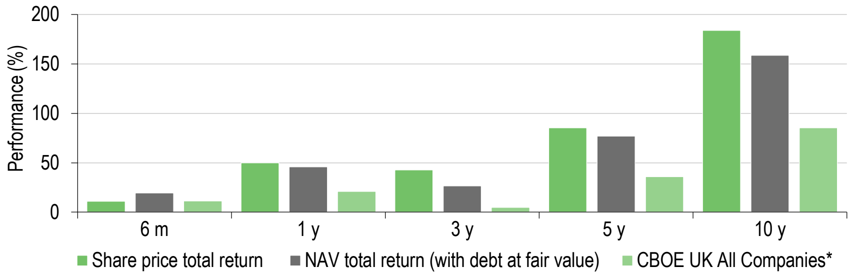
The Law Debenture Corporation

See the difference

The Law Debenture Corporation (LWDB) has reported on a successful first six months of 2021, building on its long track record of outperformance versus the benchmark over one, three, five and 10 years. Additionally, in its 42nd year of maintained or increased dividends, Q121 DPS increased by 5.8%. The portfolio benefited from its exposure to UK and international economic recovery and the IPS business delivered strong revenue growth and earnings growth in line with the mid- to high single-digit target.

Outperforming the broad UK index over one, three, five and 10 years



Source: Refinitiv, Morningstar, Edison Investment Research. Sterling total returns to 30 June 2021. Note: *Performance is similar to the FTSE All-Share Index benchmark (not shown).

Why consider LWDB now?

With the political and Brexit concerns that have dented global investment in the UK equity market receding, investor interest appears to be returning (evidenced by increasing M&A activity), perhaps encouraged by a low valuation in an international context and a more stable pound. LWDB's highly differentiated business model adds investment flexibility and has delivered consistent long-term outperformance.

The analyst's view

LWDB is a UK investment trust with an attached independent professional services operating business (IPS). Reinvigorated in recent years, IPS is cash generative and growing; it has funded 36% of dividends in the past 10 years (more in 2020), and its value, which has grown steadily in recent years, represents 16% of NAV. The IPS income contribution provides the portfolio managers with the freedom to select attractive lower- or non-yielding stocks while still meeting LWDB's income objectives. In 2020, despite a 40% reduction in portfolio income, following the market trend, strong revenue reserves and c 10% growth in IPS earnings supported a 5.8% increase in DPS. The board targets a further increase in 2021.

Valuation

The significant re-rating of LWDB shares during 2020, reaching a premium of c 6% to NAV, has partly unwound but the current c 1% discount remains below the historical c 5–15%) range. The re-rating may well reflect investor recognition of the value of its differentiated proposition, highlighted by the long-term performance trend and dividend growth in a challenging environment. The Q121 annualised rate of DPS represents a yield of 3.6% and the board targets a Q421 increase.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts
UK equity Income

3 August 2021

Price	**761.0p**
Market cap	**£933m**
AUM	**£1,072m**

NAV*	766.9
Discount to NAV	0.8%

*Including income, with debt at fair value at 30 June 2021. As published in interim report., including IPS business fair value at 30 June 2021.

Shares in issue	122.6m
Code//ISIN	LWDB/GB0031429219
Primary exchange	LSE
AIC sector	UK Equity Income

52-week high/low*	782p	482p
NAV* high/low	766.9p	513.0p

*Including income with debt at fair value.

Gross gearing*	12.2%
Net gearing**	11.1%

*Source: LWDB at 30 June 2021

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

- Stable income from the IPS business is a significant contributor to total income and provides flexibility in portfolio construction.
- Modest portfolio bias to value/cyclical stocks could lead to outperformance in a recovery.
- Overseas allocation diversifies portfolio risk.

Bear points

- There are some areas of IPS business that are economically and market sensitive.
- Recent rotation towards value stocks may not be sustained.
- Revenue reserves could be depleted if corporate dividend recovery is delayed.

Analysts

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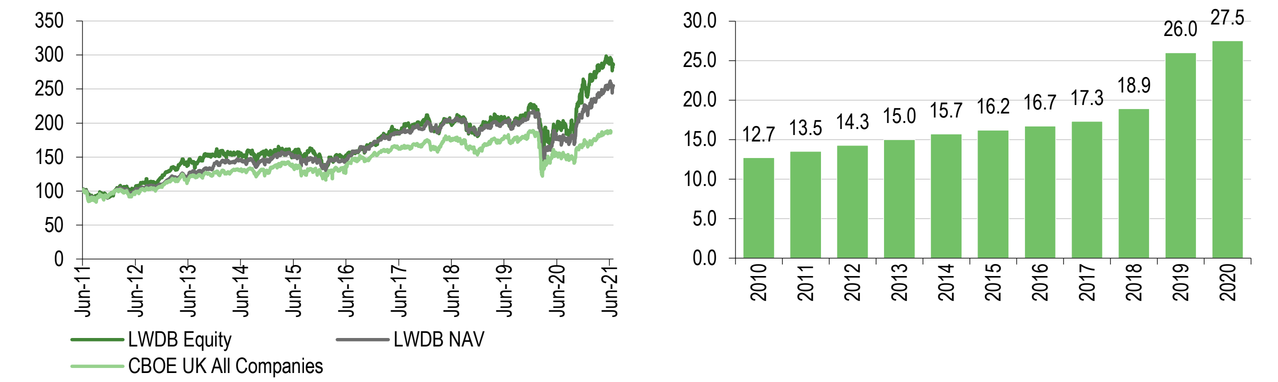
Summary of performance

Differentiated business model continuing to outperform

During the six months to 30 June 2021 (H121), LWDB's NAV total return (with debt at fair value) was 19.4%, ahead of the 11.1% total return of its broad UK equity benchmark index.[1] The NAV total return (with debt at par value) of 16.7% was also ahead of benchmark. Performance is also ahead of the benchmark on a one-, three-, five- and 10-year time horizon. The portfolio benefited from its exposure to UK and international economic recovery and the IPS business which, building on a successful 2020 performance, delivered strong (18%) revenue growth and PBT growth (6%) and EPS growth (5%) in line with the mid- to high single-digit target. The portfolio managers, James Henderson and Laura Foll, continue to highlight the investment flexibility provided by the steady, cash-generative nature of LWDB's IPS business. This has been clearly demonstrated over the past 18 months when, despite significant reductions in dividend distributions across the market in 2020, the managers were able maintain investment in lower- or non-yielding stocks while still meeting LWDB's investment objective of providing a steadily increasing income. This flexibility also extends to the ability to avoid high-yielding stocks that the managers deem unattractive, including the full sale of the trust's stake in British American Tobacco. Following the market trend, portfolio income reduced by almost 40% in 2020, yet LWDB dividends increased by 5.8%, supported by growing IPS income (historically c 35% of the total, but much higher in 2020) and strong revenue reserves. H121 portfolio income has begun to recover, increasing by c 30%, but Foll says that when modelling for expected portfolio dividends in the year ahead, it is unlikely that there will be an immediate return to 2019 levels following last year's widespread dividend cuts. Nonetheless, for the current year the board is targeting a further increase in DPS on the 27.5p paid in respect of 2020. A Q121 quarterly DPS of 6.875p has been paid (a further 5.8% increase y-o-y) and the board targets a similar level in Q2 and Q3, with an uplift in Q4.

Exhibit 1: Investment trust performance to 30 June 2021

Price, NAV and benchmark total return performance, 10 years rebased | **Aggregate annual DPS history (pence per share)**



Source: Refinitiv, The Law Debenture Corporation, Edison Investment Research

Exhibit 2: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(1.3)	(1.0)	(0.4)	25.1	37.3	37.8	54.6
NAV relative to CBOE UK All Companies	2.5	3.0	6.6	19.8	20.7	28.9	38.4
Price relative to CBOE UK 250	0.3	(0.8)	(1.9)	8.0	26.9	20.7	11.3
NAV relative to CBOE UK 250	4.0	3.2	5.0	3.4	11.5	13.0	(0.4)
Price relative to MSCI World	(5.4)	(3.1)	(1.1)	21.2	(2.4)	(5.6)	(15.2)
NAV relative to MSCI World	(1.9)	0.8	5.9	16.1	(14.2)	(11.7)	(24.0)

Source: Refinitiv, Edison Investment Research. Note: Data to end-June 2021. Geometric calculation.

1 The FTSE Actuaries All-Share Index.

IPS: Continuing growth in cash flow and valuation

LWDB's IPS business, comprising the pensions, corporate trust and corporate services divisions, continued to perform well in H121. Now into its fourth consecutive year of growth, it delivered strong revenue growth (18.2% versus H120), and growth in PBT (6.1%) and EPS (5.0%) in line with management's target of mid- to high single-digit growth. Meanwhile, LWDB has continued to invest in its skill base, processes and capacity across the range of business, to support its plans for further growth.

Exhibit 3: IPS performance summary

£m unless stated otherwise	H121	H120	H121 vs H120	2020	2019	2018	2017	Compound growth rate, three years to end-2020
Net revenue								
Pensions	6.5	5.8	10.7%	11.5	10.6	9.5	8.3	11.5%
Corporate Trust	4.9	4.9	1.2%	10.8	9.0	7.9	7.9	10.9%
Corporate Services	8.1	5.8	40.3%	12.2	12.2	11.0	11.0	3.7%
Total net revenue	**19.5**	**16.5**	**18.2%**	**34.5**	**31.8**	**28.4**	**27.1**	**8.3%**
PBT	5.9	5.6	6.1%	12.2	11.5	10.5	9.7	7.9%
EPS (p)	4.39	4.18	5.0%	9.35	8.54	7.87	7.21*	9.0%

Source: The Law Debenture Corporation, Edison Investment Research. Note: *Excludes 2.72p of non-recurring realisation gains.

Net revenues in the **pensions** business increased by 10.7% in H121 versus a strong performance in H120). LWDB is the UK's longest established and largest independent pension trustee, acting for more than 200 defined benefit (DB) schemes with more than £350bn of assets and three million members. Since 2017, LWDB has also offered Pegasus, a fast-growing outsourced service for companies with defined contribution (DC) schemes, offering an end-to-end menu of services.

The independent trustee business remains the core of LWDB's offering, and over the medium term is structurally benefiting from the demand for high-quality expertise to navigate an increasing regulatory burden. In the short term, the pandemic has placed additional stresses on pension schemes and their sponsors, increasing the requirements for governance work, made easier by the lockdown easing and the resumption of face-to-face meetings. Although the largest independent trustee in the UK, LWDB's market share of less than 5% leaves plenty of room to grow, and continuing investment, including additions to the business development team, has produced a strong current pipeline of new opportunities. A pension trustee offering has been launched in the Republic of Ireland with the appointment of Paul Tosney as LWDB seeks to benefit from an increasing market focus on governance enhancement.

Pegasus has grown strongly since launch and this continued in H121, with growth of more than 40% compared with H120 as it continues to win appointments from across its range of independent outsourced pensions executive services. This ranges from scheme secretarial, at its simplest, to fully outsourced pensions management and professional sole trustee solutions, at its most complex. The tough operating conditions that the pandemic has created for many businesses has increased the focus of CFOs on cost management and increased their propensity to outsource critical but non-core activities. LWDB has recently announced the appointment of Sankar Mahalingham as director of Pegasus.

During H121, the **corporate trust** business has built on the very strong performance delivered in 2020 (net revenue increased by almost 20%), albeit modestly, with growth of 1.2% versus H120. Dating back to 1889, corporate trust is the foundation of LWDB, acting as a bridge between the borrower/issuer of a loan or bond, and the lender/investor, as well as providing escrow services, primarily for merger and acquisition (M&A) transactions. The high level of growth during 2020 reflected strong levels of both new issuance work, underpinned by robust capital markets activity, and post-issuance work. In H121, European debt issuance, LWDB's main market, has been flat although it has maintained market share and won new appointments. Post-issuance revenues are significantly recurring (c two-thirds of the total), providing a good level of visibility. In more challenging economic circumstances, LWDB is well-placed to benefit from countercyclical, ad hoc post-issuance work, such as debt restructuring or the renegotiation of payment terms, often continuing well after recovery is underway. Unlike previous economic downturns and recovery cycles, the significant increase in ad hoc post-issuance revenues during the early stages of the pandemic has not continued in H121; the unprecedented level of financial support offered to corporates around the world has driven a material reduction in bankruptcies, to levels not seen in a great many years. The longer-term position remains unclear for many challenged companies and sectors. Only time will tell whether the normal credit cycle has been arrested or, as seems likely, deferred. The escrow appointments activity has continued its growth in H121, in terms of the number and size of underlying transactions, and breadth of underlying purpose (pensions, litigation and commercial transactions in addition to M&A).

Net revenues in the **corporate services** business increased by a little more than 40% in H121 compared with H120. This included a first-time contribution from the company secretarial business line acquired from Konexo, a wholly owned subsidiary of Eversheds Sutherland LLP, for £20m, which completed in late-January 2021. Corporate services is split into three parts, with a 'service of process' role focused on cross-border commercial transactions, a company secretarial and accounting business, now including Konexo, and the specialist whistleblowing service Safecall.

The acquisition transforms LWDB's small existing company secretarial offering, which is driven by the need for corporates to keep abreast of constantly changing government rules and frameworks and a similar trend towards outsourcing that underlies the growth in Pegasus. LWDB expects the acquired business to benefit from being a core part of its corporate services business, while also providing good cross-selling opportunities in other areas of IPS, including accounting and transactions management services and pensions. Integration of the acquired company secretarial business has proceeded well, with clients representing more than 99% of the revenues agreeing to novate their contracts to LWDB while continuing to be serviced by the same staff.

Safecall continued its growth in H121 despite the difficult economic conditions in Europe, adding new clients and handling increased volume of cases.

The service of process business is LWDB's highest volume transactional business with the least recurring contractual revenues. With its high correlation to economic cycles, it was hard hit by the pandemic in 2020 and early 2021, but as economic activity has started to benefit from the easing of pandemic restrictions it generated slight growth in H121 versus H120. A continued improvement in the global economy would be highly beneficial, but irrespective of this LWDB seeks to capitalise on its extensive referral partner network, and the opportunities for streamlining and scaling up its operations on the back of its recently introduced new technology platform.

IPS is continuing to create value

IPS is a high-margin, cash-generative business that has funded 36% of LWDB dividends paid over the past 10 years, well above its historical and current share of NAV (16% on a fair value basis at end-FY21). The IPS contribution to LWDB's revenue earnings is relatively insensitive to short-term economic and market fluctuations, demonstrated clearly in 2020 when IPS revenue earnings increased by 9.5% as portfolio income reduced by almost 40%, following the market trend of reduced company distributions. Equally important is the flexibility that IPS revenues afford to the fund managers in their portfolio stock selection (discussed below).

In addition to its revenue contribution, the operational fair value of IPS[2] has grown consistently in recent years, increasing by £59.2m (or 65.5%) since 31 December 2015, and by 10.1% in H121 (compared with end-2020). The 122.6p per share fair value of IPS at 30 June 2021 compares with

2 The IFRS consolidation of the IPS business fails to recognise the full value added by the business and to address this, from 31 December 2015, LWDB has published an operational fair value for the standalone IPS business.

the IFRS book value per share of 17.2p and accounted for 16.0% of LWDB's net asset value (NAV) per share (with debt at fair value).

Exhibit 4: Fair value of IPS business and LWDB NAV at fair value calculation

	30-Jun-21	31-Dec-20	31-Dec-19	31-Dec-18	31-Dec-17
IPS valuation					
IPS EBITDA (£000's)	13,665	13,335	11,515	10,424	9,797
EBITDA multiple	10.1	9.4	9.2	8.4	7.9
Operational value of IPS (£000's)	138,017	125,349	105,938	87,562	77,396
IPS surplus net assets	11,696	10,605	16,367	16,844	17,176
IPS fair value (£000's)	149,713	135,954	122,305	104,406	94,572
IPS fair value per share (p)	122.6	115.1	103.5	88.3	80.0
LWDB fair value					
LWDB fair value per share as per IFRS financial statements (p)	695.5	615.2	655.8	566.3	633.3
IPS fair value adjustment per share (p)	105.5	95.1	77.7	66.4	61.6
Debt fair value adjustment (p)	(34.0)	(44.2)	(31.2)	(18.6)	(25.3)
LWDB fair value NAV per share (p)	766.89	666.15	702.3	614.1	669.5
IPS book value (IFRS) as % of total	2.5%	3.2%	4.0%	3.9%	3.0%
IPS fair value as % total	16.0%	17.3%	14.7%	14.4%	12.0%

Source: The Law Debenture Corporation

The board has taken external professional advice in determining the fair value of the IPS business, which is calculated by applying an appropriate multiple (H121: 10.1x) to the EBITDA of the business (H121: £13.7m). The multiple applied is based on comparable companies sourced from market data, with adjustment to reflect differences between the companies in respect of size, liquidity and margin growth. The board selects an appropriate multiple from a range provided by the external valuation consultants, seeking a valuation of the IPS business that is both fair and sustainable. The interim report contains details of the comparator companies used in the 30 June 2021 valuation of IPS.

The growth in IPS fair value in recent years reflects the underlying growth in EBITDA and a gentle increase in the multiple applied, although this remains at a discount of more than 27% to the mean multiple across the comparator businesses. Management initiatives aimed at generating further growth in IPS, along with the scope for further increase in the EBITDA multiple are positive indicators for continuing growth in fair value.

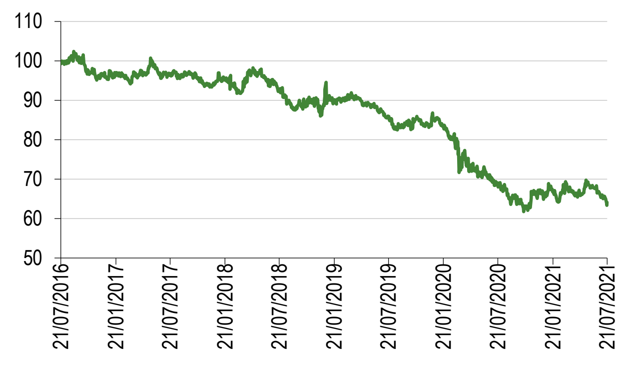
Portfolio: Benefiting from economic recovery

The managers' view: Near-term economic growth will continue to support earnings growth and stock performance

The fund managers, James Henderson and Laura Foll, attribute much of the strong performance of equities year to date to the UK and international economic recovery and its positive impact on earnings prospects. Portfolio stock selection has been tilted to benefit from this, while both managers continue to highlight the investment flexibility provided by the steady, cash-generative nature of LWDB's IPS business. As the vaccination roll-out is allowing the economy to gradually reopen, 'Results from companies have, in aggregate, been at the top end of investor expectations and forward guidance by companies has been supportive of further earnings upgrades'. This is especially the case where cost bases have been adjusted down during the pandemic, enhancing the operational gearing to stronger demand. The strong relationship between earnings upgrades and share price performance has been a more powerful influence on markets than concerns about the pick-up in inflation and the risk that interest rates may in future need to increase. Net portfolio investment during H121 has primarily been directed towards the UK, where valuations remain low in an international context and where the managers continue to identify the most attractive opportunities. The UK equity market has been hugely out of favour with global investors for a number of years as a result of concerns over politics and Brexit, but as these concerns have receded and sterling has stabilised, investor interest has returned. Further evidence that investors see value in UK stocks is provided by increasing M&A activity, with agreed bids for RSA (in November 2020) and St Modwen (in June 2021) having a positive impact on portfolio performance, as well as bids received but rejected at Senior and Elementis. Although the relative underperformance of UK equities has somewhat reversed in recent months, Henderson and Foll observe that a significant valuation gap remains.

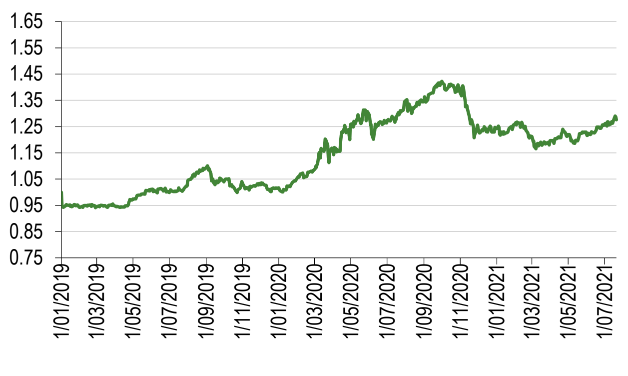
Within the UK market itself, a similar disparity between the significant, or in some cases extreme, outperformance of a relatively small number of 'popular' stocks compared with 'out-of-favour' stocks also shows signs of unwinding. The outperformance of 'growth' versus 'value' stocks has shown some signs of reversing since positive news of a COVID-19 vaccine began to emerge in late 2020 (see Exhibit 6).

Exhibit 5: MSCI UK versus MSCI World



Source: Refinitiv, Edison Investment Research

Exhibit 6: MSCI UK Growth versus MSCI UK Value



Source: Refinitiv, Edison Investment Research

While cognisant of the risks posed by a still-uncertain economic environment, the managers expect that growth will continue to surprise positively in the short term, at first driven by reopening but also by the investment required to overcome the bottlenecks in supply that have built up. On a medium-term view, Henderson and Foll note the uncertainty about how persistent the inflation pick-up may be, as well as the significant costs to the economy of the move to decarbonisation, with the potential to further fuel inflationary pressures. They continue to believe that a diversified portfolio of holdings in companies that can respond to rapid changes in the operating environment, including those with pricing power and those that are leading the transformation of the economy, will provide the best returns, as has been the case during the last 18 months.

Portfolio positioning and drivers of performance

Investment decisions are driven by a selective, bottom-up approach to stock selection, deliberately diversified by sector and geography. At end-June 2021, there were 147 stocks in LWDB's investment portfolio, a slight increase from 137 at 31 December 2020, and concentration in the top 10 holdings reduced slightly from 20.3% to 19.1% (Exhibit 7). The stock selection process is valuation-driven, aiming to identify high-quality companies that are undervalued at the point of purchase. This was reflected in several changes in the composition of the top 10 holdings as the managers took profits in strongly performing positions, recycling the proceeds into more attractively valued opportunities.

Exhibit 7: Top 10 holdings (%)

Company	Country	Industry	30-Jun-21	31-Dec-20	Change (pp)
GlaxoSmithKline	UK	Pharmaceuticals & biotechnology	2.5	2.8	(0.3)
Rio Tinto	UK	Mining	2.4	2.5	(0.1)
Barclays	UK	Banks	2.0	0.9	1.1
HSBC	UK	Banks	1.9	1.5	0.4
BP	UK	Oil & gas producers	1.9	1.8	0.1
Royal Dutch Shell	UK	Oil & gas producers	1.9	1.9	(0.0)
Royal Mail	UK	Delivery services	1.8	1.3	0.5
Accsys Technologies	UK	Construction materials	1.7	1.4	0.3
Lloyds Banking Group	UK	Banks	1.5	0.9	0.6
Ceres Power	UK	Oil equipment services & distribution	1.5	3.0	(1.5)
Top 10 (% of holdings)			**19.1**	**20.3**	

Source: The Law Debenture Corporation

Part-sales, reflecting profit-taking after strong performance, saw National Grid, Prudential and Herald Investment Trust (providing specialist exposure to global technology) drop out of the top 10 holding during the first six months of 2021, with the exposure to Ceres Power (fuel cell technology), still a top 10 holding, also reduced. Royal Mail, Accsys Technologies and Lloyds Banking Group entered the top 10 holdings as positions were increased. Royal Mail provides exposure to the structural shift towards online purchasing; Accsys Technologies focuses on the sustainable transformation of wood into enhanced building products; and Lloyds Banking group provides exposure to UK economic recovery. The managers have recently increased exposures to other banks, including Barclays and HSBC, both in the top 10 portfolio holdings, and NatWest, expecting economic recovery to benefit a reduction in loan loss provisioning in particular and support dividend prospects.

Exhibit 8: Portfolio exposures by geographic region (%)

	30 June 2021	31 December 2020	Change (pp)
UK	82.0	82.1	(0.1)
Europe ex-UK	9.5	10.0	(0.5)
North America	6.7	5.4	1.3
Japan	0.7	1.1	(0.4)
Pacific ex-Japan	0.7	0.9	(0.2)
Other	0.4	0.4	0.0
Total including cash	100.0	100.0	

Source: The Law Debenture Corporation

The geographic diversification of the portfolio has changed little since 31 December 2020, with net investment of £36.4m in H121 substantially directed at the UK (£29.7m), which continues to represent the majority of the portfolio (82.0%). Non-UK stocks are held principally where they offer something that is not available in the domestic equity market, such as carmakers General Motors in the US and Toyota in Japan, or US semiconductor company Applied Materials. Within overseas exposure, North America was the largest area for H121 net investment (£6.0m), consisting primarily of a new position in Merck and addition to Schlumberger.

Exhibit 9: Portfolio exposures by sector (%)

	30 June 2021	31 December 2020	Change (pp)
Financials	26.8	28.5	(1.7)
Industrials	23.8	22.1	1.7
Oil & gas	10.0	11.6	(1.6)
Basic materials	11.0	9.3	1.7
Consumer services	7.3	8.9	(1.6)
Consumer goods	5.9	6.2	(0.3)
Healthcare	6.5	5.2	1.3
Utilities	3.8	4.8	(1.0)
Telecommunications	3.1	1.8	1.3
Technology	1.8	1.6	0.2
Total	**100.0**	**100.0**	

Source: The Law Denture Corporation

Changes in sector weights during the period are not particularly material and predominantly relate to performance, net investment flows and the stock selection activity referred to above, rather than being a 'target' in themselves. The industrial weight continued to benefit from strong performance with three stocks (Senior, Royal Mail and Kier) among the five largest contributors to performance in the period. Other key contributors to performance were BT Group (telecoms) and Applied Materials (technology). Conversely, having been a key driver of 2020 performance, a period of consolidation during H121 saw alternative energy stocks (SIMEC Atlantis Energy, Ceres Power and AFC Energy), within the oil and gas sector, among the five largest detractors to performance, despite significant profits having been taken by the trust. The financial weighting reduced despite additions to the banking stocks, with Provident Financial and Hiscox being among the five largest performance detractors and, more positively for performance, the sale of St Modwen following an increased takeover offer from private equity.

Exhibit 10: Top five contributors to H121 performance

Stock	Share price total return (%)	Contribution (£m)	Driver/investment rational
Royal Mail	71	7.3	Heightened demand with traditional retailers closed
Senior	69.7	5.3	Civil aerospace recovery
Applied Materials	65	4.3	Supporting strong semiconductor demand
BT Group	46.7	4.1	Fibre roll-out to support long-term growth
Kier	96.7	3.8	Strong infrastructure spending
Total		24.8	

Source: The Law Debenture Corporation

Exhibit 11: Top five detractors from H121 performance

Stock	Share price total return (%)	Contribution (£m)	Driver/investment rational
SIMEC Atlantis Energy	(77.4)	(2.9)	Share price consolidation after strong performance
Ceres Power	(19.9)	(2.8)	Share price consolidation after strong performance
Provident Financial	(24.4)	(1.7)	Customer complaints in home collected credit
AFC Energy	(20.0)	(1.5)	Share price consolidation after strong performance
Hiscox	(16.3)	(1.5)	Large insurance claims
Total		(10.4)	

Source: The Law Debenture Corporation

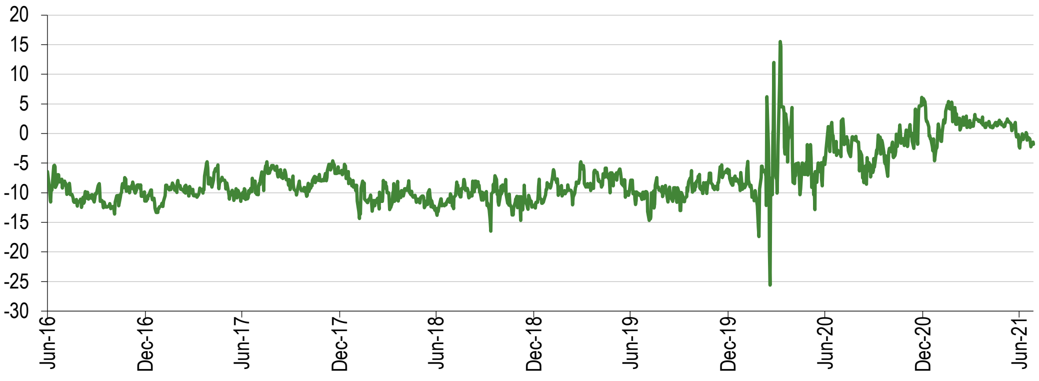
Discount and peer group comparison

At 2 August 2021, LWDB's shares traded at a small (c 1%) discount to the 30 June 2021 cum-income NAV (with both debt and the IPS[3] business at fair value). Although there has been some retracement from the 2020 valuation high (a premium of c 6%) the current rating remains above the long-term discount range of c 5–15% (Exhibit 12). In common with most of the investment trust sector, LWDB saw significant volatility in its rating during the early part of the coronavirus pandemic but, as trading conditions normalised in the summer of 2020, the rating steadily improved. It is likely that this in part reflected investors' appreciation of the more secure income stream from the IPS business amid deep and widespread UK dividend cuts affecting most equity income funds. Some of the re-rating has recently eroded, although the shares have continued to trade above the historical discount range.

During H121, LWDB was able to satisfy investor demand by issuing shares under its authority at an accretive average premium to NAV. Approximately 4.0m shares were issued at an average price of 7.34p, representing gross proceeds of almost £30m, more than funding the c £20m acquisition of the company secretarial business from Eversheds Sutherland LLP within IPS. A further 150k shares have been issued since the end of H121 at an average price of 7.65p.

3 This includes the IPS fair valuation at 30 June 2021, included within the interim report, and restating the previously published 30 June NAV based on the 31 December 2020 IPS valuation.

Exhibit 12: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

LWDB is a constituent of the Association of Investment Companies' UK Equity Income sector, reflecting its high weighting to the UK and a focus on income as well as capital growth.

This is a diverse peer group of 23 funds, with LWDB currently being the fifth largest. Mirroring its strong performance track record versus the benchmark, LWDB's NAV total returns are well above the peer group average over one, three, five and 10 years, ranking third, first, first and fifth, respectively. Ongoing charges are among the lowest in the group, with none of the constituents paying a performance fee, and net gearing is broadly in line with the average. The trust's historic dividend yield is very slightly below the average, ranking 14th. However, the revenue contribution from the IPS business means LWDB's yield is arguably more secure than for those funds that rely solely on corporate dividends for their portfolio income, given it may take more than a year for UK dividends to recover meaningfully.

Exhibit 13: Selected peer group as at 30 July 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	**Net gearing	Dividend yield
Law Debenture Corporation	926.9	49.1	27.8	71.7	162.2	0.6	No	(0.5)	111	3.6
Aberdeen Standard Equity Inc Trust	171.1	35.8	(7.1)	17.5	87.7	0.9	No	(7.7)	111	5.8
BlackRock Income and Growth	42.4	20.6	5.5	29.3	95.6	1.2	No	(2.4)	107	3.7
BMO Capital & Income	349.8	36.9	12.4	49.0	121.7	0.6	No	(2.0)	105	3.6
BMO UK High Income Units	125.0	26.6	9.5	29.9	99.7	1.0	No	(6.6)	111	4.1
Chelverton UK Dividend Trust	48.6	114.1	21.5	63.2	263.9	2.5	No	(2.2)	132	4.3
City of London	1,766.1	23.1	6.1	25.5	112.7	0.4	No	1.6	107	4.8
Diverse Income Trust	397.2	34.6	27.4	59.4	244.1	1.1	No	(6.6)	98	3.4
Dunedin Income Growth	468.2	22.6	25.2	51.5	119.6	0.6	No	(2.5)	105	4.1
Edinburgh Investment Trust	1,033.1	29.6	(1.4)	12.4	118.9	0.4	No	(8.3)	107	4.0
Finsbury Growth & Income	2,040.7	13.8	20.8	60.8	249.8	0.6	No	(4.0)	101	1.8
Invesco Income Growth	148.6	35.9	14.4	35.9	171.3	0.9	No	(6.1)	111	3.7
JPMorgan Claverhouse	441.1	34.4	7.8	44.0	123.1	0.7	No	0.3	116	4.2
JPMorgan Elect Managed Inc	80.0	30.0	7.6	30.7	99.2	0.8	No	(3.1)	106	4.5
Lowland	376.9	47.7	0.2	28.8	112.5	0.6	No	(1.2)	115	4.3
Merchants Trust	637.4	50.5	13.4	53.2	128.7	0.6	No	0.9	113	5.3
Murray Income Trust	1,060.4	25.0	25.1	51.5	126.8	0.6	No	(6.2)	110	3.8
Schroder Income Growth	218.1	34.6	10.4	37.8	128.6	0.9	No	0.8	109	4.0
Shires Income	84.0	27.8	16.7	47.5	141.6	1.0	No	(2.5)	122	4.8
Temple Bar	688.8	44.2	(8.2)	17.3	87.2	0.5	No	(8.8)	108	3.7
Troy Income & Growth	251.9	12.0	10.7	23.0	113.5	0.9	No	(0.9)	99	1.9
Simple average (22 funds)	**540.8**	**35.7**	**11.7**	**40.0**	**138.5**	**0.8**		**(3.2)**	**110**	**4.0**
LWDB rank in peer group	**5**	**3**	**1**	**1**	**5**	**18**		**5**	**7**	**14**

Source: Morningstar, Edison Investment Research. Note: TR = total return. *Performance as at 30 July 2021 based on (un-restated in LWDB's case) cum-fair NAV. **Net gearing is based on end-June figures as supplied to the AIC.

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