Henderson High Income Trust plc

Update for the half-year ended 30 June 2021

Seeking superior income generation and long-term capital growth

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

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

MANAGED BY
Janus Henderson
INVESTORS

Investment objective

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

This update contains material extracted from the unaudited half-year results of the Company for the six months ended 30 June 2021. The unabridged results for the half-year are available on the Company's website:

www.hendersonhighincome.com

Performance highlights

Total return performance for the six months ended 30 June 2021

NAV[1]	Benchmark[2]	Share Price[3]
+12.3%	+8.4%	+21.8%

NAV per share[4]

30 June 2021	171.6p
31 December 2020	157.3p

Premium/discount to NAV (debt at fair value)

30 June 2021	1.4%
31 December 2020	-6.5%

Mid-market price per share

30 June 2021	174.0p
31 December 2020	147.0p

Dividend yield

30 June 2021	5.7%
31 December 2020	6.7%

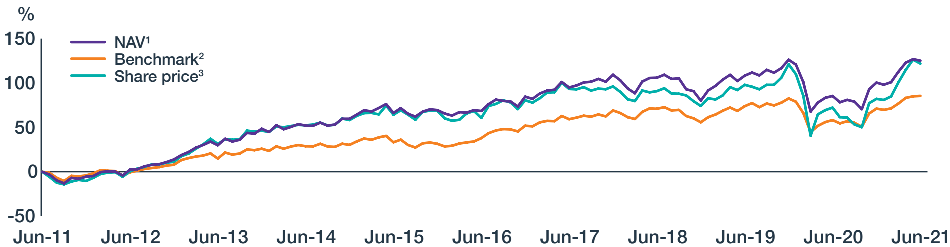
Net assets

30 June 2021	£228.4m
31 December 2020	£211.4m

Gearing

30 June 2021	23.3%
31 December 2020	22.9%

Total return performance over the ten years to 30 June 2021



[1] Net asset value with debt at fair value per ordinary share total return (including dividends reinvested and excluding transaction costs)
[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
[3] The mid-market share price total return (including dividends reinvested)
[4] Net asset value per share with debt at fair value as published by the AIC
Sources: Morningstar Direct, Janus Henderson and Refinitiv DataStream

Chairman's statement

Performance

In my first statement to shareholders, I am pleased to report that the first half of 2021 has seen a positive period of performance for the Company and markets generally. The success of the UK's COVID-19 vaccination programme and a corresponding improvement in confidence levels amongst companies and consumers has provided a positive backdrop. Whilst there have been continuing restrictions to contend with, companies have learnt to adapt their business models to cope with the pandemic and policy makers have recognised the need to provide ongoing support and liquidity for the economy to function effectively.

With economic activity rebounding sharply around the globe, commodity prices have risen significantly, and supply chains have been under pressure, resulting in a jump in inflation. The UK consumer price index is up by 2.4% over the 12 months to the end of June 2021, and a number of companies have highlighted the increase in costs and impact on profit margins. Whether the increase in inflation is only temporary remains to be seen but after a rise in bond yields during the early part of the year investors hope that there will not be a material tightening of monetary policy.

For the first half of 2021 the Company delivered a Net Asset Value (NAV) total return (with debt at fair value) of 12.3% compared with the benchmark total return of 8.4%, an outperformance of 3.9%. With equity markets delivering positive returns, the Company's gearing and asset allocation (overweight equities and underweight bonds versus the Company's benchmark) aided performance. The Company's share price rose by 21.8% on a total return basis during the first half of the year, benefitting from improving investor demand for UK investments generally, which led to the Company's share price moving from a discount to NAV at the start of 2021 to a small premium of 1.4% at the end of June.

Gearing

The overall level of gearing has increased marginally during the first half of the year, with borrowings as a proportion of total assets starting the year at 22.9% and moving to 23.3% at the end of June 2021. Within the Company's portfolio, asset allocation has seen a notable increase in equities and reduction in bonds due to the improving prospects for economic growth and higher short-term inflation expectations, a scenario which should favour equities over fixed interest investments.

As mentioned in the last Annual Report, the Company has a £45 million two-year revolving credit multicurrency loan facility (with an option to increase to £57 million) with Scotiabank, due to expire in December 2022. In May 2021, the Company entered into an amended facility with Scotiabank to formalise the use of a replacement reference rate, away from the London Interbank Offered Rate (LIBOR) to alternative risk free rates which are due to come into effect from the end of 2021.

Dividends

The first interim dividend of 2.475 pence per share was paid on 30 April 2021 and the second interim dividend for the same amount was paid on 30 July 2021.

A third interim dividend, to be paid from the Company's revenue account, of 2.475 pence per share was announced on 21 July 2021 and this dividend will be paid on 29 October 2021 to shareholders registered at the close of business on 17 September 2021 (with the shares being quoted ex-dividend on 16 September 2021).

Whilst the Company's revenue stream has of course been adversely impacted by the COVID-19 pandemic, there have been encouraging recent signs that company dividend prospects are improving, particularly in sectors such as mining and financials. The Board has made it clear that with the benefit of the Company's revenue reserves built up over a number of years, it will be its intention to utilise these reserves at least to maintain the total dividend for 2021 at 9.90 pence per share.

Chairman's statement (continued)

The Board remains committed to providing a high level of income to shareholders. David Smith, our Fund Manager, runs regular stress testing of the Company's revenue account under different scenarios and this gives the Board reassurance of the relative robustness of the Company's revenue reserves in the medium-term.

Board of Directors

Margaret Littlejohns retired as Chairman of the Company at the Annual General Meeting in May. She was appointed to the Board in 2008 and became Chairman in 2016. On behalf of shareholders and directors past and present I would like to extend our thanks to Margaret for the tremendous contribution she made to the Company during her time on the Board and for her dedication, professionalism and wise counsel. We wish her well in her future endeavours.

Outlook

As we look forward, thanks largely to the tremendous success of the COVID-19 vaccination programme, the outlook and prospects for the UK and global economy have improved significantly. As previously highlighted, policy makers around the world have continued to provide the necessary financial support and liquidity to ensure that economies can function effectively and with the move towards a loosening of restrictions, economic activity has recovered sharply and corporate profitability has bounced back. Confidence amongst both companies and individuals has improved substantially and whilst continuing caution is warranted due to the risk of further COVID-19 variants emerging, there are certainly reasons to be more optimistic looking forward.

The disruption caused to supply chains during the pandemic and the rapid recovery in demand as economies have opened up has caused a short-term increase in inflation. The jury remains out on whether such pricing pressures will be temporary or become more embedded, although in the short-term at least, policy makers appear intent on keeping interest rates low to assist economic recovery.

With the prospects for corporate profitability improving, the Company's asset allocation has seen an increase in equity exposure and a reduction in fixed interest investments. Although the UK equity market, in common with other global markets, has recovered sharply in the first half of 2021, it still appears to be attractively valued on a range of financial metrics. Our Fund Manager, David Smith, will continue to focus on positioning the Company's portfolio to deliver a high level of income for our shareholders whilst seeking to achieve long-term capital growth.

Jeremy Rigg
Chairman
14 September 2021

Fund Manager’s report

Markets

Equity markets were strong over the first half of 2021, with the FTSE All-Share Index up 11.1% on a total return basis. Despite some concerns later in the period over the rise in COVID-19 infections caused by the delta variant, markets were supported by robust corporate earnings, the rapid vaccine roll out programme and the moves to start unwinding restrictions that have damaged economies. Economic growth rebounded strongly in the UK, with GDP in Q2 2021 up by 22.2% year on year. The Bank of England kept interest rates at the historically low levels of 0.1% and maintained its quantitative easing programme. Given the supportive economic backdrop and loose monetary policy, cyclical sectors such as mining, banks, energy and industrials performed well, while defensive sectors lagged, with food producers, tobacco and utilities underperforming.

UK government bond yields rose in the period caused by increased inflation expectations, with the 10 year gilt yield reaching 0.6% at the end of June, having finished last year at just 0.2%. Corporate bonds outperformed government bonds as the economic recovery continued to support the compression in credit spreads, especially in high yield bonds, which posted a positive total return in the period.

Performance

The Company’s NAV (with debt at fair value) was strong during the period, rising 12.3%, outperforming the benchmark’s return of 8.4%. Given the positive equity market backdrop, gearing and the Company’s overweight position in equities relative to bonds versus the benchmark were the main contributors to outperformance. Within the equity portfolio, holdings in financials, such as St James Place, Intermediate Capital Group and NatWest, all benefitted performance. St James Place repaid its previously suspended dividend and announced strong new business flows and updated long-term guidance with an increased focus on cost control. Intermediate Capital Group also reported robust results with greater than expected fund raisings in its fund management division, while better economic data, rising bond yields, lower impairments and a return to dividend payments all aided NatWest’s share price. Elsewhere, industrial companies Johnson Matthey and TI Fluid Systems were positive for performance. Both companies were supported by strong underlying automotive data while Johnson Matthey also announced plans to increase capacity in its coated catalyst membrane facility, components used in the production of clean energy source green hydrogen, given strong underlying demand.

Portfolio Activity

During the period the allocation to bonds was reduced, given that bond yields and credit spreads had fallen to very low levels. Specifically, bonds in Lloyds, Tesco, telecom towers owner Arqiva and US business services company Cintas were sold as their respective yields had fallen to unattractive levels. The bond portfolio represented 9.1% and 11.4% of gross and net assets respectively as at the end of June.

Within the equity portfolio, new holdings were established in Paragon and truck manufacturer Volvo. Paragon specialises in Buy-to-Let mortgages and commercial lending with a focus on strong credit quality. Loan pricing in these areas is attractive, given the lack of competition from the main high street banks, which should support upside to its net interest margin. The company has a strong capital position and an attractive dividend yield. Demand for Volvo’s trucks should be robust as economies emerge from the pandemic, further supported by governments’ infrastructure spending. The management team have also restructured the cost base which should lead to higher margins. The company has a strong balance sheet and cash flow which is likely to lead to further attractive dividend payments.

David Smith
Fund Manager
14 September 2021

Financial summary

Extract from the Income Statement (unaudited)	Half-year ended 30 Jun 2021 Revenue return £'000	30 Jun 2021 Capital return £'000	30 Jun 2021 Total £'000	30 Jun 2020 Total £'000
Gains/(losses) on investments	–	18,124	**18,124**	(48,456)
Investment income	6,804	–	**6,804**	6,463
Other income	11	–	**11**	325
Gross revenue and capital gains/(losses)	6,815	18,124	**24,939**	(41,668)
Expenses, finance costs and taxation[1]	(745)	(849)	**(1,594)**	(1,727)
Net return after taxation	6,070	17,275	**23,345**	(43,395)
Return/(loss) per ordinary share	4.72p	13.43p	**18.15p**	(33.75p)

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

The actual performance fee, if any, payable to the Manager for the year to 31 December 2021 requires outperformance above a hurdle of 1% over the full financial year after covering any prior years' underperformance. The performance fee is subject to a 0.4% cap of the average of gross assets in any one year

Extract from the Statement of Financial Position (unaudited except 31 December 2020 figures)	Half-year ended 30 Jun 2021 £'000	Half-year ended 30 Jun 2020 £'000	Year-ended 31 Dec 2020 £'000
Fair value of investments	**281,445**	243,385	259,844
Net current liabilities	**(33,251)**	(22,224)	(28,634)
Creditors: amounts falling due after more than one year	**(19,844)**	(19,834)	(19,839)
Net assets	**228,350**	201,327	211,371
Net asset value per ordinary share[2]	**177.57p**	156.56p	164.37p

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

Going concern

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

The Company's shareholders are asked every five years to vote for the continuation of the Company. An ordinary resolution to this effect was passed by the shareholders at the annual general meeting held on 23 June 2020.

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

Financial summary (continued)

Dividends

In respect of the year-ended 31 December 2020, a fourth interim dividend of 2.475p per share (2019: 2.475p) was paid on 29 January 2021 to shareholders on the register at close of business on 11 December 2020. In respect of the year ending 31 December 2021, a first interim dividend of 2.475p per share (2020: 2.475p) was paid on 30 April 2021 to shareholders on the register at close of business on 6 April 2021. These dividends are reflected in the half-year financial statements.

A second interim dividend of 2.475p per share (2020: 2.475p) for the year ending 31 December 2021 was paid on 30 July 2021 to shareholders on the register at close of business on 18 June 2021. A third interim dividend of 2.475p per share (2020: 2.475p) for the year ending 31 December 2021 will be paid on 29 October 2021 to shareholders on the register on 17 September 2021. The shares will go ex-dividend on 16 September 2021. In accordance with FRS 102, the second and third interim dividends have not been accrued for in the half-year financial statements as they will be paid after the period end.

Share Capital

During the half-year ended 30 June 2021, no ordinary shares were issued (half-year ended 30 June 2020: none; year-ended 31 December 2020: none). At 30 June 2021 there were 128,596,278 ordinary shares of 5p nominal value in issue. Between 1 July 2021 and 14 September 2021, no further shares have been issued. The Company has no shares held in Treasury.

Principal Risks and Uncertainties

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

Principal risks:

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

Emerging risks:

- Risks associated with the legacy of COVID-19
- Risks associated with climate change

Information on these risks and how they are managed is given in the Company's Annual Report for the year-ended 31 December 2020. In the view of the Board these principal and emerging risks have not changed over the last six months and are as applicable to the remaining six months of the financial year as they were to the six months under review.

Statement of Directors' Responsibilities

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

a) the condensed set of financial statements has been prepared in accordance with FRS 104 "Interim Financial Reporting" issued by the Financial Reporting Council;
b) this report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
c) this report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

For and on behalf of the Board
Jeremy Rigg
Chairman
14 September 2021

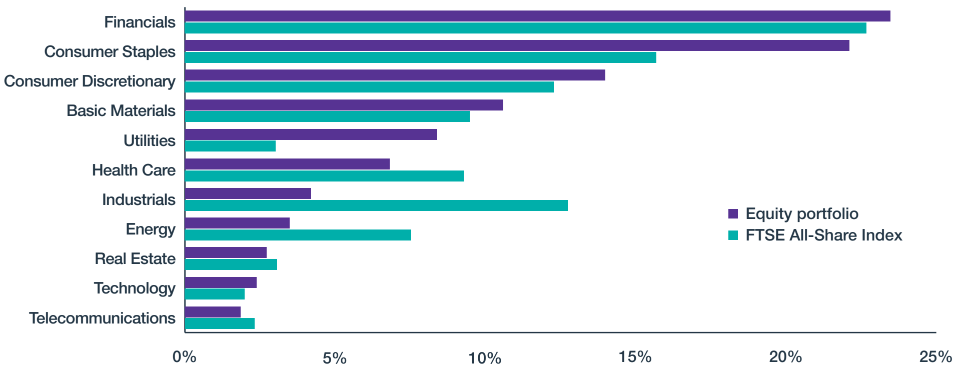
Portfolio information

Twenty Largest Investments

Company	Sector	Fair value as at 30 Jun 2021 £'000	% of portfolio 2021	Fair value as at 31 Dec 2020 £'000	% of portfolio 2020
British American Tobacco	Consumer Staples	10,888	3.9	10,530	4.0
Unilever	Consumer Staples	10,161	3.6	6,730	2.6
Rio Tinto	Basic Materials	9,386	3.3	9,135	3.5
Diageo	Consumer Staples	9,217	3.3	7,255	2.8
AstraZeneca	Health Care	8,212	2.9	2,922	1.1
GlaxoSmithKline	Health Care	7,477	2.7	8,233	3.2
Anglo American	Basic Materials	7,327	2.6	5,823	2.2
RELX (Netherlands)	Consumer Discretionary	7,080	2.5	5,078	2.0
National Grid	Utilities	5,880	2.1	5,093	2.0
Tesco*	Consumer Staples	5,783	2.0	7,857	3.0
BP	Energy	5,296	1.9	4,284	1.6
3i Group	Financials	4,969	1.8	5,122	2.0
Vodafone	Telecommunications	4,790	1.7	4,978	1.9
M&G	Financials	4,667	1.7	3,835	1.5
Severn Trent	Utilities	4,505	1.6	3,833	1.5
Intermediate Capital Group	Financials	4,488	1.6	3,862	1.5
St James Place	Financials	4,353	1.5	3,536	1.4
Phoenix	Financials	4,287	1.5	4,226	1.6
Lloyds Banking*	Financials	4,273	1.5	4,004	1.5
NatWest	Financials	4,206	1.5	3,470	1.3
TOTAL		**127,245**	**45.2**	**109,806**	**42.2**

* includes fixed interest

Equity Portfolio Sector Exposure at 30 June 2021



Source: Janus Henderson

Investment portfolio

Classification of Investments by Sector

	30 Jun 2021 %	31 Dec 2020 %
FIXED INTEREST		
Preference shares	2.0	2.0
Other fixed interest	7.2	10.5
Total Fixed Interest	**9.2**	**12.5**
EQUITIES		
Energy		
Oil & gas producers	3.2	3.7
Total Energy	**3.2**	**3.7**
Basic Materials		
Chemicals	2.0	2.1
Forestry & paper	0.8	–
Mining	6.9	6.7
Total Basic Materials	**9.7**	**8.8**
Industrials		
General industrials	1.2	1.4
Industrial engineering	1.7	1.9
Industrial transportation	1.0	–
Total Industrials	**3.9**	**3.3**
Consumer Discretionary		
Automobiles & parts	0.9	0.9
Consumer services	1.3	1.3
Household goods & home construction	1.9	1.5
Media	3.4	3.0
Personal goods	1.4	1.2
Retailers	1.1	1.1
Travel & leisure	2.8	3.1
Total Consumer Goods	**12.8**	**12.1**
Health Care		
Pharmaceuticals & biotechnology	6.3	5.6
Total Health Care	**6.3**	**5.6**

	30 Jun 2021 %	31 Dec 2020 %
EQUITIES (continued)		
Consumer Staples		
Beverages	6.7	6.3
Food producers	2.7	2.6
Personal care drug & grocery stores	5.7	5.8
Tobacco	5.3	5.6
Total Consumer Staples	**20.4**	**20.3**
Telecommunications		
Telecommunications service providers	1.7	1.9
Total Telecommunications	**1.7**	**1.9**
Utilities		
Electricity	2.1	1.8
Gas, water & multi-utilities	5.6	5.4
Total Utilities	**7.7**	**7.2**
Financials		
Banks	3.0	2.6
Closed end investments	2.0	2.1
Finance & credit services	1.1	–
Investment banking & brokerage services	8.5	9.4
Life insurance	2.3	2.6
Non-life insurance	3.5	3.4
Total Financials	**20.4**	**20.1**
Technology		
Software & computer services	1.2	0.9
Technology hardware & equipment	1.0	0.9
Total Technology	**2.2**	**1.8**
Real Estate		
Real estate investment trusts	2.5	2.7
Total Real Estate	**2.5**	**2.7**
TOTAL INVESTMENTS	**100.0**	**100.0**

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