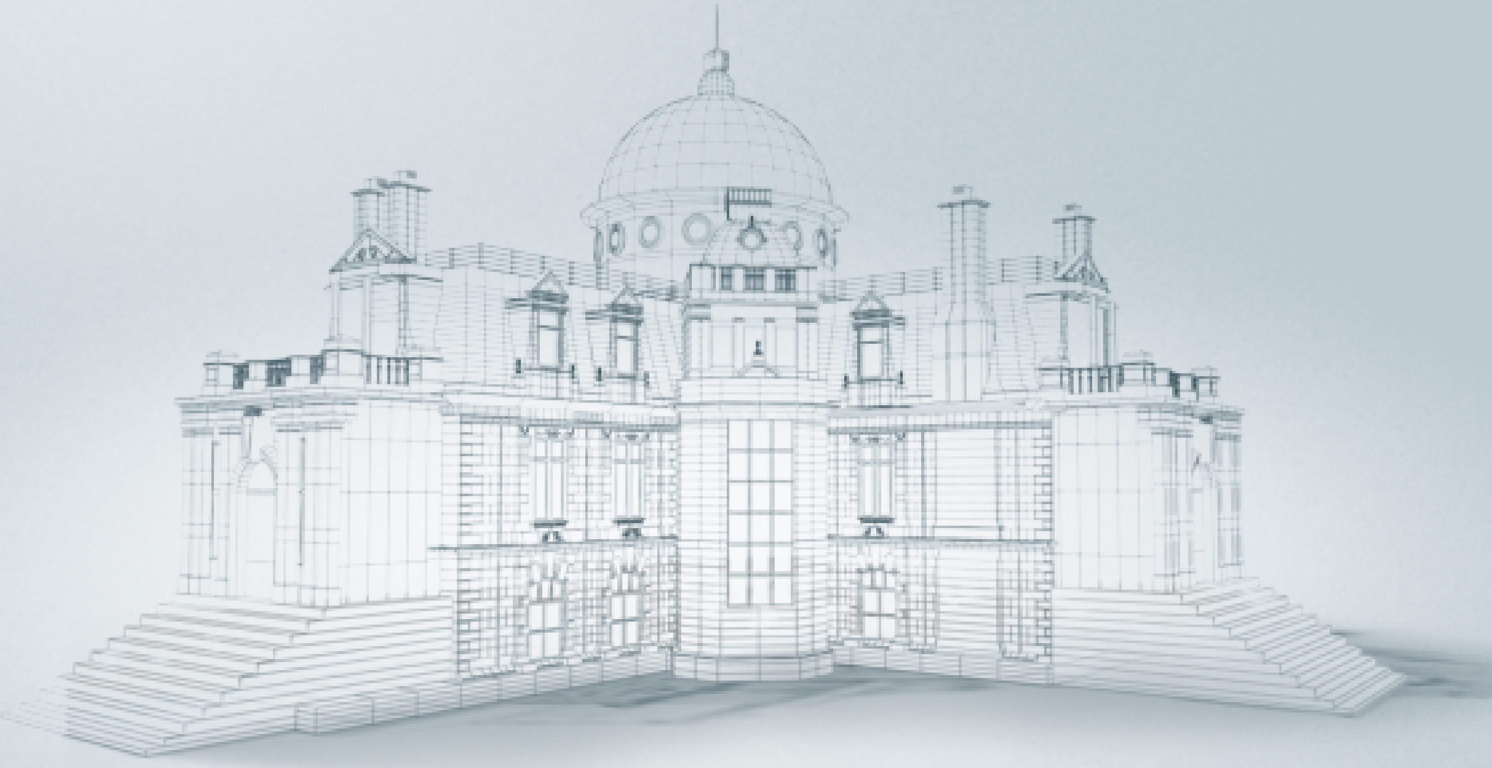
HENDERSON HIGH INCOME TRUST PLC

Annual Report 2017



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

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The image on the front cover is based on the Greenwich Royal Observatory, London.

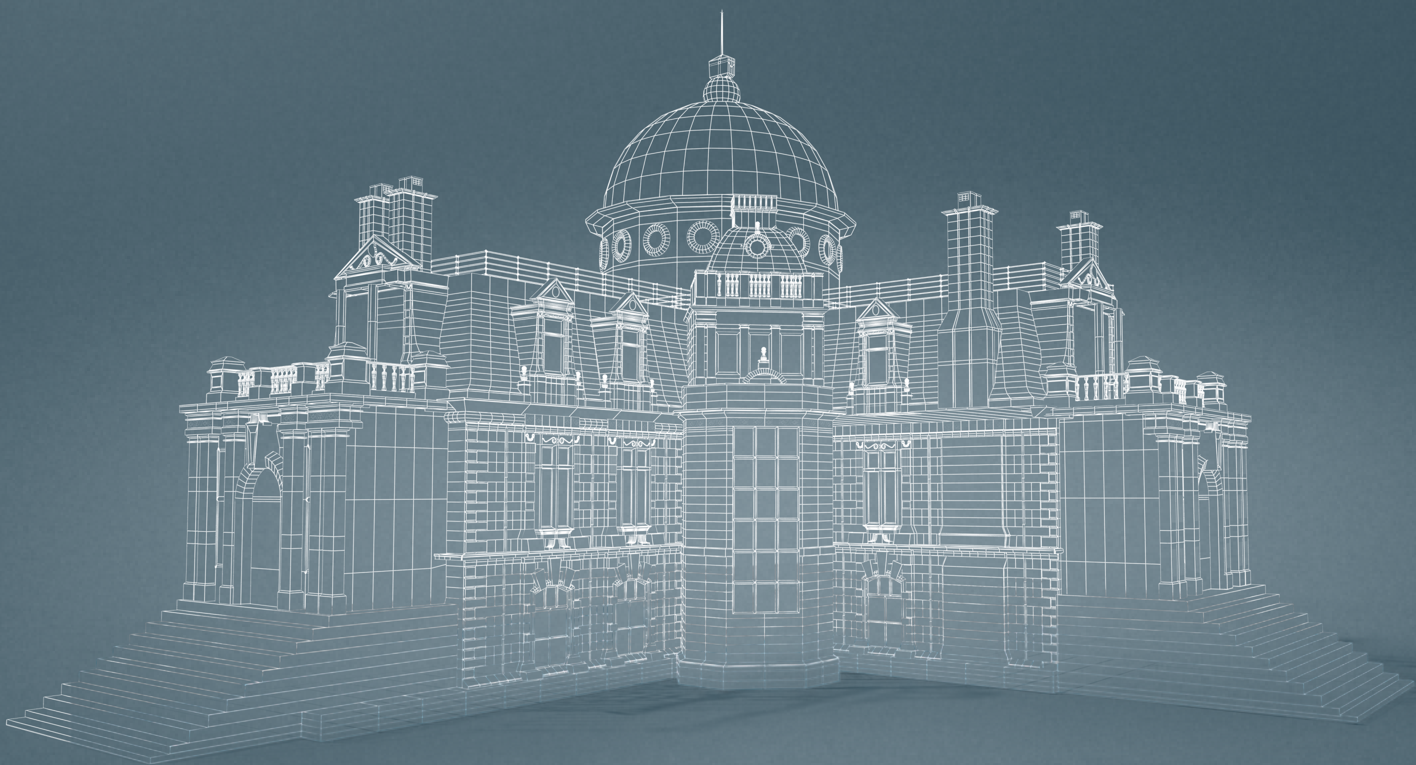
Strategic Report

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.

Investment strategy

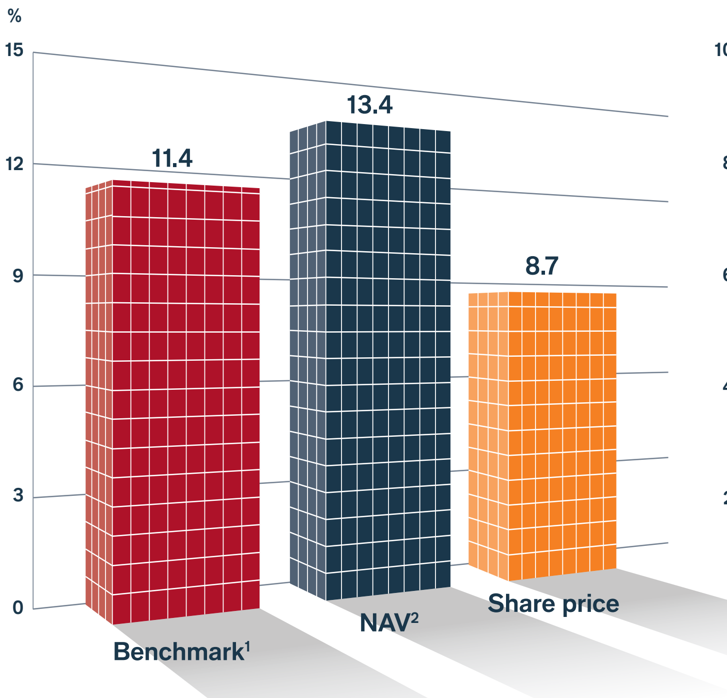
The selection process seeks to identify companies with strong balance sheets that are capable of paying dividends. There is a focus on well-managed companies whose qualities may have been temporarily overlooked and which offer potential for capital appreciation over the medium term.



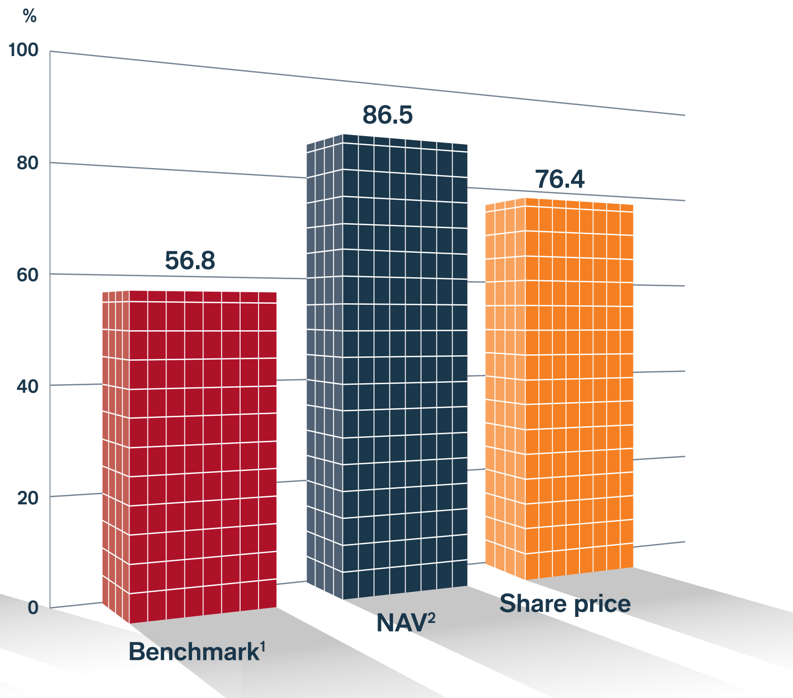
Strategic Report: Performance Highlights

Total return performance to 31 December 2017

One year

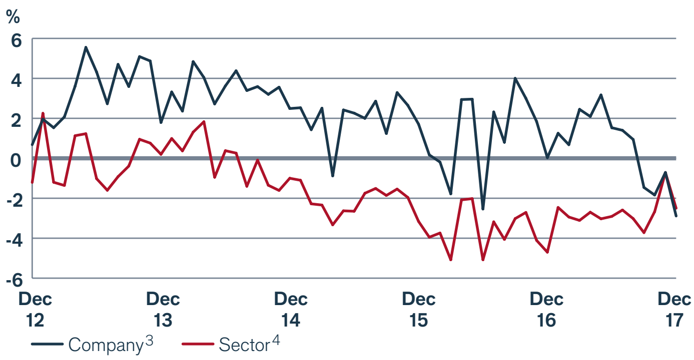


Five years

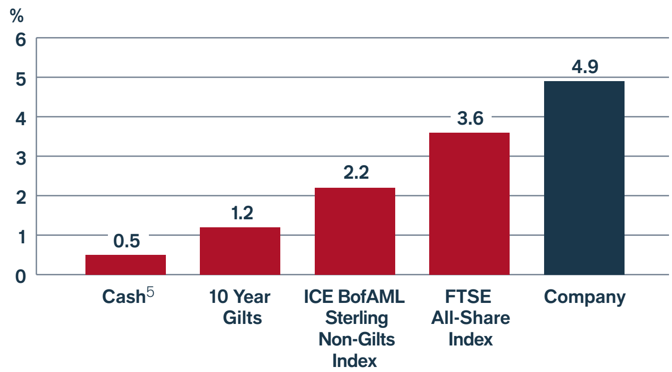


Premium/discount to 31 December 2017

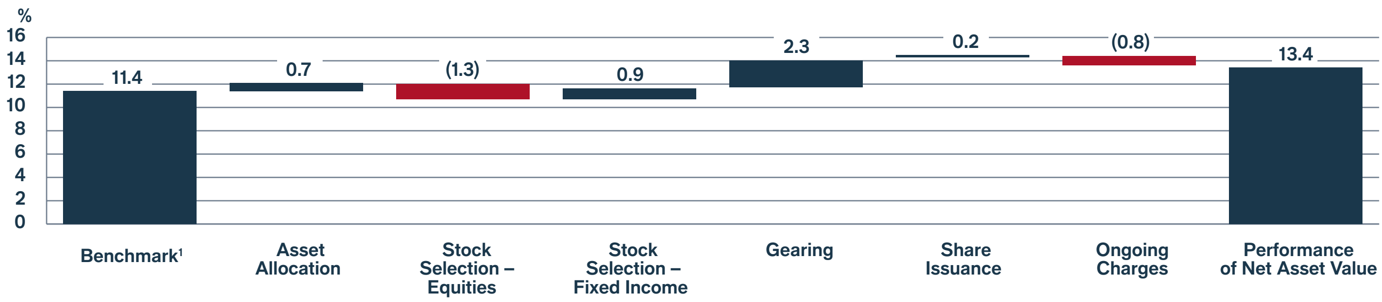
Five years



Income yield as at 31 December 2017



Attribution[6] – explanation of movement in net asset value (total return) in 2017



Strategic Report: Performance Highlights (continued)

NAV per share[7]

2017 **195.65p**

2016 181.30p

Mid-market price per share

2017 **190.00p**

2016 183.63p

Revenue return per share

2017 **10.13p**

2016 9.93p

Net assets

2017 **£257.2m**

2016 £207.7m

Dividend for the year

2017 **9.40p**

2016 9.15p

Dividend yield[8]

2017 **4.9%**

2016 5.0%

Ongoing charge for the year

2017 **0.75%**

2016 0.81%

Gearing

2017 **21.0%**

2016 21.8%

1 The benchmark is 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
2 Net asset value per share total return (including dividends reinvested and excluding transaction costs) with debt at fair value
3 Premium/discount based on net asset value with debt at fair value
4 The AIC Equity and Bond Income sector
5 Cash based on 3 month LIBOR
6 Geometric returns
7 Net asset value with debt at fair value as published by the AIC
8 Based on the dividends paid or recommended for the year and the share price at the year end

A glossary of terms is included on pages 21 and 22

Sources: Morningstar Direct, Janus Henderson, DataStream and AIC. All data is either as at 31 December 2017 or for the year ended 31 December 2017

Strategic Report: Business Model

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.

Investment policy

The majority of the Company's assets will be invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. In normal circumstances the Company will invest at least 80% of its gross assets in shares (equity securities) and fixed interest securities of companies of any size, that are either listed in, registered in, or whose principal business is in the UK. A maximum of 20% of gross assets may be invested outside of the UK.

No single investment will exceed 15% of total gross assets at the time of investment and no more than 15% of gross assets may be invested in other listed investment companies (including investment trusts) or collective investment schemes.

The Company may from time to time use financial instruments known as derivatives for the purpose of efficient portfolio management or to generate additional income while maintaining a level of risk consistent with the risk profile of the Company.

Gearing

The Company has an active policy of using appropriate levels of gearing, both in the form of bank and longer term borrowings, to enhance income returns but also to achieve capital growth over time. A portion of gearing is usually employed with respect to the Company's fixed interest securities to generate additional income. The Company can borrow up to 40% of gross assets. The drawdown of floating rate borrowings can be in non-sterling currencies, provided that these borrowings do not exceed the assets purchased in that particular currency at the time of investment.

Investment strategy

The selection process seeks to identify companies with strong balance sheets that are capable of paying dividends. There is a focus on well-managed companies whose qualities may have been temporarily overlooked and which offer potential for capital appreciation over the medium term.

Management

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 in accordance with an agreement which was effective from 22 July 2014 and is terminable on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited, which acts as Manager. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA'). References to Janus Henderson and the Manager within this Annual Report refer to the services provided by both entities.

The fund management team is led by David Smith, who was appointed as the Company's Fund Manager on 30 July 2015 after co-managing the portfolio with Alex Crooke from January 2014.

Janus Henderson and its subsidiaries provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of Janus Henderson, by BNP Paribas Securities Services. Hannah Gibson ACIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

The Investment Management Agreement with Janus Henderson to provide the services referred to above is reviewed by the Board annually and provides for both a base management fee and a performance fee. Performance is measured over a single financial year.

Management fee

The base management fee is 0.5% of the average value of adjusted gross assets. These are defined as gross assets less current liabilities and less any Janus Henderson managed funds or Janus Henderson Group plc shares within the portfolio. Any debt used for investment purposes, including that recorded in current liabilities, is not deducted from gross assets. This average value is calculated by using the values on the last day of each of the two calendar years preceding the reporting year. The base management fee is payable quarterly in arrears.

In addition a supplemental base management fee is paid on any new funds in relation to share issues in the year they were raised, at the pro-rata annual rate. For the following year any funds raised are added to prior year assets for the purposes of calculating the fee.

On 17 January 2018, the Company announced its amendments to the fee arrangements with Janus Henderson. The previous agreement, whereby the management fee is charged at 0.50% of adjusted average gross assets continues to apply to the first £250m of adjusted gross assets, but with effect from 1 January 2018, a reduced management fee of 0.45% is applied to adjusted average gross assets above £250m.

Performance fee

Performance is measured by calculating the difference between the annual percentage change in net asset value per ordinary share and the benchmark equivalent. The benchmark is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return). A 1% hurdle is deducted from any relative outperformance before any performance fee can be paid. A performance fee of 15% is awarded on this relative excess performance less the 1% hurdle and applied to the current year's average adjusted gross assets.

Fees are subject to a cap. In any one financial year total fees (the combined base management and performance fees) cannot exceed 1% of average adjusted gross assets for the current year. Any unrewarded outperformance above this cap is carried forward for a maximum of three years but may only be used to offset any underperformance and cannot in itself earn a performance fee. With effect from 1 January 2018, the cap on total fees of 1% of average gross assets will be replaced by a cap on the performance fee of 0.4% of average gross assets in any one year.

Any underperformance relative to the benchmark will be carried forward and no performance fee will be payable until positive performance exceeds any past negative performance.

The fees have been structured in this way so that shareholders will only pay a relatively low base management fee in any years of individual or cumulative underperformance.

Strategic Report: Chairman's Statement

The Chairman of the Board, Margaret Littlejohns, reports on the year to 31 December 2017

Performance

I am pleased to report that the Company has continued to produce strong positive returns in the second half of the year. For the full financial year ending 31 December 2017, the Company's portfolio has delivered a total return on net assets of 13.4% (with debt at fair value), compared to the total annual return of the Company's benchmark of 11.4%. The Company's shares traded at a small premium for the majority of the year but ended the year at a discount of 2.9% to their net asset value (with debt at fair value), giving a share price total return of 8.7%.

Growth and corporate activity

As I reported at the interim stage, we were delighted to welcome to the Company those shareholders of Threadneedle UK Select Trust Limited ('UKT') who elected to roll over their holdings into the Company's shares at the end of June following UKT's scheme of reconstruction and voluntary winding up. The Company issued 15.2 million new shares to 58% of UKT's shareholders on the terms offered in the Prospectus released on 30 May 2017. We used this opportunity to issue a further 1.4 million new shares at a small premium to net asset value to new and existing shareholders on terms outlined within the same Prospectus. This combined issue of new shares raised over £32 million which enabled the Company, with the application of gearing, to increase its gross assets by 14% at the time of issuance. The share issuance was achieved at no cost to existing shareholders (apart from the proportion of transaction costs related to investing the proceeds).

We continue to believe that it is in the best interests of all our shareholders for the Company to grow and widen its range of shareholders as this should, with time, increase the liquidity of the Company's shares and spread the Company's fixed costs over a larger capital base. The twelve month share issuance programme that was included in the above Prospectus and approved by shareholders closes on 29 May 2018. The separate authority to allot shares at a premium and disapply pre-emption rights, approved at the last Annual General Meeting ('AGM'), will expire at the 2018 AGM. We are therefore asking shareholders at the forthcoming AGM to renew the latter authority to enable the Company to expand further when appropriate.

Dividends

Corporate profits continued to grow in the UK over the year which generated strong underlying market dividend growth. This resulted in higher revenues for the Company which totalled 10.13p per share compared to the previous year's 9.93p. We increased the third dividend for the financial year ending 31 December 2017 to 2.375p and announced the fourth dividend at the same level, making a total of 9.40p per share for 2017, growth of 2.7% on the previous year. The dividend yield on the Company's share price as at year end was 4.9%, some 36% higher than the yield of the FTSE All-Share Index.

We have now steadily increased our annual total dividend for the last five years. At the same time, we have exercised caution by adding to our revenue reserves, thereby retaining future flexibility for more challenging conditions. It remains the Board's objective to increase the Company's dividend gradually, subject to investment conditions at the time and whether we determine such an increase to be sustainable in the years ahead. In order to assess this, we continually monitor the level of income received by the Company, our investments' ability to grow dividends and the level of our own revenue reserves.

Gearing

Our policy on gearing is explained in our investment policy on page 4. Our level of gearing employed through the year has reduced slightly to 21.0% at year end due to the Company's strong absolute return. Following the successful share issuance described above, we negotiated an increase in our existing floating rate loan facility with Scotiabank from £30 million to £42 million to enable the Company to maintain its level of gearing. This floating rate facility, and the long term fixed rate unsecured note of £20 million, are both particularly useful for generating additional income and enhancing the Company's total return to shareholders. About half the borrowing is employed to finance the bonds within the portfolio, currently 10.3% of total investments, which yield effectively on average 4.5%, providing an attractive margin over the Company's average cost of borrowing of 2.2%. The inclusion of bonds also helps to diversify the Company's revenue stream and aims to reduce its volatility. The remaining borrowing finances about 11% of the equity portfolio.

Management and performance fees

The Management Engagement Committee regularly reviews the Company's management contract to ensure that the terms are fair and reasonable. In light of the growth of the Company's assets and the competitive pressure on fees in the market, the terms of the Investment Management Agreement with Janus Henderson have been amended: with effect from 1 January 2018, the management fee on average gross assets in excess of £250 million will be reduced to 0.45%, compared with the existing 0.50% up to that level. In addition, the total performance fee payable in any year is now capped at 0.40% of average gross assets, reduced from the previous cap of effectively 0.50%. More detail on the calculation of both fees is provided in the section on management and performance fees in the description of our business model on page 4.

Strategic Report: Chairman's Statement (continued)

Regulation

New rules have recently been introduced by the EU Commission which impact investment products within the UK, including investment trusts: Packaged Retail and Insurance-based Investment Products Regulation ('PRIIPs') and the Markets in Financial Instruments Directive 2 ('MiFID II'). The former requires Janus Henderson as the Company's Manager, and hence defined as the manufacturer of the investment product, to prepare a Key Information Document ('KID') in respect of the Company. This is a standardised document with the procedures for calculating expected risks, returns and costs prescribed by law. The KID cannot include actual historical returns, but instead provides illustrations of potential returns under different performance scenarios. Neither historical returns nor these potential returns should be considered by investors as a guide to the Company's future performance. We would also like to draw to your attention that the composition of costs outlined in the KID differs from the ongoing charge figure recorded in the Company's annual and interim reports, factsheets and website. A large and important difference, for example, is the inclusion of the borrowing costs of the Company's loans. As stated on page 59, the figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed. Therefore, we encourage investors to access this wider range of information rather than confining their knowledge to the single summary KID.

The introduction of MiFID II at the beginning of 2018 has forced the "unbundling" of research costs from trading costs, which means that investment managers now have to pay directly for external research received. I am pleased to report that Janus Henderson has agreed to absorb these research costs itself and will not be passing them on to their clients, such as the Company.

Succession planning

The Nominations Committee has put together a plan to refresh the Board over the coming years and aims to achieve a sensible balance between continuity and reinvigoration in compliance with the AIC Code of Corporate Governance. Orderly changes to the Board's composition will be made to ensure that the required mix of skills, experience and corporate knowledge is retained during this process. It is anticipated that each year one of the longer standing Directors with more than nine years' service will retire until the Board has been refreshed. There may be periods when the number of Directors will increase from five to six to facilitate this. As a first step following a formal search process using external consultants, we have appointed Jeremy Rigg as a Director with effect from 1 April 2018. Jeremy brings over 20 years' experience from the investment management industry having held roles as a director of Schroder Investment Management (UK) Ltd and as a senior investment manager at Investec Asset Management. In 2004, he was a founding partner of Origin Asset Management, a boutique equity investment manager which grew successfully and was acquired by Principal Global Investors in 2011. Jeremy is currently an independent investment consultant.

Andrew Bell who has served on the Board since November 2004 will be retiring from the Board at the forthcoming Annual General Meeting. I would like to thank Andrew for his significant contribution to the Company over his tenure: his breadth and depth of knowledge and his valuable insights will be greatly missed.

Investment objective and policy

The Board has approved certain minor changes to the wording of the investment objective and policy of the Company to provide further clarity to investors. The changes were not material and they therefore did not require shareholder consent. The updated investment objective and policy are set out in full on page 4 of this Annual Report.

Annual General Meeting ('AGM')

We look forward to seeing as many of you as possible at our AGM which will be held on 9 May 2018 at the offices of Janus Henderson at 201 Bishopsgate, London, EC2M 3AE. In addition to the formal business of the meeting, David Smith, our Fund Manager, will give a presentation on the Company's portfolio and performance and you will have the opportunity to talk to the Board, David and other Janus Henderson representatives. We encourage those of you who are unable to attend to use your proxy votes. For our new, former UKT shareholders, we will also be holding a similar presentation in Guernsey the day following the AGM to enable you to meet David, some of his colleagues and me.

Prospects and outlook

2017 witnessed a period of robust economic growth in the major regions of the world, resulting in some record-breaking levels of equity indices. These steady, mostly uninterrupted, increases were achieved in market conditions of extraordinarily low volatility. This was somewhat surprising considering the initial fears of rising populism in Europe, Theresa May's misjudged snap election and President Trump's temperamental outbursts in his first year in office, including his battle of words with Kim Jong-un of North Korea.

The start of 2018 has proven somewhat different with fears about mounting inflation and the need for greater than anticipated rises in interest rates in the US. The major world stock and bond markets experienced a sharp spike in volatility in February, prompting an arguably overdue market correction. Regardless of whether such strong global economic growth can sustain momentum throughout 2018 without fuelling inflationary pressures, it is likely that markets will continue to be more volatile and capital returns more vulnerable this year, as central banks around the world begin to withdraw monetary stimulus. In particular, the UK's economy, in contrast with the US and the Eurozone, has begun to slow and uncertainty over the outcome of Brexit negotiations may persist throughout 2018.

Despite these potential setbacks and more challenging times, I believe there are still attractive opportunities to invest in high quality, cash-generative companies, with good management that can provide a reliable and growing level of dividends while retaining the potential for capital growth over the longer term. I am confident that David Smith, our Fund Manager, will continue to use his investment skills to create and manage a well-diversified portfolio of large and smaller companies, both domestically and internationally focussed, to sustain a high income yield for our shareholders in these more volatile markets.

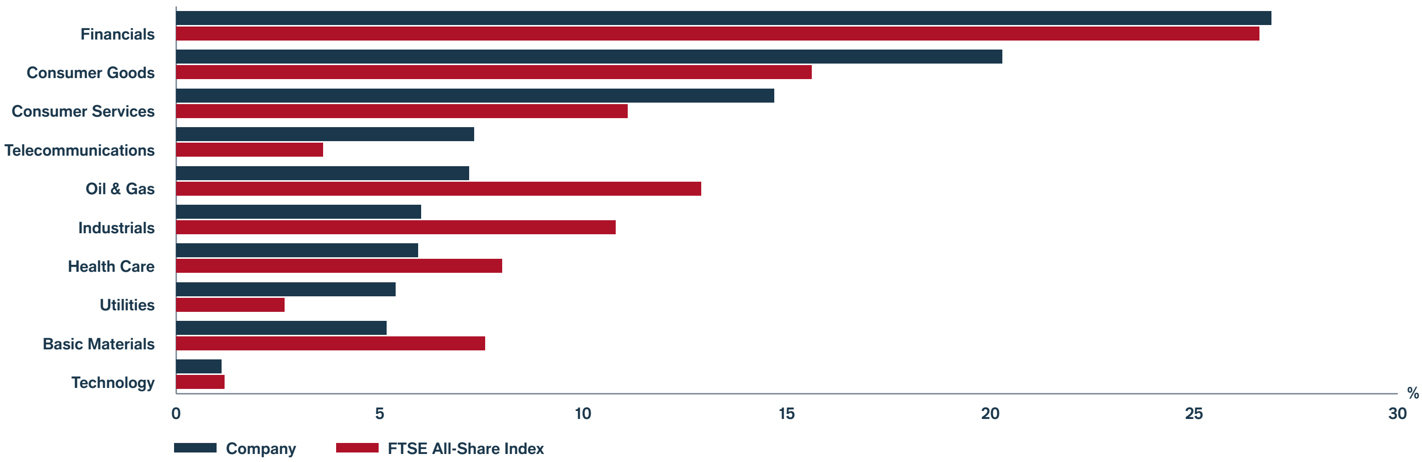
Strategic Report: Portfolio Information

Sector exposure at 31 December

Excluding cash

Sector	2017 £'000	2017 Percentage of portfolio	2016 £'000	2016 Percentage of portfolio
Preference Shares	5,025	1.6	4,285	1.7
Other Fixed Interest	26,922	8.7	21,856	8.6
Total Fixed Interest	**31,947**	**10.3**	**26,141**	**10.3**
Financials	74,374	23.9	59,074	23.4
Consumer Goods	56,670	18.2	38,630	15.3
Consumer Services	41,039	13.2	37,853	15.0
Telecommunications	20,440	6.6	19,043	7.5
Oil & Gas	20,093	6.5	16,758	6.6
Industrials	17,526	5.6	12,547	4.9
Health Care	16,590	5.3	15,385	6.1
Utilities	15,068	4.8	15,232	6.0
Basic Materials	14,433	4.6	9,910	3.9
Technology	3,115	1.0	2,417	1.0
Total Equities	**279,348**	**89.7**	**226,849**	**89.7**
Total	**311,295**	**100.0**	**252,990**	**100.0**

Equity sector underweights/overweights at 31 December 2017



Ten largest investments at 31 December

Position	Company	Sector	2017 Market value £'000	2017 Percentage of portfolio	2016 Market value £'000	2016 Percentage of portfolio
1	British American Tobacco	Consumer Goods	12,446	4.0	10,003	4.0
2	Royal Dutch Shell	Oil & Gas	11,304	3.6	9,280	3.7
3	Diageo	Consumer Goods	10,923	3.5	7,580	3.0
4	AstraZeneca	Health Care	9,281	3.0	9,037	3.6
5	HSBC[1]	Financials	8,943	2.9	6,882	2.7
6	BP	Oil & Gas	8,789	2.8	7,478	3.0
7	Imperial Brands	Consumer Goods	7,910	2.6	6,271	2.5
8	Vodafone	Telecommunications	7,862	2.5	5,835	2.3
9	Standard Life Aberdeen[1]	Financials	7,855	2.5	5,378	2.1
10	Lloyds Banking Group[1]	Financials	7,556	2.4	6,141	2.4
Total			**92,869**	**29.8**	**73,885**	**29.3**

1 Includes fixed interest

Strategic Report: Investment Portfolio

Investments: Fixed interest

	Total 31 December 2017 £'000
Preference Shares	
General Accident 8.875%	1,368
Middlefield Canadian Inc 7%	758
National Westminster Bank 9%	851
Nationwide Building Society 10.25%	2,048
Total Preference Shares	**5,025**

	£'000
Other Fixed Interest	
Annington Funding 3.685% 2034	2,049
Ardagh Packaging Finance 4.75% 2027	1,978
AT & T 3.55% 2037	502
Aviva 6.125% Variable Perpetual	1,148
AXA 5.453% Variable Perpetual	972
Barclays Bank 6.278% Perpetual	941
BUPA Finance 5% 2026	408
CPUK Finance 4.875% 2025	2,033
HBOS 7.881% Perpetual	1,158
HSBC Bank 5.844% 2049	481
Iron Mountain Europe 3.875% 2025	1,954
Orange 5.75% Perpetual	1,975
Prudential 6.125% 2031	660
RBS Capital Trust 6.425% Perpetual	541
RSA Insurance Group 5.125% 2045	1,139
Standard Life 6.75% Perpetual	1,889
Tesco 5.2% 2057	858
Tesco 5.5% 2033	1,281
Time Warner Cable 5.25% 2042	849
TP ICAP 5.25% 2024	1,961
Virgin Media 6.25% 2029	2,145
Total Other Fixed Interest	**26,922**
TOTAL FIXED INTEREST	**31,947**

Investments: Equities

OIL & GAS	Total 31 December 2017 £'000
Oil & Gas Producers	
BP	8,789
Royal Dutch Shell	11,304
Total Oil & Gas	**20,093**

BASIC MATERIALS	£'000
Chemicals	
Johnson Matthey	3,821
Victrex	4,437
Mining	
Rio Tinto	6,175
Total Basic Materials	**14,433**

INDUSTRIALS	£'000
Aerospace & Defence	
BAE Systems	2,919
Senior	1,450
Construction & Materials	
Balfour Beatty[1]	747
General Industrials	
Smith (DS)	3,636
Smiths Group	3,265
Support Services	
Connect Group	1,181
De La Rue	1,654
Essentra	2,674
Total Industrials	**17,526**

CONSUMER GOODS	£'000
Beverages	
Britvic	3,177
Diageo	10,923
Food Producers	
Cranswick	3,572
Dairy Crest	1,609
Greencore	2,962
Hilton Food	4,956
Household Goods & Home Construction	
Galliford Try	4,504
Personal Goods	
Ted Baker	2,879
Unilever	1,732
Tobacco	
British American Tobacco	12,446
Imperial Brands	7,910
Total Consumer Goods	**56,670**

1 Includes convertibles

Strategic Report: Investment Portfolio (continued)

Investments: Equities (continued)

HEALTH CARE	Total 31 December 2017 £'000
Pharmaceuticals & Biotechnology	
AstraZeneca	9,281
GlaxoSmithKline	4,846
Roche (Switzerland)	2,463
Total Health Care	**16,590**

CONSUMER SERVICES	£'000
Food & Drug Retailers	
Tesco	3,530
General Retailers	
Next	2,382
Pets at Home	2,800
Saga	1,854
Media	
Informa	5,025
ITV	3,255
Pearson	3,379
RELX (Netherlands)	6,905
Travel & Leisure	
Compass	3,309
Go-Ahead	3,106
Greene King	2,264
Specialist Investment Property[2]	0
Whitbread	3,230
Total Consumer Services	**41,039**

TELECOMMUNICATIONS	£'000
Fixed Line Telecommunications	
BT	5,180
Kcom	1,659
Manx Telecom	1,530
Verizon Communications (United States)	2,261
Mobile Telecommunications	
Inmarsat	1,948
Vodafone	7,862
Total Telecommunications	**20,440**

UTILITIES	£'000
Electricity	
SSE	2,803
Gas, Water & Multiutilities	
Centrica	1,500
National Grid	4,103
Severn Trent	3,831
United Utilities	2,831
Total Utilities	**15,068**

FINANCIALS	Total 31 December 2017 £'000
Banks	
Barclays	3,410
HSBC	8,462
ING (Netherlands)	3,088
Lloyds Banking Group	6,398
Nonlife Insurance	
Jardine Lloyd Thompson	3,251
Munich Re (Germany)	1,912
Sabre Insurance	1,941
Life Insurance	
Chesnara	3,541
Phoenix	4,786
Standard Life Aberdeen	5,966
Real Estate Investment Trusts	
Big Yellow	3,048
Hammerson	2,432
Land Securities	1,342
PRS REIT	1,057
Financial Services	
Brewin Dolphin	3,283
Intermediate Capital	4,913
Jupiter Fund Management	3,699
Schroders	2,776
Equity Investment Instruments	
Greencoat UK Wind	1,864
John Laing Infrastructure Fund	3,176
Blackstone/GSO Loan Funding (Jersey)	1,631
Carador Income Fund (Ireland)	2,398
Total Financials	**74,374**

TECHNOLOGY	£'000
Software & Computer Services	
Sage	3,115
Total Technology	**3,115**
Total Equities	**279,348**

2 In liquidation, held at nil value

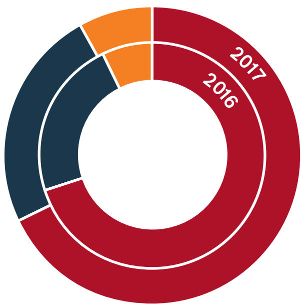
Strategic Report: Investment Portfolio (continued)

Percentage breakdown of investments by sector

	Total 31 December 2017 %	Total 31 December 2016 %
FIXED INTEREST		
Preference shares	1.6	1.7
Other fixed interest	8.7	8.6
Total Fixed Interest	**10.3**	**10.3**
EQUITIES		
Oil & Gas		
Oil & gas producers	6.5	6.6
Total Oil & Gas	**6.5**	**6.6**
Basic Materials		
Chemicals	2.6	2.2
Mining	2.0	1.7
Total Basic Materials	**4.6**	**3.9**
Industrials		
Aerospace & defence	1.4	1.4
Construction & materials	0.2	0.9
General industrials	2.2	1.0
Support services	1.8	1.6
Total Industrials	**5.6**	**4.9**
Consumer Goods		
Beverages	4.5	3.0
Food producers	4.2	3.4
Household goods & home construction	1.5	2.4
Personal goods	1.5	–
Tobacco	6.5	6.5
Total Consumer Goods	**18.2**	**15.3**
Health Care		
Pharmaceuticals & biotechnology	5.3	6.1
Total Health Care	**5.3**	**6.1**
Consumer Services		
Food & drug retailers	1.1	–
General retailers	2.3	2.1
Media	6.0	8.3
Travel & leisure	3.8	4.6
Total Consumer Services	**13.2**	**15.0**
Telecommunications		
Fixed line telecommunications	3.4	4.3
Mobile telecommunications	3.2	3.2
Total Telecommunications	**6.6**	**7.5**

	Total 31 December 2017 %	Total 31 December 2016 %
Utilities		
Electricity	0.9	1.1
Gas, water & multiutilities	3.9	4.9
Total Utilities	**4.8**	**6.0**
Financials		
Banks	6.9	6.7
Non life insurance	2.3	1.5
Life insurance	4.6	5.4
Real Estate Investment Trusts	2.5	2.3
Financial services	4.7	3.9
Equity investment instruments	2.9	3.6
Total Financials	**23.9**	**23.4**
Technology		
Software & computer services	1.0	1.0
Total Technology	**1.0**	**1.0**
TOTAL INVESTMENTS	**100.0**	**100.0**

Distribution of the UK equity holdings at 31 December



	2017 %	2016 %
Large Companies	68	70
Medium-sized Companies	24	23
Small Companies	8	7

Strategic Report: Fund Manager's Report

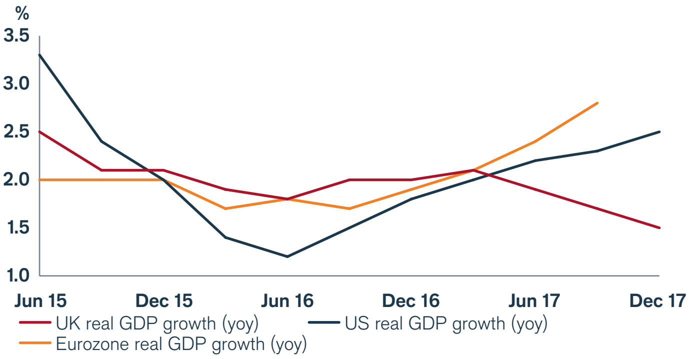
The Fund Manager of the portfolio, David Smith, reports on the year to 31 December 2017

Review of year

The UK stock market continued to make strong gains over the year with the FTSE All-Share Index rising 13.1% on a total return basis. Despite a slowdown in UK economic growth, global GDP remained robust and broadened further in 2017, which supported UK companies with overseas exposure. The Company's NAV performed strongly, returning 13.4% during the year, outperforming the benchmark's gain of 11.4%.

UK economic growth and consumer confidence slowed during the year, due to ongoing uncertainties surrounding Britain's future relationship with the EU and the Conservative Party's weakened position in government post the surprise General Election in May. This fed through into earnings disappointments from some consumer cyclical companies. Brexit negotiations, however, arguably made some progress towards the end of the year, with Theresa May, gaining an agreement on certain issues and the principles of a final settlement. For the first time in a decade, the Bank of England raised interest rates to 0.5% in November, due to rising inflation and falling unemployment.

UK economic growth is slowing while US and Europe are accelerating



Source: Bloomberg

Although the equity portfolio rose 11.5% during the year, it struggled to keep up with the strong return of the FTSE All-Share Index. Despite the portfolio benefitting from positions in financials and multinational companies, the performance of certain domestic cyclical stocks hindered returns. On the positive side, the Company's holdings in Intermediate Capital, Jupiter Fund Management and Victrex aided performance. Intermediate Capital and Jupiter both reported strong inflows into their investment funds during the period, which helped deliver good profit growth. Victrex announced robust results and their intention to pay a 68p per share special dividend. The shares were also supported by a favourable change in the company's tax rate, due to UK patent legislation which encourages UK research and development. Not all domestic stocks were weak in 2017, with those linked to the strong housing market, such as homebuilder Persimmon and building materials manufacturer Marshalls, performing well.

On the negative side, the Company's positions in BT Group and ITV detracted from returns. BT discovered an accounting fraud in its Italian division while ITV experienced a slowdown in advertising spending. Within travel & leisure the Company's holdings in Go-Ahead and Greene King were also detrimental to performance. Go-Ahead underperformed due to ongoing strike issues on its GTR rail franchise and weakness in its bus operations. Greene King also announced lacklustre trading, highlighting consumer weakness and price competition in the casual dining out market.

The fixed income portfolio had another strong year returning 13.4%, outperforming the 4.3% return from the ICE BofAML Sterling Non-Gilts Index. The portfolio benefitted from its exposure to high yield bonds given their outperformance over investment grade credit and government bonds in the period. The portfolio's holdings in financial bonds, such as Nationwide Building Society and Barclays Bank, were also positive for performance as investors sought their attractive coupons.

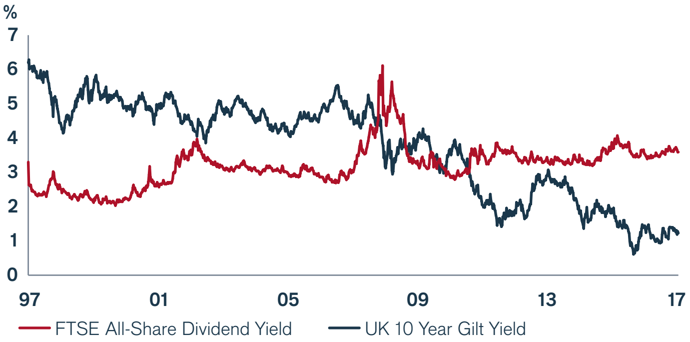
The income return over the year was solid at 10.13p per share, 2% growth on 2016 (9.93p per share). The level of special dividends declined in the year but this was more than offset by good underlying dividend growth from the portfolio. Within the mid and small cap area of the market, the Company's holdings in Cranswick, Hilton Food and Big Yellow all delivered significant dividend growth with increases of 18%, 17% and 11% respectively. The Company raised its own full year dividend for the fifth year in succession to 9.40p per share, an increase of 2.7%. Despite growing the dividend ahead of revenues, the Company finished the year with retained revenues of approximately £887,000 thereby further strengthening the revenue reserves. The outlook for market dividend growth for this year could be more muted, especially given that sterling strength against the US dollar will create a headwind for large cap companies that declare dividends in dollars.

Strategic Report: Fund Manager's Report (continued)

Portfolio activity

Throughout 2017 the Company maintained an overweight allocation to equities compared to bonds with 90% of the investment portfolio in equities. Although bond yields moved higher in the second half of last year, equities still offer better value on a yield basis. Until that dynamic changes and opportunities arise to own good quality credit with attractive coupons, I do not foresee the allocation changing dramatically.

Despite bond yields rising, equities offer better value on yield basis



Source: DataStream

Within the equity portfolio we bought a new holding in Tesco, the UK's largest food retailer. Although conditions in the industry remain tough, the company's turnaround strategy is starting to gain momentum. Cost savings are being reinvested to improve customer service, quality and price competitiveness which should drive volume growth, the key to a sustainable margin recovery over the medium to longer term. There is a renewed focus on cash generation that has enabled the company to recommence dividends which have the potential to grow rapidly in the next couple of years.

Elsewhere we bought positions in Ted Baker and Schroders and participated in the IPO of Sabre Insurance. Ted Baker is a British designer brand that has consistently invested in the business and its distribution capabilities. Margin upside can be expected to be supported by the increased penetration of online sales along with better retail productivity in overseas markets which, together with strong sales growth, will drive attractive dividend growth. Schroders has a strong brand and distribution capabilities and is well diversified through a spread of investment styles and geographies. Sabre Insurance is a specialist UK only motor insurer and is very disciplined when pricing new business. Given its high cash generation, the company came to market on a very attractive dividend yield.

Sales during the year included Persimmon and Marshalls. While both companies continue to trade well, their respective margins and valuations are now at peak levels which could come under pressure given expected cost inflation or any slowdown in the housing market. The holdings in M&S and Tate & Lyle were also sold in the period. As a legacy mid-market retailer, M&S continues to suffer from structural and competitive threats which are putting strain on the company's cash flow. We sold Tate & Lyle given continued regulatory pressure on its bulk sugar division.

Within the fixed income portfolio, the positions in Iron Mountain and Orange were increased. Iron Mountain is the global leader in document storage and represents a core holding within our allocation to high yield non-financial bonds. Orange is the incumbent telecoms operator in France and is committed to its investment grade rating and a conservative balance sheet. The position in the RAC, the second largest roadside assistance provider in the UK was sold following an aggressive distribution to shareholders resulting in a significant increase in leverage. Profits were also taken on the holding in National Grid, where credit spreads had tightened to a very low level.

Outlook

The current equity bull market is now the second longest in history but it has been plagued by continued fears around underlying economic growth and a subsequent lack of earnings recovery especially in Europe. Economists, however, have consistently upgraded global GDP forecasts over the last 12 months with good global economic growth now expected. This outlook should be supportive for corporate earnings but equity valuations, now above the long term average, have started to discount this. Although valuations do not appear particularly cheap, they will be justifiable as long as growth comes through as expected.

Equity valuations are above their long term average

Source: FactSet

Uncertainties around Brexit negotiations continue to dominate sentiment in the UK. Expectations are for the UK economy to grow below trend, however, this could be exacerbated if confidence is lost in the fragile government or talks with the EU fail to make further headway. There has been a distinct variation in sector performances within the UK market with the relative valuation of domestic cyclicals now as low as they were in the depth of the financial crisis. This feels extreme given that monetary and fiscal policies remain supportive, the banking sector is robust, unemployment is low and business investment intentions remain positive. With this is mind the Company maintains some exposure to domestic cyclicals but is focussed on high quality companies with defendable business models, strong balance sheets and attractive dividends.

Strategic Report: Fund Manager's Report (continued)

UK domestic valuations near all-time relative lows

Source: Barclays European Equity Research

While I remain broadly positive on equities given the robust global economic outlook, I recognise we are closer to the end of the current cycle than the beginning. Risks to current equity market levels could come from any global growth disappointment or higher, more permanent, inflation causing aggressive tightening of monetary policies by central banks. The Company remains well diversified owning good quality companies that have the ability to pay and grow their dividends into the long term.

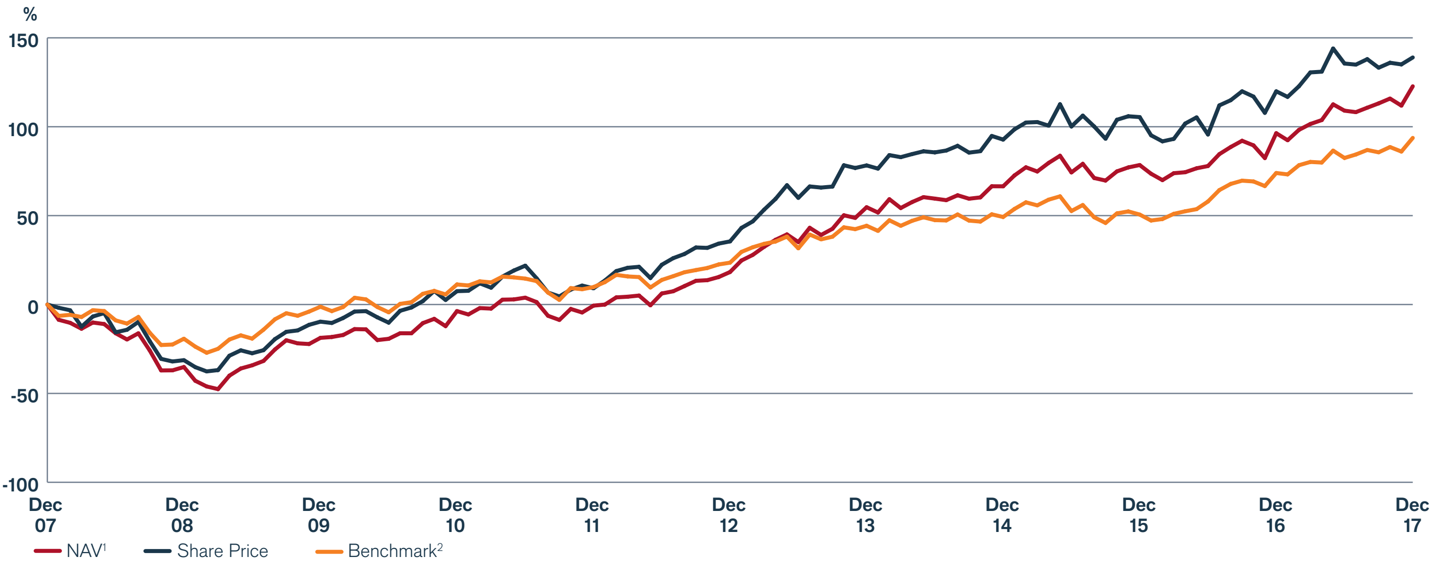
David Smith
26 March 2018

Strategic Report: Historical Performance and Financial Information

Total return performance to 31 December

	1 year %	3 years %	5 years %	10 years %
NAV[1]	13.4	32.8	86.5	126.9
Share Price	8.7	24.1	76.4	138.5
Benchmark Index[2]	11.4	29.8	56.8	93.7
FTSE All-Share Index	13.1	33.3	63.0	84.5
ICE BofAML Sterling Non-Gilts Index	4.3	16.2	31.6	85.4

Total return performance over 10 years to 31 December 2017



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. Prior to 31 December 2010 the benchmark was 75% of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index

Financial information

31 December	Net assets £m	NAV[3] p	Mid-market price per ordinary share p	Dividends per ordinary share p
2008	87.8	102.3	95.0	8.30
2009	100.8	117.8	114.5	8.30
2010	112.7	124.7	124.8	6.23[4]
2011	108.9	119.3	118.5	8.30
2012	132.8	135.3	138.3	8.30
2013	175.3	167.7	172.8	8.40
2014	189.0	171.4	177.9	8.60
2015	197.1	175.3	180.5	8.90
2016	207.7	181.3	183.6	9.15
2017	**257.2**	**195.7**	**190.0**	**9.40**

3 Based on net assets with debt at fair value as published by the AIC
4 Only three interim dividends were paid in respect of the year to 31 December 2010 as the fourth interim dividend was reclassified as the first interim dividend for the year to 31 December 2011 and paid in April 2011. However, the shareholders effectively received the same total dividend of 8.30p per share during 2010 as in the previous year

Sources: Janus Henderson, Morningstar for the AIC, Datastream, Bloomberg and Morningstar Direct

Strategic Report: Directors' Biographies

Directors

The Directors appointed to the Board at the date of this Annual Report with the exception of Jeremy Rigg who will join the Board with effect from 1 April 2018 are:

Margaret Littlejohns

Position: Chairman of the Board and of the Nominations and Management Engagement Committees
Date of appointment: 1 July 2008 (Chairman on 3 May 2016)
Margaret spent the early part of her career with Citigroup, gaining 18 years' experience in both the commercial and investment banking divisions, latterly specialising in derivatives and market risk management. Between 2004 and 2006 she co-founded two start-up ventures providing self-storage facilities to domestic and business customers in the Midlands, acting as Finance Director and Company Secretary until the businesses were sold to a regional operator in 2016. She is a non-executive director and Chairman of the Audit Committee of JPMorgan Mid Cap Investment Trust plc, and recently became a non-executive director of Foresight VCT plc and of UK Commercial Property Trust Ltd. She is also a trustee of The Lymphoma Research Trust and a member of the Development Committee of Southern Housing Group.

Andrew Bell

Position: Director
Date of appointment: 1 November 2004
Andrew has worked in the City since 1987, initially specialising in European equities as a strategist at Barclays de Zoete Wedd (BZW), following which he was Co-Head of the Investment Trusts team at Credit Suisse First Boston. From 2000 until 2010 he worked for Rensburg Sheppards as Head of Research, leaving in February 2010 to become a director and Chief Executive Officer of Witan Investment Trust plc. He was the Chairman of the Association of Investment Companies from January 2013 until January 2015. Since February 2015 he has been Chairman of Gabelli Value Plus+ Trust plc. Prior to the City, he worked for Shell in Oman, leaving to take a Sloan Fellowship at the London Business School.

Anthony Newhouse

Position: Director
Date of appointment: 1 July 2008
Anthony is a solicitor who was a partner in Slaughter and May until 2008. He began his career in the City in banking and joined Slaughter and May in 1976, where he became a partner in 1984. He had a wide-based domestic and international corporate finance practice, advising many UK listed and other corporate entities. He has subsequently been a member of the PwC advisory board, a visiting professor at the London Metropolitan University Business School and is currently an honorary treasurer of the Royal Philharmonic Society.

Janet Walker

Position: Director and Chairman of the Audit Committee
Date of appointment: 1 June 2007 (Chairman of the Audit Committee on 1 October 2008)
Since the beginning of 2011 Janet has been the Bursar of Eton College. She was formerly the Commercial & Finance Director of Ascot Racecourse and a non-executive director of the Design Council, Royal Holloway College and the British Academy of Film and Television Arts (BAFTA). From 1980 until 2003 Janet was employed in broadcasting, including roles as Director of Finance and Business Affairs at Channel Four Television from 1998 to 2003, Director of Finance at Granada Media Group from 1996 to 1998, Financial Controller, Regional Broadcasting for the BBC from 1994 to 1996 and Deputy Director of Finance and Corporation Secretary at Channel Four Television from 1988 to 1994. She is currently a member of the Royal Horticultural Society's Audit Committee.

Zoe King

Position: Director
Date of appointment: 1 April 2016
Zoe has been a director of Smith & Williamson Investment Management Limited for over ten years, specialising in the management of private client portfolios. She also acts as an independent adviser to a number of charities. She was formerly a Vice President at Merrill Lynch Mercury Asset Management and a Fund Manager at Foreign & Colonial Investment Management, having graduated from Oxford University in 1994.

Jeremy Rigg

Position: Director
Date of appointment: 1 April 2018
Jeremy has over 20 years' experience from the investment management industry having held roles as a director of Schroder Investment Management (UK) Ltd and as a senior investment manager at Investec Asset Management. In 2004, he was a founding partner of Origin Asset Management, a boutique equity investment manager which grew successfully and was acquired by Principal Global Investors in 2011. Jeremy is currently an independent investment consultant. He graduated from St Andrews University in 1989.

All Directors are independent of Janus Henderson and are members of the Nominations, Management Engagement and Audit Committees.

Strategic Report: Corporate Information

Registered office

201 Bishopsgate
London
EC2M 3AE

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

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London
E14 5HQ

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

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Financial calendar

First interim dividend payable	27 April 2018
Annual General Meeting[1]	9 May 2018
Guernsey shareholder event[2]	10 May 2018
Second interim dividend payable	27 July 2018
Half year results	August 2018
Third interim dividend payable	26 October 2018
Fourth interim dividend payable	25 January 2019

1 At the Company's registered office at 12 noon

2 At the Old Government House Hotel, St Peter Port, Guernsey at 11:45am

Information sources

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

HGi

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

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

Follow us on Twitter, YouTube and Facebook

For alternative access to Janus Henderson's insight you can now follow us on Twitter, YouTube and Facebook.

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. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 225 525, email **customercare.HSDL@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

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

Strategic Report: Corporate Information (continued)

Status

The Company is registered as a public limited company and is an investment trust as defined under section 833 of the Companies Act 2006 (the 'Act'). It has been approved as an investment company under sections 1158/1159 of the Corporation Tax Act 2010 (Section 1158), as amended, and is a member of the Association of Investment Companies ('AIC').

The Directors are of the opinion that the Company continues to conduct its affairs as an Approved Investment Trust under the Investment Trust (Approved Company) (Tax) Regulations 2011.

The Company maintains a primary listing on the London Stock Exchange and is subject to the Listing, Prospectus and Disclosure Guidance and Transparency Rules published by the FCA. The Company is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution.

Principal risks and uncertainties

The Board, with the assistance of Janus Henderson, has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. In carrying out this assessment, the Board has considered the market uncertainty arising from the UK's negotiations to leave the European Union following the June 2016 referendum result. The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objectives and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to mitigate these as far as practicable, are as follows:

Principal risks	Mitigation
Investment Risk Risk of long term underperformance of the Company against the benchmark and/or peer group. This could result in the shares of the Company trading at a discount and reduced liquidity in the Company's shares.	Janus Henderson provides the Directors with regular investment management information including investment performance statistics against the benchmark and the peer group. The implementation of investment strategy and results of the investment process for which the Fund Manager is responsible are discussed with Janus Henderson and reviewed at each Board meeting. The premium/discount and the trading volume of the Company's shares are also regularly reviewed, taking account of market conditions. The Directors maintain close contact with the Company's brokers to understand and regulate the supply and demand of shares.
Market/Financial Risk Risk that market conditions lead to a fall in the value of the portfolio (magnified by any gearing) and/or a reduction of income. This could result in loss of capital value for shareholders and/or a cut in the dividend payment.	The Directors review the portfolio regularly. The portfolio is diverse, containing a sufficient range of investments to ensure that no single investment puts undue risk on the sustainability of the income generated by the portfolio or indeed the capital value. Regard is also given to having a broad mix of companies in the portfolio, as well as a spread across a range of economic sectors. Janus Henderson operates within investment limits and restrictions set by the Board, including limits for gearing and derivatives. A monthly schedule of current positions against all established limits is reviewed by the Directors and Janus Henderson confirms adherence to them each month. Any particularly high risks are highlighted and discussed. A detailed analysis of all financial risks for the Company can be found in note 14 of this report. The Directors review the income statement and income forecasts at each Board meeting and monitor the Company's revenue reserves.

Strategic Report: Corporate Information (continued)

Principal Risks	Mitigation
Operational Risk Risk of losses through inadequate or failed internal processes, systems, human error or external events. This includes the risk of loss arising from failing to manage key outsourced service providers properly, and the risk arising from major disruptions to their businesses and their markets.	Control systems of Janus Henderson are designed and tested to ensure that operational risks are mitigated to an acceptable level. Business continuity plans are maintained and tested to ensure that, in the event of business disruption, operations can be maintained. Janus Henderson has cyber security controls in place to protect against attacks. Agreements are in place with all other key service providers and their controls are monitored by Janus Henderson's assurance functions. The Directors receive a quarterly internal controls report from Janus Henderson to assist with the ongoing review of risks and control procedures used to manage those risks. More details on internal control and risk management can be found in the Corporate Governance Statement on pages 29 and 30.
Legal and Regulatory Risk Risk that a breach of or a change in laws and regulations could materially affect the viability and appeal of the Company, in particular Section 1158 which exempts capital gains from being taxed within investment trusts.	The Company's legal and regulatory obligations are delegated to Henderson Secretarial Services Limited and are monitored by Janus Henderson's Compliance and Audit functions. Janus Henderson regularly reviews and confirms compliance with Section 1158 to protect the Company's status as an investment trust. Janus Henderson actively and constructively engages with regulators, tax and industry bodies in order to understand and influence future developments. The Directors receive a quarterly internal controls report from Janus Henderson which confirms regulatory compliance.

The Board considers these risks to have remained unchanged throughout the year under review.

Viability statement

The Company is a long term investor. The Board believes it is appropriate to assess the Company's viability over a five year period in recognition of our long term horizon and what we believe to be investors' time horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as documented in this Strategic Report.

The assessment has considered the impact and the likelihood of the principal risks and uncertainties facing the Company in severe but reasonable scenarios, and the effectiveness of any mitigating controls in place. The Directors consider this to be an appropriate period during which they do not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place. Also the Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period.

The Directors have also taken into account the liquidity of the portfolio, the income stream from the portfolio and the Company's ability to meet liabilities as they fall due. This included consideration of how the forecast income stream, expenditure and levels of reserves could impact on the Company's ability to pay dividends to shareholders over that period in line with its dividend policy. Whilst detailed forecasts are only made over a shorter timeframe, the nature of the Company's business as an investment trust means that such forecasts are equally valid to be considered over the longer five year period as a means of assessing whether the Company can continue in operation.

The Directors recognise that there is a continuation vote due to take place at the Annual General Meeting following the 31 December 2019 year end. The Directors support the continuation of the Company and expect that the Company will continue to exist for the foreseeable future, at least for the period of the assessment. The Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Based on this assessment the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five year period.

Borrowing

At 31 December 2017 the Company had a committed loan facility with Scotiabank of £42m which allows it to borrow as and when appropriate. This had been increased from £30m on 28 June 2017 following the Company's participation in the Threadneedle UK Select Trust Limited's scheme of reconstruction and voluntary winding up. The facility expires on 30 June 2018. The Company also has a £20m fixed rate 19 year senior unsecured note with a sterling coupon rate of 3.67%. Gearing as at 31 December 2017 was 21.0% (2016: 21.8%).

Strategic Report: Corporate Information (continued)

Future developments

While the future performance of the Company is mainly dependent on the performance of UK and international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and policy explained on page 4. The Chairman's Statement and Fund Manager's Report provide commentary on the outlook for the Company.

Key performance indicators

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

KPI	Action
Dividend policy	The Board places a high level of importance on maintaining the Company's dividend payments. The aim is to maintain a suitable asset allocation that will permit a sustainable high level of dividend distributions to shareholders with the potential to grow in the longer term. The Board reviews the Company's revenue account at every Board meeting, along with the appropriateness of its dividend payments. The Board also compares the yield on the Company's shares to other relevant sectors of the Association of Investment Companies ('AIC'). Shareholders must, however, recognise that dividend payments can never be guaranteed, and that circumstances could arise when it would be necessary to reduce or pass a dividend payment. The Board may from time to time decide to utilise some of the Company's reserves for dividends. Equally, there may be instances when the level of payment must be increased in order to comply with Section 1158 which requires an investment trust not to retain more than 15% of its total income. Where such instances would result in a payment going beyond the Board's policy, one-off 'special dividend' payments could be declared and paid.
Performance of the portfolio	At each Board meeting, the Board reviews the performance of the portfolio as well as the NAV per share (with debt at par value and fair value) and share price of the Company. The Board also compares the performance of the Company against the benchmark. The Board has determined that this measure be used to calculate whether a performance fee is payable to Janus Henderson. Further details of the fee arrangements with Janus Henderson are given on page 4.
Premium/discount to net asset value ('NAV')	At each Board meeting, the Board monitors the level of the Company's premium or discount to NAV per share and reviews the average premium or discount for other relevant sectors of the AIC. The Company publishes two NAVs per share, one with debt at par and the other with debt at fair value on a daily basis through the official newswire of the London Stock Exchange. These figures are calculated in accordance with the AIC formula.
Ongoing charge	The Board regularly reviews the ongoing charge and monitors all Company expenses. For the year ended 31 December 2017 the ongoing charge (excluding performance fee) was 0.75% (2016: 0.81%). There was no performance fee payable this year or in the year ended 31 December 2016.

Strategic Report: Corporate Information (continued)

Corporate responsibility

Responsible Investment, Voting and the UK Stewardship Code

The Board delegates the Company's investment management activities, including corporate governance and corporate responsibility in respect of investee companies, to Janus Henderson.

The Board retains oversight as to how duties in this area are discharged by reviewing Janus Henderson's Responsible Investment Policy and receiving regular reporting on how the Responsible Investment Policy has been applied in respect of the shares in its portfolio. The Responsible Investment Policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients. This includes environmental, social and ethical issues, its approach to proxy voting and the application of the UK Stewardship Code.

The Board believes that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on Board policy, practices and performance.

Voting recommendations are guided by the best interests of the investee companies' shareholders and, depending on the nature of the resolution, the Fund Managers may give specific instructions on voting on non-routine and unusual or controversial resolutions. The Responsible Investment Policy can be found on the Manager's website at **www.janushenderson.com**.

Employees, Social, Community, Human Rights and Environmental Matters

As an investment trust, the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company's core activities are undertaken by Janus Henderson, which has implemented environmental management practices. Janus Henderson's corporate responsibility statement is included on its website. In 2012 it was granted CarbonNeutral® company status which it has committed to maintain at least until the end of 2018.

The Company's Annual Report is printed on paper produced using 60% recycled waste and 40% virgin fibre and manufactured at a mill certified with ISO 14001 environmental management standard from fully sustainable forests with certification by the Forest Stewardship Council, the printing company used is certified as CarbonNeutral®.

Bribery Act

The Company has no employees. The Board has reviewed the implications of the Bribery Act 2010 and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers, listed on page 16, that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Criminal Finances Act

The Board has considered the recent changes made by the Criminal Finances Act 2017 which introduced a new corporate criminal offence of failing to take reasonable steps to prevent the facilitation of tax evasion. The Company maintains a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

Modern Slavery

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

Board diversity and experience

As at the date of this report, the Company's affairs are overseen by a Board comprising five non-executive Directors – three female and two male. The Directors are diverse in their experience bringing knowledge of investment markets, legal and accounting expertise to discussions regarding the Company's business. The Directors regularly consider the leadership needs and specific skills required to achieve the Company's investment objectives, and are cognisant of diversity when making appointments to the Board. The Company has no employees and therefore has no further disclosures to make in respect of gender representation within the Company.

For and on behalf of the Board

Margaret Littlejohns
Chairman
26 March 2018

Strategic Report: Glossary and Alternative Performance Measures

Alternative Investment Fund Managers Directive ('AIFMD')

Agreed by the European Parliament and the Council of the European Union and adopted 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 of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

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.

Benchmark

An index against which performance is compared. For the Company this is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the ICE BofAML Sterling Non-Gilts Index (total return) and is rebalanced annually. The Merrill Lynch Sterling Non-Gilts Index was rebranded to ICE BofAML Sterling Non-Gilts Index as at 21 October 2017.

Capital return per share

The capital return per share is the capital return for the year divided by the weighted average number of ordinary shares in issue during the year.

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

With effect from 22 July 2014 all AIFs were 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 and appointing the custodian. 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 its 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 recommended, 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 Registrars to establish 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.

Effective interest method

The effective interest rate is a method used by a bond buyer to calculate the total yield to maturity including any capital loss if the bond is purchased above par, or capital gain if purchased at a discount to par.

Gearing

The gearing percentage reflects the amount of borrowings (e.g. bank loans, overdrafts or long term debt) 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 investments and total equity, dividing it by total equity and multiplying it by 100 to express it as a percentage. Net gearing offsets any cash amounts against the amount of borrowings.

Geometric returns

A method for aggregating percentage returns over a holding period to include the impact of compounding.

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.

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 ('market cap')

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

Strategic Report: Glossary and Alternative Performance Measures (continued)

Net asset value ('NAV') per ordinary share

The value of the Company's assets (i.e. investments and cash held) less any liabilities (including bank borrowings and the value of debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the statement of financial position. The Company currently publishes two NAVs, one with debt at par and the other with debt at fair value. Both are published daily. The NAV published to the London Stock Exchange and by the AIC will deduct the interim dividends on the corresponding ex-dividend date. The NAV in the Company's accounts will deduct the interim dividends on the corresponding dividend payment date.

Ongoing charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year as being the best estimate of future costs, excluding any performance fees, in accordance with the AIC methodology prescribed by the AIC and is the annualised ongoing charge expressed as a percentage of the average aggregate NAV in the period.

Premium/discount

The amount by which the market price per share of an investment company is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share. The premium/discount reported is based on the published NAV with debt at fair value. Both the share price and NAV per share in the calculation will have the dividend deducted when the shares are ex-dividend.

Revenue return per share

The revenue return per share is the revenue return for the year divided by the weighted average number of ordinary shares in issue during the year.

Total return performance

This is the return on the share price or NAV per share taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders during a given period. 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 per share total return).

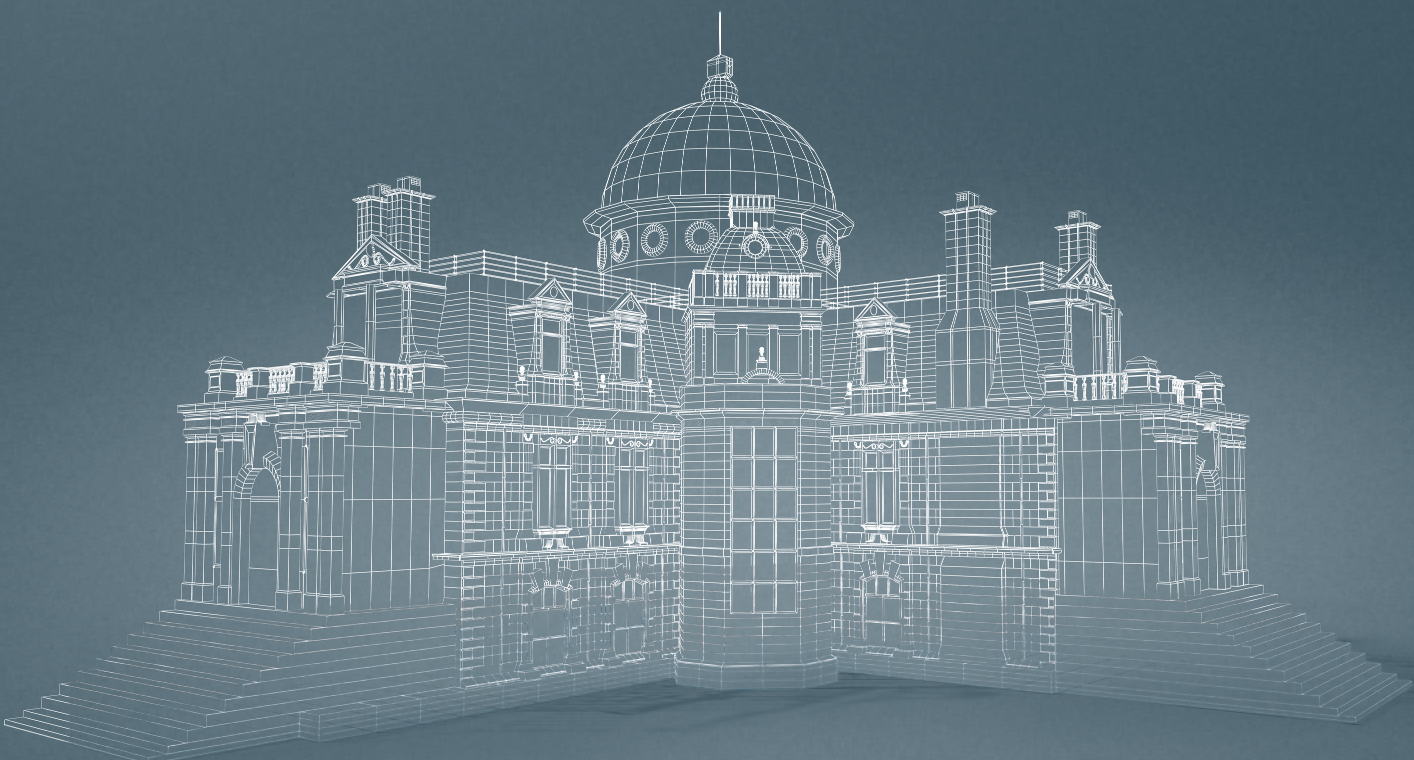
Treasury shares

Shares repurchased by the Company but not cancelled.

Yield

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

Corporate Report



Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 January 2017 to 31 December 2017. The Company (registered in England & Wales on 21 March 1997 with company registration number 02422514) was active throughout the year under review and was not dormant.

Directors' remuneration and shareholdings

The Directors' Remuneration Report on pages 27 and 28 provides information on the remuneration and share interests of the Directors.

Related party transactions

The Company's transactions with related parties in the year were with the Directors and Janus Henderson. There have been no material transactions between the Company and its Directors during the year. The only amounts paid to the Directors were in respect of remuneration for which there were no outstanding amounts payable at the year end. 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 provision of sales and marketing services, there have been no material transactions with the Manager affecting the financial position 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 19 on page 58.

Share capital

The Company's share capital comprises ordinary shares of 5p nominal value. The voting rights of the ordinary shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's ordinary shares and there are no shares that carry specific rights with regards to control of the Company.

At the beginning of the year, there were 111,942,365 ordinary shares in issue. On 28 June 2017 the Company issued 15,232,843 ordinary shares following its participation in the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited. A further 1,421,070 ordinary shares were also issued under the Initial Placing and Offer at an issue price of 194.56p per share. The total proceeds for both schemes amounted to £32,046,000 net of costs. As at 31 December 2017 the Company's share capital consisted of 128,596,278 ordinary shares. Since 1 January 2017 and up to 26 March 2018, no further ordinary shares have been issued. The number of shares in issue as at 26 March 2018 was 128,596,278.

The Directors seek annual authority from the shareholders to allot new ordinary shares, to dis-apply the pre-emption rights of existing shareholders, and to buy back for cancellation or to be held in treasury the Company's ordinary shares. At the Annual General Meeting ("AGM") on 9 May 2017 the Directors were granted authority to repurchase 16,780,160 ordinary shares (with a nominal value of £839,008) for cancellation or to be held in treasury. The Directors have not bought back any shares and therefore at the date of this report the Directors have remaining authority to repurchase 16,780,160 shares. This authority will expire at the conclusion of the AGM in May 2018, when a new authority will be sought.

Holdings in the Company's shares

There were no declarations of interests in the voting rights of the Company as at 31 December 2017 in accordance with the Disclosure Guidance and Transparency Rules.

No other changes have been notified in the period from 1 January 2018 to 26 March 2018.

At 31 December 2017, 8.35% of the issued ordinary shares were held on behalf of participants in Halifax Share Dealing products administered by Halifax Share Dealing Limited. The participants in this scheme are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company.

Annual General Meeting

The Annual General Meeting will be held on Wednesday 9 May 2018 at 12 noon at the Company's registered office. The notice and details of the resolutions to be put to the Annual General Meeting are contained in the separate document being sent to shareholders with this Annual Report.

Guernsey Shareholder Event

The Board recognises that following the Company's participation in the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited, many of the shareholders who took up the option to acquire the Company shares are based in Guernsey. The Company has therefore arranged a Guernsey shareholder event to be held at The Old Government House Hotel, St. Peter's Port, Guernsey GY1 2NU on Thursday 10 May 2018 at 11.45am. The event will provide the opportunity for the Fund Manager, David Smith, to give a presentation on the investment strategy and performance. The event will include light refreshments. If you wish to attend, please return the yellow card which is enclosed with this report.

Corporate governance

The Corporate Governance Statement on pages 29 to 33 forms part of the Report of the Directors.

Directors' statement as to disclosure of information to the Auditors

Each Director who was a member of the Board at the date of approval of this Annual Report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's Auditors are unaware and that he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

Report of the Directors (continued)

Other information

Information on future developments and financial risks are detailed in the Strategic Report on page 19.

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, other than in accordance with Listing Rule 9.8.4(7), the information in respect of which is detailed on page 24 under Share Capital.

Subsequent events

Since the year end, the Board has declared a first interim dividend of 2.375p per ordinary share in respect of the year ending 31 December 2018. The first interim dividend will be paid on 27 April 2018.

On 17 January 2018, the Company announced its amendments to the fee arrangements with Janus Henderson. The previous agreement, whereby the management fee is charged at 0.50% of adjusted average gross assets continues to apply to the first £250m of adjusted gross assets, but with effect from 1 January 2018, a reduced management fee of 0.45% is applied to adjusted average gross assets above £250m. There was also a change to the performance fee cap.

Further details can be found in note 21 on page 58.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
26 March 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, the financial reporting standard applicable in the United Kingdom and Republic of Ireland, and applicable law). 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 profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 them 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 and financial statements taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statement under DTR 4.1.12

Each of the Directors, who are listed on page 15 with the exception of Jeremy Rigg, who will join the Board on 1 April 2018, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 and applicable law) give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes 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

Margaret Littlejohns
Chairman
26 March 2018

The Annual Report and financial statements are published on **www.hendersonhighincome.com** which is a website maintained by Janus Henderson. The maintenance and integrity of the website is the responsibility of the Manager. The work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

Introduction

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 in August 2013 (the 'Regulations'). The report also meets the relevant requirements of the Companies Act 2006 (the 'Act') and the Listing Rules of the UK Listing Authority 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 report will be proposed at the Annual General Meeting to be held on 9 May 2018.

Shareholders last approved the Company's remuneration policy under section 439A of the Act at the AGM in 2017. No changes to the policy are proposed and therefore the current policy will continue in force until the AGM in 2020.

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 has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors review annually the published fees paid to the boards of directors of other comparable investment trust companies).

Remuneration policy

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 £250,000 per annum. Subject to this overall limit, the Board's policy is that remuneration should reflect the time spent on the Company's affairs and the responsibilities borne by the Directors. They should be comparable to that of other investment trusts of a similar size and with a similar capital structure and investment objective and should be of a sufficient level to promote the long term success of the Company. 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. From time to time the Board may approve one-off payments to Directors for specific work undertaken in addition to their regular responsibilities. The level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in any change to the rate. Any feedback from shareholders would be taken into account when setting remuneration levels. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

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

No Director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable for loss of office. There are no set notice periods.

This remuneration policy has been in place since 1 January 2013 and was approved by shareholders at the Annual General Meeting in May 2017. This will be due for renewal at the Annual General Meeting in May 2020 unless it is amended by way of ordinary resolution put to shareholders at a general meeting. The Board may amend the level of remuneration paid to individual Directors within the parameters of the remuneration policy.

Annual statement

As Chairman of the Board, Margaret Littlejohns, reports that Directors' fees were increased by 2.2% on 1 July 2017. This increase was made after consideration of the fees paid by other investment trusts in the sector of an equivalent size, as well as taking account of available independent research from Trust Associates into fees. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new Directors.

There have been no other major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual Director in the year under review. Decisions on remuneration and the remuneration policy are made by the Board. A separate Remuneration Committee has not been established.

Directors' interests in shares (audited)

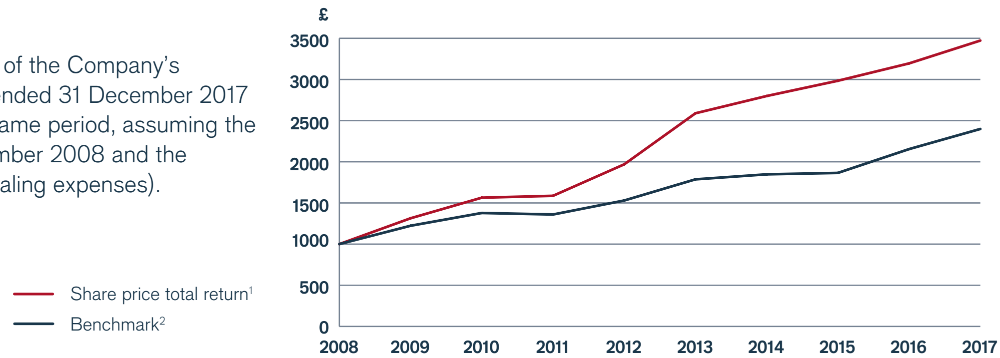
The Company has not set any requirements, qualification or guidelines for Directors to own shares in the Company. The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table below.

	Ordinary shares of 5p	
	31 December 2017	1 January 2017
Beneficial:		
Margaret Littlejohns	25,139	20,000
Andrew Bell	30,000	30,000
Zoe King	9,000	9,000
Anthony Newhouse	20,000	20,000
Janet Walker	6,000	6,000

Directors' Remuneration Report (continued)

Performance

The graph compares the mid-market price of the Company's ordinary shares over the nine year period ended 31 December 2017 with the Company's benchmark over the same period, assuming the notional investment of £1,000 on 31 December 2008 and the reinvestment of all dividends (excluding dealing expenses).



1 The share price total return is sourced from the AIC except the 2008 and 2009 returns which are from Morningstar

2 The benchmark is 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. Prior to 31 December 2010 the benchmark was 75% of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index. Source from AIC Report

Directors' remuneration (audited)

The remuneration paid to the Directors who served during the years ended 31 December 2017 and 31 December 2016 was as follows:

	Year ended 31 December 2017 Total salary and fees £	Year ended 31 December 2016 Total salary and fees £
Margaret Littlejohns[1]	34,875	30,323
Andrew Bell	23,250	22,750
Zoe King[2]	23,250	17,125
Anthony Newhouse	23,250	22,750
Janet Walker[3]	27,900	27,300
Vivian Bazalgette[4]	–	7,665
Hugh Twiss[4]	–	11,498
Total	**132,525**	**139,411**

Notes:
The table above omits other columns set out in the relevant regulations because no payments of other types such as taxable benefits, performance related pay, vesting performance related pay and pension related benefits, were made.
1 Chairman and highest paid Director. Appointed Chairman on 3 May 2016
2 Appointed on 1 April 2016
3 Chairman of the Audit Committee
4 Retired on 3 May 2016
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. Jeremy Rigg is to be appointed on the same terms as the other Directors.

From 1 July 2017 the fees were as follows (previous rates are shown in brackets): Chairman £35,250 (£34,500) per annum, Audit Committee Chairman £28,200 (£27,600) per annum and Director £23,500 (£23,000) per annum.

Relative importance of spend on pay

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

	2017 £	2016 £	Change £
Total remuneration	132,525	139,411	(6,886)
Ordinary dividends paid during the year	10,862,142	10,131,018	731,124

Statement of voting at Annual General Meeting

At the 2017 AGM 17,194,080 proxy votes (97.4%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 234,591 (1.3%) were against, 227,490 (1.3%) were discretionary and 181,384 were withheld. In relation to the approval of the Remuneration Policy at the 2017 AGM, 17,173,055 proxy votes (97.3%) were received voting for the resolution, 256,846 (1.4%) were against, 227,490 (1.3%) were discretionary and 181,154 were withheld. The percentage of votes excludes votes withheld.

For and on behalf of the Board

Margaret Littlejohns
Chairman
26 March 2018

Corporate Governance Statement

Applicable Corporate Governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, the Company's day-to-day responsibilities are delegated to third parties. The Company has no employees and the Directors are all non-executive, therefore not all the provisions of the UK Corporate Governance Code (the 'UK Code') issued by the Financial Reporting Council ('FRC') in April 2016 are directly applicable to the Company. The Board has considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in July 2016 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

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

Statement of compliance

The Directors believe that the Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this Annual Report, and thereby the provisions of the UK Code, except as set out below:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations.

Board

Board composition

As at the end of 2017, the Board consisted of five non-executive Directors, who served throughout the year. Since the year-end, Jeremy Rigg has been appointed as a Director with effect from 1 April 2018. The biographies of those holding office at the date of this Annual Report are included on page 15. Those details demonstrate the breadth of investment, commercial, legal, financial and professional experience relevant to their positions as Directors.

Responsibilities of the Board and its Committees

The Board, which is chaired by Margaret Littlejohns, who is an independent non-executive Director, meets formally approximately six times a year, with additional Board or Committee meetings arranged when required. The Directors have regular contact with the Fund Manager and representatives of the Corporate Secretary between formal meetings. The Board has a schedule of matters specifically reserved for its decision, which include strategy and management.

The Board is responsible for the approval of the annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and performance.

At each meeting the Board reviews the Company's investment performance and considers financial analysis and other reports of an operational nature. The Board monitors performance against the Company's investment objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act and regularly reviews investment strategy.

The Board has adopted a procedure for Directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

Internal controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The process accords with the FRC's guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in September 2014. 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.

The key components of the internal control framework include:

- Clearly defined investment criteria, specifying levels of authority and exposure limits. The Board reviews reports on investment performance against and compliance with the criteria at each meeting;
- Regular financial reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- Contractual agreements with the Manager and all other third party service providers. The Board reviews performance levels and adherence to relevant provisions in the agreements on a regular basis through reporting to the Board and conducts a formal evaluation of the overall level of service provided at least annually;
- The review of controls at the Manager and other third party service providers. The Board receives quarterly reporting from the Manager and Depositary, and reviews annual assurance reports on the effectiveness of the control environments at the Company's key service providers.

Corporate Governance Statement (continued)

- Review of additional reporting provided by:
  - the Manager's Operational Risk team on the control environment in operation at the Manager and their view of the control environments in place at the third party service providers used by the Company; and
  - the Manager's Internal Audit team on areas of operation which are relevant to the Company.

The Board noted the service auditors' qualification in respect of the internal controls report of the Manager which covered controls during the reporting period. The Board is aware that the Audit Committee has sought additional clarification in respect of the exceptions which resulted in the qualification and is satisfied that the matter has been considered in sufficient detail. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2017. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant.

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's management functions are delegated to third parties and the Board monitors the controls in place with support from the Manager's internal audit department. As such the Board has determined that there is currently no need for the Company to have its own internal audit function.

Directors

Terms, appointment and retirement

The Board may appoint Directors to the Board and any Director so appointed must stand for election by the shareholders at the Annual General Meeting following appointment in accordance with the Articles of Association.

Jeremy Rigg has been appointed to the Board with effect from 1 April 2018 and will therefore stand for election by the shareholders at the 2018 Annual General Meeting.

The Articles of Association state that any Director who has served for more than nine years is subject to annual re-election. Margaret Littlejohns, Anthony Newhouse and Janet Walker are therefore required to seek annual re-election to the Board and will do so at the 2018 Annual General Meeting.

Under provisions of the Articles of Association shareholders may remove a Director before the end of his or her term by passing an ordinary resolution at a meeting. An ordinary resolution is passed if more than 50% of the votes cast, in person or by proxy, are in favour of the resolution.

Independence

All Directors have a wide range of other interests and are not dependent on the Company. At the Nominations Committee meeting in January 2018, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of the Manager. There were no contracts in existence during or at the end of the year in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

Induction and ongoing training

When a new Director is appointed he or she receives an induction seminar which is held by the Manager at the request of the Chairman. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are able to attend external training facilities and industry seminars at the expense of the Company. Each Director's individual training requirements are considered as part of the annual performance evaluation.

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'). The Board has a formal system in place for Directors to declare situational conflicts which are 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. The Directors 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 minutes of the relevant meeting. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the system it has in place for reporting and considering situational conflicts continue to operate effectively.

Directors' insurance and indemnification

Directors' and officers' liability insurance cover is in place. Under provisions of 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 their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court. No indemnity was given during the year or up to the date of this report.

Performance evaluation

The performance of the Company is considered in detail at each Board meeting. In the year under review the Board has conducted a review of its own performance, together with that of its Committees and each individual Director. This was conducted by the Chairman contacting each Director about the Board's performance and each Director's contribution. The Chairman of the Audit Committee contacted each Director about the performance of the Chairman. It was concluded that the evaluation findings demonstrated that the Board as a whole, had a broad range of skills including commercial, legal, investment, financial and other industry experience, as well as being diverse in terms of background and gender. Each Director

Corporate Governance Statement (continued)

brought different qualities to the Board and its discussions. In particular, the Committee considered that the Board operated effectively and the current Board composition was in the best interests of the Company and its shareholders. All the Directors, notwithstanding their length of service, were considered to be independent. The Chairman demonstrated effective leadership and created the conditions for overall Board effectiveness by setting clear expectations concerning the Company's culture and values and shaping the style and tone of Board discussions.

Committees of the Board

The Board has four Committees: the Audit Committee, the Nominations Committee and the Management Engagement Committee. The terms of reference for these Committees are available on the website **www.hendersonhighincome.com** or via the Corporate Secretary. The Company has also established an Insider Committee to assist in meeting the disclosure requirements of the Market Abuse Regulations, which meets when required.

Audit Committee

The Audit Committee is chaired by Janet Walker. The Report of the Audit Committee, which forms part of the Corporate Governance Statement can be found on pages 34 and 35.

Nominations Committee

The Nominations Committee is responsible for ensuring the Board retains an appropriate balance of skills, experience and diversity, has a formal, rigorous and transparent approach to the appointment of directors and maintains an effective framework for succession planning.

The Committee is chaired by the Chairman of the Board. All of the independent non-executive Directors are members of the Committee.

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

- the composition of the Board and each of its committees, taking account of the skills, experience and knowledge of each Director and whether the diversity of these continued to contribute to the success of the Company;
- the outcomes of the Board performance evaluation with a view as to whether adjustments should be made to the number of Directors or knowledge and skills represented on the Board;
- the tenure of each of the Directors, giving consideration as to whether the Board retained a sufficient balance of length of service without becoming ossified;
- the independence of the Directors taking account of the guidelines established by the AIC Code and the Directors' other commitments;
- the time commitment of the Directors and whether this had been sufficient over the course of the year;
- succession planning for appointments to the Board taking account of the provisions of the Articles regarding the retirement and rotation of Directors and the tenure of the current Directors;
- succession planning for appointments to the Board taking account of the principles of the AIC Code. In this regard the Committee at its meeting in January 2018 acknowledged that four of the five current Directors have served on the Board for a period of nine years or more. The Committee intends to improve this balance over time with an orderly succession plan that recognises the gaps to be filled when seeking new appointments to the Board, including diversity and gender. To this end with the assistance of Trust Associates, an executive search agency, the Committee identified and reviewed a list of potential candidates and meetings were held with the Directors. The Committee agreed to recommend the appointment of Jeremy Rigg as a non-executive Director to the Board with effect from 1 April 2018. Trust Associates has no other connection with the Company; and
- the performance and contribution of the Directors standing for re-election at the 2018 AGM.

Taking account of the performance of individual Directors, the Committee recommended to the Board that it should support the re-appointment of Anthony Newhouse, Margaret Littlejohns and Janet Walker when resolutions regarding their re-election are put to shareholders at the 2018 AGM.

Management Engagement Committee

All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board.

The Management Engagement Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders. The Committee also reviews the performance and cost effectiveness of the Company's other service providers.

The Committee met in November 2017 to carry out its annual review of the Manager, the results of which are detailed on page 32.

Board attendance

The following table sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the Annual General Meeting in May 2017.

	Board	AC	MEC	NC	IC
Number of meetings	**7**	**3**	**1**	**3**	**2**
Margaret Littlejohns	7	3	1	3	2
Andrew Bell	7	3	1	3	2
Zoe King	7	3	1	3	2
Anthony Newhouse	7	3	1	3	2
Janet Walker	6	3	1	3	2

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

Corporate Governance Statement (continued)

The Directors and Committees of the Board also met during the year as needed to undertake business such as the approval of the Company's results, dividends and discussions regarding the issue of new shares in connection with the reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited and the Company's initial placing and offer.

Accountability and relationship with Janus Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 26 and the Independent Auditors' Report on pages 36 to 41.

The Board has delegated contractually to external third parties, including Janus Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 21), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, 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.

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 concern. The Directors have access to the advice and services of the Corporate Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board and Janus Henderson operate in a supportive, co-operative and open environment.

The Corporate Secretary, 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.

Janus Henderson and BNP Paribas Securities Services, which acts for Janus Henderson, have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

Continued appointment of the Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager and the fees payable are contained on page 4.

In addition to the monitoring of investment performance at each meeting, the Management Engagement Committee carries out an annual review of the Manager's investment performance over both the short and longer terms, together with the quality of other services provided by the Manager, which includes company secretarial and accounting services.

The Board remains satisfied with investment performance and, in particular the experience, skills and commitment of the Fund Manager. It is the Directors' opinion that the continuing appointment of the Manager on the existing terms is in the interests of the Company and its shareholders as a whole.

Share capital

Please see the Report of the Directors on page 24.

Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the net asset value per share to a regulatory information service and a monthly fact sheet which is available on the website. Janus Henderson also provides information on the Company and Fund Manager through videos on the website, via various social media channels and on its HGi content platform, more details of which are included on page 16.

The Board considers that shareholders should be encouraged to attend and participate in the Annual General Meeting. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other Directors at the meeting and the Fund Manager who will make a presentation on the Company's performance. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and notice of Annual General Meeting be issued to shareholders so as to provide at least 20 working days' notice of the Annual General Meeting. These documents will be uploaded to the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Chairman at the registered office address given on page 16 of this Annual Report.

The Board recognises that following the Company's participation in the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited, many of the shareholders who took up the option to acquire the Company shares are based in Guernsey.

Corporate Governance Statement (continued)

Accordingly, a special shareholder event will be held in Guernsey to give those shareholders the chance to meet the Chairman and to receive a presentation from the Fund Manager. Full details are set out on page 24.

Shareholder correspondence which is sent to the registered office is provided to the Chairman (or the person to whom the letter is addressed) so that he or she may respond. All shareholder correspondence and the responses are enclosed in the next meeting papers of the Company so the whole Board sees the correspondence.

General presentations to both shareholders and analysts follow the publication of the annual results.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
26 March 2018

Report of the Audit Committee

Composition

The Audit Committee comprises all of the Directors and is chaired by Janet Walker who is a chartered accountant. The other Audit Committee members have a combination of financial, legal, commercial and investment experience gained through their careers and the Board is satisfied that at least one of the Committee's members has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates. All members of the Audit Committee are independent.

Meetings

The Audit Committee met three times during the year under review. The Company's Auditors are invited to attend meetings as necessary. Representatives of Janus Henderson and BNP Paribas Securities Services may also be invited.

Role and responsibilities

The role of the Audit Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Auditors. The responsibilities are set out in formal terms of reference which are regularly reviewed. In the year under review the main duties undertaken were:

- consideration of the appropriateness of the Company's accounting policies;
- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, viability statement, going concern and related parties and consideration of whether the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In order to make recommendations to the Board in assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying his or her respective knowledge and expertise. The internal controls over financial reporting were also considered, together with feedback from the Company's Auditors, the Fund Manager and the Corporate Secretary;
- consideration of 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;
- consideration of the appropriate level of dividend to be paid by the Company for recommendation to the Board;
- consideration of the internal controls in place at Janus Henderson and BNP Paribas Securities Services as administrator and the Manager's policies in relation to cyber risk and business continuity, meeting with representatives of the Manager's internal audit, risk and IT security departments periodically;
- consideration of the performance fee calculation;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery and anti-tax evasion policies;
- consideration of the nature and scope of the external audit and the findings therefrom;
- annual consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board, as described on page 30;
- consideration of the re-appointment of the Auditors, and their effectiveness, performance and remuneration (see page 35);
- consideration of the Auditors' independence and objectivity and the revised policy on the provision of non-audit services by the auditors (as explained further on page 35) and the reporting of the external Auditors; and
- consideration of the whistleblowing policy that the Manager has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action.

Annual Report for the year ended 31 December 2017

In relation to the Annual Report for the year ended 31 December 2017 the following significant issues were considered by the Committee:

Significant issues and audit matters	How it was addressed
Valuation and ownership of the Company's investments	The Directors have appointed Janus Henderson, who outsource some of the administration and accounting services to BNP Paribas Securities Services, 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 is verified by reconciliation to the Custodian's records and the Directors have received quarterly reports from the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation.

Report of the Audit Committee (continued)

Significant issues and audit matters	How it was addressed
Recognition of income	Income received is accounted for in line with the Company's accounting policies (as set out in note 1e) on page 46) and is reviewed by the Audit Committee at each meeting.
Compliance with Section 1158 of the Corporation Tax Act 2010	The Committee considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times.
Maintaining internal controls	The Audit Committee receives regular reports on internal controls from Janus Henderson, BNP Paribas Securities Services and HSBC Securities Services, and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The Committee noted the service auditor's qualifications in respect of the Janus Henderson assurance report which covered controls during the reporting period. The Committee sought additional clarification in respect of the reports and is satisfied that none of the exceptions impacted the Company for the year ended 31 December 2017 and that appropriate actions have been taken to address the issues identified.
Correct calculation of the performance related fee	The year end performance related fee calculation is prepared by BNP Paribas Securities Services and reviewed by Janus Henderson. It is reviewed in depth by the Audit Committee, all with reference to the Investment Management Agreement.

Policy on non-audit services

The provision of non-audit services by the Company's Auditors is considered and approved by the Audit Committee on a case by case basis. The policy set by the Audit Committee, which is kept under review, ensures that consideration is given to the following factors when considering the provision of non-audit services by the Auditors:

- the level of non-audit fees paid to the audit firm in relation to the statutory audit fee;
- whether the audit firm is the most suitable supplier of non-audit services;
- the impact on the Auditors' independence and objectivity and what safeguards can be put in place to eliminate or reduce any threat in this regard; and
- the cost-effectiveness of the services.

The Board has determined that the Auditors will never be considered for the provision of services related to accounting and preparation of the financial statements, internal audit and custody.

Audit tender and re-appointment

As a Public Interest Entity listed on the London Stock Exchange, the Company is subject to the mandatory auditor rotation requirements of the European Union. It will put the external audit out to tender at least every ten years, and change auditor at least every twenty years.

The tender process concluded in November 2016 resulting in PricewaterhouseCoopers LLP ('PwC') being appointed as the Auditors. The next tender will be required no later than 2026.

The Committee discusses the audit process with the Auditors without representatives of the Manager present and considers the effectiveness of the audit process after each audit. This is the second year PwC have audited the Company's Annual Report. During the audit, the Committee Chairman liaised with the partner to receive progress updates and reviewed PwC's audit results prior to the Committee meeting to consider the financial statements. PwC attended this meeting to present their report and observe the Committee's review of the financial statements and internal controls reporting by the Manager. Based on the Committee's review of PwC's reporting, interactions with the audit team throughout the process and our discussions with representatives of the Manager, the Committee is satisfied with the effectiveness of the audit provided by PwC and that they are independent of the Company. The Auditors are required to rotate partners every five years and it is proposed that the current audit partner will serve until the AGM in 2021.

PwC has indicated its willingness to continue in office. Accordingly, resolutions to confirm the re-appointment of PwC as Auditors to the Company, and to authorise the Directors to determine their remuneration, will be proposed at the Annual General Meeting.

Fees paid or payable to the Auditors are detailed in note 6 on page 49.

Janet Walker
Audit Committee Chairman
26 March 2018

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

Report on the audit of the Financial Statements

Opinion

In our opinion, Henderson High Income Trust plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements, included within the Annual Report, which comprise: the Statement of Financial Position as at 31 December 2017; the Income Statement, the Cash Flow Statement, the Statement of Changes in Equity for the year then ended; and the notes to the Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Financial Statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall materiality: £2.6 million (2016: £2.1 million), based on 1% of net assets.

- The Company is a standalone Investment Trust Company and engages Henderson Investment Funds Limited (the "Manager") to manage its assets.
- We conducted our audit of the Financial Statements using information from BNP Paribas Securities Services (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at both the Manager and the Administrator, and adopted a fully substantive testing approach using reports obtained from the Administrator.

- Investments.
- Income from investments.
- Performance fee.

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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained 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 applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's Financial Statements, including, but not limited to, the Companies Act 2006, the Listing Rules and section 1158 of the Corporation Tax Act 2010. Our tests included, but were not limited to, review of the Financial Statement Disclosures to underlying supporting documentation, enquiries with management and testing the Company's compliance with section 1158 in the current year. We also tested the tax disclosures in Note 8. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Investments Refer to page 34 (Report of the Audit Committee), page 46 (Accounting Policies) and page 51 (Notes to the Financial Statements). The investment portfolio at the year-end comprised listed equity investments and fixed interest investments valued at £311 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the Financial Statements.	We tested the valuation of the listed equity investments and fixed interest investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing investment holdings to an independent custodian confirmation. No differences were identified which required reporting to those charged with governance.

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

Income from investments Refer to page 35 (Report of the Audit Committee), page 46 (Accounting Policies) and page 49 (Notes to the Financial Statements). Income from investments comprised dividend income and fixed interest income. We focused on the accuracy, completeness and occurrence of investment income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. We also focused on the accounting policy for investment income recognition and the presentation of investment income in the Income Statement for compliance with the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"), as incorrect application could indicate a misstatement in income recognition.	We assessed the accounting policy for investment income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income from investments had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income from investments had been accounted for in accordance with the stated accounting policy. **Dividend income** We tested accuracy of dividend receipts by agreeing the dividend rates from investments to independent market data. No misstatements were identified which required reporting to those charged with governance. To test for completeness, we tested, for all investment holdings in the portfolio, that all dividends declared in the market by investment holdings had been recorded. Our testing did not identify any incorrectly recorded or omitted dividends. We tested occurrence by tracing a sample of dividends received to bank statements. Our testing did not identify any misstatements which required reporting to those charged with governance. We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions. Our procedures did not identify any misstatements which required reporting to those charged with governance. **Fixed interest income** We tested fixed interest income by recalculating the expected coupon interest and amortisation, using the opening and closing portfolios and coupon rates and maturity dates. We also agreed a sample of coupon rates and maturity dates to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. To test for completeness, for a sample of investment holdings in the portfolio, we tested that all fixed interest income earned by investment holdings had been recorded. Our testing did not identify any incorrectly recorded or omitted fixed interest income. We tested occurrence by testing that all fixed interest income recorded in the year had been earned and by tracing a sample of fixed interest income received to bank statements. Our testing did not identify any misstatements which required reporting to those charged with governance.
Performance fee Refer to page 35 (Report of the Audit Committee), page 46 (Accounting Policies) and page 49 (Notes to the Financial Statements). We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager. Based on the calculation performed by the Manager, no performance fee is payable for the year.	We tested the calculation of the performance fee to ensure that it complied with the methodology as set out in the Investment Management Agreement, and agreed the inputs to the calculation, including the net asset value and benchmark data, to independent third party sources, where applicable. Based on our testing, we agreed that no performance fee is payable.

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

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company's accounting is delegated to the Administrator who maintains the Company's accounting records and who has implemented controls over those accounting records.

We obtained our audit evidence primarily from substantive tests. However, as part of our risk assessment, we understood and assessed the internal controls in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and analysing the relevant control reports issued by the independent service auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the Financial Statements.

Materiality

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 in aggregate on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Overall materiality	£2.6 million (2016: £2.1 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £128,000 (2016: £103,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	**Outcome**
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the Financial Statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. (CA06)

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on pages 17 and 18 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 18 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 26, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 34 and 35 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the Financial Statements and the audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the Directors are responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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.

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

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed in November 2016 to audit the Financial Statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2016 to 31 December 2017.

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 March 2018

Income Statement

Notes		Year ended 31 December 2017 Revenue return £'000	Year ended 31 December 2017 Capital return £'000	Year ended 31 December 2017 Total £'000	Year ended 31 December 2016 Revenue return £'000	Year ended 31 December 2016 Capital return £'000	Year ended 31 December 2016 Total £'000
2	Gains on investments held at fair value through profit or loss	–	17,779	17,779	–	9,561	9,561
3	Income from investments held at fair value through profit or loss	13,512	–	13,512	12,306	–	12,306
4	Other interest receivable and similar income	12	–	12	57	–	57
	Gross revenue and capital gains	**13,524**	**17,779**	**31,303**	**12,363**	**9,561**	**21,924**
5	Management and performance fees	(532)	(798)	(1,330)	(481)	(721)	(1,202)
6	Other administrative expenses	(385)	–	(385)	(378)	–	(378)
	Net return on ordinary activities before finance costs and taxation	**12,607**	**16,981**	**29,588**	**11,504**	**8,840**	**20,344**
7	Finance costs	(287)	(860)	(1,147)	(279)	(836)	(1,115)
	Net return on ordinary activities before taxation	**12,320**	**16,121**	**28,441**	**11,225**	**8,004**	**19,229**
8	Taxation on net return on ordinary activities	(119)	40	(79)	(159)	72	(87)
	Net return on ordinary activities after taxation	**12,201**	**16,161**	**28,362**	**11,066**	**8,076**	**19,142**
9	Return per ordinary share	10.13p	13.42p	23.55p	9.93p	7.25p	17.18p

The total columns of this statement represent the Income Statement of the Company. All capital and revenue items derive from continuing operations. No operations were acquired or discontinued during the year. The Company has no other comprehensive income other than those items recognised in the Income Statement.

The notes on pages 46 to 58 form part of these financial statements

Statement of Changes in Equity

Notes	Year ended 31 December 2017	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 January 2017	5,597	95,595	26,302	72,657	7,572	207,723
	Net return on ordinary shares after taxation	–	–	–	16,161	12,201	28,362
15	Issue of new shares	833	31,188	–	–	–	32,021
	Fourth interim dividend (2.325p per share) for the year ended 31 December 2016, paid 27 January 2017	–	–	–	–	(2,603)	(2,603)
	First interim dividend (2.325p per share) for the year ended 31 December 2017, paid 28 April 2017	–	–	–	–	(2,603)	(2,603)
	Second interim dividend (2.325p per share) for the year ended 31 December 2017, paid 28 July 2017	–	–	–	–	(2,603)	(2,603)
	Third interim dividend (2.375p per share) for the year ended 31 December 2017, paid 27 October 2017	–	–	–	–	(3,054)	(3,054)
	At 31 December 2017	**6,430**	**126,783**	**26,302**	**88,818**	**8,910**	**257,243**

	Year ended 31 December 2016	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 January 2016	5,553	94,038	26,302	64,581	6,637	197,111
	Net return on ordinary shares after taxation	–	–	–	8,076	11,066	19,142
15	Issue of new shares	44	1,557	–	–	–	1,601
	Fourth interim dividend (2.275p per share) for the year ended 31 December 2015, paid 29 January 2016	–	–	–	–	(2,527)	(2,527)
	First interim dividend (2.275p per share) for the year ended 31 December 2016, paid 29 April 2016	–	–	–	–	(2,531)	(2,531)
	Second interim dividend (2.275p per share) for the year ended 31 December 2016, paid 29 July 2016	–	–	–	–	(2,531)	(2,531)
	Third interim dividend (2.275p per share) for the year ended 31 December 2016, paid 28 October 2016	–	–	–	–	(2,542)	(2,542)
	At 31 December 2016	**5,597**	**95,595**	**26,302**	**72,657**	**7,572**	**207,723**

The notes on pages 46 to 58 form part of these financial statements

Statement of Financial Position

Notes		At 31 December 2017 £'000	At 31 December 2016 £'000
	Fixed assets		
10	Investments held at fair value through profit or loss	311,295	252,990
	Current assets		
11	Debtors	1,680	1,340
	Cash at bank	1,245	1,742
		2,925	**3,082**
12	**Creditors: amounts falling due within one year**	(37,164)	(28,543)
	Net current liabilities	**(34,239)**	**(25,461)**
	Total assets less current liabilities	**277,056**	**227,529**
13	**Creditors: amounts falling due after more than one year**	(19,813)	(19,806)
	Net assets	**257,243**	**207,723**
	Capital and reserves		
15	Share capital	6,430	5,597
16	Share premium account	126,783	95,595
16	Capital redemption reserve	26,302	26,302
16	Other capital reserve	88,818	72,657
16	Revenue reserve	8,910	7,572
	Total shareholders' funds	**257,243**	**207,723**
17	**Net asset value per ordinary share (basic and diluted)**	200.04p	185.56p

The financial statements and corresponding notes on pages 42 to 58 were approved by the Board of Directors on 26 March 2018, and signed on its behalf by:

Margaret Littlejohns
Chairman

The notes on pages 46 to 58 form part of these financial statements

Cash Flow Statement

	2017 £'000	2016 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	28,441	19,229
Add back: finance costs	1,147	1,115
Less: gains on investments held at fair value through profit or loss	(17,779)	(9,561)
Withholding tax on dividends deducted at source	(79)	(87)
Taxation recovered	8	5
(Increase)/decrease in prepayments and accrued income	(348)	4
Increase/(decrease) in accruals and deferred income	438	(1,396)
Net cash inflow from operating activities	**11,828**	**9,309**
Cash flows from investing activities		
Sales of investments held at fair value through profit or loss	46,265	46,171
Purchases of investments held at fair value through profit or loss	(71,289)	(46,468)
Net cash outflow from investing activities	**(25,024)**	**(297)**
Cash flows from financing activities		
Issue of ordinary share capital	16,516	1,601
Equity dividends paid	(10,863)	(10,131)
Drawdown of loans	8,078	1,191
Interest paid	(1,139)	(1,105)
Net cash flow from financing activities	**12,592**	**(8,444)**
Net (decrease)/increase in cash and cash equivalents	(604)	568
Cash and cash equivalents at beginning of year	1,742	1,223
Exchange movements	107	(49)
Cash and cash equivalents at end of year	**1,245**	**1,742**
Comprising:		
Cash at bank	**1,245**	**1,742**

The notes on pages 46 to 58 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Company is a registered investment company as defined in Section 833 of the Companies Act 2006. It operates in England and Wales and is registered at the address on page 16.

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ('the SORP') issued in November 2014 and updated in January 2017 for consequential amendments.

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost basis except for the measurement at fair value of investments. In applying FRS 102, financial instruments have been accounted for in accordance with Section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

b) 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 5 May 2015. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are included initially at fair value, which is taken to be their cost. Subsequently, the investments are valued at fair value, which is deemed to be bid market prices or the last traded price depending on the convention of the exchange on which the investment is quoted.

All fair value movements in investments are taken to the income statement. In accordance with the SORP, the Company's profit and loss account is split between revenue and capital returns columns, as can be seen in the income statement. Fair value movements on investments are taken to the capital column in the income statement.

d) Capital gains and losses

Profits less disposal of investments and investment holding gains and losses are taken to the capital column in the income statement and transferred to other capital reserves.

e) Income

Dividends receivable on equity shares are taken to the income statement on an ex-dividend basis. Income from fixed interest debt securities and preference shares with no fixed maturity date is recognised on a time-apportioned basis. Income from other fixed interest securities is recognised so as to reflect the effective interest rate on these securities.

f) Expenses

All expenses and finance costs are accounted for on an accruals basis. The Board's expectation is that over the long term three quarters of the Company's investment returns will be in the form of capital gains. The Directors have determined that the proportion of the annual management fees that relates to the maintenance or enhancement of the valuation of investments is 80%. On this basis, the Company charges to capital 60% of total management fees (i.e. 75% of 80%) and 75% of its finance costs. The balance of the management fees is charged to revenue. All performance fees are charged to capital. Expenses which are incidental to the acquisition of an investment are charged to the income statement and included within gains/losses on investments. Expenses which are incidental to the disposal of an investment are deducted from sale proceeds and go to the income statement indirectly.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) 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 income statement 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 Company's liability for current tax is calculated using the effective tax rate of corporation tax for the accounting period.

The tax effect of different items of expenditure is allocated between the capital return and revenue return using the Company's effective rate of tax for the year. In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns on the income statement is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue column of the income statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not been reversed by the statement of financial position date, other than those differences regarded as permanent. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money. 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.

h) Foreign currency

The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company. Sterling is the functional currency because the Company is listed in the UK with a predominantly UK shareholder base.

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rate. Assets and liabilities denominated in overseas currencies at the statement of financial position date are translated into sterling at the exchange rate ruling at that date. Differences arising from translation at this rate of exchange are included within the income statement as a capital item and then transferred to capital reserves.

i) Borrowings

Interest-bearing bank loans, overdrafts and the senior unsecured note are recorded as proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement, using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

j) Derivative financial instruments

Derivative transactions which the Company may enter into comprise forward exchange contracts (the objective of which is to hedge foreign currency exposure) and futures contracts on indices appropriate to sections of the portfolio (one purpose of which may be to provide protection against falls in the capital values of the holdings). The Company may also write options on shares represented in the portfolio where such options are priced attractively relative to Janus Henderson's expectations for the relevant share prices and to generate additional return for shareholders. The Company does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Company's polices as approved by the Board.

Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the income statement. There were no derivatives held during the year (2016: nil).

Where options are written for the purpose of generating revenue, applicable premiums are recognised evenly over the life of the option and shown in the revenue return, with the appropriate amount shown as a capital return such that the total return reflects the overall change in the fair value of the option.

k) Dividends payable to shareholders

Interim dividends payable to shareholders are recognised in the financial statements when they are paid. The Company does not pay a final dividend. Details of dividends are in the statement of changes in equity.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

l) Capital and reserves

Share capital represents the nominal value of shares issued.

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 have not currently been distributed to shareholders as a dividend.

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled.

Other capital reserves are split into two components, the capital reserve arising on investments sold and the capital reserve arising on investments held. The following analyses what is accounted for in each of these components.

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on disposals of investments;
- realised foreign exchange differences of a capital nature;
- cost of repurchasing ordinary share capital; and
- other capital charges and credits charged to this account in accordance with the above policies.

Capital reserve arising on investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

m) Distributable reserves

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend.

2 Gains on investments held at fair value through profit or loss

	2017 £'000	2016 £'000
Gains on the sale of investments based on historical cost	9,638	4,517
Revaluation gains recognised in previous years	(6,265)	(4,933)
Gains/(losses) on investments sold in the year based on carrying value at previous statement of financial position date	**3,373**	**(416)**
Net movement on revaluation of investments	14,403	11,197
Exchange gains/(losses)	3	(1,220)
	17,779	**9,561**

Notes to the Financial Statements (continued)

3 Income from investments held at fair value through profit or loss

	2017 £'000	2016 £'000
UK dividend income – listed	9,972	8,720
UK dividend income – special dividends	411	581
	10,383	**9,301**
Interest income – listed	1,208	1,288
Overseas and other dividend income – listed	1,921	1,717
	3,129	**3,005**
	13,512	**12,306**

4 Other interest receivable and similar income

	2017 £'000	2016 £'000
Underwriting commission (allocated to revenue)	12	57
	12	**57**

5 Management and performance fees

	2017			2016		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Management fee	532	798	1,330	481	721	1,202
Performance fee	–	–	–	–	–	–
Total fee	**532**	**798**	**1,330**	**481**	**721**	**1,202**

A summary of the terms of the management agreement is on page 4 in the Strategic Report. An explanation of the split between revenue and capital is in accounting policy 1(f) on page 46. No performance fee was earned during the year (2016: £nil).

6 Other administrative expenses

	2017 £'000	2016 £'000
Directors' fees (see Directors' Remuneration Report on page 28)	133	139
Auditors' remuneration – for audit services	35	32
Depositary fees	28	23
Registrar fees	18	19
Sales and marketing expenses payable to the management company	68	67
Other expenses (including irrecoverable VAT)	103	98
	385	**378**

7 Finance costs

	2017			2016		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Interest on bank loans repayable within one year and on bank overdrafts	102	304	406	93	279	372
Interest on senior unsecured note	185	556	741	186	557	743
	287	**860**	**1,147**	**279**	**836**	**1,115**

Notes to the Financial Statements (continued)

8 Taxation on net return on ordinary activities

a)

	2017 Revenue return £'000	2017 Capital return £'000	2017 Total £'000	2016 Revenue return £'000	2016 Capital return £'000	2016 Total £'000
Overseas withholding tax	79	–	79	87	–	87
Tax relief to capital	40	(40)	–	72	(72)	–
Total current tax charge for the year	**119**	**(40)**	**79**	**159**	**(72)**	**87**

b) Factors affecting tax charge for year

The UK corporation tax rate is 19% (2016 – effective rate of 20%). The tax charge for the year is lower than the corporation tax rate. The differences are explained below:

	2017 Revenue return £'000	2017 Capital return £'000	2017 Total £'000	2016 Revenue return £'000	2016 Capital return £'000	2016 Total £'000
Net revenue before taxation	**12,320**	**16,121**	**28,441**	**11,225**	**8,004**	**19,229**
Corporation tax of 19.25% (2016: 20%)	2,372	3,103	5,475	2,245	1,601	3,846
Effects of:						
– UK dividends	(1,999)	–	(1,999)	(1,871)	–	(1,871)
– Non–taxable overseas dividends	(333)	–	(333)	(302)	–	(302)
– Excess management expenses	(40)	319	279	(70)	311	241
– Tax relief to capital	40	(40)	–	72	(72)	–
– Income taxable in different years	–	–	–	(2)	–	(2)
– Irrecoverable income tax suffered at source	79	–	79	87	–	87
– Gains on investments held at fair value	–	(3,422)	(3,422)	–	(1,912)	(1,912)
Total current tax charge for the year	**119**	**(40)**	**79**	**159**	**(72)**	**87**

The Company is an investment trust and therefore its capital gains are not taxable.

c) Factors that may affect future tax charges

No provision for deferred taxation has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation and disposal of investments as it is exempt from tax on these items because of its investment trust status. The Company has not recognised a deferred tax asset totalling £2,662,000 (2016: £2,842,000) based on a prospective corporation tax rate of 17% (2016: 20%). These expenses will only be utilised, to any material extent, if changes are made either to the tax treatment of the capital gains made by investment trusts or the Company's investment profile which require them to be used.

Notes to the Financial Statements (continued)

9 Return per ordinary share

The return per ordinary share figure is based on the gains attributable to the ordinary shares of £28,362,000 (2016: £19,142,000) and on the 120,429,018 weighted average number of ordinary shares in issue during the year (2016: 111,434,989).

The Company had no securities in issue that could dilute the return per ordinary share.

The return per ordinary share can be analysed between revenue and capital as shown below:

	2017 £'000	2016 £'000
Net revenue return	12,201	11,066
Net capital return	16,161	8,076
Total return	**28,362**	**19,142**
Weighted average number of ordinary shares	120,429,018	111,434,989
Revenue return per ordinary share	10.13p	9.93p
Capital return per ordinary share	13.42p	7.25p
Total return per ordinary share	**23.55p**	**17.18p**

10 Investments held at fair value through profit or loss

	2017 £'000	2016 £'000
Valuation at 1 January	252,990	241,912
Investment holding gains at 1 January	(57,285)	(51,020)
Cost at 1 January	**195,705**	**190,892**
Purchases at cost[1]	86,794	46,504
Sales at cost	(36,627)	(41,691)
Cost at 31 December	**245,872**	**195,705**
Investment holding gains at 31 December	65,423	57,285
Valuation of investments at 31 December	**311,295**	**252,990**

Total transaction costs amounted to £272,000 (2016: £169,000) of which purchase transaction costs for the year ended 31 December 2017 were £254,000 (2016: £146,000). Sale transaction costs for the year ended 31 December 2017 were £18,000 (2016: £23,000). These comprise mainly stamp duty (purchases only) and commissions.

1 Includes £15,505,000 relating to the investments acquired following the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited

11 Debtors

	2017 £'000	2016 £'000
Taxation recoverable	37	15
Prepayments and accrued income	1,643	1,325
	1,680	**1,340**

12 Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Bank loans and overdrafts	35,964	27,781
Accruals	1,200	762
	37,164	**28,543**

The Company has a three year multi-currency loan facility of £42,000,000 with Scotiabank (2016: £30,000,000). At 31 December 2017 the Company had short term multi-currency loans under the Scotiabank loan facility amounting to £35,964,000, repayable in January, February and March 2018 (2016: £27,781,000, repayable in January, February and March 2017). The average interest rate payable on these loans was 1.35% (2016: 1.25%).

Notes to the Financial Statements (continued)

13 Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Senior unsecured note	19,813	19,806
	19,813	**19,806**

On 8 July 2015 the Company issued £20,000,000 (nominal) 3.67% senior unsecured note due 2034, net of issue costs totalling £204,000. The issue costs will be amortised over the life of the senior unsecured note by way of an effective interest rate method. Fair value of the senior unsecured note is shown in note 14.4.

14 Financial risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective and policy as stated on page 4. In pursuing its investment objective and policy, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks are: market risk (comprising market price risk, currency risk and interest rate risk), credit risk, liquidity risk and gearing. Details of these risks and of the Directors' approach to the management of them, are set out below and have not changed from the previous accounting period. The Board receives regular financial and other reporting to enable it to measure these risks. The Board and Janus Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below.

- Listed securities, exchange-traded derivatives and over the counter ('OTC') derivatives contracts are processed, confirmed and reconciled using automated systems linked to counterparties and clearing houses;
- Portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, third-party software applications; and
- Fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services).

Janus Henderson risk, compliance and operations teams have access to and use a variety of in-house and third party databases and applications for independent monitoring and risk measurement and compliance purposes.

14.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 14.1.1), interest rate risk (see note 14.1.2) and other price risk, in particular the risk of fluctuations in prices of securities (see note 14.1.3). The Board reviews and agrees policies for managing these risks and agrees investment guidelines and restrictions for managing the portfolio; these have remained substantially unchanged from those applying in the previous year. The Fund Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. This risk is mitigated through diversification of investments in the portfolio.

14.1.1 Currency risk

A proportion of the Company's assets and income is denominated in currencies other than sterling (the Company's functional currency and the one in which it reports its results). As a result, movements in exchange rates may affect the sterling value of these items. This may be partially offset by borrowing in foreign currencies. The Board regularly reviews currency risk; currently it is not deemed to be material.

14.1.2 Interest rate risk

Interest rate movements may affect:

- the fair value of investments in fixed interest securities;
- the level of income receivable from interest-bearing securities and cash at bank and on deposit; and
- the interest payable on the Company's variable rate borrowings.

Management of the risk

The possible effects of fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the multi-currency loan facility. The Company generally does not hold significant cash balances; short-term borrowings are used when required. The Company finances part of its activities through borrowings at levels approved by the Board. Derivative contracts may sometimes be used to hedge against the exposure to interest rate risk.

Interest rate exposure

The exposure at 31 December 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. These dates are shown on page 53.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1.2 Interest rate risk (continued)

	2017			2016		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates:						
Cash at bank	1,245	–	1,245	1,742	–	1,742
Creditors – within one year:						
Borrowings under multi-currency loan facility	(36,008)	–	(36,008)	(27,822)	–	(27,822)
	(34,763)	**–**	**(34,763)**	**(26,080)**	**–**	**(26,080)**
Exposure to fixed interest rates:						
Investments held at fair value through profit or loss	–	31,947	31,947	–	26,141	26,141
Creditors – more than one year:						
Senior unsecured note[1]	(741)	(31,737)	(32,478)	(743)	(32,469)	(33,212)
Total exposure to interest rates	**(35,504)**	**210**	**(35,294)**	**(26,823)**	**(6,328)**	**(33,151)**

[1] The above figures show interest payable over the remaining term of the senior unsecured note. The figures in the 'more than one year' column also include the capital to be repaid. Details of the repayment are set out on page 52.

Interest receivable and finance costs are at the following rates:

- interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR or its foreign currency equivalent (2016: same);
- interest paid on borrowings under the multi-currency loan facility is at a margin over LIBOR or its foreign currency equivalent for the type of loan. The weighted average interest rate of these was 1.35% at 31 December 2017 (2016: 1.25%);
- interest paid on the Senior unsecured note is at a rate of 3.67%; and
- the nominal interest rates on the investments held at fair value through profit and loss are shown on page 8. The weighted average interest rate on these investments is 5.58% (2016: 5.69%).

Interest rate risk sensitivity

The Company is primarily exposed to interest rate risk through its loan facility with Scotiabank, and its fixed interest investment portfolio. The sensitivity of each exposure is as follows:

- loan sensitivity: borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings at the year end were £35,964,000 (2016: £27,781,000) (see note 12) and if that level of borrowings were maintained for a full year, then a 100 basis points change in LIBOR (up or down) would decrease or increase total return on ordinary activities after taxation by approximately £360,000 (2016: £278,000);
- Senior unsecured note: the senior unsecured note is at a fixed rate of interest so will not be impacted by any changes in LIBOR or short term interest rates; and
- fixed interest investment sensitivity: the Company's fixed interest portfolio at the year end was valued at £31,947,000 (2016: £26,141,000), and it has a modified duration (interest rate sensitivity) of approximately 8.4 years (2016: 6.9 years). A 100 basis points change in short term interest rates (up or down), which is mirrored by an equivalent change in long term interest rates, would be expected to decrease or increase this portfolio's value by approximately £2,684,000 (2016: £1,804,000), all other factors being equal.

14.1.3 Other price risk

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

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objectives, and is directly responsible for investment strategy and ultimately for asset allocation.

When appropriate, the Company may buy/sell put or call options or futures on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. At 31 December 2017 the Company had no open positions (2016: no open positions).

Concentration of exposure to other price risks

An analysis of the Company's investment portfolio is shown on pages 8 and 9. The majority of the investments are in UK companies. Accordingly, there is a concentration of exposure to the UK, and particularly the financial sector (see page 10). It is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1.3 Other price risk (continued)

Other price risk sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the equity shareholders' funds to an increase or decrease in the fair values of the Company's investments. The level of change used in the table below is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities at each statement of financial position date, with all other variables held constant.

	2017		2016	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement – net return after tax				
Revenue return	(50)	50	(41)	41
Capital return	31,025	(31,025)	25,213	(25,213)
Net return after tax for the year	**30,975**	**(30,975)**	**25,172**	**(25,172)**
Equity shareholders' funds	**30,975**	**(30,975)**	**25,172**	**(25,172)**

14.2 Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has a three year multi-currency loan facility of £42,000,000 with Scotiabank (2016: £30,000,000), due to expire on 30 June 2018, and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of securities held by it on behalf of the Company. The Company is in the process of putting in place another revolving facility when the current facility expires.

Liquidity risk exposure

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

	2017 Due within three months £'000	2016 Due within three months £'000
Bank loans and overdrafts (including accrued interest)	35,964	27,781
Other creditors and accruals	1,200	762
	37,164	**28,543**

14.3 Credit and counterparty 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 managed as follows:

- transactions involving derivatives are entered into only with investment banks, whose creditworthiness is carefully assessed 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 the Fund Manager, and limits are set on the amount that may be due from any one broker;
- the Company's trades are usually on a delivery versus payment ('DVP') settlement basis. This process mitigates the risk of loss during the settlement process;
- the Board reviews the terms of the Depositary agreement. Janus Henderson monitors the Company's risk by reviewing the Depositary's annual internal controls report and reports to the Board on its findings;
- cash at bank is held only with banks considered to be credit worthy; and
- with regards to the corporate bonds in the portfolio, there is a credit risk that the borrowers do not repay principal or make interest payments. This is managed through careful selection, supported by monitoring of credit ratings, and is reviewed regularly.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.3 Credit and counterparty risk (continued)

Rating of fixed interest investments	2017 %	2016 %
A	6.1	3.8
BBB	36.2	31.9
BB	32.2	37.2
B	14.6	15.9
Not rated	10.9	11.2
Total	**100.0**	**100.0**

Source: Bloomberg (Composite Moody's, S&P).

The percentages above represent the value of fixed interest investments included in the statement of financial position which are exposed to credit and counterparty risk by credit rating.

None of the Company's financial assets or financial liabilities is secured by collateral or other credit enhancements. None of the Company's financial assets is past due or impaired.

14.4 Fair values of financial assets and financial liabilities

The fair values of the financial assets and 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, cash at bank, bank overdrafts and amounts due under the multi-currency loan facility). At 31 December 2017 the fair value of the senior unsecured note has been estimated to be £22,727,000 (2016: £22,224,000) and is categorised as level 3 (see note 14.5) in the fair value hierarchy.

The fair value of the senior unsecured note is calculated using a discount rate which reflects the yield of a UK Gilt of similar maturity plus a suitable credit spread.

14.5 Fair value hierarchy disclosures

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

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; and

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in note 1(c) on page 46.

There have been no transfers during the year between levels.

The table below sets out fair value measurements using the FRS 102 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	278,601	–	–	278,601
Convertibles	747	–	–	747
Fixed interest instruments:				
Preference shares	5,025	–	–	5,025
Other	26,922	–	–	26,922
Total	**311,295**	**–**	**–**	**311,295**

Financial assets at fair value through profit or loss at 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	226,055	–	–	226,055
Convertibles	794	–	–	794
Fixed interest instruments:				
Preference shares	4,285	–	–	4,285
Other	21,856	–	–	21,856
Total	**252,990**	**–**	**–**	**252,990**

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.6 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to provide investors with a high dividend income while also maintaining the prospect of capital growth.

The Company's capital is its equity share capital, reserves and debt that are shown in the statement of financial position at a total of £313,020,000 (2016: £255,310,000).

The Board, with assistance of the Manager, 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 Janus Henderson's view on the market;
- the need to buy back equity shares, either for cancellation or to hold in treasury, 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);
- the need for new issues of equity shares, including sales from treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to several externally imposed capital requirements:

- under the bank facility and the senior unsecured note agreement the total of these borrowings may not exceed one third of adjusted total assets (as defined in the facility agreement) and net assets must be more than £50,000,000;
- as a public company, the Company has a minimum share capital of £50,000; and
- 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 two capital retention tests imposed on investment companies by company law and cannot retain more than 15% of income.

The Company has complied with these requirements.

15 Share capital

	Shares entitled to dividend	Total shares in issue	Nominal value in issue £'000
Issued ordinary shares of 5p each			
At 31 December 2016	111,942,365	111,942,365	5,597
Issued during the year	16,653,913	16,653,913	833
At 31 December 2017	**128,596,278**	**128,596,278**	**6,430**

During the year the Company issued 16,653,913 shares (2016: 875,000 shares) for net proceeds of £32,021,000 (2016: £1,601,000). Included in the issue of 16,653,913 ordinary shares during the period were 15,232,843 ordinary shares issued following the scheme of reconstruction and voluntary winding up of Threadneedle UK Select Trust Limited ('UKT') whereby investors in UKT were given the option of receiving shares in the Company. The net proceeds of £29,280,000 received from this transaction comprised £15,505,000 investments and £13,775,000 cash. Since the year end no shares have been issued.

Notes to the Financial Statements (continued)

16 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve arising on investments sold £'000	Capital reserve arising on revaluation of investments held £'000	Revenue reserve £'000
At 1 January 2017	95,595	26,302	15,363	57,294	7,572
Transfer on disposal of investments	–	–	6,265	(6,265)	–
Net gains on investments	–	–	3,373	14,403	–
Foreign exchange losses	–	–	3	–	–
Issue of shares	31,188	–	–	–	–
Management and performance fees and finance costs charged to capital	–	–	(1,658)	–	–
Tax relief thereon	–	–	40	–	–
Net revenue after tax for the year	–	–	–	–	12,201
Dividends paid	–	–	–	–	(10,863)
At 31 December 2017	**126,783**	**26,302**	**23,386**	**65,432**	**8,910**

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve arising on investments sold £'000	Capital reserve arising on revaluation of investments held £'000	Revenue reserve £'000
At 1 January 2016	94,038	26,302	13,551	51,030	6,637
Transfer on disposal of investments	–	–	4,933	(4,933)	–
Net gains on investments	–	–	(416)	11,197	–
Foreign exchange losses	–	–	(1,220)	–	–
Issue of shares	1,557	–	–	–	–
Management and performance fees and finance costs charged to capital	–	–	(1,557)	–	–
Tax relief thereon	–	–	72	–	–
Net revenue after tax for the year	–	–	–	–	11,066
Dividends paid	–	–	–	–	(10,131)
At 31 December 2016	**95,595**	**26,302**	**15,363**	**57,294**	**7,572**

17 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £257,243,000 (2016: £207,723,000) and on the 128,596,278 ordinary shares in issue at 31 December 2017 (2016: 111,942,365).

The movements during the year of the assets attributable to the ordinary shares were as follows:

	2017 £'000	2016 £'000
Net assets at start of year	207,723	197,111
Total net return on ordinary activities after taxation	28,362	19,142
Dividends paid on ordinary shares in the period	(10,863)	(10,131)
Issue of ordinary shares less issue costs	32,021	1,601
	257,243	**207,723**

Notes to the Financial Statements (continued)

18 Contingent liabilities

There were no partly paid shares or underwriting commitments or any other contingent liabilities at 31 December 2017 (2016: nil).

19 Transactions with Janus Henderson

Under the terms of an agreement effective from 22 July 2014 the Company has appointed wholly owned subsidiaries of Janus Henderson to provide investment management, accounting, administrative and company secretarial services. Janus Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services. Details of the management fee arrangements for these services are given in the Strategic Report on page 4.

The total fees paid or payable under this agreement to Janus Henderson in respect of the year ended 31 December 2017 were £1,330,000 (2016: £1,202,000), of which £697,000 was outstanding as at 31 December 2017 (2016: £300,000).

In addition to the above services, Janus Henderson has provided the Company with sales and marketing services during the year. The total fees paid or payable for these services for the year ended 31 December 2017 amounted to £68,000 (2016: £67,000), of which £18,000 was outstanding at 31 December 2017 (2016: £14,000).

Janus Henderson agreed to make a contribution to the costs incurred by the Company in relation to the rollover from Threadneedle UK Select Trust Limited and the initial placing and offer. The total value of the cost contribution was £257,000.

20 Dividends

The total dividends payable in respect of the financial year which form the basis of the test under Section 1158 of the Corporation Tax Act 2010 are set out below:

	£'000
Revenue available for distribution by way of dividend for the year	12,201
First interim dividend (2.325p per share) paid on 28 April 2017	(2,603)
Second interim dividend (2.325p per share) paid on 28 July 2017	(2,603)
Third interim dividend (2.375p per share) paid on 27 October 2017	(3,054)
Fourth interim dividend (2.375p per share) paid on 26 January 2018	(3,054)
Undistributed revenue for Section 1158 purposes	**887**

All dividends have been paid or will be paid out of revenue profits.

21 Subsequent events

Since the year end, the Board declared a first interim dividend of 2.375p per ordinary share, in respect of the year ending 31 December 2018. This will be paid on 27 April 2018 to holders registered at the close of business on 6 April 2018. This dividend is to be paid from the Company's revenue account. The Company's shares will go ex-dividend on 5 April 2018.

Since the year end the Board announced the following amendments to the fee arrangements with Janus Henderson. The current arrangement, whereby the management fee is charged at 0.5% of the average adjusted gross assets, will continue to apply to the first £250 million of average adjusted gross assets (average being the average of the adjusted gross assets as shown in the audited accounts of the Company on the two financial year-ends immediately preceding the financial year for which the base management fee is payable). With effect from 1 January 2018 a reduced management fee of 0.45% on average adjusted gross assets above £250 million will apply.

From the same date, the cap on total fees (being the base management fee plus performance fee) of 1.0% of average adjusted gross assets (average being the average of the adjusted gross assets over the four quarter ends in the relevant financial year) will be replaced by a cap on the performance fee of 0.4% of average adjusted gross assets in any one year: the calculation of the performance fee and the average adjusted gross assets remains unchanged.

General Shareholder Information

AIFMD disclosures

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

BACS

Dividends can be paid by means of BACS ('Bankers' Automated Clearing Services'); 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 16) 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 for Automatic Exchange of Financial Account Information

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced with effect from 1 January 2016. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information will have to be 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 2010

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, Computershare Investor Services PLC, 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 enacted in 2010 whose intent is to enforce the requirement for United States persons (including those living outside the U.S.) to file yearly reports on their non-U.S. financial accounts. As a result of HMRC's change of interpretation on the meaning of shares and securities 'regularly traded on an established securities market', investment trusts now 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 needs to make an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, will need to identify and report U.S. reportable accounts to HMRC, as required.

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 status

The Company currently conducts its affairs so that its ordinary shares of 5p each can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ('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.

Performance details/share price information

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

General Shareholder Information (continued)

Share price listings

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

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. Any such calls would relate only to official documentation already circulated to shareholders and would never offer investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Corporate Secretary at the number provided on page 16.

Henderson High Income Trust plc
Registered as an investment company in England and Wales with registration number 02422514
Registered office: 201 Bishopsgate, London EC2M 3AE

SEDOL number: 0958057
ISIN number: GB0009580571
London Stock Exchange (TIDM) Code: HHI
Global Intermediary Identification Number (GIIN): JBA08I.99999.SL.826
Legal Entity Identifier number (LEI): 213800OEXAGFSF7Y6G11

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www.hendersonhighincome.com

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Janus Henderson
INVESTORS

The Association of Investment Companies

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Typeset by 2112 Communications, London. Printed by Pureprint Group Limited JHI9212/2017