

THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Update for the half-year
ended 30 November 2017



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 2017. 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 Highlights

Performance for the six months to 30 November 2017



NAV per share at period end

30 Nov 2017	31 May 2017
961.7p	921.6p

Share price at period end

30 Nov 2017	31 May 2017
831.5p	799.0p

Net Assets

30 November 2017	£718.4m	31 May 2017	£688.5m
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Total Return Performance (including dividends reinvested)

	6 months	1 year	3 years	5 years	10 years
	%	%	%	%	%
NAV ¹	5.8	34.7	64.8	144.2	245.8
Benchmark ²	2.2	21.3	44.2	97.6	169.8
Share price ³	5.8	37.8	63.4	159.6	304.4
Average Sector NAV ⁵	3.7	27.3	57.6	126.6	222.4
Average Sector Share price ⁶	5.3	33.9	58.1	130.3	233.0
FTSE All-Share Index	-0.2	13.4	25.2	57.1	76.5

Sources: Morningstar Direct, Janus Henderson

¹ Net asset value per ordinary share total return with income reinvested for 6 months, 1, 3 and 5 years and Capital NAV plus income for 10 years

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

³ Share price total return using mid-market closing price

⁴ Interim dividend of 6.0p (2016: 5.0p) to be paid to shareholders on 9 March 2018

⁵ Average NAV 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 2017 Revenue return £'000	30 November 2017 Capital return £'000	30 November 2017 Total return £'000	30 November 2016 Total return £'000
Investment income	7,657	-	7,657	7,186
Other income	15	-	15	148
Gains on investments held at fair value through profit or loss	-	38,158	38,158	649
Total income	7,672	38,158	45,830	7,983
Expenses, finance costs & taxation ¹	(868)	(5,268)	(6,136)	(1,780)
Profit for the period	6,804	32,890	39,694	6,203
Earnings per ordinary share	9.11p	44.03p	53.14p	8.30p

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 2017 the performance fee provision is £3,965,000 (30 November 2016: £nil; 31 May 2017: £3,324,000). 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 2018 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 2017.

Extract from Balance Sheet (unaudited except May 2017 figures)	Half-year ended		Year ended
	30 November 2017 £'000	30 November 2016 £'000	31 May 2017 £'000
Investments held at fair value through profit or loss	781,139	586,553	751,736
Net current liabilities	(32,888)	(12,695)	(33,474)
Non current liabilities	(29,808)	(29,792)	(29,802)
Net assets	718,443	544,066	688,460
Net asset value per ordinary share	961.7p	728.3p	921.6p

Chairman's Statement

You could be forgiven if you are feeling a little blue. After all, during this period you will have been exposed to a barrage of noise: economists bemoaning the United Kingdom's low productivity and politicians speaking of little else bar Brexit. Mute these distractions, though, and things seem a little better. For a start, we have many very successful smaller companies here in the United Kingdom and your Fund Manager, Neil Hermon, and his team have continued to successfully seek them out. Your Board believes that smaller companies remain a good investment for the long-term investor: they have materially outperformed markets as a whole over the past ten years. What is more, I am pleased to report that Neil has outperformed the benchmark in thirteen of the last fourteen financial years.

He outperformed in this period too. Our Company's net asset value rose on a total return basis by 5.8% for the period under review, 3.6% ahead of the Numis Smaller Companies Index (excluding investment companies), which rose by 2.2%. Our Company's share price rose by 5.8% on a total return basis for the period, when its peer group were on average up by 5.3%. The Company's discount has widened slightly from 13.3% at 31 May 2017 to 13.5% at 30 November 2017. I am glad to say that over the past five years, the Company's share price has risen by 160% on a total return basis, giving an annualised return to shareholders of 21.1%.

The Board has decided to increase the interim dividend by 20% to 6.0p per share. This reflects the continuing strong growth in the dividend payments from our portfolio companies. Absent of any unforeseen circumstances, it is expected the Board will also increase the final dividend. The final dividend for the year ended 31 May 2017 was 13.0p.

Along with all Investment Companies, we are required by new regulation introduced at the start of the year to provide investors with specific past performance scenarios, the calculation of which is prescribed by the regulation and is derived from the recent past performance of the trust. However, we do not believe that this is an appropriate or helpful way to estimate future returns and for this reason the results shown in the new documents should not be used for this purpose.

Finally, the merger of the Henderson Group with Janus Capital Group Inc. has successfully transacted with no discernible impact on our Company.

Jamie Cayzer-Colvin
Chairman
17 January 2018



WINNER

UK SMALLER
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Companies



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Fund Manager's Report

Market Review – Six months to 30 November 2017

During the period under review a snap UK general election saw the Conservative Party lose its overall majority, the Bank of England raised interest rates for the first time in 10 years, the Federal Reserve started to shrink its balance sheet. Geopolitical tensions between North Korea and USA escalated sharply. Notwithstanding these events, UK equity markets held steady, aided by good earnings growth from corporates, helped by the devaluation of sterling and its positive effect on overseas profits.

Smaller companies outperformed larger companies over the period. This was driven principally by faster earnings growth and the mild recent appreciation of sterling versus the US\$ having a negative impact on the large international earners in the FTSE 100.

Fund Performance

The Company outperformed the benchmark in the period. The net asset value rose 5.8%, on a total return basis. This compares with a rise of 2.2% (total return) in the Numis Smaller Companies Index (excluding investment companies). The outperformance came from a combination of underlying positive portfolio performance and a positive contribution from gearing in the Company.

Attribution Analysis

The tables opposite show the top five contributors to, and the bottom five 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 %
Renishaw	+44.8	+0.9
NMC Health	+25.1	+0.8
Bellway	+25.4	+0.7
Carillion ¹	-91.8	+0.5
Intermediate Capital	+23.5	+0.5

Top five detractors	6 month return %	Relative contribution %
AA	-33.8	-0.5
Melrose Industries	-15.9	-0.5
Wizz Air ¹	+46.7	-0.4
Interserve	-65.2	-0.3
Cineworld	-22.9	-0.3

¹ in benchmark index but not held by the Company

Principal Contributors

Renishaw is a high technology precision measuring, calibration and additive manufacturing group; NMC Health is a diversified healthcare provider operating mainly in the Middle East; Bellway is a national UK housebuilder; Carillion is a UK construction and support services group; and Intermediate Capital is a provider and asset manager of specialised debt and alternative credit.

Principal Detractors

AA is a provider of roadside assistance and insurance services; Melrose Industries is a turnaround specialist whose principal activities are currently in US ventilation and security; Wizz Air is an Eastern European based budget airline; Interserve is an international construction and support services group; and Cineworld is a UK and European cinema chain.

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 Alpha Financial Markets, a consultant to the asset management industry; Arrow Capital, a debt management and purchase company; FootAsylum, a specialist sportswear retailer; IQE, a compound semiconductor company; Just Group, an enhanced annuity company; TI Fluid Systems, an automotive supplier; and Ultra Electronics, a defence 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 Abcam, Dunelm, Interserve, RPC, Spire Healthcare and Vectura. Additionally we sold our holdings in Imagination Technologies, Aldermore and Paysafe, all positions where the company has received an agreed takeover bid.

Market Outlook

Politically the environment in the UK remains uncertain. We have a hung parliament and a minority government, supported by a 'confidence and supply' arrangement with the DUP.

At the same time, the UK government is involved in Brexit negotiations with the EU. There is clearly a range of outcomes from these negotiations but what 'deal' the UK will end up with - if any - is, at this point, unclear. This uncertainty will probably cause some caution in the mindset of UK consumers. At the same time they are facing the pressure of the rising cost of imported goods. This is squeezing consumers' net disposable income as wage inflation fails to match the cost of price inflation.

Outside the UK, economic conditions are strong, and if anything getting better, particularly in the US and Europe. With around half of the portfolios earnings from outside the UK we are well placed to benefit from this trend. The recent rises in US and UK interest rates have flagged to investors that loose global monetary conditions will at some stage reverse. However, the 'normalisation' of monetary policy should be a slow and measured process.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008/2009. Balance sheets are more robust and dividends are growing.

In terms of valuations, the equity market is roughly in line with long-term averages. Merger and acquisition (M&A) activity remains a supportive feature for smaller companies. If corporate confidence improves, M&A is likely to increase. Indeed we have recently seen a number of bids for companies in our portfolio including Paysafe, Quantum Pharmaceutical, Aldermore, Servelec and SQS.

In this environment, and with a positive perspective on likely future medium-term returns from our portfolio we retain a moderate level of gearing, which stood at 8.7% at 30 November 2017.

In conclusion, the period under review has been a neutral one for the UK equity market. The Company's performance has been strong, with an absolute gain and outperformance compared to our benchmark. This has been principally due to good stock selection and, in general, our investments are trading well, 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 2018

Investment Portfolio at 30 November 2017

Position	Company	Valuation £'000	Portfolio %
1	Bellway	27,696	3.55
2	Renishaw	21,579	2.76
3	NMC Health	21,367	2.74
4	Intermediate Capital	20,103	2.57
5	Clinigen ¹	19,485	2.49
6	Paragon	17,308	2.22
7	Melrose Industries	16,592	2.12
8	Victrex	14,424	1.85
9	Dechra Pharmaceuticals	12,354	1.58
10	RWS ¹	11,336	1.45
10 largest		182,244	23.33
11	Scapa ¹	11,316	1.45
12	Aveva	11,182	1.43
13	Playtech	10,933	1.40
14	Sanne	10,768	1.38
15	Balfour Beatty	10,592	1.36
16	Burford Capital ¹	10,472	1.34
17	Jupiter Fund Management	10,324	1.32
18	St Modwen Properties	10,258	1.31
19	Spectris	10,016	1.28
20	John Laing	9,940	1.27
20 largest		288,045	36.87
21	Ibstock	9,873	1.26
22	Synthomer	9,425	1.21
23	Vesuvius	9,248	1.19
24	Northgate	9,229	1.18
25	OneSavings Bank	9,193	1.18
26	SIG	9,128	1.17
27	Cineworld	8,387	1.08
28	Countryside	8,383	1.07
29	Brewin Dolphin	8,308	1.06
30	Ultra Electronic	8,307	1.06
30 largest		377,526	48.33

Investment Portfolio (continued)

Position	Company	Valuation £'000	Portfolio %
31	Alfa Financial Software	8,001	1.03
32	Hunting	7,844	1.01
33	Oxford Instruments	7,594	0.97
34	Just Group	7,531	0.96
35	NCC	7,531	0.96
36	Accesso ¹	7,470	0.96
37	Euromoney Institutional Investor	7,456	0.95
38	Ascential	7,436	0.95
39	Consort Medical	7,435	0.95
40	Victoria ¹	7,159	0.92
40 largest		452,983	57.99
41	Fenner	7,132	0.91
42	Grainger	7,100	0.91
43	Coats	7,093	0.91
44	GB Group ¹	6,992	0.90
45	CLS	6,951	0.89
46	Convivialty ¹	6,826	0.87
47	Tarsus Group	6,825	0.87
48	Midwich ¹	6,750	0.86
49	AA	6,699	0.86
50	Gamma Communications ¹	6,633	0.85
50 largest		521,984	66.82
51	Equiniti	6,332	0.81
52	Ted Baker	6,310	0.81
53	Cairn Energy	6,134	0.79
54	Capital & Regional	6,120	0.78
55	SuperGroup	5,916	0.76
56	Eurocell	5,805	0.74
57	TI Fluid Systems	5,753	0.74
58	Alpha Financial Markets ¹	5,641	0.72
59	Tyman	5,564	0.71
60	Bodycote	5,549	0.71
60 largest		581,108	74.39
Remaining 53		200,031	25.61
Total portfolio		781,139	100.00

¹ listed on the Alternative Investment Market (AIM)

Dividends

The Board has declared an interim dividend of 6.0p (2016: 5.0p) to be paid on 9 March 2018 to shareholders on the register at the close of business on 16 February 2018. The ex dividend date will be 15 February 2018. No provision has been made for the interim dividend in these condensed financial statements.

The final dividend of 13.0p per ordinary share, paid on 9 October 2017, in respect of the year ended 31 May 2017, has been recognised as a distribution in the period.

Share Capital

At 30 November 2017 there were 74,701,796 ordinary shares in issue. 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 risk; 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 2017.

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 2017.

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 "IAS34 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 2018

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MANAGED BY
Janus Henderson
INVESTORS

aic
The Association of
Investment Companies



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