



# **L** LawDebenture

Grow the capital and the income will follow  
James Henderson  
December 2024



# 1. Law Debenture's investment proposition

<p><b>135 years of history</b></p>	<p><b>Consistent dividend growth</b></p> <p>45 years of increasing or maintaining dividends to shareholders (113% increase in dividend over the last ten years)</p> <p>7.9% CAGR of dividend over the last 10 years</p> <p>4.9% increase in 2023 DPS (2022: 5.2%)</p> <p>39% of total 2023 (2022: 25%) dividend funded by our Independent Professional Services business</p>	<p><b>IPS enables greater flexibility in portfolio holdings</b></p> <p>IPS accounts for 20% of the 2023 NAV but has funded 34% of dividends over the last 10 years</p> <p>Portfolio differentiators:</p> <ul style="list-style-type: none"><li>• Ability to hold zero/low dividend yield shares (eg; Ceres, ITM, Herald)</li><li>• Ability to avoid high dividend yield industries in structural decline (e.g. BAT)</li><li>• Ability to invest flexibly overseas</li></ul>
<p><b>Long-term track record</b></p> <p>of value creation for shareholders</p>		
<p><b>Strength and diversity of income</b></p> <p>Flexibility and valuation uplift from IPS + consistent portfolio outperformance</p>		
<p><b>Focus on delivering long-term outperformance</b></p> <p>Outperformance of our benchmark, the FTSE Actuaries All-Share Index, by 52.0% over ten years (47.6% over five years and 2.4% over three years)</p> <p>Low ongoing charges ratio of 0.49% compared to industry average of 1.20%</p>	<p><b>IPS has a proven record of growth under the management team</b></p> <p>CAGR of 11.3% in net revenue and 8.7% in profit before tax over last five years</p> <p>Ambition to grow profits of IPS by mid to high single percentage growth</p> <p>IPS valuation has increased by 111.4% between 2018 and 2023 to £185.1m</p>	<p><b>UK weighting (88% portfolio) has potential to outperform</b></p> <p>UK has lagged global stock markets in recent years</p> <p>Around 75% earnings of the FTSE 100 come from outside the UK</p> <p>Significant UK valuation discount has attracted M&amp;A activity</p>



## 2. Law Debenture: A highly differentiated and unique business model

Portfolio	Independent Professional Services (IPS) business
<b>c.80% of NAV*</b> <i>including IPS and long-term borrowings at fair value<sup>1</sup></i>	<b>c.20% of NAV*</b> <i>including IPS and long-term borrowings at fair value<sup>1</sup></i>
Managed by James Henderson and Laura Foll of Janus Henderson	
<b>OBJECTIVE: LONG-TERM CAPITAL GROWTH IN REAL TERMS AND STEADILY INCREASING INCOME</b>	<b>PENSIONS</b>
<ul style="list-style-type: none"><li>– Focused on long-term returns</li><li>– Low ongoing charges ratio at 0.49%<sup>2</sup> compared to industry average of 1.20%<sup>3</sup></li><li>– Contrarian investment style:<ul style="list-style-type: none"><li>• High quality companies with strong competitive advantage at attractive valuations</li><li>• Out of favour equities standing at valuation discounts to their long-term historical average</li></ul></li><li>– Selective, bottom-up approach</li><li>– Diversified portfolio by sector (predominant UK weighting)</li></ul>	<p>The longest established and one of the largest UK providers of pension trustee services</p>
	<b>CORPORATE TRUST</b>
	<p>A leading independent corporate trustee across international capital markets</p>
	<b>CORPORATE SERVICES</b>
	<p>Range of outsourced solutions to corporates internationally</p>
	<b>INTERNATIONAL PRESENCE:</b>
	<p>United Kingdom, New York, Ireland, Hong Kong, Delaware, Cayman Islands and Channel Islands</p>
	<p>We believe that all divisions have potential for further growth in expanding markets. Our plan to achieve this is by increasing our market share through better leveraging of technology, our strong relationships and our brand</p>
<b>Significant, consistent income contribution from IPS gives greater flexibility in stock selection</b>	

### 3. Investment Portfolio: Outperformance over 1, 3, 5 and 10 years as at 30 September 2024\*



	YTD %	1 year %	3 years %	5 years %	10 years %
NAV total return (with debt at par) <sup>1</sup>	13.7	17.2	18.9	53.3	125.2
NAV total return (with debt at fair value) <sup>1</sup>	13.5	15.6	27.6	67.0	138.0
FTSE Actuaries All-Share Index Total Return <sup>2</sup>	9.9	13.4	23.9	32.2	83.6
Share price total return <sup>2</sup>	14.3	15.4	31.8	87.4	151.0
Change in Retail Price Index <sup>3</sup>	2.9	3.5	26.3	34.0	51.4

<sup>1</sup> NAV is calculated in accordance with the Association of Investment Companies (AIC) methodology, based on performance data held by Law Debenture including the fair value of the IPS business and long-term borrowings.

<sup>2</sup> Source: Refinitiv.

<sup>3</sup> Source: Office for National Statistics, subject to latest published RPI, August 2024.

- So far in 2024, the Group issued ~600k new ordinary shares at a premium to NAV to existing and new investors. Since our share issuance programme began in February 2021, the net proceeds of the programme are ~£100m which are used to support ongoing investment.
- Continued low ongoing charges of 0.48%, compared to the industry average of 1.21%.
- Total 2023 dividend was 32.0p per share up 4.9% on the prior year. First two interim dividends for 2024 of 8.0 pence per ordinary share have been declared and paid.

What does the combination with IPS bring to the portfolio?

Key driver of long-term outperformance – allows flexibility to:

- Hold zero/low dividend yield shares; and
- Avoid high dividend yield industries in structural decline.

Underpins the dividend of the Trust – this was particularly important in years like 2020 and 2021.

**Past performance is not necessarily a guide to future performance.**

\* NB: based on the valuation of IPS as at 30 June 2024

## 4. Investment Portfolio: Long-term performance to 30 September 2024



	1 yr	3 yrs	5 yrs	10 yrs	25 yrs
Law Debenture	15.4	31.8	87.4	151.0	904.1
UK Equity income WA	13.0	18.8	29.3	72.5	427.2
City Of London	16.6	32.0	34.6	87.3	406.7
Edinburgh Investment Trust	16.8	38.5	58.7	86.7	362.1
Finsbury Growth & Income	3.4	4.9	1.6	108.4	819.6
Murray Income	13.2	34.6	35.5	85.9	680.1
Merchants Trust	15.2	26.6	57.7	109.1	473.4
Temple Bar	17.6	41.3	30.6	62.9	546.4
UK smaller companies WA	23.4	(12.4)	29.0	106.2	705.4
UK Equity and bond income WA	11.2	19.5	33.7	64.4	216.6
UK All companies WA	23.5	(0.7)	28.4	75.6	433.8
FTSE All Share	13.4	23.9	32.2	83.6	275.5

Source: Datastream, J.P. Morgan Cazenove

WA = Weighted Average

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Dividends (pence)	15.70	16.20	16.70	17.30	18.90	26.00	27.50	29.00	30.5	32.0 <sup>2</sup>
Share price (pence) <sup>1</sup>	530.0	498.0	530.0	629.0	540.0	650.0	690.0	799.0	771.0	801.0
(Discount)/premium (%) <sup>1</sup>	(2.3)	(5.1)	(11.4)	(6.0)	(12.1)	(7.4)	3.6	1.4	1.2	(0.2)
NAV at fair value (pence) <sup>1</sup>	542.3	524.5	598.5	669.5	614.1	702.2	666.2	787.8	761.7	802.7
Market capitalisation (£m) <sup>1</sup>	627.1	589.3	627.2	744.5	639.3	769.8	817.3	982.1	984.4	1,046.1

<sup>1</sup> At 31 December calculated in accordance with AIC methodology, based on performance data held by Law Debenture including fair value of IPS business and long-term borrowings.

<sup>2</sup> Proposed total dividend for 2023.

Past performance is not necessarily a guide to future performance

## 5. IPS: What Professional Services businesses make up IPS?



<p><b>Pensions</b></p> <p>The longest established and largest provider of independent pension trustees in the UK</p>	<p><b>Corporate Trust</b></p> <p>A leading independent corporate trustee across international capital markets</p>	<p><b>Corporate Services</b></p> <p>Highly regarded range of outsourced solutions to corporates Including</p> <ul style="list-style-type: none"> <li>- Company Secretarial</li> <li>- Accounting</li> <li>- Service of Process</li> <li>- Whistleblowing</li> </ul>
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DIVISION	Net revenue <sup>1</sup> 30 June 2024 £000	Net revenue <sup>1</sup> 30 June 2023 £000	Growth 2023/2024 %
Pensions	8,957	8,597	4.2%
Corporate Trust	6,434	5,818	10.6%
Corporate Services	10,837	9,693	11.8%
<b>Total</b>	<b>26,228</b>	<b>24,108</b>	<b>8.8%</b>

<sup>1</sup> Revenue shown is net of cost of sales.

- Trusted, professional and independent.
- High quality reputation and brand strength in core markets.
- Excellent record of customer retention.
- Strong repeat revenues, around two thirds from on-going contractual commitments.
- Cost base kept under control.
- IPS grew its net revenues by 8.8% for the year to 30 June 2024, with PBT up 8.2% in the same period.

## 6. IPS: Five-year performance

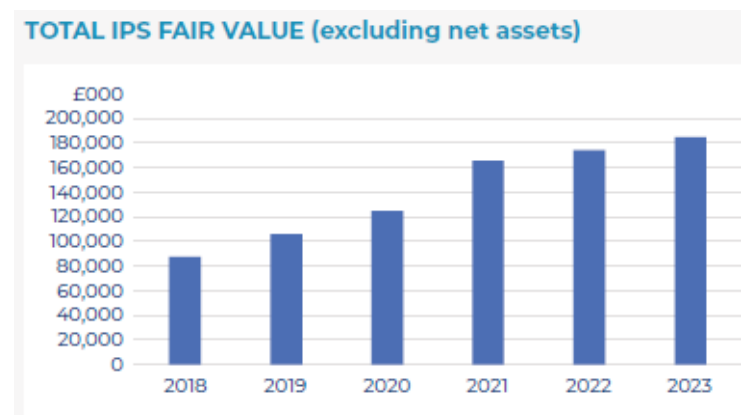


DIVISION	Net revenue 2019 £000	Net revenue 2020 £000	Net revenue 2021 £000	Net revenue 2022 £000	Net revenue 2023 £000	Growth 2022/2023 %
Corporate trust	9,024	10,789	9,771	10,620	12,473	17.4%
Pensions	10,598	11,479	13,060	14,343	17,396	21.3%
Corporate services	12,167	12,226	18,755	20,206	20,640	2.1%
<b>Total</b>	<b>31,789</b>	<b>34,494</b>	<b>41,586</b>	<b>45,169</b>	<b>50,509*</b>	<b>11.8%</b>

\*Total net revenue is calculated by reducing segment income of £58,543k by cost of sales of £8,034k. Please refer to note 6 for the IPS segmental analysis. Corporate services: 2021 includes additional revenue arising from the acquisition of the CSS business from Eversheds Sutherland (International) LLP.

- Diverse mix of revenue streams has held up relatively well in the light of challenging economic conditions such as the Russia/Ukraine war and Israel/Hamas.
- Objective of mid to high single digit organic growth which has been consistently delivered against the backdrop of COVID-19 and a challenging global economic backdrop, highlighting the strength and diversity of the revenue base.
- The fair value of the IPS business has increased by 111.4% between 2018 and 2023 to £185.1m.

### TOTAL IPS FAIR VALUE (excl. net assets)



## 7. IPS: In Summary



- **Favourable cash generating characteristics:**
  - High margins and high return on capital.
  - Proven track record of delivery of mid-to-high single digit growth.
  - Approximately 2/3 of revenues are highly repeatable.
  - Strong free cash flow offers bolt-on/cash reinvestment opportunities and underpins the dividend.
- **But we must invest to maintain and circulate the growth:**
  - On-going investment in technology/quality of service, people, reputation and clients.
  - Increased and more proactive promotion of our businesses and a focus on new products.
  - Continue to strengthen our team to support our growth objectives, with an eye always to the bottom line.
- **And we must explain ourselves better:**
  - Pro-active in our engagement with our stakeholders, enhancing our communication and improving transparency to better tell the Law Debenture story.





## 8. Investment Portfolio: Investment approach

- Investment objective: long term capital growth in real terms and steadily increasing income.
- Selective, bottom-up approach, deliberately diversified by sector and geography.
- Valuation-driven process, aims to identify **market leading, high quality companies that are undervalued at the point of purchase.**
- Overseas stocks used selectively where there is no UK equivalent eg Toyota.

## 9. Investment Portfolio: Drivers of absolute performance over nine months (to 30<sup>th</sup> September 2024)



### Largest five absolute contributors:

Company	Six month share price total return (%)
Rolls-Royce	60.0
Barclays	45.6
Natwest	53.0
Marks & Spencer	33.4
Flutter Entertainment	29.0

### Largest five absolute detractors:

Company	Six month share price total return (%)
BP	-16.0
AFC Energy	-48.9
Vanquis Banking Group	-29.6
Next Fifteen Comms. Group	-45.6
Surface Transforms	-96.1

Based on performance for the six months to end September. Source: Law Debenture

## 10. Investment Portfolio: Drivers of long-term outperformance



Largest stock contributors to relative performance over 5 years:
1. Ceres Power
2. Rolls-Royce
3. Diageo (not held)
4. Applied Materials
5. Flutter Entertainment
6. Unilever (underweight)
7. Marks & Spencer
8. Croda (no longer held)
9. Reckitt Benckiser (not held)
10. BP (underweight)

### Key drivers of outperformance:

- Ability to hold zero/low dividend yield shares (eg Ceres Power, Rolls-Royce, Flutter Entertainment)
- Ability to avoid high dividend yield industries that are low growth (eg Unilever)
- Ability to go flexibly overseas (eg Applied Materials)

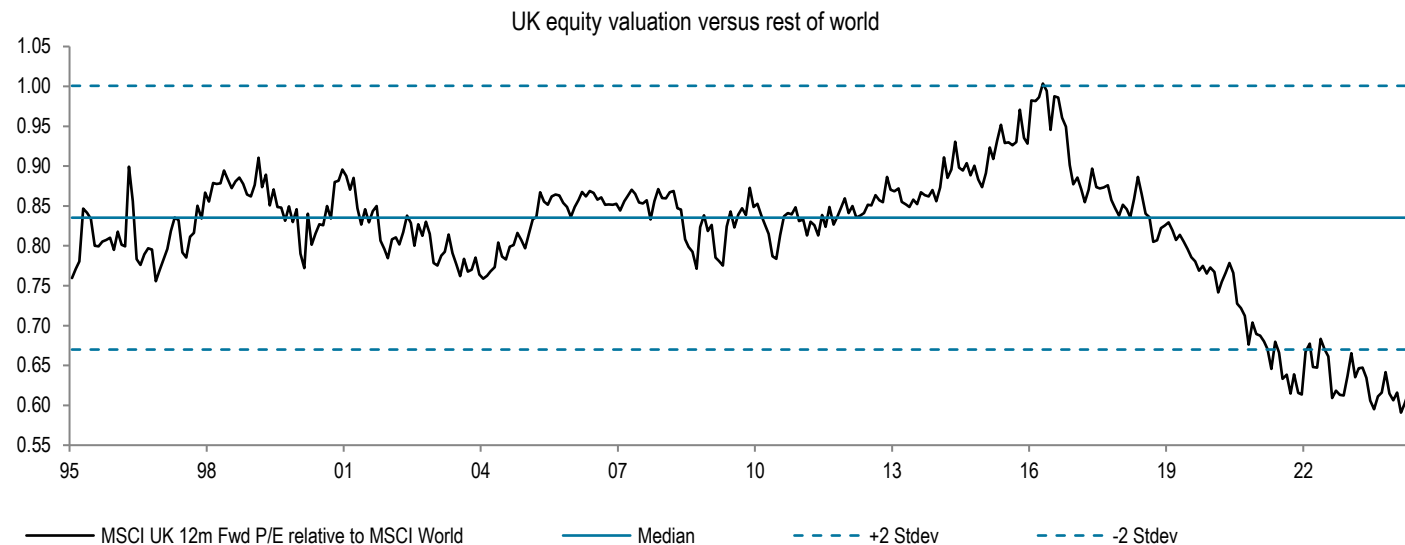
Based on performance as at 30<sup>th</sup> June 2024. Source: Janus Henderson

## 11. Investment Portfolio: What have we been doing?



Adding to the UK weighting:

- 89% of the portfolio invested in the UK\*
- UK equities trading at their largest discount to MSCI World in over 25 years (see chart below).
- Recent portfolio takeover activity helps validate our view (eg bids for IDS, DS Smith, Anglo American, Direct Line)

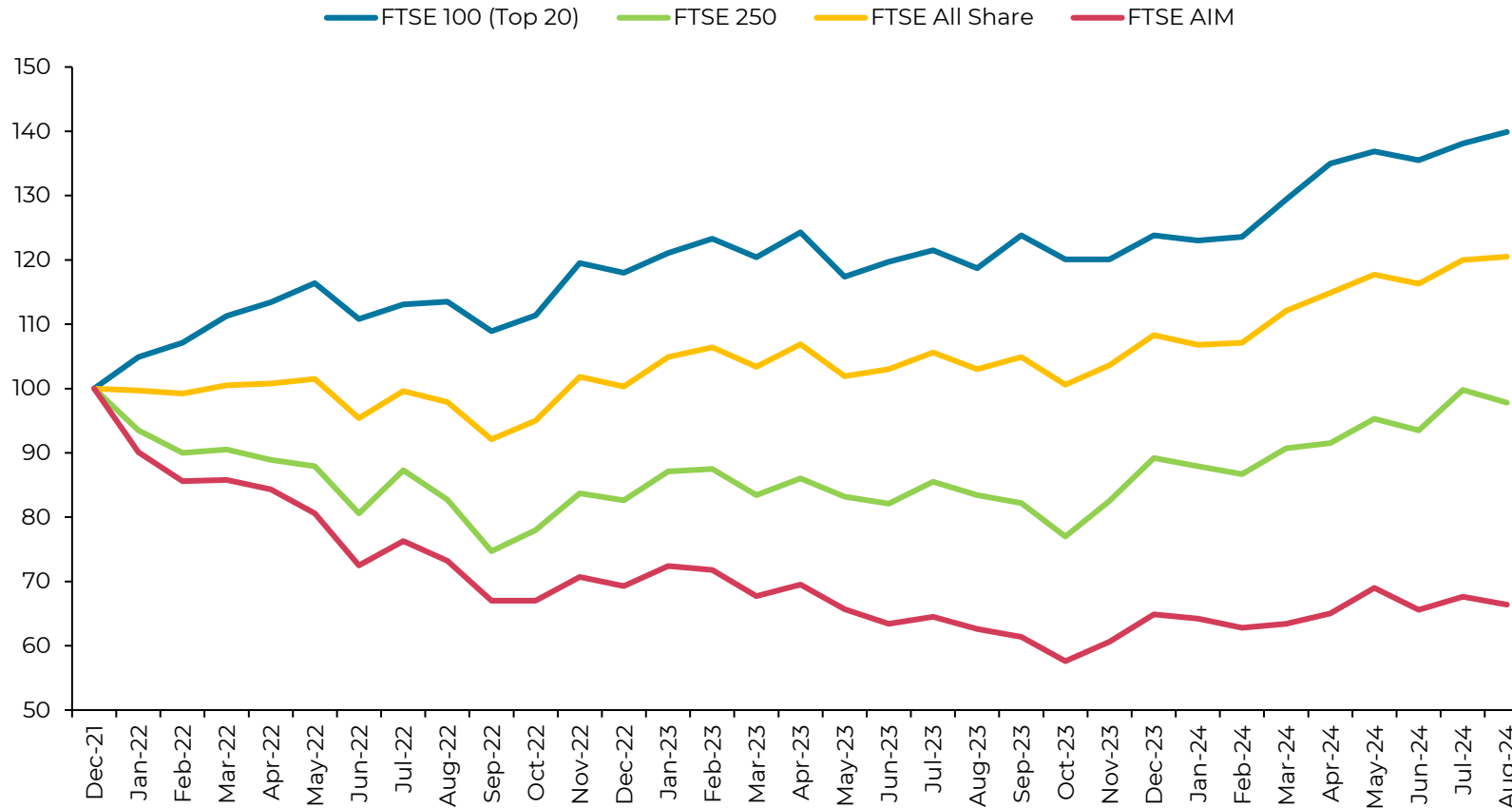


\*Source: Law Debenture as at 30<sup>th</sup> September 2024.  
Chart is sourced from JP Morgan and Janus Henderson as at 30<sup>th</sup> June 2024. P/E = price/earnings per share.

## 12. Investment portfolio – what have we been doing?



Small and medium sized companies may be the opportunity – the divergence in returns has been extreme:



Source: Bloomberg, Janus Henderson Analysis, as at 31 Aug 2024.

Notes: Returns shown on a total return basis and rebased to 100 as at 31 December 2021.

**Past performance does not predict future returns.**

### 13. Investment Portfolio: What have we been doing?

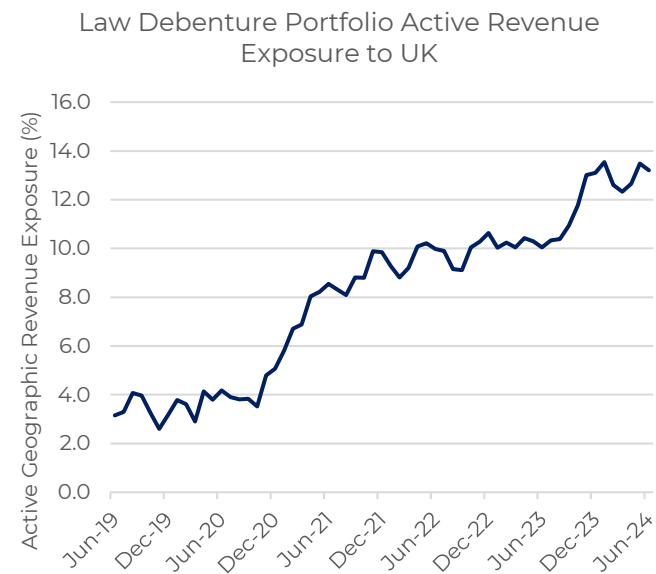


Where have we been adding:

- Property eg Shaftesbury Capital, Workspace
- Next generation technologies eg AFC Energy, Ceres Power
- Flutter Entertainment
- Freeport-McMoRan

Where have we been reducing:

- US holdings eg Applied Materials, Caterpillar (both sold)
- Profit taking eg BAE Systems (reduced)



Source for graph: Janus Henderson Investors as at 30<sup>th</sup> September 2024.

**References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable.**

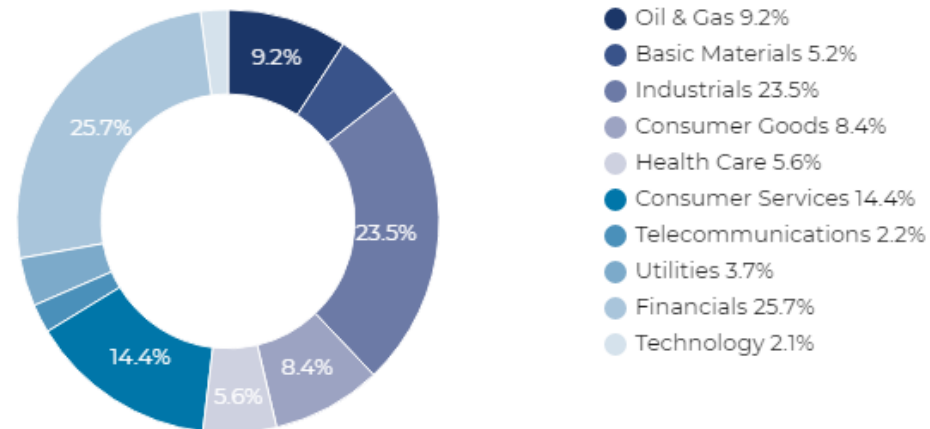
## 14. Investment Portfolio: Current positioning as at 30 September 2024



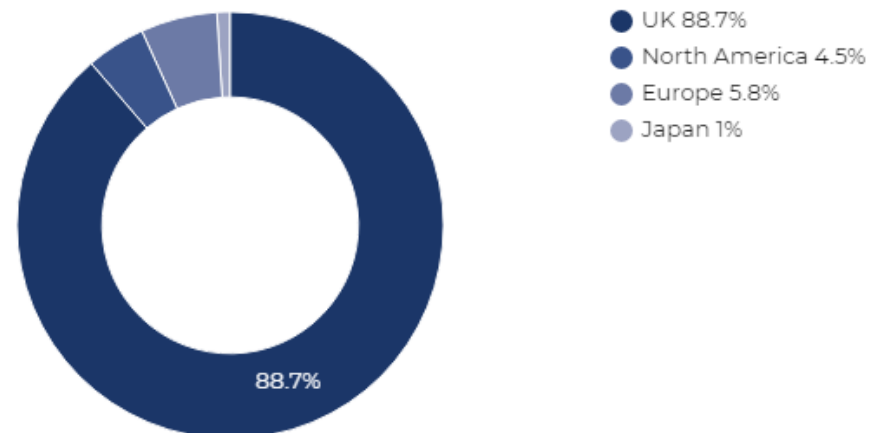
### Top 15 Holdings

Top Equity Portfolio Holdings (%)		
1	Flutter Entertainment	3.3
2	Shell	2.9
3	Rolls Royce	2.9
4	HSBC	2.8
5	Marks & Spencer	2.5
6	Barclays	2.4
7	GlaxoSmithKline	2.4
8	BP	2.1
9	Rio Tinto	1.9
10	Tesco	1.7
11	National Grid	1.7
12	NatWest	1.6
13	Standard Chartered	1.4
14	Kingfisher	1.4
15	BT Group	1.4

Sector distribution of portfolio by value



Geographical distribution of portfolio by value



Source: Law Debenture. Portfolio as of 30 September 2024.

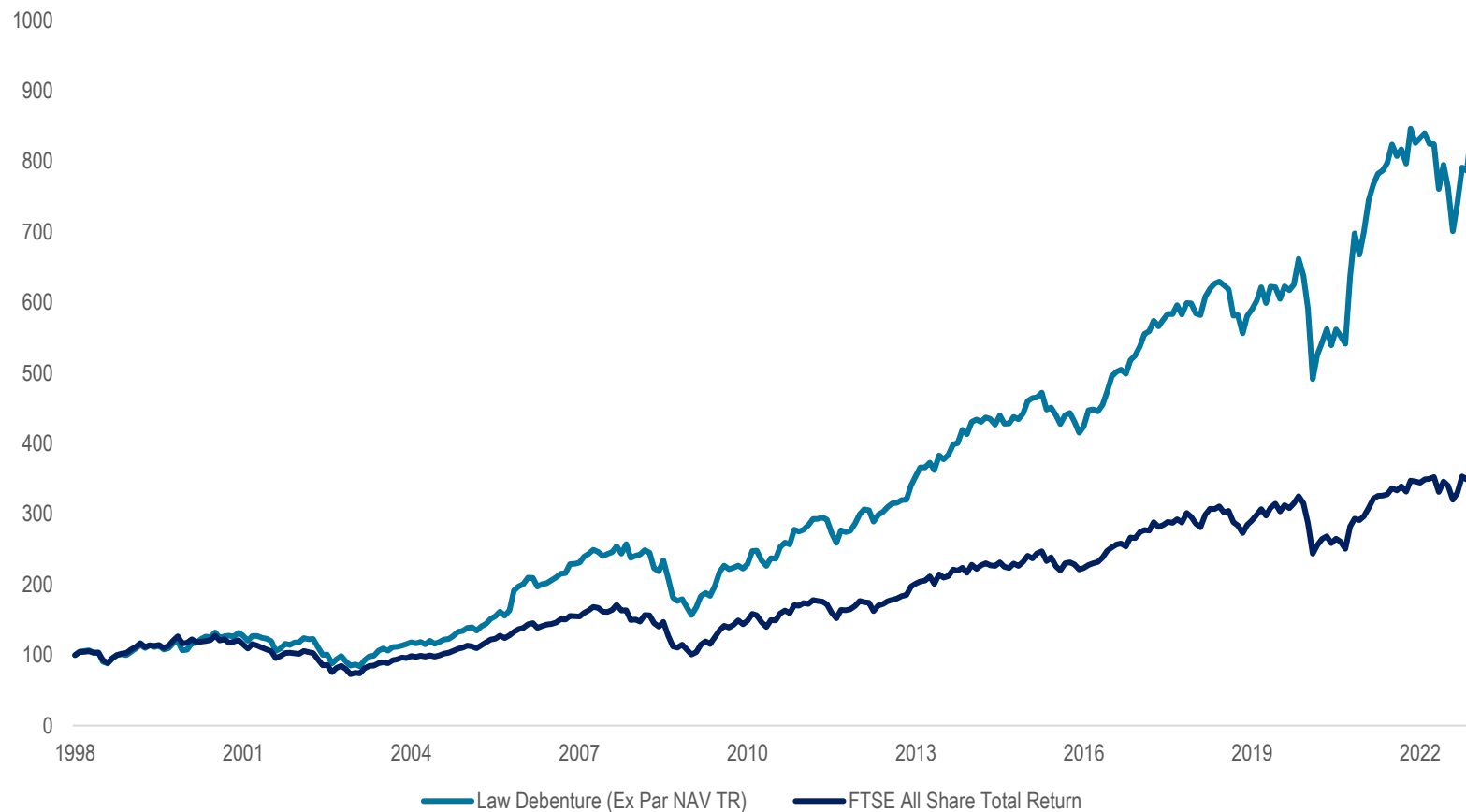
## 15. Investment Portfolio: Conclusion



- We are seeking market leading, high-quality companies that are currently undervalued – at the moment we are finding no shortage of opportunities.
- The portfolio valuation is low versus history and the economic backdrop may not prove as bad as feared.
- We need to use the full flexibility that the combined Law Debenture Group allows to take advantage of the current opportunities.



## 16. Investment Portfolio: Longer term performance



Source: Morningstar, Janus Henderson, as at 28<sup>th</sup> February 2023. Performance shown from 28<sup>th</sup> February 1998 on monthly Ex Par NAV total return basis.

Past performance is not necessarily a guide to future performance.

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