

Law Debenture



Annual Results 2016

13 March 2017

Presented by

Law Debenture

Michael Adams
Chief Executive Officer

Henderson
GLOBAL INVESTORS

James Henderson
Investment Manager

Introduction

- Caroline Banzsky retired at the end of August 2016 following 14 years at the helm. Michael Adams appointed as her replacement.
- Michael Adams appointed to the board in August 2016. Formerly global head of structured finance services for TMF, where he spent four years. Prior to that, he was at BNY Mellon for ten years where he was ultimately managing director of its structured finance group. Before that, he was at Barclays Capital, which he joined from Grant Thornton, having previously qualified as a chartered accountant.
- Michael has specific experience in the majority of our IFS business lines and is experienced in growing commercial operations both organically and by acquisition.

Nav per share

	31 December 2016 Pence	31 December 2015 Pence
NAV per share per financial statements	560.73	472.14
Fair value adjustment for independent fiduciary services	62.37	61.27
Debt fair value adjustment	(24.62)	(8.87)
NAV per share at fair value	598.48	524.54
	2016	2015
	£000	£000
Fair value of the IFS		
EBITDA at a multiple of 8.1 (2015:8.4)	80,028	78,397
Surplus net assets	9,908	12,082
	89,936	90,479

Fair value does not take into account full value to shareholders, as guidelines and methodology require standalone basis. Value of tax relief from investment trust is excluded. The tax charge in 2016 was reduced by £1,446,000. However due to changes to interest relief this will be reduced by c.£600,000 per annum (£450,000 in 2017)

Financial summary

	2016	2015	Change
	Pence	Pence	%
Share price	530.00	498.00	6.4
NAV per share at fair value (1)	598.48	524.54	14.1
Revenue return per share			
- Investment trust	10.88	11.01	-1.1
- Independent fiduciary services	7.68	7.09	+8.3
- Group charges	(2.60)	-	-
Group revenue return per share	15.96	18.10	-11.8
Capital return/(loss)	89.30	(14.47)	
Dividends per share	16.70*	16.20	+3.1
Ongoing charges (2)	0.45%	0.46%	

* Subject to shareholder approval

(1) Calculated in accordance with AIC methodology based on NAV including fair value of IFS businesses and long term borrowings

(2) Source AIC

Financial performance

	2016	2015	2014	2013	2012
Share price total return (1)	10.1	(3.0)	3.1	28.3	32.0
NAV total return (2)	16.9	(0.3)	2.8	29.4	15.6
FTSE Actuaries All-Share Index total return	16.8	1.0	1.2	20.8	12.3

(1) Source Calculated in accordance with AIC methodology based on NAV including fair value of IFS businesses and long term borrowings

(2) AIC

Long Term Performance

	1 year	3 years	5 years	10 years
	%	%	%	%
NAV total return (1)	16.9	19.8	79.2	125.7
FTSE Actuaries All-share index total return (1)	16.8	19.3	61.8	71.8
Share price total return (1)	10.1	10.2	86.5	117.8
Change in retail price index (1)	1.9	4.8	10.9	31.0
Investment trusts (Global) (1) NAV total return	21.0	41.4	98.9	119.3
Investment trusts (All conventional companies) (1) NAV total return	18.6	34.3	85.4	111.1

(1) Source AIC

Summary of revenue returns 2016

	Investment portfolio £000	Independent fiduciary services £000	Group charges £000	Total £000
Income	20,551	30,886	-	51,417
Cost of sales	-	(3,565)	-	(3,565)
Administration costs	(2,739)	(17,573)	(464)	(20,776)
Provision for onerous contracts	-	-	(3,031)	(3,031)
	17,812	9,748	(3,495)	24,065
Interest (net)	(4,964)	(275)	-	(5,239)
Return, before taxation	12,848	9,473	(3,495)	18,826
Taxation	-	(405)	422	17
Return, after taxation	12,848	9,068	(3,073)	18,843
Standalone return per ordinary share	10.88	6.46	(2.60)	14.74
Tax benefit of structure*	-	1.22	-	1.22
Revenue return per share	10.88	7.68	(2.60)	15.96
Retained revenue reserves				20.34

Group charges

	2016
	£000
Group charges before taxation during the year comprised the following	
Closure of US trust business	
Staff termination and legal costs incurred	(437)
Provision for onerous contracts	(3,031)
	(3,468)
Impairment of goodwill in Delaware Corporate Services Inc.	(418)
Past service credit on closure of defined benefit pension scheme net of costs of closure	391
Total	(3,495)

	2016
	£000
Group	
At January	-
Provisions made in the year	3,031
Foreign exchange	75
At 31 December	3,106

The provision comprises financing costs of £2,262,000 and net running costs (including the cost of closure) of \$1,043,000.

Investment trust

	2016 £000	2015 £000	Change %
Revenue			
UK dividends	17,299	16,456	5.1
Overseas dividends	3,178	2,549	24.7
Other	74	25	
	20,551	19,030	
Expenses	(2,739)	(2,926)	6.4
	17,812	16,104	
Interest	(165)	(333)	
Debtenture interest	(5,278)	(3,199)	
Inter-company interest	479	415	
	12,848	12,987	
Tax	-	-	
Total	12,848	12,987	(1.1)
Return per ordinary share	10.88p	11.01p	(1.2)

Investment portfolio

- Aim to achieve a better return than the FTSE All Share.
- Stock picking valuation based approach.
- Overseas holdings bring exposure to opportunities that cannot be found in the UK stock market.
- The equity portfolio is expected to provide good dividend growth over long term.
- Gearing 8% at year end (2015: 12%).

Investment equity portfolio

Asset breakdown at 28 February 2017

	%
UK	71
Europe	8
USA	12
Japan	2
Far East	5
Other	2
<hr/>	
Total	100
Equity Gearing	9.6
<hr/>	
Total Gearing	7.3

Major contributors to performance for 2016

Biggest rises by value

	Company	Value appreciation £	Portfolio valuation %
1	Royal Dutch Shell	8.6m	3.7
2	Anglo American	7.1m	-
3	Rio Tinto	6.2m	2.4
4	Applied Materials	6.0m	1.2
5	Glencore	5.9m	-

Biggest falls by value

	Company	Value depreciation £	Portfolio valuation %
1	Cape	2.2m	0.5
2	Senior	2.0m	1.6
3	International Consolidated Airlines	2.0m	1.0
4	Interserve	1.9m	1.3
5	St Modwen Properties	1.5m	0.8

UK portfolio Sector breakdown of direct equity holdings at: 28 February 2017

Size biases	Law Debenture
	%
Industrials	31
Financials	22
Basic Materials	10
Oil & Gas	10
Consumer Services	10
Consumer Goods	7
Health Care	6
Utilities	2
Technology (including Herald)	1
Telecommunications	1
Total	100

UK portfolio (cont'd)

Ten largest holdings at: 28 February 2017

		%
1	Royal Dutch Shell	3.3
2	Rio Tinto	2.4
3	HSBC	2.4
4	GKN	2.3
5	Rolls Royce	2.2
6	BP	2.0
7	GlaxoSmithKline	1.7
8	Prudential	1.6
9	BAE Systems	1.6
10	Relx	1.6

Investment outlook

- Diversity of holdings is key
- Corporates continue to be highly cash generative with conservative balance sheets
- Continued environment of moderate global economic growth, with pockets of weakness and pockets of strength

IFS Objectives

- Very strong brand in the market. High quality services. Remarkable level of client satisfaction
- Extremely well known in it's current market, but relatively unknown in emerging sectors
- Looking to extend the client base, extend the range of services and extend the range of jurisdictions being provided.
- 2017 opened a new “greenfield” office in Dublin, good opportunities, access to new services and a way of keeping a foot in the EU.
- Focus is clearly on organic growth and relationship management, but will consider acquisitions where they make sense.
- Rebrand from Independent Fiduciary Services to the more broadly named Independent Professional Services in progress and to be launched at the half year

Independent fiduciary services summary

- Underlying income flat relative to 2015.
- Costs remain stable and controlled.
- Overall profit before tax up 2.8% from 2015.
- Effective tax rate of 4.3%, benefitting from relief of investment trust costs and reduction in UK tax rate (2015: 9.2%).
- Revenue per share up 8.3%, mainly as a result of increased group relief from interest on long-term debt raised in September 2015.

Independent fiduciary services

	2016 £000	2015 £000	Change %
Revenue	30,886	30,555	1.1
Cost of sales	(3,565)	(3,461)	3.0
Underlying income	27,321	27,094	0.8
Administration costs	(17,573)	(17,485)	0.5
	9,748	9,609	
Interest (net)	(275)	(390)	
Return, including profit on ordinary activities before taxation	9,473	9,219	2.8
Taxation	(405)	(847)	(52.2)
Return, including profit attributable to shareholders	9,068	8,372	8.3
Return per ordinary share	7.68p	7.09p	8.3

Corporate trust: UK, US, HK and Channel Islands

- Our income is generated by acceptance fees on new business, annual trustee fees and fees for post-issuance work which may arise from restructurings, ratings down grades and other actions required by the trust deed.
- New business in UK Corporate trust had a good 2016 including: new issuances for BP, BT Bank of England, National Grid, and Vodafone.
- Also appointed bond and security trustee for Hinkley Point.
- Our recognised independence as an impartial third party continues to enable us to secure many escrow agent appointments.
- We have closed our NY Corporate Trust business as the cost-benefit of the US\$50m of regulatory share capital required coupled with the high level of competition in the sector from US Trust banks is now marginal.
- We are actively exploring additional, supplementary services that we can provide from the UK, HK and Channel Islands and looking separately at opportunities to grow our remaining US businesses

Pensions trusts and Governance services: UK

- Our pension trusteeship service had another good year in a market environment that continues to change.
- An increased focus on defined contribution schemes and the continued refinement of the needs of final salary schemes provided an increasing demand for our services, especially as chair of trustees.
- The performance of our sole trusteeship services, where we act as the sole trustee of final salary schemes and deliver one-stop governance cost effectively, and to continues to evolve and attract new clients.
- Our governance and board effectiveness business is still in demand in what has become a highly competitive market.
- Interest in our services from new pension funds remains strong and we are growing our team to be well positioned to service there opportunities.
- We are also actively exploring new ancillary services in this market that we can provide to both our existing client base and new clients.

Corporate Services: including agent for service of process UK, US, HK and Channel Islands.

- Our long established and highly regarded service of process business had another solid year.
- The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) saw some gains, despite sluggish securitisation markets.
- New appointments were secured for clients including Babcock International.
- We continued to win new customers with company secretarial, M&A and corporate governance appointments.
- Considerable uncertainty exists in the UK concerning Brexit, this has no immediate impact on our results but diversification will become even more relevant as the process unfolds.
- Growth from our new office in Dublin, plus opportunities to broaden our product range will help drive growth in 2017.

Safecall

- Our external whistleblowing service had another successful year with a considerable number of new appointments.
- As pressure increases from regulators, both in the UK and around the world, more and more organisations are looking to enhance their compliance programmes. This has been particularly evident in the financial sector, with the FCA looking to promote a culture where individuals feel able to raise concerns and challenge poor practice and behaviour and for well know brands concerned with non compliance with their environmental and social responsibilities harming their reputations.
- Notable appointments during 2016 included M&S Boehringer Ingelheim, Computacenter and Keller.
- Demand in the sector remains strong and the Safecall team continue to find new potential clients and market segments to target.

Conclusion

- We expect that 2017 will be similar for our core activities.
- Focusing on our strengths – quality service, our people, our reputation, our experience, our clients – with increased and more proactive promotion of our businesses and a focus on new products, should enable us to win a higher share of new business.
- 2017 will include some refreshment and expansion of staff to focus each business on safe and controlled growth.
- Brexit remains an unknown, there is no clear impact today other than the sense of a general slowdown and reluctance to plan too far in the future.

Important information

Henderson Global Investors
201 Bishopsgate, London EC2M 3AE
Tel: 020 7818 1818, Fax: 020 7818 1819

This document is solely for the use of professionals and is not for general public distribution.

This document is solely for the use of professionals, defined as Eligible Counterparties or Professional Clients, and is not for general public distribution.

Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change.

If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially.

Nothing in this document is intended to or should be construed as advice. This document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment.

Any investment application will be made solely on the basis of the information contained in the Prospectus (including all relevant covering documents), which will contain investment restrictions. This document is intended as a summary only and potential investors must read the Prospectus before investing.

Issued in the UK by Henderson Global Investors. Henderson Global Investors is the name under which Henderson Global Investors Limited (reg. no. 906355), Henderson Fund Management plc (reg. no. 2607112), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), Henderson Alternative Investment Advisor Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646) (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE and authorised and regulated by the Financial Services Authority) provide investment products and services.

Telephone calls may be recorded and monitored.

End