

THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Update for the half-year
ended 30 November 2018



MANAGED BY
Janus Henderson
INVESTORS

Investment objective

The Company aims to maximise shareholders' total returns (capital and income) by investing in smaller companies that are quoted in the United Kingdom.



This update contains material extracted from the unaudited half-year results of the Company for the six months ended 30 November 2018. The unabridged results for the half-year are available on the Company's website:

www.hendersonsmallercompanies.com

The image is based on Custom House in King's Lynn

Performance

Performance for the six months to 30 November 2018



NAV per share at period end

30 Nov 2018

876.8p

31 May 2018

1046.9p

Share price at period end

30 Nov 2018

772.0p

31 May 2018

966.0p

Net Assets

30 Nov 2018

£655.0m

31 May 2018

£782.1m

Total Return Performance (including dividends reinvested)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV¹	-15.0	-6.9	27.4	59.3	602.5
Benchmark²	-10.1	-7.5	19.2	32.6	344.3
Share price³	-18.7	-4.9	25.0	68.1	904.4
Average sector NAV⁵	-11.5	-7.8	26.3	51.4	428.5
Average sector share price⁶	-9.5	-3.7	26.3	56.8	588.5
FTSE All-Share Index	-7.7	-1.5	22.6	29.2	156.7

Sources: Morningstar Direct, Janus Henderson

1 Net asset value ('NAV') per ordinary share total return with income reinvested

2 Numis Smaller Companies Index (excluding investment companies) total return

3 Share price total return using mid-market closing price

4 Interim dividend of 6.5p (2018: 6.0p) to be paid to shareholders on 8 March 2019

5 Average NAV total return of the AIC UK Smaller Companies sector

6 Average share price total return of the AIC UK Smaller Companies sector

Financial Summary

Extract from the Statement of Comprehensive Income (unaudited)	Half-year ended			
	30 November 2018 Revenue return £'000	30 November 2018 Capital return £'000	30 November 2018 Total return £'000	30 November 2017 Total return £'000
Investment income	8,345	-	8,345	7,657
Other income	51	-	51	15
(Losses)/gains on investments held at fair value through profit or loss	-	(121,889)	(121,889)	38,158
Total income/(expense)	8,396	(121,889)	(113,493)	45,830
Expenses, finance costs & taxation ¹	(947)	(1,442)	(2,389)	(6,136)
Profit/(loss) for the period	7,449	(123,331)	(115,882)	39,694
Earnings per ordinary share	9.97p	(165.10)p	(155.13)p	53.14p

¹Expenses, finance costs and taxation include provision for a performance fee when the relevant criteria have been met. For the six months to 30 November 2018 the performance fee provision is £Nil (30 November 2017: £3,965,000; May 2018: £4,086,000). Any provision for a performance fee is charged 100% to capital. The actual performance fee, if any, payable to Janus Henderson for the year to 31 May 2019 will depend on outperformance over the full financial year, subject to a cap on the total fees paid to Janus Henderson of 0.9% of the average value of the net assets of the Company during the year. No performance fee is payable if on the last day of the accounting year the Company's share price or NAV is lower than the share price and NAV at the preceding year-end. Details of the performance fee arrangements are set out in the Annual Report for the year ended 31 May 2018.

Extract from Balance Sheet (unaudited except May 2018 figures)	Half-year ended		Year ended
	30 November 2018 £'000	30 November 2017 £'000	31 May 2018 £'000
Investments held at fair value through profit or loss	694,819	781,139	848,330
Net current liabilities	(10,020)	(32,888)	(36,449)
Non current liabilities	(29,818)	(29,808)	(29,813)
Net assets	654,981	718,443	782,068
Net asset value per ordinary share	876.8p	961.7p	1,046.9p

Chairman's Statement

In my last Statement to shareholders, at the time of our AGM in May, I said that rarely a day goes by without Brexit and Trump commanding the news. Well, roll on six months and Brexit is still all that occupies the British press and a large majority of the British population has fallen into a catatonic state of boredom. When travelling in Asia or North America, the business communities only mention Brexit out of a sense of politeness when they realise that a Brit is amongst them. They are far more concerned with an escalation of the US and China trade hostilities, rising interest rates or falling commodities prices. However, we should not feel too glum and sidelined; many of those Asian and American businesses I speak to say that the impact of Brexit will be short-term because whatever the outcome, Britain is a creative and adaptable country that has the best commercial law in the world and, most importantly, an incorruptible judiciary. In short, the global commercial world likes doing business in Britain.

Nevertheless, the continuing uncertain outlook on the prospects for global trade and the recent interest rate rises by the US Federal Reserve have caused global markets to weaken in the last few months and the UK has not been immune. As a result, our Company's net asset value has fallen on a total return basis by 15.0% for the period under review – 4.9% more than the Numis Smaller Companies Index (excluding investment companies), which fell by 10.1%. Our Company's share price fell by 18.7% on a total return basis for the period, when its peer group was on average down by 9.5%. The Company's discount has widened from 7.7% at 31 May 2018 to 12.0% at 30 November 2018. Despite the recent setback, I am glad to say that over the past five years, the Company's share price has risen by 68.1% on a total return basis, giving an annualised return to shareholders of 10.9%.

During the period your fund manager, Neil Hermon, reduced the Company's gearing from 8.5% to 6.1%; however, gearing was still a contributing factor to the short-term underperformance, a rare event for Neil. Your manager and Board firmly believe the Company's proven long-term approach to investment is sound and appropriate in these uncertain times. Successful equity investing is itself a long-term activity and overall your portfolio of companies is trading well, has healthy balance sheets and is attractively valued, and therefore is well placed to create value for the patient investor.

The Board has decided to increase the interim dividend by 8.3% to 6.5p per share. This reflects the continuing strong growth in dividend payments from our portfolio companies. In the absence of any unforeseen circumstances, it is expected that the Board will also increase the final dividend. The final dividend for the year ended 31 May 2018 was 15.0p.

Jamie Cayzer-Colvin
Chairman
17 January 2019



Fund Manager's Report

Market Review – Six Months to 30 November 2018

During the period under review, Brexit negotiations made limited progress, trade hostilities between the US and China escalated, the Federal Reserve raised interest rates, and oil and commodities prices fell. Reflecting these events, UK equity markets fell sharply.

Smaller companies underperformed larger companies over the period. This was driven principally by investors favouring the more internationally diverse constituents of the FTSE100 and concerns that smaller companies are more vulnerable to an economic slowdown.

Fund Performance

The Company underperformed the benchmark in the period. The net asset value fell by 15.0% on a total return basis. This compares with a decrease of 10.1% (total return) in the Numis Smaller Companies Index (excluding investment companies). The underperformance came from a combination of underlying negative portfolio performance and a negative contribution from gearing in the Company.

Gearing

Gearing started the period at 8.5% and ended it at 6.1%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33% and £60 million of short-term bank borrowings. Gearing was a negative contributor to performance in the period as markets fell but has been a significant positive over the near-16 years I have managed the investment portfolio.

Attribution Analysis

The tables below show the top five contributors to, and detractors from, the Company's relative performance. Some of the following stocks are included in the benchmark index but not held by the Company. These have an effect on relative performance.

Top five contributors	6 month return %	Relative contribution %
RWS Holdings	+40.4	+0.6
Cineworld	+10.8	+0.4
John Laing	+17.3	+0.3
Safestyle	+42.6	+0.3
Kier ¹	-49.7	+0.3

Top five detractors	6 month return %	Relative contribution %
Victoria	-43.4	-0.5
Footasylum	-81.3	-0.4
Melrose	-32.6	-0.4
Greggs ¹	+33.4	-0.3
Bellway	-19.7	-0.3

¹ In benchmark index but not held by the Company.

Principal Contributors

RWS is a translation and services group; Cineworld is an international cinema chain; John Laing is an international infrastructure originator and investor; Safestyle is a double glazing and conservatory manufacturer and installer; and Kier is a UK construction and support services group.

Principal Detractors

Victoria is an international floor coverings group; Footasylum is a sports footwear and clothing retailer; Melrose is a turnaround specialist whose principal activities are currently in US ventilation and security and automotive and aerospace component supply; Greggs is a retailer of bakery-based products; and Bellway is a national UK housebuilder.

Fund Manager's Report (continued)

Portfolio Activity

Our approach is to consider our investments as long-term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise we have been employing strong sell disciplines to dispose of stocks that fail to meet these criteria.

In the period we have added to a number of positions in our portfolio and increased exposure to those stocks we feel have further catalysts to drive strong performance.

New additions to the portfolio include Alliance Pharma, a consumer products and branded pharmaceutical products company; Microgen, a financial services software company; Tekmar, a subsea systems protection products company for the offshore wind and oil and gas industries; and Vitac, a broadcast and photographic equipment company.

To balance the additions to our portfolio, we have disposed of positions in companies which we felt were set for poor price performance or where the valuation had become extended, including the holdings of Accesso, Alfa Financial Software, Brown (N), Footasylum, GVC, Ricardo and Playtech. Additionally we sold our holding in ZPG Group, after the company had received an agreed takeover bid, and our position in Melrose, after the company was elevated to the FTSE 100 Index.

Market Outlook

The UK economy is showing anaemic growth. Brexit deliberations stumble on, with intermittent progress. The date for the UK leaving the European Union is looming into view. There is clearly a range of outcomes, but what deal, if any, the UK will end up with is, at this point, unclear. Extra complication is added by the weak position of the minority Conservative Government led by Theresa May, who is struggling to deal with the conflicting demands of her MPs on Brexit.

This political uncertainty has made UK consumers cautious. Although unemployment is historically low, net disposable income growth has been constrained by the rising cost of living. Weakness in consumer spending and low consumer confidence is demonstrated by a moribund

second-hand housing market and weak sales of high-ticket items such as cars, carpets and double glazing.

Outside the UK, economic conditions are robust, particularly in the US. However, there is mounting evidence of a slowdown, particularly in Europe. Escalating trade tensions are providing additional negative commentary. The rise in US interest rates has served as a reminder to investors that loose global monetary conditions are reversing.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-9. Balance sheets are more robust and dividends are growing. In addition, a large proportion of UK corporate earnings comes from overseas, even among smaller companies. This would provide some degree of diversification in the event of a 'hard' Brexit, especially if Sterling were to weaken further.

In terms of valuations, the equity market is now trading below long-term averages. M&A remains a supportive feature for smaller companies. Although M&A has been subdued in 2018, there is an expectation that once there is clarity over Brexit there will be increased interest in UK corporates from abroad, given the relatively low valuation of UK equities and a weak currency.

In conclusion, the period under review has been a negative one for the UK equity market. The Company's performance has been poor, with an absolute fall and underperformance compared to our benchmark. Equity market conditions remain difficult and the uncertainty over Brexit is leading to a reduced appetite for UK equities from international and domestic investors. However, in general, our portfolio companies are trading well, and are soundly financed and attractively valued. Additionally, the smaller companies universe continues to throw up exciting growth opportunities in which the Company can invest.

Neil Hermon
Fund Manager
17 January 2019

Investment Portfolio at 30 November 2018

Position	Company	Valuation £'000	Portfolio %
1	Bellway	20,336	2.93
2	Intermediate Capital	19,640	2.83
3	Cineworld	19,030	2.74
4*	Clinigen	17,390	2.50
5	John Laing	16,521	2.38
6	Renishaw	16,478	2.37
7	Paragon	14,898	2.14
8	Victrex	14,333	2.06
9*	Burford Capital	12,869	1.85
10*	RWS	12,575	1.81
10 largest		164,070	23.61
11	Dechra Pharmaceuticals	11,340	1.63
12	Balfour Beatty	10,416	1.50
13	Vesuvius	10,276	1.48
14	Aveva	10,256	1.48
15	Coats	10,162	1.46
16	Oxford Instruments	9,697	1.40
17	St Modwen Properties	9,651	1.39
18	Ultra Electronics	9,607	1.38
19	OneSavings Bank	9,509	1.37
20	Sanne	9,375	1.35
20 largest		264,359	38.05
21	Euromoney Institutional Investor	9,266	1.33
22	Hunting	9,064	1.30
23*	Scapa	9,042	1.30
24	Northgate	8,910	1.28
25	Ibstock	8,749	1.26
26	TI Fluid Systems	8,636	1.24
27	NCC	8,592	1.24
28	Synthomer	8,530	1.23
29*	Gamma Communications	8,442	1.22
30	SIG	8,377	1.21
30 largest		351,967	50.66

Investment Portfolio (continued)

Position	Company	Valuation £'000	Portfolio %
31	Ascential	8,148	1.17
32	Cairn Energy	8,055	1.16
33	Brewin Dolphin	7,800	1.12
34*	Learning Technologies Group	7,776	1.12
35	Countryside	7,664	1.10
36*	GB Group	7,581	1.09
37*	Midwich	7,560	1.09
38	IntegraFin	7,314	1.05
39*	Alpha Financial Markets	7,085	1.02
40	Just	6,845	0.99
40 largest		427,795	61.57
41	CLS	6,655	0.96
42	Consort Medical	6,542	0.94
43	Equiniti	6,512	0.94
44	Softcat	6,321	0.91
45*	Faroe Petroleum	6,151	0.89
46	Avon Rubber	6,113	0.88
47	Jupiter Fund Management	5,948	0.86
48*	Victoria	5,937	0.85
49	Rotork	5,900	0.85
50*	Team17	5,791	0.83
50 largest		489,665	70.48
51*	Impax Asset Management	5,786	0.83
52	Tarsus Group	5,735	0.83
53	Premier Oil	5,581	0.80
54	Eurocell	5,500	0.79
55	Vitec	5,246	0.76
56	Grainger	5,191	0.75
57*	Codemasters	5,163	0.74
58	SDL	5,052	0.73
59*	Tribal Group	5,028	0.72
60	DFS	5,022	0.72
60 largest		542,969	78.15
Remaining 45		151,850	21.85
Total portfolio		694,819	100.00

* Quoted on the Alternative Investment Market (AIM)

Dividends

The Board has declared an interim dividend of 6.5p (2018: 6.0p) to be paid on 8 March 2019 to shareholders on the register at the close of business on 15 February 2019. The ex-dividend date will be 14 February 2019. No provision has been made for the interim dividend in these condensed financial statements.

The final dividend of 15.0p per ordinary share, paid on 28 September 2018, in respect of the year ended 31 May 2018, has been recognised as a distribution in the period.

Share Capital

At 30 November 2018 there were 74,701,796 ordinary shares in issue (30 November 2017: 74,701,796; 31 May 2018: 74,701,796). During the half-year ended 30 November 2018 the Company bought back no ordinary shares in the market for cancellation (half-year ended 30 November 2017: nil; year ended 31 May 2018: nil). No shares have been bought back or issued during the period.

Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business fall broadly under the following categories:

- investment activity and strategy;
- accounting, legal and regulatory;
- operational; and
- financial instruments and the management of risk.

Detailed information on these risks is given in the Strategic Report and in the Notes to the financial statements in the Company's Annual Report for the year ended 31 May 2018.

In the view of the Board these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the six months under review.

Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position of the Company during the period. Details of related party transactions are contained in the Annual Report for the year ended 31 May 2018.

Going Concern

Having reassessed the principal risks and uncertainties, the Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. The assets of the Company consist almost entirely of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in existence for the foreseeable future.

Directors' Responsibility Statement

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

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting;
- the Interim Management 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 the principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management 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

Jamie Cayzer-Colvin

Chairman

17 January 2019

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MANAGED BY
Janus Henderson
INVESTORS

aic
The Association of
Investment Companies



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