Henderson High Income Trust plc

Update for the half-year ended 30 June 2020

Seeking superior income generation and long-term capital growth

INVESTMENT WEEK
INVESTMENT COMPANY OF THE YEAR AWARDS 2017
WINNER
UK EQUITY & BOND INCOME
HENDERSON HIGH INCOME

moneywise Investment Trust awards 2017
WINNER
UK EQUITY & BOND INCOME
Henderson High Income

MANAGED BY
Janus Henderson
INVESTORS

Investment objective

The Company invests in a prudently diversified selection of both well-known and smaller companies to provide investors with a high dividend income stream while also maintaining the prospect of capital growth.

This update contains material extracted from the unaudited half-year results of the Company for the six months ended 30 June 2020. The unabridged results for the half-year are available on the Company's website:

www.hendersonhighincome.com

Performance highlights

Total return performance for the six months ended 30 June 2020

NAV[1]	Benchmark[2]	Share Price[3]
-18.1%	-13.3%	-22.1%

NAV per share[4]

30 June 2020 150.2p

31 December 2019 189.8p

Discount/premium to NAV (debt at fair value)

30 June 2020 -4.1%

31 December 2019 1.1%

Mid-market price per share

30 June 2020 144.0p

31 December 2019 191.8p

Dividend yield

30 June 2020 6.9%

31 December 2019 5.1%

Net assets

30 June 2020 £201.3m

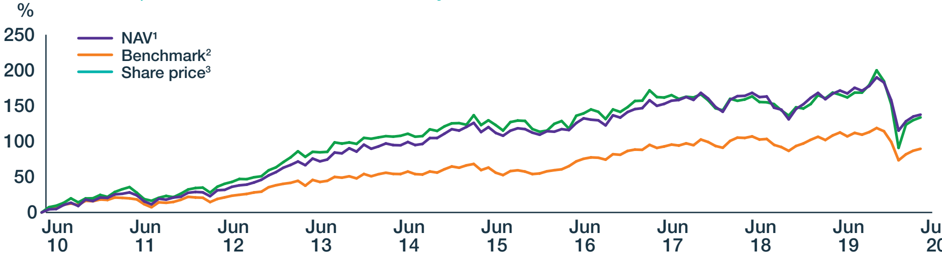
31 December 2019 £251.1m

Gearing

30 June 2020 20.9%

31 December 2019 21.5%

Total return performance over the ten years to 30 June 2020



[1] Net asset value total return (including dividends reinvested and excluding transaction costs) with debt at fair value
[2] A composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return) rebalanced annually
[3] Mid-market share price
[4] Net asset value per share with debt at fair value as published by the AIC.
Sources: Morningstar for the AIC, Janus Henderson and Refinitiv Datastream

Chairman's statement

Performance

When I wrote my last statement for the 2019 Annual Report, COVID-19 had begun to spread rapidly across the globe and lockdown measures had just been introduced in the UK. Since then, five months have passed during which the UK experienced amongst the highest reported COVID-19 infection rates and deaths in Europe. Many of the restrictions imposed on households and businesses have gradually eased but there are now fears of a resurgence of the virus as winter approaches, of a rise in unemployment as the furlough scheme is reined back and of further disruption to this short lived "new normal". I hope that our investors have remained safe and well during these challenging times.

Stock markets have unsurprisingly suffered steep falls over the first six months of this year, with the FTSE All-Share as one of the worst performing markets. However, it would have been much worse if there had not been a rally in the second quarter. By the beginning of the UK lockdown in March, the FTSE All-Share had fallen dramatically by 35% but had risen from its lows by 25% at the end of June. The swift rebound in equities, not just in the UK but in all the major markets, was driven by the actions of central banks and governments who injected confidence back into the markets with significant monetary and fiscal stimulus, including substantial asset purchases, interest rate cuts, job furlough subsidies and business loans.

For the first half of 2020 the Company delivered a NAV total return (with debt at fair value) of -18.1%, compared to its benchmark total return of -13.3% and compared to the FTSE All-Share total return of -17.5% for the same period. Although its equity portfolio was positioned defensively, the Company underperformed its benchmark, primarily because of gearing, which is a necessary component of the Company's structure for generating a relatively high level of income.

Gearing

During this period the Company made the decision to reduce its borrowings by approximately £13 million, principally by selling US investment grade bonds which had performed well in capital terms since their purchase. About three quarters of the Company's loans are now being used to fund the Company's fixed interest holdings which effectively yield 5.0% compared to the Company's current average cost of borrowing of 2.4%. The overall level of gearing as at 30 June 2020 was 20.9%, but only about 6.0% relates to the financing of additional equities in the portfolio. The level of borrowing allocated to equities is therefore significantly lower than the headline gearing figure might suggest.

Dividends

The first interim dividend of 2.475p per share was paid on 24 April 2020 and the second interim dividend for the same amount was paid on 31 July 2020. At the time that the second interim dividend was announced the Board recorded its current intention to use its revenue reserves where necessary to maintain the quarterly dividend of 2.475p per share for the remainder of this financial year. This continues to be our intention.

The Company's revenue stream this year has, of course, been adversely impacted by the recent dividend suspensions, deferrals and cuts by its investee companies. So far 24% of the Company's portfolio have made such announcements. However, the Company is in the fortunate position of being able to draw on revenue reserves which have been deliberately built up over the past 9 years for future "rainy days" and frankly it has been pouring this year! A third interim dividend of 2.475p per share was therefore announced on 23 July 2020, to be paid on 30 October 2020, and the Board currently anticipates a fourth interim dividend for the year at the same level, providing a total dividend for the year of 9.90p per share representing a 1.0% increase over the previous year.

It is difficult in these uncertain conditions to forecast the Company's revenues with much accuracy for the years ahead. David Smith, the Fund Manager, runs frequent stress testing of the company's revenue account under different scenarios and this gives the Board reassurance of the relative robustness of the company's revenue reserves in the medium term. As the timing and the level of investee companies' dividends become clearer in the future, we will be able to provide further guidance on the Company's dividend.

Chairman's statement (continued)

Board of Directors

Having chaired the Board since 2016 and having been appointed to the Board in 2008, I will be standing down at the Annual General Meeting in May 2021, as already outlined in our succession plans. I am very pleased to announce that my colleagues have chosen Jeremy Rigg, who was appointed as a Director in April 2018, to succeed me as Chairman. Jeremy has over 25 years' experience in the investment management industry, has proven himself as a key member of the Board and I have no doubt that he will make an excellent Chairman.

Following many years of service to the Company, Anthony Newhouse, Senior Independent Director, retired from the Board at the Annual General Meeting in June which was held as a virtual "closed meeting". We were disappointed to have to say our farewells to Anthony through our computer screens, rather than in person, and the Board would like to take this opportunity to record our thanks to Anthony for his wise counsel and valuable contribution to the Company. Zoe King has since been appointed as the Company's Senior Independent Director and we are delighted to welcome to the Board Richard Cranfield who joined at the beginning of March.

Outlook

At the beginning of the year when COVID-19 had only appeared in Asia, it was difficult to imagine its imminent transformation into a rapidly spreading pandemic or the subsequent dramatic fall in equity markets across the world. While markets have since recovered from their lows and investors have benefited from the generosity of central banks and governments, which has supported asset prices, there are still many challenges ahead.

Monetary stimulus is likely to continue, as the US Federal Reserve has pledged future support, but the emergency fiscal measures introduced by governments to alleviate the economic crisis will gradually be withdrawn. A potential second wave of the virus, the UK's withdrawal from the EU at year end, a possible escalation of trade tensions between China and the US and the US government election itself in November are all likely to contribute to volatility and nervousness in the markets. The economic outlook and the timing and speed of any recovery are uncertain, so we remain cautious in these circumstances.

For managing the Company's portfolio, David Smith has a variety of tools at his disposal which will help mitigate some of the anticipated falls in dividend receipts in the market in the months ahead. He has already positioned the equity portfolio more defensively and is able to supplement income from the fixed interest holdings which account for 13.3% of the overall portfolio. He is also able to invest up to 20% of the Company's gross assets in overseas investments, diversifying the portfolio further and accessing reliable dividend payers beyond the concentrated UK market. The portfolio remains well balanced, owning both resilient businesses that continue to pay attractive dividends and those companies that have the potential for capital recovery. The Company is well positioned to address the challenges and opportunities that lie ahead.

Margaret Littlejohns
Chairman
11 September 2020

Fund Manager's report

Markets

It has been an extraordinary period for markets in the first half of the year. During the first quarter global equities experienced a sharp sell-off, with the FTSE All-Share falling 34% in only 22 trading days between February and March, as COVID-19 spread around the world and governments enforced "lockdowns" on their citizens. As the crisis escalated, investors sold out of risk assets, fearing the worst in terms of the impact on the global economy and corporate profitability. Saudi Arabia and Russia also entered into an unexpected oil price war, resulting in the oil price plummeting and even entering negative territory for a short period.

Equity markets then staged an impressive recovery from their March lows, driven by unprecedented levels of monetary and fiscal stimulus and other government support schemes. They were further buoyed by the pace of new virus infections slowing and governments starting to relax lockdown restrictions. Despite the strong rebound in the second quarter, the FTSE All-Share was still down 17.5% over the half year. Defensive sectors outperformed, with the likes of pharmaceuticals and food retailers producing positive returns, while cyclical sectors and those most impacted from government lockdowns underperformed, such as housebuilders, banks and travel & leisure. Given the fears over global economic growth, bonds performed well over the period as investors sought their safe haven status. Government bond yields fell to record new lows in the period with the 10 year UK Gilt yield ending June at just 0.17%.

Performance

The Company's NAV (with debt at fair value) was weak during the period, falling 18.1%, underperforming the benchmark's return of -13.3%, but performing broadly in line with the UK equity market. Despite the equity and bond portfolios outperforming their respective benchmarks, this was offset by the Company's gearing and overweight position in equities relative to the benchmark. Against the extreme market backdrop, the Company's holdings in more defensive sectors such as utilities, pharmaceuticals and consumer staples were positive for relative performance. Companies such as National Grid, Roche, Sanofi and Unilever are well placed for more difficult economic times and held up well as a result. Positions in Cranswick and Hilton Food Group also helped performance. Given the companies are involved in the production and packaging of food products respectively, the increased demand from consumers in the current environment helped support profits even with higher costs needed to safeguard employees and customers.

The most significant detractors from performance came from those companies that are most impacted from government "lockdowns", such as National Express, events company Informa and Premier Inn owner Whitbread. These companies' short term cash flows have been significantly affected by the restrictions on the movement of people and the reduced economic activity that has resulted. Along with many other companies in the UK market they have all suspended dividend payments and raised capital to protect their cash flow and financial strength in the short term. This is clearly the correct course of action for these companies in order to support their businesses at an unprecedented time. We supported each equity raise as we believe they are good quality businesses that will emerge from the current crisis in a strong position relative to their competition.

Portfolio Activity

Early in the crisis we were quick to reduce the cyclicality of the equity portfolio, selling IAG (the holding company of British Airways) and Ibstock in January and Jupiter Fund Management, aerospace company Senior and housebuilder Vistry in March. The proceeds were used to increase holdings in more stable businesses that should have dependable cash flows and dividends, such as British American Tobacco, Unilever, Reckitt Benckiser and the French pharmaceutical company Sanofi. We also reduced the gearing of the Company in early March to more appropriate levels given the very uncertain outlook, selling £13m of holdings in US investment grade corporate bonds. These bonds had performed

Fund Manager’s report (continued)

particularly well since purchase, with yields moving to extremely low levels which did not offer compelling value, especially against the Company’s cost of borrowing. Gearing and the bond allocation finished the period at 20.9% and 13.3% respectively.

Dividend suspensions, deferrals and cuts have been extremely prevalent in the first half of the year as companies prioritise their financial security over shareholders' returns. Although the Company aims to own good quality businesses that can pay sustainable dividends, it has not been immune in the current environment. The focus has been to utilise the Company’s structure to best support the revenue account and dividends but also maintaining potential for capital recovery. As mentioned above we have taken a pragmatic view to dividend cuts, supporting those companies we believe have the best long term potential despite no dividends in the short term and sold those businesses that have cancelled dividends and where we have less faith over the medium term recovery prospects, such as HSBC, BT and Hammerson. We have materially increased the holdings in overseas companies, buying high quality businesses with good long term growth prospects that continue to pay attractive dividends, such as McDonald’s and Coca-Cola in the US and European utilities EDP and RWE, which are both underpinned by growth in renewable power generation.

David Smith
Fund Manager
11 September 2020

Financial summary

Extract from the Income Statement (unaudited)	Half-year ended 30 Jun 2020 Revenue return £'000	30 Jun 2020 Capital return £'000	30 Jun 2020 Total £'000	30 Jun 2019 Total £'000
(Losses)/gains on investments	-	(48,456)	**(48,456)**	26,837
Investment income	6,463	-	**6,463**	7,892
Other income	325	-	**325**	3
Gross revenue and capital gains/(losses)	6,788	(48,456)	**(41,668)**	34,732
Expenses, finance costs & taxation[1]	(833)	(894)	**(1,727)**	(1,758)
Net return after taxation	5,955	(49,350)	**(43,395)**	32,974
Return per ordinary share	4.63p	(38.38p)	**(33.75p)**	25.64p

[1] Expenses, finance costs & taxation include no performance fee provision

The actual performance fee, if any, payable to the Manager for the year to 31 December 2020 requires outperformance above a hurdle of 1% over the full financial year after covering any prior years' underperformance. The performance fee is subject to a 0.4% cap of the average of gross assets in any one year

Extract from the Statement of Financial Position (unaudited except 31 December 2019 figures)	Half-year ended 30 Jun 2020 £'000	Half-year ended 30 Jun 2019 £'000	Year-ended 31 Dec 2019 £'000
Fair value of investments	**243,385**	292,385	305,064
Net current liabilities	**(22,224)**	(35,007)	(34,147)
Creditors: amounts falling due after more than one year	**(19,834)**	(19,825)	(19,829)
Net assets	**201,327**	237,553	251,088
Net asset value per ordinary share[2]	**156.56p**	184.73p	195.25p

[2] Net asset value (debt at par value)

Going Concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the Directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

The Company's shareholders are asked every five years to vote for the continuation of the Company. An ordinary resolution to this effect was passed by the shareholders at the Annual General Meeting held on 23 June 2020. Having assessed these factors, the principal and emerging risks and other matters discussed in connection with the viability statement, and the recent renewal of the Scotiabank loan facility, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. In coming to this conclusion, the Directors also considered the implications of the ongoing COVID-19 pandemic on the Company's revenue reserves, NAV and share price.

Financial summary (continued)

Dividends

In respect of the year-ended 31 December 2019, a fourth interim dividend of 2.475p per share (2018: 2.425p) was paid on 31 January 2020 to shareholders on the register at close of business on 13 December 2019. In respect of the year ending 31 December 2020, a first interim dividend of 2.475p per share (2019: 2.425p) was paid on 24 April 2020 to shareholders on the register at close of business on 3 April 2020. These dividends are reflected in the half-year financial statements.

A second interim dividend of 2.475p per share (2019: 2.425p) was paid on 31 July 2020 to shareholders on the register at close of business on 19 June 2020. The shares went ex-dividend on 18 June 2020. A third interim dividend of 2.475p per share (2019: 2.475p) will be paid on 30 October 2020 to shareholders on the register on 18 September 2020. The shares will go ex-dividend on 17 September 2020. In accordance with FRS 102, the second and third interim dividends have not been accrued for in the half-year financial statements as they will be paid after the period end.

Share Capital

During the half-year ended 30 June 2020, no ordinary shares were issued (half-year ended 30 June 2019: none; year-ended 31 December 2019: none). At 30 June 2020 there were 128,596,278 ordinary shares of 5p nominal value in issue. Between 1 July 2020 and 11 September 2020, no further shares have been issued. The Company has no shares held in Treasury.

Principal Risks and Uncertainties

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

Principal risks:

- Investment risk
- Market/financial risk
- Operational risks including cyber risk and risks relating to pandemics and epidemics, terrorism and international conflicts
- Tax, legal and regulatory risk

Emerging risks:

- Risks associated with Brexit
- Risks associated with climate change

Information on these risks and how they are managed is given in the Company's Annual Report for the year-ended 31 December 2019. In the view of the Board these principal and emerging risks have not changed over the last six months and are as applicable to the remaining six months of the financial year as they were to the six months under review.

Statement of Directors' Responsibilities

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

a) the condensed set of financial statements has been prepared in accordance with FRS 104 "Interim Financial Reporting" issued by the Financial Reporting Council;

b) this report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

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

For and on behalf of the Board
Margaret Littlejohns
Chairman
11 September 2020

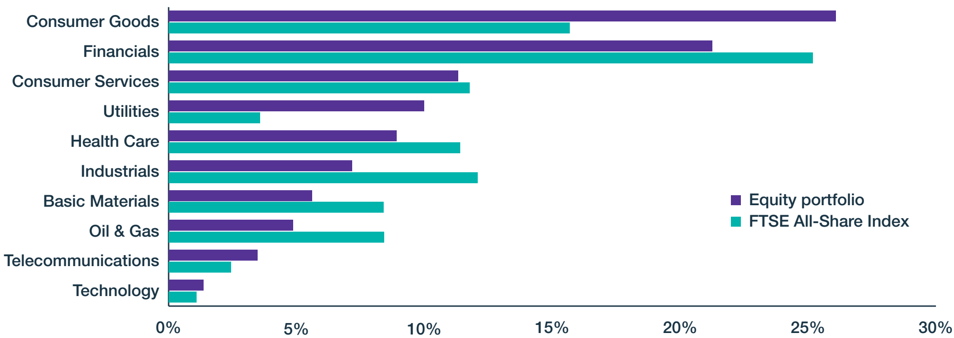
Portfolio information

Twenty Largest Investments

Company	Sector	Fair value as at 30 Jun 2020 £'000	% of portfolio 2020	Fair value as at 31 Dec 2019 £'000	% of portfolio 2019
British American Tobacco	Consumer Goods	11,408	4.7	8,015	2.6
GlaxoSmithKline	Health Care	11,033	4.5	11,993	3.9
Rio Tinto	Basic Materials	7,607	3.1	6,437	2.1
Tesco*	Consumer Services	7,276	3.0	7,395	2.4
National Grid	Utilities	7,259	3.0	6,930	2.3
Diageo	Consumer Goods	6,735	2.8	10,615	3.5
Unilever	Consumer Goods	6,673	2.7	5,449	1.8
RELX (Netherlands)	Consumer Services	5,940	2.4	6,417	2.1
Vodafone	Telecommunications	5,304	2.2	5,079	1.7
Royal Dutch Shell	Oil & Gas	5,213	2.1	9,882	3.2
BP	Oil & Gas	5,165	2.1	7,929	2.6
Hilton Food Group	Consumer Goods	4,570	1.9	5,005	1.6
Imperial Brands	Consumer Goods	4,115	1.7	5,525	1.8
Severn Trent	Utilities	3,935	1.6	3,369	1.1
Reckitt Benckiser	Consumer Goods	3,468	1.4	1,159	0.4
Lloyds Banking*	Financials	3,439	1.4	6,217	2.0
SSE	Utilities	3,388	1.4	3,054	1.0
AstraZeneca	Health Care	3,360	1.4	6,961	2.3
Bunzl	Industrials	3,310	1.4	3,972	1.3
Phoenix	Financials	3,310	1.4	4,779	1.6
TOTAL INVESTMENTS		**112,508**	**46.2**	**126,182**	**41.3**

* includes fixed interest

Equity Portfolio Sector Exposure at 30 June 2020



Investment portfolio

Classification of Investments by Sector

	30 Jun 2020 %	31 Dec 2019 %
FIXED INTEREST		
Preference shares	1.9	1.5
Other fixed interest	11.4	13.5
Total Fixed Interest	**13.3**	**15.0**
EQUITIES		
Oil & Gas		
Oil & gas producers	4.3	5.8
Total Oil & Gas	**4.3**	**5.8**
Basic Materials		
Chemicals	1.8	2.6
Mining	3.1	2.1
Total Basic Materials	**4.9**	**4.7**
Industrials		
Aerospace & defence	-	0.6
Construction & materials	0.3	1.1
General industrials	2.7	2.8
Industrial engineering	1.7	0.8
Support services	1.6	2.1
Total Industrials	**6.3**	**7.4**
Consumer Goods		
Automobiles & parts	0.7	0.8
Beverages	6.0	5.9
Food producers	3.1	2.7
Household goods & home construction	3.0	2.6
Personal goods	3.7	1.8
Tobacco	6.4	4.4
Total Consumer Goods	**22.9**	**18.2**
Health Care		
Pharmaceuticals & biotechnology	7.8	8.2
Total Health Care	**7.8**	**8.2**

	30 Jun 2020 %	31 Dec 2019 %
EQUITIES (continued)		
Consumer Services		
Food & drug retailers	2.1	1.7
General retailers	0.8	1.1
Media	3.4	3.5
Travel & leisure	3.8	5.3
Total Consumer Services	**10.1**	**11.6**
Telecommunications		
Fixed line telecommunications	0.9	1.4
Mobile telecommunications	2.2	1.6
Total Telecommunications	**3.1**	**3.0**
Utilities		
Electricity	2.2	1.0
Gas, water & multi-utilities	6.8	4.4
Total Utilities	**9.0**	**5.4**
Financials		
Banks	1.2	3.9
Equity investment instruments	2.3	2.0
Financial services	4.3	5.2
Life insurance	4.7	4.3
Non-life insurance	2.6	1.0
Real estate investment trusts	2.0	3.2
Total Financials	**17.1**	**19.6**
Technology		
Software & computer services	1.2	1.1
Total Technology	**1.2**	**1.1**
TOTAL INVESTMENTS	**100.0**	**100.0**

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