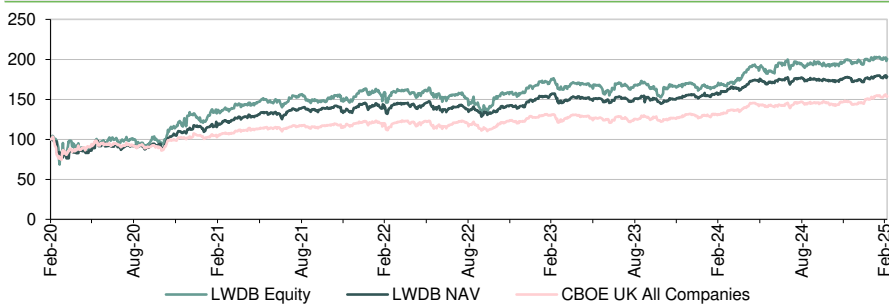


The Law Debenture Corporation

Continued strength in diversity

The Law Debenture Corporation (LWDB) has a long-term record of outperformance versus its broad UK equity market benchmark and peers, while delivering above-average DPS growth. This continued in FY24, with the trust's unique combination of a UK investment trust and a cash-generative professional services operating business (IPS) continuing to generate strong results. The 2024 share price total return of 15.9% was 6.4pp ahead of the benchmark, professional services underlying PBIT grew 6.4% and DPS increased by 4.7%.

Outperformance of benchmark and peer group



Source: LSEG Data & Analytics, Edison Investment Research

LWDB has generated significant outperformance over multiple periods versus its broad UK equity market benchmark and peers in the AIC UK Equity Income sector. Its shareholder total return and fair value NAV total return are the highest in the sector over five, 10 and 25 years and above the median over one and three years.

LWDB's unique structure is a significant factor in this performance. IPS is a well-diversified, resilient and growing business, and is relatively insensitive to short-term economic and market fluctuations. Its operational fair value has increased by c 150% since 2017 or c 14% pa. While IPS accounts for 19% of fair value net asset value (NAV), its strong cash generation has funded c 30% of the trust's dividends over the past 10 years. In turn, this provides the portfolio managers with much greater freedom to balance the requirements for immediate income with the goal of growing capital values over time. They have the flexibility to avoid higher-yielding stocks they deem unattractive and invest in attractive lower- or non-yielding stocks, with greater growth potential or significant, identifiable recovery potential. Three low- or non-yielding stocks (Flutter Entertainment, Rolls-Royce and Marks & Spencer) were among the top five portfolio gainers in 2024. While this investment approach means that LWDB is not the highest paying constituent in the UK Equity Income sector, its five-year DPS growth is more than twice that of peers.

The portfolio is 88% invested in UK equities, of which c 50% is in larger companies and the balance in small- and mid-cap companies. UK equity valuations remain very low in absolute and relative terms, and this continues to be reflected in merger and acquisition activity more than in market prices. The investment managers see strong opportunities across the market but particularly in heavily sold domestic earners. While the UK continues to suffer from a lack of productivity growth, and economic activity continues to flat line, the investment managers stress the importance of focusing on companies rather than the economy. They identify many good-quality, well-managed businesses, with strong prospects or recovery potential that is not reflected in their valuations.

Investment companies
UK equity income

14 March 2025

Price 891.00p
Market cap £1,172m
Total assets £1,283m

NAV 878.0p

¹At 12 March 2025 with debt and IPS at fair value.

Discount to NAV 1.4%

¹Premium to NAV as at date of publication

Current yield 3.8%

Shares in issue 132.6m

Code/ISIN LWDB/GB0031429219

Primary exchange LSE

AIC sector UK Equity Income

52-week high/low 922.0p 745.3p

Net gearing 12.6%

¹As at 31 December 2024

Fund objective

The Law Debenture Corporation's investment objective is to achieve long-term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the broad UK stock market through investing in a diversified portfolio of mainly UK equities with some international holdings. The IPS business provides a regular flow of income, which augments the dividend income from the equity portfolio.

Bull points

- Experienced management.
- IPS revenue contribution gives fund managers flexibility and security of income.
- Large, liquid, low cost and historically trades at or close to NAV.

Bear points

- Lower yielding than some income peers.
- Smaller growth stock holdings may be more volatile than large-cap yield stocks.
- Relatively high structural gearing would be a drag on performance in a falling market.

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is a research client of Edison
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Highly differentiated and unique business model

LWDB comprises two distinct but complementary parts, each supporting the other, differentiating it from other investment trusts and underpinning its long-term performance. Alongside the investment portfolio, accounting for 81% of net assets, is a leading provider of independent professional services, or IPS (19% of net assets). IPS is a highly profitable, resilient, growing and cash-generative business comprising a diversified range of operations and income streams, significantly based on recurring income from structurally supported sectors, and others that provide attractive returns but with increased market sensitivity. As well as creating capital growth for LWDB, it generates income for dividends well above its share of NAV. Since the business was reinvigorated in 2017, in an often-challenging environment, IPS's underlying profit before income and tax (PBIT) has increased by almost two-thirds, from £9.6m to £16.0m in 2024, or 7.6% pa, and has funded around one-third of LWDB's dividends. Over the same period the operational fair value of IPS has increased by around 150%. In turn, being part of the larger LWDB, a well-governed UK 250 company with c £1.3bn in gross assets, is hugely important to IPS when it comes to winning business.

LWDB's investment portfolio has been consistently managed over many years by James Henderson and Laura Foll of Janus Henderson Investors. Their investment mandate is focused on both income and capital growth, and they highlight the positive impact that IPS has on meeting these goals. The consistently high level of IPS cash flow enables them the flexibility to run a multi-cap portfolio that includes a blend of stocks that can deliver more immediate income with those that can grow sales, earnings and dividends faster over time. This provides a wider pool of opportunities from which to build a diversified portfolio and avoids the need to 'chase yield'. Stock selection is selectively bottom-up with a strong valuation overlay and aims to identify market-leading, high-quality companies that are undervalued at the point of purchase. The portfolio is concentrated in UK stocks (c 88% of the total) and is highly diversified (c 150 stocks) to manage risks to capital and aid consistency of performance.

A strong track record and positive outlook

The combination of the well-diversified and resilient IPS business with the portfolio is a well-proven model that has generated strong long-term results. Supported by structural tailwinds and investment, LWDB is confident of further medium-term growth in IPS, in line with its mid- to high-single-digit medium-term target. For the portfolio, the investment managers are very positive about the UK equity market in particular, and see strong potential for further capital and income growth. The key elements of the LWDB investment case are summarised below and covered in more detail in this report:

- **LWDB has generated significant outperformance over multiple time periods** versus its broad UK equity market benchmark and its peer group within the AIC UK Equity Income sector. Over the 10 years to 31 December 2024, it has delivered an NAV total return¹ of 133%, 51pp ahead of the benchmark return of 82%. Over five years it has delivered a 56% NAV total return, 30pp ahead of the benchmark. Compared with the six large-cap peers,² LWDB has generated the highest level of share price total return over five, 10 and 25 years and is above the median over one and three years.
- **Strong dividend growth.** DPS has increased in each of the past 15 years, including through the COVID-19 pandemic, and has been held or increased for 46 consecutive years. Including 4.7% growth in 2024, the five-year average growth rate is 5.2% pa and over 10 years it is 7.9%. Five-year growth for the large-cap peer group is a little under 2% and for the broad UK Equity Income sector a little over 2% (source: Morningstar). LWDB's dividend yield of 3.8% is slightly below the narrow peer average, which reflects the managers' investment strategy of balancing immediate income returns with long-term capital growth, building the asset base from which dividends can grow.
- **Consistent IPS growth and profitability.** IPS has now delivered seven consecutive years of mid- to high-single-digit underlying growth and continues to invest in its people, technology and platforms to broaden and enhance its offering and deliver a similar level of sustainable growth going forward. Over the same period, the IPS operational fair value has grown by c 14% pa. Accounting for 19% of fair value NAV, the growth of IPS earnings and valuation is important, but so too is the sustainability of its cash earnings contribution and its continued support for the portfolio investment strategy. In this respect, IPS has proven itself to be highly resilient across a range of economic and market cycles and, as with the investment portfolio, diversification and risk-spreading is a core strength.

1. NAV with IPS and debt at fair value and including accrued income.

2. Other constituents of the Association of Investment Companies (AIC) UK equity income sector with a market capitalisation of more than £1bn.

- A significant opportunity in UK equities.** We recently published a [thematic note](#) highlighting the significant attractions of the UK equity market and held a [webinar](#) on the subject, in which James Henderson was a panel participant sharing his own enthusiasm for the market. Sentiment towards UK equities has been poor for many years, although there are some indications that this may be changing, at least on the part of overseas investors. Meanwhile, although the market has been rising, the level of valuation remains low in historical and relative terms. For smaller companies this is even more so, and Henderson and Foll see strong opportunities among small and mid-cap companies, where they find many good-quality, well-managed businesses with strong growth prospects, trading at low valuations that additionally build modest expectations for improvement. Although the valuation opportunity has not yet been widely recognised in the market, low valuations are being increasingly underpinned by a high level of takeover activity.

Building on the strong long-term track record

During 2024, LWDB's NAV total return (cum income with debt at fair value, or NAV) was 13.6%, and was 4.1pp ahead of the broad UK equity market benchmark total return of 9.5%. With debt at par value rather than fair value, the NAV total return was 13.2%. With an otherwise modest share price discount to NAV closing, the share price total return was 15.9%. On a fair value basis, LWDB has outperformed its benchmark over one, three, five and 10 years. In the opening two months of 2025 LWDB gave back some of the outperformance in NAV, primarily the result of the strength of larger stocks, to which the trust is less exposed. Many larger companies have large overseas earnings and may have been buoyed by post-presidential election enthusiasm for the US economy, reinforced (if only in translation) by a stronger US dollar versus sterling. At the same time, reflecting on the UK election and subsequent budget, domestic growth expectations were being pared back. In January and February, the LWDB NAV total return was 3.1% compared with a benchmark return of 6.9%.

Exhibit 1: Performance summary to 31 December 2024

Period to 31 December 2024	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NAV total return (with IPS at fair value and debt at par)	13.2	14.4	43.5	118.7
NAV total return (with IPS and debt at fair value)	13.6	24.6	56.0	133.1
Broad UK equity market benchmark total return	9.5	18.5	26.5	81.9
Share price total return	15.9	25.8	72.4	147.5
Change in Retail Price Index	3.6	23.0	33.9	51.8
NAV vs benchmark (with IPS and debt at fair value)	4.1	6.1	29.6	51.2
Share price vs benchmark	6.4	7.3	46.0	65.6

Source: The Law Debenture Corporation

Versus larger peers within the AIC UK Equity Income sector, all with market capitalisations of more than £500m, LWDB has a strong long-term track record. Over five, 10 and 25 years it is the strongest performer and it is above average over the past three years.

Exhibit 2: LWDB share price total return versus peers (to 10 March 2025)

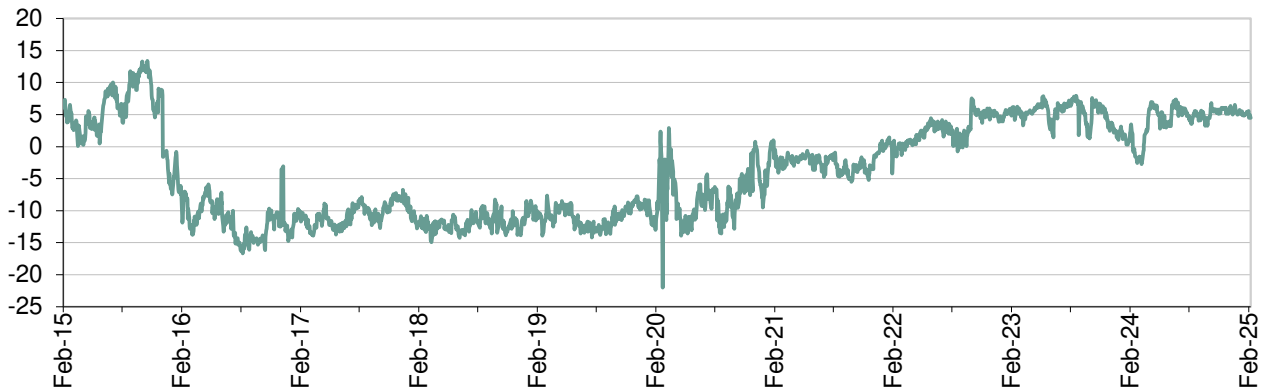
	Market cap (£000's)	1 year	3 years'	5 years	10 years	25 years
Law Debenture	1,181	16.9	28.5	102.1	152.4	952.2
City of London	2,181	17.9	31.0	80.9	78.6	428.9
Edinburgh Investment	1,070	14.1	36.7	109.4	68.7	381.1
Finsbury Growth & Income	1,311	6.9	22.0	43.2	87.9	849.9
Murray Income Trust	819	4.3	16.3	46.8	73.2	453.5
Merchants Trust	778	6.3	13.6	85.5	88.7	395.8
Temple Bar	830	28.1	53.0	97.8	89.6	669.1
Average	1,165	12.9	28.8	77.3	81.1	529.7
<i>LWDB position</i>	3	3	4	2	1	1

Source: Morningstar data

With debt at par value, the shares traded, on average, at a c 5% premium to NAV during 2024 with a peak premium to NAV of c 7%, and the highest discount to NAV in the year of c 3%. On average over the past five years, the shares have traded at a slight premium, with the discount increasing to a little more than 20% during the pandemic. With a premium of c 1%, LWDB currently has the strongest P/NAV multiple in the UK Equity Income sector.

Reflecting the premium to NAV that was in place throughout much of the period, LWDB was able to satisfy investor demand by issuing shares under its authority at an accretive average premium. Approximately 1.4m shares were issued (2023: 3.0m), raising net proceeds of £12.4m (2023: £24.2m) for ongoing investment.

Exhibit 3: NAV at par discount/premium history

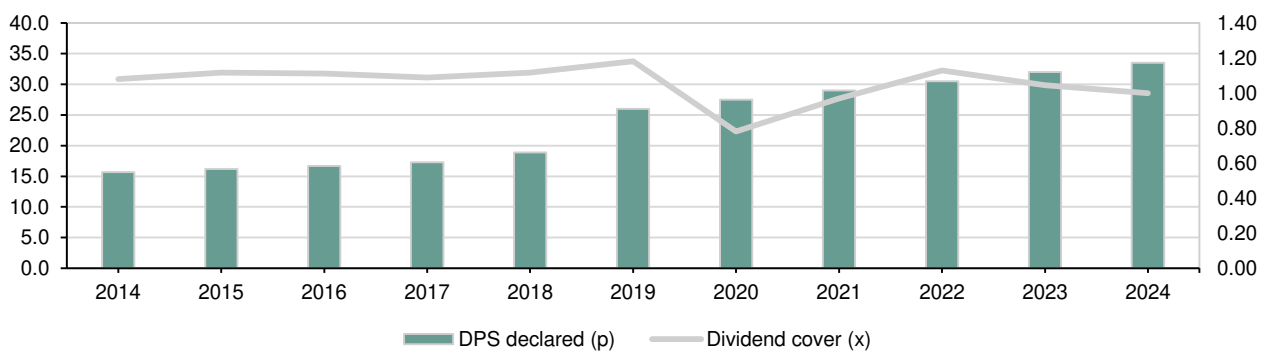


Source: LSEG Data & Analytics

Strong commitment to consistent dividend growth

LWDB pays dividends quarterly, in July, October, January and April. Aggregate 2024 DPS increased by 4.7% to 33.5p (2023: 32.0p) and comprised three interim payments of 8.0p and a proposed final payment of 9.5p. It was effectively fully covered by statutory revenue earnings of 33.48p and more than fully covered on an underlying basis excluding c £1m (net) of exceptional costs within IPS. The board is confident that income will increase and, in line with its policy in previous years, it is the board's intention for each of the first three interim dividends for 2025 to be equivalent to a quarter of the 2024 dividend, or 8.375p per share.

Exhibit 4: DPS and cover



Source: Law Debenture Corporation data

IPS: Well balanced, sustainable value and cash flow generation

The IPS business has a long history, with its origins dating back to 1889 when Law Debenture was established as a bond trustee. However, after years of steady, successful, but sometimes unambitious performance, IPS was reinvigorated in 2017 under CEO Denis Jackson. Since then, the business has developed a greater strategic focus and has invested significantly, in people, technology and platforms to broaden and enhance its offering and deliver sustainable growth. In the last seven years, IPS has almost doubled net revenues and has increased underlying operating profit (before interest and tax) by 67%, maintaining a highly attractive profit before tax (PBT) margin of more than 30% despite the continuing investment for future growth.

Building on the success of recent years, in late 2023, LWDB refreshed its five-year strategic and commercial plan. This aims for a further doubling of earnings in coming years, primarily driven by organic growth, averaging mid- to high-single digits pa but, with a strong and liquid balance sheet, LWDB remains open to acquisition opportunities for IPS where it believes these could add value to clients and shareholders. To support the ongoing development of the business,

the leadership team was strengthened during 2024, including new appointments to the roles of chief financial officer, chief technology officer and head of legal, risk and compliance, and LWDB embarked on a programme to transform and future-proof its operating model. A non-recurring charge of £1.0m was taken in relation to these initiatives, for which we have adjusted in the underlying performance shown below.

The other accounting adjustment during the year and relating to IPS was the full impairment of the £17.0m goodwill arising from the £20m acquisition of the corporate secretarial services business of Eversheds Sutherland in January 2021, and which became the core of the IPS business in this area. The impairment had no impact on LWDB cash flow or on IPS underlying earnings, but did reduce the LWDB NAV per share by c 13p, or 1.5%, reflected in the performance data provided above. The decision to impair the goodwill reflects the fact, previously discussed by LWDB, that it has taken longer and cost more than expected to get the business to the position where it can profitably grow. The company remains confident that the investments made since acquisition will underpin sustainable and controlled growth that is consistent with the other businesses in the IPS portfolio, and if this is the case it will be reflected in the fair value development of IPS (see below) rather than intangible assets on the statutory balance sheet.

For investors in LWDB, the growth of IPS earnings and valuation (19% of NAV) is important, but so too is the sustainability of the IPS cash earnings contribution and its continued support for the portfolio investment strategy. In this respect, IPS has proven itself to be highly resilient across economic and market cycles. Like the portfolio, diversification is a core strength of IPS, across a range of operations and income streams, significantly based on recurring income from structurally supported sectors, and others that provide attractive returns but with increased market sensitivity.

For those less familiar with the range of IPS activities we provide further details later in this report, focusing in this section on the key developments in 2024.

Exhibit 5: Summary of IPS financial performance history

£m unless stated otherwise	2017	2018	2019	2020	2021	2022	2023	2024	2024/2023	7-year compound growth to 2024
Pensions	8.3	9.5	10.6	11.5	13.1	14.3	17.4	16.7	-4.0%	10.6%
Corporate trust	7.9	8.4	9.0	10.8	9.8	10.6	12.5	14.1	12.7%	8.6%
Corporate services	11.0	11.7	12.2	12.2	18.8	20.2	20.6	22.9	11.0%	11.1%
Total net revenue	27.1	29.6	31.8	34.5	41.6	45.2	50.5	53.7	6.2%	10.2%
Y-o-y change	-3.5%	9.0%	7.5%	8.5%	20.6%	8.6%	11.8%	6.2%		
Underlying administrative expenses	(17.6)	(19.3)	(20.5)	(22.3)	(28.2)	(30.8)	(35.4)	(37.6)		
Underlying profit before interest & tax (PBIT)	9.6	10.2	11.3	12.2	13.3	14.4	15.1	16.0	6.4%	7.6%
EBIT margin	35.3%	34.6%	35.4%	35.3%	32.1%	31.8%	29.8%	29.9%		
Underlying profit before tax (PBT)	9.7	10.5	11.5	12.2	13.3	14.4	15.9	16.3	2.4%	7.6%
Y-o-y change	10.6%	7.6%	9.4%	6.6%	9.1%	8.1%	10.5%	2.4%		
Underlying PBT margin	35.9%	35.4%	36.1%	35.4%	32.1%	31.9%	31.6%	32.3%		
Underlying EPS (p)	7.2	7.9	8.5	9.3	10.0	10.4	11.0	11.8	6.2%	7.0%

Source: Law Debenture data, Edison Investment Research

Note: Shown on an underlying basis. 2017 excludes a £3.3m (pre-tax)/2.72p (net) per share gain on the disposal of unlisted investments. 2024 excludes £1.0m (pre-tax)/0.8p (net) in exceptional restructuring costs.

Against a relatively subdued economic backdrop, and with inflation and interest moderating more slowly than many had expected at the start of the year, the diversity of the IPS business served LWDB well. The Corporate Trust and Corporate Services businesses showed strong growth in net revenues. The Pensions business was robust despite a non-repeat of the unusually elevated level of activity in 2023 that was triggered by the gilt market reaction to the UK government's autumn 2022 financial statement, which required many pension schemes to review their funding and investment strategies. Taken as a whole, net revenues increased 6.2% to £53.7m and underlying operating profit (before interest and tax, and excluding the non-recurring charge) increased by 6.4% to £16.0m.

The Corporate Trust business continued to perform very strongly, with net revenues increasing by 12.7%, on top of the c 17% growth delivered in 2023. Activity in debt capital markets is an important driver of revenues. Where acting as a bond trustee, new issuance generates upfront fees but also replenishes the back-book of business from which LWDB earns recurring servicing fees. Volatile in nature, from a decade-long low point in 2023, European debt capital issuance showed a strong recovery, increasing 19% year-on-year including an acceleration in H2. However, while deal flow is important, the majority of revenues (typically around two-thirds) are recurring in nature, generated from serving the existing book of business, built up over many years. The servicing fees for performing bonds are mostly inflation-linked, with new issuance fees providing a strong offset to the impact of moderating inflation. When bonds default, post-issuance work generates additional ad hoc revenues. These have often displayed a strong economic counter-cyclicality, but despite a challenging environment for many corporate borrowers showed no material uplift in 2024. If and when conditions do change, post-issuance revenues could be substantial, and often continue well after an economic recovery is underway. Included within the corporate trust business, **escrow services** continued to grow steadily across a range of

transactions and end-users.

Corporate Services is itself a diverse collection of businesses, including whistleblowing (**Safecall**), structured finance services, company secretarial services (**CSS**) and service of process (**SoP**). Collectively, net revenues increased by 11.0%, driven by strong growth at Safecall and a recovery in the more cyclical SoP activities. **Safecall** is growing strongly, driven by whistleblowing legislation, an increasing recognition that the provision of such services represents best business practice, and investments in enhancing capability, functionality and capacity. In 2024, revenues (+25%) and new business both reached new record levels. Also at a record level was the number of reports to clients, up by 11%, while the majority (70%) of all issues raised are now done so digitally. The management team is increasingly ambitious in this fast growing sector and notes the significant scope for market share gains in the large US market. In **SoP**, LWDB handles many thousands of appointments in a year, many of which are short duration, with a low level of repeat business relative to LWDB's other activities. Compared with the past couple of years, with improved economic and capital markets activity, particularly in developed markets, revenues picked up noticeably in 2024 with a positive impact on operational efficiency.

CSS is well advanced with its significant investment in the right people, skills and systems to further exploit the growing need for outsourced governance solutions; however, this is yet to filter through to revenues. Against a supportive backdrop, where in most developed countries there is a continuing statutory and regulatory drive for enhanced corporate governance standards, LWDB remains confident that the business will generate sustainable growth over time. **Structured finance** is a relatively small part of the business, seeking to grow by leveraging the acknowledged quality of its offering by raising its profile with a broader universe of clients that use these products (such as asset managers, hedge funds and challenger banks). Despite the improvement in European capital markets new issuance, the securitisation markets remained subdued and new issuance was broadly flat year-on-year.

Since 2017, net revenues in the **pensions** business have increased by 10.6% pa. However, following the frenetic activity of 2023, 2024 was a quieter year, in line with LWDB's previously expressed expectations. Net revenues were 4% lower compared with 23% growth in the prior year. While revenues in the pensions business are significantly recurring in nature, project related work can be more variable, and 2023 benefited from significant additional activity resulting from the liability driven investment crisis in late 2022. Taking 2023 and 2024 together, growth was 7.9% pa and LWDB is confident it will continue to grow the business solidly over the medium term. Structurally, this growth is underpinned by the need for high-quality expertise to assist pension schemes to navigate an increasing legislative and regulatory burden and the steady move towards increased professionalism across the sector. In 2025, LWDB expects the implementation of a new defined benefit funding code to be an area of focus for clients. With average defined benefit pension scheme funding remaining strong, trustee boards and sponsors continue to consider the relative merits of continuance or insurance of the liabilities. LWDB is also contributing to the debate surrounding defined contribution consolidation.

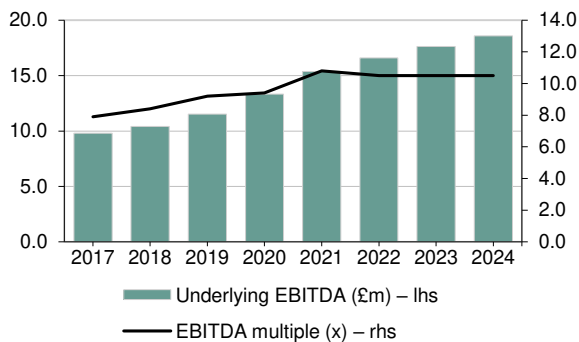
Continuing to build value

LWDB has published an operational value of the standalone IPS business since 2015 to address the fact that the IFRS consolidation, representing the net assets of IPS, fails to recognise the full value added. In determining an appropriate basis for calculating the fair valuation of the IPS business, the board continues to take external professional advice. Taking account of this advice, the 2024 valuation is based on a forward-looking discounted cash flow (DCF) valuation. It had previously been based on a trailing EBITDA³ multiple, considering market data for a range of companies that to varying degrees share similar business units, customer bases and market dynamics, but the range of reasonable comparators has continued to shrink.

On this new basis, the operational fair value continued to increase in 2024 (+5.5%), with the DCF derived valuation reflecting a 10.5x multiple of the underlying EBITDA in the previous 12 months. In the period since 2017, the operational fair value has increased by 139%, of which EBITDA growth accounts for c 80% with the balance reflecting a steady increase in the valuation multiple from a modest 7.9x at the start of the period. A full explanation of the methodology is provided in the [annual report](#), but in our view, taking account of the expected further growth of IPS, the valuation continues to be conservative.

3. Earnings before interest, tax, depreciation and amortisation and thus excluding the £17.0m goodwill impairment, and adjusted for the £1.0m non-recurring charges.

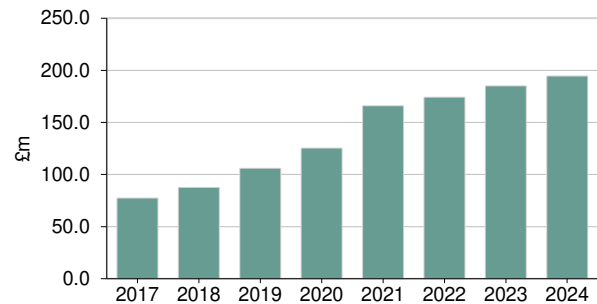
Exhibit 6: IPS underlying EBITDA and EBITDA multiples



Source: Law Debenture Corporation

The 2024 operational fair value of IPS was £187.4m higher than the value reflected in LWDB’s balance sheet on a statutory basis, representing a fair value uplift of 142.1p. The 31 December 2024 NAV per share at fair value, using the now published IPS 2024 results and fair value adjustment, is 872.34p, just slightly below the provisional figure provided at end-FY24, based on the IPS half-year fair value, of 874.14p. Although the IPS fair value increased in H224, this has been offset by the goodwill impairment taken to capital.

Exhibit 7: Growth in IPS fair value



Source: Law Debenture Corporation

Exhibit 8: IPS fair value adjustment

	2024		2023	
	£m	Pence per share	£m	Pence per share
Trailing 12m EBITDA (underlying)	18.5		17.6	
Multiple	10.5		10.5	
Gross fair value of IPS business	194.5	147.5	185.1	141.7
IPS net assets attributable to IPS valuation	18.8	14.3	25.7	19.7
Fair valuation of IPS business	213.3	161.7	210.8	161.4
Removal of IPS net assets included in group	(25.9)	(19.7)	(50.0)	(38.3)
Fair value uplift for IPS business	187.4	142.1	160.8	123.2

Source: The Law Debenture Corporation

The portfolio: Long-term, bottom-up, diversified and valuation focused

The investment portfolio is managed with the aim of achieving long-term capital growth and a steadily increasing income. There is a strong focus on UK stocks, although there is flexibility to invest in overseas stocks, most usually exercised when there is no compelling UK equivalent. The UK weighting was 88% at end-2024, remaining at a historically high level, reflecting the opportunity created by long-term market underperformance versus global peers and a low valuation. Holdings are spread across large, medium-sized and smaller companies, across a variety of activities, balancing the requirement for immediate income with the potential for capital growth. Reflecting the prospects of faster long-term growth in sales, earnings and dividends from mid-caps and small caps, these are significantly overweighted in the portfolio compared with the all-market benchmark. Selective holdings in larger companies (around half the portfolio is top 100 companies) can meet the need for immediate income, albeit with the likelihood of slower growth, are more established and hence less ‘risky’, and for much of the time since the Brexit vote in 2016 have been preferred by investors for having more internationally focused businesses with less exposure to the UK economy.

Investment decisions are driven by bottom-up stock selection with a strong valuation overlay. Quite simply, across the broad equity market, the investment managers are seeking to identify well managed, high-quality companies with a strong competitive advantage in their chosen market segments, at attractive prices. With a focus on long-term returns, they are prepared to take a contrarian position and do not shy away from stocks that have fallen out of favour, perhaps because they have disappointed on earnings, have balance sheet issues, or there are concerns over management. Crucially, the managers do not invest on valuation alone and must be able to identify a resolution to whatever the issue may be and a route to growth in revenues, earnings and dividends.

Given the focus on stocks rather than index weightings, diversification of the portfolio holdings, by business activity, market capitalisation and risk profile, is deliberately targeted, to enhance the consistency of performance and protect capital over the long term. There are usually c 150 holdings in the portfolio (151 at the end of 2024) with a maximum of 175. Further underlining the level of stock diversification within the portfolio, particularly among mid- and small-cap stocks, at the end of January 2025, the top 10 holdings, all larger companies, represented 25% of the total portfolio and the other c 140 holdings represented c 75%. Of the largest 10 holdings, nine are UK top 100 companies and Flutter Entertainment, with a market cap of more than £30bn, switched its main listing from London to the New York Stock Exchange during 2024.

Exhibit 9: Top 10 holdings at 31 January 2025

Company	Sector	Portfolio weight (%)			Percentage point change since:	
		31-Jan-25	30-Jun-24	31-Dec-23	30-Jun-24	31-Dec-23
HSBC	Banks	3.3	3.0	2.8	0.3	0.5
Flutter Entertainment	Travel & leisure	3.3	2.2	2.2	1.1	1.1
Barclays	Banks	3.2	2.6	2.0	0.6	1.2
Shell	Oil & gas producers	3.1	3.6	3.3	(0.5)	(0.2)
Rolls Royce	Aerospace & defence	2.4	4.0	3.9	(1.6)	(1.5)
BP	Oil & gas producers	2.2	2.7	2.7	(0.5)	(0.5)
GlaxoSmithKline	Pharmaceuticals	2.1	2.5	2.1	(0.4)	0.0
Standard Chartered	Banks	1.9	1.4	1.3	0.6	0.6
Tesco	Grocery & general retail	1.7	1.5	1.5	0.2	0.2
Rio Tinto	Mining	1.7	2.0	2.3	(0.3)	(0.6)
Total		24.9	25.4	24.1	(0.5)	0.8
Weight of actual top 10 holding at period-end		24.9	26.1	25.1	(1.2)	(0.2)

Source: The Law Debenture Corporation

Sector weightings represent an output from stock selection rather than being a target in themselves. Combining the portfolio ungeared beta of 1.1 at end-2024 with the trust's gearing indicates likely outperformance in a rising market.

Exhibit 10: Sector weighting at 31 January 2025

	Portfolio weight (%)			Benchmark weight	Change in portfolio weight since:	
	31-Jan-25	30-Jun-24	31-Dec-23		31-Jan-25	30-Jun-24
Financials	28.7	25.4	27.4	30.2	3.3	1.3
Industrials	22.6	25.5	25.6	12.1	(2.9)	(3.0)
Oil & gas	9.0	10.6	10.3	9.5	(1.6)	(1.3)
Consumer goods	8.6	8.7	7.8	11.1	(0.1)	0.8
Basic materials	5.0	5.4	6.0	5.7	(0.4)	(1.0)
Health care	5.9	5.5	6.0	11.6	0.4	(0.1)
Consumer services	13.0	11.3	10.4	13.7	1.7	2.6
Utilities	3.1	3.6	3.1	3.6	(0.5)	0.0
Telecommunications	2.2	2.2	1.9	1.1	0.0	0.3
Technology	1.9	1.8	1.5	1.3	0.1	0.4
Total	100.0	100.0	100.0	100.0	0.0	0.0

Source: The Law Debenture Corporation

Performance drivers in 2024

LWDB's market cap positioning, underweight in the largest stocks, and overweight in small- and midcap stocks created some headwind for performance in 2024, with AIM-listed stocks (-c 4%) continuing to lag the market materially. Stock selection provided the trust's outperformance, with some additional support from gearing.

Exhibit 11: Market cap weightings and performance

	Performance (%)		LWDB weight Dec-2024 (%)	UK market weight Dec-2024 (%)
	2024	2023		
Top 100	9.7	7.9	52	85
UK mid-market	8.0	7.9	21	13
UK small cap	10.7	6.7	5	2
Broad UK market	9.4	7.9	78	100
Other (predominantly AIM)	N/A	N/A	11	N/A
Overseas	N/A	N/A	11	N/A

Source: Law Debenture, LSEG Data & Analytics

It is interesting to note that among the five best performing stocks over the year, three (Rolls-Royce, Flutter Entertainment, and Marks & Spencer) pay low dividends or none at all. It is the income contribution from IPS that provides the managers with the flexibility to hold such positions, providing a clear demonstration of the advantages of LWDB's unique structure. Marks & Spencer and Rolls-Royce are good examples of the investment managers identifying the turnaround potential of the business, supported by refreshed management teams, before it became recognised in the valuation of the shares. In combination, revaluation and improved earnings drove strong gains. The performance of Flutter Entertainment, which pays no dividend, has been driven by strong business growth, particularly in the US market. Barclays and NatWest (and other large bank holdings) continued to benefit from increased interest margins, as higher interest rates continued to feed through, with credit quality remaining very benign. The yields on the banks are relatively high and, additionally, the excess of retained earnings over the capital required for lending growth has funded share repurchases across the sector.

Exhibit 12: Top 5 portfolio gainers over one year

Stock	Appreciation (£m)	Appreciation (%)
Rolls-Royce	24.3	65.3
Barclays	13.7	72.3
Flutter Entertainment	12.6	58.3
NatWest	10.3	72.5
Marks & Spencer	7.7	35.1

Source: The Law Debenture Corporation

AFC Energy was the largest individual detractor during 2024. It is a designer and manufacturer of hydrogen fuel cells in applications such as construction sites, with the aim to replace traditional fuel sources such as diesel generators with a low-carbon alternative. The shares weakened because the commercial roll-out of the technology has been slower than expected, but the investment managers continue to see AFC's technology as having a role in the route to net zero.

Rio Tinto and BP suffered from a subdued period for commodity prices. Both have a role in diversifying the portfolio, providing something of a natural hedge to sizeable positions in commodity consumers such as industrial goods manufacturers.

Unlike the other three large loss-making stocks, the weakness in Vanquis Bank and Next Fifteen was more company specific. Vanquis Bank is one of several companies exposed to the issue of motor finance commission payments, the subject of both regulatory and legal scrutiny. The marketing consultancy group Next Fifteen was badly affected by the unexpected ending of a very large customer contract.

Exhibit 13: Top five losses over one year

Stock	Depreciation (£m)	Depreciation (%)
AFC Energy	(4.9)	(57.6)
Rio Tinto	(4.2)	(19.2)
Vanquis Banking Group	(4.2)	(68.2)
BP	(4.2)	(15.7)
Next Fifteen Communications	(3.2)	(55.1)

Source: The Law Debenture Corporation

Key portfolio activity

Among new positions added during the year were food retailer Sainsbury, fund manager Schroders, auto components manufacturer Dowlais, and copper producer Freeport-McMoRan. These are all companies where the investment managers identified a strength of management and scope for growing earnings that was not reflected in the valuation of their shares.

Significant sales provide useful examples of LWDB's disciplined investment process. As valuations and/or earnings forecasts move higher, as the prospects for a company have become better understood, or where strong stock performance disturbs the balance and risk management of the portfolio, holdings are gradually reduced and the proceeds recycled. Hence, while Rolls-Royce remained a top 10 holding in January, during 2024 the position was gradually reduced, generating sales proceeds of £38m. This was also the case with Marks & Spencer, which was a top 10 holding mid-year, generating sales proceeds of £14m. In January 2025, the position in Flutter Entertainment was reduced.

The high level of corporate activity across the market was also the cause of divestment. This included the position in DS Smith (which was sold following the agreed takeover by US-listed International Paper), Hipgnosis Songs Fund (which was sold following the agreed takeover by Blackstone) and International Distribution Services (better known as Royal Mail, which was sold following the agreed takeover by private equity).

Current valuation and performance metrics

In Exhibit 2 above we show a comparison of LWDB's share price total return performance versus its six larger peers within the AIC UK Equity Income sector.

In the table below we show a range of additional data and include a wider list of 17 sector constituents. LWDB ranks first in terms of NAV total return over five and 10 years and is above the median over one and three years. It has the highest price to NAV in the group and the lowest cost structure (17th out of 17). It is on dividend yield where LWDB scores lowly versus peers, but it has the second highest five-year dividend growth. The lower yield reflects the investment strategy of balancing immediate income returns with long-term capital growth, compensated for by much faster dividend growth and well-above average capital growth.

Net gearing is among the highest in the group, although it reduced during 2024 (to c 11% from c 13% at the end of 2023) as a result of asset appreciation. The trust is structurally geared through four tranches of long-term debt (par value of £165m), with maturities ranging between 2034 and 2050, at a blended interest rate of c 4.0%. Gearing is one of the benefits of the investment trust structure and allows the fund to continue to be a net investor during periods of market volatility when the managers may not wish to sell other holdings. As income investors, there is often an immediate 'carry' in using borrowings at relatively low rates of interest to invest into higher yielding assets. With investment portfolio returns well above the cost of borrowing in 2024, gearing had a clearly positive impact.

Exhibit 14: Selected UK Equity Income peer group as at 12 March 2025 (% unless stated otherwise)

Trust	Market cap (£m)	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	NAV TR 10 years	Premium/ (discount)	Ongoing charges	Net gearing	Dividend yield	5-year DPS growth
Law Debenture Corporation Ord	1,181	9.5	21.2	101.6	115.9	1.2	0.5	112	3.8	5.2
City of London Ord	2,181	16.9	35.3	91.7	81.1	(1.6)	0.4	108	4.7	2.1
Edinburgh Investment Ord	1,070	12.9	33.3	108.9	65.5	(10.0)	0.5	108	3.7	(0.6)
Finsbury Growth & Income Ord	1,311	5.5	24.0	55.2	102.0	(6.6)	0.6	102	2.2	3.4
Murray Income Trust Ord	819	3.9	20.3	64.3	76.3	(10.1)	0.5	112	4.6	2.5
Merchants Trust Ord	778	9.5	16.8	100.2	77.1	(5.6)	0.5	115	5.4	1.8
Temple Bar Ord	830	22.3	44.4	116.8	77.8	(3.7)	0.5	108	3.7	1.8
Average (market cap > £500m)	1,165	11.8	29.0	89.5	80.0	(6.3)	0.5	109	4.1	1.8
LWDB position	3	4	5	3	1	1	6	2	4	1
abrdn Equity Income Trust Ord	153	17.2	10.6	56.4	25.7	(1.1)	0.9	116	7.2	2.2
BlackRock Income and Growth Ord	39	10.0	26.5	79.3	67.4	(10.3)	1.2	108	2.5	(7.4)
Chelverton UK Dividend Trust Ord	32	4.7	(8.9)	49.2	30.4	1.0	2.7	161	9.2	7.0
CT UK Capital and Income Ord	316	4.0	22.7	65.0	83.9	(3.7)	0.7	104	4.0	1.9
CT UK High Income Ord	81	14.7	34.8	76.0	63.4	(3.4)	1.1	105	5.8	2.2
Diverse Income Trust Ord	212	11.3	(0.5)	46.2	65.2	(5.1)	1.1	96	4.7	3.1
Dunedin Income Growth Ord	372	4.3	23.6	68.0	71.9	(10.1)	0.6	110	4.9	2.0
JPMorgan Claverhouse Ord	400	13.4	26.0	79.4	74.5	(6.1)	0.7	109	4.9	4.1
Lowland Ord	317	8.0	17.8	64.4	47.2	(7.4)	0.7	114	5.0	1.5
Schroder Income Growth Ord	202	13.8	25.7	92.3	72.8	(9.8)	0.8	113	4.9	2.7
Shires Income Ord	98	11.4	19.6	68.2	72.7	(8.1)	1.1	117	5.9	1.8
All sector average	577	11.7	22.3	76.1	66.8	(7.8)	0.8	113	5.2	2.5
LWDB all-sector position	3	11	10	1	1	1	17	7	16	2

Source: Morningstar data

Law Debenture's approach to ESG

LWDB approaches ESG issues in a variety of ways. On the investment side, the investment managers consider ESG matters as part of their fundamental analysis. They focus on the ability of companies to identify and manage key ESG issues and risks, especially those that may have a significant impact on their financial or operating performance. The investment team proactively engages with the senior management of companies to identify ESG issues and risks and to monitor progress with measures to address these. The approach to investment is not proscriptive and the managers will consider investment in companies with weaker ESG risk profiles, provided there is a process of improvement underway.

At the same time, they are prepared to exit positions where the expected improvements are not delivered. Additionally, the investment managers continue to support companies, in many cases early stage, that provide innovative and immediate ESG benefits. We would particularly highlight investments in the renewable energy and sustainable building materials sectors.

In its oversight position, the board regularly reviews the portfolio's ESG profile including recent engagement examples. As the quality and consistency of data that underlies ESG ratings systems evolves, this is likely to play an increasing role in investment policy.

While investment trusts would not normally have employees or physical infrastructure, this is not the case for LWDB with its IPS business. Many of the IPS operational areas are built upon the provision of independent governance services. Although this is relatively small, the firm monitors its carbon footprint and within the IPS business itself. The move to a new 'green' head office building in 2020 allowed for the digitisation of decades of paperwork and a move to new, more carbon efficient, paperless ways of working. Building on the experience of the pandemic, virtual meeting solutions are used where appropriate. As part of its commitment to the ESG agenda, LWDB has voluntarily chosen to adopt the Task Force on Climate-Related Financial Disclosures.

At the corporate level, LWDB has made significant progress in the areas of diversity and inclusion.

What does IPS do?

Pensions

The pensions business was established more than 50 years ago, initially as a pensions trustee, where it remains the largest, as well as the longest established, independent pension trustee in the UK. The pension trustee business is complemented by its fast-growing Pegasus operation, launched in late 2017. It provides a broad range of outsourced pensions executive services, from secretarial through to fully outsourced pension scheme management, which are especially relevant to smaller or closed/legacy pensions schemes.

The growth of the business is underpinned by the demand for high-quality expertise to navigate an increasing regulation and complexity, increasing the burden on trustees and in-house pensions teams. There is also room for market share growth, although LWDB is already the largest independent trustee in the UK, with a market share of no more than 5%. While many large pension schemes have a professional trustee appointed to their board, around 50% of schemes in the UK (mainly small- to medium-sized companies) have not yet appointed a professional trustee.

Corporate Trust

Law Debenture was incorporated to act as a bond trustee in 1889, the role of which is to act as bridge between the issuer of a bond and the individual bondholders. The responsibilities as bond trustee can vary materially, whether servicing performing or defaulted bond issues. LWDB's corporate trust business is the UK's leading independent (ie non-bank with no financial involvement in transactions) corporate bond trustee, with many decades of experience and deep market connections, operating internationally to provide trustee services to a broad range of debt issuance markets. LWDB is seeking to leverage its independence to broaden and deepen its relationships with clients, law firms and financial institutions and to raise its market profile.

As an established business, with a strong reputation and solid, liquid balance sheet, LWDB is well-placed to offer escrow services, which continues to build momentum and broaden its offering. These are increasingly used to support corporate M&A transactions, corporate disposals, litigation, global trading and property transactions, but the range of applications is wide.

Corporate Services

The Corporate Services business comprises a broad range of activities that further enhance the diversification of IPS. The key activities are:

- **Corporate secretarial services**, the demand for which is underpinned by the worldwide efforts of law-makers and regulators to continually raise the bar for corporate governance standards. Within this business, **managed services** provides global entity management services to more than 350 clients, acting as a single point of contact to ensure that overseas legal entities are kept in good order with respect to compliance and corporate records; **corporate**

governance services provides a complete range of board and committee support from full outsourced company secretarial support to attending and minuting meetings, board evaluations and governance reviews; and **interim resourcing** provides immediate access to qualified governance professionals, whether on-site or remote, full time or part time, as required by the client.

- **Structured finance** provides accounting and administrative services to special service vehicles and other corporate structures set up to acquire assets. Typical buyers would include financial institutions such as boutique asset managers, hedge funds or challenger banks wishing to gain risk exposure to a particular asset type, for example aircraft leases or mortgages, or companies being established as part of a corporate acquisition. Although new issuance has recently been challenged by market conditions, the UK securitisation market is one of the largest and most developed securitisation markets in Europe and an important source of finance for UK businesses. LWDB is a relatively small player in this market, which is dominated by the larger providers with long-established relationships. LWDB is therefore seeking to leverage the acknowledged quality of its offering by raising its profile with a broader universe of clients.
- **Specialist external whistleblowing services via Safecall**, which, as with many other IPS businesses, has the benefit of structural tailwinds, from an acceleration of the emerging regulatory frameworks and standards. Early adopters were often larger entities, but smaller and mid-sized employers are increasingly seeing the value of an independent and trusted partner to deliver this service, where Safecall is positioned as a premium provider of a high-quality product.
- **Service of process**, where LWDB acts as local agent for third parties all over the world that are not otherwise represented in that jurisdiction. It is a high-volume business, with well over 50,000 appointments on the books at any one time, but given the short-term nature of many of these, SoP has the lowest recurring contractual revenue base of all the IPS businesses and is one of the most sensitive to global macroeconomic trends. It nonetheless generates highly attractive returns for LWDB over time.

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