The Henderson Smaller Companies Investment Trust plc

Update for the Half Year ended 30 November 2024

MANAGED BY
Janus Henderson

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 2024. The unabridged results for the half year are available on the Company's website:

www.hendersonsmallercompanies.com

Photo: Keller

Performance

Performance for the six months to 30 November 2024

NAV[1]
-3.8%

Benchmark[2]
0.8%

Share price[3]
-5.8%

Interim dividend[4]
7.5p

NAV per share at period end

30 Nov 2024
947.1p

31 May 2024
1,003.1p

Share price at period end

30 Nov 2024
819.0p

31 May 2024
888.0p

Net Assets

30 Nov 2024
£703.3m

31 May 2024
£747.3m

Total return performance (including dividends reinvested)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV[1]	-3.8	19.3	-20.2	5.9	92.4
Benchmark[2]	0.8	19.4	3.7	24.6	82.3
Average sector NAV[5]	-1.1	17.0	-3.5	22.4	90.4
Share price[3]	-5.8	17.4	-22.8	-3.5	94.8
Average sector share price[6]	-1.7	15.8	-4.0	19.4	95.3
FTSE All-Share Index	1.9	15.7	25.5	32.2	81.1

Sources: Morningstar Direct, Janus Henderson, LSEG Datastream

1 Net asset value ("NAV") per ordinary share total return with income reinvested
2 Deutsche Numis Smaller Companies Index (excluding Investment Companies) total return
3 Share price total return using mid-market closing price
4 Interim dividend of 7.5p (30 November 2023: 7.5p) to be paid to shareholders on 7 March 2025
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

Chair's Statement

Dear Shareholder

Over the past six months, the Company has faced headwinds to performance, driven primarily by rising bond yields which continue to hamper economic recovery and put pressure on company valuations. A strong start to the period under review was soon undermined by the impact of the Labour Government's first Budget and some stock specific issues. Following a recovery in UK business and consumer confidence, the Government's decision to meaningfully increase employers' national insurance and remove tax incentives for business owners will likely put pressure on corporate profit margins, prove costly to inflation and economic growth and in the short term has delayed the recovery in UK small-cap equities.

Performance

Your Company's net asset value ("NAV") total return fell during the six months ended 30 November 2024 by 3.8%, while the Deutsche Numis Smaller Companies ex-Investment Companies Index rose by 0.8%, and the AIC UK Smaller Companies sector average NAV fell by 1.1%. Your Company's share price total return fell by 5.8% during the six months.

Gearing was stable during the period, starting and ending at 11.5%.

Dividend

The Board is pleased to declare an interim dividend of 7.5p (30 November 2023: 7.5p) per share, following continued strong cash generation in the underlying portfolio. This will be paid on 7 March 2025 from the Company's revenue account to shareholders on the register at 7 February 2025. The shares will be marked ex-dividend on 6 February 2025.

Share rating and discount

During the period, the Company's shares remained at a discount to NAV, with the discount widening from 11.5% at 31 May 2024 to 13.5% at 30 November 2024. This was largely reflective of deteriorating sentiment towards the UK economy following the Budget and the widening average discount levels seen across the investment trust sector as a whole, with the AIC UK Smaller Companies sector similarly finishing the period at an average discount of 13.4%.

Share buybacks

The Company bought back 242,166 shares during the six months under review: 122,166 shares to be held in Treasury and 120,000 shares for cancellation. With both the underlying portfolio and share price trading at wider discounts to historic valuations and net asset values respectively, this intervention reflects the Board's view that the 'double discount' provided a compelling opportunity to enhance shareholder value. The buybacks are within the authority granted at the last AGM which allows for the purchase of a maximum of 14.99% of share capital. The shares bought back represent 0.3% of the total number of shares in issue at the start of the year. Since the period end and as at 24 January 2025, a further 713,453 shares have been bought back representing 1.0% of share capital.

Appointment of Co-Fund Manager

The Board is delighted to announce that Indriatti van Hien has been appointed Co-Fund Manager of the Company alongside Neil Hermon, effective immediately.

Indriatti has 18 years of financial industry experience, has been a valued member of the Janus Henderson team since 2011 and, since becoming the Company's Deputy Fund Manager in 2016, has been a source of demonstrable expertise and investment acumen. This decision recognises her significant contribution throughout those eight years which will continue in her new enhanced capacity.

Outlook

Performance continued to be challenged during the period under review, but there is evidence that too much doom and gloom has been priced into the market following the Budget. Whilst interest rates may be cut more slowly, in contrast to the last decade, their relatively high starting point provides a strong and stimulating lever for policy makers to pull on should economic activity slow further. In the meantime, the Fund Managers are confident that starting valuations remain compelling and continued in-bound merger and acquisition activity suggests that the Budget has not deterred domestic or international buyers.

The Board continually assesses the drivers of the Company's performance. Following a protracted period of underperformance, it has undertaken a detailed review of the Fund Managers' investment process, which has delivered excellent performance over the long term. The Board has concluded that the Fund Managers have continued to follow a disciplined and unchanged long-term approach, which is focused on bottom-up stock selection through a thorough assessment of a company's market proposition, balance sheet strength and management. The Board continues to closely monitor the Fund Managers' approach and performance.

The Board remains confident that our portfolio of quality companies is well positioned to prosper as economic conditions and market sentiment improve and we share our Fund Managers' belief that the Company is well positioned to deliver strong total returns in this environment.

Penny Freer
Chair of the Board
28 January 2025

Fund Managers' Report

Market review – six months to 30 November 2024

The broad UK equity market modestly rose over the period. Market concerns focused around inflation, monetary policy, continued geopolitical turmoil and the potential for a global economic downturn. Global interest rates started to fall with the Bank of England announcing its first interest rate cut in four years in August, lowering its benchmark rate by 25 basis points (bps) to 5.0%. This was followed by another cut of 25 bps in November. Likewise in the US, the Federal Reserve made a larger-than-expected cut of 50 bps in September, followed by another 50 bps of combined cuts in November and December.

In the UK, the Labour Party resoundingly won the general election, providing political stability for the medium term. However, talk of a fiscal 'black hole' by the Government led to a fall in business and consumer confidence and a subsequent flatlining of UK economic growth. The Budget delivered in October was focused on taxes, spending and investing with a view to fixing the foundations of the economy, but businesses reacted negatively to the additional tax burden from increased National Insurance payments for employers.

In the US, Donald Trump won a second term as US President alongside a clean sweep as the Republicans took control of Congress. Both the US election results and the UK Budget were seen as inflationary events, which alongside the requirement for additional significant gilt and treasury issuance caused bond yields to rise. Economists are now forecasting that interest rate cuts in 2025 will be more modest and slower than was anticipated six months ago. After rising strongly in the early months of the period, Sterling fell against the US Dollar to end the period broadly unchanged. Oil prices fell with the prospect of increased production plus weak global demand offsetting escalating geopolitical tensions in the Middle East.

Smaller companies marginally underperformed their larger counterparts, with the Deutsche Numis Smaller Companies ex Investment Companies Index up 0.8% against a rise in the FTSE All-Share Index of 1.9%.

Fund performance

The Company had a disappointing period in performance terms, falling in absolute terms and underperforming its benchmark. The share price fell by 5.8% and NAV by 3.8% on a total return basis. This compared with the Deutsche Numis Smaller Companies ex Investment Companies Index rise of 0.8% in total return terms. The underperformance came from a combination of negative contributions from stock selection, gearing and expenses. The negative contribution from stock selection was a function of rising bond yields having a detrimental impact on the valuations of our predominantly pro-cyclical and interest rate sensitive portfolio. In addition, there were a small number of negative company-specific issues which impacted performance. We believe these issues are temporary or more than fully reflected in the underlying share prices and expect these companies to recover over time.

Gearing

Gearing started the period at 11.5% and ended at 11.5%. Debt facilities are a combination of £30 million 20-year unsecured loan notes at an interest rate of 3.33%, £20m 30-year unsecured loan notes at 2.77% and £70 million short-term bank borrowings. As the net asset value fell, the use of gearing was a negative contributor to performance in the period.

Fund Managers' Report (continued)

Attribution analysis

The following tables show the top five contributors to, and detractors from, the Company's relative performance. Some of the 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 %
Ascential	73.9	0.6
John Wood Group*	-70.1	0.6
Balfour Beatty	22.3	0.6
Indivior*	-38.8	0.5
Just Group	38.8	0.4

Top five detractors	6-month return %	Relative contribution %
Next15	-57.2	-0.8
Playtech*	52.6	-0.5
Zegona Communications*	36.9	-0.5
Impax Asset Management	-22.3	-0.4
Mitchells and Butlers	-19.9	-0.4

* In benchmark index but not held by the Company.

Principal contributors

Ascential is a B2B media group. **John Wood** is an oil and power contracting services group. **Balfour Beatty** is an international construction, support services and infrastructure investor group. **Indivior** is a speciality pharmaceuticals company. **Just Group** is a provider of individual and group annuities.

Principal detractors

Next15 is a marketing services, data and communication group. **Playtech** is a software and services provider to the gaming industry. **Zegona Communications** is a Spanish telecoms company. **Impax Asset Management** is an ESG-focused asset manager. **Mitchells and Butlers** is a UK pub and restaurant group.

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.

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

New additions to the portfolio include: **Cohort**, an electronics equipment provider for the defence sector; **Currys**, an electrical goods retailer; **FRP Advisory**, a restructuring and administrations consultancy practice; **Kitwave**, a distributor of food and drink products to the retail sector; **Johnson Services Group**, a workwear and linen rental services provider; **Raspberry Pi**, a computer products provider; and **Trustpilot**, an online reviews provider.

In addition, we added to our existing positions in: **Dominos Pizza**, a master franchise operator of pizza take-away restaurants; **Hill and Smith,** a provider of fabricated metal products and services; and **Telecom Plus**, a provider of utility services, such as energy, telecoms and mobile communications, to residential UK customers.

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 holding in **Liontrust Asset Management**. Additionally we sold our holdings in **Alpha Financial Markets**, **Ascential**, **Spirent** and **Tyman** after these companies received agreed takeover bids.

Market outlook

Inflation has fallen significantly, and we have seen the start of interest rate cuts around the globe. What is not clear is the timing of when rates will be cut further and the speed of their descent. Optimism for a rapid decline in rates has faded, particularly in the UK and US, as a consequence of the inflationary impacts of the recent UK Budget and the Trump and Republican 'Red Sweep' election victory in the US. In the meantime, the delayed transmission

Fund Managers' Report (continued)

mechanism of past interest rates and their impact means that economic conditions are set to remain challenging in the short term. Notwithstanding this, the prospect of a monetary easing cycle is likely to support global equity markets and slowly allow valuation multiples to normalise.

Geopolitics remain challenging with the ongoing conflicts in Ukraine and the Middle East and continuing tensions between China and the US. In the US, Donald Trump will start his second term as President with a full agenda focused on cutting domestic taxes and government spending, raising tariffs, cutting immigration, de-regulation and the ending of current global military conflicts. This will probably lead to significant volatility for global financial markets. In the UK, the Labour Government's 'honeymoon period' post its landslide election victory was short-lived culminating in a poorly received Budget which was perceived as anti-business and potentially inflationary.

We, however, welcome Labour's commitment to 'boost investment' and in particular its pledge to 'increase investment from pension funds in UK markets.' Any incremental flow into the UK could breathe life into a generally under-owned and, more importantly, undervalued UK equity market.

In the corporate sector we are encouraged by the fact that conditions are intrinsically stronger than they were during the Global Financial Crisis of 2008-2009. Company balance sheets are more robust and, in recognition of the deep undervaluation of their own equity, we are seeing an increasing number of companies buying back stock.

The initial public offering ("IPO") market has been exceptionally quiet as UK equity market confidence has diminished. The successful float of Raspberry Pi in June, however, did provide evidence that the UK equity market remains open for attractive, growing businesses. Merger and acquisition ("M&A") activity has remained robust as acquirers, particularly private equity, look to exploit opportunities thrown up by the recent equity market falls. We expect this to continue in the coming months as UK equity market valuations remain markedly depressed versus other developed markets.

In terms of valuations, the equity market is trading below its long-term averages. In addition, smaller companies are trading at historically wide discounts to their larger counterparts. The sharp rebound in corporate earnings following the pandemic-induced shock in 2020 has now faded. Weak economic activity and higher interest costs are leading to currently subdued corporate earnings growth.

Although uncertainty remains around short-term economic conditions, we think that the portfolio is well positioned both to withstand current challenging economic conditions and to participate in any potential upswing. The movements in equity markets have thrown up some fantastic buying opportunities. However, we believe it is important to be selective as the strength of franchise, market positioning and balance sheets will likely determine the winners from the losers.

Neil Hermon and Indriatti van Hien
Fund Managers
28 January 2025

Fund Management Team

Neil Hermon
Fund Manager
Over 30 years experience
Joined Janus Henderson 2002

Indriatti van Hien
Fund Manager
14 years experience
Joined Janus Henderson 2011

Shivam Sedani
Associate Portfolio Manager
8 years experience
Joined Janus Henderson 2017

The fund management team have shareholdings in the Company which align their interests to those of shareholders.

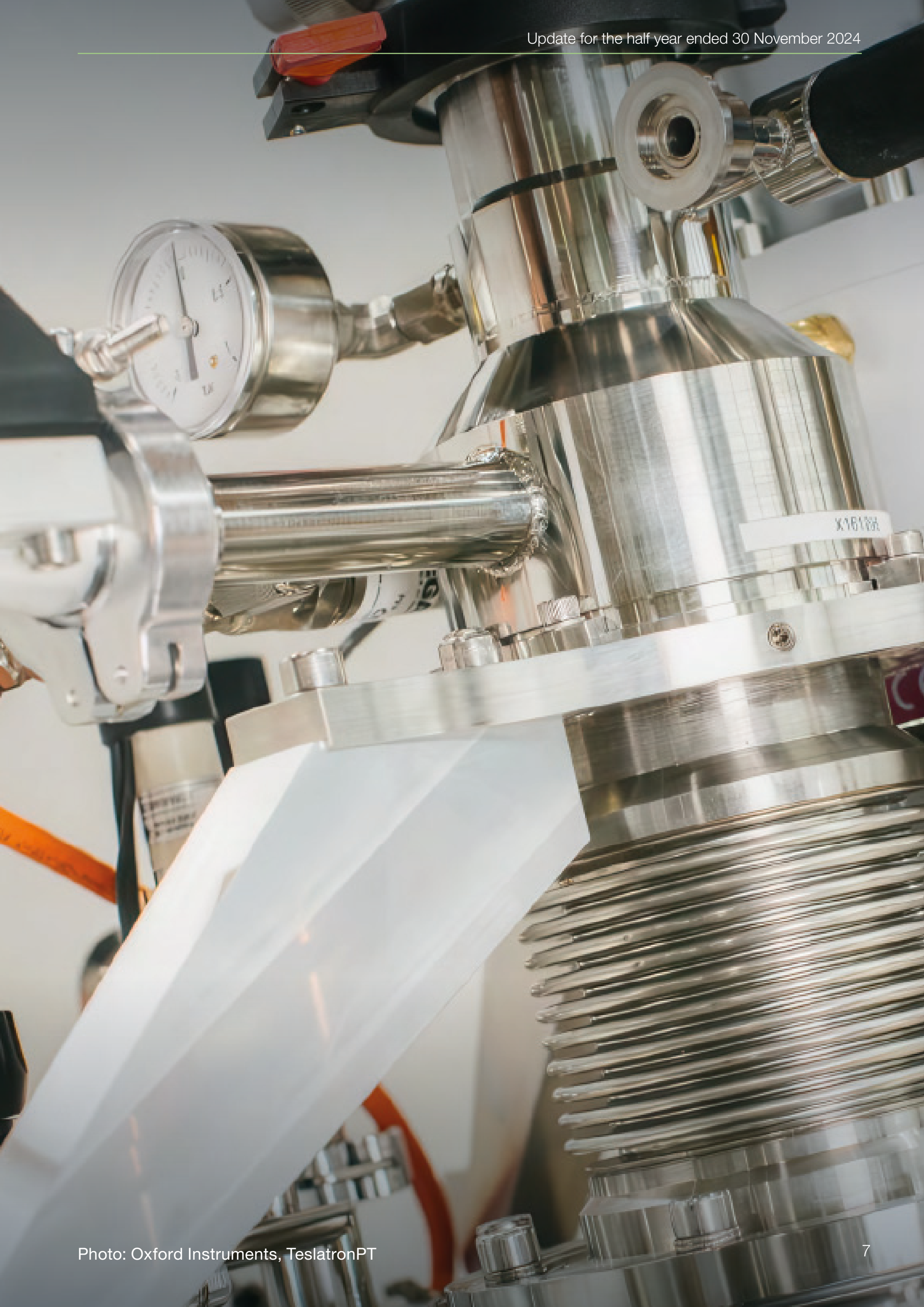

Photo: Oxford Instruments, TeslatronPT

Investment Portfolio at 30 November 2024

Position	Company	Valuation £'000	Portfolio %
1	Balfour Beatty	24,772	3.16
2	Paragon Banking	23,483	2.99
3	Bellway	22,697	2.89
4	Mitchells & Butlers	19,416	2.47
5	Future	18,921	2.41
6	Just Group	18,831	2.40
7	Gamma Communications*	17,380	2.22
8	Oxford Instruments	17,262	2.20
9	Vesuvius	17,097	2.18
10	IntegraFin	16,745	2.13
10 largest		**196,604**	**25.05**
11	OSB Group	16,096	2.05
12	Volution	15,624	1.99
13	GB Group*	14,947	1.91
14	Chemring	12,762	1.63
15	Trainline	11,418	1.46
16	Workspace	11,260	1.44
17	Serco	11,204	1.43
18	Impax Asset Management*	10,989	1.40
19	SigmaRoc*	10,687	1.36
20	Softcat	10,652	1.36
20 largest		**322,243**	**41.08**
21	Genuit	10,530	1.34
22	Qinetiq	10,520	1.34
23	Computacenter	10,453	1.33
24	Watches of Switzerland	10,226	1.30
25	Foresight	10,091	1.29
26	Morgan Sindall	10,070	1.28
27	Bodycote	9,764	1.24
28	Renishaw	9,703	1.24
29	Keller	9,553	1.22
30	Hollywood Bowl	9,266	1.18
30 largest		**422,419**	**53.84**

* Quoted on the Alternative Investment Market ("AIM")

Investment Portfolio (continued)

Position	Company	Valuation £'000	Portfolio %
31	PageGroup	9,005	1.15
32	Savills	8,795	1.12
33	MONY	8,722	1.11
34	Bytes Technology	8,630	1.10
35	Redde Northgate	8,563	1.09
36	Rathbones	8,423	1.07
37	Victrex	8,405	1.07
38	Harworth	8,024	1.02
39	Moonpig	7,859	1.00
40	Clarkson	7,652	0.98
40 largest		**506,497**	**64.55**
41	Domino's Pizza	7,412	0.94
42	Crest Nicholson	7,273	0.93
43	XP Power	7,051	0.90
44	Hunting	7,045	0.90
45	JTC	7,033	0.90
46	Wickes	6,922	0.88
47	Midwich*	6,863	0.87
48	Telecom Plus	6,840	0.87
49	Bridgepoint	6,653	0.85
50	Burford Capital*	6,527	0.83
50 largest		**576,116**	**73.42**
51	Avon Technologies	6,319	0.81
52	RWS Holdings*	6,136	0.78
53	Luceco	6,086	0.78
54	Wilmington	6,018	0.77
55	Learning Technologies*	5,902	0.75
56	Team17*	5,900	0.75
57	Serica Energy*	5,851	0.75
58	Spectris	5,667	0.72
59	Harbour Energy	5,441	0.69
60	DFS	5,344	0.68
60 largest		**634,780**	**80.90**
Remaining 44		**149,769**	**19.10**
Total		**784,549**	**100.00**

* Quoted on the Alternative Investment Market ("AIM")

Financial Summary

Extract from the Statement of Comprehensive Income (unaudited)	Half year ended 30 November 2024 Revenue return £'000	30 November 2024 Capital return £'000	30 November 2024 Total return £'000	30 November 2023 Total return £'000
Investment income	10,987	–	10,987	12,414
Other income	82	–	82	105
Losses on investments held at fair value through profit or loss	–	(34,806)	(34,806)	(60,810)
Currency losses	–	(3)	(3)	(–)
Total income/(loss)	11,069	(34,809)	(23,740)	(48,291)
Expenses, finance costs & taxation[1]	(1,365)	(2,350)	(3,715)	(3,412)
Profit/(loss) for the period	9,704	(37,159)	(27,455)	(51,703)
Earnings per ordinary share	**13.05p**	**(49.96p)**	**(36.91p)**	**(69.21p)**

[1] Expenses, finance costs and taxation include provision for a performance fee when the relevant criteria have been met. There was no performance fee provision for the six months to 30 November 2024 (30 November 2023: £nil; May 2024: £nil). 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 2025 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 net asset value ("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 2024.

Extract from Balance Sheet (unaudited except May 2024 figures)	**Half year ended 30 November 2024 £'000**	Half year ended 30 November 2023 £'000	Year ended 31 May 2024 £'000
Investments held at fair value through profit or loss	784,549	688,490	833,368
Net current liabilities	(31,439)	(29,222)	(36,246)
Non-current liabilities	(49,788)	(49,777)	(49,782)
Net assets	**703,322**	**609,491**	**747,340**
Net asset value per ordinary share	**947.1p**	**815.9p**	**1,003.1p**

Dividends

The Board has declared an interim dividend of 7.5p (30 November 2023: 7.5p) to be paid on 7 March 2025 to shareholders on the register at the close of business on 7 February 2025. The ex-dividend date will be 6 February 2025. No provision has been made for the interim dividend in these condensed financial statements.

The final dividend of 19.5p per ordinary share, paid on 7 October 2024 in respect of the year ended 31 May 2024, has been recognised as a distribution in the period.

Share capital

At 30 November 2024 there were 74,262,965 ordinary shares in issue (30 November 2023: 74,701,796; 31 May 2024: 74,505,131), excluding shares held in treasury. During the half year ended 30 November 2024 the Company bought back 242,166 shares (half year ended 30 November 2023: nil; year ended 31 May 2024: 196,665). Since the period end and as at 24 January 2025, a further 713,453 shares have been bought back.

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;
- 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 2024.

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 2024.

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. In coming to this conclusion, the directors have also considered the continued macroeconomic and geopolitical uncertainty following Russia's invasion of Ukraine, continued tensions between the US and China, conflict in the Middle East, the current cost-of-living crisis, a new government in the UK, a new President and administration in the US, the nature of the Company's covenants, the strength of the Company's distributable reserves and the liquidity of the portfolio.

The directors have concluded that the Company is able to meet its 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 in the Annual Report for the year ended 31 May 2024, the directors confirm that the financial statements have been prepared on a going concern basis.

The Company's shareholders are asked every three years to vote for the continuation of the Company. The last continuation vote took place at the AGM on 30 September 2022 and was passed by 99.2% of votes cast in favour of continuation. The next continuation vote will take place at the AGM in 2025.

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).

On behalf of the Board
Penny Freer
Chair of the Board
28 January 2025

Warning to shareholders

There are always fraudsters who seek to profit at the expense of others during moments of crisis, often impersonating genuine financial services firms. The Board would take this opportunity to remind investors to be particularly alert to cold calls or emails purporting to relate to your investments.

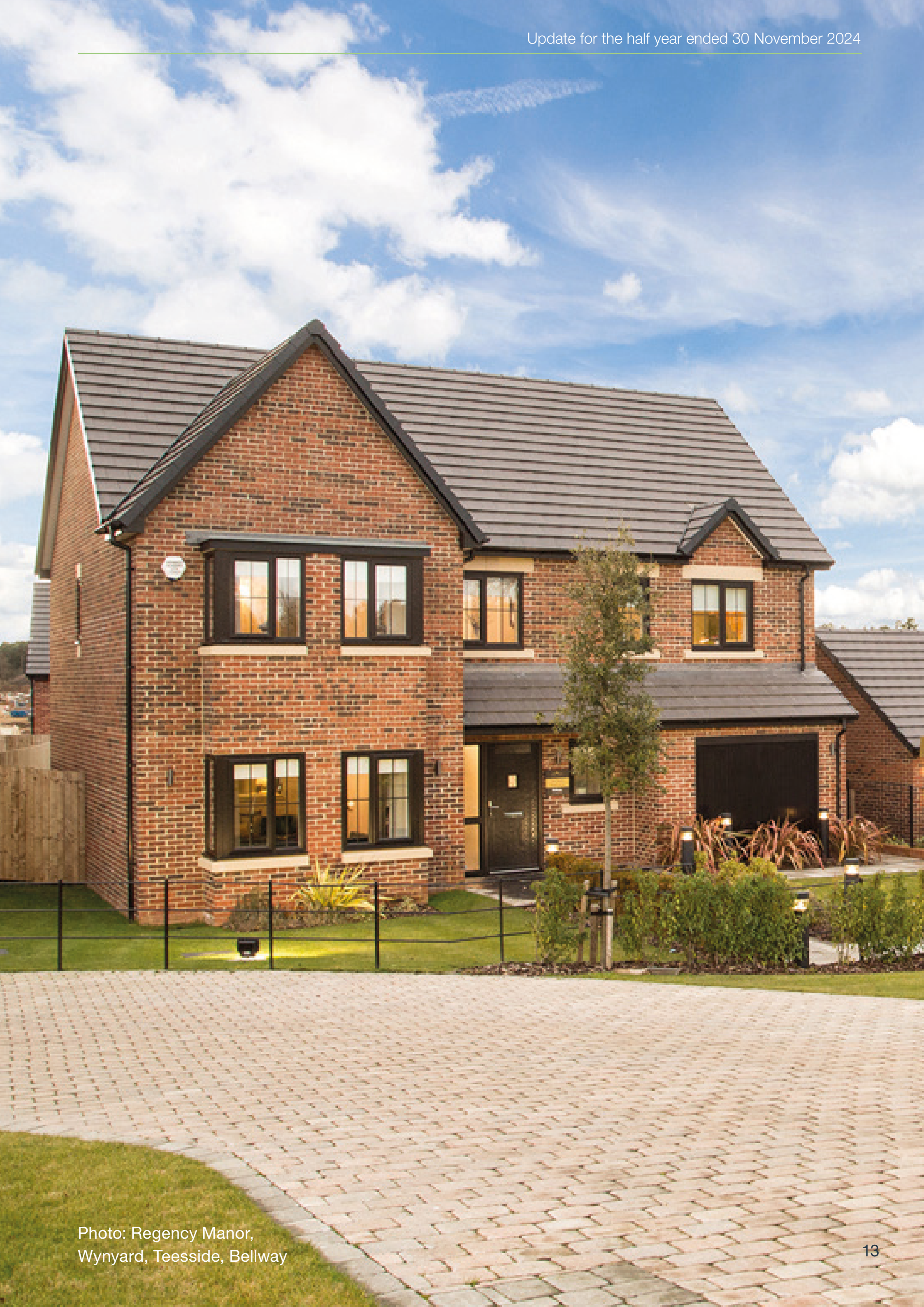

Photo: Regency Manor,
Wynyard, Teesside, Bellway

The Henderson Smaller Companies Investment Trust plc
201 Bishopsgate
London EC2M 3AE

MANAGED BY
Janus Henderson
INVESTORS

The Association of Investment Companies

MAIN MARKET
LONDON STOCK EXCHANGE

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