Annual Report 2021

Henderson Diversified Income Trust plc

MANAGED BY
Janus Henderson
INVESTORS

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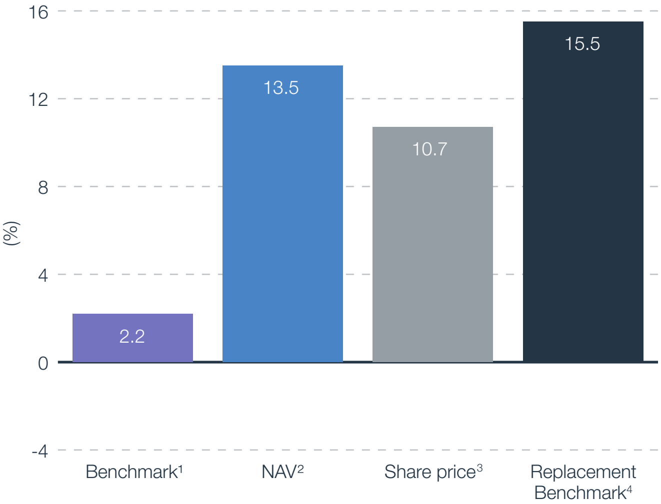
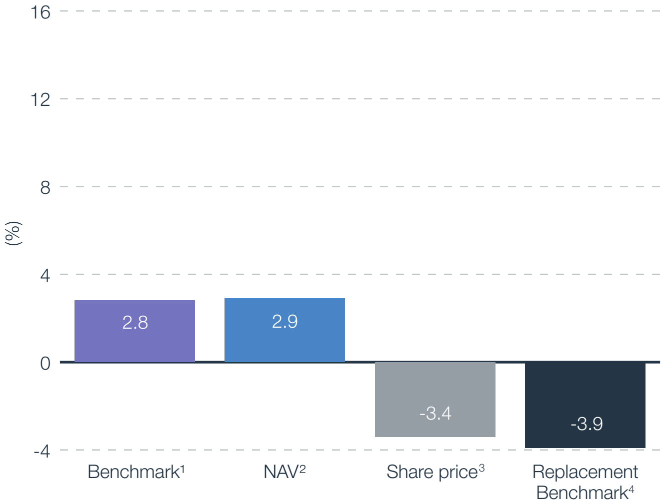
Performance Highlights

Strategic Report: Performance Highlights

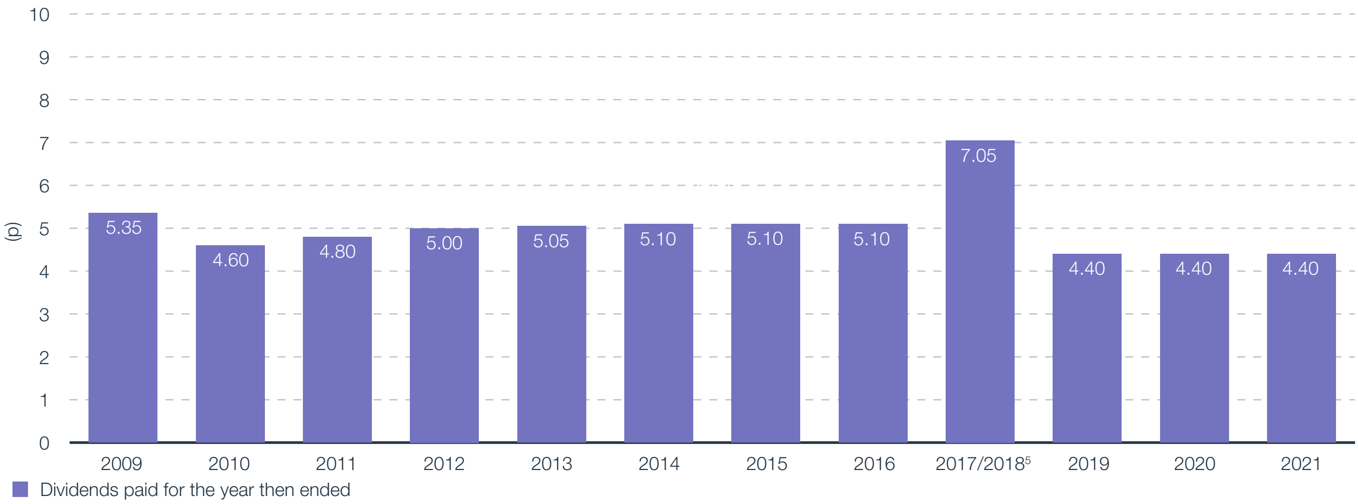
Total return performance for year to 30 April 2021



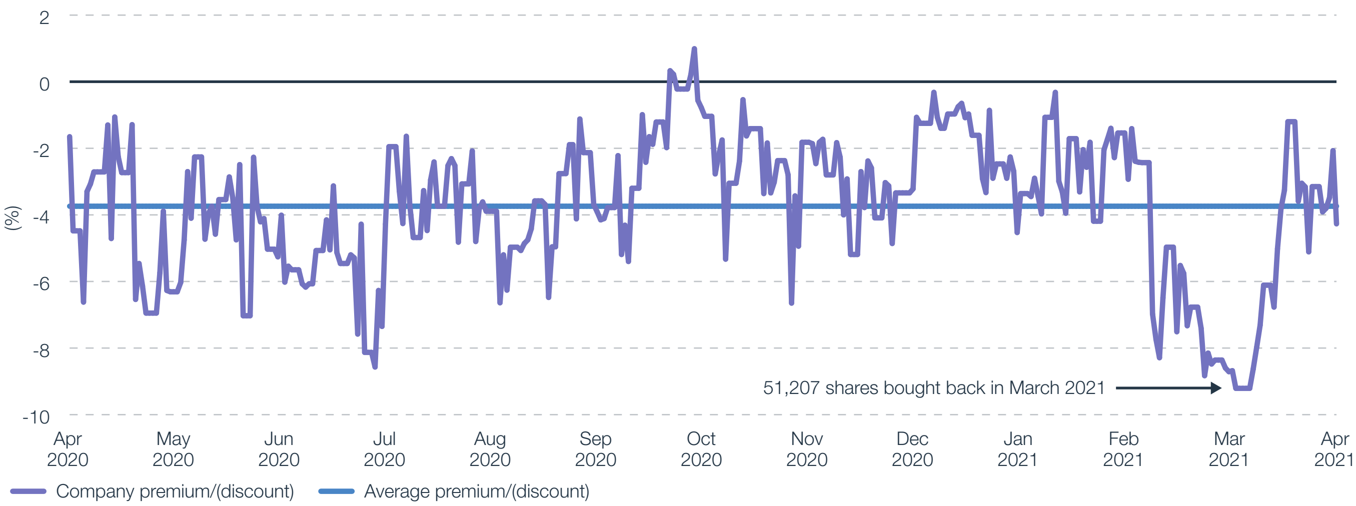
Total return performance for year to 30 April 2020



Dividend per share



Premium/(discount) to net asset value for the year



Sources: Morningstar for the AIC, BNP IRP Service, Janus Henderson Investors and Henderson Diversified Income Trust plc Annual Reports

Strategic Report: Performance Highlights (continued)

NAV per share

2021 **91.87p**

2020 **85.00p**

Share price[3]

2021 **88.00p**

2020 **83.00p**

Revenue return per share

2021 **4.61p**

2020 **4.40p**

Net assets

2021 **£175.7m**

2020 **£162.6m**

Dividend per share

2021 **4.40p**

2020 **4.40p**

Dividend yield[6]

2021 **5.00%**

2020 **5.30%**

Ongoing charge[6]

2021 **0.93%**

2020 **0.89%**

Financial gearing[6]

2021 **15.04%**

2020 **15.38%**

Number of portfolio investments held at 30 April

2021 **129**

2020 **98**

1 The benchmark is the average return on a rolling annual basis of three month sterling LIBOR + 2%
2 Net asset value (NAV) total return (including dividends reinvested and excluding transaction costs)
3 The share price total return using mid-market closing price
4 60% Global High Yield Credit (ICE Bank of America Global High Yield Constrained Index), 25% Global Investment Grade Corporate Credit (ICE Bank of America Global BBB Corporate Bond Index) and 15% European Loans (Credit Suisse Western European Leveraged Loan Index). Please refer to the Chairman's Statement on pages 5 to 7 for further information
5 During 2017/2018, the Company changed its year end to 30 April (from 31 October) following the redomicile to the United Kingdom. Six dividends were paid in the 18 month period from 1 November 2016 to 30 April 2018, comprising two dividends totalling 2.50p per share from Henderson Diversified Income Limited and four interest distributions from Henderson Diversified Income Trust plc totalling 4.55p per share
6 A Glossary of Terms and Alternative Performance Measures can be found on pages 80-81 and 82-83 respectively

Sources: Morningstar for the AIC, BNP IRP Service, Janus Henderson Investors and Henderson Diversified Income Trust plc Annual Reports

Chairman's Statement

Angus Macpherson
Chairman

Strategic Report: Chairman's Statement

Introduction

It is pleasing to be able to report another strong year for the Company. The NAV total return was 13.5% in the year to 30 April 2021 and the dividend of 4.40p per share has been covered by revenues received from investments. As the Fund Managers later report, major governments provided unprecedented support to key sectors of the economy. The evident will to do whatever was required to avoid a depression contributed to a benign investment environment for even some of the riskier assets.

The Fund Managers' commitment to "sensible income" continues to result in a portfolio focussed on larger, less cyclical, modern day facing businesses which have sustainable revenues in the post COVID era. This has meant a continued bias towards investing in the US high yield market rather than the companies in the UK market which the Fund Managers consider to be smaller, illiquid and analogue. The capital investment in US dollars is then hedged back into sterling to protect investors from exchange rate volatility.

There are also a number of other developments which I discuss below. The first is that the Board is proposing to shareholders a change in the benchmark for the Company. This does not reflect any change in investment policy or strategy, but rather a belief that the original benchmark selected does not meaningfully provide a guide to the strength of the Fund Managers' performance.

Secondly, the Board wish to ensure that investments, activities and the activities of service providers are consistent with wider social responsibilities which we believe are a growing priority for our stakeholders. Environmental, social and governance (ESG) issues are a key focus of the Board, and the Board is increasing its oversight of the activities of the Manager in these areas. ESG issues can present both opportunities and threats to long-term investment performance. Constructive engagement with management can be the most effective way of driving meaningful positive change in the behaviour of investee company management, but as the Company is largely invested in debt securities, engagement may be lighter touch than in an equity company. We continue to examine the benefits and risks of including a more explicit ESG objective for our investment portfolio.

Change of Investment Objective and Replacement Benchmark

The Board has recently undertaken a review of the Company's investment objective and policy, initiated by the regulatory requirement to transition away from LIBOR to alternative reference rates by the end of 2021.

The Company's current investment objective is to seek income and capital growth such that the total return on the net asset value of the Company exceeds the average return on a rolling annual basis of three month sterling LIBOR + 2%. It is proposed that this will be amended so that the Company's objective is instead to seek a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes.

The Company will therefore seek shareholder approval at the Annual General Meeting (AGM) to be held at 11.00am on Thursday, 16 September 2021 to change the Company's investment objective as set out above. Other minor amendments to the investment policy are also proposed. There will be no imminent or future change in the Company's investment process or strategy as a result of the amendments to the investment objective and policy.

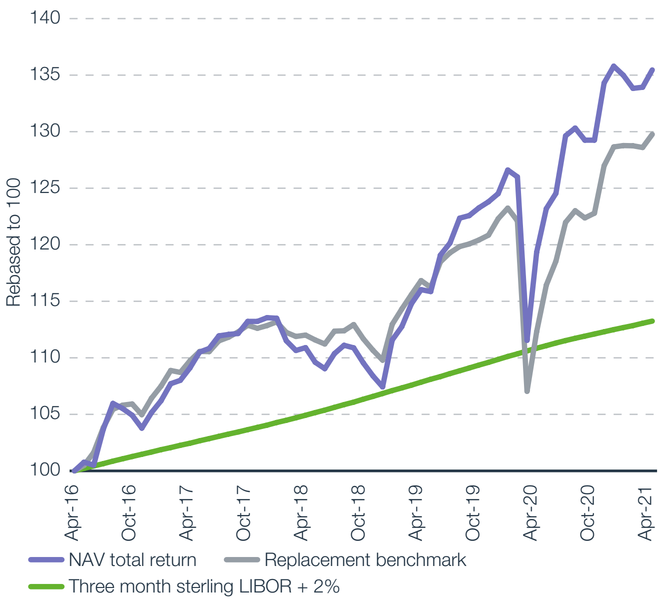
The current investment objective and policy and the proposed new investment objective and policy are set out in full on pages 19 to 20.

Although not part of the investment objective and policy, following recommendations from the Manager, the Board is also proposing to change the Company's benchmark, effective from the date shareholders approve the new investment objective and policy. The Board believes the proposed replacement benchmark will permit the Board and others to ascertain performance of the Company across more dimensions and assess the value added through active management. The replacement benchmark (which is hedged back to sterling) will therefore be as follows:

- 60% Global High Yield Credit (ICE Bank of America Global High Yield Constrained Index)
- 25% Global Investment Grade Corporate Credit (ICE Bank of America Global BBB Corporate Bond Index)
- 15% European Loans (Credit Suisse Western European Leveraged Loan Index)

The chart below shows the five-year annualised returns for the Company to 30 April 2021, the existing benchmark forming part of the Company's investment objective and the proposed replacement benchmark. This shows that the proposed replacement benchmark more closely resembles the risk and reward profile of the Company's investments.

Total return performance over 5 years[1]



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

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

Strategic Report: Chairman's Statement (continued)

Performance

As mentioned above, the Company's total return NAV rose 13.5% over the 12 months to 30 April 2021. The share price total return was 10.7% underperforming the NAV appreciation due to a widening discount. We continue to maintain the dividend rate of 4.40p per share and managed to add to our modest revenue reserve. The NAV total return outperformed the existing benchmark by 11.3%, however when compared to the replacement benchmark, it underperformed by -2.0%.

This underperformance reflected the timing of the Company's year end. The asset value of the Company's portfolio rallied earlier and further than the benchmark. As a consequence, this outperformance was captured in last year's numbers when the portfolio outperformed the benchmark by 6.8%. The Fund Managers believe they have a bias towards higher quality, sustainable businesses which were better equipped to face the challenge of COVID. In their view much of the performance this year has been driven by late rallying, low quality cyclicals which they do not believe are appropriate for the Company.

Investors should not view the benchmark as a target return for the Company to achieve. Your Fund Managers are committed to active management of the portfolio, concentrating on companies which fit with their objective of generating "sensible income". The benchmark is however useful in demonstrating the relative risk and return characteristics of the portfolio.

Dividends

For the year ended 30 April 2021, a third interim dividend of 1.10p per share was paid on 31 March 2021 and a fourth interim dividend of 1.10p per share was paid on 30 June 2021 making a total of 4.40p per share for the year, in line with our expectations. These dividends have been paid as interest distributions for UK tax purposes.

Buying Back Shares

The Board has set a policy that gives discretion to the Fund Managers to buy-back the Company's shares, if at any stage the shares are trading at a discount to net asset value at a level which is thought to be more attractive than any risk adjusted return they would be able to find in the market.

In March 2021 the Company repurchased 51,207 shares and a further 1,210,000 shares were bought back on 30 June 2021. These buy-backs were in response to acute discount volatility which was exacerbated by the selling down of the Company's shares by some advisory clients.

Share buy-backs in these circumstances are considered by the Board to be in the best interests of shareholders as they reduce the discount to net asset value and provide liquidity to the market in the Company's shares.

AGM and Adoption of New Articles of Association

Given the level of uncertainty surrounding the Delta variant of the virus, and the potential delay this could continue to cause to the UK Government's lifting of restrictions, the Board has taken the decision at this time to restrict attendance at this year's AGM to a small number of attendees comprising only the required quorum and anyone else whose attendance is necessary for the conduct of the meeting. The AGM will take place at 11.00am on Thursday, 16 September 2021 at 201 Bishopsgate, London EC2M 3AE.

The Board therefore invite shareholders to attend a webinar presentation this year using the conferencing software Zoom which will take place at 11.00am on Thursday, 9 September 2021. This will allow you to be present for the usual presentation from your Fund Managers, John Pattullo and Jenna Barnard, and will enable you to ask questions and debate with your Fund Managers and Board.

To attend the webinar presentation please register in advance at this link, entering your shareholder details: **https://jhi.zoom.us/webinar/register/WN_-1sgh5K7RVWHd69oWmjGIQ.**

You will then receive a dedicated invitation to join the webinar.

Voting at this year's AGM will be conducted on a poll among the directors, rather than on a show of hands, with the Chairman of the AGM holding the proxy votes. We therefore request all shareholders to submit their votes by proxy, ahead of the deadline of 11.00am on Tuesday, 14 September 2021, to ensure that their vote counts. If you hold your shares in a nominee account, such as through a share dealing service or platform, you will need to contact your provider and ask them to submit the proxy votes on your behalf.

The Board commits to holding physical meetings in future when restrictions are not in place and these can be held safely, and the Board would be delighted to hold an in-person AGM this year if circumstances allow.

Any change to the format of the AGM will be notified to shareholders via a Regulatory Information Service announcement and the Company's website.

In case of any further extraordinary crises such as the COVID-19 pandemic, the Company is putting a proposed amendment to the Company's Articles of Association to shareholders this year to give the Company flexibility to hold virtual and/or physical shareholder meetings in future, as necessary. Please refer to the Report of the Directors' on pages 47 to 49 for further details.

Outlook

The main focus of currency and fixed income markets is inflation. Expectations differ as to whether the current inflationary pressures spiral into a return of an environment of higher inflation. The market seems happy to price in negative real returns from high quality bonds for the moment, however should policy makers be forced to act this could have a significant impact on asset prices.

The Fund Managers remain cautiously optimistic. Their central thesis is of a return to disinflationary pressures crushing the inflationary impetus. During my time on the Board they have been consistently right on this, however we are once again in uncharted territory. I am comforted that they have shown the ability, should the facts change, to change their mind but in the short-term this could cause considerable volatility in asset prices.

Angus Macpherson
Chairman
5 July 2021

Fund Managers' Report

John Pattullo

Jenna Barnard

Strategic Report: Fund Managers' Report

Performance

The Company's net asset value total return rose 13.5% over the 12 months to 30 April 2021 outperforming the existing benchmark (three month sterling LIBOR +2%) which returned 2.2% and slightly underperforming the replacement benchmark 60% Global High Yield Credit (ICE Bank of America Global High Yield Constrained Index), 25% Global Investment Grade Corporate Credit (ICE Bank of America Global BBB Corporate Bond Index) and 15% European Loans (Credit Suisse Western European Leveraged Loan Index) which returned 15.5%. The share price total return was 10.7% reflecting a widening discount as private investors favoured equity income over bond income. We continue to maintain the total annual dividend at 4.40p per share and managed to add to our modest revenue reserve.

Macro Background

In many ways the period under review was fairly easy to navigate. The global COVID fiscal and monetary stimulus continued supporting markets fantastically well. The period was entirely about credit repair, recovery and reflation. The war on COVID led to extraordinary support which was hugely beneficial to the corporate bonds we hold in this Company. In fact, given that COVID was not anybody's fault it is arguably unlikely we will ever see such widespread support for corporate bonds ever again. In early April 2020 (before the start of this financial year), the Fed crossed the Rubicon and announced they would start buying corporate bonds and ETFs. This was the ultimate signal to "not fight the Fed." In reality they only bought a tiny $14bn of corporate bonds as market participants, knowing they had an explicit backstop support, wanted to front run them. Unlike previous crises we have endured this essentially meant that the investment grade and high yield markets were open for business – open at a price, but open.

Many large investment grade businesses tapped the markets for precautionary reasons to bullet proof their balance sheets. 2020 was a period of record issuance and record spread levels and volatility. US investment grade spreads peaked at a scary 4% over Treasury yields in late March 2020 and rallied with frightening speed to only 0.9% - reassuringly expensive, again at 30 April 2021. The chart below shows the extraordinary volatility in both investment grade and high yield spreads; the snap back in spreads was the fastest on record and was further compounded in the Autumn of 2020 by the exceptionally positive vaccine news and then the market friendly US election result. As mentioned last year we increased gearing where possible to lock in some of these scarily wide corporate bond yields. As the markets matured we then saw more desperate high yield issuers tap the markets – Carnival Cruises has in some ways become the poster child in this crisis for rescue bridging finance - indeed they have raised loans, secured bonds, unsecured bonds, convertible and ordinary equity many times in the last year. Other distressed issues followed suit in names such as AMC Cinemas and Six Flags.

Don't fight the Fed

US High Yield and Investment Grade Bond Spreads, 2020 to Present Day

Source: BAML Indices, Bloomberg

Strategic Report: Fund Managers' Report (continued)

The EU and UK Government's demonstrated extraordinary levels of state support to vital sectors such as autos, airlines, travel companies etc. These businesses were considered too big to fail. There was of course unprecedented support to employees on furlough type schemes. Governments were desperate to avoid a depression and by using enormous transfer payments they kept money moving around the economy. Life was of course much tougher for smaller businesses who do not have access to financing so easily. Unlike "normal" recessions we have not seen a dramatic fall in incomes nor a rise in unemployment. In addition, we have seen significant demand for physical goods for the home offset by the collapse in demand for services. The COVID crisis has widened inequality between large cap and small businesses but also between wealthy and employed and those less fortunate. The wealthy and retired have been forced savers whilst low income groups have had to borrow to survive. US high yield default rates have been surprisingly low – they peaked around 5.9% in May; with many of the problems in highly cyclical and highly levered sectors such as energy and retail. Projected defaults, per Credit Suisse for the next 12 months are a paltry 2.5%.

Asset Allocation and Stock Selection

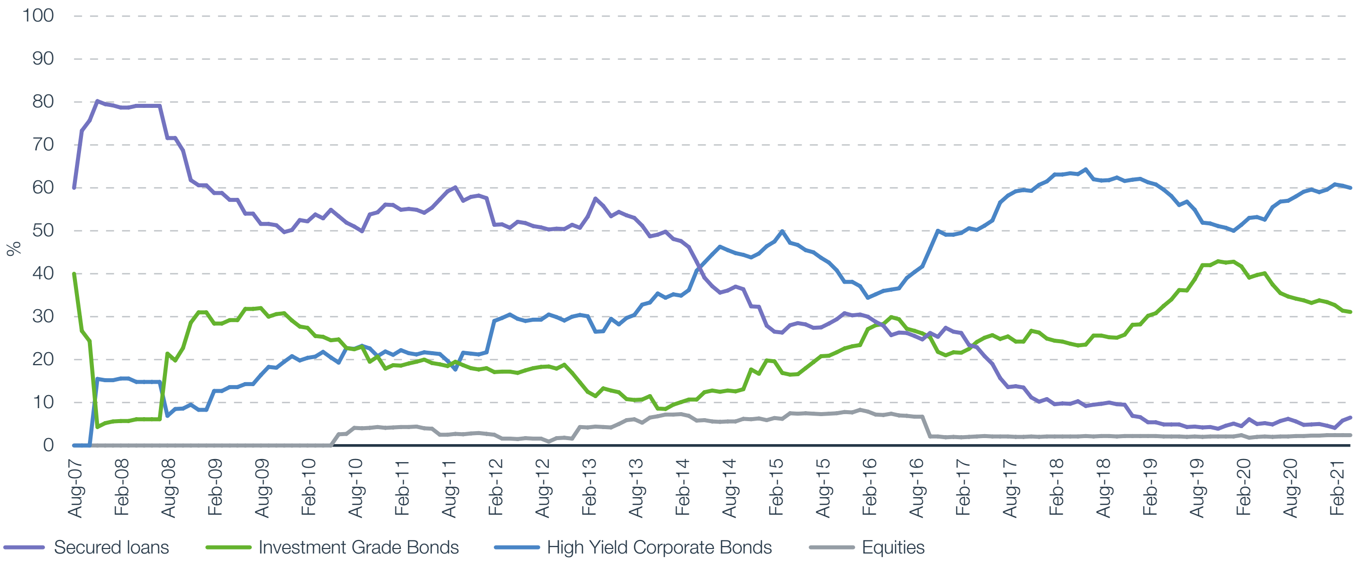
We tend to run approximately 20-25% gearing as a neutral level being a combination of financial gearing (borrowing money and investing at a better yield than the cost of the debt) and synthetic gearing (the use of credit derivatives). As discussed in last year's review we increased this into the eye of the storm in March/April 2020. We were able to add risk profitably whilst many others were forced to reduce gearing, a benefit of our closed-end structure. The gearing has been run at above average levels for much of the period but was reduced into the summer period as valuations returned to more normal levels.

In addition, over the period we broadly rotated our better quality investment grade bonds into shorter duration, but higher yielding, high yield bonds as the recovery progressed.

New high yield bonds were bought in both the primary and secondary markets. In keeping with our sensible income philosophy, we favoured larger, less cyclical modern day facing businesses which have a reason to exist in the post COVID era. Some examples include Virgin Media, Davita, Rackspace Technology, Sirius, Broadcom, Avantor, Black Knight, Crowdstrike & Expedia. A lot of these names tend to be American based global technology companies specialising in the modern economy in areas such as media/cable tv, cloud infrastructure, cyber security and payment processing. These businesses are of significant size and proven for the digital age. We feel shareholders are much better served by our holding the bonds of such companies rather than scraping around in the much smaller and illiquid, old world analogue UK based high yield market.

There are, of course, obvious exceptions, but as a rule we continue to be attracted to the size, depth, breadth and diversity of the US corporate bond markets. Having said that, certain European financials also offer good value. We added some junior banking and insurance bonds to enhance the yield of the portfolio in names such as RBS, Lloyds, Aviva, Direct Line Insurance, ING, Rabobank and Barclays. The banks have had a remarkably good crisis – they went into this period with record levels of capital; they over-provisioned early in the crisis, making prudent use of the more flexible accounting rules. In addition, they have greatly benefitted from the direct and indirect Government support schemes aimed at the UK housing markets and company support schemes. Finally, we have added a little to our loan holdings – although the all in yield is not overly attractive, they do add some diversification and low beta carry to the portfolio.

Asset allocation over time



Source: Janus Henderson Investors, as at 30 April 2021

Strategic Report: Fund Managers' Report (continued)

Environmental, Social and Governance (ESG)

Shareholders will be aware of our bias to large cap, non-cyclical, reason to exist and high cash flow return companies. This was discussed extensively in last year's Annual Report. In equities language these would be labelled as growth companies. We have always focused on doing the right thing as we allocate shareholders capital. We, as a management team are in it for the long haul. If you like we are playing an infinite game and hence when we invest not only do we want to invest in sustainable companies but also resilient companies, which should survive and prosper going forward. We ensure that the companies we invest in look after all their stakeholders – that is they not only respect the environment but also their employees, suppliers, customers, bond holders and shareholders, amongst others.

Short-term management teams that focus on a quick buck, polluting one stakeholder over another get little attention from us. By only focusing on resilient businesses, we exclude those businesses which have high operational and financial leverage. We have for example always avoided energy, airlines, miners and autos. These businesses rarely achieve a return on capital, higher than their cost of capital and hence do not merit our attention. We monitor and engage regarding ESG. It is one of the largest macro trends we have ever seen. We have an internal rating system to facilitate this. We also take some comfort from an external third-party system as well which shows our portfolio is well positioned in this regard. This is an evolving and growing focus and we will be enhancing our reporting in this area in due course.

Outlook

Volatility and measures of distress in credit markets are at 15 year lows. Credit markets are priced tight but arguably fairly given the remarkably benign outlook. In this market it is more important than ever that we keep focused on sensible income and not get drawn to illusory "fools yield" bonds where the yield is so high you are almost guaranteed to lose capital. We are very mindful of value traps, illiquid, esoteric and exotic credits. The COVID crisis accelerated many of the existing structural themes we have spoken about in previous reports and if anything, in the longer term we see a more deflationary world. We completely understand the markets obsession with inflation but feel it is predominately a cyclical and transitory phenomenon. The modest rise in bond yields may well give us an opportunity to lock in higher yields for shareholders and, reassuringly, in the current environment we feel the annual dividend remains secure.

John Pattullo & Jenna Barnard
Fund Managers
5 July 2021

Portfolio and Financial Information

Strategic Report: Investment Portfolio as at 30 April 2021

High Yield Bonds[1]

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Virgin Media	£/$	UK	Communications	4,390	2.17
Co-Operative Group	£	UK	Consumer non-cyclical	4,314	2.13
Phoenix	£	UK	Financials	4,279	2.12
IMS	$	US	Technology	3,958	1.96
Sirius	$	US	Communications	3,843	1.90
Royal Bank of Scotland	$	UK	Financials	3,811	1.89
Barclays	£/$	UK	Financials	3,660	1.81
Ardagh	Euro/$	Ireland	Industrials	3,552	1.76
Altice	$	US	Communications	3,415	1.69
Restaurants Brands International	$	US	Consumer cyclical	3,372	1.67
Service Corp	$	US	Consumer non-cyclical	3,321	1.64
CSC	$	US	Communications	3,213	1.59
Ziggo	$	US	Communications	2,833	1.40
Aramark	$	US	Consumer cyclical	2,681	1.33
Lloyds Group	£/$	UK	Financials	2,585	1.28
T-Mobile	$	US	Communications	2,221	1.10
Galaxy	£	UK	Financials	2,189	1.08
Vertical	Euro/$	Germany	Industrials	2,165	1.07
CPUK Finance	£	UK	Consumer cyclical	2,151	1.06
CCO	$	US	Communications	2,148	1.06
Elanco	$	US	Consumer non-cyclical	2,104	1.04
Cott	$	Canada	Consumer non-cyclical	2,100	1.04
TransDigm	$	US	Industrials	1,984	0.98
Yum!	$	US	Consumer cyclical	1,889	0.93
Verisure	Euro	Sweden	Consumer non-cyclical	1,864	0.92
GLP	$	US	Utilities	1,813	0.90
Davita	$	US	Consumer non-cyclical	1,760	0.87
Direct Line Insurance	£	UK	Financials	1,724	0.85
Post	$	US	Consumer non-cyclical	1,717	0.85
HCA	$	US	Consumer non-cyclical	1,659	0.82
Bacardi	$	Bermuda	Consumer non-cyclical	1,629	0.81
Avantor	$	US	Consumer non-cyclical	1,622	0.80
Charter Communications	$	US	Communications	1,598	0.79
Sunshine	Euro	Netherlands	Consumer non-cyclical	1,596	0.79
Boxer	Euro	US	Technology	1,528	0.76
Lamb	$	US	Consumer non-cyclical	1,495	0.74
Lorca	Euro	Spain	Communications	1,434	0.71
Kraft	$	US	Consumer non-cyclical	1,380	0.68
Santander	£	UK	Financials	1,379	0.68
Iron Mountain	$	US	Financials	1,356	0.67
Crown	$	US	Industrials	1,348	0.67
Boyd	$	US	Consumer cyclical	1,337	0.66
KBC	Euro	Belgium	Financials	1,292	0.64
Arches	$	US	Communications	1,269	0.63
Match	$	US	Communications	1,262	0.63
Stars	$	US	Consumer cyclical	1,184	0.59
MSCI	$	US	Technology	1,141	0.56
Sensata	$	US	Industrials	1,090	0.54
Vici	$	US	Financials	1,056	0.52
Black Knight	$	US	Technology	1,037	0.51
Laboratoire	Euro	France	Consumer non-cyclical	1,015	0.50
Camelot	$	US	Technology	1,011	0.50
IPD	Euro	Netherlands	Consumer non-cyclical	983	0.49
Herens	Euro/$	Luxembourg	Basic Materials	959	0.47
Centene	$	US	Consumer non-cyclical	957	0.47
Cable One	$	US	Communications	906	0.45

1 Please refer to the Glossary on pages 80 to 81

Strategic Report: Investment Portfolio as at 30 April 2021 (continued)

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Iceland	£	UK	Consumer non-cyclical	897	0.45
Trivium	$	US	Industrial	889	0.44
ELM	Euro	Netherlands	Basic Materials	881	0.44
Station	$	US	Consumer cyclical	878	0.44
Rackspace Technology	$	US	Technology	877	0.44
UBS	$	Switzerland	Financials	797	0.40
KFC	$	US	Consumer cyclical	787	0.39
Catalent	Euro/$	US	Consumer non-cyclical	751	0.37
Front Range	$	US	Communications	729	0.36
WMG	$	US	Consumer cyclical	713	0.35
VMED	£	UK	Communications	710	0.35
Zi Tech	$	US	Technology	690	0.34
Pilgram	$	US	Financials	645	0.32
LPL	$	US	Consumer non-cyclical	532	0.26
ING	$	Netherlands	Financials	522	0.26
Twitter	$	US	Communications	448	0.22
SBA Communications	$	US	Financials	422	0.21
Crowdstrike	$	US	Technology	410	0.20
Synlab	Euro	UK	Consumer non-cyclical	342	0.17
Iheartcommunications	$	US	Communications	306	0.15
QORVO	$	US	Technology	293	0.14
Motion Bondco	Euro/$	UK	Consumer cyclical	284	0.14
Gartner	$	US	Consumer non-cyclical	229	0.11
Cab Selas	Euro	France	Consumer non-cyclical	199	0.10
Canpack	$	Poland	Industrials	198	0.10
International Game Technology	$	US	Consumer cyclical	171	0.08
Ball	$	US	Industrials	148	0.07
Lamar	$	US	Communications	123	0.06
Total High Yield Bonds				**130,450**	**64.53**

Asset Backed Securities[1]

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Tesco Property Finance	£	UK	Consumer non-cyclical	1,687	0.83
Total Asset Backed Securities				**1,687**	**0.83**

Preference Stock[1]

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Nationwide Building Society	£	UK	Financials	4,762	2.36
Rabobank	Euro	Netherlands	Financials	2,715	1.34
Total Preference Stock				**7,477**	**3.70**

1 Please refer to the Glossary on pages 80 to 81

Strategic Report: Investment Portfolio as at 30 April 2021 (continued)

Investment Grade Bonds[1]

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Verizon Communications	$/AUD	US	Communications	4,461	2.21
Crown Castle	$	US	Industrials	4,039	2.00
BUPA	£	UK	Financials	2,844	1.41
Anheuser	$	US	Consumer non-cyclical	2,457	1.22
Comcast	$	US	Communications	2,103	1.04
Diamond	$	US	Technology	2,084	1.03
Broadcom	$	US	Technology	2,028	1.00
Axa	£	France	Financials	1,889	0.93
Hasbro	$	US	Consumer cyclical	1,799	0.89
Tesco	£	UK	Consumer non-cyclical	1,741	0.86
UBS	$	Switzerland	Financials	1,665	0.82
VMware	$	US	Technology	1,656	0.82
Becton Dickson	$	US	Consumer non-cyclical	1,551	0.77
Mcdonald's	$	US	Consumer cyclical	1,319	0.65
Lloyds Group	£	UK	Financials	1,300	0.64
Scottish Widows	£	UK	Financials	1,248	0.62
IHS	$	US	Consumer non-cyclical	1,199	0.59
Equinix	$	US	Financials	1,151	0.57
Expedia	$	US	Communications	1,043	0.52
Boston Scientific	$	US	Consumer non-cyclical	986	0.49
ING	$	US	Financials	874	0.43
Aviva	£	UK	Financials	852	0.42
Constellation Brands	$	US	Consumer non-cyclical	837	0.41
Marriott	$	US	Consumer cyclical	829	0.41
Sysco	$	US	Consumer non-cyclical	783	0.39
Nutrition	$	US	Basic Materials	775	0.38
GBL	$	US	Financials	761	0.38
Royal Bank of Scotland	$	UK	Financials	750	0.37
T-Mobile	$	US	Communications	736	0.36
Dell	$	US	Technology	675	0.33
HCA	$	US	Consumer non-cyclical	651	0.32
Digital Reality	$	US	Financials	646	0.32
American Tower	$	US	Financials	463	0.23
BNP Paribas	$	France	Financials	455	0.23
Direct Line Insurance	£	UK	Financials	223	0.11
Swiss Finance	$	Switzerland	Financials	163	0.08
Legal & General	£	UK	Financials	135	0.07
Thermo	$	US	Consumer non-cyclical	32	0.02
Total Investment Grade Bonds				**49,203**	**24.34**

1 Please refer to the Glossary on pages 80 to 81

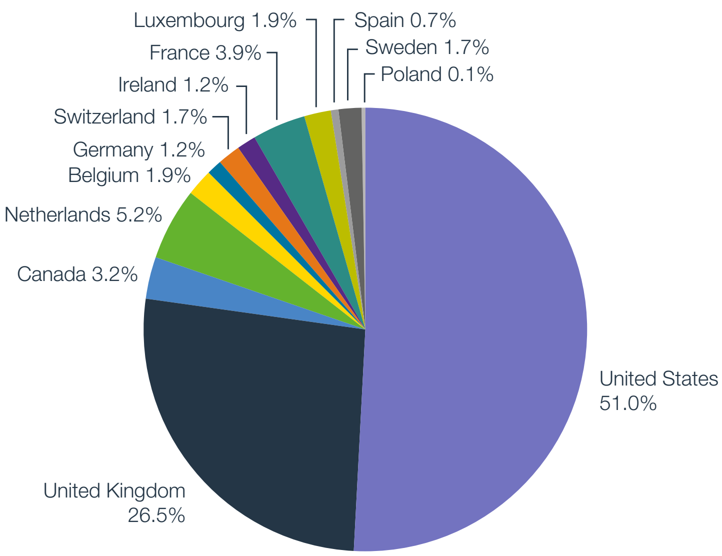
Strategic Report: Investment Portfolio as at 30 April 2021 (continued)

Secured Loans[1]

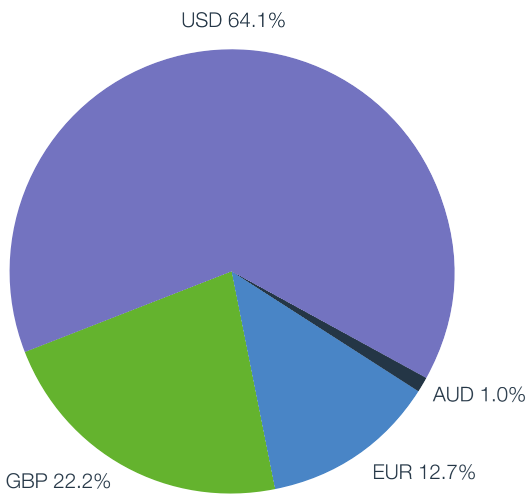
Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
McAfee	Euro/$	US	Technology	2,083	1.03
ION	Euro/$	UK	Communications	2,011	0.99
RSA	$	US	Technology	1,387	0.69
IVC	£	UK	Consumer non-cyclical	1,379	0.68
LGC	Euro/$	UK	Consumer non-cyclical	1,150	0.57
Recipharm	Euro	Sweden	Consumer non-cyclical	1,102	0.55
Stars	$	US	Consumer cyclical	854	0.42
Athenahealth	$	US	Technology	747	0.37
Synlab	Euro	UK	Consumer non-cyclical	658	0.33
Triton Water	$	Spain	Consumer non-cyclical	498	0.25
Biogroup	Euro	France	Consumer non-cyclical	432	0.21
Realpage	$	US	Technology	406	0.20
IFS	$	Sweden	Financials	378	0.19
Zaxby's	$	US	Consumer cyclical	250	0.12
Total Secured Loans				**13,335**	**6.60**
Total Investments				**202,152**	**100.00**

Portfolio Composition

Country of risk breakdown



Pre-hedging currency breakdown[2]



Source: Janus Henderson Investors, as at 30 April 2021
Note: Totals may not add up to 100 due to rounding

Credit Default Swaps[1]

Investments by value	Currency	Market value £'000
CDX REC 20/12/2025 CG CDE9 – 4.9333% EUR ITRAXX-XOVER	Euro	14,634
CDX REC 20/12/2025 CG CDEA – 4.9333% EUR ITRAXX-XOVER	Euro	12,683
CDX PAY 20/12/2025 CG CDE9 – ITRAXX-XOVER EUR SELL PROT	Euro	(13,042)
CDX PAY 20/12/2025 CG CDEA – ITRAXX-XOVER EUR SELL PROT	Euro	(11,303)
Total Credit Default Swaps		**2,972**

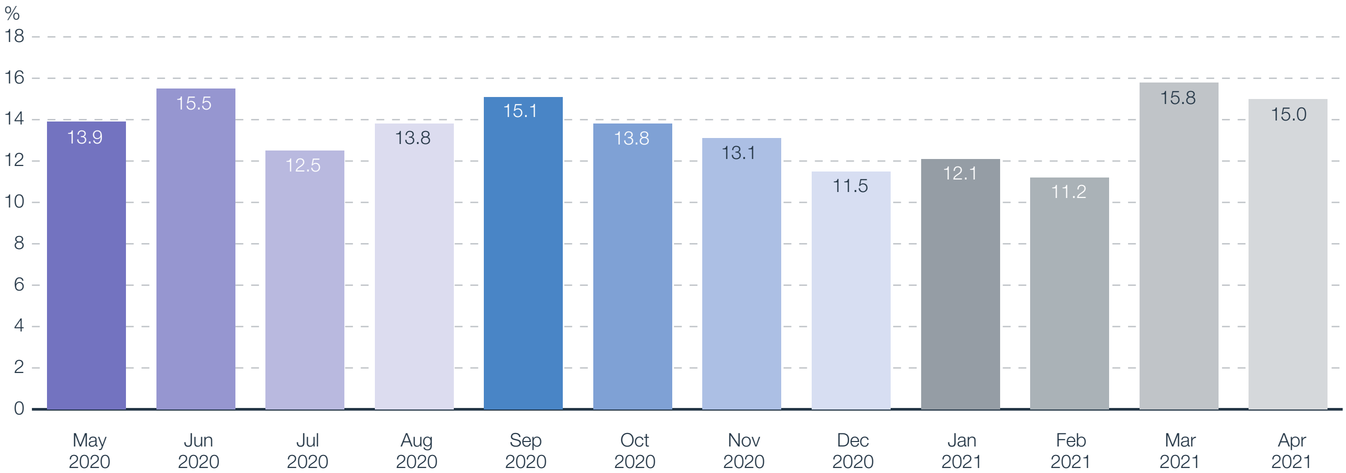
1 Please refer to the Glossary on pages 80 to 81
2 The portfolio is typically fully hedged back to sterling. Post-hedging portfolio is 99.5% hedged back to sterling. Cash & derivatives excluded from above breakdowns

Strategic Report: Portfolio Information

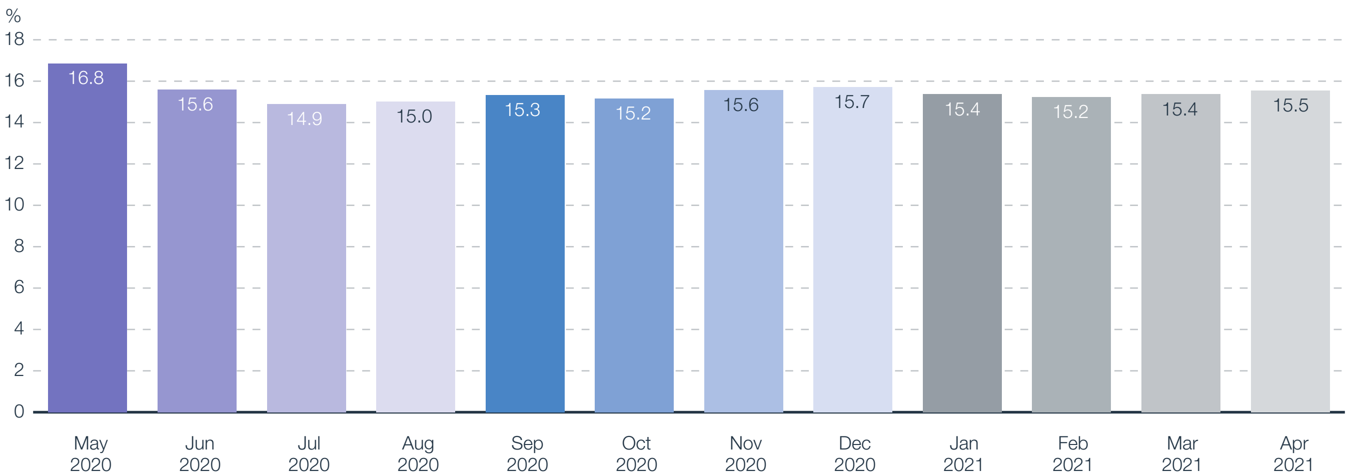
Ten Largest Investments at 30 April 2021

Ranking 2021 (2020)	Investment	Country	Industry	Market value £'000	% of portfolio
1 (13)	Nationwide Building Society	UK	Financials	4,762	2.36
2 (36)	Royal Bank of Scotland	UK	Financials	4,561	2.26
3 (5)	Verizon Communications	US	Communications	4,461	2.21
4 (31)	Virgin Media	UK	Communications	4,390	2.17
5 (12)	Co-Operative Group	UK	Consumer non-cyclical	4,314	2.13
6 (11)	Phoenix	UK	Financials	4,279	2.12
7 (6)	Crown Castle	US	Industrials	4,039	2.00
8 (8)	IMS	US	Technology	3,958	1.96
9 (17)	Lloyds Group	UK	Financials	3,885	1.92
10 (7)	Sirius	US	Communications	3,843	1.90

Financial Gearing Levels to 30 April 2021



Synthetic Gearing Levels to 30 April 2021



Source: Janus Henderson Investors

Strategic Report: Historical Performance and Financial Information

The year end of your Company is 30 April, which is different to the predecessor company which had a year end of 31 October.

The directors believe that it is important to report the long-term historic performance of the predecessor company alongside the Company's performance. As at 27 April 2017 the shareholders in the Company were the same as the shareholders in the predecessor company and each held the same number of ordinary shares in the Company as they held in the predecessor company as at 25 April 2017.

The data reported below for periods prior to 27 April 2017 is in respect of the predecessor company.

Total Return Performance

	1 year %	3 years %	5 years %
NAV[1]	+13.5	+22.1	+35.5
Share price[2]	+10.7	+11.3	+27.6
Benchmark[3]	+2.2	+7.9	+13.3
Replacement Benchmark[4]	+15.5	+15.8	+29.8

Source: Morningstar for the AIC
1 Net asset value (NAV) total return (including dividends reinvested and excluding transaction costs)
2 The share price total return using mid-market closing price
3 The benchmark is the average return on a rolling annual basis of three month sterling LIBOR + 2%
4 60% Global High Yield Credit (ICE Bank of America Global High Yield Constrained Index), 25% Global Investment Grade Corporate Credit (ICE Bank of America Global BBB Corporate Bond Index) and 15% European Loans (Credit Suisse Western European Leveraged Loan Index). Please refer to the Chairman's Statement on pages 5 to 7 for further information

Financial Information

Date	Net assets £'000	NAV p	Share price p	Premium/(discount) %
30 April 2017[5]	162,768	89.3	91.3	2.2
30 April 2018	165,799	87.4	91.8	5.0
30 April 2019	164,618	86.8	90.8	4.6
30 April 2020	162,624	85.0	83.0	(2.4)
30 April 2021	**175,720**	**91.9**	**88.0**	**(4.2)**

5 Financial information for 30 April 2017 is sourced from the Association of Investment Companies

Dividend History

Date	Pence per share
Period 1 November 2016 to 30 April 2018[6]	7.05
Year to 30 April 2019	4.40
Year to 30 April 2020	4.40
Year to 30 April 2021	**4.40**

6 During 2017/2018, the Company changed its year end to 30 April (from 31 October) following the redomicile to the United Kingdom. Six dividends were paid in the 18 month period from 1 November 2016 to 30 April 2018, comprising two dividends totalling 2.50p per share from Henderson Diversified Income Limited and four interest distributions from Henderson Diversified Income Trust plc totalling 4.55p per share

Business Model

Strategic Report: Business Model

Purpose and Strategy

The Company's purpose is to provide shareholders with a high level of income whilst at the same time preserving capital growth over the long-term.

The Company aims to deliver this outcome by investing in a diversified portfolio of global fixed and floating rate income assets. It may also invest in high yielding equities and derivatives.

Investment strategy is delegated to the Manager within the parameters determined by the Board and approved by shareholders.

Investment Objective and Policy

The current investment objective and policy and the proposed new investment objective and policy are set out below. Please refer to the Chairman's Statement on pages 5 to 7 for further details about the proposed changes.

Current Investment Objective and Policy

Objective

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

Investment policy

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

The Company may also invest in high yielding equities and derivatives.

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

The Company has adopted the following allocation limits:

- secured loans 0 to 100% of gross assets
- government bonds 0 to 100% of gross assets
- investment grade bonds 0 to 100% of gross assets
- high yield corporate bonds 0 to 100% of gross assets
- unrated corporate bonds 0 to 10% of gross assets
- asset backed securities 0 to 40% of gross assets
- high yielding equities 0 to 10% of gross assets

As a matter of policy, the Company will not invest more than 10% in aggregate of its net assets in a single corporate issue or issuer.

The Company may use financial instruments known as derivatives to enhance returns. They may also be used to reduce risk or to manage the Company's assets more efficiently. The use of derivatives may include credit derivatives (including credit default swaps) in addition to interest rate futures, interest rate swaps and forward currency contracts. The credit derivatives, interest rate futures and swaps are used to take a synthetic exposure to, or to hedge, an

Proposed Investment Objective and Policy

Objective

The Company's investment objective is to seek a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes.

Investment policy

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

The Company has adopted the following allocation limits for each asset class:

- secured loans 0 to 100% of gross assets
- government bonds 0 to 100% of gross assets
- investment grade bonds 0 to 100% of gross assets
- high yield (sub-investment grade) corporate bonds 0 to 100% of gross assets
- unrated corporate bonds 0 to 10% of gross assets
- asset backed securities 0 to 40% of gross assets
- high yielding equities 0 to 10% of gross assets

As a matter of policy, the Company will not invest more than 10% in aggregate of its net assets in a single corporate issue or issuer.

The Company may use financial instruments known as derivatives to enhance returns. They may also be used to reduce risk or to manage the Company's assets more efficiently. The use of derivatives may include credit derivatives (including credit default swaps) in addition to interest rate futures, interest rate swaps and forward currency contracts.

Strategic Report: Business Model (continued)

Current Investment Objective and Policy (continued)	**Proposed Investment Objective and Policy** (continued)
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 derivatives is capped at a maximum net long or net short position of 40% of net assets. The Company may also employ financial gearing for efficient portfolio management purposes and to enhance investment returns but total gearing (both financial gearing and synthetic gearing combined) may not exceed 40% of net assets. Forward currency contracts are used to hedge other currencies back to sterling. Any material change to the investment policy of the Company will only be made with the approval of shareholders.	The credit derivatives, interest rate futures and swaps are used 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 derivatives is capped at a maximum net long or net short position of 40% of net assets. The Company may also employ financial gearing for efficient portfolio management purposes and to enhance investment returns but total gearing (both financial gearing and synthetic gearing combined) may not exceed 40% of net assets. Forward currency contracts are used to hedge other currencies back to sterling. Any material change to the investment policy of the Company will only be made with the approval of shareholders.

Company Structure

The Company operates as an investment company with a Board of Directors (Board) who delegate investment and operational matters to specialist third-party service providers. Their performance is monitored and challenged by the Board who retain oversight of the Company's operations. The Board is comprised entirely of non-executive directors accountable to shareholders, who have the ability to remove a director from office where they deem it to be in the interests of the Company. The Company and the Board are governed by the Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The framework of delegation provides a cost-effective mechanism for achieving the Company's objectives under section 1158/9 of the Corporation Tax Act 2010 (s.1158/9). The closed-ended nature of the Company enables the Fund Managers to take a longer term view on investments. It also supports a fully invested portfolio as the Company does not have to maintain or create sufficient cash balances to satisfy investor redemptions.

The Company's shares are listed on the Main Market of the London Stock Exchange and the Company is subject to the Listing Rules, Prospectus Rules and the Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority (FCA).

Investment trusts have two significant advantages over other investment fund structures: firstly, the ability to pay dividends out of revenue reserves to support the provision of income to shareholders, as necessary, and secondly, the ability to borrow to increase potential returns for shareholders.

Income

The investment objective underpins the Company's dividend policy, which is to pay quarterly interim dividends. When deciding on whether to pay each quarterly interim dividend, the Board has regard to the current and the forecast levels of income.

Borrowings

On 13 August 2020 the Company entered into a 1-year loan facility with BNP Paribas Securities Services (BNPPSS) which allows it to borrow up to £45.5 million (£35.5 million with an additional £10.0 million commitment being available). On 1 July 2021 the Company agreed a 1-year extension to its loan facility which will expire on 30 June 2022.

At 30 April 2021 the Company had drawn down £26.1 million (2020: £32.6 million (under the previous loan facility with ScotiaBank Europe plc that expired on 14 August 2020)). The maximum amount drawn down in the year was £33.3 million (2020: £34.7 million), with borrowing costs including interest for the year totalling £332,000 (2020: £465,000).

Benefits

The Company's business model offers numerous advantages:

- it provides investors with access to a professionally and actively managed portfolio of assets;
- it enhances returns to investors by operating as an approved investment trust meaning no capital gains tax is paid on the realisation of investments;
- the closed-end structure allows the Fund Managers to take a longer term view on investments and remain fully invested;
- the ability to use leverage to increase returns for investors; and
- oversight by a Board of Directors wholly independent of the investment manager.

Section 172(1) Statement

The statutory duties of the directors are set out in s171-177 of the Companies Act 2006. Under s.172, directors have a duty to promote the success of the Company for the benefit of its members (shareholders) as a whole and in doing so have regard to the matters set out in s.172(1), which include the consequences of any decision in the long-term and the

Strategic Report: Business Model (continued)

interests of the Company's stakeholders, amongst other considerations. The fulfilment of this duty not only helps the Company achieve its investment objective but ensures decisions are made in a responsible and sustainable way for its shareholders and wider stakeholders.

Principal Decisions

The directors take into account the s172 considerations in all material decisions of the Company. Examples of this can be seen in the year under review as follows.

Changes to the Investment Objective and Policy and Replacement Benchmark

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

The Board thinks that this index better reflects the risk profile and returns of the instruments in which the Company invests and is therefore in the best interests of the Company and its shareholders.

A resolution will therefore be put to shareholders at the 2021 AGM to approve the change to the Company's investment objective. Other minor amendments to the investment policy are also proposed. The current investment objective and policy and the proposed new investment objective and policy are set out in full on pages 19 to 20. There will be no imminent or future change in the Company's investment process or strategy as a result of the amendments to the investment objective and policy.

Buying Back the Company's Shares

Please refer to the Chairman's Statement on pages 5 to 7 and Share Capital on page 47 for further details.

Dividends Paid to Shareholders

The Board recognises the importance of income to its shareholders and are pleased to report that it was able to approve the payment of a covered dividend of 4.40p per share in total for the year under review.

Values and Culture

As the Company has no employees, the culture of the Company is embodied in the Board. The Board has a strong commitment to consultative and collaborative engagement with stakeholders. The Board prioritises diversity and inclusion, treating colleagues and shareholders with respect, and ensuring the directors remain open-minded about, and available to discuss concerns, challenge and enquire about the operation of the Company.

Strategic Report: Business Model (continued)

Engagement and Communication with Stakeholders

The following tables set out the Company's key stakeholders and how the directors and/or the Manager have engaged and communicated with them in the year under review.

Janus Henderson/Manager

Why is it important to engage with the Manager?	The Board is responsible for effectively monitoring the services provided by the Company's third-party suppliers on an ongoing basis. The principal outsourced arrangement is the investment management service which is provided by Janus Henderson. As the Manager holds the overall day-to-day relationship with the Company's other third-party suppliers the Board places reliance on the Manager in this regard.
How do directors and/or the Manager engage?	The Board receives timely and accurate information from the Manager at meetings and engages with the Fund Managers and Corporate Secretary regularly between meetings.
	The Fund Managers, Corporate Secretary and Director and Head of Investment Trusts attend each Board meeting to discuss the portfolio, performance, governance and other matters. Other representatives of the Manager are available to attend when relevant and/or appropriate e.g. risk, internal audit, compliance, sales and marketing.
What were the key topics of engagement and what feedback was received?	On the advice of the Manager the Board has agreed a new replacement benchmark that the Board recognised as a better reflection of the risk profile and returns of the instruments in which the Company invests. Please refer to the Chairman's Statement on pages 5 to 7 for further details.
What has been the impact of the engagement?	The half year results that were released on 8 December 2020 and this report include performance data for both the existing and new replacement benchmark. Please refer to page 2 for details.

Shareholders/potential investors

Why is it important to engage with shareholders/ potential investors?	Directors have a statutory duty to promote the success of the Company for the benefit of its members (shareholders) as a whole. Continued shareholder support is crucial to the continued existence of the Company.
How do directors and/or the Manager engage?	The Board communicates with shareholders through the annual and half year reports, fact sheets and the website. In normal circumstances the Board meets with shareholders at the AGM and shareholders are invited to attend online if they cannot attend in person. There is also a presentation from the Fund Managers and Q&A session before the formal business of the AGM begins.
	The Company contributes to a focused investment companies marketing programme operated by the Manager on behalf of all the investment companies under its management. This enables some economies of scale as well as allocation of funds to support specific marketing activities for the Company. The Manager also co-ordinates public relations activity to promote the Company's strategy and outlook and raise the Company's profile with a broader range of potential new shareholders. The Manager works with JP Morgan Cazenove (Stockbroker) to plan meetings with shareholders and find speaking opportunities for the Fund Managers.
What were the key topics of engagement and what feedback was received?	Three key topics discussed with shareholders in the year under review were: 1. Liquidity 2. Dividend maintenance 3. Discount volatility As a result of this feedback the Board will consider the Company's marketing strategy in detail at the next strategy meeting with input from the Stockbroker and Janus Henderson.
What has been the impact of the engagement?	The Company is adapting its marketing strategy to focus on retail investors, as it recognises the liquidity issues its size creates for larger shareholders/wealth managers who are generally constrained by internal compliance rules. Please also refer to 'Dividends paid to shareholders' and 'Buying back the Company's shares' on page 21 for more detail about the impact of the engagement with shareholders/potential investors.

Strategic Report: Business Model (continued)

Service Providers

Why is it important to engage with service providers?	The Board is responsible for effectively monitoring the services provided by the Company's third-party suppliers on an ongoing basis.
How do directors and/or the Manager engage?	The Board reviews and monitors the arrangements in place with all the Company's third-party service providers at least annually. As the Manager manages the overall day-to-day relationship with the Company's other third-party suppliers, the Board places reliance on the Manager in this regard and is confident that the Manager has developed and maintains good working relationships with them.
	The Manager provided information and assurances to the Board at the beginning of the pandemic to confirm that all its employees (including the Fund Managers) could work from home without disruption to 'business as usual'. The Manager also contacted all the Company's third-party service providers to obtain similar confirmations, which were subsequently communicated to the Board.
What were the key topics of engagement and what feedback was received?	The Board meets with representatives of the Depositary and Custodian, and other service providers, as and when it is deemed necessary. In the year under review JP Morgan Cazenove (Stockbroker), Marten & Co (Sponsored Research), Computershare (Registrar) and BNPPSS (Depositary) were asked to provide a self-assessment covering value for money for the service provided and confirmation of adherence to the terms and conditions throughout the period. This report also confirmed that each service provider had appropriate corporate governance and environmental, social and governance policies, processes and procedures in place.
What has been the impact of the engagement?	The Board were reassured that the transition to new working arrangements at Janus Henderson and other service providers was seamless. They were also satisfied that high standards are maintained and that the internal control and risk management framework is operating effectively at Janus Henderson and the other service providers.

Stockbroker

Why is it important to engage with the Stockbroker?	The Stockbroker facilitates the issue and buy-back of the Company's shares to meet market demand and advises the Board on industry matters. The Stockbroker is therefore important in promoting the success of the Company.
How do directors and/or the Manager engage?	A representative of the Stockbroker attends each meeting to discuss a bespoke report covering topics such as discount/premium to net asset value, peer group activity and performance and opportunities for growth.
What were the key topics of engagement and what feedback was received?	The Stockbroker advised the Board on different types of funding options in June 2020 when the previous loan facility with ScotiaBank was due to expire and, as a result of the volatile market in response to the pandemic, traditional funding options became less attractive. The Stockbroker also undertakes a quarterly analysis of the share register and highlights changes/trends to the Board.
What has been the impact of the engagement?	The Company is adapting its marketing strategy to focus on retail investors as it recognises the liquidity issues its size creates for larger shareholders/wealth managers who are generally constrained by internal compliance rules.

Lender

Why is it important to engage with the lender?	One of the advantages of the investment trust structure over an open-ended fund is the ability to use gearing to enhance returns for shareholders. The Company's loan facility with BNPPSS assists the Company in meeting its shareholders' income requirements.
How do directors and/or the Manager engage?	In the year under review the Board considered indicative quotes from potential lenders and agreed to proceed with a 1-year loan facility with BNPPSS in August 2020 (to replace the previous facility held with ScotiaBank Europe plc), as the Board concluded that this was in the best interests of the Company and its shareholders. The Manager engaged with BNPPSS to ensure the new facility agreement ran effectively from an operational and legal perspective.

Strategic Report: Business Model (continued)

Lender

What were the key topics of engagement and what feedback was received?	The original loan facility agreement with BNPPSS contained Risk Free Rate (RFR) replacement language. As a result of the negotiations for the renewal loan facility agreement, the Company and BNPPSS agreed to a Sterling Overnight Index Average Rate (SONIA) as an alternative to LIBOR. SONIA does not include a term bank credit risk component so is a better measure of the general level of interest rates than LIBOR. Please refer to the Glossary on pages 80 to 81 for further details about SONIA and LIBOR.
What has been the impact of the engagement?	The new 1-year loan facility became effective on 1 July 2021 and will expire on 30 June 2022. The new facility has been entered into on better commercial terms and rates than the original loan facility.

Auditors

Why is it important to engage with the Auditors?	Shareholders rely on Auditors to independently verify the Company's financial statements and form a view on the going concern and viability statements contained therein. Mazars LLP (Mazars) were first appointed by shareholders at the 2020 AGM to conduct the audit for the year ended 30 April 2021.
How do directors and/or the Manager engage?	The Audit Committee considered the proposed audit plan from Mazars in December 2020 and agreed that the key audit matters for the year ended 30 April 2021 should be a) management override of controls, b) revenue recognition and c) valuation of investments.
What were the key topics of engagement and what feedback was received?	The Audit Committee Chairman, alongside the Corporate Secretary and the Financial Reporting Manager for Investment Trusts, held an audit planning meeting with Mazars ahead of the 2021 financial year end. Discussions centred around the proposed changes to the investment objective and policy, financial performance and updates, the going concern assessment, confirmations that the parties were not aware of any fraud or fraudulent activity and timeframes for completion of the audit.
What has been the impact of the engagement?	Mazars produced a high quality and satisfactory audit plan that was carried out effectively and efficiently. As a result, the Audit Committee recommended to the Board that Mazars be reappointed as the Company's Auditors for the year ended 30 April 2022. Please refer to the Report of the Audit Committee on pages 41 to 43 for further details.

Arrangements with the Manager

The Company qualifies as an Alternative Investment Fund in accordance with the Alternative Investment Fund Managers Directive. The Company has appointed Henderson Investment Funds Limited (HIFL) to act as its Alternative Investment Fund Manager (AIFM) in accordance with an agreement which has been effective from March 2017 and is terminable on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited, which acts as Manager. Both entities are wholly owned subsidiaries of Janus Henderson Group plc, referred to as Janus Henderson. Both entities are authorised and regulated by the FCA. References to Janus Henderson and the Manager within this report refer to the services provided by both entities.

The fund management team is led by John Pattullo and Jenna Barnard.

Janus Henderson and its subsidiaries also provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of the Manager, by BNPPSS. Henderson Secretarial Services Limited acts as the Corporate Secretary.

The investment management agreement with Janus Henderson to provide the services referred to above is reviewed annually by the Management Engagement Committee.

Management Fee

Janus Henderson receives a management fee of 0.65% per annum, calculated and paid quarterly in arrears on the value of the Company's net assets.

Managing Risks

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. The Board has considered the impact of COVID-19 on the Company and concluded that the current portfolio is in a strong position to weather the market with the Fund Managers' long standing philosophy of thematic investing, long-term duration management and "sensible income" credit investing. The Board will continue to monitor this position.

The Company is an investment trust and the Board is wholly non-executive. The Board has delegated many of its functions to third-party service suppliers including Janus Henderson and BNPPSS. However, certain risks and functions cannot be delegated and are retained by the Board.

The following summary identifies those risks and uncertainties that the Board believes are the most significant and explains whether, and if so how, they are mitigated. This reflects the Company's risk map.

Strategic Report: Business Model (continued)

The Board has analysed risk from the perspectives of the markets in which it invests and its operations.

Principal Market Risks

The Board has agreed with the Manager that it seeks an average total return on a rolling three month basis of LIBOR + 2%. To achieve a return over LIBOR + 2% the Fund Managers identify risk assets that they believe adequately compensate the Company for the risks that arise. It is proposed that this be amended so that the Company's objective is instead to seek a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes. This change is subject to shareholder approval at the 2021 AGM on Thursday, 16 September. The Board has set limits on the class of debt and equity assets that may be utilised by the Manager and given permission for the Manager to leverage the portfolio through significant on balance sheet and synthetic gearing. As a result investors are exposed to a number of risks which are not mitigated and may give rise to gains and losses which may be significant.

The Board is conscious that predictable dividend distributions are particularly important to shareholders. Dividends are principally declared from net revenue income although the Board does have the power to declare dividends out of capital.

Net revenue income arises in the main from seeking interest rate and credit returns from investments. The selection of such investments is based on the judgment of the Fund Managers as to current and expected market conditions. The Board believes that the principal market risks (set out below) faced by the Company and its shareholders arise from interest rate, credit and currency risks.

Market risk	Mitigation
Interest rate risk The Company takes on interest rate risk so as to deliver portfolio returns. Reductions in market interest rates will reduce gross and net revenue income and this effect may be amplified by the use of leverage. Such falls may be mitigated for a period if the Company has invested in longer term fixed rate assets prior to such market movements. The Company invests in secured loans. Whilst such secured loans may contain fixed interest rates, they may also contain prepayment provisions that reduce their effectiveness at mitigating interest rate risk. Increases in market interest rates can reduce net asset value if interest rates rise whilst holding fixed rate assets of longer duration. Interest rate risk also arises from an investment in interest rate derivatives and the use of rolling forward foreign exchange contracts.	The Board has not set any limits on the amount of interest rate risk that may be taken by the Manager other than to limit the gross on balance sheet and synthetic leverage to 40% of net assets. The Board discusses interest rate risk with the Fund Managers at each Board meeting and probes their assessment of market conditions and their judgment as to the direction of interest rates and speed of development. The Board receives a projection of net income on a monthly basis and probes the income realised to date and forecast to the financial year end. The Board receives a list of the assets in the portfolio which contains details of interest rates and periods to maturity at each Board meeting. The Board supports the use of interest rate derivatives to increase, as well as manage and mitigate interest rate risk. The interest rate risk profile of the portfolio as at the year end is set out in Note 14.1.3 to the financial statements on pages 71 to 72.
Credit risk The Company takes on credit risk so as to deliver portfolio returns. Investing in debt securities and secured loans exposes the Company to credit risk from company defaults and restructurings. Whilst it may be possible to hold a debt instrument to maturity, and be paid out in full, the Fund Managers have discretion to sell a distressed asset which would give rise to realised losses without a default having occurred. Reductions in credit spreads will reduce gross and net income and this effect may be amplified by leverage. Reductions in spreads may also reduce the availability of assets which the Manager believes would appropriately compensate the Company and its shareholders for the credit risk assumed leading to reduced flexibility if the portfolio needs to be repositioned. The Company is also exposed to counterparty credit risk through the use of derivatives.	The Board has not set any limits on the credit quality of the portfolio. The Board relies on the Fund Managers to make investment decisions in this regard given the level of skill and experience in debt securities and secured loan lending within the fund management team. The Board receives a report of the assets held in the portfolio at each Board meeting and discusses credit quality and default trends with the Fund Managers. The credit rating table for the portfolio at the year end is disclosed in Note 14.3 to the financial statements on page 74.

Strategic Report: Business Model (continued)

Market risk	Mitigation
Currency risk The Company invests in assets of fixed amounts denominated in currencies other than sterling which give rise to currency risk. Significant gains and losses would likely be incurred on the liquidation of such assets when repatriating capital to sterling. Less significant gains and losses are incurred on repatriating interest and other income to sterling. The Custodian undertakes a rolling programme of forward sales of foreign currency which gives rise to elements of interest rate risk and credit default risk with the counterparty.	The Board has set a requirement that the capital amount of any investment denominated in a foreign currency be hedged to sterling so as to mitigate currency gains and losses. The Board receives a report of gross and hedged currency positions at each Board meeting so it can monitor the level of hedging actually undertaken. Gross and net hedging currency exposures are set out in Note 14.1.2 to the financial statements on pages 70 to 71.

Principal Operational Risks

In terms of operational risk, the Board has determined that the principal risks arise from its relationship and management of third-party service suppliers and from the nature of the activities of the Company to the degree that they are unusual when compared to other investment trusts.

Operational risk	Mitigation
Continued interest and commitment of Jenna Barnard and John Pattullo as Fund Managers Jenna and John have directed the portfolio since its launch and the portfolio reflects their assessment of current economic conditions and likely market opportunities and developments. It may prove difficult to replace either or both of them should they decide to step down or if Janus Henderson allocates them to alternative funds under management. Any replacements may have a different style and different view of how the benchmark return may best be met.	The Board has an extensive and ongoing dialogue with Jenna and John on a quarterly basis and seeks to ensure that they remain interested and committed to the portfolio. The Board discusses this risk regularly with Janus Henderson management and seeks to ensure that Jenna and John remain allocated to the portfolio and are appropriately rewarded for their services.
Continued interest and commitment of Janus Henderson as Investment Manager and its operation of effective systems of internal control and management reporting (and execution and settlement of secured loans) The Board appointed Janus Henderson as its Manager at inception and the Group has supported shareholders since listing the predecessor company. The Board benefits from the extensive knowledge and experience of Janus Henderson who manage a substantial portfolio of investment trusts and the economies of scale from contracting with other investment trusts for services. The Board relies on the knowledge and expertise of Janus Henderson in ensuring that the Company complies with all relevant laws and regulations which include company law, securities legislation, data protection, anti-bribery and corruption and anti-tax evasion legislation. It may prove difficult to replace the Manager with an alternative provider that would bring the same knowledge, experience and economies of scale should Janus Henderson decide to exit the investment trust business or to cease trading.	The Board has a regular dialogue with representatives of Janus Henderson about their support for the Company and annually assesses their performance to ensure that economies of scale and other benefits from the relationship are in fact being delivered. The Board receives regular reports on compliance with laws and regulations and receives regular updates as new legislation is enacted. The Board receives an annual report on internal controls in operation at Janus Henderson and is promptly made aware of any compliance failings and how they are remediated. The Board also receives an annual report on internal controls at BNPPSS in respect of its collateralized loan obligations and loan administration services and is promptly made aware of any compliance failings and how they are remediated. On an annual basis the Board reviews the quality of the service it has received and any issues and provides feedback to Janus Henderson.

Strategic Report: Business Model (continued)

Operational risk	Mitigation
Reliance on credit standing and quality of service of BNPPSS as the appointed Depositary and Custodian of assets and their execution and settlement of transactions (other than secured loans) The Board has appointed BNPPSS as its Depositary. As Depositary BNPPSS acts as the Company's investment Custodian, with responsibility for transaction execution and settlement. The Company is reliant on BNPPSS operating effective systems to ensure the Company's transactions are undertaken promptly, that they are properly recorded, that assets are kept segregated from those of other clients, and that BNPPSS's credit rating does not deteriorate or the custodian fails such that assets are not immediately recoverable.	The Board assesses the credit standing of BNPPSS on a regular basis and keeps aware of market commentary should adverse events and circumstances begin to appear. The Board receives an annual report on internal controls in operation at BNPPSS (Fund Administration, Global and Local Custody, Middle Office Functions and Collateralized Loan Obligations) and would be made aware promptly of any compliance failings and how they are remediated. On an annual basis the Board reviews the quality of the service received by BNPPSS Depositary and Custodian and discusses any issues.
Reliance on service providers to manage and control certain features of the portfolio The investment portfolio contains certain assets and liabilities (that are not present in most investment trusts) that require specific procedures and internal controls to be present for the Company, as follows: The Company invests in secured loans which are individually documented and require additional systems and controls to manage. The Company uses forward foreign exchange contracts to hedge currency exposure and may use future interest rate agreements to manage interest rate risk which require specialised reports to be produced to monitor net risks. The Company has borrowed funds and given covenants to the lender regarding certain ratios which require monitoring to ensure they are met.	The Board receives a regular report on net income earned to date and a projection of net income to the end of the year. The Board uses this to obtain comfort that the portfolio and its risks are being managed as intended. It also receives a monthly investment limits and restrictions schedule that confirms that the Manager has complied with the Board set investment limits and restrictions each month that includes borrowing covenants. On a quarterly basis the Board receives and reviews detailed reports with Janus Henderson including: • balance sheet • income statement • asset listing including purchases and sales • revenue forecast • gross and net currency position

COVID-19 Impact
The Board have assessed how the COVID-19 pandemic may impact the Company's principal market and operational risks and concluded that the Company is remarkably resilient to these risks.

Emerging Risks
The Board have defined emerging risks as "known unknowns" and have concluded that the existing principal market and operational risks capture sufficiently the risks faced by the Company.

Viability Statement
The Company seeks to provide shareholders with income and capital growth such that the total return on the net asset value of the Company exceeds the average return on a rolling annual basis of three month sterling LIBOR + 2%. The Board aims to achieve this by pursuing the Company's business model and strategy through its investment objective and policy. It is proposed that the investment objective and policy will be amended (subject to the approval of shareholders at the 2021 AGM) so that the Company's objective is instead to seek a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes. The current investment objective and policy and the proposed new investment objective and policy are set out in full on pages 19 to 20. Please also refer to the Chairman's Statement on pages 5 to 7.

The Board will continue to consider and assess how it can adapt the business model and strategy of the Company to ensure its long-term viability in relation to the principal risks as detailed above.

In assessing the viability of the Company, the Board also considers the prospects of the Company including the liquidity of the portfolio (which is mainly invested in readily realisable listed securities), the level of borrowings (which are restricted), the closed-ended nature as an investment company (therefore there are no liquidity issues arising from unexpected redemptions) and a low ongoing charge (0.93% for the year ended 30 April 2021 (2020: 0.89%)).

Strategic Report: Business Model (continued)

The Company retains title to all assets held by the Custodian under the terms of the formal agreement with the Depositary, cash is held with approved banks and revenue and expenditure forecasts are reviewed monthly by the Board.

The Board therefore believes it is appropriate to assess the Company's viability over a three-year period, taking account of the Company's current position and the assessment factors detailed above.

When assessing the viability of the Company over the next three years the directors have considered its ability to meet liabilities as they fall due. This included consideration of the principal risks as set out above, covenant levels on the loan facility, the cash flow forecast to meet dividend flow and liquidity of the portfolio.

The directors continue to support the Fund Managers investment strategy.

The directors consider the COVID-19 pandemic to have highlighted the advantages of holding an investment trust. The directors do not envisage that any change in strategy or investment objective, or any events, would prevent the Company from continuing to operate over the next three years as the Company's assets are liquid, its commitments are limited, and the Company intends to continue to operate as an investment trust. The Board takes comfort in the robustness of the Company's position, performance, liquidity and the well-diversified portfolio designed by the Fund Managers. The Board is confident that the Company is well equipped to navigate this uncertain inflationary environment and therefore has a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due up to and including the year ended 30 April 2024.

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 consider a number of Key Performance Indicators (KPI's), as detailed below. Please refer to the Performance Highlights on pages 2 to 3 for details on specific performance.

Total Return Performance

The Board reviews and compares the performance of the portfolio as well as the NAV, benchmark and share price of the Company at each Board meeting.

Income

At each Board meeting, the directors examine the revenue forecast and consider yield on the portfolio and the amount of income available for distribution. It also monitors the level of net income received in support of the Company's future dividend payments which are made as interest distributions. The Board receives the revenue forecast on a monthly basis and therefore has regular oversight of the amount of income available for distribution.

Discount/Premium to NAV

At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV per share (including income). The Board considers the use of share buy-backs to enhance shareholder value where appropriate. Shares would only be purchased at a price below the prevailing NAV per share, thereby increasing the NAV per share of the remaining shares. The Board also considers the issuance of new shares, but only when there is unfulfilled demand, they trade at a premium to NAV, and the cost of such issuance is included in the price paid for the new shares, such that there is no detriment in terms of total return to existing shareholders. The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula.

Ongoing Charge

The Board regularly reviews the ongoing charge and monitors costs that impact the Company's distributable revenue.

Board Diversity

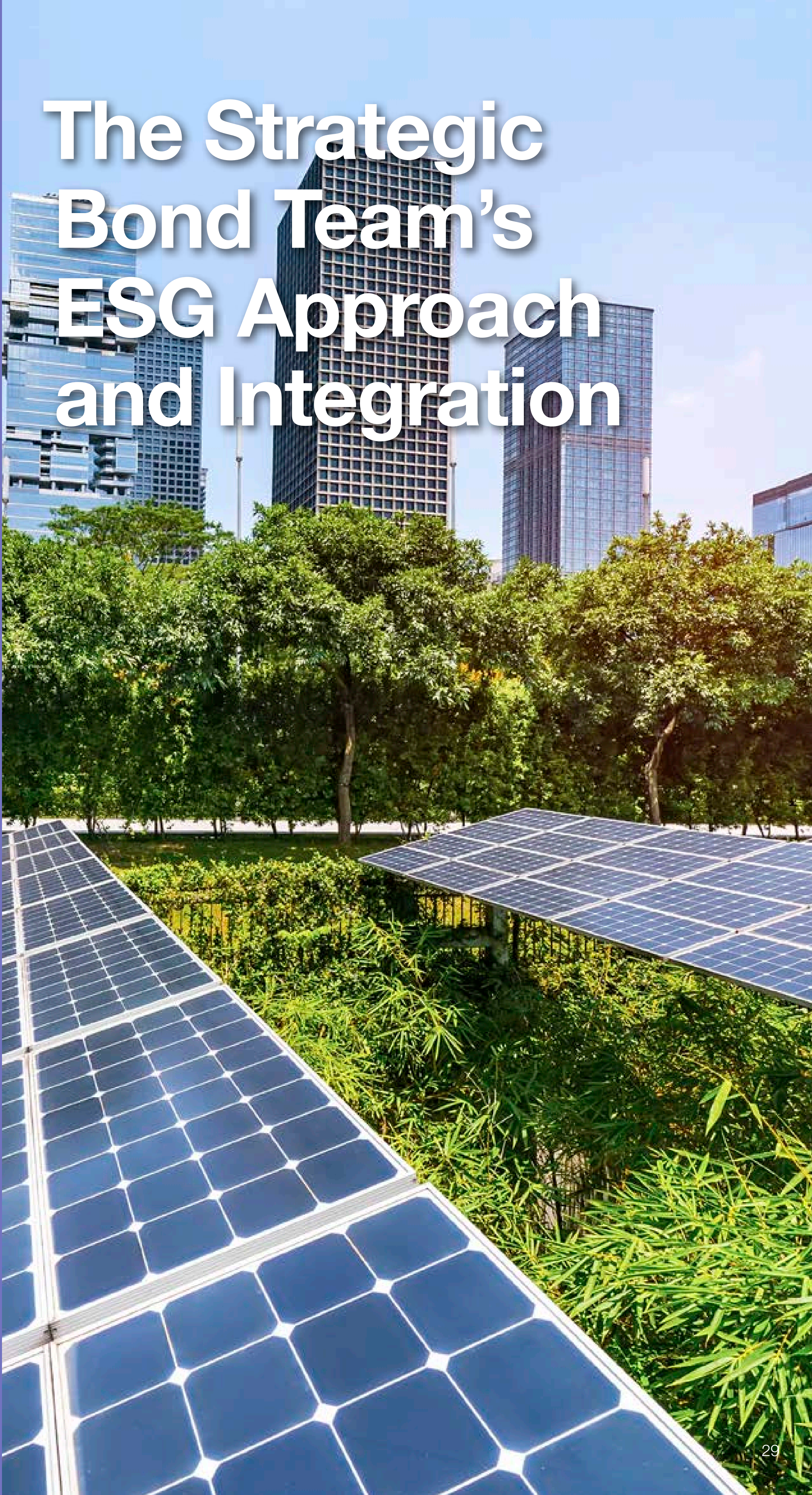
It is the Company's aim to have an appropriate level of diversity in the boardroom. The Nominations Committee considers diversity generally when making recommendations for appointments to the Board, taking into account gender, social and ethnic backgrounds, cognitive and personal strengths, and experience. However, the prime responsibility is the strength of the Board and the overriding aim in making any new appointments is always to select the best candidate based on objective criteria and merit. Currently the Board comprises five directors, three males and two females. This meets the requirement of the Hampton-Alexander Review (minimum 33% female representation).

The Board recognises the benefits of diversity and therefore takes an interest in the diversity initiatives in place at its other service providers and in particular, the Manager. Janus Henderson fosters and maintains an environment that values the unique talents and contributions of every individual. The Manager strives to cultivate and practice inclusiveness for the long-term success of the business and for the benefit of its employees, clients, investors and shareholders.

For and on behalf of the Board

Angus Macpherson
Chairman
5 July 2021

The Strategic Bond Team's ESG Approach and Integration



The Strategic Bond Team's ESG Approach and Integration

As a team, we actively seek out quality companies to allocate our clients' capital to and we embrace issuers that maintain a strong environmental, social and governance (ESG) profile. It is our belief that a company will only continue to grow and do well if it genuinely looks after all of its stakeholders – i.e. employees, customers, suppliers, bondholders, shareholders and wider society, including the environment. This is the broadest definition of "sustainable" in our minds.

Over time, a business, which is neither sustainable nor resilient, will inevitably fail for some or all of its stakeholders. Investing in better managed companies from an ESG perspective allows us to gain exposure to more resilient business models, more sustainable cash flows and places us in the best position to deliver superior risk adjusted returns for our clients over the long-term.

We embrace companies that strive to maintain a strong ESG profile.

ESG Approach

It is our role as stewards of our clients' capital to understand all potential impacts on a security's investment returns, of which ESG issues are a key component. Assessing ESG considerations can help inject new and forward-looking insights into the investment decision making process, helping to mitigate tail risks, protect against long-term underperformance due to secular disruptions and help uncover underappreciated opportunities. We acknowledge that there is growing evidence of a direct financial benefit of incorporating ESG considerations into an investment decision making process.

To future proof the portfolio and best position the Company to generate recurring, dependable returns for our clients, we feel it is prudent to have the core of our portfolio dedicated to lending to quality businesses that are not exposed to material ESG risks. To complement the core of our portfolio we may selectively lend to quality companies that are exposed to material ESG risks today but with a stable or improving trajectory; our preference being for the latter, since the Company may benefit as the issuer's credit spreads tighten and its cost of capital declines. We completely avoid or disinvest from companies where the level of ESG risk is material and the company is not willing or able to mitigate these risks, hence remain on a deteriorating trajectory.

Engagement with management teams is a crucial part of our ESG process, so we can better understand a company's willingness and ability to transition to a future proof and sustainable business model. As an active investor, we have an opportunity to maximise risk adjusted returns for our clients by actively influencing and incentivising issuers to achieve better outcomes. Where possible, we may engage with companies on a firm-wide basis, in order to maximise the impact of our engagement efforts. In addition, we conduct 'themes based' engagement programmes, designed for long-term dialogue with companies around material ESG issues and we also engage as part of industry wide initiatives, such as Climate Action 100+.

ESG Integration

ESG considerations are fully integrated into our investment decision making process and ESG analysis is a core part of our credit research efforts. Blending quantitative financial analysis with a qualitative evaluation, including any potential impact from ESG factors, helps us to make a more informed assessment of the intrinsic value of a security. We have developed a proprietary ESG ratings framework built around a top down thematic assessment combined with a bottom up ESG appraisal of each issuer we invest in.

We believe ESG considerations should not be an overlay to the credit research process, rather it is most effective when it is an integral part of the process, as it can inform and enhance the quality of research. Therefore, we do not outsource ESG analysis to dedicated ESG analysts that feed our credit analysts with ESG views and engage on their behalf. In our view, the credit analysts, who are experts in their sectors, are best placed to authentically integrate ESG considerations into their analysis. However, our centralised ESG team does support the credit analysts with specialist ESG research and guidance on engagement.

Our proprietary ESG ratings are generated and maintained by our credit analysts, with input and challenge welcomed from portfolio managers and analysts across the fixed income department, as well as the dedicated ESG professionals. All members of the Strategic Fixed Income team actively promote the internal ESG ratings framework.

Proprietary ESG Ratings Framework

Top Down Thematic ESG Research

Looking at the credit market holistically, we aim to identify themes that we believe are shaping the world and significantly impact the industries and issuers we invest in. Deep dives into these themes help us to analyse disruptions and innovations and how business models and cash flow profiles will be impacted, which in turn will drive long-term financial performance. We believe that building up a wealth of research on key ESG themes provides a valuable input for longer term positioning and engagement and helps identify issuers with sustainable and unsustainable business models and cash flows.

Bottom Up ESG Research

ESG analysis is an integral part of our fundamental bottom up credit research at Janus Henderson. In terms of ESG considerations, we look for materiality and whether the ESG risks identified for each issuer are improving or deteriorating. A key question is whether a company is willing or able to manage and mitigate their material ESG risks and whether we can see actual evidence of it.

The Strategic Bond Team's ESG Approach and Integration (continued)

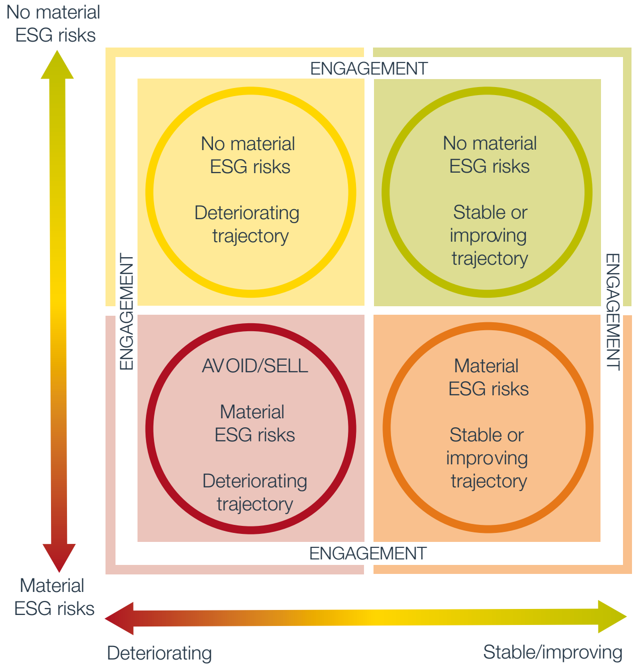
Proprietary ESG Ratings

Our proprietary ESG analysis and ESG ratings are built into our internal research tool, Quantum, which is shared globally. Our ESG ratings are based on materiality and trajectory, and are based on a quadrant framework shown in figure 1. Issuers with no material ESG risk and a stable trajectory are rated Green; those with no material ESG risks but with some risks emerging are rated Yellow, issuers with material ESG risks with a stable/improving trajectory are rated Orange and those that have material ESG risks and are not actively addressing them, and in fact are on a deteriorating trajectory, we rate Avoid.

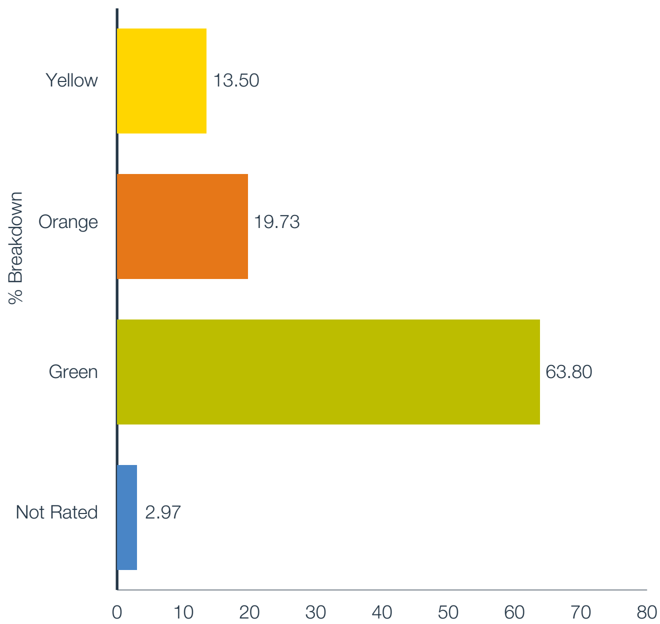
An Avoid ESG rating would result in an overall avoidance of the credit. Further, if a company that we own has deteriorated on ESG grounds that makes the issuer deemed no longer investible (i.e. gains an Avoid ESG rating), we systematically sell down our exposure. The charts on the right-hand side in figure 1, show our proprietary ESG ratings breakdown for the Company and highlight our strong preference for those issuers that are not exposed to material ESG risks.

Figure 1: Proprietary ESG ratings

Bottom-up framework for assessing each issuer



Henderson Diversified Income Trust plc proprietary ESG ratings breakdown



Source: Janus Henderson Investors. For illustrative purposes only
Note: Our proprietary ESG ratings framework for sovereigns utilises the same quadrant approach and all of our sovereign exposure held in the portfolio is rated Green

Tools, Resources and Risk Oversight

We use a wide range of internal and external tools and information (such as Sustainalytics, RepRisk, Beyond Ratings and Institutional Shareholder Services (ISS) to aid our ESG analysis. We are empowered by firm wide ESG collaboration including the dedicated in-house ESG team who provide a specialist resource on ESG issues, support on research and engagement and lead our participation in industry wide initiatives such as the investor led Climate Action 100+.

ESG risks are also considered as part of the broader risk oversight process led by our independent investment risk team. ESG risk data is included in the regular risk reporting produced for the investment team and is discussed with the risk team as part of the risk oversight process.

How our ESG Approach and our "Sensible Income" Investment Philosophy are Combined

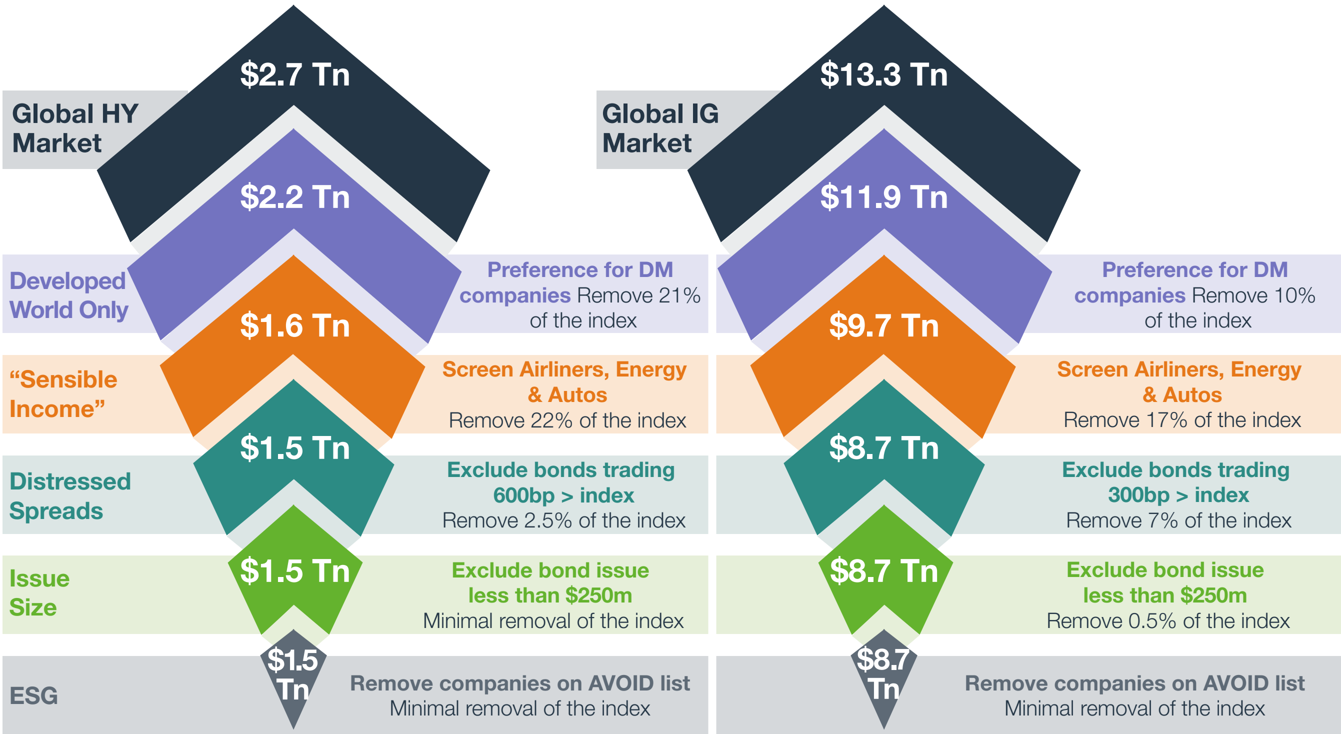
Top ESG rated segments of the credit market typically have a quality/defensive tilt and skew towards safe and non-cyclical sectors. This goes hand in hand with our "sensible income" investment philosophy — our credit selection framework, which is in effect a "quality" style bias. This framework forms part of our identity as a team and in practice means our investable universe is a subset of the broad credit market, specifically large-cap, non-cyclical businesses in developed markets that generate a return on capital employed that is higher than their cost of capital. We believe focusing on this subset can provide our clients with superior risk adjusted returns through the economic cycle.

The Strategic Bond Team's ESG Approach and Integration

A number of industries do not adhere to our interpretation of 'sensible income'. We apply a negative screening approach and completely avoid lending to certain sectors, as we view a large segment of the credit market as uninvestable (see figure 2). In general, the industries we do not lend to, are often capital intensive with high operating leverage, high financial leverage and a low return on capital employed. These sectors tend to include but are not limited to airlines, auto OEM's (original equipment manufacturers), energy, metals and mining and shipping. In addition, we avoid lending to sectors that are in structural decline, such as high street fashion retailers. Over time, we have found that there is a meaningful overlap between those sectors that fail to meet our definition of 'sensible income' and those that have weaker ESG profiles. Hence, our style of credit investing tends to shield us from areas of the credit market that have greater exposure to material ESG risks.

Figure 2: Our "sensible income" credit screening methodology

Bond management with a distinctive style
We reject large parts of the credit market as too low quality



46% of Global HY market is uninvestable

35% of Global IG market is uninvestable

Source: Janus Henderson Investors desk estimates as at 30 April 2021

The Likely Impacts of Sustainability Risks on the Returns of the Company

While the analysis of ESG factors is an integral component across Janus Henderson's investment capabilities and one of a number of inputs to the selection of investments and portfolio construction, the investment process of Janus Henderson is primarily designed to maximise long-term risk adjusted returns for investors. Therefore, in managing the Company, Janus Henderson does not maximise portfolio alignment with sustainability risks as a separate goal in its own right nor does it precisely attribute the impact of ESG factors on returns for the Company.

Governance

Board of Directors

Directors

The directors appointed to the Board at the date of this report are set out below.

The Nominations Committee is responsible for ensuring that on appointment each director receives a letter of appointment that sets out, amongst other matters, what is expected of them in terms of time commitment. The annual board evaluation also considers the time commitment of the directors. The Board considers that each director appointed as at the date of this report allocates sufficient time to the Company to perform his/her responsibilities effectively and no director is considered to be "overboarded".

Angus Macpherson

(Chairman)

Date of appointment: 23 February 2017

Committees: Angus is Chairman of the Board, Management Engagement Committee and Nominations Committee. He is also a Member of the Audit Committee.

Skills and Experience: Angus previously worked for Merrill Lynch in London, New York, Singapore and Hong Kong, latterly as Head of Capital Markets and Financing in Asia. He was also Chairman of JP Morgan Elect PLC until January 2018, Chairman of the Belhaven Hill School Trust Ltd and a Member of the Scottish Government's Financial Services Advisory Board.

Current External Appointments: Angus is Chief Executive of Noble & Company (UK) Limited. He is also Chairman of Pacific Horizon Investment Trust plc, a Non-Executive Director of Schroders Japan Growth Fund plc and a Trustee of The Scottish Policy Foundation.

Denise Hadgill

Date of appointment: 23 February 2017

Committees: Denise is a Member of the Management Engagement Committee, Nominations Committee and Audit Committee.

Skills and Experience: Until 2015 Denise was Managing Director and Head of the UK Product Strategy Group at BlackRock and was responsible for delivering the firm's investment message and economic outlook to an extensive range of UK pension fund and charity trustee boards. Prior to this she spent 14 years at Schroder Investment Management Limited where she was UK Equity Fund Manager and Director responsible for the firm's relationship with 21 UK pension funds and charity clients with multi asset portfolios valued at £2 billion.

Current External Appointments: None.

Win Robbins

(Senior Independent Director)

Date of appointment: 28 May 2019

Committees: Win is a Member of the Management Engagement Committee, Nominations Committee and Audit Committee.

Skills and Experience: Win has extensive investment management experience having held various senior positions including eight years as Managing Director of Credit Suisse Asset Management Limited from 1996 until 2004 and Managing Director and Head of Non-US Fixed Income at Citigroup Asset Management from 2004 to 2006.

Win holds the Diploma in Investment Management from the London Business School.

Win was a Non-Executive Director on the Board of City Merchants High Yield Trust Limited until she retired in March 2019, having held that position since 2009.

Current External Appointments: Win is a Non-Executive Director and Chairman of the Remuneration Committee at Polar Capital Holdings plc, a position she has held since 2017. She is also a Non-Executive Director of BlackRock Income & Growth Investment Trust plc, a Non-Executive Member of the Investment Committee of St. James Place Partnership plc and an Independent Trustee of the Institute of Cancer Research Pension Fund.

Board of Directors (continued)

Stewart Wood

Date of appointment: 23 February 2017

Committees: Stewart is a Member of the Management Engagement Committee, Nominations Committee and Audit Committee.

Skills and Experience: Stewart became a Labour member of the House of Lords in 2011.

He was Shadow Minister without Portfolio and a Strategic Adviser to Ed Miliband, Leader of the Labour Party, from 2010 to 2015. Prior to that he was a Special Adviser to the Chancellor of the Exchequer on the UK Treasury's Council of Economic Advisers from 2001 to 2007, during which time he led on the assessment for UK entry into the euro. He then served as Senior Special Adviser on foreign affairs, culture and media policy, and Northern Ireland between 2007 and 2010. After the 2010 General Election, he led Ed Miliband's successful campaign for the Labour leadership. In 2016, he was named as the new Chair of the United Nations Association (UK), appointed to the Board of the Marshall Scholarships Commission, and is a Director of the Good Law Project.

Current External Appointments: Stewart is a Member of the House of Lords' Select Committee on European Affairs. Stewart has been a Fellow at Magdalen College, Oxford University since 1995, and is a Professor of Practice at the Blavatnik School of Government in Oxford University.

Ian Wright

(Chairman of the Audit Committee)

Date of appointment: 23 February 2017

Committees: Ian is Chairman of the Audit Committee. He is also a Member of the Management Engagement Committee and Nominations Committee.

Skills and Experience: Ian is a Chartered Accountant.

Ian was Deputy Chairman of the Jersey Financial Services Commission until April 2021. He was previously an Audit Partner in Price Waterhouse and then PricewaterhouseCoopers including serving as the Senior Partner of the firm's international accounting consulting group. A founder member of the IFRS Interpretations Committee he has also served on professional committees of the ICAEW and FEE. He was also a Panel Member of the Financial Reporting Review Panel which is part of the UK Financial Reporting Council. He is resident in Jersey having previously worked in the Channel Islands, London and Bahrain.

Current External Appointments: Ian is a Director of the Jersey Heritable Property Company Limited and a Policeman in the Parish of St. Brelade.

All the directors are non-executive and independent of Janus Henderson.

All directors are members of the Insider Committee that meets when required in accordance with the Market Abuse Regulations.

Corporate Governance Report

Applicable Corporate Governance Codes

The Company maintains a premium listing on the London Stock Exchange and is therefore required to report on how the principles of the UK Corporate Governance Code (UK Code) have been applied. The AIC Code of Corporate Governance (AIC Code) has been endorsed by the Financial Reporting Council (FRC). This enables boards to report against the AIC Code and still meet their obligations in relation to the UK Code and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules.

The Board has chosen to report under the AIC Code because the day-to-day activities (such as portfolio management, administration, accounting and company secretarial) are outsourced to external service providers. The proper oversight of these relationships is crucial to achieving good corporate governance and therefore the Board considers the Manager to be the Company's most important stakeholder.

For the year ended 30 April 2021 the Company has complied with all the provisions of the AIC Code. Given that the Company has a simple remuneration structure (a Board of independent non-executive directors that are not entitled to executive remuneration packages including bonuses and long-term incentive schemes) it was deemed unnecessary to form a separate Remuneration Committee and instead remuneration is considered by the Board.

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

The Board

Role of the Board

The Board is responsible for providing leadership, setting the investment objective and policy, appointing the Company's third-party service providers, establishing a robust internal control and risk management system and monitoring the performance delivered by its service providers within the established control framework.

The Board meets formally at least five times a year, with additional Board or Committee meetings arranged when required. The directors have regular contact with the Manager between formal meetings. The Board has a formal Schedule of Matters Reserved for its decisions (which is available at **www.hendersondiversifiedincome.com**).

At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's investment objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act. The Board has responsibility for the approval of any investments in in-house funds managed or advised by the Manager. It has adopted a procedure for directors, in the furtherance of his/her duties, to take independent professional advice at the expense of the Company. In order to enable him/her to discharge his/her responsibilities, all directors have full and timely access to relevant information.

The Board has engaged third-party service providers to deliver the operations of the Company. Management of the investment portfolio has been delegated contractually to Janus Henderson, which also provides the day-to-day accounting, company secretarial, administrative, sales and marketing activities. The Company has appointed a Depositary, who in turn appoints the Custodian who is responsible for the safe custody of the Company's assets. The Company has appointed a Registrar to maintain the Register of Members and assist shareholders with queries in respect of their holdings. The Company entered into each of these principal contracts after full and proper consideration of the quality and cost of the services offered, including the operation of their control systems in relation to the affairs of the Company. The Board and its Committees maintain oversight of the third-party service providers through regular and ad hoc reporting. The Board meets annually with representatives from the Depositary and Custodian to discuss amongst other matters performance, service levels, their value for money, and their approach to ESG matters, information security and business continuity plans.

In normal circumstances, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provide a forum to discuss industry matters which are then reported to the Board as necessary.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting enabling the directors to probe further on matters of interest or concern.

The directors have access to the advice and services of the Company Secretary, who has been appointed by Henderson Secretarial Services Limited. The Company Secretary is responsible to the Board for ensuring compliance both with Board and Committee procedures and terms of reference and applicable rules and regulations. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any director's concerns to be recorded in the minutes. The Board and the Manager operate in a supportive, co-operative and open environment. Henderson Secretarial Services Limited is a subsidiary of Janus Henderson with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the two entities, particularly when dealing with any conflicts or issues between the Company and Janus Henderson. Any correspondence from shareholders

Corporate Governance Report (continued)

addressed to the Chairman or the Company received at Janus Henderson's offices is forwarded to the Chairman of the Board in line with the audited procedures in place. Any correspondence is provided to the full Board at the next meeting. Any urgent or important correspondence would be circulated promptly at the request of the Chairman.

Janus Henderson has arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters. These arrangements are reviewed at least annually by the Audit Committee.

Audit Committee

Please refer to the Report of the Audit Committee on pages 41 to 43.

Management Engagement Committee

The Committee is responsible for formally evaluating the overall performance of the Manager and other third-party service providers engaged by the Company.

Membership

All directors are members of the Committee. The Chairman of the Board is the Chairman of the Committee.

Meetings

The Committee met once during the year.

In discharging its duties over the course of the year, the Committee considered:

- the investment performance of the Company, taking account of the existing benchmark, replacement benchmark and performance of competitors in the closed-ended sector, the share price, level of premium/discount and gearing;
- the management of the portfolio's risk profile and the use of gearing;
- the quality and experience of the team involved in managing all aspects of the Company's business;
- the fee structures of its closed-ended competitors and other similar sized investment companies;
- the key clauses of the investment management agreement, how the Manager had fulfilled these and whether these continued to be appropriate; and
- the fees of the Company's other third-party service providers, including the Company's Broker (JPMorgan Cazenove), Depositary (BNPPSS Depositary and Fiduciary Services), Registrar (Computershare), Marketing and Research Provider (Marten & Co) and its indirect third-party service provider Accountants (BNPPSS Fund Administration) (engaged on behalf of the Manager to carry out the Company's accounting services).

The Committee also:

- assesses the Company's third-party service providers in their role as stakeholders and whether there is an appropriate level of engagement with them;
- considers the appointment and remuneration of the Company's third-party service providers and alternative suppliers where necessary;
- considers any points of conflict which may arise between the providers of services to the Company; and
- considers the appointment and removal of the Company Secretary.

Continued Appointment of the Manager

The Committee's evaluation of the Manager included consideration of the quality of the team involved in all aspects of servicing the Company, including company secretarial, administration, sales and marketing and included a review of the stability of the management group and its business priorities. Following completion of the review, the Committee recommended to the Board that the continued appointment of the Manager on the terms agreed is in the interests of the Company and its long-term sustainable success.

Nominations Committee

The Nominations Committee advises the Board on the composition of the Board and its Committees, on making appointments to the Board and ensuring suitable succession plans are in place for the directors and Fund Managers.

Membership

All directors are members of the Committee. The Chairman of the Board is the Chairman of the Committee but would not chair meetings when the Committee is dealing with the Chairman's succession.

Meetings

The Committee met once during the year under review.

Role and Responsibilities

One of the principal roles of the Committee is to lead the process for appointments to the Board, evaluating the balance of skills, knowledge, experience and diversity on the Board, and, in light of this evaluation, prepare a job description of the role and capabilities when considering making an appointment. When identifying suitable candidates for appointment the Committee may use open advertising or the services of external advisers to facilitate the search.

The Committee is also responsible for determining and disclosing a Policy on Tenure (see page 38).

Corporate Governance Report (continued)

The Committee also makes recommendations to the Board concerning:

- membership of the Audit Committee, and any other Board Committees as appropriate, in consultation with the Chairman of those Committees;
- the appointment of the Chairmen of the Board Committees and Chairman of the Board;
- the re-appointment of directors under the provisions of the AIC Code, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board (particularly in relation to directors being re-appointed for a term beyond six years); and
- any matters relating to the continuation in office of any director at any time.

Board Evaluation

A bespoke questionnaire was created by the Chairman and Company Secretary based on the principles of the AIC Code. This covered areas such as the Company's purpose, values and strategy, promoting the success of the Company, the Company's constitutional framework and procedures, risk management, board meetings, the care, skill and diligence of the directors, stakeholders, investment performance, communications, outsourcing, delegation and monitoring, company secretarial, administration and board reports, and marketing and sales.

The Chairman of the Board led the review of the annual performance evaluation process for the year ended 30 April 2021. The feedback from the evaluation was positive. Each director made a valuable contribution to the Board and its discussions and all directors remained independent in character and judgment. There was a good balance of skills and experience on the Board.

Win Robbins the Senior Independent Director led the performance evaluation of the Chairman, taking feedback from all directors after completion of a questionnaire. The review of the Chairman's performance concluded that he had displayed effective leadership during the year and that the directors were pleased to support his Chairmanship for a further year.

Arrangements with Directors

Board Composition

The Articles of Association provide that the total number of directors shall not be less than two nor more than ten in number. The Board currently consists of five non-executive directors. All of them served throughout the year under review. The biographies of the directors holding office at the date of this report, which are set out on pages 34 to 35, demonstrate the breadth of experience relevant to his/her position as a director.

Directors' Appointment and Retirement

The Board may appoint directors to the Board and any director so appointed must stand for appointment by the shareholders at the first AGM following his/her appointment, in accordance with the Articles of Association.

In keeping with the provisions of the AIC Code, all directors will retire at the upcoming AGM and, being eligible, have all stated that they will offer themselves for re-appointment.

Under the Articles of Association, shareholders may remove a director before the end of his/her term by passing an ordinary resolution at a general meeting.

Policy on Tenure

Given the entirely non-executive nature of the Board and the fact that the Chairman may not be appointed as such at the time of his/her initial appointment as a director, the Chairman's tenure may be longer where this is considered by the Board to be in the best interests of the Company however it is not anticipated that any of the directors will serve in excess of nine years. As with all directors, the continuing appointment of the Chairman is subject to satisfactory performance evaluation, annual re-appointment by shareholders and may be further subject to the particular circumstances of the Company at the time he intends to retire from the Board.

Directors' Independence

The independence of the directors is determined with reference to the AIC Code. The Committee considers the independence of each director at least annually by reviewing the directors' other appointments and commitments, as well as his/her tenure of service and any connection they may have with the Manager.

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

Directors' Professional Development

Newly appointed directors are offered a bespoke induction programme which covers the legal and regulatory framework for investment companies and the operations of the Manager, including directors' duties, compliance and risk management, accounting, sales and marketing, and other administrative services provided by the Manager.

Directors' Conflicts of Interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company (situational conflicts).

Corporate Governance Report (continued)

The Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continue to operate effectively. Furthermore, no conflicts of interest have been identified that would allow third-parties to influence or compromise the individual director's independent judgment.

Directors' Insurance and Indemnification

Directors' and officers' liability insurance cover is in place in respect of the directors. Under the Company's Articles of Association and subject to the provisions of UK legislation, a qualifying third-party provision indemnity may be provided to directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of his/her position as a director, in which they are acquitted, or judgment is given in their favour by the Court. No indemnity was given during the year or up to the date of this report.

Board Attendance

The table below sets out the number of formal Board and Committee meetings held during the year under review and the number of meetings attended by each director. All directors attended the 2020 AGM. The Insider Committee did not meet.

	Board	AC	NC	MEC
Number of Meetings	**5**	**2**	**1**	**1**
Angus Macpherson	5	2	1	1
Denise Hadgill	5	2	1	1
Win Robbins	5	2	1	1
Stewart Wood	5	2	1	1
Ian Wright	5	2	1	1

AC: Audit Committee
MEC: Management Engagement Committee
NC: Nominations Committee

A Committee of the Board meets quarterly to consider the interim dividend.

There were two additional meetings in the year under review to approve the annual results and the Company's loan facility.

Corporate Governance Report (continued)

System of Internal Controls

How the system of internal control operates

The Board delegates contractually to third-party service providers for all of the Company's operational requirements. It maintains oversight of these providers throughout the year by receiving regular reporting on their activities.

The Company's principal third-party service providers are the Manager (Janus Henderson); the Depositary/Custodian (BNPPSS Depositary & Fiduciary Services) and the Accountants (BNPPSS Fund Administration).

In respect of its principal providers, the Board receives quarterly reporting on compliance with the control environment and assesses the effectiveness of the control environment through review of the annual assurance reports from each organisation. This reporting is supplemented by the view of the Manager's Risk Team regarding the control environments in operation at the third-party service providers.

The Company's secondary providers report regularly to the Board. A failing in their services is deemed to have a minimal impact on the Company's value and therefore less stringent reporting is required.

The Management Engagement Committee formally evaluates the performance and service delivery of all third-party service providers at least annually.

The Audit Committee evaluates the performance of the Auditor on completion of each audit cycle.

Board of Directors
(comprised entirely of non-executive directors)

Principal third-party service providers

- receive regular reporting at meetings;
- review the annual assurance report produced by each organisation;
- receive additional reporting on the control environment from the Manager's Risk Team;
- receive reporting from the Manager's Internal Audit Team on areas relevant to investment trusts; and
- formally evaluate performance on an annual basis.

Janus Henderson
(Investment management, company secretarial, sales, marketing, PR and administration)

Reporting

- Investment performance update (at each meeting)
- Investment limits and restrictions (monthly)
- Internal control report (quarterly)
- Effectiveness of control environment (annually)

BNPPSS Depositary & Fiduciary Services
(Depositary & Custodian)

Reporting

- Management information report (quarterly)
- Presentation from the Depositary and Custodian (annually)
- Effectiveness of control environment (annually)

BNPPSS Fund Administration
(Accountants (engaged by the Manager))

Reporting

- Balance sheet
- Liquidity and gearing
- Revenue forecasts
- Portfolio valuation
- Portfolio transactions
- Effectiveness of control environment (annually)

Secondary third-party service providers

- receive regular reporting on their activities at meetings; and
- formally evaluate performance on an annual basis.

Computershare
(Registrar)

JPMorgan Cazenove
(Corporate Broker)

Marten & Co
(Marketing & Research Provider)

Mazars LLP has been appointed as the Company's Auditor.

By order of the Board

For and on behalf of Henderson Secretarial Services Limited
Corporate Secretary
5 July 2021

Report of the Audit Committee

Membership

All directors are members of the Committee, including the Chairman of the Board. Taking account of the size of the Board as a whole, the absence of any executive directors and the collaborative manner in which the Board and its Committees work, it was not considered practical or constructive to exclude the Chairman from being a member of the Committee. The Chairman of the Board was determined to be independent at the time of his appointment. This is in accordance with the AIC Code.

The Committee is chaired by Ian Wright, who is considered by the Board to have recent and relevant financial experience.

Meetings

The Committee met twice in the year under review at the half year and year end. The Company's Auditors and the Manager's Financial Reporting Manager for Investment Trusts are invited to attend meetings of the Committee on a regular basis. Representatives from the Manager's Risk, Compliance, Internal Audit, Business Continuity and Information Security Teams may also be invited to attend meetings when necessary.

Role and Responsibilities

The primary role of the Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Auditors. The Audit Committee reports to the Board. The Committee's responsibilities are set out in formal terms of reference which are reviewed at least annually and are available to view on the Company's website at **www.hendersondiversifiedincome.com.** In discharging its duties over the course of the year, the Committee considered the following matters:

Half Year Results and the Annual Report

The appropriateness of the Company's accounting policies and the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from the Manager. The disclosures made in relation to internal controls and risk management, viability, going concern and related parties and consideration of whether the report was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board. Each director reviewed the disclosures made, applying their respective knowledge and expertise. The internal controls over financial reporting were also considered, together with feedback from the Company's Auditors, the Financial Reporting Manager for Investment Trusts and the Corporate Secretary.

Internal Controls and Risk Management

The principal risks facing the Company, the risk management systems in place and the Company's risk map.

The internal controls in place at Janus Henderson and BNPPSS as Administrator, as described below.

The need for the Company to have its own internal audit function.

The Manager's whistleblowing policy and the arrangements that Janus Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The Committee was satisfied that the policy included the necessary arrangements for independent investigation and follow up action.

The Company's third-party suppliers' confirmed that they had appropriate policies and procedures in place in relation to anti-bribery and corruption, whistleblowing and anti-tax evasion. The Committee was satisfied that they were in compliance.

The Company's anti-bribery and corruption policy and review of the Company's gifts and hospitality register. The Committee was satisfied that the Company was in compliance throughout the year under review and up to the date of this report.

The annual confirmation from the Company's Depositary.

External Auditors

The appointment of the external auditors and their performance and remuneration (see page 42).

The nature and scope of the external audit, including agreeing with the external auditors the level of materiality (see page 54), and the findings therefrom.

The external auditors' independence and objectivity and the reporting of the external auditors. The Committee also considered its policy on non-audit services. The Committee was satisfied with the arrangements (as explained further on page 42).

The Committee discussed and agreed the audit plan and also discussed the FRC's audit quality inspection report findings, with the external audit partner.

Internal Controls and Risk Management

In the year under review, the Committee considered reports from the Manager's Risk and Internal Audit Teams covering internal controls and risk management. This included a detailed overview of the Manager's internal controls report and a summary of BNPPSS and Computershare Investor Services (the Company's other main third-party service providers) internal controls reports that had also been reviewed by the Manager's Risk Team. The assurance reports for one of the Company's service providers was qualified by the respective

Report of the Audit Committee (continued)

service auditor. The Committee reviewed the instances giving rise to the qualification and received confirmation that appropriate action to address the issues identified in the reports was being taken. The exceptions identified had no impact on the Company.

The Committee also considered the Manager's internal audit plan, including an overview of those audits which had a direct or indirect relevance to the Janus Henderson managed Investment Trusts. The Committee recommended to the Board that it was appropriate to rely on the Manager's internal audit function (see below).

The system was in operation throughout the year and up to the date of this report. The system is designed to meet the specific risks faced by the Company and takes account of the nature of the Company's reliance on its service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

Internal Audit Function

Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable.

The Company is an investment company, has no employees and delegates all executive activities to third-party service providers, principally among them, the Manager. The Board places reliance on the Company's framework of internal control and the Committee's view on reporting received from specific second and third-line of defence teams at the Manager. The Manager's Risk Team supports the Committee in considering the independently audited assurance reports on the effectiveness of internal controls in place at the Company's third-party service providers. The Manager's Internal Audit Team also provides reporting to the Board on the operations at the Manager. The Committee therefore concluded that it is not necessary at the present time for the Company to have its own internal audit function.

Auditors' Independence

The Committee monitors the Auditors' independence through three aspects of its work: the approval of a policy regulating the non-audit services that may be provided by the Auditors to the Company; assessing the appropriateness of the fees paid to the Auditors for all work undertaken by them; and by reviewing the information and assurances provided by the Auditors on their compliance with the relevant ethical standards. Mazars LLP (Mazars) confirmed that all of its partners and staff involved with the audit were independent of any links to the Company, and that these individuals had complied with their ethics and independence policies and procedures which are fully consistent with the FRC's ethical standards.

Audit Fees

The fees payable to the Auditors for audit services were £45,000 (plus VAT). This annual fee has been fixed until the year ended 30 April 2023.

Appointment and Tenure of the Auditors

Mazars were appointed as the Company's Auditors for the year ended 30 April 2021 following a successful audit tender undertaken by the Committee in the prior financial year. This is therefore the first year that the current audit partner, Stephen Eames, has been in place.

A resolution to re-appoint Mazars as the Company's Auditors will be put to shareholders at the 2021 AGM.

Policy on Non-Audit Services

The Committee has approved, and keeps under regular review, the policy on the provision of non-audit services by the Auditor. The policy sets out that the Company's Auditor will not be considered for non-audit work where this is prohibited by the current regulations and where it appears to affect their independence, effectiveness and objectivity. In addition, the provision of any non-audit services by the Auditor is not permitted to exceed 70% of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period to which the cap applies. Such services require approval in advance by the Audit Committee, or the Chairman of the Committee, following due consideration of the proposed services. The policy is available on the Company's website.

There were no fees paid or payable to the Auditor for non-audit services in the year under review.

Report of the Audit Committee (continued)

Annual Report for the Year Ended 30 April 2021

In relation to the Annual Report for the year ended 30 April 2021, the following significant issues were considered by the Committee and discussed in depth with the Auditors:

Significant issues	How the issue was addressed
Valuation and ownership of the Company's investments	The directors have appointed Janus Henderson, who outsources some of the administration and accounting services to BNPPSS Fund Administration, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Janus Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third-party pricing vendors. Ownership of listed investments are verified by reconciliation to the Custodian's records and the directors have received quarterly reports and an annual confirmation from the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation.
Recognition of income	Income received has been accounted for in line with the Company's accounting policies (see Note 2f) on page 63) and was reviewed by the Committee at each meeting to confirm it is in compliance with International Financial Reporting Standards (IFRSs). The Board reviews revenue forecasts on a monthly basis in support of the Company's future dividends.
Maintaining internal controls	The Committee receives regular reports on internal controls from Janus Henderson (Manager), BNPPSS (Administrator and Depositary) and Computershare (Registrar), and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The Committee are satisfied that these key stakeholders have appropriate and effective internal control and risk management systems in place.
Maintaining investment trust status	The Committee has considered regularly the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving supporting documentation from Janus Henderson and BNPPSS Fund Administration.

Ian Wright
Chairman of the Audit Committee
5 July 2021

Directors' Remuneration Report

Annual Report on Remuneration

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended (Regulations). The report also meets the relevant requirements of the Companies Act 2006 (Act) and the Listing Rules of the FCA and describes how the Board has applied the principles relating to directors' remuneration. As required by section 439 of the Act, an ordinary resolution to approve the Directors' Remuneration Report was proposed at the 2020 AGM and was subsequently approved by shareholders.

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

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

The Board as a whole considers directors' remuneration (please see the Directors' Remuneration Report on pages 44 to 46). The Board has not been provided with advice or services by any person in respect of its consideration of directors' remuneration (although the directors review annually the fees paid to the boards of directors of other comparable investment companies).

Remuneration Policy

Shareholders last approved the Remuneration Policy at the AGM in 2020. In accordance with section 439A of the Act, shareholders will next be asked to approve the Remuneration Policy at the 2023 AGM.

In determining the Remuneration Policy, the Board takes into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Code and the AIC Code.

The objective of the Remuneration Policy is to attract, retain and motivate non-executive directors of the quality required to manage the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The Board obtains up-to-date information about remuneration in other companies of comparable scale and complexity in order to avoid and manage conflicts of interest in determining remuneration levels. The appropriateness and relevance of the Remuneration Policy is reviewed at least annually, particularly in terms of whether the policy supports the Company's long-term sustainable success.

Directors are remunerated in the form of fees, payable quarterly in arrears to the directors personally. In accordance with the Company's Articles of Association, the aggregate remuneration of the directors may not exceed £300,000 per annum.

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.

Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

No director has a service contract with the Company.

Directors' appointments may be terminated at any time by written notice with no compensation payable. No director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

Statement from the Chairman

As Chairman of the Board, Angus Macpherson, reports that there have been no changes to directors' remuneration nor any other changes to the remuneration paid to each individual director in the year under review with the exception of a small increase in the fee for the Audit Committee Chairman, to better reflect the value of his service to the Company.

Directors' Interests in Shares (Audited)

	Ordinary shares of 1p	
	30 April 2021	**1 May 2020**
Angus Macpherson	101,488	101,488
Denise Hadgill	5,000	5,000
Win Robbins	50,000	50,000
Stewart Wood	2,500	2,500
Ian Wright	30,000	30,000

There have been no changes in the interests of the directors since the year end to 5 July 2021.

No director is required to hold shares of the Company by way of qualification.

Directors' Remuneration Report (continued)

Directors' Remuneration (Audited)

The total salary and fees paid to the directors who served during the years-ended 30 April 2021 and 30 April 2020 was as follows:

	Year ended 30 April 2021 Total fees £	Year ended 30 April 2020 Total fees £	**Year ended 30 April 2021 Total expenses including taxable benefits £**	Year ended 30 April 2020 Total expenses including taxable benefits £	**Year ended 30 April 2021 Total £**	Year ended 30 April 2020 Total £
Angus Macpherson (Chairman of the Board)	37,500	37,500	–	6,355	37,500	43,855
Denise Hadgill	25,000	24,833	–	170	25,000	25,003
Win Robbins	25,000	23,075	–	–	25,000	23,075
Stewart Wood	25,000	24,833	–	–	25,000	24,833
Ian Wright (Chairman of the Audit Committee)	30,167	28,750	–	–	30,167	28,750
Total	**142,667**	**138,991**	**–**	**6,525**	**142,667**	**145,516**

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

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

From 1 October 2020 the fee of the Chairman of the Audit Committee was increased to £31,000 per annum (previously £29,000 per annum). The fees of the other directors' and the Chairman of the Board remain unchanged from the prior year.

Expenditure on Pay

In order to show the relative importance of expenditure on pay, the table below sets out the total level of remuneration compared to the distributions to shareholders by way of dividends. In the year under review 51,207 shares were brought back by the Company. There were no other significant distributions, payments or other uses of the Company's net return or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2021 £	2020 £	2016[1] £	1 year change £	1 year change %	5 year change[1] £	5 year change[1] %
Total remuneration paid to directors[2]	142,667	145,516	155,402	-2,849	-2.0%	-12,735	-8.2
Ordinary dividends paid during the year	8,418,003	8,361,903	8,505,193	+56,100	+0.67%	-87,190	-1.0

1 The data reported in the table above for the period prior to 27 April 2017 is in respect of the predecessor company Henderson Diversified Income Limited which had a 31 October financial year end

2 Increases will fluctuate due to the number of directors in any one year

Directors' Remuneration Report (continued)

Performance

At the Company's last AGM held on 15 September 2020, shareholders approved the Directors' Remuneration Report and the Directors' Remuneration Policy in respect of the year ended 30 April 2020. The following proxy votes were received on the resolutions:

Resolution	For (including discretionary)	% of total votes[1]	Against	% of total votes[1]	Withheld
To receive the Directors Remuneration Report	21,070,194	99.65	74,056	0.35	100,327
To approve the Directors Remuneration Policy	20,758,580	99.58	87,896	0.42	398,101

1 Excluding votes withheld

For and on behalf of the Board

Angus Macpherson
Chairman
5 July 2021

Report of the Directors

The directors who are listed on pages 34 to 35 present their report and financial statements for the year ended 30 April 2021.

The Corporate Governance Report (pages 36 to 39), Report of the Audit Committee (pages 41 to 43), Statement of Directors' Responsibilities (page 50), Glossary (pages 80 to 81), Alternative Performance Measures (pages 82 to 83) and General Shareholder Information (pages 84 to 85) all form part of the Report of the Directors.

Share Capital

The Company's share capital comprises ordinary shares with a nominal value of 1p. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. To the extent that they exist, the revenue profits and capital of the Company (including accumulated revenue and capital reserves) are available for distribution by way of dividends to the holders of the ordinary shares.

Upon a winding up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro-rata to their holding of ordinary shares.

At the beginning of the year, there were 191,318,240 ordinary shares in issue.

The directors seek annual authority from shareholders to allot new ordinary shares, to disapply pre-emption rights of existing shareholders and to shares for cancellation or to be held in treasury. No shares were issued during the year.

During the year 51,207 shares were bought back under the authority provided by shareholders at the AGM held on 15 September 2020. A further 1,210,000 shares were bought back under this authority on 30 June 2021.

At that AGM, the directors were granted authority to buy-back 28,678,604 shares (being 14.99% of the issued ordinary share capital at that time). There now remains 27,417,397 ordinary shares available within this buy-back authority, which will expire at the conclusion of the AGM in September 2021.

As at 30 April 2021 the number of shares in issue (with voting rights) was 191,267,033. Following the buy-back of 1,210,000 ordinary shares on 30 June 2021 the number of shares in issue (with voting rights) was 190,057,033.

There have been no other shares issues or buy-backs in the period from 1 May 2021 to 5 July 2021.

Holdings in the Company's Shares

Declarations of interests in the voting rights of the Company as at 30 April 2021 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

	% of voting rights
Brewin Dolphin Limited	4.99
Transact Nominees Limited	5.98

On 28 May 2021 the Company was notified that Transact Nominees Limited had decreased its holding to 4.99%. No other changes have been notified in the period 1 May 2021 to 5 July 2021.

Related Party Transactions

The Company's transactions with related parties in the year were with the directors and the Manager. There have been no material transactions between the Company and its directors during the year. The only amounts paid to them were in respect of remuneration for which there were no outstanding amounts payable at the year end. Directors' Interests in Shares are disclosed in the Directors' Remuneration Report on page 44. In relation to the provision of services by the Manager (other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties) there have been no material transactions with the Manager affecting the financial position or performance of the Company during the year under review. More details on Transactions with the Manager, including amounts outstanding at the year end, are given in Note 23 on page 78.

The directors confirm that in accordance with Listing Rule 9.8.4(7) there are no further disclosures that need to be made in this regard.

Greenhouse Gas Emissions

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the Company is required to report annual greenhouse gas emissions. The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. The Company is therefore exempt from the requirements to report on greenhouse gas emissions from its operations.

Business Ethics

As the Company's operations are delegated to third-party service providers, the Board seeks assurances, at least annually, from its suppliers that they comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Finances Act 2017.

Report of the Directors (continued)

Climate Change, Responsible Ownership and the Stewardship Code

As an investment company that outsources all services to third-party suppliers the Board makes every effort to understand its key third-party service providers' ESG policies (including climate change) in particular those of the Manager. Janus Henderson are a signatory to the UN Principles of Responsible Investment and the UK Stewardship Code published in 2020 and seek to protect and enhance value for shareholders through active management, integration of ESG factors into decision making, voting and company engagement.

Please also refer to The Strategic Bond Team's ESG Approach and Integration section on pages 30 to 32.

Voting

In the period under review the Company did not hold the right to vote at any of the investee companies general meetings due to the nature of the holdings.

The Board believes that voting at general meetings is an integral aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. The Board has chosen to delegate responsibility to the Manager for voting the rights attached to the shares held in the Company's equity portfolio (when applicable) as the Manager actively votes at shareholder meetings and engages with companies as part of the voting process.

Voting decisions are guided by the best interests of the investee companies' shareholders and made in consultation with the Fund Managers, who have an in-depth understanding of the respective company's operations. Voting decisions are taken in keeping with the provisions of the Manager's ESG Corporate Statement and ESG Investment Principles (ESG Policies), so investee companies are made aware of the Manager's expectations in this respect. However, the Board reviews the Manager's ESG Policies each year. To read more about what ESG means at Janus Henderson and to view the ESG Policies please visit **https://www.janushenderson.com/en-gb/investor/environmental-social-governance-principles/**

The Board remains satisfied that the Manager understands the risks of climate change to its business, strategy and product mix and where relevant are adapting to ensure long-term viability.

Annual General Meeting (AGM)

This year's AGM will be held on Thursday, 16 September 2021 at 11.00am.

Given the level of uncertainty surrounding the Delta variant of the virus, and the potential delay this could continue to cause to the UK Government's lifting of restrictions, the Board has taken the decision at this time to restrict attendance at this year's AGM to a small number of attendees comprising only the required quorum and anyone else whose attendance is necessary for the conduct of the meeting. The AGM will take place at 11.00am on Thursday, 16 September 2021 at 201 Bishopsgate, London EC2M 3AE.

The Board therefore invite shareholders to attend a webinar presentation this year using the conferencing software Zoom which will take place at 11.00am on Thursday, 9 September 2021. This will allow you to be present for the usual presentation from your Fund Managers, John Pattullo and Jenna Barnard, and will enable you to ask questions and debate with your Fund Managers and Board.

To attend the webinar presentation please register in advance at this link, entering your shareholder details: **https://jhi.zoom.us/webinar/register/WN_-1sgh5K7RVWHd69oWmjGIQ**.

You will then receive a dedicated invitation to join the webinar.

Voting at this year's AGM will be conducted on a poll among the directors, rather than on a show of hands, with the Chairman of the AGM holding the proxy votes. We therefore request all shareholders to submit their votes by proxy, ahead of the deadline of 11.00am on Tuesday, 14 September 2021, to ensure that their vote counts. If you hold your shares in a nominee account, such as through a share dealing service or platform, you will need to contact your provider and ask them to submit the proxy votes on your behalf.

The Board commits to holding physical meetings in future when restrictions are not in place and these can be held safely, and the Board would be delighted to hold an in-person AGM this year if circumstances allow.

Any change to the format of the AGM will be notified to shareholders via a Regulatory Information Service announcement and the Company's website.

Non-Routine Business for the 2021 AGM

Changes to the Investment Objective and Policy

As set out in the Chairman's Statement on pages 5 to 7 the Board has recently undertaken a review of the Company's investment objective and policy.

The Company's current investment objective is to seek income and capital growth such that the total return on the net asset value of the Company exceeds the average return on a rolling annual basis of three month sterling LIBOR + 2%. It is proposed that this will be amended so that the Company's objective is instead to seek a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes.

An ordinary resolution will be put to shareholders to approve the change to the Company's investment objective as set out above. Other minor amendments to the investment policy are also proposed. There will be no imminent or future change in the Company's investment process or strategy as

Report of the Directors (continued)

a result of the amendments to the investment objective and policy. The current investment objective and policy and the proposed new investment objective and policy are set out in full on pages 19 to 20.

Adoption of New Articles of Association

A special resolution will be put to shareholders to adopt new Articles of Association (New Articles) in order to update the Company's current Articles of Association (Existing Articles). The proposed amendments being introduced in the New Articles primarily relate to changes in law and regulation and developments in market practice since the Existing Articles were adopted, and principally include:

- provisions enabling the Company to hold virtual shareholder meetings using wholly electronic means (as well as physical shareholder meetings or hybrid meetings); and
- changes in response to the introduction of international tax regimes requiring the exchange of information.

A summary of the principal amendments being introduced in the New Articles is set out in Appendix 2 to the Notice of AGM being sent to shareholders with this report. Certain other, minor amendments (excluding those minor amendments of a technical or clarifying nature) have also been summarised. The Notice of AGM can be found on the Company's website at **www.hendersondiversifiedincome.com**.

While the New Articles (if adopted) would permit shareholder meetings to be conducted using electronic means, the directors have no intention of holding a virtual-only meeting if it can be reasonably avoided and the Board's intention is always to hold a physical AGM provided it is both safe and practical to do so.

The Board is committed to ensuring that future general meetings (including AGMs) incorporate a physical meeting when law and regulation permits and where shareholders can meet with the Board face to face. The potential to hold a general meeting through wholly electronic means is intended as a solution to be adopted as a contingency to ensure the continued smooth operation of the Company in extreme operating conditions where physical meetings are prohibited or cannot reasonably be held. Nothing in the New Articles will prevent the Company from holding physical shareholder meetings.

A copy of the New Articles, together with a copy showing all of the proposed changes to the Existing Articles, are available for inspection on the Company's website **www.hendersondiversifiedincome.com**.

Statement of Dividends Paid

Please refer to the Chairman's Statement on pages 5 to 7 for details.

Disclosure of Information to Auditors

In the case of each of the persons who are directors of the Company at the time when this report was approved:

(a) so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's Auditors are unaware; and

(b) each of the directors has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of section 418(2) of the Companies Act 2006.

Future Developments

While the future performance of the Company is mainly dependent on the performance of financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its investment objective and policy (please refer to pages 19 to 20). The Chairman's Statement and Fund Managers' report provide commentary on the outlook for the Company.

Listing Rule 9.8.4

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

By order of the Board

For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
5 July 2021

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Director's Report, a Strategic Report and Director's Remuneration Report which comply with the requirements of the Companies Act 2006.

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

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

Directors' Statement of Responsibilities

Each of the directors, who are listed on pages 34 to 35, confirms that, to the best of his/her knowledge:

- the Company's financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and financial statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Angus Macpherson
Chairman
5 July 2021

Financial Statements

Independent Auditors' Report to the Members of Henderson Diversified Income Trust plc

Opinion

We have audited the financial statements of Henderson Diversified Income Trust plc (the 'Company') for the year ended 30 April 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the financial statements, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the Company's affairs as at 30 April 2021 and of the profit for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the financial statements, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

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

Conclusions relating to going concern

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Company's ability to continue as a going concern;
- Reviewing the directors' going concern assessment including COVID-19 implications based on severe but plausible scenarios as approved by the Board of Directors on 5 July 2021;
- Making enquiries of the directors to understand the period of assessment considered by the directors, the completeness of the adjustments taken into account and implication of those when assessing severe but plausible scenarios. This included assessing the Company's ability to continue to operate within its financial covenants and the liquidity of the portfolio through reviewing management assessment of how quickly the portfolio could be liquidated if required;
- Assessing and challenging the appropriateness of the directors' key assumptions in their revenue forecast, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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

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

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

Independent Auditors' Report to the Members of Henderson Diversified Income Trust plc (continued)

Key Audit Matters

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

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

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

Key Audit Matter	How our scope addressed this matter
Accuracy, completeness and cut off for investment income The investment income primarily consist of bond and loan interest totalling £8.53m from quoted fixed securities and secured loans. The remaining balance consists of premiums on credit default swaps of £1.24m and dividend income of £0.26m. As per the accounting policy 2f) on page 63, fixed interest income from quoted fixed securities and secured loans are recognised based on an effective yield basis. Premiums on credit default swaps are recognised on an accruals basis. Dividend income is recognised on an ex-dividend basis. There is a risk that if income is not appropriately recognised, this could have a material impact on the profits available for the Company to make dividend distributions to its shareholders.	We have addressed the risk identified by performing the following procedures: • understanding management's process surrounding revenue recognition in relation to investment income through examination of control reports on the third-party service organisation; • performing a walkthrough to understand the design and implementation of the Administrator's processes and controls surrounding revenue recognition; • for a sample of quoted fixed income securities, agreeing the coupon rates to independent sources, recalculating the interest income based on the holdings of the respective security and tracing to bank statements for interests received; • for a sample of credit default swaps, agreeing the premiums received to broker statements; • recalculating the effective yield adjustment on a sample basis; and • for a sample of accrued interest income, recalculating the accrued interest income by comparing the interest received against any coupon payments due to the Company to ensure that income had been recognised in the correct period. **Our observations** Based on the work performed and evidence obtained, we consider income from investment is appropriately recognised.

Independent Auditors' Report to the Members of Henderson Diversified Income Trust plc (continued)

Key Audit Matter	How our scope addressed this matter
Valuation, existence and ownership of the investment portfolio The Company has a significant portfolio of fixed income securities, these are measured in accordance with the requirements under IFRS and the Statement of Recommended Practice issued by the Association of Investment Companies. As per the accounting policy 2e) on page 63 for further details on investments at fair value through profit or loss. Investments comprised of £179.7m fixed income securities, £13.3m secured loans, £7.5m preference stock and £1.7m asset backed securities. Although these quoted investments are valued at quoted bid prices, due to the values involved, there is a risk that errors in valuation could result in material misstatement in the financial statements. The secured loans within the portfolio are held by the Company while all quoted fixed income securities are held by the Custodian. There is therefore a risk that investments recorded might not exist or might not be owned by the Company. We therefore identified valuation, existence and ownership of investments as a key audit matter as it had the greatest effect on our overall audit strategy and allocation of resources.	We have addressed the risk identified by performing the following procedures: • understanding management's process to record and value investments through examination of control reports on the third-party service organisation; • performing a walkthrough to understand the design and implementation of the Administrator's processes and controls surrounding investment recording and valuation; • agreeing the valuation of quoted investments to an independent source of market prices; • analyse the liquidity of all securities to see whether they have been traded frequently and valued at which they have been traded to ensure there are no unusual price movements indicating the year end prices are stale; • for fixed income securities, obtaining and agreeing confirmation from the Custodian and the Depositary of the number of units of each security held as of 30 April 2021; • for secured loans, verifying the legal ownership to the loan agreements and to the Custodian and Depositary confirmation; and • reviewing the adequacy of the disclosure in the financial statements. **Our observations** Based on the work performed and evidence obtained, we noted that the investments are valued in accordance with the relevant accounting standards. We did not note any issues with regard to the existence and the ownership of the investments held at 30 April 2021.

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

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

Overall materiality	£1,757,000
How we determined it	This has been calculated with reference to the Company's net assets, of which it represents approximately 1%.
Rationale for benchmark applied	Net assets have been identified as the principal benchmark within the financial statements as it is considered to be the main focus of the shareholders. Whilst valuation processes for these investments are not considered to be complex, there is a risk that errors in valuation could cause a material misstatement. 1% has been chosen as it is a generally accepted auditing practice for investment trust audits and the Company is a public interest entity.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. On the basis of our risk assessments, together with our assessment of the overall control environment, and consideration of a first year audit, our judgment was that performance materiality was £1,142,000 which is approximately 65% of overall materiality.

Independent Auditors' Report to the Members of Henderson Diversified Income Trust plc (continued)

Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £52,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We also determine a lower level of specific materiality for certain areas such as the Statement of Comprehensive Income, directors' remuneration and related party transactions.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

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

Independent Auditors' Report to the Members of Henderson Diversified Income Trust plc (continued)

Corporate governance statement

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

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 63;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why they think this period is appropriate set out on pages 27 to 28;
- Directors' statement on fair, balanced and understandable set out on page 50;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 25 to 27;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 41 to 42; and
- The section describing the work of the audit committee set out on page 41.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 50, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the HMRC Investment Trust conditions and we considered the extent to which non-compliance might have a material effect on the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates and considered the risk of acts by the Company which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and

Independent Auditors' Report to the Members of Henderson Diversified Income Trust plc (continued)

- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Company's regulatory and legal correspondence and review of minutes of directors' meetings in the year we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the HMRC Investment Trust conditions. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Listing Rules, the UK Corporate Governance Code, the Companies Act 2006 and UK tax legislation.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

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

The risks of material misstatement that had the greatest effect on our audit, including fraud and irregularities, are discussed under "Key audit matters" within this report.

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the shareholders on 15 September 2020 to audit the financial statements for the year ended 30 April 2021 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 30 April 2021.

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

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of the audit report

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

Stephen Eames (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

5 July 2021

Statement of Comprehensive Income

Notes		Year ended 30 April 2021 Revenue return £'000	Year ended 30 April 2021 Capital return £'000	Year ended 30 April 2021 Total £'000	Year ended 30 April 2020 Revenue return £'000	Year ended 30 April 2020 Capital return £'000	Year ended 30 April 2020 Total £'000
11	Gains on investments at fair value through profit or loss	–	13,530	13,530	–	1,683	1,683
19	Losses on foreign exchange transactions at fair value through profit or loss	–	(58)	(58)	–	(4,514)	(4,514)
3	Investment income	10,035	–	10,035	9,548	–	9,548
4	Other operating income	10	–	10	11	–	11
	Total income	**10,045**	**13,472**	**23,517**	**9,559**	**(2,831)**	**6,728**
	Expenses						
5	Management fee	(566)	(565)	(1,131)	(535)	(534)	(1,069)
6	Other expenses	(476)	–	(476)	(414)	–	(414)
	Profit before finance costs and taxation	**9,003**	**12,907**	**21,910**	**8,610**	**(3,365)**	**5,245**
7	Finance costs	(166)	(166)	(332)	(233)	(232)	(465)
	Profit before taxation	**8,837**	**12,741**	**21,578**	**8,377**	**(3,597)**	**4,780**
8	Taxation	(22)	–	(22)	(5)	–	(5)
	Profit after taxation	**8,815**	**12,741**	**21,556**	**8,372**	**(3,597)**	**4,775**
9	**Earnings/(loss) per ordinary share**	4.61p	6.66p	11.27p	4.40p	(1.89p)	2.51p

The total columns of this statement represents the Statement of Comprehensive Income, prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. The Company had no other comprehensive income. The profit after taxation is also the total comprehensive income for the year.

The notes on pages 62 to 78 form part of these financial statements

Statement of Changes in Equity

Notes		Called-up share capital £'000	Capital redemption reserve £'000	Share premium £'000	Distributable reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
	Year ended 30 April 2021							
	Total equity at 1 May 2020	1,913	–	1,576	165,533	(8,742)	2,344	162,624
	Total comprehensive income:							
	Profit after taxation	–	–	–	–	12,741	8,815	21,556
	Transactions with owners, recorded directly to equity:							
15,16 & 19	Cost of buy-back of shares	(1)	1	–	–	(42)	–	(42)
10	Dividends	–	–	–	–	–	(8,418)	(8,418)
	Total equity at 30 April 2021	**1,912**	**1**	**1,576**	**165,533**	**3,957**	**2,741**	**175,720**

Notes		Called-up share capital £'000	Capital redemption reserve £'000	Share premium £'000	Distributable reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
	Year ended 30 April 2020							
	Total equity at 1 May 2019	1,896	–	–	165,533	(5,145)	2,334	164,618
	Total comprehensive income:							
	Profit after taxation	–	–	–	–	(3,597)	8,372	4,775
	Transactions with owners, recorded directly to equity:							
15&17	Proceeds from issue of shares	17	–	1,576	–	–	–	1,593
10	Dividends	–	–	–	–	–	(8,362)	(8,362)
	Total equity at 30 April 2020	**1,913**	**–**	**1,576**	**165,533**	**(8,742)**	**2,344**	**162,624**

The notes on pages 62 to 78 form part of these financial statements

Statement of Financial Position

Notes		At 30 April 2021 £'000	At 30 April 2020 £'000
	Non current assets		
11	Investments at fair value through profit or loss	202,152	187,645
	Current assets		
12	Other receivables	5,464	6,127
	Cash and cash equivalents	4,197	3,735
		9,661	**9,862**
	Total assets	**211,813**	**197,507**
	Current liabilities		
13	Other payables	(10,031)	(2,248)
14.2 & 21	Bank loan	(26,062)	(32,635)
	Total assets less current liabilities	**175,720**	**162,624**
	Net assets	**175,720**	**162,624**
	Equity attributable to equity shareholders		
15	Called-up share capital	1,912	1,913
16	Capital redemption reserve	1	–
17	Share premium	1,576	1,576
18	Distributable reserve	165,533	165,533
19	Capital reserve	3,957	(8,742)
	Revenue reserve	2,741	2,344
	Total equity	**175,720**	**162,624**
20	Net asset value per ordinary share	91.87p	85.00p

The financial statements were approved by the Board of Directors and authorised for issue on 5 July 2021 and were signed on its behalf by:

Angus Macpherson
Chairman

The notes on pages 62 to 78 form part of these financial statements

Statement of Cash Flows

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Operating activities		
Net profit before tax	21,578	4,780
Interest payable	332	465
Gains on investments at fair value through profit or loss	(13,530)	(1,683)
Losses on foreign exchange transactions at fair value through profit or loss	58	4,514
Net receipts/(payments) on settlement of forward foreign exchange contracts	13,965	(8,849)
Net payments on credit default swaps	(46)	(1,573)
Increase in prepayments and accrued income	(9)	(19)
(Decrease)/increase in other creditors	(7)	7
Purchases of investments	(92,980)	(92,690)
Sales of investments	85,747	91,120
Net cash inflow/(outflow) from operating activities before finance costs[1]	**15,108**	**(3,928)**
Interest paid	(343)	(452)
Taxation paid on investment income	(22)	(5)
Net cash inflow/(outflow) from operating activities	**14,743**	**(4,385)**
Financing activities		
Equity dividends paid	(8,418)	(8,362)
Issue of ordinary shares	–	1,593
Buy-back of ordinary shares	(42)	–
Drawdown of bank overdraft	548	317
(Repayment)/drawdown of loans	(6,573)	14,108
Net cash (outflow)/inflow from financing activities	**(14,485)**	**7,656**
Increase in cash and cash equivalents	**258**	**3,271**
Cash and cash equivalents at start of year	3,735	525
Exchange movements	204	(61)
Cash and cash equivalents at 30 April	**4,197**	**3,735**

1 Cash inflow from interest income was £8,888,000 (2020: £9,302,000) and cash inflow from dividends was £264,000 (2020: £264,000)

The notes on pages 62 to 78 form part of these financial statements

Notes to the Financial Statements

1 General information

The Company was incorporated on 23 February 2017. On 26 April 2017, the directors of its predecessor company, Henderson Diversified Income Limited (predecessor company), placed the Jersey domiciled company into a Jersey Summary Winding Up and transferred the shareholdings and assets and liabilities of the predecessor company to the Company. The Company is a registered investment company incorporated and domiciled in the United Kingdom under the Companies Act 2006.

2 Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs). These comprise standards and interpretations approved by the International Accounting Standards Board (IASB), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the IFRS Interpretations Committee (IFRS IC) that remain in effect, to the extent that IFRSs have been adopted by the European Union.

b) Accounting standards

i) The following new and amended standards are applicable to the Company and have been adopted:

Standards		**Effective for annual periods beginning on or after**
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IAS 1, 8, 34, 37, 38 and IFRS 2, 3, 6, 14 Amendments	References to the Conceptual Framework	1 January 2020
IAS 39, IFRS 7 and 9 Amendments	Interest Rate Benchmark Reform (Phase 1)	1 January 2020
IFRS 3 Amendment	Definition of a Business	1 January 2020
Interpretations		**Effective for annual periods beginning on or after**
IFRIC 12, 19, 20, 22 and SIC 32 Amendments	References to the Conceptual Framework	1 January 2020

The adoption of these standards has had no impact on the financial statements.

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

Standards		**Effective for annual periods beginning on or after**
IAS 1 Amendments	Classification of Liabilities as current or non-current	1 January 2023
IAS 1 Amendments	Disclosure of Accounting Policies	1 January 2023
IAS 8 Amendments	Definition of Accounting Estimates	1 January 2023
IAS 16 Amendments	Proceeds before intended use	1 January 2022
IAS 37 Amendments	Onerous Contracts – cost of fulfilling a contract	1 January 2022
IAS 39, IFRS 4, 7, 9 and 16 Amendments	Interest Rate Benchmark Reform (Phase 2)	1 January 2021
IAS 41, IFRS 1, 9 and 16 Amendments	Annual Improvements 2018-20 Cycle	1 January 2022
IFRS 3 Amendments	Reference to the Conceptual Framework	1 January 2022
IFRS 4 Amendments	Extension of IFRS 9 Deferral	1 January 2023
IFRS 16 Amendments	Leases COVID-19 Related Rent Concessions	1 June 2020
IFRS 16 Amendments	COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
IFRS 17	Insurance Contracts	1 January 2023
IFRS 17 Amendments	Amendments to IFRS 17	1 January 2023

The directors expect that the standards issued not yet effective will have either no impact or that any impact will not be material on the financial statements of the Company in future periods.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

c) Going concern

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts issued by the Association of Investment Companies (AIC) in October 2019 is consistent with the requirements of IFRSs, the Directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

The directors have considered the impact of COVID-19, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio. They have concluded that they are able to meet their financial obligations, including the repayment of the bank loans, as they fall due for a period of at least twelve months from the date of issuance. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

d) Significant accounting judgments and estimates

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements; however, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future. As the majority of the Company's financial assets are quoted securities, in the opinion of the directors, the amounts included as assets and liabilities in the financial statements are not subject to significant judgments, estimates or assumptions.

e) Investments at fair value through profit or loss

The investments are managed as a portfolio on a fair value basis. All investments are accounted upon initial recognition at fair value through profit or loss. This is consistent with the Company's investment strategy and fair value information on these investments which is provided to the Board. Assets are recognised at the trade date of acquisition and are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the Company's Statement of Financial Position date, without deduction of the estimated future selling costs.

Fair value for quoted investments represents the bid-market value as at the close of business at the Company's Statement of Financial Position date. Fair value for unquoted investments or where a market value is not readily available is based on Janus Henderson's assessment of the value of the investment. Overseas investments are translated into sterling at the exchange rate ruling at the year end.

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

f) Income

Income from fixed interest securities is recognised based on the coupon payable by the instrument adjusted to spread any premium or discount on purchase or redemption over the instrument's remaining life. Bank interest and premiums on credit default swaps are recognised on an accruals basis within the revenue return column of the Statement of Comprehensive Income. In the event of a default, the income for the relevant year is allocated to capital to reduce the capital loss arising. Dividends receivable from equity shares are included in revenue on an ex-dividend basis.

g) 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 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 and the other 50% to revenue.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

h) Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using the rate of corporation tax for the accounting year.

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

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

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

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

i) Foreign currency

The results and financial position of the Company is expressed in pounds sterling, which is the functional and presentational currency of the Company because it is the currency of the primary economic environment in which the Company operates. 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 year are translated into sterling at the appropriate daily exchange rates. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a capital or revenue nature.

Assets and liabilities denominated in overseas currencies at the Company's Statement of Financial Position date are translated into sterling at the exchange rates ruling at that date.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits excluding bank loans. Cash equivalents have a term of three months or less, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risks of changes in value.

k) 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 costs, including direct issue costs and interest payable on settlement or redemption, are accounted for on an accruals basis in the Company's Statement of Comprehensive Income using the effective interest rate method.

Gains and losses are recognised through profit or loss when the loans are de-recognised, as well as through the amortisation process. The Company de-recognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

l) Derivative financial instruments

Derivative financial instruments, including credit default swaps and interest rate derivatives, are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured 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. All gains or losses resulting from forward currency exchange contracts are allocated to the capital return. Credit default swaps (CDSs) are carried at the fair value and the net capital gains/(losses) are reflected within the 'gains on investments at fair value through profit or loss'.

CDSs are credit derivatives and fair value is deemed to be discounted present value with reference to calculation of fee leg and contingent leg, adjusted for accrued interest on the contract date and the likelihood of default. Changes in value of CDSs are allocated wholly to capital reserves.

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

m) Equity and reserves

Called up share capital represents the nominal value of ordinary shares issued.

The capital redemption reserve represents the nominal value of ordinary shares bought-back by the company for cancellation.

The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

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

The distributable reserve was created on cancellation of the share premium account on 20 September 2017.

The following are accounted for in the 'capital reserve':

- Expenses and finance costs charged to capital;
- Gains and losses on the disposal of investments;
- Realised foreign exchange differences of a capital nature;
- Costs of repurchasing ordinary share capital;
- Increases and decreases in the valuation of investments held at the year end; and
- Unrealised foreign exchange differences of a capital nature.

n) Distributable reserves

Dividends can be paid from the revenue reserve, the distributable reserve and realised capital reserves.

o) Dividends

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

p) IFRS 8 disclosures

Under IFRS 8, operating segments are considered to be components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The directors meet regularly to consider investment strategy and monitor the Company's performance. The Fund Managers, who have been appointed to manage the Company's investments, attend all Board meetings at which investment strategy and performance are discussed. The directors consider that the Company has one operating segment, being activity of investing in debt securities and derivatives in accordance with the Company's published investment objective.

All of the Company's activities are interrelated and each activity is dependent on the others. The business is not managed on a geographical basis, however an analysis of investments by country has been provided on page 15. Further analyses of expenses, investment gains or losses, profit and other assets and liabilities by country have not been given as either it is not possible to prepare such information in a meaningful way or the results are not considered to be significant.

In the year under review the Company was not exposed to a single investment that generated revenue greater than 10% of total revenue (2020: nil).

q) Other payables and receivables

Other payables and receivables are included in the Statement of Financial Position at fair value or a reasonable approximation of fair value

Notes to the Financial Statements (continued)

3 Investment income

	2021 £'000	2020 £'000
Income from investments:		
Dividend income	264	264
Bond and loan interest	8,532	8,831
Premiums on credit default swaps	1,239	453
	10,035	**9,548**

4 Other operating income

	2021 £'000	2020 £'000
Bank and other interest	10	11
	10	**11**

5 Management fee

	2021			2020		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Investment management fee	566	565	1,131	535	534	1,069

A summary of the terms of the management agreement are given in the Strategic Report on page 24.

6 Other expenses

	2021 £'000	2020 £'000
Directors' fees and expenses	144	146
Auditors remuneration – for audit services	54	45
Other expenses payable to the management company (marketing)	60	60
Bank and custody charges	32	13
Depositary fees	28	26
Registrar's fees	17	19
AIC subscriptions	10	13
Printing expenses	25	8
Listing fees	22	20
Other expenses	84	64
	476	**414**

7 Finance costs

	2021			2020		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
On bank loans and overdrafts payable within one year	166	166	332	233	232	465

Notes to the Financial Statements (continued)

8 Taxation

In the opinion of the directors, the Company has complied with the requirements of Section 1158 and Section 1159 of the Corporation Tax Act 2010 and will therefore be exempt from corporation tax on any capital gains reflected in the capital return during the year. The Company has elected to designate all of the proposed and paid dividends as an interest distribution to its shareholders. This distribution is treated as a tax deduction against taxable income in the revenue return and results in a reduction of corporation tax being payable by the Company at 30 April 2021.

The standard rate of corporation tax in the UK was 19% for the year. However, the tax charge in the current year was lower than the standard effective tax rate, largely due to the reduction in corporation tax from the interest distribution noted above. The effect of this and other items affecting the tax charge is shown in note 8b) below.

a) Analysis of charge in the year

	2021 Revenue return £'000	**2021** Capital return £'000	**2021** Total £'000	2020 Revenue return £'000	2020 Capital return £'000	2020 Total £'000
Current tax:						
Overseas withholding tax	22	–	22	5	–	5
Total tax charge for the year	**22**	**–**	**22**	**5**	**–**	**5**

b) Factors affecting the current tax charge for the year

	2021 Revenue return £'000	**2021** Capital return £'000	**2021** Total £'000	2020 Revenue return £'000	2020 Capital return £'000	2020 Total £'000
Net return before taxation	8,837	12,741	21,578	8,377	(3,597)	4,780
UK corporation tax charge at 19%	1,679	2,421	4,100	1,592	(683)	909
Effects of:						
UK dividends	(50)	–	(50)	(50)	–	(50)
Currency (gains)/losses	–	(2,692)	(2,692)	–	1,693	1,693
Realised/unrealised losses/(gains) on investments	–	132	132	–	(1,155)	(1,155)
Income being paid as interest distribution	(1,549)	–	(1,549)	(1,592)	–	(1,592)
(Utilised)/excess management expenses and loan relationships	(80)	139	59	50	145	195
Irrecoverable overseas withholding tax	22	–	22	5	–	5
Total tax charge for the year	**22**	**–**	**22**	**5**	**–**	**5**

c) Provision for deferred taxation

No provision for deferred taxation has been made in the current or previous year.

The Company has not provided for deferred taxation on capital gains or losses arising on the revaluation in investments as it is exempt from tax on these items because of its status as a investment trust company, which it intends to maintain for the foreseeable future.

The Company has not recognised a deferred tax asset totalling £803,000 (2020: £744,000) based on the prospective corporation tax rate of 19%. The deferred tax asset arises as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised, to any material extent, if the Company has profits chargeable to corporation tax in the future because changes are made either to the tax treatment of the capital gains made by investment trusts or to the Company's investment profile which require them to be used.

d) Factors that may affect future tax charges

With effect from 1 April 2023 the prospective corporation tax rate on which this is based will increase to 25%.

This change has not been substantively enacted at year end and therefore does not change the value at which the deferred tax asset that has not been recognised has been disclosed.

Notes to the Financial Statements (continued)

9 Earnings/(loss) per ordinary share

The total earnings per ordinary share figure is based on the net profit attributable to the ordinary shares of £21,556,000 and on 191,312,174 ordinary shares (2020: £4,775,000 on 190,017,557 ordinary shares) being the weighted average number of ordinary shares in issue during the year.

The total earnings can be further analysed as follows:

	2021 £'000	2020 £'000
Revenue profit	8,815	8,372
Capital gain/(loss)	12,741	(3,597)
Profit for the year	**21,556**	**4,775**
Weighted average number of ordinary shares	191,312,174	190,017,557
Revenue earnings per ordinary share	4.61p	4.40p
Capital earnings per ordinary share	6.66p	(1.89p)
Earnings per ordinary share	**11.27p**	**2.51p**

The Company does not have any dilutive securities therefore basic and diluted earnings are the same.

10 Dividends

Dividends on ordinary shares	Record date	Payment date	**2021 £'000**	2020 £'000
Fourth interim dividend (1.10p) for the year ended 30 April 2020 (2019 – 1.10p)	5 June 2020	30 June 2020	2,104	2,086
First interim dividend (1.10p) for the year ended 30 April 2021 (2020 – 1.10p)	4 September 2020	30 September 2020	2,105	2,086
Second interim dividend (1.10p) for the year ended 30 April 2021 (2020 – 1.10p)	4 December 2020	31 December 2020	2,104	2,086
Third interim dividend (1.10p) for the year ended 30 April 2021 (2020 – 1.10p)	5 March 2021	31 March 2021	2,105	2,104
			8,418	**8,362**

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 30 April 2021.

	For the year ended 30 April 2021 £'000	For the year ended 30 April 2020 £'000
Revenue available for distribution by way of dividends	8,815	8,372
First interim dividend	(2,105)	(2,086)
Second interim dividend	(2,104)	(2,086)
Third interim dividend	(2,105)	(2,104)
Fourth interim dividend	(2,104)	(2,104)
	397	**(8)**

Notes to the Financial Statements (continued)

11 Investments at fair value through profit or loss

	2021 Total £'000	2020 Total £'000
Cost at beginning of year	181,605	176,134
Holding gains	6,040	4,663
Valuation at beginning of year	**187,645**	**180,797**
Movements		
Purchases at cost	99,142	94,102
Sales – proceeds	(82,760)	(94,107)
(Losses)/gains on investments	(1,875)	6,853
Valuation at end of year	**202,152**	**187,645**
Cost at end of year	201,154	181,605
Holding gains	998	6,040
Valuation at end of year	**202,152**	**187,645**

Gains on investments at fair value through profit or loss	2021 £'000	2020 £'000
Realised gains on sales of investments at fair value through profit or loss	3,167	5,476
Movement in investment holdings gains/(losses) at fair value through profit or loss	7,530	(1,828)
Realised gains/(losses) on sales of credit default swaps at fair value through profit or loss	3,593	(2,866)
(Losses)/gains on credit default swaps held at fair value through profit or loss	(760)	901
	13,530	**1,683**

The Company received £84,866,000 (2020: £94,107,000) from investments sold in the year. The book cost of these investments when they were purchased was £81,699,000 (2020: £88,631,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

During the year expenses amounting to £nil (2020: £2,000) were incurred in acquiring or disposing of investments 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 Statement of Comprehensive Income.

12 Other receivables

	2021 £'000	2020 £'000
Amounts due from brokers	–	2,987
Prepayments and accrued income	2,492	2,483
Credit default swaps at fair value through profit or loss	2,972	93
Currency forward exchange contracts at fair value through profit or loss	–	564
	5,464	**6,127**

13 Other payables

	2021 £'000	2020 £'000
Amounts due to brokers	7,574	1,412
Bank overdraft	865	317
Interest payable	20	31
Other payables	481	488
Currency forward exchange contracts at fair value through profit or loss	1,091	–
	10,031	**2,248**

Notes to the Financial Statements (continued)

14 Risk management policies and procedures

14.1 Market risk

Janus Henderson assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

14.1.1 Market price risk

Market price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of quoted and unquoted investments.

Management of the risk

The Board manages the risks inherent in the investment policy by setting allocation limits (pages 19 to 20) and monitoring this asset allocation in the portfolio through regular and timely reporting of relevant information from Janus Henderson. Investment performance is reviewed at each Board meeting. The Board monitors Janus Henderson's compliance with the Company's objectives and is directly responsible for investment strategy and asset allocation.

The Company's exposure to changes in market prices on its investments was as follows:

	2021 £'000	2020 £'000
High yield bonds	130,450	105,415
Investment grade bonds	49,203	67,271
Secured loans	13,335	9,553
Preference stock	7,477	3,722
Asset backed securities	1,687	1,684
	202,152	**187,645**

The following table illustrates the sensitivity of the profit after taxation for the year and the Company's net assets to an increase or decrease of 10% in the fair values of the Company's investments at each Statement of Financial Position date. This level of change is considered to be reasonably possible based on observation of current market conditions.

	2021		2020	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Statement of Comprehensive Income – profit after tax				
Revenue return	(53)	53	(49)	49
Capital return	20,162	(20,162)	18,716	(18,716)
Change to profit after tax for the year and net assets	**20,109**	**(20,109)**	**18,667**	**(18,667)**

14.1.2 Currency risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and presentation currency). 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 Company'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 Company 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 Company 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 Company's monetary items at 30 April is shown on page 71. Where the Company's investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.1.2 Currency risk (continued)

	2021			2020		
	AUD	US$	EURO	AUD	US$	EURO
Investments at fair value through profit or loss	2,099	129,689	25,777	1,903	144,035	5,272
Receivables (due from brokers, dividends and other income receivables)	12	1,415	379	14	4,382	185
Cash at bank and on deposit/(bank overdraft)	–	3	(3,065)	–	–	(317)
Payables (due to brokers, accruals and creditors)	–	(2,552)	(3,174)	–	(641)	(651)
Forward currency sales	(2,111)	(128,281)	(22,760)	(1,909)	(147,535)	(4,725)
Credit default swaps	–	–	2,972	–	–	93
	–	**274**	**129**	**8**	**241**	**(143)**

The above amounts are not necessarily representative of the exposure risk during the year as levels of monetary foreign currency exposure change significantly throughout the year.

Foreign currency sensitivity

A 10% increase or decrease in the Euro/Sterling exchange rate would increase or decrease total equity by £13,000 (2020: £14,000).
A 10% increase or decrease in the US/Sterling exchange rate would increase or decrease total equity by £27,000 (2020: £24,000).
A 10% increase or decrease in the AUD/Sterling exchange rate would increase or decrease total equity by £nil (2020: £1,000).

10% has been used for illustrative purposes and does not reflect the actual movement in currency rates during the year.

The above percentages are deemed reasonably possible based on the average market volatility in exchange rates in recent years. The sensitivity analysis is based on the Company's foreign currency financial assets and financial liabilities held at the Statement of Financial Position date, with all other variables held constant.

14.1.3 Interest rate risk

Interest rate movements may affect:

- the fair value of fixed interest securities (bonds, loans and interest rate futures); and
- the level of income receivable from fixed interest securities because as the Company reinvests income, a change in rates will impact the rate that the reinvested money will yield; and
- the level of income from cash at bank and on deposit; and
- the interest payable on the Company'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 Board supports the Fund Managers' use of interest rate derivatives to mitigate interest rate risk and manage duration.

The Company, generally, will not hold significant cash balances, with short-term borrowings being used when required. The Company had no interest rate futures in place at 30 April 2021 (2020: £nil).

Interest rate exposure

The exposure at 30 April 2021 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; and

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

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.1.3 Interest rate risk (continued)

	2021 Within one year £'000	2021 One to five years £'000	2021 More than five years £'000	2021 Total £'000	2020 Within one year £'000	2020 One to five years £'000	2020 More than five years £'000	2020 Total £'000
Exposure to floating interest rates:								
Investments at fair value through profit or loss	–	5,063	17,436	22,499	–	3,612	11,875	15,487
Cash and cash equivalents	4,197	–	–	4,197	3,735	–	–	3,735
Bank overdraft	(865)	–	–	(865)	(317)	–	–	(317)
Bank loan	(26,062)	–	–	(26,062)	(32,635)	–	–	(32,635)
	(22,730)	**5,063**	**17,436**	**(231)**	**(29,217)**	**3,612**	**11,875**	**(13,730)**
Exposure to fixed interest rates:								
Investments at fair value through profit or loss	–	25,416	154,237	179,653	1,141	14,230	156,787	172,158
	–	**25,416**	**154,237**	**179,653**	**1,141**	**14,230**	**156,787**	**172,158**

At 30 April 2021 and 2020, the Company had no exposure to interest rate futures and swaps, other than the credit default swaps.

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; and
- The weighted average effective interest rate of the Company's investments is 5.1% (2020: 5.3%).

Interest rate sensitivity

The Company is primarily exposed to interest rate risk through cash balances and fixed income investments. The sensitivity of each exposure is as follows:

- Cash – Cash balances vary throughout the year. Cash balances at the year end were £4,197,000 (2020: £3,735,000) and, if that level of cash was maintained for a full year, a 100 basis points change in LIBOR (up or down) would increase or decrease total return on activities after taxation by approximately £42,000 (2020: £37,000).
- Fixed income investment sensitivity – The Company's investment portfolio at 30 April 2021 was valued at £194,675,000 (2020: £183,395,000) and has a modified duration (interest rate sensitivity) of approximately 6.07 years (2020: 6.75 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 return by approximately £11,817,000 (2020: £12,379,000) over the period to maturity.
- Interest on borrowings – The level of borrowings varies throughout the year. Borrowings at the year end were £26,062,000 (2020: £32,635,000) and if that level of borrowings was maintained for a full year, a 100 basis change in LIBOR (up or down) would decrease or increase total return on activities after taxation by approximately £261,000 (2020: £326,000).

14.2 Liquidity risk

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

Management of the risk

Liquidity risk is monitored by Janus Henderson 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, should be able to be realised at or around the prevailing bid prices. The corporate bond portfolio is generally considered more liquid than the loan portfolio. The Company also has a multicurrency loan facility with BNPPSS of £45,500,000 (£35,500,000 with an additional £10,000,000 commitment being available), of which £26,062,000 was drawn down at 30 April 2021 (2020: £32,635,000 with the previous ScotiaBank facility). The loan facility with BNPPSS was renewed with effect from 1 July 2021 on a 1-year term and will therefore expire on 30 June 2022. The facility between BNPPSS and the Company is secured by a first priority security interest over all the assets of the Company. The Board gives guidance to Janus Henderson as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should remain fully invested in normal market conditions and that short-term borrowings be used to manage short-term cash requirements.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.2 Liquidity risk (continued)

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 30 April, based on the earliest date on which payment can be required was as follows:

	At 30 April 2021				At 30 April 2020			
	3 months or less £'000	More than 3 months, less than one year £'000	More than one year £'000	Total £'000	3 months or less £'000	More than 3 months, less than one year £'000	More than one year £'000	Total £'000
Current liabilities								
Amounts due to brokers, accruals and tax payable	9,146	–	–	9,146	1,900	–	–	1,900
Interest accrual on bank loan	20	–	–	20	31	–	–	31
Bank overdraft	865	–	–	865	317	–	–	317
Bank loan	26,062	–	–	26,062	32,635	–	–	32,635
	36,093	**–**	**–**	**36,093**	**34,883**	**–**	**–**	**34,883**

The asset maturity of the bond portfolio as at 30 April was as follows:

	Value at 2021					
	Less than 5 years £'000	More than 5 years, less than 10 years £'000	More than 10 years, less than 20 years £'000	More than 20 years £'000	Perpetuity £'000	Total £'000
High yield bonds	22,456	87,474	893	2,977	16,650	130,450
Investment grade bonds	2,961	23,108	10,941	9,199	2,994	49,203
Secured loans	5,062	8,273	–	–	–	13,335
Preference stock	–	–	–	–	7,477	7,477
Asset backed securities	–	–	1,687	–	–	1,687
	30,479	**118,855**	**13,521**	**12,176**	**27,121**	**202,152**

	Value at 2020					
	Less than 5 years £'000	More than 5 years, less than 10 years £'000	More than 10 years, less than 20 years £'000	More than 20 years £'000	Perpetuity £'000	Total £'000
High yield bonds	13,120	76,814	1,869	–	13,612	105,415
Investment grade bonds	2,252	44,245	6,504	10,006	4,264	67,271
Secured loans	3,613	5,940	–	–	–	9,553
Preference stock	–	–	–	–	3,722	3,722
Asset backed securities	–	–	1,684	–	–	1,684
	18,985	**126,999**	**10,057**	**10,006**	**21,598**	**187,645**

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.3 Credit risk

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

Management of the risk

The risk is significant, and is managed as follows:

- where Janus Henderson 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 Company 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 Company of default;
- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by Janus Henderson and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings (currently BNPPSS (London) whose credit rating is A1.

Credit derivatives are used as a way of managing the aggregate credit exposure of the Company 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 Company then any net long exposure would act as synthetic gearing. Credit default swaps are used by Janus Henderson for two purposes. By selling protection (going long risk) Janus Henderson can increase the Company's exposure to a particular reference entity. In return for taking this credit risk the Company 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 30 April 2021, the Company had gross exposure of nil (2020: nil) to a single named credit default swap. At 30 April 2021, the gross exposure to ITRAXX indices was £27,317,000 (2020: £23,973,000) and exposure of £27,317,000 (2020: £23,973,000) where protection has been sold.

By contrast Janus Henderson 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 30 April 2021 the protection purchased was nil (2020: nil).

The credit quality of bonds and secured loans is reviewed in the Fund Managers' Report and Investment Portfolio on pages 8 to 10 and pages 12 to 15 respectively. None of the Company's financial assets are past due or impaired.

The credit ratings of the investment portfolio are detailed in the table below:

Rating	**2021 Market value £'000**	**2021 % of portfolio**	2020 Market value £'000	2020 % of portfolio
A	2,266	1.1	5,524	3.0
BBB	48,401	24.0	62,336	33.2
BB	62,798	31.1	57,297	30.5
B	43,720	21.6	41,155	21.9
CCC	9,334	4.6	589	0.3
Non-rated	22,298	11.0	11,191	6.0
Secured loans	13,335	6.6	9,553	5.1
	202,152	**100.0**	**187,645**	**100.0**

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.4 Fair values of financial assets and financial liabilities

Financial assets and financial liabilities, are either carried in the Statement of Financial Position at their fair value (investments and derivatives) or the Statement of Financial Position 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 Statement of Comprehensive Income for the year was a loss of £1,655,000 (2020: gain of £1,191,000). The forward currency transactions serve to hedge back the value of AUD Dollar, Euro and US Dollar denominated securities to sterling.

Credit default swaps are fair valued. The amount of change in fair value recognised in the Statement of Comprehensive Income for the year for credit default swaps was a gain of £2,833,000 (2020: loss of £1,965,000).

14.5 Fair value hierarchy

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

2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit or loss:				
Investments	184,055	18,097	–	202,152
Credit default swaps	–	2,972	–	2,972
	184,055	**21,069**	**–**	**205,124**
Financial liabilities at fair value through profit or loss:				
Currency forward exchange contracts	–	1,091	–	1,091
	–	**1,091**	**–**	**1,091**

2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Investments	178,092	9,553	–	187,645
Credit default swaps	–	93	–	93
Currency forward exchange contracts	–	564	–	564
	178,092	**10,210**	**–**	**188,302**
Financial liabilities at fair value through profit or loss:	–	–	–	–
	–	**–**	**–**	**–**

There have been no transfers between levels of the fair value hierarchy during the year. Transfers between levels of fair value hierarchy are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

At the end of the year, the levels of each investment have been assessed in line with the criteria below. Any investments that did not meet the level 1 criteria have been classified as level 2. This will include the transfer of any investments where there is insufficient liquidity in trading volumes at the year end.

With exception of the above there have been no transfers between levels of the fair value hierarchy during the period. Transfers between levels of fair value hierarchy are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

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

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

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1. Secured loans are valued taking into account latest dealing prices, broker quotes and valuations from independent valuation providers. Credit default swaps are valued taking into account inputs including interest rates, yield curves, volatilities, credit risks, loss severities and default rates. Please refer to note 14.4 and note 2l) for further detail on the valuation policy of the forward currency contracts and credit default swaps; and

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data. There were no transfers to or from Level 3 during the year.

Notes to the Financial Statements (continued)

14 Risk management policies and procedures (continued)

14.6 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it has sufficient capital to operate; 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 40% of equity.

The Company had borrowings totalling £26,062,000 at 30 April 2021 (2020: £32,635,000).

As at 30 April 2021, the ratio of borrowings to net assets under the facilities was 14.8% (2020: 20.1%).

The Board with the assistance of Janus Henderson monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing which takes into account the Fund Managers 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 distributable capital reserves should be used to make dividend payments and the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to the following externally imposed capital requirement: – as a public company, the Company has a minimum share capital of £50,000;

- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the capital restrictions tests imposed on investment companies by law and its Articles of Association; and
- under the existing loan facility if at any time the Company's Loan To Value (LTV) Ratio with respect to the Borrower exceeds the Maximum LTV Ratio (as defined in the agreement), the Company shall within three Business Days be required to prepay the outstanding principal of the Loans in such amount as shall be necessary to reduce the LTV Ratio to equal to or less than 97% of the Maximum LTV Ratio.

The Company has complied with these requirements during the year.

15 Share capital

	2021 Number of shares entitled to dividend	2021 Total number of shares	2021 Nominal value of shares £'000
Ordinary shares of 1p each			
At start of year	191,318,240	191,318,240	1,913
Buy-back of shares	(51,207)	(51,207)	(1)
Closing balance at 30 April	**191,267,033**	**191,267,033**	**1,912**

	2020 Number of shares entitled to dividend	2020 Total number of shares	2020 Nominal value of shares £'000
Ordinary shares of 1p each			
At start of year	189,618,240	189,618,240	1,896
Issue of shares	1,700,000	1,700,000	17
Closing balance at 30 April	**191,318,240**	**191,318,240**	**1,913**

During the year to 30 April 2021 51,207 ordinary shares were bought back at a cost of £42,000 (2020: 1,700,000 ordinary shares were issued for proceeds of £1,593,000). On 30 June 2021 a further 1,210,000 ordinary shares were bought back at a cost of £1,031,000.

The holders of ordinary shares are entitled to all the capital growth in the Company and all the income from the Company that is resolved by the directors to be distributed. Each shareholder present at a general meeting has one vote on a show of hands and on a poll every member present in person or by proxy has one vote for each share held.

Notes to the Financial Statements (continued)

16 Capital redemption reserve

	2021 £'000	2020 £'000
At start of year	–	–
Buy-back of shares	1	–
At 30 April	**1**	**–**

17 Share premium account

	2021 £'000	2020 £'000
At start of year	1,576	–
Issue of shares	–	1,576
At 30 April	**1,576**	**1,576**

18 Distributable reserve

	2021 £'000	2020 £'000
At start of year	165,533	165,533
At 30 April	**165,533**	**165,533**

19 Capital reserves

	2021			2020		
	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000	Capital reserve arising on revaluation on investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At start of year	7,689	(16,431)	(8,742)	4,679	(9,824)	(5,145)
Exchange movements[1]	(14,227)	14,169	(58)	3,937	(8,451)	(4,514)
Movement in unrealised depreciation/appreciation[1]	7,530	–	7,530	(1,828)	–	(1,828)
Gains on investments	–	3,167	3,167	–	5,476	5,476
Costs charged to capital	–	(731)	(731)	–	(766)	(766)
Cost of share buy-backs	–	(42)	(42)	–	–	–
Movement in credit default swaps	(760)	3,593	2,833	901	(2,866)	(1,965)
At end of year	**232**	**3,725**	**3,957**	**7,689**	**(16,431)**	**(8,742)**

1 There has been a transfer of £12,572,000 (2020: £3,205,000) foreign exchange movements between these lines to reflect how the forward foreign exchange contracts hedge the portfolio

20 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 30 April 2021 of £175,720,000 (2020: £162,624,000) and on 191,267,033 (2020: 191,318,240) ordinary shares, being the number of ordinary shares in issue at the year end.

Notes to the Financial Statements (continued)

21 Reconciliation of liabilities arising from financing activities

	At start of year £'000	Cash flows £'000	Exchange movements £'000	Other non-cash movements £'000	30 April 2021 £'000
Bank overdraft	317	548	–	–	865
Bank loans (see Note 14.2)	32,635	(6,573)	–	–	26,062
	32,952	**(6,025)**	**–**	**–**	**26,927**

	At start of year £'000	Cash flows £'000	Exchange movements £'000	Other non-cash movements £'000	30 April 2020 £'000
Bank overdraft	–	317	–	–	317
Bank loans (see Note 14.2)	18,527	14,108	–	–	32,635
	18,527	**14,425**	**–**	**–**	**32,952**

22 Contingent liabilities

There were no contingent liabilities as at 30 April 2021 (2020: nil).

23 Transactions with the Manager

Under the terms of an agreement effective from 3 March 2017, the Company appointed Janus Henderson to provide investment management, accounting, administrative and secretarial services. Janus Henderson has contracted with BNPPSS to provide accounting and administration services. Details of the management fee arrangements for these services are given in the Strategic Report on page 24. The total fees paid or payable under this agreement to Janus Henderson in respect of the year ended 30 April 2021 were £1,131,000 (2020: £1,069,000) (see note 5) of which £378,000 (2020: £335,000) is included in the accruals at 30 April 2021.

In addition to the above services, Janus Henderson facilitates marketing activities with third parties which are recharged by Janus Henderson to the Company. Total amounts paid to Janus Henderson in respect of these third-party marketing activities for the year ended 30 April 2021 amounted to £60,000 (2020: £60,000).

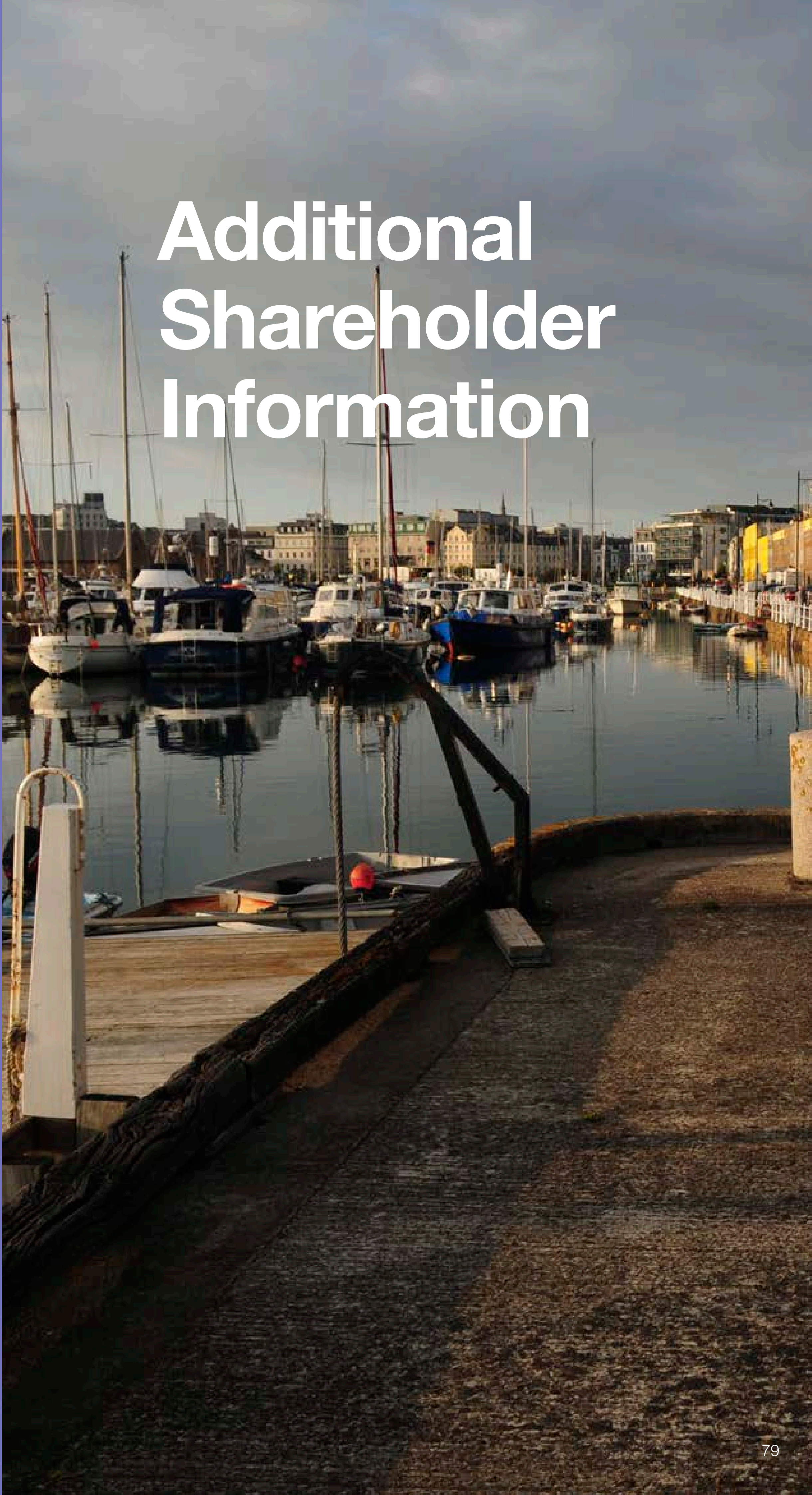
The compensation payable to key management personnel is in respect of the short-term employment benefits was £143,000 (2020: £139,000). The disclosure relates wholly to the fees of £143,000 (2020: £139,000) payable to the directors in respect of the year; the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 44 to 46 provides more details. The Company has no employees.

24 Subsequent Events

On 30 June 2021, the Company re-purchased 1,210,000 shares for cancellation at a price of 85.00p per share. Following the above purchase, the Company's issued ordinary share capital was 190,057,033 ordinary shares of 1p each. No shares are held in Treasury. Therefore, the total number of voting rights in the Company is 190,057,033.

The directors have evaluated the period since the year end and have not noted any other subsequent events.

Additional Shareholder Information



Glossary

Alternative Investment Fund Managers Directive (AIFMD)

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

Alternative Performance Measures (APM)

A glossary of alternative performance measures can be found on pages 82 to 83.

Asset Backed Security

An asset backed security is a type of financial investment that is collateralised by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, or receivables. It takes the form of a bond or note, paying income at a fixed rate for a set amount of time, until maturity.

Association of Investment Companies (AIC)

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities. The Company's AIC sector is Debt – Loans & Bonds.

Benchmark

An index against which performance is compared. The Company's benchmark is the average return on a rolling annual basis of three month sterling LIBOR + 2%.

Credit Default Swaps

A financial contract whereby a buyer of corporate or sovereign debt in the form of bonds attempts to eliminate possible loss arising from default by the issuer of the bonds. The swap agreement is such that the seller of the agreement will compensate the buyer in the event of a loan default. The buyer does not need to hold the loan instrument to buy the swap.

Custodian

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

Depositary

As an AIF the Company is required to appoint a Depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings. The Depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The Depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

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

Dividend Dates

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

Floating Rate Asset

Bonds that have a variable coupon, equal to a money market reference rate, like LIBOR, plus a quoted spread. The spread is a rate that remains constant.

High Yield Bonds

These bonds are considered more risky than investment grade bonds and as a result may pay 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.

Interest Rate Futures

A financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. They are used to hedge against the risk that interest rates will move in an adverse direction.

Glossary (continued)

Interest Rate Swaps

A contract to exchange fixed payments for floating payments linked to an interest rate, and is generally used to manage exposure to fluctuations in interest rates.

Interest Streaming

An investment company may elect to pay distributions to shareholders as interest in order to reduce the taxable profits of the investment company, known as "interest streaming". An interest distribution still has the status of a dividend as a matter of company law and is paid in cash in the same way that a dividend is paid. The receipt of interest distributions by a shareholder who is resident in the UK will be taxed as though that shareholder received interest income and not at the rates that would be applied to dividends. Investors who have invested through a tax exempt wrapper (e.g. ISA or SIPP) should be exempt from tax on both dividends and interest distributions.

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.

Investment Trusts

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

London Interbank Offered Rate (LIBOR)

London Interbank Offered Rate – the inter-bank lending rate in the UK which is a market standard reference rate.

Liquidity

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

Market Capitalisation

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

Preference Stock

Preferred stock refers to a class of ownership that has a higher claim on assets and earnings than common stock has.

Retail Price Index

An inflationary indicator that measures the change in the cost of a fixed basket of retail goods.

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 usually 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.

Sterling Overnight Index Average Rate (SONIA)

The effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. It is used for overnight funding for trades that occur in off-hours and represents the depth of overnight business in the marketplace.

The Sterling Overnight Interbank Average Rate provides traders and financial institutions with an alternative to the LIBOR, as a benchmark interest rate for short-term financial transactions.

Alternative Performance Measures (Unaudited)

The Company uses the following Alternative Performance Measures (APMs) throughout the annual report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative below.
The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders to help assess the Company's performance against its peer group.

Discount or Premium

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

	NAV pence	Share price pence	Premium/ (discount) to NAV %
At 30 April 2021	91.87	88.00	(4.4)
At 30 April 2020	85.00	83.00	(2.4)

Financial Gearing

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

		2021	2020
Investments at fair value through profit or loss (£'000) (page 60)	(A)	202,152	187,645
Net assets (£'000) (page 60)	(B)	175,720	162,624
Gearing (A/B)/B - 1 (%)	(C)	15.0	15.4

Synthetic Gearing

Synthetic gearing is the gearing effect of investing in credit derivatives including interest rate derivatives. This is calculated as the gross market value of the exposure to derivatives divided by total equity and multiplied by 100.

		2021	2020
Credit default swaps (£'000)	(A)	27,317	24,067
Net assets (page 60) (£'000)	(B)	175,720	162,624
Gearing (C = (A / B)) (%)	(C)	15.5	14.8

Net Asset Value (NAV) per Ordinary Share

The value of the Company's assets (i.e. investments at fair value through profit or loss (see Note 11) and cash held (see Statement of Financial Position)) less any liabilities (i.e. financial liabilities (see Note 14)) for which the Company is responsible divided by the number of ordinary shares in issue (see Note 15). The aggregate NAV is also referred to as total equity shareholders' funds in the Statement of Financial Position. The NAV per ordinary share is published daily and the year end NAV can be found on page 3 and further information is available on page 77 in Note 20.

Alternative Performance Measures (Unaudited)
(continued)

Ongoing Charge

The ongoing costs ratio has been calculated in accordance with the guidance issued by the AIC as the total investment management fees and administrative expenses expressed as a percentage of the net asset value throughout the year.

	2021	2020
Management fees (Note 5)	1,131	1,069
Other administrative expenses (Note 6)	476	414
Less: non-recurring expenses	–	–
Ongoing charge (£'000)	**1,607**	**1,483**
Average net assets[1] (£'000)	**173,686**	**167,337**
Ongoing charge ratio (%)	**0.93**	**0.89**

1 Calculated using the average daily net asset value

The ongoing costs provided in the Company's Key Information Document (KID) is calculated in line with the PRIIPs regulations. The ongoing costs in the KID includes finance costs.

Revenue Return per Ordinary Share

The revenue return per ordinary share, is the revenue return for the year (see Statement of Comprehensive Income) divided by the weighted average number of ordinary shares in issue during the year (see Note 9 on page 68).

Total Return

The return on the share price or NAV taking into account both the rise and fall of NAV/share prices and dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return). Dividends paid and payable are set out in Note 10 on page 68.

	2021	2020
NAV per share at 30 April 2020 and 30 April 2019 (p)	85.00	86.82
NAV per share at 30 April 2021 and 30 April 2020 (p)	91.87	85.00
Change in the year (%)	8.1	(2.1)
Impact of dividends reinvested (%)	4.9	5.1
NAV total return for the year (%)	**13.5**	**2.9**

	2021	2020
Share price per share at 30 April 2020 and 30 April 2019 (p)	83.00	90.80
Share price per share at 30 April 2021 and 30 April 2020 (p)	88.00	83.00
Change in the year (%)	6.0	(8.6)
Impact of dividends reinvested (%)	5.1	4.9
Share price total return for the year (%)	**10.7**	**(3.4)**

Dividend Yield

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

		30 April 2021	30 April 2020
Annual dividend (p)	(A)	4.40	4.40
Share price (p)	(B)	88.00	83.00
Yield (C=A/B) (%)	(C)	5.0	5.3

General Shareholder Information

AIFMD Disclosures

In accordance with the AIFMD, information in relation to the Company's leverage and remuneration of Janus Henderson, as the Company's AIFM is required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document (AIFMD Disclosure) which can be found on the Company's website: **www.hendersondiversifiedincome.com**.

BACS

Dividends can be paid by means of Bankers' Automated Clearing Services (BACS); mandate forms for this purpose are available from the Registrar, Computershare Investor Services PLC. Alternatively, shareholders can write to the Registrar (the address is given on page 86) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information which requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information is provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Equality Act

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

You can contact the Registrar, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a "typetalk" operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

Foreign Account Tax Compliance Act (FATCA)

FATCA is a United States federal law whose intent is to enforce the requirement for United States persons (including those living outside the US) to file yearly reports on their non-US financial accounts. Investment trusts need to monitor each year the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company therefore makes an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, identify and report US reportable accounts to HMRC, as required.

General Data Protection Regulation (GDPR)

A privacy statement can be found on the website **https://www.janushenderson.com/en-gb/investor/bio/gdpr/**.

ISA

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

Non-Mainstream Pooled Investments (NMPI) Status

The Company currently conducts its affairs so that its ordinary shares of 1p each can be recommended by IFAs to ordinary retail investors in accordance with the FCA rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

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

Investors should be aware that the PRIIPs Regulation requires the Manager, as the PRIIP manufacturer, to prepare a key information document in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by the law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

General Shareholder Information (continued)

Performance Details/Share Price Information

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

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

The market price of the Company's shares can be found in the London Stock Exchange Daily Official List.

Shareholder Details

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

Warning to Shareholders

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

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

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

Corporate Information

Registered Office

201 Bishopsgate
London
EC2M 3AE
Telephone: 020 7818 1818

Service Providers

Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London
EC2M 3AE

Corporate Secretary

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

Depositary and Custodian

BNP Paribas Securities Services (London Branch)
10 Harewood Avenue
London
NW1 3AE

Stockbrokers

JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Telephone: 0370 707 1039
Email: web.queries@computershare.co.uk

Investors with share certificates (i.e. not those in a share plan or ISA) can check their holdings at **www.computershare.com**.

Independent Auditors

Mazars LLP
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

Financial Calendar

Annual General Meeting	16 September 2021
First Interim Dividend	30 September 2021
Half Year Results	December 2021
Second Interim Dividend	31 December 2021
Third Interim Dividend	31 March 2022
Fourth Interim Dividend	30 June 2022

Information Sources

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

Investing

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

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

Nominee Share Code

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

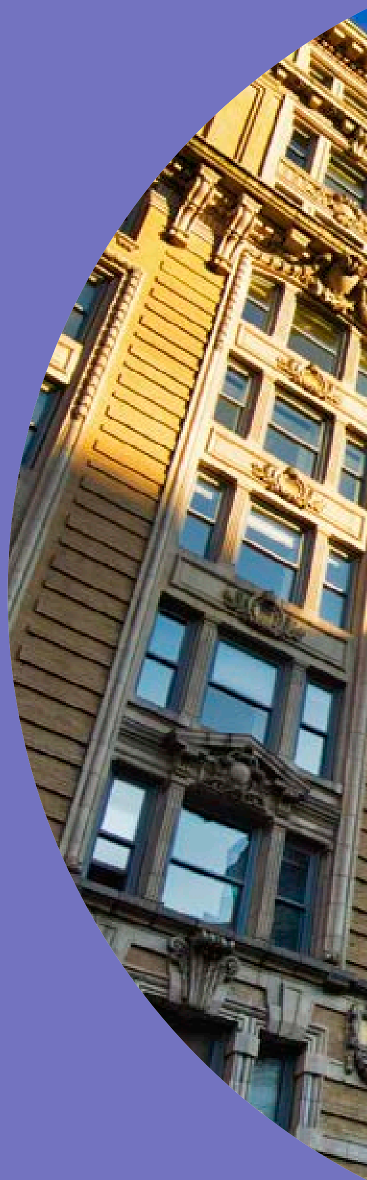
Henderson Diversified Income Trust plc
Registered as an investment company in England and Wales
Registration number: 10635799
Registered office: 201 Bishopsgate, London EC2M 3AE

ISIN number/SEDOL: Ordinary Shares: GB00BF03YC36/ BF03YC3
London Stock Exchange (TIDM) Code: HDIV

Global Intermediary Identification Number (GIIN): QR3G93.99999.SL.826
Legal Entity Identifier (LEI): 213800RV2228EO1JEN02

Telephone: 0800 832 832
Email: **support@janushenderson.com**

www.hendersondiversifiedincome.com



MANAGED BY
Janus Henderson
INVESTORS

The Association of Investment Companies

moneywise Investment Trust awards 2017 WINNER
INVESTMENT TRUST GROUP OF THE YEAR
Henderson Global Investors

aic Shareholder Communication Awards 2017 WINNER

aic Shareholder Communication Awards 2018 WINNER

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