EDISON

The Law Debenture Corporation

Long-established trust with strong dividend record

Investment trusts

The Law Debenture Corporation (LWDB) is one of the longest established investment trusts, with a 40-year record of raising or maintaining its dividend. The trust holds a diversified global portfolio, primarily invested in UK equities, and is differentiated by its independent fiduciary services (IFS) business, which provides a regular income stream. This underpins the steadily rising dividends and allows the manager flexibility to pursue high return but low yield investments. The discount has widened since the move to reporting NAV including the IFS business at fair value, even with LWDB's fair value NAV total return outperforming its FTSE All-Share index benchmark over one, three, five and 10 years. The trust has a competitive 0.45% ongoing charge and its 3.0% yield is one of the highest in the sector.

12 months ending	Share price (%)	NAV (%)	FTSE All-Share (%)	FTSE 250 (%)	FTSE World (%)
30/11/12	17.5	16.6	12.1	20.2	12.0
30/11/13	34.9	25.2	19.8	31.9	22.5
30/11/14	1.7	9.4	4.7	5.3	13.7
30/11/15	(1.2)	1.2	0.6	12.8	2.6
30/11/16	6.9	12.6	9.8	3.5	25.6

Note: Twelve-month rolling discrete £-adjusted total return performance.

Investment strategy: Broadly unconstrained

LWDB maintains a portfolio of c 130 holdings, diversified by sector and geography, with the strong income contribution from the IFS business allowing investment in a wider range of opportunities than an income-focused fund would usually consider. The manager adopts a bottom-up stock selection approach, focusing on companies with growing businesses, trading at valuations that do not reflect their long-term prospects. Investments are made across the market cap spectrum without bias to value or growth, with the aim that the portfolio has genuine diversity of underlying activities. Overseas stock selection is driven by gaining exposure to more attractive investment opportunities than can be found in the UK. 10-15% of the portfolio is held in open- and closed-ended funds to add specialist regional or sector exposure.

Market outlook: Grounds for caution

The UK's vote to leave the EU heightened uncertainty over the economic outlook, with GDP forecasts subsequently appreciably scaled back. A combination of lower growth prospects and close to peak valuation multiples implies a subdued market outlook at best. In addition, a number of global macroeconomic uncertainties could adversely affect the growth outlook and contribute to elevated levels of market volatility persisting. In this environment, UK investors could find appeal in a trust such as LWDB, with the regular income stream from its IFS business underpinning dividends and allowing greater investment flexibility than many other income funds.

Valuation: Above average discount and yield

LWDB's 8.7% share price discount to fair value NAV cum-income is wider than its 4.6% five-year average and the peer-group average, suggesting ample scope for narrowing. LWDB's 3.0% yield ranks second highest among the sector's 24 trusts.

20 December 2016

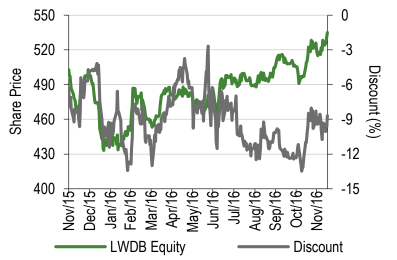
Price	**535.0p**
Market cap	**£633m**
AUM	**£817m**

Fair value NAV*	596.0p
Discount to NAV	10.2%
Fair value NAV**	585.9p
Discount to NAV	8.7%

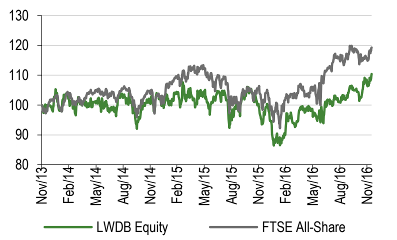
*Excluding income, debt at par. **Including income, debt at fair.

Yield	3.0%
Ordinary shares in issue	118.3m
Code	LWDB
Primary exchange	LSE
AIC sector	Global
Benchmark	FTSE All-Share index

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	535.0p	433.0p
NAV* high/low	588.1p	473.1p

*Including income, debt at fair.

Gearing

Gross*	18.2%
Net*	8.0%

*As at 30 November 2016.

Analysts

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Edison profile page

The Law Debenture Corporation is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

LWDB's investment objective is to achieve long-term capital growth in real terms and steadily increasing dividend income to shareholders. The aim is to achieve a higher rate of total return than the FTSE All-Share index through investing in a global portfolio diversified both geographically and by industry. LWDB's independent fiduciary services (IFS) business provides a regular flow of income, which enhances the dividend income from the equity portfolio.

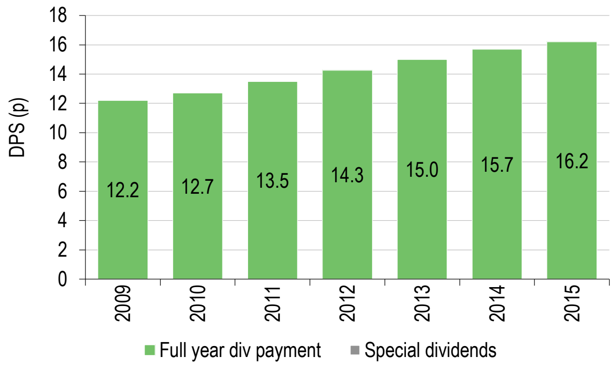
Recent developments

- 31 August 2016: Michael Adams appointed as CEO, succeeding managing director Caroline Banszky.
- 28 July 2016: Half-year results to 30 June 2016. NAV TR +1.5% vs FTSE All-Share +4.3%. Share price TR 0.0%. Interim dividend of 5.2p recommended.
- 25 February 2016: Final results to 31 Dec 2015 – NAV total return -0.3% vs FTSE All-Share +1.0%; FY15 final dividend held at 11.0p, FY15 total dividend +3.2% to 16.2p.

Forthcoming		Capital structure		Fund details	
AGM	April 2017	Ongoing charges	0.45%	Group CEO	Michael Adams
Annual results	March 2017	Net gearing	8.0%	Investment managers	James Henderson & Laura Foll, Henderson Global Investors
Year end	31 December	Annual mgmt fee	0.30% of net assets	Address	Fifth Floor, 100 Wood Street, London, EC2V 7EX
Dividend paid	September, April	Performance fee	None		
Launch date	December 1889	Trust life	Indefinite	Phone	+44 (0)20 7606 5451
Continuation vote	N/A	Loan facilities	£114m long-term debt	Website	www.lawdeb.com

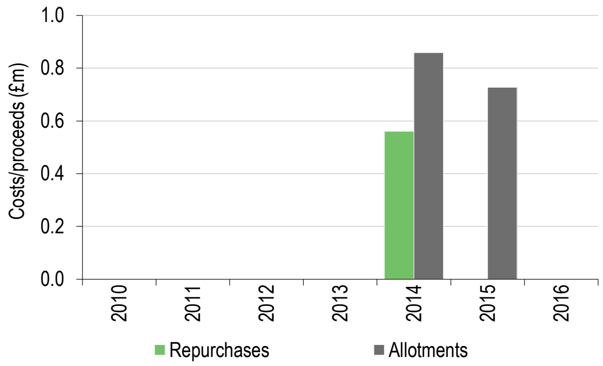
Dividend policy and history

LWDB aims to deliver steadily increasing dividends, fully covered by revenue earnings, and has a 40-year record of raising or holding steady its dividend.

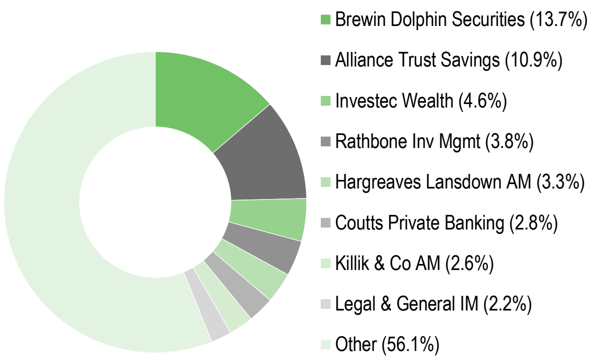


Share buyback policy and history

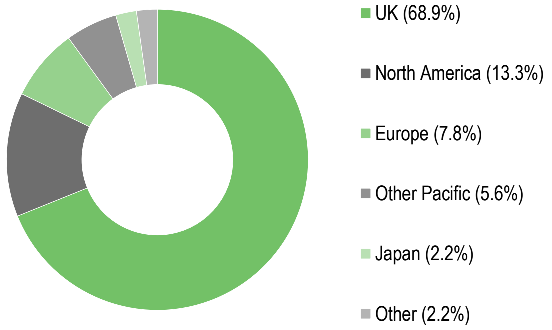
LWDB has no share buyback programme in operation. Purchases and allotments of shares in 2014 and 2015 related to an employee share scheme.



Shareholder base (as at 23 October 2016)



Portfolio exposure by geography (as at 30 November 2016)



Top 10 holdings (as at 30 November 2016)

			Portfolio weight %	
Company	**Country/region**	**Sector**	**30 November 2016**	**30 November 2015***
Royal Dutch Shell	UK	Oil & gas producers	3.5	2.0
HSBC	UK	Banks	2.5	2.0
Rio Tinto	UK	Mining	2.3	1.8
BP	UK	Oil & gas producers	2.2	2.1
Baillie Gifford Pacific	Asia Pacific	Pooled equity investments	2.2	1.9
Stewart Investors Asia Pacific	Asia Pacific	Pooled equity investments	2.1	1.8
GKN	UK	Automobiles & parts	2.1	2.2
Hill & Smith	UK	Industrial engineering	1.7	N/A
Prudential	UK	Life insurance/assurance	1.7	N/A
GlaxoSmithKline	UK	Pharmaceuticals & biotech	1.7	N/A
Top 10 holdings (% of portfolio)			**21.9**	**21.2**

Source: The Law Debenture Corporation, Edison Investment Research, Morningstar. Note: *N/A where not in November 2015 top 10.

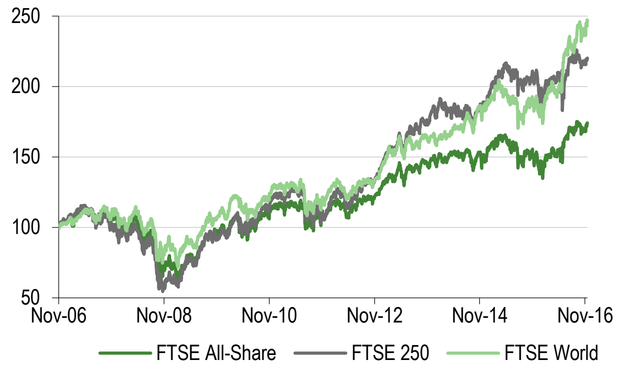
Market outlook: Reasons for near-term caution

As illustrated in Exhibit 2 (left-hand chart), the FTSE All-Share index has achieved a creditable performance over the last 10 years but has been significantly outpaced by the FTSE 250 and FTSE World indices. This is particularly true over the last five years, which has favoured UK-orientated funds with a bias to small- and mid-cap stocks and those with a greater degree of international exposure. The FTSE All-Share's higher exposure to large-cap mining and oil & gas stocks, which have suffered from falling commodity prices over recent years, is seen as a major contributing factor to the index's underperformance over this period.

The UK stock market's strong recovery following the brief but sharp sell-off after the UK's vote to leave the EU at the end of June 2016 pushed the Datastream (DS) UK market index 12-month forward P/E multiple to a 10-year high. Although the market subsequently pulled back, the forward P/E multiple remains well above its 10-year average, with its price-to-book multiple also higher than average, suggesting limited scope exists for re-rating to drive the market higher. Although the DS UK market's dividend yield is broadly in line with its 10-year average, return on equity is at the lower end of its 10-year range (see Exhibit 2 right-hand chart), which calls into question the sustainability of current dividend levels.

Exhibit 2: Market performance and valuation metrics

Market indices total return performance over 10 years



DS UK market index valuation metrics as at 16 December 2016

	Last	High	Low	10-year average	Last % of average
12-month fwd P/E (x)	14.2	15.6	7.4	12.0	119%
Price to book (x)	2.0	2.6	1.2	1.8	107%
Dividend yield (%)	3.5	6.6	2.7	3.5	101%
Return on equity (%)	4.0	21.2	2.5	11.2	35%

Source: Thomson Datastream, Edison Investment Research

The UK's vote to leave the EU has heightened uncertainty over the country's economic outlook, with GDP growth expectations subsequently scaled back significantly. This was reflected by the IMF lowering its projection for UK growth in 2017 by 0.9pp to 1.3% in its July 2016 update and by a further 0.2pp to 1.1% in its October 2016 update. A combination of weakening growth prospects and close to peak valuation multiples implies a subdued market outlook at best. In addition, a number of global macroeconomic uncertainties exist, including the timing of US interest rate rises and the implications of the surprise outcome of the US presidential election, as well as conflict in the Middle East, which could lead to further cuts in global growth forecasts and contribute to elevated levels of market volatility persisting. In this environment, UK investors could find appeal in a trust such as LWDB, with its dividends underpinned by the income stream from its IFS business, giving flexibility to invest in a wider range of opportunities than many other income-orientated funds.

Fund profile: Global trust with a strong dividend record

Founded in 1889, LWDB is one of the longest established global investment trusts listed on the London Stock Exchange and has a 40-year record of raising or maintaining its dividend. The trust's objective is to achieve long-term capital growth in real terms and steadily increasing income, aiming to achieve a higher rate of total return than the FTSE All-Share index through investing in a portfolio diversified both geographically and by industry. LWDB is differentiated from other trusts by its independent fiduciary services (IFS) business, which generates a regular income stream that constitutes an important element of the trust's revenue earnings. The strong income contribution from the IFS business underpins LWDB's steadily increasing dividend payments and gives the manager scope to pursue a wider range of investment opportunities than an income-focused fund would usually consider.

LWDB's portfolio is predominantly invested in UK equities (70-75%), but also has significant international equity exposure (25-30%). The portfolio is constructed without reference to index sector allocations, within broad guidelines set by the board on maximum and minimum exposures to particular regions (see Exhibit 4). LWDB's portfolio is constructed through bottom-up stock selection, primarily from the UK stock market. Overseas stock selection is driven by the portfolio manager seeking to gain exposure to areas where suitable opportunities are limited or do not exist in the UK market. Collective investment funds, which comprise 10-15% of the portfolio, are used to gain exposure to Japan, Asia and other emerging markets as well as more specialist sectors such as technology.

LWDB's investment portfolio is managed by Henderson Global Investors. James Henderson, manager of Lowland Investment Company, Henderson Opportunities Trust and Henderson UK Equity Income & Growth Fund, has been involved in managing LWDB's portfolio since 1994, acting as lead portfolio manager from June 2003. Since September 2011, he has been assisted by Laura Foll, a fund manager on Henderson's global equity income team, co-manager of Henderson UK Equity Income & Growth Fund and joint manager of Lowland Investment Company. Henderson's director of European equities, Tim Stevenson, is responsible for the LWDB portfolio's European stock selection.

LWDB shares have historically traded at a premium to NAV, attributed to the IFS business assets being included in the accounts at historic cost rather than fair value. In February 2016, the board moved to publishing an independently assessed fair value of the IFS business, aiming to provide a clearer understanding of the relative value of LWDB's investment portfolio and IFS business, with the published fair value NAV providing a more accurate reflection of the value of the group's assets. This led to a material increase in the reference NAV per share, which was not reflected in the share price, contributing to a widening of the observed discount.

Independent fiduciary services (IFS) business

LWDB is a leading provider of independent fiduciary services comprising corporate trusts (including trustee and escrow banking), pension trusts, corporate services (including agent for service of process), treasury services, whistleblowing services and governance services to client boards and pension funds, provided through its offices in London, Sunderland, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands. The businesses are monitored and overseen by a board comprising the heads of the relevant business areas and two non-executive, independent directors.

LWDB's business model is designed to enhance its performance as an investment trust. The aim is to achieve LWDB's investment objective by expert management of the investment portfolio, complemented by the sustainable and profitable operation of the IFS business, which is independently managed, enabling it to act flexibly and commercially. The regular flow of income from the IFS business is an important element in delivering the trust's objective of steadily increasing dividends to shareholders, and helps the board to smooth out fluctuations in dividend income from the investment portfolio. Additionally, tax relief arising from debenture interest and excess costs, which would otherwise be unutilised, can be transferred to the IFS business.

Fair value of the IFS business

The difference between the market's assessment of the fair value of the IFS business and the accounting value of its assets, reflected in the historically reported NAV, meant that the appraisal of LWDB's shares was less straightforward than for many other investment trusts. To give a clearer view of the group's valuation, the board concluded that it should publish fair value NAV, incorporating the fair value of the IFS business, alongside the existing IFRS-compliant NAV that is reported in the financial statements.

Following International Private Equity and Venture Capital Association (IPEV) guidelines, the fair valuation of the IFS business is determined by applying an appropriate market multiple to its historic EBITDA, and adding surplus net assets at their underlying fair value. The multiple applied is based on market multiples for comparable companies, adjusted for differences in growth, margin, size and liquidity. It should be noted that the IFS business is valued on a standalone basis, in accordance with fair valuation guidelines, and this does not reflect its full value to LWDB. In particular, the value of the group tax relief utilised by the IFS business, which significantly reduces its tax charge, is excluded from its fair value. In 2015, the group relief reduced LWDB's tax charge by c £1.2m, adding c 16% to the net earnings contribution from the IFS business.

Exhibit 3: Fair valuation of IFS business

£000s unless stated	30 Jun 2016	31 Dec 2015	30 Jun 2015	31 Dec 2014
EBITDA multiple applied	7.9x	8.4x	8.9x	8.9x
Operating assets fair value	73,865	78,397	84,684	84,684
Surplus net assets	15,823	12,082	11,356	8,507
IFS business fair value	**89,688**	**90,479**	**96,040**	**93,191**
IFS business fair value per share (p)	**76.0**	**76.7**	**81.4**	**79.0**
IFS business fair value as a proportion of LWDB's fair value NAV	14.6%	14.6%	14.9%	14.6%
IFRS NAV per share (p)	**485.6**	**472.1**	**490.4**	**486.3**
IFS business fair value adjustment per share (p)	56.5	61.3	65.6	65.7
Long-term debt fair value adjustment per share (p)	(22.9)	(8.9)	(8.4)	(10.2)
LWDB fair value NAV per share (p)	**519.2**	**524.5**	**547.6**	**541.9**

Source: The Law Debenture Corporation, Edison Investment Research

The NAV adjustment at end-June 2016 to reflect the IFS business fair value was 56.5p per share, raising the value of the IFS business from c 4% to c 15% of LWDB's NAV (see Exhibit 3).

LWDB has restated its historic NAV figures to include the fair value of the IFS business for the last 10 years so that long-term performance of fair value NAV can be assessed (see Exhibit 7).

The fund managers: James Henderson and Laura Foll

The managers' view: Taking a cautious approach

James Henderson observes that large swings in sentiment were seen in H116, with value coming back into favour from February to April, which suited the positioning of the portfolio, while in May there was a shift back towards defensive stocks and those with earnings momentum. These moves were seen as a reaction to uncertainty relating to the EU referendum and the timing of US interest rate hikes. During the half-year, the manager continued with the strategy of gradually shifting the portfolio towards better value areas of the market.

Henderson's view is that a long, diversified list of holdings was the best form of downside protection ahead of the UK's EU referendum and remains so after the vote. LWDB benefited in June from its holdings in overseas funds, including Stewart Asia Pacific Leaders and Templeton Emerging Markets, as well as direct overseas holdings such as Lockheed Martin. However, LWDB's relatively high exposure to small and mid-cap UK companies, which suffered disproportionate share price falls after the Brexit vote as sterling devalued, weighed on the trust's performance relative to the majority of its global sector peers.

Henderson notes that, relative to its FTSE All-Share index benchmark, LWDB's performance was held back by its low weighting in consumer staples stocks, which performed well due to their safe haven status and overseas earnings exposure. He highlights that stocks exposed to UK construction, such as Marshalls and Ibstock, were the biggest detractors from performance in June 2016, with a slowdown in the pace of housing construction expected to result from a period of economic uncertainty following the Brexit vote. There was no common theme seen across the portfolio's five weakest performing holdings during H116, which were Interserve, IP Group, International Consolidated Airlines, Provident Financial and Marshalls, and the manager believes that these all remain good businesses whose share prices should recover.

During June 2016, the manager reduced the portfolio's two largest open-ended fund holdings, Henderson Asia Pacific Capital Growth and Henderson Japan Opportunities, selling out of both funds in July. The proceeds were largely allocated to two closed-ended funds, Scottish Oriental Smaller Companies Trust and Schroder Japan Growth, both of which were trading at double-digit discounts to NAV and were seen as offering better value exposure to these regions.

During H116, positions were initiated in Vodafone, Barclays and Watkin Jones in the UK, Irish Continental Group in Ireland, Publicis and Elis in France, SAP in Germany and Microchip Technology in the US. The manager increased positions in HSBC and Standard Chartered in H116, while adding to holdings in Caterpillar, Rolls-Royce and Irish Continental Group since the end of June. Holdings in house builders Redrow and Bellway were sold during H116 and LWDB has recently sold its holdings in Glencore and Anglo American, which were among the portfolio's top five performers during the half-year, alongside Royal Dutch Shell, Weir and BP. Since the end of June, the trust's holdings in Tullow Oil and Greencore have also been sold.

After the initial negative reaction to the Brexit vote, the UK equity market performed well, with the FTSE All-Share index returning 7.8% and the FTSE 250 index delivering 10.7% in the three months to end-September 2016. Against this background, LWDB achieved a 9.4% NAV total return for the quarter, with falling UK gilt yields increasing the fair value of its debt, which detracted from performance. Among the top contributors to performance for the quarter were industrials stocks including Hill & Smith, Morgan Advanced Materials, Rolls-Royce, Balfour Beatty and Weir Group. International holdings Applied Materials and Microsoft also performed well, while Brazilian jet manufacturer Embraer was one of the largest detractors.

In view of the elevated economic uncertainty following the Brexit vote, the manager has been taking a cautious approach and LWDB's market exposure has been reduced, with net gearing falling from 12.0% at end-June 2016 to 7.0% at end-July. The manager indicates that LWDB remains a net seller of investments and does not rule out the trust moving to a net cash position, although net gearing has remained broadly stable since July, standing at 8.0% at end-November.

Asset allocation

Investment process: Selecting for growth and value

LWDB's portfolio is constructed through bottom-up stock selection, primarily from the UK stock market, with the managers aiming to maintain a portfolio that is diversified by sector and geography to spread investment risk. While performance is benchmarked against the FTSE All-Share index, portfolio construction is not influenced by the composition of the index. LWDB's portfolio is invested internationally within the board's guidelines on exposures to particular regions (see Exhibit 4), with portfolio allocations reviewed at each board meeting to ensure that sufficient diversification is maintained. The portfolio holds c 10 pooled equity investments, comprising both open- and closed-ended funds that provide exposure to more specialist regions or market segments, and these account for 10-15% of the portfolio (9.7% at end-June 2016, 12.0% at end-2015). These funds are closely monitored by the board and there is regular engagement with the underlying managers.

James Henderson and Laura Foll focus on investing in companies with growing businesses, trading at valuations that do not reflect their long-term prospects. There is no particular bias to value or growth and investments are made across the market cap spectrum. The aim is that individual stocks in the portfolio are blended so that overall, the portfolio has genuine diversity of underlying activities. Henderson and Foll select stocks across all geographic regions with the exception of Europe (c 8% of the portfolio), where Tim Stevenson takes responsibility for stock selection. European stock selection has a quality bias, oriented to larger-cap stocks, reflected by portfolio holdings such as Roche and Nestlé. Exposure to Asian stock markets is principally achieved via collective investment funds so as to achieve a broader selection of holdings.

Overseas stock selection is driven by the portfolio manager seeking to gain exposure to areas where suitable opportunities are limited or do not exist in the UK market. As examples, the manager cites portfolio holdings Apple in the US and Toyota Motor in Japan, neither of which have UK-listed equivalents. Investments in Asia are made to add exposure to the region's superior long-term growth potential, while the US market provides a greater number of investment opportunities, such as among oil services and larger industrials companies. Europe provides a broader set of opportunities than the UK in sectors such as healthcare that operate on a more global basis.

LWDB's portfolio typically comprises 130 to 140 investments, partly reflecting the manager's approach of buying and selling holdings gradually, which can lead to a relatively large number of small positions in the portfolio (there were 23 holdings each representing 0.20% or less of the portfolio at end-June 2016). The manager notes that smaller holdings can still have a significant influence on performance, highlighting Indus Gas (0.13% of the portfolio at end-December 2015 and 0.52% at end-June 2016) as a major contributor to performance in H116.

Liquidity and long-term borrowings are managed to achieve a level of gearing that balances risk with the objective of increasing shareholder return. LWDB applies a ceiling on effective gearing of 50%. While effective gearing typically ranges from 10% net cash to 20% gearing, the board retains the ability to reduce equity exposure so that net cash is greater than 10% if circumstances warrant.

There are broad constraints on portfolio concentration, with the aggregate value of the largest 20 holdings, excluding collective investments providing exposure to Japan, Asia-Pacific or emerging markets, limited to 40% of the portfolio and individual holdings restricted to 5%, with board approval required to retain a holding that has moved above the 5% limit. Investments in other UK-listed investment trusts are restricted to 15% of gross assets.

Current portfolio positioning

LWDB's investment portfolio has a primary core allocation to the UK enhanced by a broad global geographic allocation (see Exhibit 4), providing a flexible, more diversified international exposure than its FTSE All-Share index benchmark. The manager emphasises that, although investing primarily in UK-listed stocks, the portfolio's economic exposure is much more diversified, with over 75% of the underlying earnings of portfolio companies coming from outside the UK. While the income stream from the IFS business means that the manager is not required to adopt a strong income focus when selecting stocks, the portfolio yield stood at a healthy 3.1% at end-November 2016, lower than the FTSE All-Share index's 3.6% yield, but higher than the FTSE World index's 2.5% yield. During 2015, LWDB purchased a holding in Oxford Sciences Innovation, an unquoted company which will have a shareholding in all science-based businesses that come out of Oxford University. This is LWDB's only unlisted holding, representing c 0.5% of the portfolio.

As shown in Exhibit 4, the portfolio's geographic weightings at end-November 2016 were similar to a year earlier, with the main changes being moderate decreases in exposure to the UK and Japan largely balanced by increases in exposure to North America and Europe. Geographic weightings are comfortably within the trust's broad allocation guideline ranges.

Exhibit 4: Portfolio geographic exposure versus allocation guidelines

	End November 2016	End November 2015	Change	Allocation guideline
UK	68.9	72.0	(3.2)	55-80
North America	13.3	9.7	3.7	0-20
Europe	7.8	6.5	1.3	0-20
Other Pacific	5.6	6.5	(0.9)	0-10
Japan	2.2	4.3	(2.1)	0-8
Other	2.2	1.1	1.1	0-5
	100.0	**100.0**		

Source: The Law Debenture Corporation, Edison Investment Research

LWDB's portfolio is unconstrained by the FTSE All-Share index sector weightings and the trust's exposures can differ substantially from its benchmark index. As shown in Exhibit 5, at end-November 2016, the industrials sector represents the portfolio's largest exposure and greatest overweight position relative to the benchmark. While financials represents the portfolio's second largest sector exposure, it is the trust's most significant underweight position. Sector weightings at end-November 2016 are broadly similar to a year earlier, with the greatest shifts in exposure over the year being 4.1pp and 1.6pp increases in industrials and oil & gas and 1.3pp and 1.1pp decreases in consumer services and consumer goods. The allocation to pooled equity investments reduced by 2.4pp, reflecting the sale of the trust's holdings in the Henderson Japan Opportunities and Henderson Asia Pacific Capital Growth OEICs, which was completed during July 2016.

Exhibit 5: Portfolio sector exposure vs benchmark (%)

	Portfolio end Nov 2016	Portfolio end Nov 2015	Change	FTSE All-Share Index weight	Trust weight vs index	Trust weight/ index weight
Industrials	30.7	26.6	4.1	10.9	19.8	2.8
Financials	15.7	16.1	(0.4)	25.8	(10.1)	0.6
Oil & gas	9.1	7.5	1.6	12.5	(3.4)	0.7
Healthcare	8.3	8.5	(0.2)	9.1	(0.8)	0.9
Consumer goods	7.7	8.8	(1.1)	14.5	(6.8)	0.5
Consumer services	7.4	8.7	(1.3)	11.6	(4.2)	0.6
Basic materials	6.7	6.7	0.0	7.1	(0.4)	0.9
Technology	2.7	2.2	0.5	0.9	1.8	3.1
Utilities	1.8	2.7	(0.9)	3.6	(1.8)	0.5
Telecommunications	0.7	0.6	0.1	4.1	(3.4)	0.2
Pooled equity investments	9.2	11.6	(2.4)	N/A	N/A	N/A
	100.0	**100.0**		**100.0**		

Source: The Law Debenture Corporation, Edison Investment Research

Performance: Outperforming over one to 10 years

In this section, we consider LWDB's NAV total return performance based on restated historical NAV data, adjusted to reflect the fair value of the IFS business, rather than historically reported NAV data. Our analysis is based on Morningstar's NAV total return data for LWDB, calculated using ex-income NAV with debt at par value. This differs from the performance data published by LWDB, which is calculated using cum-income NAV with debt at fair value. Since LWDB increased its borrowings through the issue of £75m fixed-rate, 30-year notes in September 2015, the rise in fair value of the trust's debt, due to declining gilt yields, has weighed significantly on LWDB's reported performance data. The effect on performance is highlighted by the comparison shown in Exhibit 6.

Exhibit 6: NAV total return performance (%) with debt at par value and fair value

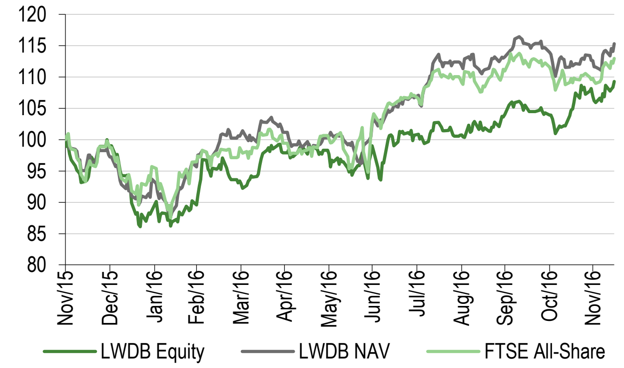
	One month	Three months	Six months	One year	Three years	Five years	10 years
NAV ex income, debt at par value	1.3	10.4	12.2	17.4	30.8	93.6	138.8
NAV cum income, debt at fair value	2.2	9.4	9.6	12.5	25.1	82.7	138.0

Source: The Law Debenture Corporation, Morningstar, Edison Investment Research. Note: Data to end-September 2016.

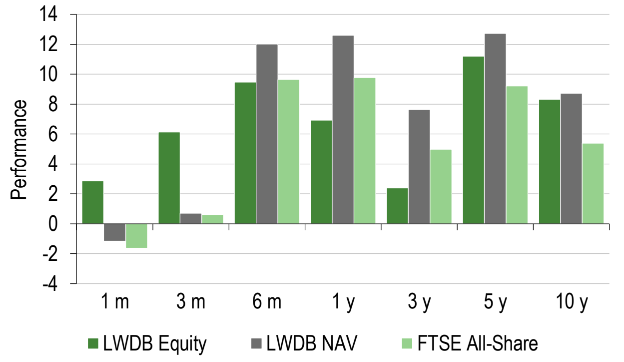
As shown in Exhibit 8, LWDB's NAV total return has outperformed its FTSE All-Share index benchmark over one, three, five and 10 years. The share price total return has underperformed the benchmark over one and three years, resulting in a widening of the discount. Exhibit 7 (right-hand chart) illustrates LWDB's longer-term outperformance of the benchmark, with the trust achieving an annualised NAV total return of 8.7% over 10 years compared with the 5.4% pa total return of the FTSE All-Share index. Exhibit 9 illustrates LWDB's relatively steady outperformance of its benchmark over 10 years, with the most significant period of relative weakness being a modest underperformance following the 2008 global financial crisis. LWDB's NAV has outperformed the FTSE 250 index over one, three and 10 years, and only moderately underperformed over five years, despite the FTSE 250 index considerably outpacing the FTSE All-Share index over this period. LWDB's weaker performance relative to the FTSE World index reflects the UK bias to the trust's portfolio and the weaker performance of the FTSE All-Share index relative to global indices over one, three, five and 10 years. However, we note that LWDB's NAV total return has only modestly underperformed the FTSE World index over 10 years.

Exhibit 7: Investment trust performance to 30 November 2016

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



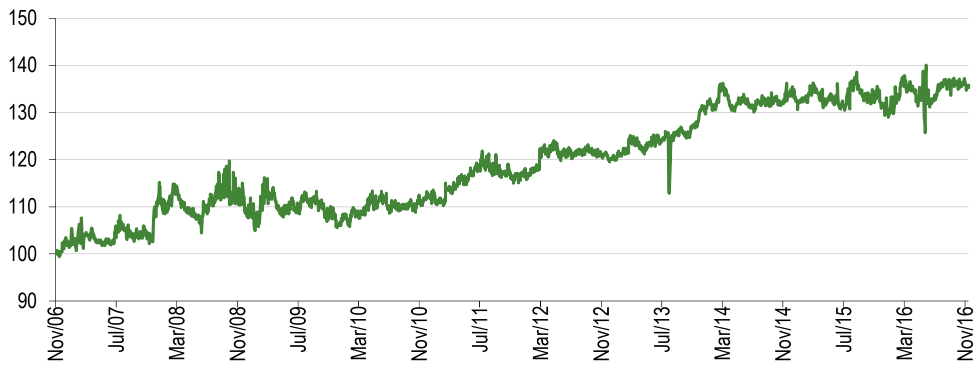
Source: Thomson Datastream, Morningstar, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 8: 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 FTSE All-Share	4.6	5.5	(0.1)	(2.6)	(7.2)	9.4	31.4
NAV relative to FTSE All-Share	0.5	0.1	2.2	2.6	7.8	17.1	36.5
Price relative to FTSE 250	2.7	6.5	5.8	3.3	(12.6)	(12.7)	2.5
NAV relative to FTSE 250	(1.3)	1.1	8.3	8.8	1.5	(6.6)	6.4
Price relative to FTSE World	4.2	1.3	(9.4)	(14.8)	(26.7)	(15.4)	(7.3)
NAV relative to FTSE World	0.2	(3.9)	(7.3)	(10.3)	(14.9)	(9.4)	(3.8)

Source: Thomson Datastream, Morningstar, Edison Investment Research. Note: Data to end-November 2016. Geometric calculation.

Exhibit 9: NAV performance relative to FTSE All-Share index over 10 years



Source: Thomson Datastream, Morningstar, Edison Investment Research

Discount: Share price at a discount to fair value NAV

Exhibit 10 illustrates LWDB's share price premium/discount to cum-income NAV over five years based on restated historical NAV data, adjusted to reflect the fair value of the IFS business as well as the fair value of debt. The premium and discount values shown differ from those actually observed over the period before 29 February 2016 due to the difference between the book value and fair value of the IFS business. As an example, on 31 December 2015, LWDB's 498p closing share price represented an 8% premium to the 461.1p historically reported NAV per share, whereas it represented a 3.0% discount to the 513.5p restated fair value NAV.

Over five years, LWDB's shares have traded between a 14.2% discount and a 7.2% premium to fair value NAV cum-income. After narrowing substantially from January 2012 to June 2013, the discount has since followed a widening trend and, even after recently narrowing, its current level of 8.7% is appreciably wider than its 4.6% five-year average. The board believes that fair value NAV presents a better reflection of LWDB's valuation and should help investors to appraise the value of its shares compared to other investment trusts. After LWDB started to report fair value NAV at end-February 2016, the discount narrowed from 13.4% to 3.7% in mid-May, before resuming its widening trend.

Exhibit 10: Share price premium/discount to fair value NAV cum-income over five years (%)

Source: Thomson Datastream, Edison Investment Research. Note: Negative values indicate a discount, positive values a premium. Based on restated fair value NAV.

Capital structure and fees

LWDB has a conventional capital structure with a single share class and currently has 118.3m ordinary shares in issue. LWDB has authorisation to repurchase up to 14.99% of shares in issue and allot up to 7.5% of issued share capital over a three-year period. However, there is no share buyback programme in operation and, since 2008, the small number of share purchases and allotments made relate to an employee share scheme.

LWDB issued £75m fixed-rate, 30-year notes with a coupon of 3.77% pa in September 2015, taking the view that it was desirable to obtain fixed-rate, long-dated, sterling-denominated financing in a low interest rate environment. The proceeds were partly used to repay a £30m overdraft facility, which was subsequently cancelled. Including the £40m nominal value of the 35-year bonds issued in October 1999 with a coupon of 6.125%, LWDB's structural borrowings at end-2015 stood at £114.0m with a weighted-average interest payable of 4.586%. The directors determined that it was appropriate to benchmark the group debt against A-rated UK corporate bonds from end-2015 (compared to BBB-rated previously), giving a fair value for LWDB's borrowings of £124.4m. Over the longer term, the board sees the increase in borrowings enhancing shareholder value, with equity returns expected to exceed the carrying cost of the notes. At end-November 2016, net gearing stood at 8.0%, down from 15.0% at end-May 2016.

Management of LWDB's investment portfolio is delegated to Henderson Global Investors (Henderson) under a contract terminable by either side on six months' notice. Henderson is paid an annual management fee of 0.30% of net assets (excluding the net assets of the IFS business). Underlying management fees of 0.75% pa on LWDB's holdings in Henderson Japanese and Pacific OEICs are fully rebated. No performance fees are paid to the investment manager. The board views this as a competitive fee structure for an actively managed investment trust. The agreement with Henderson does not cover custody, preparation of performance data or record keeping.

Ongoing charges represent the cost of operating the trust, including the investment management fee, depositary and custody fees, investment performance data, accounting, company secretary and back office administration. LWDB's ongoing charge for 2015 was 0.46%, declining marginally to 0.45% for H116, which ranks as one of the lowest among its direct peers (see Exhibit 11).

Dividend policy and record

While LWDB's policy is to seek growth in both capital and income, it has built a 40-year record of raising or holding steady its dividend, which has compounded at an annual 10.3% over this period. The board attaches considerable importance to the dividend, which it aims to continue increasing steadily over time, while maintaining it at a level that is covered by revenue earnings and does not inhibit the flexibility of the investment strategy. LWDB reports revenue earnings on a conservative basis, with all fees and expenses, including interest costs charged in full to the revenue account. The regular income stream from LWDB's IFS business constitutes an important element of the trust's revenue earnings and helps the board to smooth out peaks and troughs in dividend income from the equity portfolio.

LWDB pays interim and final dividends for each financial year in September and April respectively. For 2015, following an increase in the interim dividend from 4.7p to 5.2p, the final dividend was held at 11.0p per share, giving a 3.2% increase in the total dividend to 16.2p. The 2016 interim dividend was held at 5.2p. After deduction of the final dividend payment, revenue reserves at end-2015 equated to 22.5p per share (representing 1.4 times the FY16 total dividend), and these may be used to smooth the progression of future dividends.

Peer group comparison

Exhibit 11: Global trusts selected peer group as at 16 December 2016

% unless stated	Market Cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing Charge	Perf. fee	Net Gearing	Dividend yield (%)
The Law Debenture Corporation	633.1	17.8	28.9	91.2	128.5	(0.4)	(0.1)	(10.2)	0.45	No	108	3.0
Alliance Trust	3,158.8	21.8	41.4	87.8	95.7	(0.2)	0.2	(5.8)	0.78	No	105	1.8
Bankers	850.0	23.3	39.7	97.8	110.6	(0.0)	0.1	(7.0)	0.53	No	103	2.3
British Empire	777.9	37.0	35.4	77.4	89.1	0.7	(0.0)	(9.8)	0.89	No	106	1.9
Brunner	259.7	24.7	33.5	88.6	89.6	0.1	0.0	(18.9)	0.75	Yes	107	2.5
Caledonia Investments	1,372.3	15.1	41.7	91.2	77.4	(0.7)	0.2	(20.0)	1.08	No	100	2.1
F&C Global Smaller Companies	677.4	26.4	50.2	137.1	182.3	0.2	0.4	0.7	0.50	No	105	0.9
Foreign & Colonial Investment Trust	2,912.2	25.3	48.8	104.8	126.4	0.1	0.4	(8.0)	0.69	No	107	1.8
Monks	1,198.2	28.5	40.4	77.9	107.4	0.4	0.2	(6.1)	0.59	No	107	0.3
Scottish Investment Trust	745.1	34.3	41.1	90.0	104.6	0.5	0.2	(10.7)	0.69	No	102	2.1
Scottish Mortgage	4,156.0	16.7	58.5	157.1	201.6	(0.2)	0.5	0.2	0.45	No	111	1.0
Witan	1,595.7	24.5	42.3	112.1	127.9	0.0	0.2	(6.0)	0.79	Yes	111	2.1
Selected peers average	**1,528.0**	**24.6**	**41.8**	**101.1**	**120.1**	**0.0**	**0.2**	**(8.5)**	**0.68**		**106**	**1.8**
Sector average (24 trusts)	**849.6**	**21.9**	**40.7**	**96.1**	**115.2**	**(0.1)**	**0.2**	**(5.9)**	**0.84**		**104**	**1.6**
LWDB rank in sector	**11**	**16**	**20**	**13**	**5**	**16**	**21**	**17**	**22**		**4**	**2**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Exhibit 11 shows a comparison of LWDB with a peer group of trusts that have a market cap of over £250m from the AIC Global sector (which has 24 constituents). LWDB's NAV total return is lower than the peer group average over one, three and five years, but ahead of the average over 10 years. In terms of risk-adjusted returns, LWDB's one- and three-year Sharpe ratios are lower than the peer group average, largely reflecting the trust's relative performance. Within the peer group, LWDB is distinguished by its below average ongoing charge and above average dividend yield. Its 0.45% ongoing charge ranks as the equal lowest in the selected peer group and equal second lowest in the sector, while its 3.0% yield ranks as the highest in the peer group and second highest in the sector. The strength of LWDB's share price relative to its NAV in November has narrowed the discount, but it remains wider than average within both the selected peer group and the overall sector. LWDB's gearing is modestly above average compared with selected peers and the sector.

The board

The board comprises four non-executive directors, all of whom are independent, and one executive director. Caroline Banszky (appointed January 2002), who had been managing director of the Law Debenture group since April 2002, retired on 31 August 2016 and was succeeded by Michael Adams, who was appointed chief executive officer. He has spent the last four years at TMF Group, latterly as its global head of structured finance services, having previously been regional director, UK, Ireland and Channel Islands and, prior to that, UK managing director. Before joining TMF, Adams spent 10 years at BNY Mellon, initially as finance director of its operating company QSR Management and ultimately as managing director of the structured finance group.

The non-executive directors are Christopher Smith, Robert Laing, Mark Bridgeman and Tim Bond. Chairman Christopher Smith (appointed March 2009) is a former partner of Cazenove & Co and corporate finance managing director at J.P. Morgan Cazenove and has over 30 years' experience in corporate finance and equity capital markets. He is chairman of CG Asset Management and deputy chairman of Allchurches Trust. Senior independent director, Robert Laing (appointed April 2012), has been a partner in law firm Maclay Murray & Spens since 1985 and chairman since June 2010. He is a director of The Independent Investment Trust. Mark Bridgeman (appointed March 2014) spent 19 years with Schroders as an analyst and then fund manager, rising to become global head of research. He is a director of JPMorgan Brazil Investment Trust and BlackRock Emerging Europe. Tim Bond (appointed April 2015) is a partner of Odey Asset Management, which he joined in 2010, and currently manages Odey's Odyssey Fund. He previously spent 12 years at Barclays Capital as a managing director and head of global asset allocation.

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