to make distributions in the form of quarterly dividends payable in March, June, September and December each year. Three interim dividends have been paid of 1.25p per share (on each of 28 March, 28 June and 30 September 2013). A fourth interim dividend of 1.30p per share was paid on 31 December 2013 in respect of the period ended 31 October 2013. For the year under review the Company exceeded its target dividend yield of 1.25% over sterling three month LIBOR.

The Company's Articles allow the Company to make a distribution from capital profits, should the Directors decide to do so.

- *Bank facilities and gearing*

The Board has in place facilities which allow it to borrow up to £25.5 million (£15.5 million with an additional £10 million commitment being available) for periods of one, two, three or six months. The facilities are subject to regular review. At 31 October 2013 the Group had drawn down £5.7 million (2012: £7.8 million). The maximum drawn down in the period was £9.6 million, with borrowing costs including interest for the year totalling £0.2 million. At 31 October 2013, the ratio of borrowings under the facilities to net assets was 7.0% (2012: 11.2%).

- *Future developments*

While the future performance of the Company will depend, to some degree, on macro-economic factors and on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined earlier. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement (on page 3) and the Managers' Report (on pages 4 to 7).

g) Performance measurement and key performance indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Manager, the Directors take into account the following key performance indicators:

- *Returns and net asset value*

The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value, income and share price for the Company. The Company does not have a formal benchmark.

- *Discount/premium to net asset value ('NAV')*

At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant AIC sector. 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 which includes current financial year revenue; the same basis as that calculated for the financial statements. The NAV excluding current financial year revenue is also published for historical cost comparison.

- *Yield*

At each Board meeting, the Directors examine the revenue forecast and consider yield on the portfolio and the amount available for distribution.

- *Performance against other income funds*

The Board considers the peer group performance of other income funds, at each Board meeting.

h) Corporate Responsibility

- *Responsible investment (SEE statement)*

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

Strategic Report
Strategic Review
continued

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

- *Voting policy and the UK Stewardship Code*

Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship Code. The Company has delegated responsibility for voting to the Manager. The Board will receive a report, at least annually, on the voting undertaken by the Manager on behalf of the Company.

The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution, the Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefor are fed back to the investee company prior to voting.

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

- *Employee, social, community, human rights and environmental matters*

The Company has no employees and its core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues.

Henderson's corporate responsibility statement is included on the website www.henderson.com. For 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2015. The Company's annual and half year reports are printed on carbon balanced paper, whereby the carbon impact of the production and distribution process has been balanced, or offset, by the World Land Trust, an international conservation charity. Papers for all of the Company's meetings are now circulated electronically rather than in paper form.

- *Gender metrics*

The Board consists of three men and one woman. More information on the Board's consideration of diversity is given in the Corporate Governance Statement on pages 18 to 22.

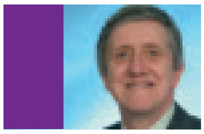
For and on behalf of the Board

Helen Green
Director
13 January 2014

Directors


Paul Manduca


Helen Green


Nigel Parker


David Smith

Paul Manduca (Chairman) Following a long career in asset management as both a fund manager and CEO of fund management groups including Threadneedle Asset Management, Rothschild Asset Management and Deutsche Asset Management Europe, Paul is now Chairman of Prudential Group plc. He is also a former Chairman of Aon UK and of Bridgewell Group plc, a former Senior Independent Director of Wm Morrison Supermarkets plc and of Development Securities plc and was also previously a director of JP Morgan European Smaller Companies Investment Trust plc. He is a past Chairman of the Association of Investment Companies.

Helen Green is a chartered accountant and has been employed by Saffery Champness, a UK top 20 firm of accountants, since 1984. She became a partner in 1997. Since 2000 she has been based in the Guernsey office where she is a client liaison director responsible for trust and company administration. Mrs Green serves as a non-executive director on the boards of a number of companies in various jurisdictions, including Landore Resources Limited, Tamar European Industrial Fund Limited, Advance Frontier Markets Limited, and Acorn Income Fund Limited, of which she is Chairman.

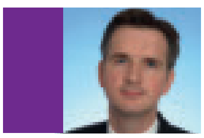
Nigel Parker has over 35 years' experience in the Jersey finance industry and in 2004 was appointed Chief Executive Officer of Gartmore Fund Managers International Limited. He has held a number of positions with Jersey trust companies but specialises in compliance and regulation. In 2002 he was appointed Head of European Compliance for the Gartmore Group with compliance responsibility for all offices, services and products within Europe. Mr Parker is a registered Trust and Estate Practitioner (TEP) and a former committee member of the Jersey Funds Association. He is a member of the Jersey Compliance Officers' Association.

David Smith has spent his career in the financial services sector. He has worked in retail banking with National Westminster Bank, in unit trust sales for County Bank and fund management sales for Ivory & Sime. He became Marketing Director of Fleming Investment Trust Management in 1991, during a period of much increased interest in the investment trust sector, before returning to Jersey to help establish Flemings' private banking operations in Jersey. He was appointed Managing Director of Dexia Private Bank in Jersey in 1999 and subsequently took overall responsibility for all Dexia's operations in Jersey. He now acts as a consultant to a number of local businesses. Mr Smith is an Associate of the Chartered Institute of Bankers, a member of the Chartered Institute of Marketing and holds the Certificate in Company Direction.

All of the directors are non-executive and are members of the Audit Committee and Nominations Committee. Other than Nigel Parker, all the directors are members of the Management Engagement Committee.

Paul Manduca chairs the Management Engagement Committee and the Nominations Committee and Helen Green chairs the Audit Committee. Helen Green and Nigel Parker are also directors of the Luxembourg subsidiary.

Management


John Pattullo


Jenna Barnard


David Milward

The portfolio is managed by John Pattullo and Jenna Barnard.
The Company's investments in secured loans are managed by David Milward and his team.

Report of the Directors

The Directors present the audited financial statements of the Group and their report for the year ended 31 October 2013. The Group comprises Henderson Diversified Income Limited ('the Company') and its wholly owned subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. The Company commenced trading on the London Stock Exchange on 18 July 2007.

a) Directors

- *Board composition*

The names and biographies of the Directors holding office at the date of this report are listed on page 15.

- *Directors' remuneration and shareholdings*

The Directors' Remuneration Report on pages 24 to 25 provides information on the remuneration and interests of the Directors.

- *Directors' conflicts of interest*

The Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with a company's interests. The Codes of Practice for Certified Funds introduced in Jersey in April 2012 require that a Fund must avoid conflicts of interest arising with its fund service providers or any of their associates. Where such a conflict does arise (and disclosure of the nature of such conflict has not previously been made to shareholders), the fund must address such conflict through internal rules of confidentiality, or by declining to act, or by disclosing the nature of the conflicts to shareholders.

Each of the Directors has provided a statement of all interests, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. The Directors have also undertaken to notify the Company Secretary as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board and added to the register, which is reviewed quarterly by the Board.

It has also been agreed that Directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment and new Directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Codes of Practice for Certified Funds in advance of joining the Board. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process. In deciding whether to approve an individual Director's participation, the other Directors will act in a way they consider to be in good faith in assessing the materiality of the conflict in accordance with the Company's Articles of Association.

The Board believes that its powers of authorisation of conflicts of interest have operated effectively. The Board also confirms that its procedure for the approval of conflicts of interest has been followed by the Directors.

b) Share capital and shareholders

- *Share capital*

The Company's share capital comprises Ordinary shares of no par value. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's shares or voting rights and there are no shares which carry specific rights with regard to the control of the Company. The number of shares in issue at the start of the year was 83,640,877, and at the end of the year was 92,004,964.

At a General Meeting of the Company held on 17 December 2013, Shareholders gave the Board authority to issue a further 46,002,482 new shares on a non-pre-emptive basis representing 50% of the Company's total ordinary share capital in issue on 17 December 2013.

- *Holdings in the Company's shares*

As at 31 October 2013 the following had declared a notifiable interest in the Company's issued share capital.

Shareholder	% of voting rights
Brewin Dolphin Securities Ltd	22.76%
Investec Wealth & Management	11.71%
Cazenove Capital Management Ltd	4.56%

The above percentages are calculated by applying the shareholding as notified to the Company to the issued share capital as at 31 October 2013 (shareholdings being voting rights). There has been no change since the year end.

The Directors aim to minimise the discount at which the Company's shares trade relative to the net asset value per share as well as to reduce volatility and increase liquidity in the shares. In seeking to achieve this, the Board believes it should maintain flexibility and therefore does not operate a fixed discount management policy. The Board intends, however, subject always to the overall impact on the portfolio, the pricing of other trusts and overall market

Report of the Directors

continued

conditions, to consider share buy-backs in addition to share issuance within a narrow band relative to net asset value. The Directors seek annual authority to buy back and cancel, or hold in Treasury, the Company's shares. On 15 March 2013 the Directors were granted authority to repurchase 12,537,767 shares for cancellation or to be held in Treasury. This authority, which has not been used, will expire at the forthcoming AGM.

The Company is also seeking authority to disapply pre-emption rights relating to share issues. These powers will give the Directors additional flexibility going forward and the Board considers that it will be in the interests of the Company that such powers be available.

c) Going concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Group consist mainly of securities which are readily realisable and, accordingly, the Group has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the going concern and liquidity risk 'Guidance for Directors of UK Companies 2009' issued by the Financial Reporting Council in October 2009.

d) Annual General Meeting ('AGM')

The AGM will be held in Jersey on Friday 14 March 2014 at 11.00am. The Notice of Meeting is contained in a separate document which has been sent to shareholders with the Annual Report. Separate resolutions are proposed for each substantive issue.

The Board recognises that few shareholders are able to travel to Jersey to attend the AGM so a shareholder event will be held in London on Tuesday 18 March 2014. Details are set out on page 49. This will give shareholders the opportunity to meet the Chairman and to address questions to the Portfolio Managers who, as the representatives of the Manager, will make a presentation to shareholders.

e) Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this Report are listed on page 15. Each of those Directors confirms that:

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of their report of which the Auditors are unaware; and
- he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

f) Global greenhouse gas emissions

As an investment company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 October 2013 (2012: same), nor does it have responsibility for any other emissions producing sources.

For and on behalf of the Board

Helen Green
Director
13 January 2014

Corporate Governance Statement

a) Applicable Corporate Governance Codes

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

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

b) Statement of compliance

The AIC Code comprises 21 principles. The Directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the Code except as noted below.

The Code includes provisions relating to:

- The role of the Chief Executive;
- The appointment of a Senior Independent Director;
- Executive directors' remuneration; and
- The need for an internal audit function.

As the Company delegates to third parties its day-to-day operations and has no employees, the Board has determined that there is no requirement for an internal audit function, nor does the Board consider these provisions to be relevant to the Company and has not reported further in respect of these provisions.

The Directors believe that this Report and Financial Statements presents a balanced and understandable assessment of the Company's position and prospects.

c) Directors

- *Directors' Retirement and Rotation*

The Articles of Association require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment and shall not remain in office longer than three years since their last election or re-election without submitting themselves for re-election. The Articles also provide that one third of the Directors retire by rotation each year. David Smith offers himself for re-election at the forthcoming AGM having previously been re-elected in 2011. The Board considers that there is a balance of skills and experience within the Board and each of the Directors contributes effectively.

- *Board independence, composition and tenure*

The Board currently consists of four non-executive directors. All are currently independent of the Company's Manager and the Company's Administrator. The Directors consider that there are no factors which compromise the Directors' independence and that they all contribute to the affairs of the Company in an independent manner.

The Directors are conscious of the need to maintain continuity of the Board. The Board believes that retaining directors with sufficient experience of both the Company and its markets is of great benefit to shareholders and that the Directors have different qualities and areas of expertise on which they may lead where issues arise. Their biographies, set out on page 15, demonstrate a breadth of investment, commercial and professional experience with an international perspective. The Nominations Committee considers succession planning, bearing in mind the balance of skills, knowledge and experience and diversity of the Board and will recommend when the further recruitment of a non-executive Director is required. As each of the Directors joined the Board at the same time; the intention is to phase changes to ensure an orderly transition of skills and balance of experience. The Board does not consider that length of service necessarily compromises the independence or effectiveness of each individual Director.

- *Directors' professional development*

Training seminars held by the Manager are offered to newly appointed Directors. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls and each Director's individual training requirements are considered by the Chairman as part of an annual appraisal.

Corporate Governance Statement

continued

Changes in directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

- *Directors' Indemnity*

Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the Court.

d) The Board

- *Responsibilities*

The Board meets at least four times each year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, through its representative who is responsible to the Board for ensuring that Board procedures are followed.

- *Board Committees*

The Board has established Audit, Management Engagement and Nominations committees with defined terms of reference and duties. The terms of reference for each of the committees is available on the Company's website.

- *Audit Committee*

The Board has appointed an Audit Committee, which operates within clearly defined terms of reference and which comprises the entire Board.

Report of the Audit Committee

In summary, the Audit Committee's main functions are:

- to review the half year results and the annual financial statements, including the disclosures made therein in relation to internal controls and risk management, going concern and related parties and consideration of whether the annual report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy;
- to review the performance fee calculation;
- to consider the internal controls in place at Henderson, as described on page 21, and Henderson's policies in relation to cyber risk and business continuity;
- to consider the Company's key risks and risk map;
- to consider the nature and scope of the external audit and the findings therefrom and whether there is a need for an internal audit function;
- to consider the terms of appointment of the auditor, its performance and remuneration;
- to consider the auditor's independence and objectivity and any non-audit services provided; and
- to consider the 'whistle blowing' policy that the Manager has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow-up action.

Helen Green has been Chairman of the Audit Committee since 8 June 2007.

In relation to the annual report and financial statements for the year ended 31 October 2013, the following significant issues were considered by the Audit Committee:

Significant risk	How the risk was addressed
Valuation and ownership of the Company's investments	The portfolio is verified by the Investment Manager on a regular basis and reviewed by the Audit Committee. The Company uses the services of an independent Custodian (BNP Paribas Securities Services Trust Company (Jersey) Limited) to hold the majority of assets of the Company. The investment portfolio is reconciled regularly by the Administrator to the Custodian's records, and that reconciliation is reviewed by the Auditor annually.
Recognition of income	Income received is accounted for in line with the Company's accounting policy (as set out on page 34).

Corporate Governance Statement

continued

Significant risk	How the risk was addressed
Correct calculation of the performance-related fee	The year end performance related fee calculation is prepared by the Administrator (BNP Paribas) and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the Management Agreement.
Maintaining internal controls	The Committee receives regular reports on internal controls from the Manager and Administrator and has access to the relevant personnel of the Manager who have a responsibility for risk management and internal audit.

All of the above were satisfactorily addressed through consideration of reports provided by, and discussed with the Manager.

To assist with these duties, the Audit Committee met with representatives of the Manager and the auditor and received reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company and the systems of internal controls in place.

In accordance with changes made by the Auditing Practices Board and the Financial Reporting Council to the APB's Ethical Standards for Auditors and the FRC's Guidance on Audit Committees, audit committees are required to formulate a written policy on the provision of non-audit services by the Company's statutory independent auditors. The Audit Committee has reviewed the guidance and has formulated a policy on the provision of non-audit services by the Company's auditors. The Audit Committee has determined that the Company's appointed auditors will never be considered for the provision of certain non-audit services, including accounting and preparation of the financial statements, internal audit and custody. The auditors may, if required, provide non-audit services relating to a review of the Company's Half Year Report. All other non-audit services will be judged on a case-by-case basis and will be approved by a member of the Audit Committee.

During the year under review, Grant Thornton Limited have not provided any non-audit services for the Company. Grant Thornton in Luxembourg provide taxation services to the subsidiary company. Details of the audit fee for the year can be found in note 6 on page 36.

The Audit Committee remains satisfied with the effectiveness of the audit provided by Grant Thornton Limited. The Audit Committee is satisfied that the auditors are independent of the Company. The Auditors are required to rotate audit partner every five years and this is the first year the current partner has been in place. The appointment of the auditors is not regularly put out to tender and as the Company is not in the FTSE 350 it is not required to put the contract out to tender at least every ten years. However, the auditors performance is regularly reviewed by the Audit Committee. On the basis of the auditors' performance the Audit Committee recommended their continuing appointment to the Board with no tender necessary.

- *Management Engagement Committee*

The Management Engagement Committee is responsible for reviewing the performance of the Manager and for ensuring that the Manager complies with the terms of the management agreement and that the provisions of that agreement follow industry practice and remain competitive and in the best interests of shareholders. This Committee is chaired by the Chairman of the Board.

- *Nominations Committee*

The Board seeks to ensure that it is well-balanced with the skills, experience and diversity necessary. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass their past and current experience of various areas relevant to the Company's business.

The Board has appointed a Nominations Committee, which comprises the entire Board and is chaired by the Chairman and which will be convened for the purpose of considering the appointment of additional or replacement directors and reviewing the performance of current Board members. When considering succession planning the Committee bears in mind the balance of skills, experience and diversity existing within the Board and may recommend additional recruitment. A formal job description would be drafted and external agencies may be used to assist in the process.

The Nomination Committee considers diversity as part of the annual performance evaluation and it is considered that there is a range of backgrounds and each director brings different

Corporate Governance Statement
continued

qualities to the Board and its discussions. Because of the small size of the Board it is not considered appropriate for the Company to have set targets in relation to diversity; candidates will be assessed in relation to the relevant needs of the Company at the time of appointment.

- *Attendance at meetings*

The number of formal meetings held during the year of the Board, Audit, Management Engagement and Nominations Committees, and the attendance of the individual Directors at those meetings, is shown in the following table:

Number of meetings in year	Board 4	Audit Committee 2	Management Engagement Committee 1	Nominations Committee 1
Paul Manduca	4	2	1	1
Helen Green	4	2	1	1
Nigel Parker	4	2	1	1
David Smith	3	2	0	0

In addition, a number of short Board Meetings were held during the year to approve dividends, release Interim Management Statements and to attend to pressing matters. The Annual General Meeting was held in March 2013.

e) Performance evaluation

The performance of the Company is considered in detail at each Board meeting. The Chairman reviews each individual Director's contribution on an annual basis. The work of the Board as a whole and its committees are reviewed annually. The Directors also meet without the Chairman present in order to review his performance.

f) Internal controls

The Board has established a process for identifying, evaluating and managing any major risks faced by the Company including financial reporting risks. This process is subject to regular review by the Board and accords with the Financial Reporting Council Guidance. The process has been in place since 2007 and up to the date of the approval of this annual report.

The Board is responsible overall for the Company's system of risk management and internal control and for reviewing its effectiveness taking into account that the activities of the Company are outsourced to external service providers. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager and the Administrator, undertook a full review of the Company's business risks and these have been analysed and recorded in a risk map which is reviewed regularly. The Board receives each quarter from the Manager and Administrator jointly, a formal report which details the steps taken to monitor the areas of risk, and which reports the details of any known internal control failures. The Board receives each year from each of the Manager and the Administrator, a report on its internal controls which includes a report from each party's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operation and culture of the Company and its key suppliers.

The Manager and Administrator have each established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Manager's and Administrator's compliance and risk departments on a continuing basis.

By means of the procedures set out above the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31 October 2013 and to the date of approval of this Annual Report and Financial Statements and no significant failings or weaknesses have been identified.

g) Bribery Act 2010 (UK) and Corruption (Jersey) Law 2006

The Board has reviewed the implications of the Bribery Act 2010 (UK) and Corruption (Jersey) Law 2006 and confirmed its zero tolerance to bribery and corruption in its business activities. The Directors have adopted a procedure whereby they are required to report any potential acts of bribery and corruption in respect of the Fund to the duly appointed Money Laundering Reporting Officer in Jersey.

h) Accountability and relationship with the Manager and the Administrator

The Statement of Directors' Responsibilities in respect of the Group's financial statements is set out on page 23, the Independent Auditor's Report is set out on pages 26 to 28 and the Statement of Going Concern on page 17.

The Board has contractually delegated to external agencies, including the Manager and the Administrator, the management of the investment portfolio, the custodial

Corporate Governance Statement
continued

services (which include the safeguarding of the Group's assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers reports regularly from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman or one of the other Directors attends meetings of all the chairmen of the investment trusts and investment companies managed by the Manager. These are a forum to discuss issues of common interest, and are reported on back to the Board.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager and the Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager and of the Administrator attend each Board meeting enabling the Directors to probe further on matters of concern. A formal schedule of matters specifically reserved for decision by the full Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Manager and the Administrator operate in a supportive, co-operative and open environment.

i) Continued appointment of the Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager are set out on page 12.

The Board reviews investment performance at each Board meeting and a formal review of the Manager is conducted annually.

As a result of their annual review, it is the opinion of the Directors that the continued appointment of the current Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

The Manager has extensive investment management resources and wide experience in managing and administering investment companies.

j) Relations with shareholders

Shareholder relations are given high priority by the Board and by the Manager. The prime medium by which the Company communicates with shareholders is through the Half Year and Annual Reports which aim to provide shareholders with a clear understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication on the London Stock Exchange website of the net asset value of the Company's ordinary shares and a monthly fact sheet. All documents issued by the Company can be viewed on the website, www.hendersondiversifiedincome.com.

It is the intention of the Board that the Notice of AGM be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 50. At other times the Company Secretary responds to letters from shareholders on a range of issues.

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

For and on behalf of the Board

Helen Green
Director
13 January 2014

Statement of Directors' Responsibilities in respect of the Group's Financial Statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Jersey law and International Financial Reporting Standards as adopted by the European Union.

Jersey law requires the Directors to prepare, in accordance with generally accepted accounting principles, financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis; and
- specify which generally accepted accounting principles have been adopted in their preparation.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on a website maintained by the Company's Manager, Henderson Global Investors Limited, in the United Kingdom. The maintenance and integrity of this website is, so far as it relates to the Group, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in their own jurisdiction.

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

Statement under Disclosure and Transparency Rules
The Directors, who are listed on page 15 of this Annual Report, each confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable international financial reporting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

(b) this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Helen Green
Director
13 January 2014

Directors' Remuneration Report

Introduction

This report is submitted on the same basis as would be required by Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 ('the Regulations'). The report also meets the relevant requirements of the Companies (Jersey) Law 1991 ('Jersey Law') and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. An ordinary resolution to approve the report will be proposed at the Annual General Meeting on 14 March 2014. The Company's remuneration policy will also be put to shareholders for approval by ordinary resolution at the AGM.

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

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

The whole Board fulfils the function of the Remuneration Committee. No advice or services were provided by any external person in respect of the consideration of Directors' remuneration.

Remuneration policy

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Directors personally except Helen Green who's fees are paid to her employer. The Board's policy is that remuneration should reflect the time spent on the Company's affairs and the responsibilities borne by the Directors. They should be comparable to that of other investment companies of a similar size and with a similar capital structure and investment objective and should be of a sufficient level to attract and retain directors of a suitable calibre. All Directors, including any new appointments to the Board, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee who are paid a higher fee in recognition of their additional responsibilities. The level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in any change to the rate; any feedback from shareholders would be taken into account when setting remuneration levels. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

No Director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable.

This policy has been in place since 1 November 2012 and will remain in place until the Annual General Meeting in 2017 unless it is amended by way of ordinary resolution put to shareholders at a General Meeting. The Board may amend the level of remuneration paid to individual directors within the parameters of the remuneration policy.

Annual statement

As Chairman, Paul Manduca reports that Directors fees were increased on 1 April 2013. These increases were made after consideration of the fees paid to other investment companies in the sector of an equivalent size and also in relation to the fees paid to other Henderson managed trusts. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new directors. There have been no other major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual director in the year under review.

Directors' interests (Audited)

The Company has not set any requirements or guidelines for Directors to own shares in the Company. The beneficial interests of the Directors and their connected persons in the ordinary shares of the Company are shown in the table below:

	31 October 2013	31 October 2012
Paul Manduca	**150,000**	150,000
Helen Green	**10,000**	10,000
Nigel Parker	**20,000**	–
David Smith	**20,000**	20,000

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end. No Director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

Directors' Remuneration Report

continued

Directors' fees (Audited)

From 1 November 2012 to 31 March 2013 the Directors annual fee's were as follows: Chairman £35,000, Audit Committee Chairman £25,000, Director £20,000. With effect from 1 April 2013 the Directors' annual fees are £36,500 for the Chairman, £26,500 for the Chairman of the Audit Committee and £21,000 for the other Directors.

The fees and expenses paid to the Directors who served during the years ended 31 October 2013 and 31 October 2012 were are follows:

	Year ended 31 October 2013			Year ended 31 October 2012		
	Total salary and fees £	**Total expenses £**	**Total £**	Total salary and fees £	Total expenses £	Total £
Paul Manduca [1]	**35,875**	**1,333**	**37,208**	35,000	882	35,882
Helen Green [2]*	**32,333**	**1,252**	**33,585**	30,000	1,118	31,118
Nigel Parker*	**27,042**	**1,411**	**28,453**	25,000	1,567	26,567
David Smith	**20,583**	**986**	**21,569**	20,000	322	20,322
Total	**115,833**	**4,982**	**120,815**	110,000	3,889	113,889

Notes:

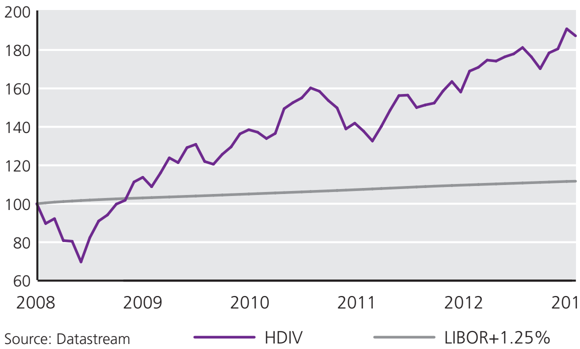
The table above omits other columns because no payments of other types, such as performance related pay, vesting performance related pay and pension related benefits were made.

[1]Chairman and highest paid Director. [2]Chairman of the Audit Committee. *Helen Green and Nigel Parker both received £6,458 (2012: £5,000) in fees each as Directors of the Luxembourg subsidiary.

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

Performance graph

The graph below illustrates the total shareholder return as compared to the absolute return objective of 1.25% over three month Sterling LIBOR for the five year period to 31 October 2013.



Relative importance of spend on pay

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

(Audited)	**31 October 2013**	31 October 2012
Total remuneration	**120,815**	113,889
Ordinary dividend paid	**4,303,000**	4,183,000
Buybacks of ordinary shares	**–**	–

Statement of voting at general meeting

At the 2013 AGM 23,729,979 votes were received voting for the resolution seeking approval of the Directors' Remuneration Report, 294,466 were against, 55,617 were instructed to be voted at a proxy's discretion and 200,631 were withheld.

For and on behalf of the Board

Helen Green

Director

13 January 2014

Independent Auditor's Report

to the Members of Henderson Diversified Income Limited

Independent auditor's report to the members of Henderson Diversified Income Limited

We have audited the financial statements of Henderson Diversified Income Limited for the year ended 31 October 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements which give a true and fair view.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Audit commentary

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Group's business and is risk-based. The day-to-day management of the Group's investment portfolio, the custody of its investments and the maintenance of the Group's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating internal controls at the Group and relevant third party service providers. This included a review of reports on the description, design and operating effectiveness of internal controls at relevant third party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £ 463,000, which is 0.5% of total assets. For the financial information of the subsidiary, we set our materiality in the same manner, at £229,000, being 0.5% of total assets of the subsidiary. We have determined the threshold at which we communicate misstatements to the Audit Committee to

Independent Auditor's Report

continued

be £11,450. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, balances or disclosures.

Investments

The Group's investment objective is to provide shareholders with long term income and capital growth by investing in a range of fixed income asset classes, including secured loans, high yield corporate bonds and investment grade corporate bonds. Accordingly, the investment portfolio is a significant, material item in the financial statements. The recognition and measurement of the investment portfolio is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, understanding management's process to recognise and measure investments including ownership of those investments, obtaining confirmation of investments held at the year end directly from the independent custodian, testing the reconciliation of the custodian records to the records maintained by the Group's administrator, testing a selection of investment additions and disposals shown in the Group's records to supporting documentation and agreeing the valuation of quoted investments to an independent source of market prices.

The Group's accounting policy on the valuation of investments is included in note 2(c), and its disclosures about investments held at the year end are included in note 11.

The Group has entered into over-the-counter derivative contracts. In accordance with IFRSs, they should be classified as held for trading and measured at fair value. Measurement of the value of a derivative includes significant assumptions and judgements. We therefore identified the valuation of derivatives as a significant risk requiring special audit consideration. Our audit work included, but was not restricted to, obtaining an understanding of how the valuations were performed, discussions with the investment manager, and challenging the basis and reasonableness of the assumptions made by the investment manager in conjunction with available supporting information. The Group's accounting policy on the valuation of derivatives is included in note 2(k), and its disclosures about derivatives held at the year end are included in note 12.

Our audit work included recalculating the fair value of the derivatives and assessing whether the counterparties to the derivative transactions are able to meet their contractual obligation. We also reviewed for off balance sheet exposures and the related income or expenses, to ensure the revaluation gains or losses had been correctly accounted for. A review of the disclosures was performed to ensure appropriate disclosure of derivatives in the financial statements.

Investment income

Investment income is the Group's major source of revenue and a significant, material item in the Consolidated Statement of Comprehensive Income. Accordingly, the recognition of investment income is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, assessing whether the Group's accounting policy for revenue recognition is in accordance with IFRSs, obtaining an understanding of management's process to recognise revenue in accordance with the stated accounting policy, testing whether a sample of income transactions has been recognised in accordance with the policy, and for a sample of investments held in the period confirming that income that should have been recognised has been recognised and assessing whether any of the dividends should have been treated as capital receipts.

The Group's accounting policy on the recognition of income is shown in note 2(d) and the components of that revenue are included in note 3.

Management override of internal controls

Under ISAs (UK & Ireland), for all of our audits we are required to consider the risk of management override of financial controls. Due to the unpredictable nature of this risk we are required to assess it as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, specific procedures responding to this risk that are required by ISA 240 (UK & Ireland) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'. This included tests of journal entries, the evaluation of judgements and assumptions in any management estimates and tests of any significant transactions outside the normal course of business.

Independent Auditor's Report

continued

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2013 and of its profit for the year then ended in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland) we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable, and whether the annual report appropriately discloses those matters that were communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not obtained any information or explanation, that to the best of our knowledge and belief, was necessary for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 17, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Alexander R Langley

For and on behalf of
Grant Thornton Limited
Chartered Accountants
St Helier, Jersey, Channel Islands
13 January 2014

Consolidated Statement of Comprehensive Income

for the year ended 31 October 2013

Notes		**Year ended 31 October 2013 Revenue return £'000**	**Year ended 31 October 2013 Capital return £'000**	**Year ended 31 October 2013 Total £'000**	Year ended 31 October 2012 Revenue return £'000	Year ended 31 October 2012 Capital return £'000	Year ended 31 October 2012 Total £'000
11(b)	Gains on investments at fair value through profit or loss	**–**	**5,785**	**5,785**	–	1,651	1,651
17	(Losses)/gains on foreign exchange transactions at fair value through profit or loss	**–**	**(1,076)**	**(1,076)**	–	3,168	3,168
3	Investment income	**5,493**	**–**	**5,493**	5,394	–	5,394
4	Other income	**1**	**–**	**1**	3	–	3
	Total income	**5,494**	**4,709**	**10,203**	5,397	4,819	10,216
	Expenses						
5	Management and performance fee	**(294)**	**(997)**	**(1,291)**	(273)	(879)	(1,152)
6	Other expenses	**(484)**	**–**	**(484)**	(463)	–	(463)
	Profit before finance costs and taxation	**4,716**	**3,712**	**8,428**	4,661	3,940	8,601
7	Finance costs	**(86)**	**(86)**	**(172)**	(86)	(85)	(171)
	Profit before taxation	**4,630**	**3,626**	**8,256**	4,575	3,855	8,430
8	Taxation	**(42)**	**–**	**(42)**	(46)	–	(46)
	Profit for the year	**4,588**	**3,626**	**8,214**	4,529	3,855	8,384
9	**Earnings per ordinary share**	**5.32p**	**4.20p**	**9.52p**	5.41p	4.61p	10.02p

The total column of this statement represents the Consolidated Statement of Comprehensive Income, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of Henderson Diversified Income Limited. There are no non-controlling interests.

The Group does not have any income or expense that is not included in the profit for the year and therefore the 'profit for the year' is also the 'total comprehensive income for the year'.

Consolidated Statement of Changes in Equity

for the year ended 31 October 2013

Notes	**Year ended 31 October 2013**	**Stated capital £'000**	**Distributable reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Total equity at 31 October 2012	**37,677**	**39,862**	**(9,740)**	**1,848**	**69,647**
	Total comprehensive income:					
	Profit for the year	**–**	**–**	**3,626**	**4,588**	**8,214**
	Transactions with owners, recorded directly to equity:					
10	**Dividends paid**	**–**	**–**	**–**	**(4,303)**	**(4,303)**
15	**Share issues**	**7,331**	**–**	**–**	**–**	**7,331**
	Total equity at 31 October 2013	**45,008**	**39,862**	**(6,114)**	**2,133**	**80,889**

Notes	Year ended 31 October 2012	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2011	37,677	39,862	(13,595)	1,502	65,446
	Total comprehensive income:					
	Profit for the year	–	–	3,855	4,529	8,384
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(4,183)	(4,183)
	Total equity at 31 October 2012	37,677	39,862	(9,740)	1,848	69,647

The notes on pages 33 to 46 form an integral part of these financial statements

Consolidated Balance Sheet

at 31 October 2013

Notes		2013 £'000	2012 £'000
	Non current assets		
11(a)	Investments designated at fair value through profit or loss	**88,347**	77,723
	Current assets		
12	Other receivables	**3,416**	2,373
	Cash and cash equivalents	**733**	372
		4,149	2,745
	Total assets	**92,496**	80,468
	Current liabilities		
13	Other payables	**(5,911)**	(10,821)
	Total assets less current liabilities	**86,585**	69,647
	Non current liabilities		
	Bank loan (net of issue costs)	**(5,696)**	–
	Net assets	**80,889**	69,647
	Equity attributable to equity shareholders		
15	Stated capital	**45,008**	37,677
16	Distributable reserve	**39,862**	39,862
	Retained earnings:		
17	Other capital reserves	**(6,114)**	(9,740)
	Revenue reserve	**2,133**	1,848
	Total equity	**80,889**	69,647
18	**Net asset value per ordinary share**	**87.9p**	83.3p

The financial statements were approved by the Board of Directors and authorised for issue on 13 January 2014 and were signed on its behalf by:

Helen Foster Green
Director

Nigel Robert Parker
Director

The notes on pages 33 to 46 form an integral part of these financial statements

Consolidated Cash Flow Statement

for the year ended 31 October 2013

	2013 £'000	2012 £'000
Net profit before taxation	**8,256**	8,430
Add back interest paid	**172**	171
Less gains on investments designated as fair value through profit or loss	**(5,785)**	(1,651)
Add/(less): losses/(gains) on foreign exchange transactions at fair value through profit or loss	**1,076**	(3,168)
Decrease/(increase) in prepayments and accrued income	**143**	(113)
Increase in other payables	**302**	413
Net purchases of investments	**(5,442)**	(6,269)
(Increase)/decrease in sales settlement debtor	**(746)**	2,237
Increase/(decrease) in purchase settlement creditor	**2,522**	(127)
Amortisation of loan expenses	**71**	58
Net cash inflow/(outflow) from operating activities before finance costs	**569**	(19)
Interest paid	**(172)**	(171)
Taxation on investment income	**(99)**	(142)
Net cash inflow/(outflow) from operating activities	**298**	(332)
Financing activities		
Equity dividends paid	**(4,303)**	(4,183)
Issue of ordinary shares	**7,331**	–
Loan expenses paid	**(21)**	(22)
(Repayment)/drawdown of loan	**(2,089)**	890
Net cash inflow/(outflow) from financing	**918**	(3,315)
Increase/(decrease) in cash and cash equivalents	**1,216**	(3,647)
Cash and cash equivalents at the start of the year	**372**	732
Exchange movements	**(855)**	3,287
Cash and cash equivalents at the year end	**733**	372

The notes on pages 33 to 46 form an integral part of these financial statements

Notes to the Financial Statements

1 General information

The entity is a closed-ended company, registered as a no par value company under the Companies (Jersey) Law 1991, with its shares listed on the London Stock Exchange.

The Company was incorporated on 5 June 2007.

2 Accounting policies

a Basis of preparation

This consolidated financial information for the year ended 31 October 2013 has been prepared in accordance with International Financial Reporting Standards ('IFRS'). These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRS have been adopted by the European Union ('EU').

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The principal accounting policies adopted are set out below. Where consistent with IFRS the financial statements have also been prepared in accordance with the guidance set out in the Statement of Recommended Practice ('SORP') for the Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued in January 2009.

Standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted by the Group:

IFRS 9: Financial Instruments – Classification and Measurement 1 January 2015
IFRS 10: Consolidated Financial Statements 1 January 2014
IFRS 12: Disclosure of Interests in Other Entities 1 January 2014
IFRS 13: Fair Value Measurement 1 January 2013

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods.

b Basis of consolidation

The consolidated financial information comprises the financial information of Henderson Diversified Income Limited ('the Company') and its subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l. ('the Subsidiary').

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised as assets, are eliminated in full.

The Subsidiary is fully consolidated from the date of inception, being the date on which the Group obtained control, and will continue to be consolidated until the date that such control ceases.

c Investments designated as fair value through profit or loss

All loans, bonds and equities are designated as held at fair value through profit or loss. This is consistent with the Group's investment strategy and information about these investments is provided to the Board. Assets are de-recognised at the trade date of the disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

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 profit or loss as 'Gains/(losses) on investments 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 Income

Income from fixed interest securities is recognised using the effective interest method. Income from equity securities is recognised on an ex-dividend basis. Bank interest and premiums on credit default swaps are recognised on an accruals basis within the revenue return column of the Consolidated Statement of Comprehensive Income. In the event of a default, the income for the relevant period is allocated to capital to reduce the capital loss arising. The interest rates differential contained within currency forward exchange contracts that hedge investment positions against currency risk are recognised within the revenue return, to the extent they are material, over the life of the contract.

e Expenses

All administration expenses and interest payable are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are charged to the capital column of the Consolidated Statement of Comprehensive Income and allocated to capital reserves. On the basis of the Board's expected long term split of returns equally between capital gains and income, the Company charges 50% of investment management fees and finance costs to capital. Any performance fees payable are allocated wholly to capital.

f Taxation

The Company is subject to income tax at a rate of 0%. The States of Jersey introduced a Goods & Services Tax ('GST') with effect from 6 May 2009. The Company does not suffer any irrecoverable GST as it has applied to the Comptroller of Income Tax for inclusion on the list of 'International Services Entities' of its administrator pursuant to the Goods & Services Tax (Jersey) Law 2007 and payment of the relevant application fees.

In Luxembourg the Subsidiary suffers taxation on net gains on investments and on income.

g Foreign currency

For the purposes of the consolidated financial information, the results and financial position of each entity is expressed in pounds sterling, which is the functional currency of the Company and the presentational currency of the Group. Sterling is the functional currency because it is the currency of the primary economic environment in which the Group operates. The Company is a closed-ended investment company, incorporated in Jersey, with its shares listed on the London Stock Exchange. Sterling is the currency by which dividends are returned to shareholders, share buy-backs and share issues are conducted and is the cost base of the Company.

Transactions recorded in overseas currencies during the period are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date.

h Cash and cash equivalents

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

Notes to the Financial Statements
continued

2 Accounting policies (continued)

i Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds are received, net of direct issue costs. After initial recognition bank loans and overdrafts are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Consolidated Statement of Comprehensive Income using the effective interest 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.

j Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business.

k Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in market prices, foreign currency exchange rates and interest rates. Derivative transactions which the Group may enter into include forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities) and interest rate futures and swaps (the purpose of which is to take a position in relation to government bond yields). The Group may also use credit derivatives, for example buying or selling protection on credit default swaps in order to manage credit risk.

The use of financial derivatives is governed by the Group's policies as approved by the Board, which has set written principles for the use of financial derivatives.

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Changes in the fair value of derivative financial instruments are recognised in the Consolidated Statement of Comprehensive Income as they arise. If capital in nature, the associated change in value is presented as a capital item in the Consolidated Statement of Comprehensive Income.

l Equity and reserves

Share capital represents the nominal value of shares that have been issued. Distributable reserves includes any premiums received on the issue of share capital. Any transaction costs associated with the issue of shares are deducted from share premium. Retained earnings includes all current and prior period retained profits.

3 Investment income

	2013 £'000	2012 £'000
Income from investments:		
UK dividend income	**147**	73
Bond and loan interest	**4,833**	4,808
Premiums on credit default swaps	**513**	513
	5,493	5,394

4 Other income

	2013 £'000	2012 £'000
Bank and other interest	**1**	3

Notes to the Financial Statements

continued

5 Management and performance fee	**Year ended 31 October 2013** Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 October 2012 Revenue return £'000	Capital return £'000	Total £'000
Investment management fee	**294**	**294**	**588**	273	273	546
Performance fee	**–**	**703**	**703**	–	606	606
	294	**997**	**1,291**	273	879	1,152

A summary of the terms of the management agreement is given in the Strategic Review on page 12.

6 Other expenses	**2013 £'000**	2012 £'000
Directors' fees† (see the Directors' Remuneration Report on pages 24 to 25)	**116**	110
Auditor's remuneration (including £10,000 (2012: £5,000) relating to the Subsidiary):		
– statutory audit	**38**	37
– tax services for the Subsidiary	**5**	8
Bank and custody charges	**46**	35
Administration and Company Secretarial services	**151**	157
Registrar's fees	**17**	16
Stock exchange fees	**14**	12
Printing and stationery	**14**	10
Other expenses	**83**	78
	484	463

†Includes £13,000 (2012: £10,000) paid to the directors of the Luxembourg Subsidiary.

7 Finance costs	**Year ended 31 October 2013** Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 October 2012 Revenue return £'000	Capital return £'000	Total £'000
	86	**86**	**172**	86	85	171

8 Taxation	**Year ended 31 October 2013** Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 October 2012 Revenue return £'000	Capital return £'000	Total £'000
The taxation charge for the year is comprised of the following:						
Foreign withholding tax suffered	**59**	**–**	**59**	48	–	48
Less: foreign tax recoverable	**(59)**	**–**	**(59)**	(48)	–	(48)
Luxembourg tax	**42**	**–**	**42**	46	–	46
	42	**–**	**42**	46	–	46

Under Jersey law the Group is subject to a rate of zero percent in respect of Jersey tax.

Notes to the Financial Statements

continued

9 Earnings per ordinary share

The earnings per ordinary share figure is based on the net profit for the year after taxation of £8.214 million (year ended 31 October 2012: profit of £8.384 million) and on 86,285,257 (2012: 83,640,877) being the weighted average number of ordinary shares in issue during the year.

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

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

	2013 £'000	2012 £'000
Net revenue profit	**4,588**	4,529
Net capital profit	**3,626**	3,855
Net total profit	**8,214**	8,384
Weighted average number of ordinary shares in issue during the year	**86,285,257**	83,640,877

	2013 pence	2012 pence
Revenue earnings per ordinary share	**5.32**	5.41
Capital earnings per ordinary share	**4.20**	4.61
Total earnings per ordinary share	**9.52**	10.02

10 Dividends

	Record Date	Pay Date	**2013 £'000**	2012 £'000
Fourth interim dividend – 1.25p	9 December 2011	30 December 2011	**–**	1,046
First interim dividend – 1.25p	9 March 2012	30 March 2012	**–**	1,045
Second interim dividend – 1.25p	8 June 2012	29 June 2012	**–**	1,046
Third interim dividend – 1.25p	7 September 2012	28 September 2012	**–**	1,046
Fourth interim dividend – 1.25p	7 December 2012	31 December 2012	**1,046**	–
First interim dividend – 1.25p	8 March 2013	28 March 2013	**1,057**	–
Second interim dividend – 1.25p	7 June 2013	28 June 2013	**1,095**	–
Third interim dividend – 1.25p	6 September 2013	30 September 2013	**1,105**	–
			4,303	4,183

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 October 2013.

Notes to the Financial Statements

continued

10 Dividends (continued)

The table below sets out the total dividends paid and to be paid in respect of the financial year. The revenue available for distribution by way of dividend for the year is £4.588 million (2012: £4.529 million).

	2013 £'000
First interim dividend for 2013 – 1.25p	1,057
Second interim dividend for 2013 – 1.25p	1,095
Third interim dividend for 2013 – 1.25p	1,105
Fourth interim dividend for 2013 – 1.30p (paid 31 December 2013 with a record date of 6 December 2013)	1,196
	4,453

11 (a) Investments designated as fair value through profit or loss

	Listed Investments £'000	Unlisted Investments £'000	Total £'000
Cost at 31 October 2012	35,507	39,966	75,473
Investment holding gains/(losses) at 31 October 2012	2,807	(557)	2,250
Valuation at 31 October 2012	38,314	39,409	77,723
Movements in the year:			
Purchases at cost	44,955	22,069	67,024
Sales – proceeds	(41,867)	(20,065)	(61,932)
– realised gains on sales of investments designated as fair value through profit or loss	2,849	1,165	4,014
Movement in investment holding gains	603	915	1,518
Closing valuation at 31 October 2013	44,854	43,493	88,347

	2013 £'000	2012 £'000
(b) Gains on investments at fair value through profit or loss		
Realised gains on sales of investments at fair value through profit or loss	4,014	296
Movement in investment holdings gains designated at fair value through profit or loss	1,518	1,295
Gains on credit default swaps held at fair value through profit or loss	253	60
	5,785	1,651

(c) Transaction costs

During the year expenses amounting to £32,000 (year to 31 October 2012: £2,000) were incurred in acquiring or disposing of investments designated at fair value through profit or loss. These have been expensed through capital and are included within gains on investments at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements
continued

11 Investments designated as fair value through profit or loss (continued)

(d) Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. This is a limited liability company, registered under the laws of the Grand Duchy of Luxembourg and was incorporated on 1 August 2007.

12 Other receivables

	2013 £'000	2012 £'000
Amounts due from brokers	**1,131**	385
Prepayments and accrued income	**1,144**	1,288
Withholding tax recoverable	**228**	170
Credit default swaps held at fair value through profit or loss	**883**	280
Currency forward exchange contracts held at fair value through profit or loss	**30**	250
	3,416	2,373

13 Other payables

	2013 £'000	2012 £'000
Amounts due to brokers	**4,866**	2,344
Bank loan (net of finance costs)	**–**	7,735
Taxation payable	**8**	7
Other payables	**1,037**	735
	5,911	10,821

14 Risk Management policies and procedures

The Group comprises a closed-ended investment company and its wholly owned subsidiary which invest primarily in fixed interest investments for the long term so as to secure the investment objective. In pursuing its investment objective, the Group is exposed to a variety of risks that could result in either a reduction in the Group's net assets or a reduction in the profits available for distribution by way of dividends.

These risks, market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk, and the Directors' approach to the management of them, are set out below. The Company Secretary, in close co-operation with the Board of Directors and the Manager (Henderson Global Investors Limited), co-ordinates the Group's risk management. The objectives, policies and processes for managing the risks, are set out below and are unchanged from the previous accounting period.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.1 Market risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 14.2), interest rate risk (see note 14.3) and other price risk (see note 14.4). The Board of Directors reviews and agrees policies for managing these risks. The Manager 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.

14.2 Currency risk

A proportion of the Group's assets, liabilities and income are denominated in currencies other than sterling (the functional currency of the companies in the Group, and in which the Group reports its results). As a result, movements in exchange rates may affect the sterling value of those items.

Management of the risk

Forward currency contracts are used to limit the Group's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are used to achieve the portfolio characteristics that assist the Group in meeting its investment objective. These contracts are limited to currencies and amounts equivalent to the asset exposure to those currencies.

Income denominated in foreign currencies is converted into sterling on receipt. The Group does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Foreign currency exposure

The currency exposure of the Group's monetary items at 31 October is shown below.

	2013				2012			
	US$ £'000	**Euro £'000**	**CHF £'000**	**SEK £'000**	US$ £'000	Euro £'000	CHF £'000	SEK £'000
Investments at fair value through profit or loss that are monetary items	**11,067**	**32,532**	**256**	**416**	5,411	36,080	434	–
Receivables (due from brokers, dividends and other income receivable)	**206**	**1,236**	**3**	**2**	79	1,081	5	–
Cash at bank and on deposit	**80**	**173**	**–**	**–**	26	153	–	–
Payables (due to brokers, accruals and other creditors)	**(244)**	**(4,038)**	**–**	**–**	(3)	(1,948)	–	–
Forward currency sales	**(11,041)**	**(30,670)**	**(258)**	**(420)**	(5,490)	(35,696)	(418)	–
Credit default swaps	**49**	**834**	**–**	**–**	73	207	–	–
Total net foreign currency exposure	**117**	**67**	**1**	**(2)**	96	(123)	21	–

Foreign currency sensitivity

The majority of foreign currency assets and liabilities are hedged by the Investment Manager back to sterling using forward currency contracts. In the opinion of the Directors, this strategy means the Group's income and equity is not materially sensitive to changes in exchange rates.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk

Interest rate movements may affect:

– the fair value of fixed interest securities (bonds, loans and interest rate futures)

– the level of income receivable from fixed interest securities and cash at bank and on deposit

– the interest payable on the Group's variable rate borrowings

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

The Group, generally, will not hold significant cash balances, with short term borrowings being used when required.

The Group had no interest rate futures in place at 31 October 2013 (2012: none).

Interest rate exposure

The exposure at 31 October 2013 of financial assets and financial liabilities to interest rate risk is shown by reference to:

– floating interest rates – when the interest rate is due to be re-set

– fixed interest rates – when the financial instrument is due for repayment

	2013				2012			
	Within one year £'000	**One to five years £'000**	**More than five years £'000**	**Total £'000**	Within one year £'000	One to five years £'000	More than five years £'000	Total £'000
Exposure to floating interest rates:								
Investments held at fair value through profit or loss	**59,013**	**–**	**–**	**59,013**	45,987	–	–	45,987
Cash at bank	**733**	**–**	**–**	**733**	372	–	–	372
Bank loan	**–**	**(5,696)**	**–**	**(5,696)**	(7,735)	–	–	(7,735)
	59,746	**(5,696)**	**–**	**54,050**	38,624	–	–	38,624
Exposure to fixed interest rates:								
Investments held at fair value through profit or loss	**–**	**6,140**	**17,422**	**23,562**	–	7,318	23,069	30,387
Total exposure to interest rates	**59,746**	**444**	**17,422**	**77,612**	38,624	7,318	23,069	69,011

At 31 October 2013, the Group had gross nominal exposure to interest rate futures and swaps to the value of £nil (2012: £nil).

Interest receivable is at the following rates:

– Interest received on cash balances, or paid on bank overdrafts and loans, is at margin over LIBOR or its foreign currency equivalent

– The weighted average effective interest rate of the Group's investments is 5.9% (2012: 6.2%)

Notes to the Financial Statements
continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk (continued)

Interest rate sensitivity

The Group's portfolio (excluding equities) at 31 October 2013 was valued at £82.576 million (2012: £76.374 million) and has a modified duration (interest rate sensitivity) of approximately 2.2 years (2012: 2.2 years). A 100 basis point change in short term interest rates (up or down), which is mirrored by an equivalent change in long term rates, would be expected to decrease or increase this portfolio's value by approximately £1.817 million (2012: £1.680 million) all other factors being equal.

14.4 Other price risk

In addition to foreign currency and interest rate risk, the Group is also exposed to other price risk due to short term market price changes and default risk. A 10% increase or decrease in market prices would increase or decrease net profit after tax and shareholders' funds by £8.768 million (2012: £7.714 million) (equivalent to an increase or decrease in net asset value per share of 10.8% (2012: 11.1%)).

14.5 Liquidity risk

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

Management of the risk

Liquidity risk is monitored by the Manager on a daily basis to ensure financial liabilities can be paid as they fall due. Both the Corporate Bond portfolio and the Loan portfolio although traded over the counter, can be realised at or around the prevailing bid prices. The Corporate Bond portfolio is generally considered more liquid than the Loan portfolio. The Group also has a multi-currency loan facility of £25.5 million (£15.5 million with an additional £10 million commitment being available) (2012: £25.5 million), of which £5.715 million was drawn down at 31 October 2013 (2012: £7.804 million). This facility is subject to regular review and unless renewed will expire on 30 September 2015.

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

Liquidity risk exposure

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

	At 31 October 2013			At 31 October 2012		
	3 months or less £'000	**Between 1 and 5 years £'000**	**Total £'000**	3 months or less £'000	Between 1 and 5 years £'000	Total £'000
Amounts due to brokers, accruals and tax payable	**5,911**	**–**	**5,911**	3,086	–	3,086
Bank loans	**–**	**5,702**	**5,702**	7,738	–	7,738
	5,911	**5,702**	**11,613**	10,824	–	10,824

The Group also has exposure of £12.172 million (2012: £9.338 million) in respect of credit default swaps where protection has been sold.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.6 Credit risk

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

Management of the risk

The risk is significant, and is managed as follows:

– where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to determine the risk to the Group of default;
– investments in bonds and loans are made across a variety of industry sectors and geographical markets, so as to avoid concentrations of credit risk;
– transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Group of default;
– investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Investment Manager, 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.

Credit derivatives are used as a way of managing the aggregate credit exposure of the Group without buying or selling a physical bond/loan. The primary credit derivatives used are Credit Default Swaps.

To the extent that the credit derivative exposure is not covered by cash held by the Group then any net long exposure would act as synthetic gearing. Credit default swaps are used by the Manager for two purposes. By selling protection (going long risk) the Manager can increase the Group's exposure to a particular reference entity. In return for taking this credit risk the Group will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract (e.g. default) in the intervening period. This reference entity may be a specific company, or in the case of ITRAXX indices, a basket of credit exposures, for example senior financials. At 31 October 2013, the gross exposure to single name credit default swaps and ITRAXX indices was £1.451 million and £10.721 million respectively (2012: £2.296 million and £7.042 million respectively).

By contrast the Manager may buy protection (take a short risk position) on a reference entity to reduce the overall credit exposure. This would involve the payment of premium in order to protect against possible capital losses in the future. At 31 October 2013 the protection purchased was £nil (2012: £nil).

The credit quality of bonds and secured loans is reviewed in the Managers' Report and Investment Portfolio on pages 4 to 10.

14.7 Fair values of financial assets and financial liabilities

Financial assets and financial liabilities, are either carried in the balance sheet at their fair value (investments and derivatives) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals and cash at bank).

Current assets and current liabilities: forward currency sales are valued on the basis of exchange rates for a similar contract for the same residual duration, as provided by the counterparty. The amount of change in fair value for such forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income for the year was a loss of £1.403 million (2012: gain of £2.830 million). The forward currency transactions serve to hedge back the value of Euro and US Dollar denominated securities to sterling.

Credit default swaps are fair valued. The amount of change in fair value recognised in the Consolidated Statement of Comprehensive Income for the year for credit default swaps was a gain of £0.894 million (2012: £0.750 million).

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.8 Fair value hierarchy disclosures

The table below sets out fair value measurements using the IFRS 7 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 October 2013	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments	**44,854**	**43,493**	**–**	**88,347**
Credit default swaps	**–**	**883**	**–**	**883**
Currency forward exchange contracts	**–**	**30**	**–**	**30**
	44,854	**44,406**	**–**	**89,260**

Financial assets at fair value through profit or loss at 31 October 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	38,314	39,409	–	77,723
Credit default swaps	–	280	–	280
Currency forward exchange contracts	–	250	–	250
	38,314	39,939	–	78,253

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

Level 1 – value using quoted prices in active markets for identical assets

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1

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 the accounting policies note on pages 33 to 35.

There were no transfers to or from Level 3 during the year.

14.9 Capital management policies and procedures

The Group's capital management objectives are:
- to ensure that it will be able to continue as a going concern, and
- to maximise the income and capital return to its equity shareholders

through an appropriate balance of equity capital and debt.

The policy is that debt should be between 0% and 20% of equity.

The Group had borrowings totalling £5.715 million at 31 October 2013 (2012: £7.804 million).

The Board with the assistance of the Manager monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:
- the planned level of gearing which takes into account the Manager's view on the market;
- the need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);
- the need for new issues of equity shares; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Group is subject to the following externally imposed capital requirement:
- Under the multi currency facility now in place, borrowings shall be repaid at any time the Adjusted Asset Coverage falls below 3.3 times (as defined in the agreement) or the Borrowings exceed such limits as prescribed in the Company's original prospectus.

The Group has complied with these requirements during the year.

Notes to the Financial Statements

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15	**Stated capital**	**Stated Capital £'000**	**Number of fully paid shares issued**
	As at 31 October 2012	**37,677**	**83,640,877**
	Issue of shares in year	**7,331**	**8,364,087**
	As at 31 October 2013	**45,008**	**92,004,964**

16	**Distributable reserve**	**£'000**
	As at 31 October 2012 and 2013	**39,862**

The reserve was created by the reduction in stated share capital which was confirmed by the Royal Court of Jersey on 11 October 2007. The reserve may be used for all purposes permitted by the Companies (Jersey) Law 1991, including the purchase of shares and the payment of dividends.

17	**Capital reserves**	**Capital reserve arising on revaluation of investments held £'000**	**Capital reserve arising on investments sold £'000**	**Total £'000**
	At 31 October 2012	**2,476**	**(12,216)**	**(9,740)**
	Exchange movements	**(220)**	**(856)**	**(1,076)**
	Movement in investment holding gains	**1,518**	**–**	**1,518**
	Gains on investments	**–**	**4,014**	**4,014**
	Costs charged to capital	**–**	**(1,083)**	**(1,083)**
	Movement in credit default swaps	**253**	**–**	**253**
	At 31 October 2013	**4,027**	**(10,141)**	**(6,114)**

18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net asset value attributable to ordinary shareholders at the year end of £80.889 million (2012: £69.647 million) and on 92,004,964 (2012: 83,640,877) ordinary shares, being the number of ordinary shares in issue at the year end.

19 Related Party Transactions

Directors' fees of £103,000 relating to the Company were paid during the year (2012: £100,000). A further £13,000 was paid in fees to the Directors of the Subsidiary (2012: £10,000). Further details are given in the Directors' Remuneration Report on pages 24 to 25. In assessing impairment, the Board estimates the recoverable amount of the loan to the Subsidiary to be lower by the net deficit in the Subsidiary and as such recognises this in note 11.
In addition, the Company has made a loan to the subsidiary undertaking of £45.812 million (2012: £45.238 million). After providing for the net deficit in the Subsidiary of £4.218 million (2012: £6.925 million) the loan has been written down to £41.594 million (2012: £38.313 million).

Notes to the Financial Statements
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20 Transactions with the Manager

Under the terms of an agreement dated 15 June 2007, as amended, the Company has appointed wholly owned subsidiary companies of Henderson Group plc ('Henderson') to provide investment management services.

Details of the fee arrangements for these services are given in the Strategic Review on page 12. The total of the fees paid or payable under this agreement to Henderson in respect of the year was £588,000 (2012: £546,000) of which £206,000 (2012: £48,000) was outstanding at 31 October 2013.

A performance fee is also payable to Henderson amounting to £703,000 (2012: £606,000). This amount was outstanding at the balance sheet date.

Glossary of Terms

Asset backed securities
A bond secured against a specific pool of assets, such as credit card receivables, corporate loans or mortgages and collateralised by the future cash flows derived from this specific pool of assets.

Basis points ('bps')
One basis point is 1/100th of 1.00%, or 0.01%. 100 bps = 1%.

Bid-offer spread
The difference in price between the price quoted for an immediate sale (the bid price) and the price quoted for an immediate purchase (the offer price). In an illiquid market the bid-offer spread typically widens.

Bond
An IOU issued by a borrower, usually a government or a company, who pays a specific sum of money (a coupon) regularly over the life of the bond and repays the face value at maturity.

Breakeven rate
The difference between the yield on a conventional bond and an inflation-linked bond, which provides an indication of investors' inflation expectations.

Credit default swaps ('CDS')
An agreement designed to switch economic exposure between two parties. It is often characterised as an insurance policy but as there is no requirement to hold any asset it is a derivative. It is possible to be either a buyer or seller of 'insurance', the buyer pays a periodic fee (a premium) for protection against a specific event (e.g. a bond default) the seller would receive income but bear the cost of default.

Credit derivative
An over the counter derivative designed to transfer credit risk from one party to another. By synthetically creating or eliminating credit exposures they allow institutions to manage credit risks. Most credit derivatives entail two sources of credit exposure: one from the reference entity and the second from the possible default by the counterparty to the transaction. There are many forms of credit derivatives of which credit default swaps are one of the more popular structures.

Credit rating
Sovereign and corporate bonds usually receive a credit rating from one or more leading rating agencies e.g. Standard & Poor's ('S&P') or Moody's. The agencies assess the issuer's ability to service its interest payments and repay the principal, and assign it a rating that represents the risk of default.

Credit spread
The difference in yield between two bonds, measured in basis points. When one of the bonds is a top rated government bond, the spread represents the additional return investors demand to choose an asset with default risk over one with virtually none.

Default risk
This is the probability that the bond issuer is unable to make its coupon or principal payments. Investors affected may suffer a loss of income and only a partial principal repayment.

Derivatives
Financial instruments derived from another asset. Rather than buying or selling the asset itself the two parties enter into an agreement to exchange money, assets, or some other value at a future date. Derivatives are used to increase or decrease exposure or increase levels of risk within a portfolio and are more cost effective than purchasing the underlying assets themselves.

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

Duration
An indication of the sensitivity of the bond's price to a change in interest rates. For example, where the duration of a bond is four years, this indicates that for a 1% rise in the yield of the bond, the price of the bond would fall by approximately 4%, and for a 1% fall in the yield of the bond, the price would rise by approximately 4%.

Duration risk
The impact of an interest rate change on a bond portfolio's value.

Fixed income
Assets whose income remains constant; otherwise known as bonds. It also covers bonds with a variable coupon (e.g. inflation-linked bonds).

Floating rate note
A bond whose interest rate varies with short term rates. Also known as variable notes.

Future/Forward
Derivative contracts that lock in a fixed price on a defined quantity of an underlying asset at a stated maturity. Futures are generic exchange traded contracts whereas forwards are customised OTC contracts. Futures are used for duration

Glossary of Terms

continued

management and Forwards are used to hedge currency exposure.

Gearing
The gearing percentage reflects the amount of borrowings the Company uses to invest in the market.

Gilt
A bond issued by the British government.

Inflation-linked bond
A bond issued by governments or companies, whose coupon and face value are adjusted to reflect price increases. Index-linked bonds are inflation–linked bonds issued in the UK.

Interest rate future
A futures contract, the underlying security of which is a debt obligation (an interest bearing obligation). Examples include a Gilt future (with UK government bonds as the underlying security), Bond futures (German government bonds as the underlying security), Treasury-bond futures (US Treasury bonds as the underlying obligation).

IPOs
'Initial Public Offerings' i.e. new issues to the market.

LIBOR
London Interbank Offered Rate – the central bank lending rate in the UK which is a market standard reference rate used by many bond fund managers.

Life
The length of time between a bond's issuance and maturity, otherwise known as 'term to maturity' or 'term'.

Net Asset Value
The value of the total assets less liabilities. The NAV per share of the Company is published daily.

OTC instrument/contract
'Over the counter' instrument, i.e. a non-exchange traded instrument, directly traded with a counterparty e.g. Deutsche Bank.

Quantitative Easing
An extreme form of monetary policy used to stimulate an economy where interest rates are either at, or close to, zero.

Secured loans
A form of lending to a company which offers first or second lien security (depending whether senior or junior) over other subordinated assets. These loans rank higher in seniority to other bond or debt securities and as a consequence have historically shown a relatively high ratio of recovery in events of default. Secured loans are a relatively cautious way of accessing the high yield market.

Swap
An exchange transaction between two parties which enables one party to exchange something it possesses for something it requires. Usually refers to exchanging floating rate payments for fixed rate payments.

Total return
The return on the share price or net asset value per share taking into account the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by the shareholder are assumed to have been reinvested in additional shares (for share price total return) or the company's assets (for net asset value total return).

Yield
Yield-to-maturity or redemption yield is the return of an investment held until maturity, taking into account both coupon payments and capital gains and losses. A bond's simple yield is equal to the coupon rate divided by the bond's price.

Warning to Shareholders

Shareholders should be wary of unsolicited telephone calls or correspondence concerning the Company and offering investment advice, offers to buy shares at a discount or free company reports.

It is extremely unlikely that Henderson Diversified Income Limited, its Manager (Henderson Global Investors) or its Registrar (Computershare Investor Services) would make unsolicited telephone calls to shareholders. In the event that the Company or its advisers did make unsolicited calls, shareholders would never be asked to confirm their personal details and such calls would relate only to official documentation already circulated to shareholders and never be in respect of offering investment advice, or unpublished investment or financial information regarding the Company.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Company Secretary at the telephone number provided on page 50.

Investor Information

Financial calendar

Financial year end	31 October 2013
Annual General Meeting	14 March 2014
Shareholder Event (see below)	18 March 2014
4th Interim dividend 2013	31 December 2013
Ex dividend date	4 December 2013
Record date	6 December 2013
1st Interim dividend 2014	21 March 2014
2nd Interim dividend 2014	30 June 2014
3rd Interim dividend 2014	30 September 2014

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services). Mandate forms for this purpose are available on request from the Company's registrars.

Shareholder Event

Please note that all general meetings of the Company are held in Jersey. You may wish to contact the Company Secretary at the registered office if you would like directions to the AGM venue.

The Board recognises that many shareholders are unable to travel to Jersey, but would like to meet a member of the Board and hear from the Portfolio Managers on a regular basis.

Henderson has therefore arranged a Shareholder Event to be held on Tuesday 18 March 2014 at 10.30am at their London offices. The event will provide the opportunity for the Portfolio Managers to give a presentation on the investment strategy and performance.
The event will include light refreshments.

If you wish to attend, please return the yellow card which is enclosed with this Report.

Quotation of shares

The market price of the Company's Ordinary shares can be found in the Financial Times.

The London Stock Exchange Daily Official List (SEDOL) code is: B1Y1NS4. The International Security Identification Number is: JE00B1Y1NS49. The EPIC code is HDIV.

Shareholder information

Copies of this Report and other documents issued by the Company are available from the Company Secretary.

If needed, copies can be made available in a variety of formats, either Braille or larger type as appropriate.

Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at meetings when invited to do so by the Chairman.

Investors in Halifax Share Dealing Limited products receive all shareholder communications. A form of instruction is provided to facilitate voting at general meetings of the Company.

Keeping up to date with Henderson Diversified Income

Website

Details of the Company's share price and net asset value, together with other information about the Company, can be found on the Henderson website. The address is:
www.hendersondiversifiedincome.com

HGi

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

Scan the QR code or use this short URL to register for HGi.
http://HGi.co/gsz

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Investor Information

continued

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Helen Green
Nigel Parker
David Smith

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Secretary
BNP Paribas Securities Services S.C.A. Jersey Branch
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The Company is a member of

Henderson Diversified Income Limited

Report and Financial Statements for the year ended 31 October 2013