



LawDebenture



ANNUAL REPORT
2018

The Law Debenture Corporation p.l.c.

A differentiated investment proposition

A PROUD HISTORY

130 years of value creation for shareholders

STRENGTH AND DIVERSITY OF INCOME

39% of total dividend funded by our Independent Professional Services business

LONG-TERM DIVIDEND GROWTH

40 years of increasing or maintaining dividends to shareholders (55% increase in dividend over the last ten years)

CONSISTENT LONG-TERM OUTPERFORMANCE OF BENCHMARK

40% outperformance of benchmark over three years, 38% over five years and 44% over ten years

Key statistics

for the year ended 31 December 2018

614.1p

NAV per share
(2017: 669.5p)

9.2%

Proposed increase in 2018
dividend per share
(2017: 3.6%)

(5.8)%

NAV total return for the year
(2017: 16.6%)

725.9m¹

Net Asset Value
(2017: 791.1m)

9.2%

Increase in normalised
revenue return per share

(9.5)%

Benchmark total return for the year
(2017: 13.1%)

¹ Please refer to note 10 on page 76 for calculation of net asset value

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Law Debenture is an investment trust and a leading provider of independent professional services, listed on the London Stock Exchange. From its origins in 1889, we have diversified to become a group with a unique range of activities in the financial and professional services sectors. The group has two distinct areas of business.

Investment trust

We are an investment trust with a net asset value of £726m¹, listed on the London Stock Exchange.

Our portfolio of investments is managed by James Henderson of Janus Henderson Investors.

Our 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 FTSE Actuaries All-Share Index Total Return through investing in a diversified portfolio of stocks.

Independent professional services (IPS)

We are a leading provider of independent professional services.

Built on three excellent foundations: our Pension, Corporate Trust and Corporate Services businesses.

We operate globally, with offices in the UK, Dublin, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

Companies, agencies, organisations and individuals throughout the world rely upon Law Debenture to carry out our duties with the independence and professionalism upon which our reputation is built.

¹ As at 31 December 2018

Financial summary

	31 December 2018 £000	31 December 2017 £000
Net assets ¹	725,863	791,089
	Pence	Pence
Net Asset Value (NAV) per share at fair value ^{1*}	614.07	669.53
Revenue return per share		
Investment trust	13.23	11.61
Independent professional services (normalised)	7.87	7.21
Independent professional services (exceptional)	—	2.72
Group charges	0.16	0.12
Group revenue return per share	21.26	21.66
Capital (loss)/return per share	(71.85)	67.10
Dividends per share	18.90	17.30
Share price	540.00	629.00
	%	%
Ongoing charges ^{3*}	0.43	0.43
Gearing ⁵	3	1

Performance

	1 year %	3 years %	5 years %	10 years %
NAV total return ^{2*}	(5.8)	27.3	30.4	199.0
FTSE Actuaries All-Share Index Total Return ⁴	(9.5)	19.5	22.1	138.3
Share price total return ^{4*}	(11.6)	19.0	18.8	243.5
Change in Retail Price Index ⁴	2.7	9.6	12.7	34.1

1 Please refer to note 10 on page 76 for calculation of net asset value

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

3 Source: AIC. Ongoing charges are based on the costs of the investment trust and include the Janus Henderson Investors management fee of 0.30% of NAV of the investment trust. There is no performance related element to the fee. Gearing is described in the strategic report on page 26

4 Source: Bloomberg

5 Items marked "*" are considered to be alternative performance measures and are described in more detail on page 91

Chairman's statement



In what has been my first year as Chairman of Law Debenture, I am pleased to introduce our shareholders to the 2018 annual report.

Performance

Against a backdrop of significant market turbulence and uncertainty over the UK's exit from the EU, the FTSE Actuaries All-Share Index Total Return declined by 9.5% in 2018. In this context, I can report that your Company's net asset value declined by 5.8% on a total return basis over that same period. As investors quite rightly challenge active managers' ability to demonstrate their value over passive counterparts, we are satisfied with this relative outperformance. Our aim is to grow your capital over the long-term; however it is never comfortable to report a decline in net asset value in the short-term. We are comforted that the portfolio was protected from almost 40% of the overall market decline, and that our relative performance remains strong over one, three, five and ten year periods. £1,000 invested in Law Debenture ten years ago would have been worth £3,435¹ at the end of 2018.

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Dividend

Law Debenture has increased or maintained its dividend in each of the last 40 years. Over the last ten years, we have delivered a 55% increase in dividend and an annualised dividend growth of 4.5%.²

We recognise that, in a low interest rate environment, great value is ascribed by our shareholders to the dividend they receive from this Company. We were pleased to provide investors with a 9.2% increase in the interim dividend paid in September. The board is recommending we maintain that increase for your final dividend. Subject to your approval, we will pay a final dividend of 12.9p per share on 18 April 2019 to holders on the register on the record date of 15 March 2019. This will provide shareholders with a total dividend of 18.9p per share for 2018, compared to 17.3p in 2017. We are happy to make this recommendation in the context of £50.0m of consolidated retained earnings and a revenue profit for the year of £25.1m.

Investment portfolio

We believe the ongoing charges ratio of 0.43% for the trust as a whole offers excellent value for money for our shareholders. Indeed, this is significantly lower than the average ongoing charges ratio for UK investment trusts which the AIC published as 1.21% as at 31 December 2018.

The board has given a great deal of thought on how best strategically to position the investment trust, in light of our portfolio's significant UK weighting. While much of our portfolio comprises UK stocks with a global bias, our performance is more closely linked to the performance of UK markets than it is to broader global markets. Indeed, it is the FTSE Actuaries All-Share Index Total Return against which the board assesses the investment performance. To more closely reflect the reality of our portfolio construction, later this year we will be moving to a UK sector AIC category from the current global sector classification.

¹ Calculated on a total return basis assuming dividend re-investment between 31 December 2008 and 31 December 2018

² Calculated on an annualised basis on dividend payments made by accounting year between 31 December 2008 and 31 December 2018

Independent professional services (IPS)

Your Company benefits from the unique proposition of an equity portfolio combined with a professional services business. Law Debenture has paid in aggregate £172m to shareholders in dividends over the past 10 years, of which £67m, or 39%, has been funded by the IPS business.

As you will hear from our chief executive officer, Denis Jackson, in his report on pages 6 to 10, 2018 was a solid year for our IPS business. When Denis took over as chief executive at the start of 2018, he made a firm commitment to start a trajectory of growth in our IPS business and he has done just that. With the support of a strengthened team, revenue has grown by 9.0% and normalised earnings per share (after the removal of exceptional items) by 9.2%.

We have ambitions to achieve mid to high single digit growth in 2019. This is underpinned by a rigorous business plan and budgeting process. Increased income, combined with a firm control of costs, would drive revenue earnings per share growth and support higher dividends for our shareholders. This will allow us to continue to build on our unbroken 40 year history of maintaining or growing the dividend. Our aim for 2019 is to continue the journey to turn a highly profitable, but relatively static or low-growth business, into something much more dynamic, while at the same time retaining the highest quality of service for our global clients. If we are able to grow our revenue and earnings over time, this should drive a corresponding increase to the valuation of the IPS business, helping to drive capital growth for the trust as a whole.

Your Company's board

Having welcomed Katie Thorpe as our chief financial officer in June of 2018, I was delighted to announce her appointment as an executive director of your Company from 1 January this year. Her appointment to the board reflects the value that she brings to the organisation. We believe diversity is key to enhancing independent thinking and healthy challenge. To that end, we have a search in place to appoint a further director to your Company's board – we are committed to framing that recruitment with a backdrop of diversity in all of its forms.

As the appointment of an additional director will put us close to the limit on fees set out in the articles of association, we are seeking shareholder approval to increase the article limit for the first time since 2008 to £400,000. This will allow the board to manage its composition for the foreseeable future in accordance with the articles.

Report and accounts

After following the same tried and tested format for many years, we felt it was the right time to make some changes to modernise the look and feel of your annual report. At the same time, we have listened to feedback from shareholders and analysts and have increased the transparency of reporting around our IPS business. On page 7 you will find for the first time a breakdown of net revenue by division, along with guidance for 2019. We see this as the start of a journey and will be looking to continue to evolve our reporting into 2020 and beyond.

Looking forwards

We have seen a modest recovery in markets after the woes of the later part of 2018. In that context, we are pleased to report that your Company's net asset value has increased by 6.7% as at 22 February 2019, compared to 7.7% for the FTSE Actuaries All-Share Index Total Return.

Debate continues to rage around the possible outcome for the UK over Brexit, while on the global stage there remain significant concerns around trade disputes between the US and China. Your Company has weathered many storms over its long history and will remain relentlessly focussed on creating value for our shareholders.

For our investment trust, James Henderson is an accomplished investor who has been involved in the management of your portfolio for the past 25 years. During that time, the portfolio has generated a net asset value total return of 944% compared to 393% by the FTSE All-Share¹. We rely on James to continue to do that at which he excels; the identification of quality

companies at a favourable valuation at an opportune point in the cycle.

For our IPS business, the diversity and repeatable nature of our income, coupled with a strengthened team, leave us well placed to deliver on our growth objectives for 2019.

Robert Hingley
Chairman
26 February 2019

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¹ Source: Bloomberg, total return analysis from first available data point on Bloomberg of Law Debenture NAV (measured ex income with debt at par) as at 1 February 1994, measured to 31 December 2018. FTSE Actuaries All Share Total Return measured over the same performance period. Bloomberg data includes the adjustment to the fair value of the trust in respect of the IPS business from 29 February 2016.

Chief executive officer's review



Introduction

I am delighted to be introducing our final results for the twelve months ended 31 December 2018, my first full year as CEO of Law Debenture. Since joining, I have spent a great deal of time getting to know the two complementary, but distinct, areas of Law Debenture that make up our unique business model. I am confident that the powerful combination of our equity portfolio, (ably managed by James Henderson) and our leading global independent professional services business will be a key value driver.

The quality of the overall group and its people has been clearly impressed upon me since joining and I was pleased to welcome Katie Thorpe as CFO following the retirement of Tim Fullwood. She is a fantastic addition to the business given her wealth of experience working with investment trusts. She is well known to investors and is already increasing the transparency and understanding of our business. Following a commendably fast start, Katie joined our board on 1 January 2019.

Our investment trust

It has been a great pleasure getting to know James Henderson over the past year and we were glad to welcome Laura Foll back from maternity leave in the autumn. Laura has assisted James in running the portfolio since 2011.

James' successful long term record has rightly earned him a large and loyal following in the investment trust investor community. NAV total return has consistently outperformed our benchmark on a one, three, five and ten year basis. In the past year, the portfolio has been sheltered from almost 40% of the benchmark decline. Over three years, the portfolio has generated an outperformance of 40.0% and over ten years an outperformance of 43.9%.

The board has given a great deal of thought on how best to strategically position the investment trust. As a result of these deliberations, later this year we will be moving to a UK sector AIC category from the current global sector classification.

For nearly two decades, James has run the portfolio with at least 70% allocated to UK stocks. Our benchmark is UK. A UK sector reflects far more accurately what the portfolio is as an investment proposition.

Our independent professional services business (IPS)

Our IPS business is a key differentiator between us and other investment trusts. As the Chairman explains in his statement, the IPS earnings have covered almost 40% of total annual dividend payments in the past ten years, allowing James increased flexibility in portfolio construction.

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Our leading global independent professional services business will be a key value driver as we deliver our core objective of long-term capital growth and steadily increasing income

Following many meetings in 2018 with brokers, wealth managers and shareholders, it is clear to me that we have more work to do to explain our differentiated investment proposition. It is incumbent on us to better explain both the nature of the professional services that we provide, and the inherent value of IPS to our owners.

Our stated objective is "to achieve long term capital growth in real terms and steadily increasing income". Between 2011 and 2017, IPS earnings were flat (see table on page 31). While we score highly for consistency, net operating margin and return on capital employed, we have failed to register growth and we need to address that. I am pleased to report some steps in the right direction in this regard in 2018.

IPS normalised earnings per share increased from 7.21 pence per share in 2017 to 7.87 pence in 2018, a 9.2% increase. Revenue (net of cost of sales) increased from £27.1m to £29.6m, an increase of 9.0%.

We are confident we can grow the IPS business considerably over time, while preserving our quality of product, outstanding client outcomes and our hard won reputation.

Our leading independent professional services provider is built on three excellent foundations; our Pension, Corporate Trust and Corporate Services businesses.

The table below sets out the revenue by division net of cost of sales for the past three years, alongside a percentage growth number compared to prior year:

DIVISION	Net revenue 2016 £000	Net revenue 2017 £000	Net revenue 2018 £000	Growth 2016/2017 %	Growth 2017/2018 %
Pensions	7,814	8,270	9,488	5.8%	14.7%
Corporate Trust	8,411	7,900	8,362	-6.0%	5.8%
Corporate Services	10,117	10,977	11,734	8.5%	6.9%
Discontinued ¹	828	—	—	—	—
Total	27,170	27,147	29,584	-0.1%	9.0%

¹ This relates to revenue earned by the US corporate trust business that was discontinued as at 31 December 2016 and a dividend received from Nordic Trustee Holdings ASA which was sold during 2017

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2019 marks the 50th anniversary of our first pension fund client, Demerara Sugar. While the landscape has changed considerably, the fundamental value proposition of a qualified independent pension trustee has not. Many of the reasons for our appointment to Demerara Sugar are as true today as they were 50 years ago

Taking each business in turn:

Pensions

2019 marks the 50th anniversary of being appointed by our first pension client, Demerara Sugar.

While the landscape has changed considerably, the fundamental value proposition of a qualified independent pension trustee has not. Many of the reasons for our appointment to Demerara Sugar are as true today as they were 50 years ago: ensuring proper and professional governance; the need to protect against abuse of schemes; and the deployment of an effective strategy to communicate fair management of a scheme and its benefits to a sometimes sceptical workforce.

Market dynamics

No one particularly likes to save for their pension but almost everyone wants to retire one day. Add to this the irresistible demographics of an ageing population and a growing middle class. Overlay this conundrum with the need of the government

to put in place tax incentives for people to save in the long term while maintaining tax revenues in the short term. Top this off with the political desire of successive Chancellors of the Exchequer to “solve this once and for all” by introducing yet another refinement to our pensions legislation and we are left with (positive metaphors only) a simply delicious plate of spaghetti for trained professionals only to devour, lest the public choke on the same ingredients.

Politically agnostic, we echo the cries of “hear, hear” in the Commons Chamber with our own “well, well” as successive governments add to the complex web to be untangled.

We currently deal with around 200 Defined Benefit schemes out of around 5,500 schemes in the UK. We firmly believe that the next 10 years will see an increasing trend towards consolidation of these 5,500 in order to optimise operating efficiencies and enhance governance structures given the common problems that many share. Even after consolidation, a market share of 3.6% leaves plenty more schemes to serve and support.

Chief executive officer's review continued

Highlights

The single most important driver of success in professional services is quality of people and, in 2001, we recruited Mark Ashworth. Today, Mark sits at the top table of the profession in the UK and thankfully he too recruits well. Michael Chatterton joined us in 2010, and between them Mark and Michael lead a team that is rightly viewed by its clients as the leading UK independent pension trustee. Our trustee team has grown by 20% over the past two years, as we recruit outstanding commercial professionals from a rich variety of backgrounds.

In 2018, we started to see returns from that investment in people, with revenues up 14.7% from £8.3m to £9.5m. This is a very pleasing result that we are looking to build on in 2019 and beyond.

2018 also saw the launch of our pensions governance business, PEGASUS. There is a recent trend towards the appointment of sole corporate professional trustees, rather than a traditional multi trustee board model. Growing regulatory focus on the sector as a result of the fallout of several high profile corporate and pension failures, has seen lay trustees facing increased pressure, accountability and responsibility. With wins of five additional sole trusteeships in 2018, our provision of sole trustee solutions is now beyond critical mass.

Key client wins for this year include John Lewis, Fujifilm, Ernst & Young, Smart Pension and the British Bankers' Association.

Outlook for our pension business

As we look forward, the long-term decline in the Defined Benefit market is well aired, albeit one that has many years to play out given the long term nature of liabilities to be funded.

Accordingly, we believe that the growth in importance of our Defined Contribution (DC) work relative to our total revenues will continue. The considerably increased number of DC appointments in recent years provides us with tangible evidence of this and, while we have an enviable roster of larger clients, our ability to create solutions for the mid-market and to support consolidation type solutions at the smaller end will help drive growth.

In the meantime, I would like to thank Mark and Michael for their outstanding leadership of this business and the whole team for their unstinting professionalism. We are fortunate to have them.

Corporate trust

This business led to the creation of Law Debenture nearly 130 years ago. Our longest appointment is for a share trustee role in 1889, the year in which Law Debenture was founded. This appointment remains in place today.

Our duty as a corporate trustee is to act as a bridge between bondholders and a bond issuer. The trustee's role and income stream can vary greatly between "non-defaulted" and "defaulted" bonds.

In non-default situations, the trustee is typically paid an (inflation linked) annual fee to discharge its duties throughout the lifetime of the bond. We started 2018 with more than two-thirds of our £8.4m annual revenue contractually secured, with an overall inflation linked increase of 1.5% on those same contracted revenues in 2017.

In addition, the trustee becomes involved when amendments to deal with documentation or waivers are required. This will often be separately remunerated and provides us with an additional income stream, which represented 19.5% of our corporate trust revenue for 2018.

In default scenarios, the revenue and risk profile of the trustee often shifts substantially. A key role of the trustee is to be the legal creditor of the issuer on behalf of the bond holders. This can require material extra work that, given an optimum outcome, can lead to significant additional income. However, default scenarios can take years to play out and have uncertain outcomes. The trustee is at risk if it is subsequently judged not to have discharged its duties appropriately.

Our corporate trust team are conservative and careful in taking on new business, and operate in an environment that has long prioritised these qualities. This highly disciplined approach has produced consistent profits for over a century. Our shareholders should understand that

swings in our revenue (and in turn profit) can result from adopting a prudent approach to provisioning, as long term defaults work their way to a conclusion.

Market dynamics

Our corporate trust business is a leading independent player; however, the market is highly competitive, particularly as a result of the emergence of multi-service offerings by global banks. Eliot Solarz was appointed to head this team on 1 January 2018 and leads by example as we look to accelerate our growth.

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We started 2018
with more than two-thirds
of our £8.4m annual
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in 2017

Happily, as with all of our businesses, Eliot has strong foundations on which to build; we consistently receive excellent feedback from clients for our technical knowledge, speed, quality of service and willingness to innovate. We pick our spots carefully and play very much to our strengths.

All bond trustees love an appointment to a standard investment grade corporate bond and we are no exception. We are thrilled when issuers such as Vodafone, Unilever or NatWest appoint us as their trustee. But we have learned long ago that by moving off the beaten path a little, there are more complex products that are well served by our deep technical knowledge and our ability to move fast.

A particular focus is in infrastructure and “real asset” businesses e.g. transportation, energy and real estate. Short-term issuance in these sectors will ebb and flow but as a long-term proposition, experience tells us that global demand for capital in these areas is almost bound to continue to increase. Indeed, we first acted in this space for The Kansai Railway Company in Japan in 1905.

A more recent example is Mutual Energy’s 35 year Gas to the West project which was launched in 2018. This is to finance the extension of a gas network in Ireland, where we provide security trustee, noteholder agent and registrar services. There are other smaller niches, where a deep expertise, reputation for quality and excellence in service delivery among specialist issuers and specialist arrangers serve us well.

Highlights

We took on 250 trustee engagements in 2018, acting as trustee to bonds with an issuance value of close to £600bn. We booked revenues of £0.8m in 2018 for these contracts, a small fraction of the full value over their life cycle of around £10.8m. The majority of that future revenue is index linked. We now have around 1,800 trustee roles on our books for bonds with over £1.8tn of value.

Corporate trust’s net increase in revenues for 2018 was 5.8%, with total revenue increasing from £7.9m to £8.4m. Our new business fees earned in 2018 were the second highest recorded since the global financial crisis and at £0.8m were 24% higher than new business fees earned in 2017.

This increase was partially offset by a net addition to reserves of £0.3m across our book of transactions working through various stages of the default journey. Our aim is to recover these amounts in the future, but, as is almost invariably the case, quantum and timing of that recovery remains uncertain.

Key client wins for this year include Unilever, Sapporo, Playtech, Radisson Hotels and MORhomes.

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Our corporate trust team are conservative and careful in writing new business, and operate in a culture that has long prioritised these qualities. This highly disciplined approach has produced consistent profits for over a century

Outlook for our corporate trust business

The long term nature of appointments in the corporate trust universe provides a stable and index linked source of revenue for the group. As highlighted above, only a small fraction of the value of contracts won in a given financial year will benefit that year’s profit and loss account. Our aim is to consistently win new business in both the standard investment grade space and the niches where our speed and agility provide us with a significant advantage.

Corporate services

Corporate services provides outsourced solutions across a continuum of company directors, company secretarial, accounting, corporate administration and facility agent services. These services are

provided largely, but by no means exclusively, to corporates and special purpose vehicles.

Market dynamics

The traditional securitisation aspect of this market has not yet returned to its pre-financial crisis peak, but nevertheless the marketplace remains fiercely competitive. We continue to put great effort into building our relationships with arrangers, advisers, sponsors and end users. We are confident over time that, as with all of our businesses, our high quality service, underpinned by outstanding technical knowledge, relentless focus on client delivery and willingness to innovate will yield an incremental stream of repeatable earnings.

We provide a highly regarded global service of process business that had a solid year in 2018. Led by Anne Hills, it has a market leading reputation with law firms in London, New York and Hong Kong.

Highlights

Revenue from these businesses grew from £11.0m in 2017 to £11.7m in 2018, an increase of 6.9%. This year, the corporate service offering that I would like to highlight is relatively small but our fastest growing: our provider of independent whistleblowing services, Safecall.

Based in Sunderland, Law Debenture acquired Safecall in 2007, following its establishment 20 years ago by Alan Long, a former police officer. It has been expertly led since 2004 by his son Graham Long. He and his team have delivered a 15.4% increase in revenue in 2018 and a 44% increase in revenue over the past three years, with revenue for 2018 exceeding £1.6m for the first time.

Chief executive officer's review continued

Ethics and compliance have leapt onto the front page in 2018, following the multitude of revelations that, unfortunately for many, have come to light too late. Safecall provides an independent, confidential, anonymous (if desired) route to raise issues to the highest levels of organisations that can see that line management chains sometime fail and senior people don't always meet expected standards of behaviour.

We believe the team at Safecall offers a product superior to their competitors at a competitive price point. This is supported by Safecall's ownership structure. Where competitors are almost exclusively private equity backed and focused on extracting value, we are interested in the long-term success of Safecall, underpinned by the quality of the service provided by our highly trained call handlers.

Safecall took on 72 new clients in 2018. The team now support over 400 organisations, employing anywhere between 25 and 80,000 staff, on a truly global basis, covering 100+ languages. We currently act for 41 companies within the FTSE350, with significant growth ambitions for this market.

Key client wins for this year include:



المزروعى العالمية
Mazrui International

In addition to achieving excellent growth in 2018 we have also made strategic investments to set Safecall up for future success. We launched a new website, built a new case management solution as a service offering (SaaS), and have added headcount in business development, technology and client service. More information is available at www.safecall.co.uk.

Investment in technology

2018 has seen a strong focus on advancing the use of technology across IPS in order to improve the service that we provide to our clients, be that introducing additional functionality, enhancing security or reducing costs by delivering efficiencies in our operations.

The primary goal of the application of technology is to further enhance the characteristics that make the IPS business a unique proposition; responsiveness, speed, flexibility, discretion and delivery. We are also aware that key to our value proposition is the expertise of our people. We see technology as a way to enhance our capabilities, enabling our people to do more and faster to help deliver increased revenue, scale and control.

During 2018 we appointed David Williams as chief technology officer (CTO). David is the former CTO of Marshall Wace LLP and Tibra Trading. We have also hired five full-time technical experts to facilitate delivery of high quality technical solutions. This new team has already delivered a new technology platform for Safecall, a new website for both Safecall and Law Debenture; a new collaboration platform and secure file sharing service for our pensions trustees. Many more valuable initiatives are at various stages of delivery across a rolling two year plan.

Prospects

2018 was a year of change and investment for the IPS business, putting in place the foundations for future growth. Looking ahead, I am excited about future prospects. After nearly 130 years, Law Debenture remains focused on building on its reputation for delivering long-term income and capital growth. I'm encouraged by the progress already made by the IPS business in the last year and the outstanding team we now have in place to help future opportunities. We will also remain alert to any prospective acquisitions that would offer accretive value to shareholders without diluting our core brand and strengths.

For ten years, IPS has accounted for almost 40% of total annual dividend payments, which has allowed James Henderson greater flexibility in the equity portfolio's stock selection. The continued performance of IPS and its attractive, recurring revenues will continue to support our ambition to increase the dividend for the benefit of our shareholders. The move to a UK sector AIC category from the current global sector classification will better reflect Law Debenture's overall investment proposition. The board and I remain confident in James' ability to position the equity portfolio for future growth.

Denis Jackson

Chief executive officer

26 February 2019

Our IPS business is a key differentiator between us and other investment trusts.

As James Henderson explains in his investment review, the reliable nature of the IPS earnings have covered around 40% of total annual dividend payments in the past ten years, allowing James increased flexibility in portfolio construction

Investment manager's review



The equity portfolio

We have a diversified portfolio which aims to be a one-stop-shop for investors seeking quoted market exposure to quality companies. The majority of the portfolio, 74.5%, was in listed UK stocks at the year end, of which around two thirds were in the FTSE350 and the remaining third in mid and small cap stocks. Although our focus is the UK, we confidently go to other geographies for companies that do not have a credible UK equivalent – an example of this is Microsoft which we have held in the portfolio for seven years. At the end of 2018, 9.9% of your portfolio was invested in North America, 8.6% in Europe and 7.0% in the rest of the world. The trust's benchmark is the FTSE Actuaries All-Share Index Total Return and it is against this benchmark that we assess the relative success of the performance of your portfolio.

Recognising that we have consistently allocated at least 70% of the portfolio to UK stocks, the board has taken the decision to move to a UK sector AIC category from the current global sector classification later this year. We support this move; we believe the performance of the portfolio will remain more closely linked to the performance of UK markets than it will to that of broader global markets. This change will better reflect the nature of the portfolio and will have minimal impact on our long standing investment approach.

Our investment process

We take a bottom-up approach, spending a great deal of time with the management teams of our portfolio companies and conducting detailed analysis of the strengths, weaknesses and long-term growth prospects of those companies into which we invest your money.

We are patient with our positions and invest for the long-term. We build up positions gradually - having taken the decision to invest in a stock, we typically begin by investing around 30bps of overall net asset value, which we add to over time dependent upon the risk profile of an individual stock.

Our long list of stocks allows us to moderate our position size where we perceive the investment case is higher risk than may be the case elsewhere in the portfolio. This means that we take a risk-based approach to our position sizing, while ensuring that, if we get something right, the sizing is sufficient to influence the portfolio performance as a whole. I am ably assisted in this process by Laura Foll.

Our patience keeps our portfolio turnover low, reducing the drag of dealing costs on returns to our investors. That patience has rewarded our shareholders; over 10 years, the portfolio has outperformed the benchmark index by 44%.

The trust has paid £172m to its shareholders in dividends over the past ten years, of which £67m or 39% has been funded by the IPS business. As a manager, this gives us the freedom to bypass stocks which do not fit our investment criteria, that others seeking to provide a yield to shareholders may be forced to buy. I am encouraged to see the growth in the normalised earnings per share of the IPS business and believe that the plans Denis and his team have will create exciting opportunities for shareholders over time for both income and capital growth.

A great example of this is tobacco stocks. As the decline in global demand for tobacco shows no signs of abating, many income managers have been forced to purchase these traditionally consistent yielding stocks to maintain the dividend yield within their portfolio. As a declining

industry, these stocks do not meet our investment criteria of quality global companies with significant prospects for future growth. Our ability to steer clear of stocks of that nature has been accretive to our relative performance over the last twelve months.

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Our patience keeps our portfolio turnover low, reducing the drag of dealing costs on returns to our investors. That patience has rewarded our shareholders; over 10 years, the portfolio has outperformed the benchmark index by 44%



I regularly interact with private shareholders who hold Law Debenture as their only equity investment. I often think about them when making investment decisions, balancing the need to achieve long-term capital growth with the risk of exposing those investors to significant volatility

	1 year %	3 years %	5 years %	10 years %
NAV total return ¹	(5.8)	27.3	30.4	199.0
FTSE Actuaries All-Share Index total return ²	(9.5)	19.5	22.1	138.3

¹ NAV is calculated in accordance with AIC methodology, based on performance data held by Law Debenture including fair value of IPS business and long-term borrowings

² Source: Bloomberg, all references to 'FTSE All-Share' and 'benchmark' in this review refer to the FTSE Actuaries All-Share Index Total Return

We often buy stocks that are slightly unfashionable but that we believe have a significant potential for growth. They will typically be world class brands selling globally, that have fallen out of favour. One such stock is Standard Chartered, which we purchased two years ago when it was experiencing considerable headwinds and had suspended its dividend payment. This is a normally world class stock which had been overly punished by the market and which we were able to purchase at a favourable valuation.

I regularly interact with private shareholders who hold Law Debenture as their only equity investment. I often think about them when making investment decisions, balancing the need to achieve long-term capital growth with the risk of exposing those investors to significant volatility.

Markets were difficult and volatile in 2018, with the possibility for investors to lose significant capital if they got the timing and nature of their investments wrong. With this backdrop, I am pleased to report that our patient approach has seen your portfolio outperform its benchmark on a one, three, five and ten year basis.

More information on our investment approach can be found on pages 24 to 26 of the strategic report.

Review of 2018

As the Chairman said in his statement, we are satisfied with our relative outperformance of the benchmark against a backdrop of troubled and volatile markets. Over 2018, the FTSE Actuaries All-Share Index declined by 9.5%, while your Company's net asset value declined by 5.8% on a total return basis. As a manager aiming to grow your capital over time, it is never comfortable to report a decline in net asset value. I am, however, content that our bottom up approach to owning quality companies has sheltered the portfolio from almost 40% of the overall market decline.

Top five contributors

The following five stocks produced the largest absolute contribution for 2018:

Stock	Share price total return (%)	Contribution (£m)
GKN	53.2	5.1
Sky	74.1	3.3
Microsoft	28.2	2.6
Accsys Technologies	33.1	1.8
GlaxoSmithKline	19.0	1.8

Source: Bloomberg calendar year share price total return (in the case of GKN and Sky, until point of acquisition)

The two largest contributors to return during the year were GKN and Sky, both of which were taken over at a material premium to the prevailing share price at the time of acquisition. The valuation level in the UK market (along with the low value of sterling) may well lead to further corporate activity if the UK market is not re-rated closer to global markets.

The holding in Microsoft was also a strong contributor to performance. As noted above, we have the flexibility to allocate overseas where there is no equivalent company in the UK. The position was purchased in 2011 (for \$24 per share), when there were structural concerns regarding the decline in use of desktop computers and the impact this would have on businesses providing their operating systems and software. Under a (relatively) new management team, Microsoft has successfully transitioned the business towards a 'cloud' based subscription model and, as a result, the shares have re-rated materially and were trading at \$101 at the year end. We have recently been reducing the position as a result of the higher valuation, but it remains 1.5% of the portfolio at the end of December.

Investment manager’s review continued

Top five detractors

The following five stocks produced the largest negative impact on the portfolio valuation for 2018:

Stock	Share price total return (%)	Contribution (£m)
Fastjet	(89.7)	(8.2)
DS Smith	(35.9)	(5.1)
Senior	(25.6)	(4.2)
Prudential	(24.4)	(3.9)
HSBC	(11.0)	(3.1)

Source: Bloomberg calendar year share price total return

The largest individual detractor from returns was Fastjet, which is aiming to roll out a low-cost airline in Africa. While there is substantial unmet demand for a low-cost carrier serving the African market, Fastjet had to exit its core Tanzanian market when the state-owned carrier added substantial new capacity at an uneconomic return. As at the end of December, Fastjet was 0.1% of the portfolio. Although the position has been disappointing, it demonstrates the importance of running a long, diversified list of holdings in our portfolio.

Although a detractor in 2018, DS Smith, a cardboard packaging company, has been a strong contributor in previous years. It has undertaken a number of successful acquisitions under its current chief executive, entering first the European market and more recently the American market. The shares were weak in 2018 on concerns about a broader economic slowdown and at a company level the amount of debt taken on. The end markets are cyclical, but DS Smith is a far better business than it was going into the previous downturn and, in our view, this is not reflected in the current valuation.

We have maintained our holdings in DS Smith and other stocks where we believe our investment thesis holds true. We have used periods of weakness to selectively add to certain positions bringing our gearing from 1% at the start of the year to 3% at the end.

Attribution

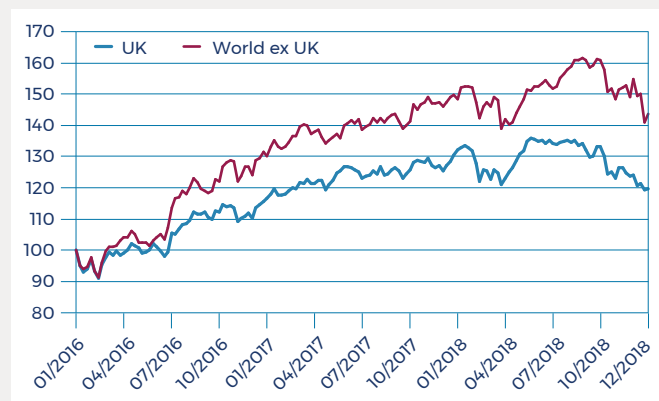
Since the referendum vote in June 2016, the UK stock market has significantly underperformed other major global markets.

This is in contrast to the twenty years before where UK and world markets performed roughly in line.

In a historical context, the UK market therefore appears to offer significant value. Price earnings ratios for UK companies with positive earnings in the FTSE All-Share were an average of 11x for the 12 months ending 31 December 2018, compared to 13.6x for Europe (excluding the UK) and 16.5x for the US. Looking at dividend yield, UK companies in the FTSE All-Share had an average yield

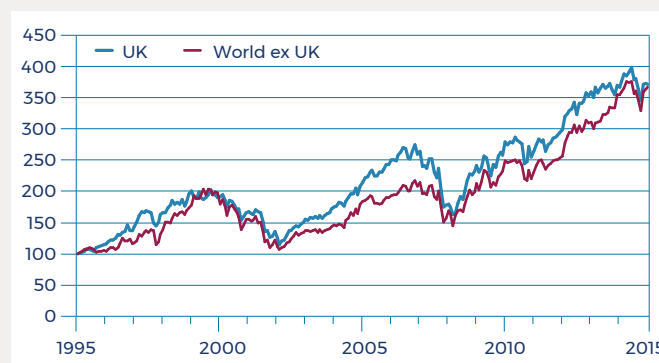
of 4.72% as at 31 December 2018, compared to 3.70% for Europe (excluding the UK) and 2.15% for the US.

The UK market has materially underperformed since the EU referendum



Source: Datastream as at 31 December 2018. Total return, £. UK – FTSE All-Share, World ex UK – MSCI World ex UK

In the 20 years prior to the EU referendum the UK and world markets performed roughly in-line



Source: Datastream as at 31 December 2015. Total return, £. UK – FTSE All-Share, World ex UK – MSCI World ex UK

We are retaining our exposure to the UK and adding to certain positions on days of market weakness, as explained below. A breakdown of the portfolio by geography can be found on page 18.

Portfolio activity

What I've been buying

During the year, purchases were predominantly in the UK market, many of which can be characterised as global companies listed in the UK. The UK market has materially underperformed global markets in recent years, which has left many good quality companies trading at a discount to both global peers and their recent history. An example of this is insurer and asset manager Prudential, which was added to during the fourth quarter at under 10x current year earnings.

We used the market weakness towards the end of 2018 to be net investors, adding to existing holdings, including pub operator Greene King, cruise operator Carnival and retailer Dunelm. We also for the first time in recent years added a new position in a UK housebuilder (Taylor Wimpey). The shares had de-rated to near book value, which historically has been a good entry point for the sector. The balance sheet has also improved materially since the financial crisis. This remains a small position (0.3% of the portfolio) but we expect to add to the position opportunistically if presented with further market weakness.

The largest new holding during the year was Kier Group, a contractor and support services provider, which demonstrates characteristics of quality but which has fallen out of favour with the market. This was purchased at £3.60 subsequent to the rights issue in December 2018, which we felt presented an attractive entry point. Following a number of poor performers in the sector, there has been a push among both the market and lenders for companies to operate with less debt. The £250m rights issue provided Kier with a much stronger balance sheet, while underlying operations have not deteriorated. Kier has not historically entered into large fixed cost contracts outside of its areas of expertise, which has proved a problem for peers when they have overrun on costs and impacted profitability. Kier has instead focused on smaller contracts where it continues to generate good margins.

Also among the largest purchases was one of the UK's water utilities, Severn Trent. Along with many shares that are focussed on the UK, it has de-rated versus recent history. As a result, it is currently paying an attractive 5% dividend yield, with a dividend that is expected to grow above the rate of inflation. Severn Trent is among the best in the sector in terms of operational performance, with a well-invested network. In our view, this was not reflected in the valuation.

What I've been selling

The largest sale during the year was aerospace and automotive supplier GKN, which was sold following a takeover from Melrose at a substantial premium. GKN had been a long-held position in the portfolio, having been purchased originally in 2006 at just below £3 and then added to substantially during the financial crisis at 89p in an emergency rights issue. The position was sold at approximately £4.30 early in 2018, providing a total shareholder return of 53.2%. We continue to retain positive exposure to the ongoing development of the civil aerospace sector through our remaining holdings in Senior and Rolls-Royce.

During the year we exited two of the overseas investment trust holdings, Schroder Japan Growth and Templeton Emerging Markets. In the case of Schroder Japan Growth, we purchased the position in 2016 at a double digit discount to net asset value and sold the position following strong portfolio performance and a

narrowing in the discount level. Templeton Emerging Markets was sold due to concerns about the outlook for emerging markets. Broadly, we aim to use investment trust and other collective investment holdings to gain exposure to specialist areas. For example, we continue to have a holding in Herald Investment Trust, which brings exposure to emerging technology companies. It has been a strong performer since purchase and provides access to an area of the market to which otherwise we would not have been exposed.

Details of your Company's largest holdings, along with our investment case, can be found on pages 16 and 17. A full portfolio listing can be found on pages 20 to 22.

Outlook

Economic forecasting for the UK continues to be difficult. A large unknown looms in 'Brexit' and what it means for business is unclear. The global economy appears to be slowing and UK productivity growth remains disappointing. The dark clouds are considered to be mounting for the UK by many commentators. However, the UK companies we hold are not a proxy for the

UK economy; they are strong businesses with good management teams. They are good at what they do and provide competitive products and services; they also earn around 65% of their revenues outside the UK. The negative sentiment towards these businesses has become extreme, which has made valuations and the dividend yield attractive. The intention over the next few months is to move the gearing up by buying UK stocks to take advantage of this dislocation. The US holdings have in aggregate performed well and where the valuation looks stretched they will be further reduced. The UK companies purchased serve a diverse number of end markets and we will likely add to existing holdings. It is important to use the weakness to position the portfolio for an improved investment background.

James Henderson
Investment manager
26 February 2019

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Over 2018, the FTSE All-Share declined by 9.5% while your Company's net asset value declined by 5.8% on a total return basis. As a manager aiming to grow your capital over time, it is never comfortable to report a decline in net asset value. I am however content that our bottom up approach to owning quality companies has sheltered the portfolio from almost 40% of the overall market decline

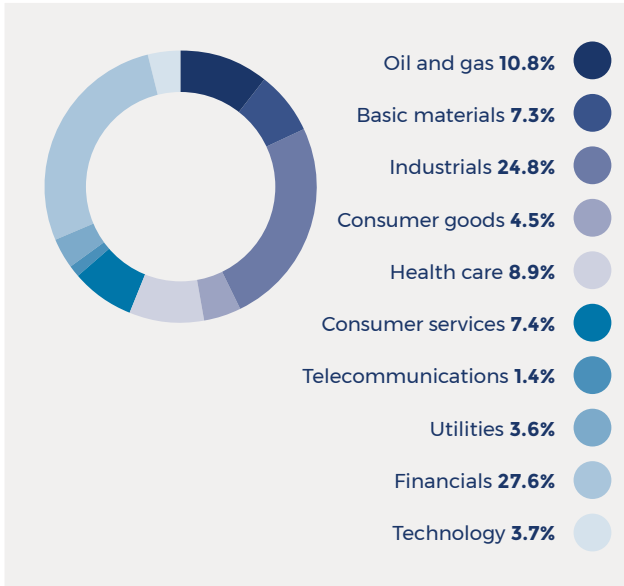
Twenty largest holdings

at 31 December 2018

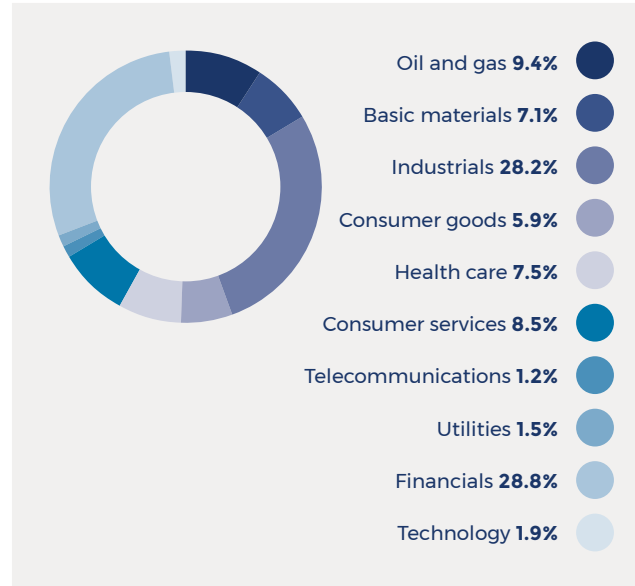
Rank 2018	Company	% of portfolio	Approx Market Cap.	Valuation 2017 £000	Purchases £000	Sales £000	Appreciation/ (Depreciation) £000	Valuation 2018 £000
1	Royal Dutch Shell	4.4	£192bn	31,300	—	—	(2,087)	29,213
	An oil explorer, producer and refiner. Following the oil price decline in 2014 and subsequent BG acquisition Shell was proactive in materially reducing operating and capital expenditure and as a result cash generation has markedly improved.							
2	GlaxoSmithKline	2.6	£73bn	13,839	1,554	—	1,756	17,149
	A global pharmaceutical company with a range of businesses across vaccines, pharmaceuticals and consumer health. The vaccine and consumer healthcare businesses are steadily growing and the pharmaceutical division is showing signs of a turnaround under a new leadership team.							
3	HSBC	2.6	£129bn	20,199	—	—	(3,145)	17,054
	A global banking and financial services business. It operates in faster growing economies creating potential for growth over the long-term and pays an attractive dividend.							
4	BP	2.4	£100bn	16,707	—	—	(837)	15,870
	An oil explorer, producer and refiner. Following the oil price decline in 2014 it has successfully reduced costs and as a result can now generate good levels of cash flow at a lower oil price.							
5	Rio Tinto	2.1	£65bn	14,775	—	—	(789)	13,986
	An international mining company with a broad range of commodity exposure. Its mines operate at the low end of the cost curve leaving it well placed to generate cash even in volatile commodity markets.							
6	Rolls-Royce	2.1	£16bn	13,976	—	—	(301)	13,675
	A designer and manufacturer of engines for use in a range of end markets such as aerospace. It is well placed in growing civil aerospace programmes and this gives it a good pathway for future earnings growth.							
7	Stewart Investors APL Fund	2.0	£8bn	15,933	—	(3,303)	830	13,460
	The Stewart Investors Asia Pacific Leaders Fund is an open ended fund that brings exposure to geographies which we have little exposure to elsewhere, such as India and Taiwan. It brings diversification to the portfolio and has performed well over time.							
8	Prudential	2.0	£36bn	13,968	3,049	—	(3,922)	13,095
	A global insurer and asset manager. Its Asian business has grown impressively in recent years and we think there is good potential for further growth.							
9	Relx	1.8	£32bn	13,035	—	—	(911)	12,124
	A provider of referencing and analytics tools for a broad range of end markets. It is a high quality business that has delivered very consistent earnings growth in recent years.							
10	Hiscox	1.8	£5bn	11,509	—	(689)	1,155	11,975
	An international insurer that has a high quality retail book that allows it to generate good returns across the underwriting cycle.							
11	Senior	1.7	£790mn	14,991	189	—	(4,177)	11,003
	A specialist engineer for aerospace and industrial end markets. It has established good content levels across a range of new civil aerospace programmes that should allow good sales and earnings growth in future.							
12	National Grid	1.6	£26bn	4,890	6,711	—	(832)	10,769
	A regulated utility that operates within the UK and the US. Shares trade at a lower multiple than has been the case historically relative to its asset base, with an attractive dividend yield.							
13	AstraZeneca	1.6	£74bn	5,118	4,565	—	809	10,492
	A global pharmaceutical company. Under a (relatively) new management team the pipeline has been materially improved leading to good prospects for sales and earnings growth.							

Rank 2018	Company	% of portfolio	Approx Market Cap.	Valuation 2017 £000	Purchases £000	Sales £000	Appreciation/ (Depreciation) £000	Valuation 2018 £000
14	Johnson Service Group	1.5	£430mn	12,987	—	—	(2,796)	10,191
A textile rental company that provides hotel linens, work wear and other textile products. The quality of the business has improved materially in recent years following the exit from the dry-cleaning business.								
15	Microsoft (USA)	1.5	£593bn	9,485	—	(2,111)	2,595	9,969
A global software provider. It has successfully transitioned the business to a subscription model and continues to grow earnings strongly.								
16	Baillie Gifford Pacific Fund	1.4	£370mn	16,024	—	(4,851)	(1,621)	9,552
This open ended fund brings diversity to the portfolio by investment style with a growth, rather than a value focus and also by geography.								
17	Standard Chartered	1.4	£20bn	10,029	1,312	—	(1,984)	9,357
An international bank operating across markets such as Asia and Africa. Under a (relatively) new management team they have improved the balance sheet and the focus is now on returning the business to growth.								
18	Herald Investment Trust	1.4	£901mn	9,894	—	—	(799)	9,095
This investment trust brings exposure to the global technology sector. It has been an excellent performer over the long-term.								
19	BHP	1.4	£88bn	8,371	—	—	703	9,074
An international mining, oil & gas company. It is well positioned on the cost curve to generate cash, even in volatile end markets for commodity prices.								
20	Land Securities	1.3	£6bn	8,050	2,241	—	(1,856)	8,435
A property company that owns retail and office assets in the UK. Due to concerns about the domestic economy and structurally about the retail sector, it is trading at a material discount to net asset value with an attractive dividend yield.								

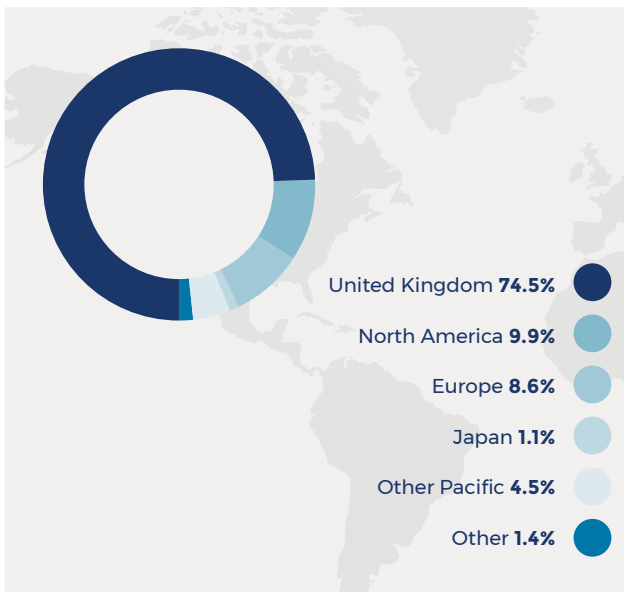
Portfolio by sector
2018



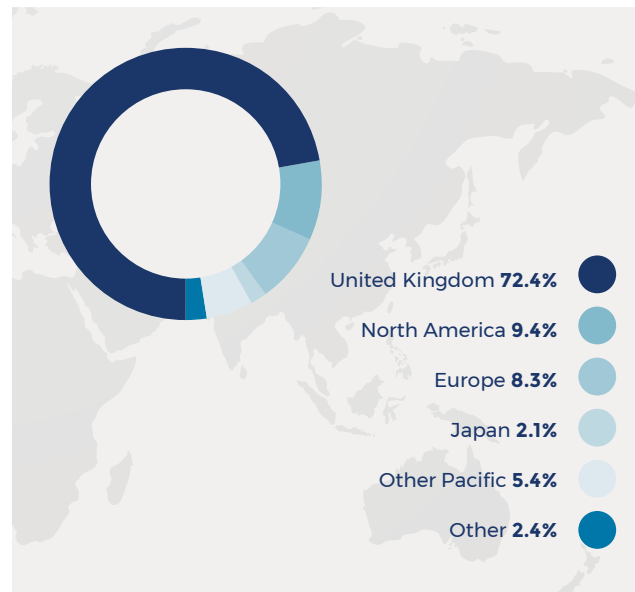
Portfolio by sector
2017



Geographical distribution
of portfolio by value
2018



Geographical distribution
of portfolio by value
2017



Classification of investments

based on market values at 31 December 2018

	United Kingdom %	North America %	Europe %	Rest of the world %	Total 2018 %	Total 2018 £000	Total 2017 %	Total 2017 £000
Oil & gas								
Oil & gas producers	8.14	0.75	0.35	–	9.24	61,055	7.97	58,664
Oil equipment services & distribution	1.07	0.51	–	–	1.58	10,517	1.41	10,399
	9.21	1.26	0.35	–	10.82	71,572	9.38	69,063
Basic materials								
Chemicals	2.15	–	0.72	–	2.87	19,109	2.89	21,288
Forestry & paper	0.99	–	–	–	0.99	6,534	1.05	7,724
Mining	3.48	–	–	–	3.48	23,060	3.15	23,146
	6.62	–	0.72	–	7.34	48,703	7.09	52,158
Industrials								
Construction & materials	4.64	–	0.55	–	5.19	34,376	3.44	25,320
Aerospace & defence	6.43	–	–	0.90	7.33	48,486	6.83	50,169
General industrials	1.27	–	0.10	–	1.37	9,073	1.56	11,450
Electronic & electrical equipment	2.35	–	0.24	–	2.59	17,166	4.94	36,280
Industrial engineering	2.47	2.69	–	–	5.16	34,246	6.26	46,100
Industrial transportation	0.94	–	0.14	–	1.08	7,163	1.13	8,342
Support services	1.69	–	0.33	–	2.02	13,405	4.09	30,028
	19.79	2.69	1.36	0.90	24.74	163,915	28.25	207,689
Consumer goods								
Automobiles & parts	–	0.89	0.12	1.12	2.13	14,125	3.94	28,963
Beverages	–	–	0.36	–	0.36	2,406	0.30	2,197
Food producers	–	–	0.42	–	0.42	2,803	0.38	2,802
Household goods & home construction	1.42	–	–	–	1.42	9,403	1.27	9,363
Personal goods	–	–	0.21	–	0.21	1,394	–	–
	1.42	0.89	1.11	1.12	4.54	30,131	5.89	43,325
Health care								
Health care equipment & services	1.04	0.93	0.31	–	2.28	15,093	3.17	23,316
Pharmaceuticals & biotechnology	4.17	1.33	1.14	–	6.64	43,912	4.34	31,918
	5.21	2.26	1.45	–	8.92	59,005	7.51	55,234
Consumer services								
General retailers	1.03	–	–	–	1.03	6,816	1.01	7,458
Media	2.32	–	–	–	2.32	15,377	3.63	26,659
Travel & leisure	3.13	–	0.92	–	4.05	26,725	3.90	28,774
	6.48	–	0.92	–	7.40	48,918	8.54	62,891
Telecommunications								
Mobile telecommunications	1.02	–	0.36	–	1.38	9,124	1.20	8,823
	1.02	–	0.36	–	1.38	9,124	1.20	8,823
Utilities								
Electricity	0.70	–	–	–	0.70	4,612	0.54	3,954
Gas water & multi utilities	2.86	–	–	–	2.86	18,932	0.95	7,050
	3.56	–	–	–	3.56	23,544	1.49	11,004
Financials								
Banks	3.98	–	0.35	–	4.33	28,749	4.72	34,771
Non-life insurance	3.49	–	0.54	–	4.03	26,710	3.28	24,166
Life insurance/assurance	2.96	–	–	–	2.96	19,625	3.63	26,814
Real estate investment & services	1.11	–	–	0.48	1.59	10,481	1.02	7,489
Real estate investment trusts	3.34	–	–	–	3.34	22,115	2.48	18,295
Financial services	3.91	–	0.56	–	4.47	29,753	3.05	22,395
Equity investment instruments	2.40	–	–	4.51	6.91	45,868	10.59	77,918
	21.19	–	1.45	4.99	27.63	183,301	28.77	211,848
Technology								
Software & computer services	–	1.50	0.58	–	2.08	13,814	1.88	13,837
Technology hardware & equipment	–	1.28	0.31	–	1.59	10,566	–	–
	–	2.78	0.89	–	3.67	24,380	1.88	13,837
TOTAL 2018	74.50	9.88	8.61	7.01	100.00	662,593		
TOTAL 2017	72.42	9.35	8.30	9.93	–	–	100.00	735,872

The above table excludes bank balances and short-term deposits

Investment portfolio valuation

based on market values at 31 December 2018

The number of investments was 139 at 31 December 2018 (2017:137), including de-listed stocks. Those shown in italics are new holdings in the six months since 30 June 2018.

OIL & GAS		
Oil & gas producers	£000	%
Royal Dutch Shell	29,213	4.41
BP	15,870	2.40
Gibson Energy (Can)	4,979	0.75
Indus Gas	3,947	0.60
Tullow Oil	3,582	0.54
Total (Fra)	2,247	0.35
Premier Oil	831	0.13
Providence Resources	386	0.06
	61,055	9.24
Oil equipment services & distribution		
Ceres Power	6,372	0.96
Schlumberger (USA)	2,266	0.34
National Oilwell Varco (USA)	1,008	0.15
Velocys	757	0.11
Now (USA)	114	0.02
	10,517	1.58
TOTAL OIL & GAS	71,572	10.82
BASIC MATERIALS		
Chemicals	£000	%
Croda	7,916	1.19
Elementis	5,368	0.81
Linde (Ger)	1,887	0.28
Koninklijke DSM (Net)	1,748	0.26
Brenntag (Ger)	1,163	0.18
Cargill	1,027	0.15
	19,109	2.87
Forestry & paper		
Mondi	6,534	0.99
	6,534	0.99
Mining		
Rio Tinto	13,986	2.11
BHP	9,074	1.37
	23,060	3.48
TOTAL BASIC MATERIALS	48,703	7.34
UTILITIES		
Electricity	£000	%
SSE	3,241	0.49
Simec Atlantis Energy	1,371	0.21
	4,612	0.70
Gas water & multiutilities		
National Grid	10,769	1.63
Severn Trent	8,163	1.23
	18,932	2.86
TOTAL UTILITIES	23,544	3.56

INDUSTRIALS		
Construction & materials	£000	%
Marshalls	8,390	1.27
Accsys Technologies	7,351	1.11
<i>Kier</i>	6,105	0.92
Balfour Beatty	5,017	0.76
Ibstock	3,868	0.58
Geberit (Swi)	2,058	0.31
Assa Abloy (Swe)	1,587	0.24
	34,376	5.19
Aerospace & defence		
Rolls-Royce	13,675	2.06
Senior	11,003	1.66
BAE Systems	8,266	1.25
Embraer (Bra)	5,965	0.90
Babcock	4,874	0.74
Meggitt	4,703	0.72
	48,486	7.33
General industrials		
Smith (DS)	8,420	1.27
<i>Sig Combibloc (Swi)</i>	653	0.10
	9,073	1.37
Electronic & electrical equipment		
Morgan Advanced Materials	7,896	1.19
Spectris	4,843	0.73
TT Electronics	2,839	0.43
Legrand (Fra)	1,588	0.24
	17,166	2.59
Industrial engineering		
Hill & Smith	7,381	1.11
Caterpillar (USA)	6,982	1.05
Cummins (USA)	6,296	0.95
Deere (USA)	4,572	0.69
IMI	4,130	0.62
Weir Group	2,596	0.39
Renold	1,714	0.26
Severfield	575	0.09
	34,246	5.16
Industrial transportation		
Eddie Stobart Logistics	3,750	0.57
<i>Royal Mail</i>	1,360	0.21
Wincanton	1,093	0.16
Deutsche Post (Ger)	960	0.14
	7,163	1.08
Support services		
Johnson Service	10,191	1.54
SGS (Swi)	2,199	0.33
Augean	733	0.11
Interserve	282	0.04
	13,405	2.02
TOTAL INDUSTRIALS	163,915	24.74

CONSUMER GOODS		
Automobiles & parts	£000	%
Toyota Motor (Jap)	7,433	1.12
General Motors (USA)	5,908	0.89
Knorr-Bremse (Ger)	784	0.12
	14,125	2.13
Beverages		
Pernod-Ricard (Fra)	2,406	0.36
	2,406	0.36
Food producers		
Nestlé (Swi)	2,803	0.42
	2,803	0.42
Household goods & home construction		
Watkin Jones	7,087	1.07
Taylor Wimpey	2,316	0.35
	9,403	1.42
Personal goods		
L'Oreal (Fra)	1,394	0.21
	1,394	0.21
TOTAL CONSUMER GOODS	30,131	4.54

HEALTH CARE		
Health care equipment & services	£000	%
Smith & Nephew	6,881	1.04
Becton Dickinson (USA)	6,190	0.93
Philips Electronics (Net)	2,022	0.31
	15,093	2.28
Pharmaceuticals & biotechnology		
GlaxoSmithKline	17,149	2.59
AstraZeneca	10,492	1.58
Pfizer (USA)	5,140	0.78
Johnson & Johnson (USA)	3,547	0.55
Novartis (Swi)	3,179	0.48
Novo-Nordisk (Den)	2,389	0.36
Roche (Swi)	2,016	0.30
	43,912	6.64
TOTAL HEALTH CARE	59,005	8.92

CONSUMER SERVICES		
General retailers	£000	%
Dunelm	4,873	0.74
Findel	1,943	0.29
	6,816	1.03
Media		
Relx	12,124	1.83
Daily Mail & General Trust	2,962	0.45
Mirriad Advertising	291	0.04
	15,377	2.32
Travel & leisure		
International Consolidated Airlines	6,952	1.05
Greene King	5,268	0.80
Irish Continental (Ire)	4,633	0.70
Carnival	3,760	0.58
Marstons	2,050	0.31
Paddy Power Betfair	1,920	0.29
Ryanair (Ire)	1,447	0.22
Fastjet	695	0.10
	26,725	4.05
TOTAL CONSUMER SERVICES	48,918	7.40

FINANCIALS		
Banks	£000	%
HSBC	17,054	2.57
Standard Chartered	9,357	1.41
ING Group (Net)	1,188	0.18
UBS (Swi)	1,145	0.17
Permanent TSB (Ire)	5	—
	28,749	4.33
Nonlife insurance		
Hiscox	11,975	1.81
RSA Insurance	7,162	1.08
Direct Line Insurance	3,981	0.60
Muenchener Rueckver (Ger)	2,145	0.32
Allianz (Ger)	1,447	0.22
	26,710	4.03
Life insurance/assurance		
Prudential	13,095	1.98
Chesnara	3,582	0.54
Aviva	2,948	0.44
	19,625	2.96
Real estate investments & services		
St Modwen Properties	7,326	1.11
Grit Real Estate Income	3,155	0.48
	10,481	1.59
Real estate investment trusts		
Land Securities	8,435	1.27
Urban Logistics REIT	7,527	1.14
Mucklow (A&J) Group	3,683	0.56
Hammerson	2,470	0.37
	22,115	3.34
Financial services		
Provident Financial	7,379	1.11
IP Group	6,457	0.97
Oxford Sciences Innovation (unlisted)	3,870	0.58
International Personal Finance	3,471	0.52
Allied Minds	3,002	0.45
Deutsche Börse (Ger)	2,051	0.31
Standard Life Aberdeen	1,684	0.25
Amundi (Fra)	1,625	0.25
	29,539	4.44
TOTAL FINANCIALS	183,087	27.60

TELECOMMUNICATIONS		
Mobile telecommunications	£000	%
Stewart Investors Asia Pacific	13,460	2.03
Baillie Gifford Pacific	9,552	1.44
Herald Investment Trust	9,095	1.37
Scottish Oriental Smaller Company Trust	6,916	1.04
Foresight Solar	3,225	0.49
Hipgnosis Songs Fund	3,195	0.48
Better Capital (2012)	425	0.06
	45,868	6.91
TOTAL TELECOMMUNICATIONS	9,124	1.38

Investment portfolio valuation continued

based on market values at 31 December 2018

TECHNOLOGY

Software & computer services	£000	%
Microsoft (USA)	9,969	1.50
SAP (Ger)	2,985	0.45
Amadeus IT (Spa)	860	0.13
	13,814	2.08

Technology hardware & equipment

Lam Research (USA)	4,925	0.74
Applied Materials (USA)	3,599	0.54
ASML (Net)	2,042	0.31
	10,566	1.59
TOTAL TECHNOLOGY	24,380	3.67

OTHER

TOTAL OTHER*	214	0.03
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TOTAL INVESTMENTS	662,593	100.00
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* Classified under Financials in table on page 19

Changes in geographical distribution

	Valuation 31 December 2017 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation)* £000	Valuation 31 December 2018 £000	%
United Kingdom	532,923	83,134	(377)	(52,446)	(69,670)	493,564	74.5
North America	68,796	5,297	—	(5,523)	(3,075)	65,495	9.9
Europe	61,119	21,914	(31)	(17,892)	(8,057)	57,053	8.6
Japan	15,484	—	—	(7,338)	(713)	7,433	1.1
Other Pacific	39,618	—	—	(8,155)	(1,535)	29,928	4.5
Other	17,932	3,051	—	(10,812)	(1,051)	9,120	1.4
	735,872	113,396	(408)	(102,166)	(84,101)	662,593	100.0

* Please refer to note 2 on page 72

A close-up photograph of a person's hands in a business setting. The person is wearing a light-colored, long-sleeved shirt. Their right hand holds a gold-colored pen, pointing it towards a document. The left hand is resting on the document, which appears to be a financial report or spreadsheet. The document features a bar chart with several vertical bars of varying heights. The background is slightly blurred, showing other people in business attire, suggesting a meeting or collaborative work environment.

The dark clouds are considered to be mounting for the UK by many commentators. However, the UK companies we hold are not a proxy for the UK economy; they are strong businesses with good management teams

Strategic report

Who we are

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct areas of business: we are an investment trust and a leading provider of independent professional services (IPS or IPS business).

Investment trust – objectives, investment strategy, business model

Our objective for the investment trust 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 FTSE Actuaries All-Share Index through investing in a diversified portfolio.

Law Debenture shares are intended for private investors in the UK (retail investors), professionally advised private clients and institutional investors. By investing in an investment trust, shareholders typically accept the risk of exposure to equities but hope that the pooled nature of an investment trust portfolio will give some protection from the volatility in share price movements that can sometimes affect individual equities.

Our investment strategy (which did not change in 2018) is as follows:

The Company's portfolio will typically contain between 70 and 150 listed investments. The portfolio is diversified in order to spread investment risk. There is no obligation to hold shares in any particular type of company, industry or geographical location. The IPS business does not form part of the investment portfolio and is outwith this strategy.

Whilst performance is measured against local and UK indices, the composition of these indices does not influence the construction of the portfolio. As a consequence, it is expected that the Company's investment portfolio and performance will deviate from the comparator indices.

There are some guidelines, set by the board, on maximum or minimum stakes in particular regions and all stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to adopt a level of gearing that balances risk with the objective of increasing the return to shareholders, in pursuit of its investment objective. More information on gearing can be found on page 26.

	Minimum %	Maximum %
UK	55	80
North America	0	20
Europe	0	10
Japan	0	10
Other Pacific	0	10
Other	0	10

Investments may be held in, inter alia, equity shares, collective investment products including open ended investment companies (OEICs), fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account, and, since December 2018, to lend stocks up to 30% of the NAV, subject again to prior authorisation of the board. Trading in suspended shares and short positions are not permitted. No more than 15% of gross assets will be invested in other UK listed investment trusts. The Company's investment activities are subject to the following limitations and restrictions:

- No investment may be made which raises the aggregate value of the largest 20 holdings, excluding investments in collective investment vehicles that give exposure to the Japan, Asia/Pacific or emerging market regions, to more than 40% of the Company's portfolio, including gilts and cash.
- The value of a new acquisition in any one company may not exceed 5% of total portfolio value (including cash) at the time the investment is made. Further additions shall not cause a single holding to exceed 5%, and board approval must be sought to retain a holding, should its value increase above the 5% limit (that approval to be reported to the next board meeting).
- The Company applies a ceiling on effective gearing of 50%. While effective gearing will be employed in a typical range of 10% net cash to 20% gearing, the board retains the ability to reduce equity exposure so that net cash is above 10% if deemed appropriate.
- The Company may not make investments in respect of which there is unlimited liability.

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The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a diversified portfolio of stocks

Our business model is designed to position the Company to best advantage in the investment trust sector.

We aim to deliver the investment trust's objective by skilled implementation of the investment strategy, complemented by maintaining and operating our IPS business profitably and safely, while keeping it distinct from the portfolio. The operational independence of the IPS means that the business can act flexibly and commercially. They provide a regular flow of dividend income to the Company. This helps the board to smooth out equity dividend peaks and troughs, means that the investment manager doesn't have to be constrained by choosing stocks just for yield and is an important element in delivering the objective of steadily increasing income for shareholders. In turn, some of the tax relief at the investment trust level arising from our debenture interest and excess costs, which would otherwise be unutilised, can be transferred to the IPS.

Fee structure and ongoing charges

Our portfolio of investments is managed under delegation by James Henderson of Janus Henderson Investors (Janus Henderson) under a contract terminable by either side on six months' notice. On a fully discretionary basis, Janus Henderson is responsible for implementing the Company's investment strategy and fees are charged at 0.30% of the value of the net assets

of the group (excluding the net assets of the IPS), calculated on the basis adopted in the audited financial statements. This means that the Company continues to maintain one of the most competitive fee structures in the investment trust sector and this, combined with the good performance of Janus Henderson over the years as our investment manager, has led the board to conclude that the continuing appointment of Janus Henderson as the Company's investment manager remains in the best interests of shareholders. Equity investment needs to be seen over the longer term and here Janus Henderson has delivered over many years.

The agreement with Janus Henderson does not cover custody which is the responsibility of the depositary (see section on regulatory compliance in the directors' report, page 32). Nor does it cover the preparation of data associated with investment performance, or record keeping, both of which are maintained by the Company.

Investment trusts are required to publish their ongoing charges. This is the cost of operating the trust and includes the investment management fee, depositary and custody fees, investment performance data, accounting, company secretary and back office administration. Law Debenture's latest published level of ongoing charges is one of the lowest in the marketplace at 0.43%. No performance fees are paid to the investment manager.

THE LAW DEBENTURE BUSINESS MODEL

The business model provides advantages over other investment trusts

Total shareholder return

INVESTMENT PORTFOLIO

- Invests in diverse equity portfolio
- Earns capital returns and dividends
- Low ongoing charges of 0.43%

INDEPENDENT PROFESSIONAL SERVICES

- Trusted, professional and third party
- Earns fees
- Cost base kept under control
- Profits give a dividend stream which increases the ability to pay dividends to shareholders
- Tax efficient

Strategic report continued

Capital structure – simple and mainstream

Law Debenture's capital structure is transparent. We have only one class of share – ordinary shares – and each share has the same rights as every other share.

The Company conducts its affairs so that its ordinary shares are capable of being recommended by independent financial advisors to ordinary retail investors in accordance with relevant FCA rules. Our ordinary shares are, we consider, mainstream investment products because they are shares in an investment trust. The Company intends to continue conducting its affairs for the foreseeable future so that the ordinary shares can continue to be categorised as mainstream.

Transparency

In order to assist shareholders in understanding the nature of the underlying investments they are buying into when investing in Law Debenture shares, we publish our entire portfolio twice a year – in the annual report (see pages 20 to 22) and half yearly report – with regular monthly updates on the composition of the top ten holdings in the portfolio.

Gearing

Investment trusts have the benefit of being able to 'gear' their portfolios according to market conditions. This means that they can raise debt (either short- or long-term) to generate funds for further investment – i.e. to increase the size of the portfolio – or they can sell assets from within the portfolio to reduce debt and even be "negatively geared" – i.e. selling assets to hold cash so that less than 100% of the trust's assets are invested in equities. At 31 December 2018, our gearing was 3% (2017: 1%).

There has been no change in the Company's gearing policy, with effective gearing typically employed in a range of 10% net cash to 20% gearing.

Borrowings

The Company has two debentures (long dated sterling denominated financing) details of which are at page 87. The weighted average interest payable on the Company's structural borrowings is 4.589% (2017: 4.589%).

Share price and NAV

Investment trusts can trade at a discount (where the share price is lower than the combined value (NAV) of the underlying assets), or at a premium (where the share price trades at a higher level than the underlying NAV). Investment trust investors need to understand these concepts as well as examine the underlying portfolio and the way in which it is managed, to decide whether or not an investment trust share represents "good value".

Principal risks and uncertainties – investment trust

The principal risks to the Company's ability to continue operations as an investment trust relate to investment activities generally and include market price risk, foreign currency risk, liquidity risk, interest rate risk, credit risk, country/region risk and regulatory risk. The directors have carried out a robust assessment of these and other risks, which are explained in more detail below and in note 20 to the accounts.

Market risk could arise from sudden fluctuations in world stock markets.

The portfolio deliberately contains a 'long list' of stocks and is diversified to spread risk. In extreme circumstances, as the Company's investments comprise almost entirely of readily realisable, quoted equities, these could be sold to meet funding requirements. The Company conducts stress tests each month, as part of its compliance programme, which gives the board a degree of comfort about the Company's ability to withstand any significant market shock.

Regulatory risk could arise from failure to comply with legal and regulatory obligations. This could result in suspension of the Company's stock exchange listing and/or regulatory sanction (including financial penalties). Breach of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains. The executive team provides regular reports to the board and the audit committee on the monitoring programmes in place to mitigate these risks. As its own AIFM, the Company is able to monitor investment positions along with levels of forecast income and expenditure and the depositary carries out regular checks on the Company's investment activity and accounting.

Operational risk could arise from failure of the Company's accounting systems, the systems of the investment manager, or those of the custodian, which might result in an inability to provide

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Law Debenture's latest published level of ongoing charges is one of the lowest in the marketplace at 0.43%. No performance fees are paid to the investment manager

accurate reporting and monitoring or a misappropriation of assets. All relevant providers of these services have comprehensive business continuity plans which include robust plans for continued operation of the business in the event of a service disruption or other major disruption. The audit committee considers detailed reports on the Company's risk profile and the internal controls in place to mitigate such risk, as well as receiving reports by other key third party providers.

Gearing risk could arise where the Company has borrowed money for investment purposes. If the value of portfolio investments falls, any borrowings will magnify the extent of this loss. All borrowings require the prior approval of the board and gearing levels are kept under close review by the board. As stated in the investment strategy, there is a ceiling on effective gearing of 50%.

The Company takes risk management very seriously and the corporate governance report sets out in detail the control framework in place to manage or mitigate the risks that the group faces.

Viability statement

The Company is required to publish a longer term statement about its viability.

The directors believe that a forward looking period of three years is appropriate. The directors assess the Company's future prospects by keeping under close review its current and projected financial position, threats/risks to the delivery over the longer term of the investment strategy objectives and the group business model and a macroeconomic overview based on a reasonable time horizon. A three-year time period also takes into account the nature of the markets in which the IPS business operates, where fluctuations in revenue can occur year-on-year for reasons beyond Law Debenture's control.

The directors confirm that they have a reasonable expectation that the Company will continue to implement its investment strategy and business model and to operate and be able to meet its liabilities as they fall due for the next three financial years. There are no current plans to amend the investment policy, which has delivered good capital and dividend returns for shareholders over many years. As reported elsewhere, the Company will be moving during 2019 into a UK sector AIC category from the current global sector classification. The strategy for the IPS business remains to continue to grow them; more detail can be found in the chief executive officer's review on pages 6 to 10.

The directors' strategic report explains in detail their assessment and understanding of the principal risks facing the Company. There is a detailed description of the controls in place to manage those risks in the corporate governance report. The main qualification to this viability statement is that the investment manager is appointed on a fully discretionary basis, so, while stocks are picked by the manager within the guidelines in the investment strategy, the board does not dictate what individual stocks are bought or sold. Portfolio over or underperformance is only properly measurable over the medium and longer term. Short-term fluctuations will not necessarily result in a change of strategy, but might in extreme circumstances pose a risk to viability.

This risk is accepted within the board's risk appetite.

This statement is in addition to, rather than any replacement of, the going concern basis of preparation statement on page 37.

Key performance indicators (KPIs) and alternative performance measures

The KPIs used to measure the progress and performance of the group are:

- NAV total return per share (combining the capital and income returns of the group) and how this compares, over various time intervals, with relevant indices;
- the discount/premium in share price to NAV; and
- the cost of running the portfolio as a percentage of its value.

Since the objective of the investment trust is measurable solely in financial terms, the directors do not consider that it is appropriate to adopt non-financial KPIs. The financial measures adopted as KPIs are part of our financial reporting obligations. Alternative Performance Measures as defined under ESMA guidelines have been adopted and these are described in detail on page 91.

Investment strategy – implementation

The way in which we implemented the investment strategy during 2018 is described in the investment manager's review on pages 13 to 15.

Performance against KPIs is set out at pages 3, 13 to 22 and 31, which contain comprehensive tables, charts and data to explain performance both over the year under review and over the long-term.

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Law Debenture's capital structure is transparent. We only have one class of share – ordinary shares – and each share has the same rights as every other share

Strategic report continued

Law Debenture's responsibilities as an institutional shareholder

The Company recognises that in delivering its objective to produce long-term capital growth and a steadily increasing income, it must ensure that its investment strategy is delivered with due emphasis on the need to ensure that investee companies are acting in accordance with accepted standards of corporate governance. The Company has therefore adopted the following policy.

Law Debenture will normally support incumbent management and vote in favour of resolutions proposed by the boards of companies in which it has a shareholding, but will vote against management or withhold a vote where appropriate.

The board determines the Company's investment strategy but does not issue express instructions to the investment manager on transactions in particular shares. Where Law Debenture believes that incumbent management is failing in its duties, Law Debenture (or on its behalf, the Company's investment manager) may attempt to enter into dialogue with the company concerned in an attempt to alter the management's position.

Where this is not possible, or where incumbent management declines to alter its behaviour, Law Debenture will consider voting against resolutions proposed by the management. Further, if it is deemed necessary or desirable, the Company would consider acting collectively with other institutional investors to try and achieve a particular goal.

Janus Henderson, on Law Debenture's behalf, monitors companies in which Law Debenture is invested, and from time to time may discuss matters of corporate responsibility with such companies.

The Janus Henderson corporate governance unit will notify Law Debenture's investment manager, who in turn may notify Law Debenture, should matters arise that might lead the Company to consider intervening, abstaining or voting against a particular proposal. During the year, the Company abstained or voted against one or more resolutions at the annual general meetings of 22 investee companies.

The Company will not hold shares in companies whose ethical and environmental practices are in its view likely to damage the performance of the business to the detriment of its shareholders.

The Company does not believe that conflicts arise between its duties as an institutional shareholder and the IPS work undertaken by the IPS business. The investment manager has complete discretion as to portfolio decisions and as a matter of policy, has no access to 'non-public' knowledge about any of the activities of the IPS business.

The IPS business – part of our business model

Operating through wholly owned subsidiary companies, all of which are listed at note 14 to the accounts, we provide pension trustee, corporate trusts, and corporate services to companies, agencies, organisations and individuals throughout the world.

The services are provided through offices in the UK, Dublin, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

Group employees are employed by L.D.C. Trust Management Limited and Safecall Limited (in the UK) or a locally incorporated entity (in the overseas jurisdictions). As part of their duties, a small number of the employees provide services to the investment trust and their time is charged to the trust, forming a part of the ongoing charges.

More details about the performance of the IPS in 2018 are given in the chief executive's review at pages 6 to 10.

The principal risks to the business model from the IPS arise where transactions to which we provide a service come under stress – say by going into default, or where re-financings or other transaction amendments are required. Such risks may arise from the wider economic pressures on some sectors, borrowers and regions.

To mitigate these risks, we work closely with our legal advisers and where appropriate, financial advisers, both in the set up phase to ensure that we have as many protections as practicable and on a continuing basis. The directors, via detailed audit committee review, monitor these risks closely to ensure that the risks of the IPS business do not impact the investment portfolio.

The single KPI of the IPS is revenue return per share, which is reported within the financial summary and the ten year record at pages 3 and 31.

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On a fully discretionary basis, Janus Henderson is responsible for implementing the Company's investment strategy. Fees are charged at 0.30% of the value of the net assets of the group, this means that the Company continues to maintain one of the most competitive fee structures in the investment trust sector

Environmental, employee related, community and social issues

Law Debenture considers that none of its trading activities has a negative environmental impact. We disclose our carbon emissions consumption as part of the directors' report.

Those emissions relate solely to the maintenance of our various offices around the world.

The group's employees are provided with modern, comfortable working environments that comply with all relevant safety regulations. Employee wellbeing is ensured through delivery of a range of benefits designed to promote good health including health insurance and medicals. Independent confidential helpline facilities are provided to enable employees to deal with issues of concern to them, whether work related or domestic. As a result of these measures, and senior management's open style, staff turnover is generally low.

The group supports certain charities from time to time, particularly where employees have personally organised events, or take part in sponsored activities, that benefit charities related to them or their families.

The group is unaware of any human rights issues that might arise from its activities, mindful though of the need to act responsibly as an institutional shareholder (as described above).

Breakdown of employees by sex

We report that at the 2018 year end:

- no directors of the group parent were female (2017: nil), noting that Katie Thorpe was appointed to the board as an executive director on 1 January 2019;
- 23% of the senior managers of the group were female (2017: 20%) (senior manager being any individual with responsibility for planning, directing or controlling an activity of one of the subsidiary companies, excluding the chief executive); and
- 43% (2017: 47%) of the group employees were female.

US subsidiary – return of regulatory capital

Two years ago, we reported that we had completed the sale of substantially all of our US corporate trust business. The associated regulatory cost of business in the US – where since 2013 we had been obliged to maintain capital of US\$50m – was unwelcome, so the decision was made that this capital could more usefully be employed elsewhere. In line with the expectation reported to shareholders two years ago, the regulatory capital requirement ceased to apply during 2018. The US\$50m capital was returned to the UK and a SWAP that had been in place to hedge the net US\$ investment was terminated at the end of its term. See notes 4 and 20 of the financial statements. These funds are now available to the Company, either for investment or for general corporate use.

Future trends and factors

Law Debenture will continue to strive to deliver its business objectives for both the investment trust and the IPS.

The chairman's statement, the investment manager's review and the chief executive's review (all of which form part of this strategic report) respectively set out some views on future developments.

Brexit

The board continues to believe that the UK's decision to leave the EU does not present a threat to the group's business model, the viability statement, or its ability to continue producing accounts on a going concern basis. The chairman comments separately on Brexit in his review.

Performance and related data

Pages 3, 7 and 12 to 22, which contain performance and related data, form a part of this strategic report.

Law Debenture Corporate Services Limited

Company Secretary
26 February 2019

Calculation of net asset value (NAV) per share

NAV per share

	31 December 2018 Pence	31 December 2017 Pence
NAV per share per financial statements	566.27	633.28
Fair value adjustment for independent professional services	66.36	61.57
Debt fair value adjustment	(18.56)	(25.32)
NAV per share at fair value	614.07	669.53

Background

Our consolidated financial statements are presented in order to comply with International Financial Reporting Standards (IFRS), with the value of the investment portfolio expressed at fair value, which is broadly a rational and unbiased estimate of the potential market value, taking into account acquisition/replacement/disposal costs.

Since 31 December 2015, we have published a fair value NAV that includes the fair value of the IPS business and long-term borrowings.

The calculation of the IPS valuation and methodology used to derive it are included in the annual report at note 14. In accordance with financial reporting standards, the valuation itself is not reflected in the financial statements. In determining a basis for the fair valuation of the IPS business, the directors have taken external professional advice. It should be noted that valuation guidelines require the fair value of the IPS business be established on a stand-alone basis. The

valuation does not therefore reflect the full value to the group and its shareholders. The value of group tax relief from the investment trust to the IPS business reduced the tax charge by £845k (2017: £1.2m), which is not reflected in this valuation. It is hoped that our initiatives to inject growth into the IPS business will result in a corresponding increase in valuation over time.

In order to assist investors, the Company restated its historic NAV in 2015 to include the fair value of the IPS business for the last 10 years. This information is provided in the annual report within the 10 year record (page 31), performance (page 3) and 10 year performance (page 3).

Long-term borrowing

The fair value of long-term borrowings held by the group is disclosed in note 21 to the accounts. The methodology of fair valuing all long-term borrowings is to benchmark the group debt against A rated UK corporate bond yields.

Long-term performance record

10 year record

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net assets (£m) ¹	266.4	342.4	412.6	390.9	451.9	569.1	574.2	557.3	662.3	748.3	669.4
Revenue return (pence)	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96	21.66	21.26
Capital return (pence)	(120.59)	62.77	58.22	(19.07)	50.24	97.18	3.87	(17.47)	89.30	67.10	(71.85)
Total (pence)	(105.01)	75.79	71.48	(3.55)	65.38	113.45	20.82	0.63	105.26	88.76	(50.59)
Revenue return (pence)											
Investment trust	10.23	7.33	7.07	8.27	8.47	9.31	10.08	11.01	10.88	11.61	13.23
Independent professional services	5.35	5.69	6.19	7.25	6.67	6.96	6.87	7.09	7.68	9.93 ³	7.87
	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	18.56	21.54	21.10
Group charges ²	–	–	–	–	–	–	–	–	(2.60)	0.12	0.16
	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96	21.66	21.26
Dividends (pence)	12.20	12.20	12.70	13.50	14.25	15.00	15.70	16.20	16.70	17.30	18.90
Share price (pence) ¹	223.5	284.5	356.6	333.5	425.0	529.0	530.0	498.0	530.0	629.0	540.0
(Discount)/premium (%) ¹	(20.7)	(15.7)	(10.5)	(13.4)	0.1	(2.4)	(2.3)	(5.1)	(11.4)	(6.0)	(12.1)
NAV at fair value (pence) ¹	282.0	337.5	398.5	385.1	424.7	541.8	542.3	524.5	598.5	669.5	614.1
Market capitalisation (£m) ¹	263.8	335.9	418.6	393.8	501.9	625.0	627.1	589.3	627.2	744.5	639.3

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

² For details see note 7 to the accounts

³ This includes 2.72 pence per share of exceptional items including the sale of an unlisted investment

Note: The 10 year record has been restated (2008-2014) to reflect the fair value of the IPS business and the long-term borrowings

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2018. The Company retains its status as an investment trust and has been treated by HM Revenue & Customs and approved as such for the year ended 31 December 2017, the latest year for which financial statements have been submitted. Such approval for the year ended 2017 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Company has subsequently conducted its affairs so as to enable it to obtain approval under Sections 1158-1159 of the Corporation Tax Act 2010. The Company, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in Section 833 of the Companies Act 2006 and operates as such. The directors consider that the group operates as a going concern.

The strategic report and the corporate governance report form a part of the directors' report.

Essential contracts

In the view of the board, the only contract that is essential to the business of the group is the investment management agreement with Janus Henderson, details of which are set out in the strategic report.

Revenue, dividends and reserves

The group revenue return attributable to shareholders for the year ended 31 December 2018 was 21.26p. The directors recommend a final dividend of 12.9p per share, which together with the interim dividend of 6.0p paid in September 2018, will produce a total of 18.9p (2017: 17.3p). The final dividend will be paid on 18 April 2019 to holders on the register on the record date of 15 March 2019. After deduction of the interim and final dividends of £22,339,000 (2017: £20,442,000), consolidated revenue reserves increased by £4,075,000 (2017: increase of £6,610,000).

Directors

The directors at the date of this report are listed on pages 54 and 55. All directors held office throughout the year other than Katie Thorpe, who was appointed on 1 January 2019.

All directors are required to stand for re-election every year (or election at the next AGM following appointment). The list of candidates, which the board supports, is set out in the notice of annual general meeting, along with a statement in each case of why the candidate is supported and the particular attributes that each brings to the objective of promoting the success of the Company and the group.

Principal risks and uncertainties

These are set out as part of the strategic report.

Directors' conflicts of interests

The directors are under statutory duty to avoid conflicts of interest. The board has in place appropriate procedures to deal with conflicts and potential conflicts, including an annual review, and those procedures are operating effectively. Each director has declared all matters that might give rise to a potential conflict of interest and these have been considered and (where necessary) approved by the board.

Regulatory compliance

The Company is subject to continuing obligations applicable to premium listed companies, overseen by the UK Listing Authority and all relevant disclosures required by Listing Rule 9.8.4 have been made (see note 18).

Under the Alternative Investment Fund Managers Directive (AIFMD) the Company is required to appoint an "Alternative Investment Fund Manager" (AIFM), which must be appropriately regulated by the FCA. The Company has elected to be its own AIFM.

The AIFM is required to provide portfolio management, risk management, administration, accounting and company secretarial services to the Company. All of these functions, barring portfolio management which continues to be delegated to Janus Henderson, are undertaken by the Company. The Company has appointed NatWest Trustee and Depositary Services Limited, which replaced National Westminster Bank plc by novation (contract terms unaffected) during the year, as depositary under Article 36 of the AIFMD. A fee is payable for this service, being 0.0225% per annum of the calculated monthly NAV. As part of its duties, the depositary is responsible for custody of the Company's portfolio assets, and has appointed HSBC Bank plc (which was the Company's custodian for many years) as sub-custodian.

AIFMs are obliged to publish certain information for investors and prospective investors and that information may be found either in this annual report or on the Company's website at www.lawdebenture.com/investment-trust/corporate-governance/the-aifmd.

The AIFMD requires us to report on 'leverage'. This is slightly different from gearing, leverage being any method of borrowing that increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its NAV and must be calculated on a 'gross' and a 'commitment' method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other. At 31 December 2018, the maximum amount of leverage under the gross and commitment methods was 1.50 and actual amounts were 0.99 and 1.18 respectively.

Greenhouse gas emissions

The group's carbon emissions arise from its consumption of energy in maintaining its offices. Using conversion factors published by the UK Department for Business, Energy and Industrial Strategy, emissions for the year to 31 December 2018 were 265.64 tonnes of CO₂e (2017: 396.68 tonnes of CO₂e). This equates to 0.0079 tonnes of CO₂e per £000 of IPS revenue (2017: 0.0128 tonnes of CO₂e).

Modern Slavery Act

We are required to publish a 'slavery and human trafficking statement' to outline the steps the group has taken to ensure that slavery and human trafficking is not taking place within Law Debenture's supply chain.

Law Debenture is a service provider, rather than a manufacturer. Its supply chain comprises the steps taken to get our services to a customer.

While Law Debenture is committed to preventing slavery and human trafficking in its corporate activities, it believes that its supply chains are of low risk as suppliers, for the most part, are professional advisory firms. The executive have reviewed the supply chains across the group. Law Debenture's organisational structure is set out elsewhere in the annual report, including the countries in which it is established (see page 2). None of the activities listed is considered to be at high risk of slavery or human trafficking in its supply chains.

All of Law Debenture's employees have access to confidential whistleblowing arrangements which make it easy for them to make disclosures, without fear of retaliation, if an employee has any concerns about Law Debenture's supply chain. Law Debenture only uses suppliers – generally, this means legal advisers, financial advisers, accountants and other professional firms – of the highest repute and of appropriate regulatory status.

This statement has been approved by the board and is also published on Law Debenture's website.

Repurchase of shares

During the year, the Company did not repurchase any of its shares for cancellation. It intends to seek shareholder approval to renew its powers to repurchase shares for cancellation up to 14.99% of the Company's issued share capital, if circumstances are appropriate.

Substantial shareholdings and share information

As at 26 February 2019, there were no shareholders that had notified the Company of a beneficial interest in 3% or more of the issued share capital. Share information as required by section 992 of the Companies Act 2006 appears at pages 26, 81 and 96.

Shareholder relations

The Company encourages communication between the management and shareholders on matters of mutual interest. All shareholders on the register are sent a copy of the annual report and the half yearly report, and the Company also provides this service to shareholders in nominee companies where the nominee has made appropriate arrangements. Shareholders wishing to receive reports and other communications electronically may do so by writing to the Company. In addition to periodic regulatory reports published via the London Stock Exchange, the Company publishes a monthly factsheet on its website about the investment portfolio performance.

Investment manager – interests held

James Henderson did not have a beneficial interest at 31 December 2018 (2017: nil) although persons connected to him had an interest of 100,000 shares (2017: 100,000 shares). In addition, a charity with which he has non-beneficial connections owns 100,000 shares (2017: nil shares).

The Company holds no shares in members of the Janus Henderson Group. It has been notified that funds managed by members of the Janus Henderson Group held 87,955 shares in the Company at 31 December 2018 (2017: 87,955 shares).

Bribery Act

The Company maintains a 'zero tolerance' anti-bribery policy, which applies to the Company and all its subsidiaries. The policy is published on the Company's website.

Employee participation

Employees are informed of the financial aspects of the group's performance through periodic management meetings. Copies of the annual and half yearly reports are made available to all employees. The Company operates a SAYE scheme in which all UK full-time employees are eligible to participate after completing a minimum service requirement.

Options outstanding under the SAYE scheme at 31 December 2018 were:

Date of grant	Number of option holders	Shares under option	Exercise price
14 August 2013	1	600	499.50p
27 August 2014	21	50,232	518.00p
19 August 2015	14	25,457	512.50p
23 August 2016	13	20,871	495.75p
15 August 2017	19	29,246	594.75p
15 August 2018	27	53,815	606.00p

Directors' report continued

The Company also operates a Share Incentive Plan, details of which are provided in the remuneration report.

Employee engagement

Effective from 1 January 2019, in compliance with the UK Corporate Governance Code that has effect from that date, the board has appointed Mark Bridgeman as its designated non-executive director to gather the views of Law Debenture's workforce. Future annual reports will describe how that activity has been undertaken.

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a strategic report, a directors' report and directors' remuneration report which complies with the requirements of the Companies Acts.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

- prepare a strategic report, a directors' report and directors' remuneration report that complies with the Companies Act 2006, as amended.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors and is subject to annual review by the board. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement of information given to auditors

The directors have confirmed, that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge:

- the group financial statements have been prepared in accordance with IFRSs and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and
- the annual report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face.

Auditors

A resolution to re-appoint BDO LLP as auditors to the Company will be proposed at the annual general meeting.

By order of the board

Law Debenture Corporate Services Limited

Company Secretary
26 February 2019

Corporate governance

Corporate governance

The directors are required to report on how the Company has applied the main and supporting principles in the UK Corporate Governance Code (the Code), and to confirm that it has complied with the Code's provisions or, where this has not been the case, to provide an explanation. This report relates to the Code as published in April 2016, a copy of which may be obtained by visiting www.frc.org.uk. The Code recognises that investment companies such as Law Debenture may have board structures which might affect the relevance of particular provisions of the Code. Law Debenture was a constituent of the FTSE Small Cap throughout the period under review. Where Law Debenture has departed from any provisions of the Code, this is explained below. This corporate governance statement forms a part of the directors' report.

A new version of the Code applies to financial years beginning 1 January 2019. The board will be adopting the new Code requirements during the course of the current year.

The board – role, modus operandi and appraisal

The board includes a majority of non-executive directors. The names and biographies of the directors at the date of this report are on pages 54 and 55 of the annual report. In addition, Christopher Smith served as a non-executive director and chairman until his retirement at the conclusion of the AGM on 11 April 2018. Katie Thorpe was appointed as an executive director on 1 January 2019.

The board is responsible for the overall strategy and management of the group, setting investment strategy and ensuring that the Company is operating in compliance with statutory and legal obligations. There is a formal schedule of matters specifically reserved for board decision, published on the Company's website (www.lawdebenture.com under investment-trust/corporate-governance). Matters connected with strategy and management, structure and capital, financial reporting and control, investment trust portfolio, contracts, shareholder communication, board membership and other appointments, remuneration and corporate governance are reserved for the board.

In discharging its responsibilities, the board takes account of the group's purpose, value and culture, aiming to promote enhanced value for shareholders in both capital and income terms. The board sets a cultural tone that encourages openness, diversity and attention to the needs and views of shareholders and those who transact with us through our IPS activities.

The chairman takes personal responsibility for leadership of the board and ensures that directors receive accurate, timely and clear information. He reviews channels for provision of information with the company secretary at least annually.

The board operates as a collective decision-making forum. Individual directors are required to scrutinise reports produced by the executive and are encouraged to debate issues in an open and constructive manner. If one or more directors cannot support a consensus decision, a vote will be taken and the views of a dissenting director recorded in the minutes.

Procedures are in place to enable independent professional advice to be taken by individual directors at the Company's expense. Appropriate insurance cover is in place in respect of legal action against the directors.

The board meets regularly throughout the year. The attendance records of the directors (both at meetings of the board and, where they are a member, meetings of board committees) are set out in the table below. There was also a strategy meeting in September 2018, attended by all of the directors, the investment manager and certain senior executives.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	7	5	4	3
Meetings attended by:				
D. Jackson	7	—	—	—
M. Bridgeman	7	5	4	3
R. Laing	7	5	4	3
C. Smith*	1	3	—	1
T. Bond	7	5	4	3
R. Hingley**	7	5	2	3

* Retired 11 April 2018 (attended all meetings prior to that date)

** Ceased to be a member of the audit committee after becoming chairman of the Company on 11 April 2018

The board keeps under review the performance of the executive directors and the chairman formally appraises all the directors each year and implements any training or education needs that might be identified. The non-executive directors meet once each year (without the presence of the chairman) to review the chairman's performance, the results of the review being discussed with the chairman by the senior independent director (SID). The board evaluates its own performance and that of its committees and considers these matters again after each AGM in the light of comments received from shareholders and other interested parties.

Robert Laing is the SID. The SID is available to shareholders who have concerns that cannot be addressed through the chairman, chief executive or chief financial officer.

Corporate governance continued

The board – independence

At least half of the board, excluding the chairman, must be independent non-executive directors (NEDs). The board has concluded that as at the date of this report, excluding the chairman, three of the five other directors are independent NEDs. In judging independence, the board takes into account whether or not a director is independent of management and any material business or other relationship that could affect or interfere with the exercise of objective judgement by the director, or his/her ability to act in the best interests of the Company and its subsidiaries. As well as being satisfied that each director dedicates sufficient time to Law Debenture, the board is satisfied that none of the directors is 'overboarded' (having five or more listed company roles). The contribution made by each director to the Company's and group's long-term success, along with the particular skills that each brings, are described in the notes to the notice of AGM.

The chairman, Robert Hingley, was independent at appointment and continued to be independent throughout the period in the view of the board.

The board is satisfied that Robert Hingley's other commitments do not interfere with the discharge of his responsibilities to Law Debenture, and that he makes sufficient time available to discharge his duties as chairman.

Robert Laing was independent at appointment in April 2012 and the board is satisfied that he remains so, having no current or previous connections with the Company or any of its subsidiaries.

Mark Bridgeman was independent at appointment in March 2014 and the board is satisfied that he remains so, having no current or previous connections with the Company or any of its subsidiaries.

Tim Bond was independent at appointment in April 2015 and the board is satisfied that he remains so, having no current or previous connections with the Company or any of its subsidiaries.

Denis Jackson and Katie Thorpe, as executive directors, are not independent.

The board – re-election and renewal

The nominations committee ensures that the board has in place arrangements for orderly and transparent appointments to the board. There are job descriptions in place for NEDs' roles, and the board has written terms and conditions of appointment for NEDs, which are available for inspection at the AGM. Particular care is taken to ensure that NEDs have sufficient time to commit to the duties expected of them and as necessary, diversity issues are considered. No new NED is appointed without first being interviewed by each existing NED.

All new directors undergo an induction process, involving presentations by the chief executive, chief financial officer and each business head and meetings with the investment manager. All directors are submitted for annual re-election, subject to continued satisfactory performance, which is assessed as described above. There is no maximum number of terms that a director may serve. The Company has established a diversity policy, described in the nominations committee report.

Directors' remuneration

Details of the directors' remuneration appear in the remuneration report on page 50.

Board committees

The board has established a nominations committee, an audit committee and a remuneration committee, to each of which it has delegated certain responsibilities. Each committee has terms of reference, which are published on the Company's website (www.lawdebenture.com/investment-trust/corporate-governance). Membership of the committees is kept under review, taking account of the Code's acknowledgement of the position of investment trusts. The board is deliberately kept small and the board believes this is in the best interests of shareholders. The board is satisfied that its composition and size is sufficient to ensure that the requirements of the business can be met.

A majority of members of board committees are independent NEDs as assessed by the board and the committee memberships are fully compliant with Code stipulations.

A summary of each committee is set out below.

Nominations committee

Role

To keep under review the structure, size and composition of the board and make recommendations about adjustments that are deemed necessary, and to ensure effective succession planning in accordance with legal and corporate governance needs.

Key duties

- identification and nomination for board approval of suitable candidates to fill vacancies with particular regard for the need to develop a diverse pipeline of board members and senior executives;
- succession planning (in particular of the chairman and chief executive);
- making recommendations about the re-appointment of non-executive directors; and
- ensuring that the board and its committees are constituted to comply so far as practicable with the Code.

The committee reports as follows:

The committee did not engage any third parties during the year. Our diversity policy states that while the board remains small, it will endeavour to have at least one director who is female. That objective is being met at the date of this report. In the near future, the objective is to be at least one third female representation. The committee's approach to effectiveness evaluation is set out elsewhere in the governance report and the gender balance of those in senior management is set out in the strategic report.

Members

R. Hingley (Chairman)
T. Bond
M. Bridgeman
R. Laing

Audit committee

Following best practice guidelines published by the Financial Reporting Council (FRC), the audit committee's report is published as a separate section of the annual report and can be found at pages 40 and 41.

Remuneration committee

Role

To develop the Company's remuneration policy and oversee its implementation, monitoring the effectiveness of the policy as it relates to the group's executives.

Key duties

- reviewing and agreeing the remuneration and benefits of the executive directors and senior executives in the light, as relevant, of corporate performance against a range of measures;
- development of total remuneration packages, taking account of factors set out in the Code, based in part on performance and subject to suitable performance measurements as set by the committee;
- approving the remuneration policy required to be put to shareholders for approval every three years; and
- making recommendations to the board for any changes to long-term incentive arrangements.

Members

R. Laing (Chairman)
T. Bond
M. Bridgeman
R. Hingley

The committee chairman reports specifically about how the remuneration policy was implemented during the year on page 42. More generally, the committee reports as follows. It met five times during the period. It made decisions on the remuneration and

benefits of the executive directors and senior staff and considered remuneration policy matters. No new long-term incentive arrangements were introduced in the period. The committee considered in particular:

- the remuneration level for the chief executive, including the performance measures against which his bonus for 2018 would be calculated;
- the amount of the total pool available for the profit sharing schemes;
- the level of awards to be made to senior executive staff and the terms to be applied to the awards, along with the salary/benefit packages of any new joiners that report directly to the chief executive;
- routine administrative matters connected with the Company's benefits structure;
- the remuneration policy (an amendment is being put to shareholders at the 2019 AGM as described on pages 42 and 95); and
- the format and content of the remuneration report.

The 2019 Code introduces requirements about workforce engagement. A statement on this appears in the directors' report.

The board does not operate a management engagement committee, the duties of such a committee being undertaken directly by the board.

Accountability and audit, fair balanced and understandable reporting and going concern

The statement of directors' responsibilities in relation to the financial statements appears on page 34. The independent auditors' report appears on pages 57 to 61. The directors confirm that the group and corporation are a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the group's ability to meet those liabilities. There are no material uncertainties that call into question the Company's ability to continue to be a going concern for at least 12 months from the date of approval of the financial statements. The directors consider it appropriate to adopt a going concern basis in preparing the financial statements.

The audit committee has concluded and the board concurs, that the financial statements present a fair, balanced and understandable assessment of the financial position and prospects of the Company and the group. The financial statements are reviewed by the audit committee, then approved by the board and signed by the chairman and chief executive. In the opinion of the board, the annual report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the corporation and group's position and performance, business model and strategy.

Corporate governance continued

Internal controls

The following paragraphs describe the framework of internal controls in place to ensure that the Company complies with the FRC “Guidance on Risk Management, Internal Control and Related Financial and Business Reporting”, and with the obligations of the UKLA’s Disclosure and Transparency Rules which require a description of the main features of the internal control and risk management systems in relation to the financial reporting process. This section should be read in conjunction with the strategic report section about the principal risks to the Company and group business model as it sets out how the directors manage or mitigate those risks.

The board monitors the effectiveness of internal controls on a continuous basis and in a number of ways, both directly through main board general reviews and also by the more specific work carried out by the audit committee. The various mechanisms include:

- board review of the group’s matrix of key risks and controls managed by the chief risk officer, reporting to an executive risk committee;
- an internal audit function, which involves not only each business department (including overseas offices) being subject to audit on a regular basis, but also regular reviews of other business wide processes;
- testing by the compliance officer of the Financial Conduct Authority (FCA) regulated business systems and controls;
- testing by the compliance officer of the Company’s compliance with its AIFMD obligations;
- review of reports by the depositary and the sub-custodian;
- periodic reports to the board by the compliance officer about legal and regulatory changes, and the steps that the board must take to comply; and
- review of reports by the external auditors on their annual audit work.

The internal audit programme and system of compliance checks have both been developed using a risk-based methodology and an evaluation of process controls.

The board considers that the above measures constitute continuing application of the FRC risk guidance and form an important management tool in the monitoring and control of the group’s operational risks.

An important element of the overall controls remains a continuous review of the quality and effectiveness of internal financial controls of the group. During the year, the board has continued to require that the group maintains proper accounting records, so that it can rely on the financial information it receives to make appropriate business decisions and also that the group’s assets are safeguarded. This includes having data that allows the board to consider country and currency exposure and potential impairment of assets (both financial and non-financial). Key elements of the systems of internal control continue to be:

- regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework;
- preparation by management of a comprehensive and detailed budget, involving annual board approval and monthly comparison at board level of actual results with budgets and forecasts;
- systematic reporting to the board of matters relating to litigation, insurance, pensions, taxation, accounting, counterparty risk and cash management as well as legal, compliance and company secretarial issues;
- review of internal audit reports by the appropriate professional services company board and the audit committee;
- review of the internal controls of those services, such as investment management, which have been delegated to third parties. This review was conducted during the initial contractual negotiations and on a regular basis, including annual discussions with the senior management and compliance staff of Janus Henderson;
- monitoring by the board of the investment management process, including the establishment and maintenance of investment guidelines, receiving a report from the investment manager at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the group with those of the depositary and sub-custodian; and
- receipt of frequent and detailed reports about the independent professional services business, including the overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable assurance against material misstatement or loss.

By means of the procedures set out above, the directors have established a robust process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2018 and will be reviewed by the board on a regular basis.

Arrangements are in place by which staff of the group may, in confidence, raise concerns under the Public Interest Disclosure Act 1998 about possible improprieties in matters of financial reporting or other matters. If necessary, any member of staff with an honest and reasonable suspicion about possible impropriety may raise the matter directly with the chairman of the audit committee. In addition, the executive staff have access to an external whistle blowing service. Arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

Relations with shareholders and institutional shareholder responsibilities

The Company’s compliance with these aspects of the Code is described separately within the directors’ report.

Information about share capital

The information that the Company is required to disclose about its share capital can be found in the directors' report (significant holders) and AGM notice (total voting rights).

Annual general meeting (AGM)

Details of the AGM for 2019 are set out at pages 93 to 97.

The board recognises the value of the AGM as an opportunity to communicate with shareholders and encourage their participation. Separate resolutions are put to the AGM on each substantially separate issue. The number of proxies lodged for each resolution, the balance for and against the resolution and the number of votes withheld is published immediately after the AGM to the London

Stock Exchange and on the Company's website. The notice of the AGM and related papers are sent to shareholders at least 21 working days before the meeting. Where requested by nominee holders, annual reports and related documentation are circulated to beneficial owners and the Company is happy for beneficial owners to attend the AGM and (where appropriate arrangements have been made with the nominee) to vote their shares in person.

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Company has complied with all of the requirements applicable to it of the UK Corporate Governance Code.

26 February 2019



The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Company has complied with all of the requirements applicable to it of the UK Corporate Governance Code

Audit committee report

Annual statement by the chairman of the audit committee

I am pleased to present the Company's audit committee report for the year ending 31 December 2018.

The committee was comprised at the year end of Robert Laing, Tim Bond and me. Robert Hingley stepped down as a member of the committee at the conclusion of the 2018 AGM, when he became group chairman.

Role and duties

The main function of the audit committee is to assist the board in the management of the group's finances, financial reporting structure and internal controls. Our key duties are as follows:

- monitoring the independence and objectivity of the auditors, their performance and agreeing their remuneration;
- the appointment, reappointment and removal of external auditors including negotiation of the engagement letter and supervision of the audit tender process;
- monitoring the integrity of the financial statements and the statutory audit process and in particular focussing on significant issues highlighted in the process;
- developing and implementing policy on the engagement (or not) of the external auditor for non-audit services;
- reviewing the annual and half yearly accounts before submission to the board, including particular focus on changes in accounting policy and providing an opinion to the board on whether the report and accounts are fair, balanced and understandable; and
- reviewing the effectiveness of systems of internal control and risk management, including monitoring the executive risk management function, the internal audit function and consideration of country and currency risks.

As part of my duties as committee chairman, I met with the audit partner and I met a number of times with the chief financial officer and company secretary to discuss matters of significance.

The committee considers that I have recent and relevant financial experience due to my long experience as a fund manager and from my executive management experience. Similarly, Tim Bond satisfies the test as an active fund manager. The committee as a whole has competence relevant to the sector in which the Company operates.

Principal activities of the committee

During the year, the committee's business included:

- consideration of the annual report and financial statements and of the half yearly report and statements including consideration of the final and interim dividends;
- consideration of the Company's matrix of risks and controls and general oversight of the group's internal control systems and procedures including in the context of reports by the depositary and the Company's obligations as an AIFM;
- meetings with the external auditor to discuss the 2017 financial statements and, in the fourth quarter, to plan the 2018 audit. These meetings included discussions on fees, auditor independence, key risks and developments in accounting standards;
- review and approval of internal audit programme;
- consideration of all internal audit reports;
- receipt of reports about reconciliations, procedures in place to prevent fraud and anti-bribery and corruption; and
- review of new accounting standards and the possible impact on Law Debenture.

Shortly after the year end, the committee met with the external auditors to discuss the 2018 financial statements and the outcome of that discussion is set out below.

Risk management, internal control and internal audit

The internal controls adopted by the group are set out in the corporate governance report. The board as a whole is responsible for the effectiveness of internal control mechanisms but it is informed by more specific work carried out by the audit committee, which includes the initiation and oversight of any investigations that may be necessary to address control weaknesses/breaches, as identified.

In particular, the committee reviews the adequacy and effectiveness of the group's risk management systems and processes. The chief risk officer reports through an executive risk committee, but in line with good practice in this area, his terms of reference give him the right to report directly to me on any specific matter of concern.

The internal auditor, who reports to me as chairman of the audit committee, presents his annual audit programme to the committee for approval each year and attends committee meetings, presenting all of his reports including management's actions in response to his findings and recommendations. The internal auditor has the right, should he wish, to meet separately with the audit committee to raise any matters of concern that may arise (although he did not need to do so during the year under report). I undertake an annual review of the internal auditor's effectiveness by formally appraising him in writing, having taken views from directors and senior management. Based on that review, the committee is satisfied that the quality, experience and expertise of the internal auditor is appropriate for the business.

External auditors – assessing effectiveness

One of the most important functions of the committee is to monitor the independence and objectivity of the auditors, their performance and effectiveness. The committee achieves this by an annual formal meeting with the audit partner to plan that year's audit. Part of that process requires the auditor to give the committee written assessment of how the audit team identifies and manages the threats to its independence, along with the description of the safeguards that it has in place to avoid such threats. This vital part of the audit process also enables the committee to examine in detail the scope of the audit, ensuring that the auditor's objectives meet the committee's own expectations, along with key audit and accounting matters to be considered that year.

At the conclusion of each audit, the committee receives a presentation from the audit partner on the principal findings. This provides the opportunity for robust challenge, particularly in areas where management judgement has been required. The committee will also give the auditors an opportunity, without executive management present, to comment on the quality and standard of the executive's performance generally and during the audit. Similarly, the committee will seek the views of the executive on the effectiveness and performance of the audit team. There were no matters of concern raised during the period under review.

The committee reviews independent reports on the auditor's own quality control procedures and is satisfied that the auditors continue to have the resource and technical backup necessary to continue delivering an effective audit of the Company and its subsidiaries.

The audit partner was mandatorily rotated following the conclusion of the 2017 audit having served as partner for five audits. This report and financial statements is the first to be signed by the new partner, Vanessa-Jayne Bradley.

Audit tendering

BDO LLP were first appointed as the Company's auditors on 31 October 2008. After due consideration, the committee continues to be satisfied about the quality, performance and effectiveness of the audit by BDO LLP and accordingly, has recommended that they be reappointed at the forthcoming AGM.

The committee last put the audit to tender during 2017. The process was conducted in accordance with the Competition and Markets Authority Audit Order with which the Company is in compliance. Following the tender process the committee recommended a preferred auditor (BDO) and a reserve auditor. The board resolved to appoint BDO.

Non-audit services

Non-audit services provided by the auditor are reviewed by the committee to ensure that independence is maintained. Non-audit fees are shown at note 3 to the accounts. The committee's policy is that non-audit work should be limited to those matters where the external auditor is most appropriately placed to carry out the work, unless there is a conflict of interest. Consequently, non-audit services have historically been low. In the year under review, total non-audit fees were £nil (2017: £nil).

Significant financial issues relating to the 2018 accounts

The Code requires us to describe any significant issues considered in relation to the financial statements and how those issues were addressed.

No new significant issues arose during the course of the audit. As reported in previous years, an area of consideration is that relating to bad debt provisions.

Management makes an estimate of a number of bad debt provisions for non-collection of fees and costs as part of the risk management and control framework.

Other issues that arose included: the risk that portfolio investments may not be beneficially owned or correctly valued; and that revenue is appropriately recognised. The committee has received assurance on these matters from management.

The committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the accounts. Taken in its entirety, the committee was able to conclude that the financial statements themselves and the annual report as a whole are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company and group's position and performance, business model and strategy. That conclusion was reported to the board.

Mark Bridgeman

Chairman, Audit Committee
26 February 2019

Annual remuneration report

Part 1 Remuneration committee chairman's annual statement

Dear Shareholder

I am pleased to present the Company's remuneration report for the year ending 31 December 2018.

Our policy continues to balance the interests of shareholders with those of the staff. We believe that:

- remuneration packages should be competitive but not extravagant and should broadly be in line with average packages in the markets in which Law Debenture operates;
- there should be a clear link between total remuneration (including a profit related element) and performance; and
- there should be no reward for failure, but the executives should be rewarded for the performance of the IPS business, which is central to Law Debenture's business model and unique identity.

Our annual remuneration report shows how we implemented the policy during 2018. The report – see Part 3 on page 49 – is audited (as indicated) to the extent required by the relevant Regulations.

Our policy operated as intended to deliver an outcome that is reflected in the group's performance in 2018.

The key points in our remuneration policy are that: the chief executive and executive staff will be remunerated on a transparent basis; performance related elements will be measured against the IPS business and, except in the case of the chief executive and chief financial officer, not against the investment trust; and there will only be a small number of incentive schemes.

In section A of part 3 of our report, we report retrospectively on the targets that were set for the chief executive, against which his performance was measured and the level of his bonus for 2018 was calculated.

The bonus formula provided that the amount notionally available for the chief executive's bonus was £357,000, so as a result the remaining amount that was notionally available – £30,679 – has been credited to shareholder funds.

The committee has reviewed the remuneration policy in the light of the appointment of Katie Thorpe as an executive director on 1 January 2019, bearing in mind that the policy is predicated on an assumption that there would only be one executive director in post at any given time. Since we now have two executive directors, the current bonus arrangement – whereby the first 11% of the bonus pool is reserved for the (sole) executive director – will no longer be appropriate. Accordingly, we intend to seek shareholder approval to adjust the policy by removing that 11% top slice provision and by including the two executive directors within the overall bonus pool with the rest of the staff.

We recognise that removal of the executive director's top slice removes the prospect for some of the bonus pool to be returned to shareholders. Currently, any element of the 11% available for, but not awarded to, the executive director is returned to shareholders rather

than being made available to distribute to the rest of the staff. In our opinion, this will have no material impact on shareholders and is more equitable to the executive staff in general because the formula driving the size of the bonus pool reflects their collective efforts, so to see an element of it returned to shareholders may be seen as unfair.

We have also decided to propose a further minor amendment in the light of evolving governance standards that aim to remove unequal treatment between executive directors and the workforce generally. Specifically, our policy currently says that more junior staff who are entitled to a discretionary bonus award will receive graduated percentages between 0 and 50% of basic salary. We are proposing that this percentage range should be equalised to that which applies to the executive directors and senior staff – namely, that more junior staff can also receive up to 100% of basic salary as a bonus for outstanding performance. Again, this makes no difference to the quantum of the bonus pool itself, but it will enable a fairer distribution.

Finally, in order more equitably to align the interests of staff with shareholders, we propose that with effect from the final dividend proposed for 2018, deferred shares held in trust should receive dividends, which will be re-invested by the trustee in Law Debenture shares. These will be released to award recipients at the same time the underlying shares are released.

The committee believes that it is in the interests of shareholders to approve these proposed minor amendments to the policy, put as resolution 3 at the AGM.

The board is committed to ensuring both that staff are appropriately incentivised and rewarded and that Law Debenture complies fully with corporate governance best practice. We are mindful that the new UK Governance Code requires us to review workforce remuneration and related policies and the alignment of incentives and rewards with Law Debenture's culture, taking these into account when setting the policy for executive director remuneration.

With all of that in mind, recognising also that the 2020 AGM marks the triennial point at which our remuneration policy as a whole must be considered for approval by the shareholders, we are engaging external remuneration consultants in the current year. The task will be to take a fresh look at, and advise us on the appropriateness and structure of, our remuneration policy in the light of governance code changes, market practice, the appointment of the new CEO and CFO, the increased investment in senior qualified staff and the ambition to grow the IPS business at a rate that will deliver higher dividends and capital growth for our shareholders. This review will include the possibility of introducing a Long-Term Incentive Plan which would provide executives with an increased proportion of their total compensation in shares, subject to appropriate targets being achieved.

Robert Laing

Chairman, remuneration committee
26 February 2019

Part 2 Remuneration policy

Our remuneration policy was approved at the 2017 AGM, with some amendments approved by shareholders in 2018. The policy is predicated on the assumption that there will be only one executive director of the Company (the 'Executive Director') in post at any given time. For the year just ended, this was the Chief Executive Officer, Denis Jackson. We have said in the past that, if the board decided to increase the number of Executive Directors, other than for short periods to enable smooth succession, the policy will be re-examined and if necessary, re-submitted to shareholders for approval. As described in Part 1, a minor change has become necessary following the appointment of Katie Thorpe as an Executive Director.

The policy applies to UK directors of the Company and senior staff employed in its subsidiaries, in the case of non-UK subsidiaries subject to local legal obligations.

The policy is as set out below, with the minor amendments that we are proposing clearly described in the first column.

Non-executive directors are appointed for an indefinite term, subject to annual re-election by the shareholders. Non-executive directors do not qualify for compensation payable on early termination of their roles.

A. Executive Director and senior staff

The major components of Law Debenture's remuneration package for the Executive Director and senior staff will be as set out in the table below (Table 2A).

Component	Commentary
BASIC SALARY Proposed change All references to Executive Director to become Executive Directors throughout the policy	Set at levels consistent with individual performance and market rates applicable to positions of similar complexity and responsibility as measured annually by an independent remuneration consultant, but ordinarily subject to a cap for the Executive Director of increasing by no more than inflation or by that amount awarded to the rest of the workforce.
BENEFITS PACKAGE	Consists of private medical insurance, life insurance cover, disability income plan, season ticket loan and professional subscriptions. The remuneration committee may award non-pensionable cash payments in lieu of one or more of these benefits. Such payments will be capped at the equivalent gross amount that it would have cost to provide the benefit being foregone. <p>Private medical insurance – All staff including the Executive Director are entitled to receive private health scheme membership for themselves (family cover and any other extensions require contribution by the executive).</p> <p>Life insurance cover – Life insurance cover is provided to all members of staff, including the Executive Director. The cover provides for a payment of 6 times salary in the event of death in service, subject to the HMRC notional salary cap (£160,800 from 1 January 2019).</p> <p>Disability Income Plan – A standard benefit for all staff, including the Executive Director, whereby subject to the length of service conditions, 75% of salary continues to be paid after 26 weeks' absence through illness.</p> <p>Season ticket loan – Season ticket loans are available to all staff including the Executive Director. The loans are interest free, repayable from monthly salary.</p> <p>Professional subscriptions – One professional subscription will be paid for the Executive Director (and all other members of UK staff) if it can be demonstrated that the professional membership is relevant to the role.</p>

Annual remuneration report continued

Component	Commentary										
PENSION ARRANGEMENTS	<p>The funded contributory, HMRC approved, final salary occupational pension scheme was closed to new members and closed for future accruals for existing members as from 31 December 2016. Employer contributions of 12% of reference salary are, from 1 January 2017, made into the Law Debenture Flexible Retirement Plan (FRP), a defined contribution scheme operated by Standard Life.</p> <p>The remuneration committee reserves the right to negotiate amendments to the FRP if it is deemed in the best interests of shareholders to do so.</p>										
BONUS ARRANGEMENTS	<p>Employees are eligible for the following annual bonuses which are discretionary, not contractual, and subject to performance.</p> <p>a) A general discretionary bonus payable to all UK IPS employees other than the Executive Director. This general bonus, which will be between 5-15% of salary, is dependent on the IPS profits in a given year being at least 80% of the IPS profits in the prior year. Awards will be determined by individual performance.</p> <p>b) Individual performance related discretionary bonus payable to middle and senior management (including the Executive Director) as a part of their overall remuneration package, a portion of which will be deferred. No discretionary bonuses are payable unless IPS profits in a given year are at least 80% of the IPS profits in the prior year.</p> <p>c) One off performance related bonuses may be paid to any employee not entitled to a bonus described at b) to reflect outstanding performance. Again, the 80% trigger applies. A sum totalling £30,000 will be held back from the bonus pool and used to pay "spot bonuses" where an employee in this category performs particularly well on a specific project during the year. Any undistributed spot bonus amount at each year end will be credited to shareholders' funds.</p> <p>Calculation of amount available for distribution</p> <p>The Executive Director and staff eligible for the discretionary performance related bonus will receive awards based on the profits of the IPS in the year under review, with the total pool distributable being calculated by reference to performance in that year versus the prior year. All relevant figures will be subject to audit and disclosed in the annual report and financial statements.</p> <p>The formula for establishing how much profit will be distributable as bonuses is as follows:</p> <table border="1"> <thead> <tr> <th>Performance achieved (measured against prior year)</th> <th>Pool amount (percentage of IPS profit made in the year under review)</th> </tr> </thead> <tbody> <tr> <td>79.99% or lower</td> <td>0%</td> </tr> <tr> <td>80 - 102.99%</td> <td>15 - 19.46%</td> </tr> <tr> <td>103 - 120%</td> <td>22.33 - 26%</td> </tr> <tr> <td>Above 120%</td> <td>26% plus remco discretion</td> </tr> </tbody> </table>	Performance achieved (measured against prior year)	Pool amount (percentage of IPS profit made in the year under review)	79.99% or lower	0%	80 - 102.99%	15 - 19.46%	103 - 120%	22.33 - 26%	Above 120%	26% plus remco discretion
Performance achieved (measured against prior year)	Pool amount (percentage of IPS profit made in the year under review)										
79.99% or lower	0%										
80 - 102.99%	15 - 19.46%										
103 - 120%	22.33 - 26%										
Above 120%	26% plus remco discretion										

Component	Commentary												
<p>BONUS ARRANGEMENTS continued</p> <p>Proposed change Removal of 11% set aside for Executive Director</p> <p>Proposed change Removal of distinction between senior and junior staff so that all staff are eligible for awards between 0-100%, dependent upon performance</p>	<p>Once the committee has established the total bonus pool for distribution, it will determine an award payable to the Executive Director taking into account the performance measures set out below. The first 11% of the total bonus pool will be available for this purpose. Other than for outstanding performance when an award up to 100% of basic salary may be made, it is expected that the Executive Director's bonus will normally be between 0 and 75% of basic salary. Should the 11% set aside prove to be insufficient to make an award up to 75% of basic salary, or should the committee decide that the Executive Director's performance has been outstanding and warrants a payment higher than 75% of salary, then the committee may resolve to draw such further amounts as necessary from the IPS profits to make that higher award. On the other hand, should the committee decide not to utilise the full amount set aside in this manner, then any surplus from the 11% set aside after the committee has finalised the sum payable to the Executive Director will be credited to shareholders' funds.</p> <p>The remaining 89% of the bonus pool will be distributed firstly, to fund the general bonus and secondly, to those individuals entitled to receive a discretionary performance related or spot bonus award.</p> <p>For the purpose of this policy, 'profit' is deemed to be the reported amount of IPS profit before tax and bonus.</p> <p>The total bonus pool will be used to pay any employers' NI due on awards made.</p> <p>Basis of distribution of individual discretionary awards – performance measures Individual awards will be made to the Executive Director dependent on whether performance has been assessed as satisfactory, good, excellent or outstanding.</p> <p>Awards will be made in the following ranges:</p> <table border="1" data-bbox="560 1249 1497 1525"> <thead> <tr> <th data-bbox="560 1249 1018 1283">Performance</th> <th data-bbox="1018 1249 1497 1283">Bonus (as % of basic salary)</th> </tr> </thead> <tbody> <tr> <td data-bbox="560 1301 1018 1335">Not adequate</td> <td data-bbox="1018 1301 1497 1335">0%</td> </tr> <tr> <td data-bbox="560 1352 1018 1386">Satisfactory</td> <td data-bbox="1018 1352 1497 1386">0 - 25%</td> </tr> <tr> <td data-bbox="560 1404 1018 1438">Good</td> <td data-bbox="1018 1404 1497 1438">25 - 50%</td> </tr> <tr> <td data-bbox="560 1456 1018 1489">Excellent</td> <td data-bbox="1018 1456 1497 1489">50 - 75%</td> </tr> <tr> <td data-bbox="560 1507 1018 1541">Outstanding</td> <td data-bbox="1018 1507 1497 1541">75 - 100%</td> </tr> </tbody> </table> <p>Where performance is deemed to be 'not adequate', no discretionary bonus is payable even if the IPS profits have been sufficient to generate a bonus pool.</p> <p>Performance awards for senior staff will also be assessed on similar parameters; more junior staff who are entitled to a discretionary award will receive graduated percentages between 0 and 50% of basic salary.</p> <p>Awards above 75% of basic salary will only be made in exceptional circumstances. 75% is thus the effective cap, but recognising that outstanding performance may warrant a higher award in some circumstances.</p>	Performance	Bonus (as % of basic salary)	Not adequate	0%	Satisfactory	0 - 25%	Good	25 - 50%	Excellent	50 - 75%	Outstanding	75 - 100%
Performance	Bonus (as % of basic salary)												
Not adequate	0%												
Satisfactory	0 - 25%												
Good	25 - 50%												
Excellent	50 - 75%												
Outstanding	75 - 100%												

Annual remuneration report continued

Component	Commentary
<p>Proposed change Dividend rights will accrue and be re-invested by the trustee into shares, which will be released to individuals at the same time as the underlying award is released</p>	<p>Performance is measured against certain KPIs:</p> <ul style="list-style-type: none"> • an individual's personal performance including performance against targets set annually (both financial and non-financial); • revenue performance of an individual's department against budget and/or prior year (or for the Executive Director or employees in non-fee earning departments, the performance of the IPS as a whole); • percentage change in profit of an individual's department over the year's and/or prior year budget (or for the Executive Director or employees in a non-fee earning department, the performance of the IPS profits as a whole); and • delivery of costs against budget. <p>In addition, for the Executive Director, the committee will take into account performance that is non-financial and not specific to a particular year or a particular strategic target (such as acquisition and disposal policy, exceptional events, etc) and will assess any factors relating to the performance of the investment trust portfolio that may be deemed relevant.</p> <p>It is not the intention to state publicly and in advance what the financial targets will be. Given that performance is in respect of the IPS business, financial targets are commercially sensitive and could, if published, compromise our competitiveness. However, commencing in the annual report for the year ending 31 December 2017, the remuneration report sets out, without breaching commercial sensitivity, the targets that were set for the Executive Director for the year under review and his performance against those targets.</p> <p>Deferred element All UK recipients of a discretionary bonus will have between one third and one half of the bonus withheld for three years under the Deferred Share Bonus Plan. The remuneration committee will decide the percentage to be withheld on a case by case basis. Shares will be purchased in the open market up to the amount of an individual's bonus to be withheld. The shares will be held on trust for the withholding period, to be released to the individual on the third anniversary of grant or earlier if good leaver provisions apply. The individual must pay PAYE and NI before the shares are released, otherwise they are forfeited. Entitlement to deferred shares will normally be lost if the individual gives notice to resign, or is put on notice of termination for cause, before the award release date, unless the committee exercises its discretion, which it is entitled to do under the rules. Dividend rights and voting rights on shares held pending release will be waived.</p> <p>Clawback and malus The following rules apply:</p> <ol style="list-style-type: none"> i) clawback – there is a requirement on the Executive Director to pay back an amount already received under the bonus arrangements if: <ol style="list-style-type: none"> a) the IPS profits turn out to have been overstated at the time a payment or share award was made; or b) it is later discovered that the Executive Director was in breach of contract at the time a payment or share award was made. ii) malus is the forfeit of all or part of a bonus/share award before it has vested and been paid. Any cash award determined but not yet paid, or any deferred shares awarded but not yet vested, may be reduced or taken away altogether if the circumstances described under 'clawback' above are discovered to be the case before vesting or payment.

Component	Commentary
LONG-TERM INCENTIVE PLANS	No long-term incentive plans exist and the committee does not intend to introduce such a plan whilst this policy remains in place.
SCHEMES AVAILABLE	<p>Eligible staff are able to join a Save As You Earn Share Save Plan (SAYE) and/or a Share Incentive Plan (SIP). Both plans are HMRC approved. The committee intends to maintain these schemes and operate them in accordance with scheme rules and HMRC Regulations. Both schemes require employees to contribute their own money and participation is open to all UK employees. While offering employees some tax advantages, the Schemes have a negligible operating cost and are deemed to be a key part of the Company's ability to recruit and retain staff.</p> <p>Under the SAYE, the Executive Director and all UK members of staff may make monthly savings in aggregate up to HMRC limits (currently £500 per month) direct from post-tax pay with a guaranteed tax free return after five years. On joining the scheme, savers are given an option to acquire shares in the Company at the end of the five year saving period, at a price fixed at the beginning of the saving period. This will be the market price of the shares on the invitation date or the latest published NAV, whichever is higher. At the end of the five year saving period, participants may choose to apply the amount saved to exercise the options over the shares notified at the outset of the saving period, or they may choose to relinquish their options in favour of receiving a cash repayment of all of their contribution plus a bonus as specified by HMRC (current HMRC rules do not permit a bonus).</p> <p>The SIP enables participants (all the UK employees) to sacrifice up to the HMRC limit (currently £5,400) of their pre-tax cash bonus to buy the Company's shares at current market price. These are held by a trustee and released tax free after five years. Any earlier release is subject to PAYE and NI. Participants receive dividend and voting rights on shares held in the SIP during the five year trust period.</p>

B. Non-executive directors

The components of Law Debenture's remuneration package for non-executive directors of the Company are set out in the table below (Table 2B). Fee levels stated below reflect the amount payable at the time the 2017 policy was approved by shareholders and remained at these levels at 31 December 2018.

Component	Commentary										
BASIC SALARY	<table border="0"> <tr> <td>NED fee</td> <td>£41,250</td> </tr> <tr> <td>Chairman's fee*</td> <td>£80,000</td> </tr> <tr> <td>Non-executive director of other group company</td> <td>£5,600</td> </tr> <tr> <td>Committee chair</td> <td>£5,150</td> </tr> <tr> <td>Pension scheme chair**</td> <td>£15,500</td> </tr> </table> <p>* The Chairman is paid a single fee which includes any other group directorships and committee roles. Actual fee paid may be lower if other roles decrease</p> <p>** If undertaken by a non-executive director</p> <p>The fees are reviewed by the board on advice from the Executive Director, who from time to time undertakes comparative studies using an independent remuneration consultant to ensure that the non-executive fee levels are consistent with the marketplace. Fees will only be increased in line with inflation unless the recommendation from the external consultant justifies consideration of a higher award.</p> <p>The Chairman is a non-executive director.</p>	NED fee	£41,250	Chairman's fee*	£80,000	Non-executive director of other group company	£5,600	Committee chair	£5,150	Pension scheme chair**	£15,500
NED fee	£41,250										
Chairman's fee*	£80,000										
Non-executive director of other group company	£5,600										
Committee chair	£5,150										
Pension scheme chair**	£15,500										
BENEFITS PACKAGE	None										
PENSION ARRANGEMENTS	None										
BONUS & OTHER INCENTIVE ARRANGEMENTS	None										

Annual remuneration report continued

C. Recruitment of new directors

Any new Executive Director recruited while this policy is in force will be remunerated in accordance with the policies set out in Table 2A. In addition, the following rules will apply:

- no new Executive Director will receive a starting salary that exceeds the existing Executive Director's basic salary by more than 20%;
- no additional bonus or long-term incentive arrangements will be established without prior shareholder approval;
- no 'golden hello' payments will be made;
- relocation packages will only be paid at the discretion of the remuneration committee; and
- the remuneration committee may agree to a payment of up to one third of the basic starting salary of a new Executive Director in lieu of any deferred bonus payments awarded and due to the executive from a former employer, but which are being sacrificed in order to join Law Debenture. As far as practicable, any such payments will be subject to the same deferment and withholding provisions that applied to the entitlement being sacrificed.

Any new non-executive directors will receive fees in accordance with Table 2B.

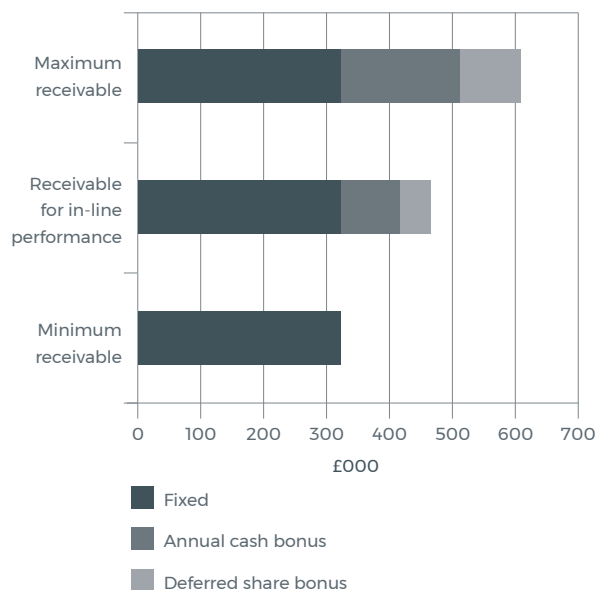
D. Compensation for loss of office

Executive Directors are appointed with a notice period of six months, with no contractual provisions for compensation payable on early termination (with notice) of the contract. Otherwise, there will be an entitlement to receive salary and benefits during the notice period, which may be paid 'in lieu' of all or part of any period of notice. There are no entitlements to payments of any sort in the event that for cause an Executive Director's employment is summarily terminated. In the event that an Executive Director is given notice of termination of employment within twelve months of any change in control of the Company, he/she will be given not less than twelve month's written notice and the same arrangements for receiving salary and benefits during this period will apply as described above.

Non-executive directors will not be entitled to compensation on termination of their directorship, no matter what the reason for termination.

E. Diagrammatic summary of fixed versus variable remuneration receivable - the Executive Director

The following chart demonstrates minimum, in-line and maximum amounts potentially receivable by the Executive Director.



F. Closing statements

In deriving the policy set out above, the remuneration committee has considered employment conditions generally as they apply to staff across the IPS business along with legislative and governance requirements. The aim of the policy remains to ensure that the Executive Director receives broadly the same elements of salary, bonus and benefits as the generality of staff, with awards as to quantum based on similar performance conditions and measurements.

The exceptions for the Executive Director are:

- the remuneration committee may take account of the Executive Director's contribution to the investment trust strategy and performance, as well as the performance of the IPS business;
- the Executive Director (along with senior staff) may receive higher percentage bonus payments than more junior staff; and
- the Executive Director is not eligible for the general bonus.

Part 3 Annual remuneration report

A. Total remuneration (audited)

The following paragraphs are set out in the form prescribed by the Regulations. Certain elements of the report have been audited, as clearly indicated.

	Total salary fees £	Annual and deferred cash bonus £	Deferred share bonus received £	Benefits £	Pension related benefit £	Other £	Total receivable £
Executive Directors - 2018							
D. Jackson*	286,750	286,750	—	7,305	30,281	100	611,186
	286,750	286,750	—	7,305	30,281	100	611,186
Executive Directors - 2017							
M. Adams**	238,958	—	—	4,744	28,675	71,688	344,065
T. Fullwood***	66,173	66,173	—	9,926	—	—	142,272
	305,131	66,173	—	14,670	28,675	71,688	486,337

* Mr D. Jackson received a cash allowance in lieu of pension benefits, which is included in pension related benefits

** Mr M. Adams resigned 22 October 2017. Mr Adams was a member of the flexible retirement plan to which the group made contributions. On departure, Mr Adams received three months salary in lieu of notice and a payment in respect of accrued holiday (totalling £71,688)

*** Mr T. Fullwood was appointed interim Chief Executive from 22 October 2017 for a fixed term until retirement at 31 December 2017. Mr Jackson was appointed chief executive officer from 1 January 2018

Notes

1. Mr Fullwood received an agreed salary of £66,173 for the fixed term of his appointment together with a cash bonus of £66,173. The annual salary for Mr Jackson from 1 January 2018 is £286,750 (Mr Adams from 1 January 2017: £286,750)
2. The balance of the maximum amount of the bonus pool available to make an award to the Executive Director of £30,679 has been released to shareholders' funds
3. Benefits were the cost of life insurance cover and the disability income plan together with a payment in lieu of private medical insurance
4. There are no long-term incentive plans

We report retrospectively on the performance targets that were set for the Executive Director and his performance against those targets. The report is as follows. In respect of his performance in 2018, the Executive Director received a bonus of 100% of his salary. This reflected outstanding performance against a range of objective and subjective measures. The objective measures were to deliver growth of the IPS business under various financial matrices as set out below. In each case, a range of growth targets was set, with the level of bonus dependent on how far along the curve the actual growth measured. These ranges will change each year to reflect prevailing market conditions. For 2018, the ranges were:

1. IPS EBITDA growth (maximum bonus available – 30%; bonus amount achieved 30%); and
2. IPS revenue growth (maximum bonus available – 30%; bonus amount achieved 30%).

The subjective tests were about strategy and leadership. These are not expected to change materially in any given year and for 2018 were:

1. Development and delivery of strategy to enhance market standing – IPS business (maximum bonus available – 25%; bonus amount achieved 25%); and
2. Development and delivery of strategy to enhance the profile of Law Debenture's shares, delivery of appropriate governance and risk management framework – (maximum bonus available – 15%; bonus amount achieved 15%).

Annual remuneration report continued

	Total fees receivable for 2018 £	Total fees receivable for 2017 £
Non-executive directors		
C. Smith*	22,462	80,000
R. Hingley	69,170	10,313
M. Bridgeman	46,909	46,400
R. Laing	52,000	52,000
T. Bond	41,250	41,250
	231,791	229,963

* Retired 11 April 2018

B. Save As You Earn Share Save Plan 2012 (audited)

	Interest at 31 December 2017	Interest acquired/ (lapsed) in 2018	Exercise price	Market price at invitation date	Interest at 31 December 2018	Earliest exercise	Latest exercise
D. Jackson	—	—	—	—	—	—	—

C. Deferred Share Plan (audited)

	Interest at 31 December 2017	Interest acquired in 2018	Interest (lapsed) in 2018	Purchase price	Interest at 31 December 2018	Date shares released
D. Jackson	—	2,981	—	£5.94546	2,981	01.03.21

D. Miscellaneous disclosures (audited)

No payments were made to former directors during the year. No payments were made to any director for loss of office.

Directors are encouraged to hold shares throughout the term of their appointment, to align their own interests with those of the shareholders as a whole. Directors' shareholdings at 31 December 2018 (and at the date of this report, unless otherwise indicated) were as follows:

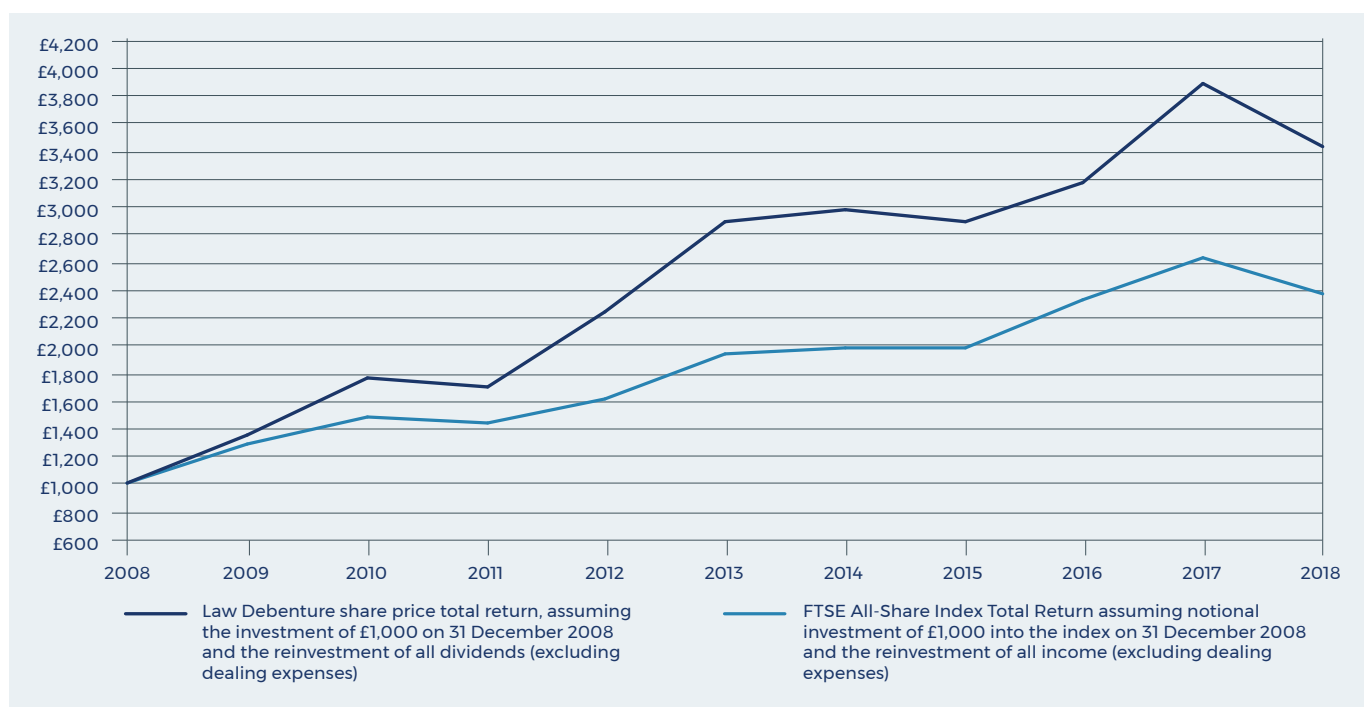
	Beneficial interests as at 31 December 2018	Beneficial interests as at 31 December 2017	Shares receivable but not vested at 31 December 2018
T. Fullwood	n/a	114,823	—
T. Bond	—	—	—
M. Bridgeman*	4,513	4,153	—
R. Hingley	4,870	4,870	—
R. Laing	12,300	12,300	—
C. Smith	n/a	55,000	—
D. Jackson	948	n/a	2,981

* Interests of connected persons in addition to his beneficial holding - 1,120 shares

E. Aggregate directors' remuneration (audited)

	2018 £	2017 £
Emoluments	842,977	716,300

F. Performance graph



Notes

- The graph shows the total shareholder return of a nominal holding of £1,000 of Law Debenture's shares measured against the total shareholder return of a nominal holding of £1,000 invested in the FTSE All-Share Index over a 10 year period
- Dividends have been reinvested
- FTSE All-Share Index is chosen as the comparator in this table because that is the index against which, historically, the Company has reported the performance of the investment trust portfolio

Annual remuneration report continued

G. Executive Director – diagrammatic summaries

The Regulations require us to publish the following tables relating to Executive Directors. For Law Debenture, the chief executive was the only Executive Director.

i) Historical remuneration

The table below sets out the Executive Directors' total remuneration over the same period as the performance graph above.

	Single figure of total remuneration £	Annual bonus and deferred bonus award (against maximum %)
2018 – D. Jackson	611,186	100.0%
2017 – T. Fullwood	142,272	100.0%
2017 – M. Adams	344,065	0%
2016 – M. Adams*	180,532	65.1%
2016 – C. Banzsky**	757,816	0%
2015	677,473	100.0%
2014	690,725	62.0%
2013	636,921	72.1%
2012	636,923	70.0%
2011	602,676	75.0%
2010	588,482	90.0%
2009	528,443	67.5%
2008	510,780	70.0%

* The annual bonus and deferred share award for Mr Adams in respect of 2016 is based upon his salary paid from appointment to 31 December 2016. Shares awarded to him have since lapsed

** The deferred cash bonus and deferred share bonus to Mrs Banzsky were awarded in prior years

The maximum bonus payment was 100% each year. The bonus payment includes the deferred element (see Table 2A).

ii) Percentage change in remuneration

The following table shows the percentage change in remuneration of the Executive Director compared to UK employees as a whole during the year.

	2018			2017		
	Salary %	Benefits %	Bonus %	Salary %	Benefits %	Bonus %
Executive Director	(6.0)	(50.0)	333.0	1.6	18.0	—
UK employees as a whole	3.5	3.1	48.7	1.9	(3.4)	(3.0)

1. The figure used to calculate the Executive Director's salary is 'total salary/fees' figure at Table 3A

2. The benefits and bonus are as set out in Table 3A, which exclude pension benefits

iii) Relative spend on salaries

The following table shows the total amount spent on remuneration (to all group employees, including the Executive Director) with a comparator to last year, along with total distributions to shareholders by way of dividend or (where applicable) share buy-back or other distributions.

	2018 £000	2017 £000
Total remuneration spend	13,964	12,330
Total distributed to shareholders	22,339	20,442

1. Total remuneration includes bonuses, employers' NI and pension costs and is the figure reported at note 3 of the accounts

2. Amounts distributed to shareholders are the totals of the final and interim dividends in respect of that year. There were no other distributions. The 2018 figure assumes that shareholders approve the proposed dividend at the AGM on 11 April 2019

iv) Statement of policy implementation in the current year

The remuneration committee is committed to implementing the remuneration policy set out at Part 2 above during the current financial year subject to the amendments proposed at the AGM. Performance measures and weightings applicable to bonus calculations will be calculated in accordance with the policy at Table 2A. The IPS profit before tax and bonus, used to calculate the 2018 bonus pool, was £13.0m (2017: £11.5m).

H. Consideration of matters relating to directors' remuneration

The board delegates all remuneration matters to the remuneration committee save for NED fees, which are considered by the board on advice from the chief executive.

The members of the committee who served during the year are:

R. Laing – Chairman

R. Hingley

T. Bond

M. Bridgeman

C. Smith (until 11 April)

During the year, the committee took advice from the following: the Executive Director (although not in respect of his own remuneration), the chief financial officer and the company secretary.

I. Voting at general meetings

At the AGM on 11 April 2018, the directors' remuneration report for the year ended 31 December 2017 received the following votes: for 99.36%; against 0.64%; votes withheld represented 0.47% of the total votes cast. Amendments to the remuneration policy received the following votes: for 99.36%; against 0.64%; votes withheld represented 0.25% of the total votes cast.

Company advisers and information

Registered office

Fifth Floor, 100 Wood Street, London EC2V 7EX

T: 020 7606 5451
F: 020 7606 0643
W: www.lawdebenture.com

(Registered in England - No. 30397)

Investment manager

James Henderson

Joined Henderson Global Investors (now Janus Henderson Investors) in 1983 and has been an investment trust portfolio manager since 1990. He first became involved in the management of Law Debenture's portfolio in 1994 and took over lead responsibility for management of the portfolio in June 2003. He also manages Lowland Investment Company plc, Henderson Opportunities Trust plc and Henderson UK Equity Income & Growth Fund.

James is assisted by Laura Foll, who first became involved with Law Debenture's portfolio in September 2011.

Alternative Investment Fund Manager

The Law Debenture Corporation p.l.c.

Investment portfolio manager

Janus Henderson Investors, 201 Bishopgate, London EC2M 3AE

Auditors

BDO LLP, 55 Baker Street, London W1U 7EU

Depository

NatWest Trustee and Depository Services Limited

Global custodian

HSBC Group (under delegation by the depository)

Registrar

Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

T: 0370 707 1129

Broker

J.P. Morgan Cazenove Limited, 25 Bank Street, London E14 5JP

AIC



A member of the Association of Investment Companies

Shareholder information

Investment trust status

The Company carries on business as an investment trust company as defined in Sections 1158-1159 of the Corporation Tax Act 2010. The directors will endeavour to conduct its affairs so as to enable it to maintain HMRC approval of the Company's status in this respect. So far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Company share information

Information about the Company can be found on its web site www.lawdebenture.com. The market price of its ordinary shares is also published daily in a number of newspapers.

Registrars

Our registrars, Computershare Investor Services PLC, operate a dedicated telephone service for Law Debenture shareholders - 0370 707 1129. Shareholders can use this number to access holding balances, dividend payment details, share price data, or to request that a form be sent to their registered address.

Share dealing

Computershare Investor Services PLC offers shareholders a share dealing service via the internet or by telephone, details of which are as follows:

www.computershare.trade

T: 0370 703 0084

Commission for the internet service is 1% with a minimum charge of £30 and 1% for the telephone service, plus £35.

The service is available only to those shareholders who hold their shares on the register (i.e. it is not available to those who hold their shares via a nominee).

Shareholders using the internet service will need their Shareholder Reference Number (SRN) and post code to complete their trade. The SRN can be found printed on your proxy card.

Computershare Brokerage Services are provided by The Share Centre Ltd, which is member of the London Stock Exchange and is authorised and regulated by the FCA. The Company is not responsible or liable for anything arising from a shareholder's decision to use the service. The Company is not acting as an introducer for the share dealing service and receives no financial benefit, either from making shareholders aware of the service or from any share deals conducted by shareholders who use the service.

The board

The board



Robert Hingley

Chairman, non-executive director

Appointed to the board in October 2017, becoming chairman in April 2018. A corporate financier with over 30 years' experience. A partner of Ondra LLP until October 2017. Before that, in 2012 he joined the Association of British Insurers as Director, Investment Affairs and acted as a consultant following the merger of ABI's Investment Affairs with the Investment Management Association, until the end of 2014. From 2010 until 2015, he was a Managing Director, and later Senior Advisor, at Lazard. He was previously Director-General of The Takeover Panel, on secondment from Lexicon Partners, where he was Vice Chairman. Prior to that, he was Co-Head of the Global Financial Institutions Group and Head of German Investment Banking at Citigroup Global Capital Markets, which acquired the investment banking business of Schroders in 2000. He joined Schroders in 1985 after having qualified as a solicitor with Clifford Chance in 1984. He is Chairman of Phoenix Spree Deutschland Limited, a member of The Takeover Panel and trustee/governor of several charitable organisations. He is a member of the remuneration and nominations committees.



Denis Jackson

Chief executive officer

Appointed to the board in January 2018 having joined Law Debenture in July 2017 as Chief Commercial Officer. He was previously at Capita plc as director of new business enterprise, having been a director at Throgmorton UK Limited (which Capita acquired). Prior to that, he was regional general manager – Europe and the United States – for Tibra Trading Europe Limited, a FCA regulated proprietary trading company, which he joined from Citigroup (formerly Salomon Brothers). He spent almost 20 years there in a variety of roles including in Treasury (both in New York and London), as Head of the Finance Desk in Hong Kong, Head of Fixed Income Prime Brokerage in New York and ultimately, Head of EMEA Prime Brokerage Sales.



Katie Thorpe

Chief financial officer

Appointed to the board in January 2019. She is a chartered accountant and qualified with PricewaterhouseCoopers before joining J. Rothschild Capital Management Limited, the manager/subsidiary of RIT Capital Partners plc. Initially appointed as Financial Controller, she was promoted to Deputy Chief Operating Officer, responsible for day-to-day operations, HR, IT, legal and company secretarial, with a significant emphasis on RIT's investor relations with shareholders and brokers. She is a Trustee of the Rambert School of Ballet and Contemporary Dance and chairs the school's Finance and Premises Committee.



Robert Laing

Non-executive director

Appointed to the board in April 2012. Admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983 when he joined Maclay Murray & Spens. He was a partner in that firm (which has since merged with Dentons) from 1985 and its chairman from 1 June 2010 until his retirement from the firm in May 2016. He is a non-executive director of The Independent Investment Trust plc. Senior independent director, chairman of the remuneration committee and a member of the audit and nominations committees and a non-executive director of Law Debenture (Independent Professional Services) Limited.



Tim Bond

Non-executive director

Appointed to the board in April 2015. Partner of Odey Asset Management LLP, which he joined in 2010, he currently manages Odey's Odyssey Fund. He previously spent 12 years at Barclays Capital as Managing Director and head of global asset allocation and was editor and principal author of Barclays Capital's Equity Gilt Study and chief advisor to the bank's RADAR fund. Before Barclays, he worked as a strategist at Moore Capital and at Tokai Bank Europe. He is a member of the audit, remuneration and nominations committees.



Mark Bridgeman

Non-executive director

Appointed to the board in March 2013. He spent 19 years with Schrodgers plc as an analyst and then fund manager, rising to become Global Head of Research. He now manages a large rural estate and farming business in Northumberland. He is a non-executive director of JP Morgan Brazil Investment Trust plc. He is deputy president and chairman of the board of the Country Land and Business Association and is also on the boards of two charities. Chairman of the audit committee and a member of the remuneration and nominations committees.



Independent auditor's report

to the Members of the Law Debenture Corporation P.I.C.

Opinion

We have audited the financial statements of The Law Debenture Corporation p.l.c. (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the group income statement, the group statement of comprehensive income, the group and Company statement of financial position, the group and Company statement of changes in equity, the group and Company statements of cash flows and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our Report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 84 to 86 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 26 in the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 37 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the corporation's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 37 in the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Key Audit Matter	How the matter was addressed in the audit
<p>Valuation, existence and ownership of investments</p> <p>Investments comprise 82% of the total assets of the group. The investment portfolio at the year-end comprised of listed equity investments valued at £658.5m and unlisted investments valued at £4.1m (note 14).</p> <p>We considered the valuation, existence and ownership of listed equity investments to be the most significant audit areas as investments represent the most significant balance in the financial statements and underpin the principal activity of the entity. We therefore also considered the completeness, accuracy and clarity of the investment related disclosures to be a significant area.</p> <p>We also considered the valuation of investments with respect to unrealised gains/losses to be a significant area.</p>	<p>We responded to this matter by testing the valuation, existence and ownership of 100% of the portfolio of listed investments.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> Confirmed against independent data sources that the correct bid-price has been used for the year end fair value Checked the appropriateness of the valuation methodology applied and confirmed that there are no contra indicators, such as liquidity considerations, to suggest that bid price is not the most appropriate indication of fair value Agreed the investment holdings to independently received third party confirmation from the custodian to confirm existence and completeness Reviewed the latest available independent assurance report addressing the relevant controls in place at the custodian <p>We also considered the completeness, accuracy and clarity of investment related disclosures.</p> <p>For the unrealised gains/losses on investments held at fair value, we tested the valuation of the portfolio at the year-end, together with testing the reconciliation of opening and closing investments.</p>
<p>Completeness of income from investments and the accuracy of income in relation to the provision of professional services (note 1 to the financial statements)</p> <p>We considered the completeness of dividend income recognition and its presentation in the Income Statement, as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP' issued in November 2014 and updated in January 2017 with consequential amendments) to be a significant risk. Dividend income is one of the key drivers of dividend returns to investors and is often a key factor in demonstrating the performance of the portfolio.</p> <p>Revenue also consists of fees receivable from the provision of professional services. Revenue recognition in the professional services component of the group was considered to be a risk as the timing of invoicing of fees results in amounts being accrued or deferred at the year-end based on management's estimates, including the stage of completion. This is because incomplete or inaccurate income could have a material impact on the group's earnings per share.</p>	<p>We assessed the accounting policy for income recognition in the Investment Trust for compliance with accounting standards and the AIC SORP and performed testing to confirm the nature of the revenue and to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>In respect of completeness of dividend income, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared on a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends.</p> <p>In respect of fee income from the provision of professional services, for a sample we agreed to contract or similar agreement, invoice and receipt of cash. We also obtained a breakdown of accrued and deferred income and selected a sample which we recalculated to gain assurance that the relevant proportion of income had been recognised in the year. Assurance over completeness was gained through a number of procedures including cut-off testing and reviewing client take on records. In addition, we performed controls testing where appropriate, on the key manual controls operating in the year assessing their implementation and effectiveness.</p>
<p>Defined benefit pension scheme (closed to new members and future accruals on 31 December 2016) (note 24 to the financial statements)</p> <p>The group operates a defined benefit pension scheme.</p> <p>There is a high degree of estimation in calculating the year end valuation, which has been prepared by management's actuaries, as it is based on information and assumptions made by management in respect of the key inputs into the calculation.</p>	<p>We instructed an external actuarial expert to complete a review of the pension accounting figures provided by the group, including the assumptions made, under IAS 19 which is the accounting standard for employee benefits. We considered the expert's objectivity and competence and evaluated the findings of their work.</p> <p>We benchmarked the key assumptions made by management to the industry standards, and where outliers or inconsistencies were noted, management were challenged on the appropriateness of the assumptions made and the audit team made inquiries and where relevant, we obtained supporting information.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. The application of these key considerations gives rise to three levels of materiality, the quantum and purpose of which are tabulated below.

Full scope audits of the thirteen components were performed at a materiality level calculated based on a level appropriate to the relative scale of the business concerned. All components are based in the UK and the group audit team have responsibility for the audit of all components included in the consolidated financial statements. Component materiality ranged up to £6,300,000. For components where full scope audits were not undertaken, the group audit team undertook audit procedures on material balances. The audits of the significant components were performed by the UK audit team.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality (1% of investment portfolio)	Assessing whether the financial statements as a whole present a true and fair view.	<ul style="list-style-type: none"> The value of investments The level of judgement inherent in the valuation The range of reasonable alternative valuations 	£6,630,000 (31 December 2017: £7,300,000)
Performance materiality (75% of materiality)	Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions.	<ul style="list-style-type: none"> Financial statement materiality Risk and control environment 	£4,970,000 (31 December 2017: £4,700,000)
Specific materiality – classes of transactions and balances which impact on net realised returns (5% of revenue return before tax)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	<ul style="list-style-type: none"> Net revenue returns of the Group 	£1,325,000 (31 December 2017: £669,000)
Parent company financial statement materiality (95% of group materiality)	Assessing whether the financial statements as a whole present a true and fair view.	<ul style="list-style-type: none"> A principal consideration in assessing the financial performance of the group 	Materiality - £6,300,000, Performance materiality - £4,720,000 (31 December 2017: Materiality – £6,900,000, Performance materiality – £4,480,000)

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £133,000 (2017: £145,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Independent auditor's report continued

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of the defined benefit pension scheme which has a high level of estimation uncertainty.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") issued in November 2014 and updated in February 2018 with consequential amendments and International Financial Reporting Standards (IFRSs) as adopted by the European Union. We also considered the Company's qualification as an Investment Trust under UK tax legislation.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period; and
- considering the effectiveness of the control environment in monitoring compliance with laws and regulations

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

The other information comprises the information included in the Annual Report, including the Financial summary, the Chairman's statement, the Strategic Report, the Investment manager's review, the Directors' Report, the Statement of Corporate governance, the

Audit Committee Report, the Remuneration Report, other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our Report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information; we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** – the statement given as to why the Annual Report does not include a statement by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the corporation and group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 34 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence

the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed on 11 April 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ending 31 December 2009 to 31 December 2018. Due to the length of tenure, the Company undertook a competitive tender process in November 2017 which resulted in the recommendation that BDO LLP be reappointed at the next AGM.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional Report to the audit committee.

Use of our report

This Report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Vanessa-Jayne Bradley (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
26 February 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group income statement

as at 31 December 2018

		2018			2017		
	Notes	Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000
UK dividends		18,892	—	18,892	17,017	—	17,017
UK special dividends		810	—	810	743	—	743
Overseas dividends		3,407	—	3,407	3,646	—	3,646
Overseas special dividends		90	—	90	57	—	57
		23,199	—	23,199	21,463	—	21,463
Interest income	6	480	—	480	139	—	139
Independent professional services fees		33,252	—	33,252	31,021	—	31,021
Other income		176	—	176	344	—	344
Total income		57,107	—	57,107	52,967	—	52,967
Net (loss)/gain on investments held at fair value through profit or loss	2	—	(84,301)	(84,301)	3,275	79,674	82,949
Total income and capital gains/(losses)		57,107	(84,301)	(27,194)	56,242	79,674	135,916
Cost of sales		(3,668)	—	(3,668)	(3,875)	—	(3,875)
Administrative expenses	3	(22,705)	(610)	(23,315)	(20,842)	(407)	(21,249)
Provision for onerous contracts	4	319	—	319	245	—	245
Operating profit/(loss)		31,053	(84,911)	(53,858)	31,770	79,267	111,037
Finance costs							
Interest payable	6	(4,617)	—	(4,617)	(4,785)	—	(4,785)
Profit/(loss) before taxation	7	26,436	(84,911)	(58,475)	26,985	79,267	106,252
Taxation	8	(1,318)	—	(1,318)	(1,391)	—	(1,391)
Profit/(loss) for the year	7	25,118	(84,911)	(59,793)	25,594	79,267	104,861
Return per ordinary share (pence)							
Diluted return per ordinary share (pence)	10	21.26	(71.85)	(50.59)	21.66	67.10	88.76
	10	21.25	(71.84)	(50.59)	21.66	67.09	88.75

* See note 1

Statement of comprehensive income

as at 31 December 2018

	2018			2017		
GROUP	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit/(loss) for the year	25,118	(84,911)	(59,793)	25,594	79,267	104,861
Foreign exchange on translation of foreign operations	—	450	450	—	(495)	(495)
Pension actuarial gains	1,600	—	1,600	1,800	—	1,800
Taxation on pension	(304)	—	(304)	(342)	—	(342)
Other comprehensive income for the year	1,296	450	1,746	1,458	(495)	963
Total comprehensive income for the year	26,414	(84,461)	(58,047)	27,052	78,772	105,824

Statement of financial position

as at 31 December 2018

	Notes	GROUP		COMPANY	
		2018 £000	2017 £000	2018 £000	2017 £000
Assets					
Non-current assets					
Goodwill	11	1,952	1,920	—	—
Property, plant and equipment	12	100	129	—	—
Other intangible assets	13	186	161	—	—
Investments held at fair value through profit or loss	14	662,593	735,872	662,379	735,633
Investments in subsidiary undertakings	14	—	—	61,233	96,311
Retirement benefit asset	24	2,500	300	—	—
Deferred tax assets	8	11	614	—	—
Total non-current assets		667,342	738,996	723,612	831,944
Current assets					
Trade and other receivables	15	6,925	6,417	384	1,000
Other accrued income and prepaid expenses		5,768	5,003	1,687	1,413
Cash and cash equivalents	16	124,148	134,011	100,321	78,549
Total current assets		136,841	145,431	102,392	80,962
Total assets		804,183	884,427	826,004	912,906
Current liabilities					
Amounts owed to subsidiary undertakings		—	—	47,840	53,597
Trade and other payables	17	11,888	11,649	1,404	1,385
Corporation tax payable		199	—	20	20
Other taxation including social security		583	570	497	386
Deferred income		4,005	3,942	16	16
Derivative financial instruments	20	—	299	—	299
Total current liabilities		16,675	16,460	49,777	55,703
Non-current liabilities and deferred income					
Long-term borrowings	21	114,112	114,068	74,534	74,516
Deferred income		3,796	3,974	145	155
Provision for onerous contracts	4	236	1,667	—	—
Total non-current liabilities		118,144	119,709	74,679	74,671
Total net assets		669,364	748,258	701,548	782,532
Equity					
Called up share capital	18	5,919	5,918	5,919	5,918
Share premium		8,904	8,787	8,904	8,787
Own shares	18	(966)	(1,033)	—	—
Capital redemption		8	8	8	8
Translation reserve		2,111	1,661	—	—
Capital reserves	19	603,433	688,344	662,031	745,025
Retained earnings		49,955	44,573	24,686	22,794
Total equity		669,364	748,258	701,548	782,532

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own income statement, however its loss for the year was £60,070,000 (2017: profit £103,881,000). Approved and authorised for issue by the board on 26 February 2019 and signed on its behalf by:

R. Hingley, Chairman | D. Jackson, Chief executive officer
Registered number 30397.

Statement of changes in equity

as at 31 December 2018

GROUP	Called up share capital £000	Share premium £000	Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
Equity at 1 January 2017	5,917	8,722	(1,197)	8	2,156	609,077	37,602	662,285
Profit	–	–	–	–	–	79,267	25,594	104,861
Foreign exchange	–	–	–	–	(495)	–	–	(495)
Actuarial gain on pension scheme (net of tax)	–	–	–	–	–	–	1,458	1,458
Total comprehensive income	–	–	–	–	(495)	79,267	27,052	105,824
Issue of shares	1	65	–	–	–	–	–	66
Dividend relating to 2016	–	–	–	–	–	–	(13,582)	(13,582)
Dividend relating to 2017	–	–	–	–	–	–	(6,499)	(6,499)
Movement in own shares	–	–	164	–	–	–	–	164
Total equity at 31 December 2017	5,918	8,787	(1,033)	8	1,661	688,344	44,573	748,258
Equity at 1 January 2018	5,918	8,787	(1,033)	8	1,661	688,344	44,573	748,258
Profit	–	–	–	–	–	(84,911)	25,118	(59,793)
Foreign exchange	–	–	–	–	450	–	–	450
Actuarial gain on pension scheme (net of tax)	–	–	–	–	–	–	1,296	1,296
Total comprehensive income	–	–	–	–	450	(84,911)	26,414	(58,047)
Issue of shares	1	117	–	–	–	–	–	118
Dividend relating to 2017	–	–	–	–	–	–	(13,942)	(13,942)
Dividend relating to 2018	–	–	–	–	–	–	(7,090)	(7,090)
Movement in own shares	–	–	67	–	–	–	–	67
Total equity at 31 December 2018	5,919	8,904	(966)	8	2,111	603,433	49,955	669,364

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 19).

Statement of changes in equity continued

as at 31 December 2018

COMPANY	Share capital £000	Share premium £000	Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
Equity at 1 January 2017	5,917	8,722	–	8	–	662,307	21,712	698,666
Total comprehensive income	–	–	–	–	–	82,718	21,163	103,881
Issue of shares	1	65	–	–	–	–	–	66
Dividend relating to 2016	–	–	–	–	–	–	(13,582)	(13,582)
Dividend relating to 2017	–	–	–	–	–	–	(6,499)	(6,499)
Total equity at 31 December 2017	5,918	8,787	–	8	–	745,025	22,794	782,532
Equity at 1 January 2018	5,918	8,787	–	8	–	745,025	22,794	782,532
Total comprehensive income	–	–	–	–	–	(82,994)	22,924	(60,070)
Issue of shares	1	117	–	–	–	–	–	118
Dividend relating to 2017	–	–	–	–	–	–	(13,942)	(13,942)
Dividend relating to 2018	–	–	–	–	–	–	(7,090)	(7,090)
Total equity at 31 December 2018	5,919	8,904	–	8	–	662,031	24,686	701,548

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 19).

Statements of cash flows

for the year ended 31 December 2018

	GROUP		COMPANY	
	2018 £000	2017 £000	2018 £000	2017 £000
Operating activities				
Operating (loss)/profit before interest payable and taxation	(53,858)	111,037	(54,521)	109,271
Losses/(gains) on investments	84,911	(79,267)	82,994	(82,718)
(Profit) on sale of unlisted investment	—	(3,275)	—	—
Foreign exchange	(7)	(13)	—	—
Depreciation of property, plant and equipment	93	101	—	—
Amortisation of intangible assets	85	61	—	—
Provision for impairment of goodwill	—	—	—	—
(Increase)/decrease in receivables	(1,273)	(137)	342	(569)
Increase/(decrease) in payables	(138)	(2,000)	138	(297)
Transfer (from) capital reserves	(200)	(142)	(200)	(142)
Normal pension contributions in excess of cost	(600)	(800)	—	—
Cash generated from operating activities	29,013	25,565	28,753	25,545
Taxation	(820)	(1,035)	—	—
Operating cash flow	28,193	24,530	28,753	25,545
Investing activities				
Acquisition of property, plant and equipment	(70)	(74)	—	—
Expenditure on intangible assets	(110)	(149)	—	—
Purchase of investments	(113,396)	(80,356)	(113,396)	(80,356)
Sale of investments	102,166	120,089	102,141	120,089
Sale of unlisted investments	—	3,318	—	—
Return of capital from subsidiary undertakings	—	—	35,078	—
Cash flow from investing activities	(11,410)	42,828	23,823	39,733
Financing activities				
Intercompany funding	—	—	(5,757)	(8,492)
Settlement of derivative financial instrument	(1,390)	1,698	(1,390)	1,698
Interest paid	(5,748)	(5,916)	(5,549)	(5,390)
Dividends paid	(21,032)	(20,081)	(21,032)	(20,081)
Proceeds of increase in share capital	118	66	118	66
Sale of own shares	67	164	—	—
Net cash flow from financing activities	(27,985)	(24,069)	(33,610)	(32,199)
Net (decrease)/increase in cash and cash equivalents	(11,202)	43,289	18,966	33,079
Cash and cash equivalents at beginning of period	134,011	94,804	78,549	45,606
Foreign exchange gains/(losses) on cash and cash equivalents	1,339	(4,082)	2,806	(136)
Cash and cash equivalents at end of period	124,148	134,011	100,321	78,549

Notes to the accounts

for the year end 31 December 2018

1. Summary of significant accounting policies

General information

The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom. The address of the registered office is given on page 53. The group's operations and its principal activities are as an investment trust and the provider of independent professional services.

Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of investments and derivatives at fair value through profit or loss.

The financial statements of The Law Debenture Corporation p.l.c. and the group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Where presentational guidance set out in the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts issued November 2014 and updated in February 2018 (SORP) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected component of the financial statements and associated critical judgements is as follows:

Defined benefit scheme

The calculation of the defined benefit scheme assets and obligations is sensitive to the assumptions used. The assumptions used are given in note 24 to the financial statements.

The sensitivity to changes in assumptions and conditions which are significant to the calculation of the asset have been considered and the following is an illustration of the potential impact.

	Increase/(decrease) in liability	
	at 31 December 2018 £ million	at 31 December 2017 £ million
Discount rate +0.1%	(0.9)	(1.1)
Inflation assumptions +0.1%	0.7	0.8
Life expectancy at 65 +1 year	(0.2)	2.0
RPI/CPI gap 1.1% instead of 1.0%	2.0	(0.3)

The directors take advice from an actuary when selecting assumptions.

New IFRSs, interpretations and amendments not yet effective

None of the new standards, interpretations or amendments, which are effective for the first time in these financial statements, has had a material impact on the group financial statements.

The following relevant standards and interpretations were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (IFRIC) before the period end:

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018).

The group has applied IFRS 9 from 1 January 2018. Based on the group's assessment, there has been no material financial impact as a result of the implementation of IFRS 9. The following key areas have been assessed:

Classification – the classification of financial assets as “fair value through profit and loss” is unchanged.

Impairment – IFRS 9 replaced the ‘incurred loss’ model in IAS 39 with a forward looking ‘expected credit loss’ model. The impact to the group will only be in relation to the impairment of trade and other receivables. The impairment assessment has been made on a simplified approach basis and did not have any material impact on the financial assets of the group. There are no other impairment impacts from the implementation of IFRS 9.

Notes to the accounts continued

for the year end 31 December 2018

1. Summary of significant accounting policies continued

New IFRSs, interpretations and amendments not yet effective continued

Long-term borrowings – continue to be recognised initially at fair value, which is generally the proceeds net of transaction costs incurred. The difference between the proceeds net of transaction costs and the redemption value will continue to be recognised in the income statement over the term of the borrowings using the effective interest rate method.

Hedge accounting – when initially applying IFRS 9, the group has chosen as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The group has elected to continue to apply IAS 39. Disclosure of the hedge accounting in accordance with IFRS 9 will be made by the group.

IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018).

The group has applied IFRS 15 from 1 January 2018. Based on management's assessment, there has been no material financial impact as a result of the implementation of IFRS 15. Revenue is measured based on the consideration specified in a contract with a customer and is recognised by the group when it transfers control over a service to a customer. Each of the revenue streams generated by the IPS businesses has been assessed and no amendment to the current revenue recognition policy has been required.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

The group is still assessing the likely impact on its financial statements. However, it is likely to have a significant impact on assets and liabilities but may not have a significant impact on net assets. IFRS 16 will give rise to the recognition of an asset in respect of leases currently treated as operating leases. Lease costs will be recognised in the form of depreciation and interest. See note 23 for details of the lease commitments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of The Law Debenture Corporation p.l.c. and entities controlled by the Company (its subsidiaries) made up to the end of the financial period. The Company controls an investment if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. The financial statements of subsidiaries are adjusted, where necessary, to ensure the accounting policies used are consistent with those adopted by the group.

Presentation of income statement and statement of comprehensive income

In order to better reflect the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the income statement and statement of comprehensive income between items of a revenue and capital nature has been presented. Additionally, the net revenue is the measure the directors believe appropriate in assessing the group's compliance with certain requirements set out in Sections 1158-1159 of the Corporation Tax Act 2010.

Effective from 1 January 2019, the board has decided to alter the allocation of finance costs and investment management fees between the revenue and the capital columns in the income statement to better reflect the expected split of future returns between income and capital. Whereas previously all investment management fees and finance costs were allocated to the revenue column, from 1 January 2019 the proportional split will be:

- Revenue 25%
- Capital 75%

The change in allocation is not a change in accounting policy.

Segment reporting

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the directors in deciding how to allocate resources and in assessing performance. The group comprises two operating segments; the investment trust and independent professional services business. This is consistent with internal reporting.

Foreign currencies

Transactions recorded in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into sterling at the exchange rate ruling at that date. Gains and losses on translation are included in profit or loss for the period, however exchange gains or losses on investments held at fair value through profit or loss are included as part of their fair value gain or loss.

The assets and liabilities of overseas subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expenses of overseas subsidiaries are translated at the average exchange rates for the period. Exchange differences arising from the translation of net investment in foreign subsidiaries are recognised in the statement of comprehensive income and transferred to the group's translation reserve.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives as follows:

Leasehold improvements	over the remaining lease period
Office furniture and equipment	3-10 years

Intangible assets

Computer software

Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of between three and five years.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment would be recognised in profit or loss and is not subsequently reversed.

Impairment of assets

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. Assets are reviewed on a regular basis and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial instruments

Investments

Listed and unlisted investments, which comprise the investment trust portfolio, have been designated as investments held at fair value through profit or loss. Purchases and sales of listed and unlisted investments are recognised on the date on which the group commits to purchase or sell the investment. Investments are initially recognised at fair value and transaction costs are expensed as incurred. Gains and losses arising from listed and unlisted investments, as assets at fair value through profit or loss, are included in the income statement in the period in which they arise.

The fair value of listed investments is based on quoted market prices at the reporting date. The quoted market price used is the bid price. The fair value of unlisted investments is determined by the directors with reference to the International Private Equity and Venture Capital Valuation (IPEV) guidelines (December 2018).

Gains and losses on investments and direct transaction costs are analysed within the income statement as capital. All other costs of the investment trust are treated as revenue items.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes to the accounts continued

for the year end 31 December 2018

1. Summary of significant accounting policies continued

Financial instruments continued

Borrowings

Borrowings are recognised initially at fair value, which is generally the proceeds net of transaction costs incurred. The difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest rate method, so as to generate a constant rate of return on the amount outstanding.

Hedge accounting

The group had designated US dollar/sterling foreign exchange forward swaps as hedging instruments to hedge the net investment in its US operations. The hedges were documented at the inception of the relationships and were reviewed on an ongoing basis to assess the effectiveness of the hedges.

The gain or loss on the hedging instruments relating to the effective portion of the hedges was recognised in other comprehensive income and accumulated in the translation reserve. Following the return of capital from a US subsidiary, these instruments were fully settled in September 2018.

Share capital

Ordinary shares are classified as equity. The ordinary shares of the Company which have been purchased by the Employee Share Ownership Trust (ESOT) to provide share based payments to employees are valued at cost and deducted from equity.

Taxation

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense which are either never taxable or deductible or are taxable or deductible in other periods. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realised based on tax rates that have been enacted or substantively enacted at the year end date.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to do so and presented as a net number on the face of the balance sheet.

Revenue recognition

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income

Interest income is accrued on a time basis using the effective interest rate applicable.

IPS income

The group has disaggregated the IPS revenue into various categories below which depict the nature, amount, timing, and uncertainty of revenue and cash flows.

Annual income

Annual income is derived from the provision of annual trustee services rendered net of any value added tax based on a contracted fee amount. The performance obligations are services provided in the creation of the trust or the structure and the obligations set out in the trust deed or service agreement. The timing of the transfer of goods and services is over time based on the period of service. Revenue is recognised over the period of service where amounts which are not recognised in the financial period are deferred. Amounts are mostly billed and paid on a monthly basis.

Pension income

Pension income is the total revenue charged to schemes based on the number of billable hours recorded at a contracted chargeable rate. The performance obligations are to provide the time of professional trustees to the pension trust and the timing of transfer of goods and

services are at that point in time. The revenue is recognised in the accounting period in which the time has been recorded with amounts mostly billed and paid on a quarterly basis.

Service of process and acceptance fee income

Revenues are derived from acceptance of new business based on the fee charged, which is considered to be the transaction price. For service of process, the performance obligation is being appointed as process agent for the client, who is the contract counter party. In both instances the timing of transfer of goods and services is at that point of time, with revenue recognised in the accounting period the transaction occurs net of any value added tax. Amounts are billed and paid on a monthly basis.

Employee benefits

Pension costs

The group operates a defined benefit pension plan, which was closed to new members and future accrual on 31 December 2016. The cost of providing benefits under the plan is determined using the projected unit credit method, with independent actuarial calculations being carried out at each year end date. Actuarial gains and losses are recognised in full in the period in which they occur through other comprehensive income.

The asset recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the year end date less the fair value of the plan assets.

In addition the group operates defined contribution plans, where the cost recognised is the contributions paid in respect of the year.

Profit share schemes

The group recognises provisions in respect of its profit share schemes when contractually obliged or when there is a past practice that has created a constructive obligation.

Share based plans

The group has awarded share options to executives and the group makes equity based awards to executives.

Reserves

A description of each of the reserves follows:

Share premium

This reserve represents the difference between the issue price of shares and the nominal value of shares at the date of issue, net of related issue costs.

Capital redemption

This reserve was created on the cancellation and repayment of the Company's share capital.

Own shares

This represents the cost of shares purchased by the ESOT.

Capital reserves

The following are dealt with through this reserve:

- gains and losses on realisation of investments; and
- changes in fair value investments which are readily convertible to cash.

Retained earnings

Net revenue profits and losses of the Company and its subsidiaries and the fair value costs of share based payments which are revenue in nature are dealt with in this reserve.

Translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and the gains or losses on hedging instruments relating to the effective portion of the hedge related to the net investment in foreign subsidiaries.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the shareholders.

Notes to the accounts continued

for the year end 31 December 2018

2. Net capital gain/(loss) on investments

	2018 £000	2017 £000
Realised gains based on historical cost	38,273	60,439
Amounts recognised as unrealised in previous years	(34,390)	(40,046)
Realised gains based on carrying value at previous year end date	3,883	20,393
Unrealised loss on investments	(87,984)	62,698
	(84,101)	83,091
Realised gain on sale of unlisted investment	–	(3,275)
Transfers (to) revenue	(200)	(142)
	(84,301)	79,674

During August 2017 the group completed the disposal of its minority interest in an unlisted investment within the IPS business segment ("Nordic Trustee Holding ASA"). The consideration received of £3,318,000 resulted in a gain on disposal of £3,275,000 (investment held at original cost of £43,000).

3. Administrative expenses

	2018 £000	2017 £000
Administrative expenses include:		
Salaries and directors' fees	11,953	10,249
Social security costs	1,211	1,351
Other pension costs	800	730
	13,964	12,330
Investment management fee	2,144	2,032
Depreciation – property, plant and equipment	93	101
Amortisation – intangible assets	85	61
Operating leases – land and buildings	1,147	1,214
Foreign exchange	(21)	10
Auditors' remuneration	193	193

During the year, the group employed an average of 123 staff (2017: 120). All staff are engaged in the provision of independent professional services. The Company has no employees.

Details of the terms of the investment management agreement are provided on page 25 of the strategic report.

Administrative expenses charged to capital are transaction costs and foreign exchange differences on the purchase of investments held at fair value through profit or loss.

Cost of sales represents legal charges which are recovered as part of fees.

A more detailed analysis of the auditors' remuneration on a worldwide basis is provided below:

	2018 £000	2017 £000
Audit services		
– fees payable to the Company's auditors for the audit of its financial statements*	179	177
– audit related regulatory	14	16
	193	193

* Including the Company £32,000 (2017: £37,000)

A description of the work of the audit committee is set out in the audit committee report on pages 40 to 41 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

4. Provision for onerous contracts

	2018 £000	2017 £000
GROUP		
At 1 January	1,667	3,106
(Release) made in the year	(319)	(245)
Utilisation of provision in the year	(1,131)	(1,131)
Foreign exchange	19	(63)
At 31 December	236	1,667

In December 2016 the group completed the disposal of substantially all of its US corporate trust business for a consideration of \$1. The disposal was the completion of the first part of a strategy to exit the US corporate trust business, so as to release \$50 million of capital required by the business. At the time of disposal the contracts remaining were assessed and deemed to generate insufficient income to cover the costs of running and financing the remainder of the business up to the eventual date of its closure. A provision for onerous costs of £3,106,000 representing the expected net future costs up to the date of disposal or completion of the remaining contracts was included in the year ended 31 December 2016. The remaining provision at 31 December 2018 comprises of the expected net running costs (including the cost of closure) of \$300,000 (2017: \$725,000). A reassessment of the provision required at December 2018 resulted in a release of £319,000 (2017: release of £245,000).

5. Remuneration of directors (key management personnel)

The remuneration of the directors, who are the key management personnel of the group, comprises the following:

	2018 £	2017 £
Short-term benefits including fees in respect of non-executive directors	842,977	716,300
Deferred share bonus scheme	—	—
	842,977	716,300

Details for each individual director are shown in the remuneration report on pages 49 and 50.

6. Interest

	2018 £000	2017 £000
Interest Income		
Interest on bank deposits	1	1
Returns on money market funds	479	138
	480	139
Interest payable		
Interest on pension scheme (net)	—	100
Implied interest on derivative financial instruments	471	539
Interest on long-term debt	5,277	5,277
Utilisation of onerous provision in the year (see note 4)	(1,131)	(1,131)
	(4,617)	4,785
Interest (net)	(4,137)	(4,646)

Notes to the accounts continued

for the year end 31 December 2018

7. Segment analysis

	Investment trust		Independent professional services		Group charges		Total	
	31 December 2018 £000	31 December 2017 £000	31 December 2018 £000	31 December 2017 £000	31 December 2018 £000	31 December 2017 £000	31 December 2018 £000	31 December 2017 £000
Revenue								
Segment income	23,199	21,463	33,252	31,021	–	–	56,451	52,484
Net gain on investments	–	–	–	3,275	–	–	–	3,275
Other income	169	95	7	249	–	–	176	344
Cost of sales	–	–	(3,668)	(3,875)	–	–	(3,668)	(3,875)
Administration costs	(3,360)	(3,274)	(19,345)	(17,568)	–	–	(22,705)	(20,842)
Release of onerous contracts	–	–	–	–	319	245	319	245
	20,008	18,284	10,246	13,102	319	245	30,573	31,631
Interest (net) (note 6)	(4,372)	(4,561)	235	(85)	–	–	(4,137)	(4,646)
Return, including profit on ordinary activities before taxation	15,636	13,723	10,481	13,017	319	245	26,436	26,985
Taxation	–	–	(1,183)	(1,287)	(135)	(104)	(1,318)	(1,391)
Return, including profit attributable to shareholders	15,636	13,723	9,298	11,730	184	141	25,118	25,594
Revenue return per ordinary share (pence)	13.23	11.61	7.87	9.93	0.16	0.12	21.26	21.66
Assets	764,771	816,595	39,312	67,613	100	227	804,183	884,435
Liabilities	(121,239)	(90,152)	(13,345)	(44,358)	(235)	(1,667)	(134,819)	(136,177)
Total net assets	643,532	726,443	25,967	23,255	(135)	(1,440)	669,364	748,258

The capital element of the income statement is wholly attributable to the investment trust. Details regarding the segments are included on page 3 – Group summary and in note 1 – Segment reporting on page 69.

	Investment trust		Independent professional services		Total	
	31 December 2018 £000	31 December 2017 £000	31 December 2018 £000	31 December 2017 £000	31 December 2018 £000	31 December 2017 £000
Other information						
Capital expenditure	–	–	180	223	180	223
Depreciation/amortisation	–	–	178	162	178	162

Group charges before taxation during the year comprised the following:

	2018 £000	2017 £000
Closure of the US trust business:		
Release for onerous contracts (see note 4)	319	245
	319	245

8. Taxation

	2018 £000	2017 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 19.0% (2017: 19.25%)	816	824
Overseas tax charge	203	255
Total current tax charge	1,019	1,079
Deferred tax charge	299	312
Charge for the year	1,318	1,391

Taxation

The charge for the year can be reconciled to the profit per the income statement as follows:

	2018 £000	2017 £000
Profits before taxation	(58,475)	106,252
Tax on ordinary activities at standard rate 19.0% (2017: 19.25%)	(11,110)	20,454
Effects of:		
Expenses not deductible for tax purposes	10	47
Higher rates of tax on overseas income	44	84
Non-taxable capital (gains)/losses	16,133	(15,259)
Tax credit on dividend income	(4,231)	(4,087)
Limit on group relief for UK interest expense	591	412
Prior year (over)/under provision in respect of current tax	16	(100)
Prior year (over) provision in respect of deferred tax	–	(56)
Deferred tax on movement in provision for onerous contracts	(135)	(104)
	1,318	1,391

The group expects that a substantial portion of its future income will continue to be in the form of dividend receipts and capital gains and losses, which constitute non-taxable income. On this basis, the group tax charge is expected to remain significantly different to the standard UK rate of 19.0%.

Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

GROUP	Accelerated tax depreciation £000	Retirement benefit obligations £000	Total £000
Deferred tax assets/(liabilities)			
At 1 January 2017	875	437	1,312
(Charge) to income	(160)	(152)	(312)
(Charge) to other comprehensive income	–	(342)	(342)
Foreign exchange	(44)	–	(44)
At 1 January 2018	671	(57)	614
(Charge) to income	(185)	(114)	(299)
(Charge) to other comprehensive income	–	(304)	(304)
Foreign exchange	–	–	–
At 31 December 2018	486	(475)	11

In accordance with the accounting policy, deferred tax is calculated at the tax rates that are expected to apply to the reversal. Overseas taxes reflect the current rate, whilst UK taxes are at the enacted rate of 19.0%. A deferred tax asset has not been recognised in respect of overseas losses of £1,187,400 (2017: £1,198,480) as their usability cannot be predicted with reasonable certainty.

Notes to the accounts continued

for the year end 31 December 2018

9. Dividends on ordinary shares

	2018 £000	2017 £000
Dividends on ordinary shares comprise the following:		
2018 Interim 6.00p (2017: 5.50p)	7,090	6,499
2017 Final 11.80p (2017: 11.50p)	13,942	13,582
Total for year	21,032	20,081
Proposed final dividend for the year ended 31 December 2018	15,249	

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

Set out below is the total dividend payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered.

	2018 £000	2017 £000
2018 Interim 6.00p (2017: 5.50p)	7,090	6,499
2018 Final 12.90p (2017: 11.80p)	15,249	13,943
	22,339	20,442

On this basis, The Law Debenture Corporation p.l.c. satisfies the requirements of Sections 1158-1159 of the Corporation Tax Act 2010, as an approved investment trust company. Dividends have been waived in respect of the shares owned by the ESOT (see note 18).

10. Net asset value/return per share

NAV per share is calculated based on 118,205,909 (2017: 118,160,055) shares, being the total number of shares in issue of 118,381,667 (2017: 118,358,244), less 175,758 (2017: 198,189) shares, acquired by the ESOT in the open market. The net asset value of £725,863,000 (2017: £791,089,000) comprises the NAV per the balance sheet of £669,364,000, (2017: £748,258,000) plus the fair value adjustment to for the IPS business of £78,439,000, (2017: £72,757,000) less the fair value adjustment for the debt of £21,940,000, (2017: £29,926,000).

Revenue return per share is based on profits attributable of £25,118,000 (2017: £25,594,000).

Capital return per share is based on capital losses for the year of £84,911,000 (2017: gains £79,267,000).

Total return per share is based on loss for the year of £59,793,000 (2017: gain £104,861,000).

The calculations of returns per share are based on 118,174,550 (2017: 118,136,983) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2018, total revenue and capital diluted returns per share were calculated using 118,187,923 shares (2017: 118,156,483 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 83,061 (2017: 32,776) antidilutive shares.

11. Goodwill

GROUP	2018 £000	2017 £000
Cost		
At 1 January	2,339	2,427
Foreign exchange	58	(88)
At 31 December	2,397	2,339
Provision for impairment		
At 1 January	419	459
Provision in year	—	—
Foreign exchange	26	(40)
At 31 December	445	419
Net book value at 31 December	1,952	1,920

The goodwill is identifiable with separate operating companies (Safecall Limited: £1,419,000; and Delaware Corporate Services Inc.: £533,000). At 31 December 2018 the goodwill in relation to the operating companies was reviewed. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows based on management forecasts for 2018.

The review for Safecall was assessed using annual growth for five years of 5% with no terminal growth, which is based on current expectations and a discount rate of 9% (2017: 9%). Sensitivity analysis was also completed using annual growth of 2% and a discount rate of 10% and on neither basis was the goodwill considered to be impaired.

The review of Delaware Corporate Services Inc. was assessed using annual growth for five years of 5% with no terminal growth, which is based on current expectations and a discount rate of 9% (2017: 9%). Sensitivity analysis was also completed using annual growth of 2% and a discount rate of 10% and on neither basis was the goodwill considered to be impaired (2017: nil).

12. Property, plant and equipment

GROUP	2018			2017		
	Office improvements £000	Furniture & equipment £000	Total £000	Office improvements £000	Furniture & equipment £000	Total £000
Cost						
At 1 January	866	1,791	2,657	881	1,735	2,616
Additions at cost	33	37	70	—	74	74
Foreign exchange	—	8	8	(15)	(18)	(33)
At 31 December	899	1,836	2,735	866	1,791	2,657
Accumulated depreciation						
At 1 January	848	1,680	2,528	830	1,625	2,455
Foreign exchange	7	7	14	(11)	(17)	(28)
Charge	33	60	93	29	72	101
At 31 December	888	1,747	2,635	848	1,680	2,528
Net book value at 31 December	11	89	100	18	111	129

The Company holds no property, plant and equipment.

13. Other intangible assets

GROUP	Computer software 2018 £000	Computer software 2017 £000
Cost		
At 1 January	1,682	1,533
Additions at cost	110	149
At 31 December	1,792	1,682
Accumulated amortisation		
At 1 January	1,521	1,463
Foreign exchange	—	(3)
Charge	85	61
At 31 December	1,606	1,521
Net book value at 31 December	186	161

The Company holds no other intangible assets.

Notes to the accounts continued

for the year end 31 December 2018

14. Investments

Investments held at fair value through profit or loss

GROUP	2018			2017		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
Opening cost at 1 January	482,125	3,572	485,697	464,942	3,615	468,557
Gains at 1 January	249,872	303	250,175	227,180	343	227,523
Opening fair value at 1 January	731,997	3,875	735,872	692,122	3,958	696,080
Purchases at cost	113,396	—	113,396	80,356	—	80,356
Cost of acquisition	(408)	—	(408)	(248)	—	(248)
Sales – proceeds	(102,141)	(25)	(102,166)	(120,089)	(3,318)	(123,407)
Return of capital from subsidiary	38,273	—	38,273	57,164	3,275	60,439
(Losses)/gains in the income statement	(122,608)	234	(122,374)	22,692	(40)	22,652
Closing fair value at 31 December	658,509	4,084	662,593	731,997	3,875	735,872
Closing cost at 31 December	531,245	3,547	534,792	482,125	3,572	485,697
Gains	127,264	537	127,801	249,872	303	250,175
Closing fair value at 31 December	658,509	4,084	662,593	731,997	3,875	735,872

COMPANY	2018			2017		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
Opening cost at 1 January	487,223	3,333	490,556	470,040	3,333	473,373
Gains at 1 January	244,774	303	245,077	222,082	343	222,425
Opening fair value at 1 January	731,997	3,636	735,633	692,122	3,676	695,798
Purchases at cost	113,396	—	113,396	80,356	—	80,356
Cost of acquisition	(408)	—	(408)	(248)	—	(248)
Sales – proceeds	(102,141)	—	(102,141)	(120,089)	—	(120,089)
Return of capital from subsidiary	38,273	—	38,273	57,164	—	57,164
(Losses)/gains in the income statement	(122,608)	234	(122,374)	22,692	(40)	22,652
Closing fair value at 31 December	658,509	3,870	662,379	731,997	3,636	735,633
Closing cost at 31 December	536,343	3,333	539,676	487,223	3,333	490,556
Gains	122,166	537	122,703	244,774	303	245,077
Closing fair value at 31 December	658,509	3,870	662,379	731,997	3,636	735,633

Listed investments are all traded on active markets and as defined by IFRS 13 are Level 1 financial instruments. As such they are valued at unadjusted quoted bid prices. Unlisted investments are Level 3 financial instruments. They are valued by the directors using unobservable inputs including the underlying net assets of the investments. There were no transfers in or out of Level 3 during the year.

Investments in subsidiary undertakings – Company

	2018 £000	2017 £000
Cost		
At 1 January	96,311	96,311
Capital redemption	(35,078)	—
At 31 December	61,233	96,311

The cost of subsidiary undertakings includes capital contributions and as a consequence is not comparable to the fair value of the IPS business. Further details of the capital redemption in subsidiary undertakings can be found on page 29, which sets out the return of capital by a subsidiary entity.

Fair valuation of the IPS

The fair value of the IPS business relates to all of the wholly owned subsidiaries of the Company, with the exception of Law Debenture Finance p.l.c. The directors have chosen to provide a fair valuation of the IPS business, which is not included within the financial statements, to assist the users of the annual report. The fair valuation is used in preparing performance data for the group. The fair value is determined using unobservable inputs (including the group's own data), which represent Level 3 inputs. The directors' estimate of fair value uses the guidelines and methodologies on valuation published by the International Private Equity and Venture Capital Association.

The fair valuation of IPS is based upon the historic earnings before interest, taxation, depreciation and amortisation (EBITDA), an appropriate multiple and the surplus net assets of the business at their underlying fair value. The multiple applied in valuing IPS is from comparable companies sourced from market data, with appropriate adjustments to reflect the difference between the comparable companies and IPS in respect of growth, margin, size and liquidity.

Fair valuation of IPS	2018 £000	2017 £000
EBITDA at a multiple of 8.4 (2017: 7.9)	87,562	77,396
Surplus net assets	16,844	17,176
	104,406	94,572

An increase or decrease of 1 in the multiple would give rise to a £10.4 million change in the fair valuation of the IPS. The adjustment to NAV to reflect the IPS fair value is an increase of 66.36p per share (2017: 61.57p).

Subsidiaries and related undertakings

The following is a list of all of the subsidiaries within the Law Debenture group. Each of them is 100% owned within the group and has been consolidated in the group accounts. Subsidiaries held directly by the Company are in bold. Unless indicated, all subsidiaries are incorporated and have their registered office in the United Kingdom at Fifth Floor, 100 Wood Street, London EC2V 7EX. The addresses of overseas registered companies appear at page 92. All shares issued by group subsidiaries are ordinary shares. The Company and the group do not have any significant holdings in any qualifying undertakings other than the subsidiary undertakings listed below.

L.D. Pension Plan Trustee Limited	Law Debenture (No. 2 Scheme) Trust Corporation
L.D.C. Trust Management Limited	Law Debenture (No. 3 Scheme) Pension Trust Corporation
Law Debenture Investment Management Limited	The Law Debenture (No. 5) Trust Corporation
Law Debenture (Independent Professional Services) Limited	The Law Debenture (1996) Pension Trust Corporation
Beagle Nominees Limited	The Law Debenture (Airborne) Pension Trust Corporation
The Law Debenture Trust Corporation p.l.c.	The Law Debenture (BAA) Pension Trust Corporation
The Law Debenture Pension Trust Corporation p.l.c.	The Law Debenture (BIS Management) Pension Trust Corporation
Pegasus Pension plc	The Law Debenture (BIS Retirement) Pension Trust Corporation
Law Debenture Corporate Services Limited	The Law Debenture (Freemans) Trust Corporation
Law Debenture Trustees Limited	The Law Debenture (GS) Pension Trust Corporation
The Law Debenture Intermediary Corporation p.l.c.	The Law Debenture (Intel Old Plan) Pension Trust Corporation
Law Debenture Overseas No. 1 Limited	The Law Debenture (SAPP) Pension Trust Corporation
Law Debenture Finance p.l.c.	The Law Debenture (JLPP) Pension Trust Corporation
Law Debenture Securitisation Services Limited	The Law Debenture (JLPP) Pension Trust Corporation
LDPTC Nominees Limited	The Law Debenture (JGRP) Pension Trust Corporation
Law Debenture Governance Services Limited	The Law Debenture (JGSPS) Pension Trust Corporation
Safecall Limited	The Law Debenture (JIC) Pension Trust Corporation
Safecall Training Limited	The Law Debenture (KBPP) Pension Trust Corporation
The Whistleblowing Company Limited	The Law Debenture (KGPP) Pension Trust Corporation
The Sole Trustee plc	The Law Debenture (LBS) Pension Trust Corporation
The Law Debenture Corporation (Deutschland) Limited	The Law Debenture (Swiss Re GB) Trust Corporation
L.D.C. Latvia Limited	Law Debenture (Ocean) Trust Corporation
Law Debenture Trustee for Charities	Law Debenture (Odyssey) Trust Corporation
Law Debenture (No. 1 Scheme) Trust Corporation	The Law Debenture (SRL) Pension Trust Corporation

Notes to the accounts continued

for the year end 31 December 2018

14. Investments continued

The Law Debenture (Stena Line EPS) Pension Trust Corporation

The Law Debenture (Tootal) Trust Corporation

Law Debenture (GWR) Pension Trust Corporation

The Law Debenture (JGDBS) Pension Trust Corporation

ICI Pensions Trustee Limited

Morgan Crucible Pension Trustees Limited

AstraZeneca Pensions Trustee Limited

Law Debenture MC Senior Pension Trust Corporation

ICI Specialty Chemicals Pensions Trustee Limited

RTL Shareholder SVC Limited

Billiton SVC Limited

DLC SVC Limited

LDC (NCS) Limited

Terrier Services Limited

L.D.C. Securitisation Director No. 1 Limited

L.D.C. Securitisation Director No. 2 Limited

L.D.C. Securitisation Director No. 3 Limited

L.D.C. Securitisation Director No. 4 Limited

L.D.C. Corporate Director No. 1 Limited

L.D.C. Corporate Director No. 2 Limited

L.D.C. Corporate Director No. 3 Limited

L.D.C. Corporate Director No. 4 Limited

L.D.C. Corporate Director No. 5 Limited

CD Corporate Director No. 1 Limited

CD Corporate Director No. 2 Limited

LDC Nominee Director No. 1 Limited

LDC Nominee Director No. 2 Limited

LDC Nominee Secretary Limited

LDC DR Trustee Limited

LDC DR Nominees Limited

L.D.C. (SPV No.1) Limited

LD (Holdco) Limited

LD (Bidco) Limited

The Law Debenture Corporation (HK) Limited
(incorporated/registered office in Hong Kong)

Law Debenture Trust (Asia) Limited
(incorporated/registered office in Hong Kong)

Law Debenture China Limited
(incorporated/registered office in Hong Kong)

Law Debenture Services (HK) Limited
(incorporated/registered office in Hong Kong)

The Law Debenture Trust Corporation (Channel Islands) Limited
(incorporated/registered office in Jersey)

The Law Debenture Trust Corporation (Cayman) Limited
(incorporated/registered office in the Cayman Islands)

The Law Debenture Trust Company of New York
(incorporated/registered office in the USA)

Law Debenture Corporate Services Inc.
(incorporated/registered office in the USA)

Law Debenture Holdings Inc.
(incorporated/registered office in the USA)

Delaware Corporate Services Inc.
(incorporated/registered office in the USA)

Law Debenture (Ireland) Limited
(incorporated/registered office in the Republic of Ireland)

Law Debenture Ireland (Trustees) Limited
(incorporated/registered office in the Republic of Ireland)

Law Debenture Holdings (Ireland) Limited
(incorporated/registered office in the Republic of Ireland)

LDI (OCS) Limited
(incorporated/registered office in the Republic of Ireland)

Registered Shareholder Services No.1 Limited
(incorporated/registered office in the Republic of Ireland)

Registered Shareholder Services No.2 Limited
(incorporated/registered office in the Republic of Ireland)

Registered Shareholder Services No.3 Limited
(incorporated/registered office in the Republic of Ireland)

BHP SVC PTY Limited
(incorporated/registered office in Australia)

15. Trade and other receivables

The carrying value represents trade and other receivables which are not impaired. The directors consider that the carrying value approximates to the fair value. Allowances for impairment are determined by reference to past experience.

The group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses trade receivables are grouped based on similar risk characteristics and aging.

The expected loss rates are based on the group's historical credit losses experienced over the two year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the group's customers.

Contract assets and contract liabilities are included within "other accrued income and prepaid expenses" and "deferred income" respectively on the face of the statement of financial position. They arise from the group's IPS business which enters into contracts that can take more than one year to complete.

16. Cash and cash equivalents

These comprise cash held at bank by the group, short-term bank deposits with an original maturity of three months or less and money market funds with immediate access. The carrying value of these assets approximates to their fair value.

17. Trade and other payables

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The directors consider that the carrying value of trade and other payables approximates to their fair value, due to their age.

18. Called up share capital

Allotted, issued and fully paid share capital - Group and Company

	2018 £000	2017 £000
Value		
As at 1 January	5,918	5,917
Issued in year	1	1
As at 31 December	5,919	5,918
Shares	Number	Number
As at 1 January	118,358,244	118,344,399
Issued in year	23,423	13,845
As at 31 December	118,381,667	118,358,244

During the year to 31 December 2018, 23,423 shares were allotted under the SAYE scheme for a total consideration of £117,336 which includes a premium of £116,165.

During the year, 53,815 options were granted under the Company's SAYE scheme. At 31 December 2018, options under the SAYE scheme exercisable from 2018 to 2024 at prices ranging from 499.50p to 606.00p per share were outstanding in respect of 180,221 ordinary shares (2017: 158,062 ordinary shares). During 2018, 8,233 options lapsed or were cancelled (2017: 29,595) and 23,423 (2017: 13,845) were exercised.

Further details of options outstanding are given in the directors' report on page 33.

Own shares held - Group

	2018 £000	2017 £000
Value		
Own shares held - cost	966	1,033

The own shares held represent the cost of 175,758 (2017: 198,189) ordinary shares of 5p each in the Company, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Deferred Share Plan. The dividends and voting rights relating to the shares have been waived while the relevant shares remain in trust, in accordance with the Plan rules. The market value of the shares at 31 December 2018 was £949,093 (2017: £1,246,609). Subject to shareholder approval at the 2019 AGM, dividends will be receivable on shares held in trust and re-invested by the trustee into Law Debenture shares. These will be released to award holders at the same time as the underlying shares.

Notes to the accounts continued

for the year end 31 December 2018

19. Capital reserves

GROUP	2018			2017		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
At 1 January	244,457	443,887	688,344	222,354	386,723	609,077
Transfer on disposal of investments	(34,390)	34,390	—	(40,046)	40,046	—
Net gains on investments	(87,984)	3,883	(84,101)	62,698	20,393	83,091
Realised gain on sale of unlisted investment	—	—	—	—	(3,275)	(3,275)
Cost of acquisition	(408)	—	(408)	(248)	—	(248)
Foreign exchange	(202)	—	(202)	(159)	—	(159)
Transfers (to) revenue	(200)	—	(200)	(142)	—	(142)
At 31 December	121,273	482,160	603,433	244,457	443,887	688,344

COMPANY	2018			2017		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
At 1 January	235,821	509,204	745,025	210,267	452,040	662,307
Transfer on disposal of investments	(34,390)	34,390	—	(40,046)	40,046	—
Net gains on investments	(87,984)	3,883	(84,101)	62,698	17,118	79,816
Cost of acquisition	(408)	—	(408)	(248)	—	(248)
Foreign exchange	1,715	—	1,715	3,292	—	3,292
Transfers (to) revenue	(200)	—	(200)	(142)	—	(142)
At 31 December	114,554	547,477	662,031	235,821	509,204	745,025

20. Financial instruments

The group's investment objective is to achieve long-term capital growth through investing in a diverse portfolio of investments. In pursuit of this objective, the group has the power to deploy the following financial instruments:

- Quoted equities, unlisted equities and fixed interest securities
- Cash and short-term investments and deposits
- Debentures, term loans and bank overdrafts to allow the group to raise finance
- Derivative transactions to manage any of the risks arising from the use of the above instruments
- Derivative transactions to hedge the net investment in overseas subsidiaries

It remains the group's policy that no trading in derivatives is undertaken. Information in respect of the investment portfolio is included on pages 12 to 22.

Capital management

The Company is not allowed to retain more than 15% of its income from shares and securities each year and has a policy to increase dividends. However revenue profits are calculated after all expenses. Distributions will not be made if they inhibit the investment strategy. The investment strategy of the Company is disclosed on page 24 and includes a ceiling on effective gearing of 50%, with a typical range of 10% net cash to 20% gearing.

Capital is represented by the group's net assets.

The group and Company held the following categories of financial assets and liabilities at 31 December 2018:

GROUP	2018 £000	2017 £000
Assets		
Financial assets held at fair value through profit or loss:		
Equity investments	662,593	735,872
Financial assets held at amortised cost		
Trade and other receivables	6,925	6,417
Cash and cash equivalents	124,148	134,011
	131,073	140,428
Total financial assets	793,666	876,300
Liabilities		
Derivative financial instruments at fair value	—	299
Financial liabilities measured at amortised cost		
Trade and other payables	11,888	11,649
Long-term borrowings	114,112	114,068
	126,000	125,717
Total financial liabilities	126,000	126,016
COMPANY	2018 £000	2017 £000
Assets		
Financial assets held at fair value through profit or loss:		
Equity investments	662,379	735,633
Financial assets held at amortised cost		
Trade and other receivables	384	1,000
Cash and cash equivalents	100,321	78,549
	100,705	79,549
Total financial assets	763,084	815,182
Liabilities		
Derivative financial instruments at fair value	—	299
Financial liabilities measured at amortised cost		
Amounts owed to subsidiary undertakings	47,840	53,597
Trade and other payables	1,404	1,385
Long-term borrowings	74,534	74,516
	123,778	129,498
Total financial liabilities	123,778	129,797

Notes to the accounts continued

for the year end 31 December 2018

20. Financial instruments continued

Derivative financial instruments

	2018 £000	2017 £000
Fair value of hedge instrument	–	299

The hedge instrument was put in place to hedge US\$50m of regulatory capital required by a US subsidiary engaged in corporate trust business. Following the sale of substantially all of the US corporate trust business at the end of 2016, the regulatory capital requirement ceased to apply in 2018 and the capital was returned to the UK. The swap that had been put in place to hedge this investment was terminated at the end of its term in September 2018.

The principal risks facing the group in respect of its financial instruments remain unchanged from 2017 and are:

Market risk

Price risk, arising from uncertainty in the future value of financial instruments. The board maintains strategy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. In addition, the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy. The investment portfolio is exposed to market price fluctuation: if the valuation at 31 December 2018 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £66.3 million (2017: £73.6 million). Corresponding 10% changes in the valuation of the investment portfolio on the Company's total profit or loss for the year would have been £66.2 million (2017: £73.6 million).

Foreign currency risk, arising from movements in currency rates applicable to the group's investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The group's financial assets denominated in currencies other than sterling were:

	2018			2017		
	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary assets £m	Total currency exposure £m
GROUP						
US Dollar	71.5	4.3	75.8	69.9	3.6	73.5
Canadian Dollar	5.0	–	5.0	5.0	–	5.0
Euro	37.1	0.3	37.4	47.5	0.4	47.9
Danish Krone	2.3	–	2.3	3.8	–	3.8
Swedish Krona	1.6	–	1.6	–	–	–
Swiss Franc	14.1	–	14.1	9.8	–	9.8
Hong Kong Dollar	–	0.4	0.4	–	0.3	0.3
Japanese Yen	7.4	–	7.4	7.7	–	7.7
	139.0	5.0	144.0	143.7	4.3	148.0

The group US dollar net monetary assets is that held by the US operations of £3.1 million together with £1.2 million held by non-US operations.

	2018			2017		
	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary (liabilities) £m	Total currency exposure £m
COMPANY						
US Dollar	71.5	0.2	71.7	69.9	(36.6)	33.3
Canadian Dollar	5.0	–	5.0	5.0	–	5.0
Euro	37.1	–	37.1	47.5	–	47.5
Danish Krone	2.3	–	2.3	3.8	–	3.8
Swedish Krona	1.6	–	1.6	–	–	–
Swiss Franc	14.1	–	14.1	9.8	–	9.8
Japanese Yen	7.4	–	7.4	7.7	–	7.7
	139.0	0.2	139.2	143.7	(36.6)	107.1

The holdings in Baillie Gifford Pacific OEIC, Stewart Investors Asia Pacific OEIC, and Scottish Oriental Smaller Companies Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £29.9 million (2017: £59.2 million). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot be determined and this has not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2018 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £18.9 million and £15.4 million respectively (2017: £22.7 million and £18.5 million). Corresponding 10% changes in currency values on the Company's total profit or loss for the year would have been the same. The calculations are based on the investment portfolio at the respective year end dates and are not representative of the year as a whole.

Interest rate risk, arising from movements in interest rates on borrowing, deposits and short-term investments. The board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The group's interest rate profile was:

2018						
	GROUP				COMPANY	
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m
Floating rate assets	119.1	0.4	4.3	0.3	100.1	0.2

2017						
	GROUP				COMPANY	
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m
Floating rate assets	92.7	0.3	40.6	0.4	78.1	0.4

The group holds cash and cash equivalents on short-term bank deposits and money market funds. Interest rates tend to vary with bank base rates. The investment portfolio is not directly exposed to interest rate risk.

	GROUP		COMPANY	
	2018 Sterling £m	2017 Sterling £m	2018 Sterling £m	2017 Sterling £m
Fixed rate liabilities	114.1	114.1	74.5	74.5
Weighted average fixed rate for the year	4.589%	4.589%	3.770%	3.770%

If interest rates during the year were 1.0% higher the impact on the group's total profit or loss for the year would have been £1,111,000 credit (2017: £924,000 credit). It is assumed that interest rates are unlikely to fall below the current level.

The Company holds cash and cash equivalents on short-term bank deposits and money market funds, it also has short-term borrowings. Amounts owed to subsidiary undertakings include £40 million at a fixed rate. Interest rates on cash and cash equivalents and amounts due to subsidiary undertakings at floating rates tend to vary with bank base rates. A 1.0% increase in interest rates would have affected the Company's profit or loss for the year by £730,000 credit (2017: £501,000 credit). The calculations are based on the balances at the respective year end dates and are not representative of the year as a whole.

Liquidity risk

Is the risk arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's strategy largely limits investments to equities and fixed interest securities quoted in major financial markets. In addition, cash balances are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in note 21.

Notes to the accounts continued

for the year end 31 December 2018

20. Financial instruments continued

Credit risk

Is the risk arising from the failure of another party to perform according to the terms of their contract. The group minimises credit risk through policies which restrict deposits to highly rated financial institutions and restrict the maximum exposure to any individual financial institution. The group's maximum exposure to credit risk arising from financial assets is £131.1 million (2017: £140.4 million). The Company's maximum exposure to credit risk arising from financial assets is £100.7 million (2017: £79.5 million).

Trade and other receivables

Trade and other receivables not impaired but past due by the following:

	GROUP		COMPANY	
	2018 £000	2017 £000	2018 £000	2017 £000
Between 31 and 60 days	1,315	657	—	—
Between 61 and 90 days	437	293	—	9
More than 91 days	1,721	1,047	—	—
Total	3,473	1,997	—	9

At 31 December 2018, trade and other receivables which were impaired and for which there was a bad debt provision totalled £1,245,000 (2017: £956,000) (Company: £nil (2017: £nil)). All the impaired trade and other receivables were more than 91 days past due.

The group assessed the lifetime expected credit losses for trade receivables and considered the amount immaterial. No provision has been recognised.

Trade and other payables

	GROUP		COMPANY	
	2018 £000	2017 £000	2018 £000	2017 £000
Due in less than one month	11,621	11,353	1,404	1,385
Due in more than one month and less than three months	267	296	—	—
	11,888	11,649	1,404	1,385

Fair value

The directors are of the opinion that the fair value of financial assets and liabilities of the group are not materially different to their carrying values, with the exception of the long-term borrowings (see note 21).

21. Long-term borrowings

	GROUP		COMPANY	
	2018 £000	2017 £000	2018 £000	2017 £000
Long-term borrowings are repayable as follows:				
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	39,578	39,552	—	—
3.77% secured senior notes 2045	74,534	74,516	74,534	74,516
	114,112	114,068	74,534	74,516

The 6.125% bonds were issued by Law Debenture Finance p.l.c. and guaranteed by the Company. The £40 million nominal tranche, which produced proceeds of £39.1 million, is constituted by a Trust Deed dated 12 October 1999 and the Company's guarantee is secured by a floating charge on the undertaking and assets of the Company. The bonds are redeemable at nominal amount on 12 October 2034. Interest (see note 6) is payable semi-annually in equal instalments on 12 April and 12 October in each year.

The 3.77% notes were issued by the Company. The £75 million nominal tranche, which produced proceeds of £74.5 million, is constituted by a note purchase agreement and the notes are secured by a floating charge which ranked pari passu with the charge given as part of the 6.125% bond issue. The notes are redeemable at nominal amount on 25 September 2045. Interest (see note 6) is payable semi-annually in equal instalments on 25 March and 25 September in each year.

The long-term borrowings are stated in the statement of financial position at book value. Including them at a fair value of £136.1 million at 31 December 2018 (2017: £144.0 million) would have the effect of decreasing the year end NAV by 18.56p (2017: 25.32p). The estimated fair value is based on the redemption yield of reference gilts plus a margin derived from the spread of A rated UK corporate bond yields over UK gilt yields (2017: A).

22. Contingent liabilities

The group is from time to time party to legal proceedings and claims, which arise in the ordinary course of the IPS business. The directors do not believe that the outcome of any of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the group's financial position.

The Company has provided a guarantee to a subsidiary undertaking in respect of the ongoing liabilities of the group defined benefit pension scheme (see note 24). The Company has provided surety for the lease of the group's main property which is held by a subsidiary undertaking. The annual rental is currently £907,000 and its full term ends in 2020. The Company has provided a guarantee in respect of its liabilities that could arise from its US corporate trust business in the period before the business was sold. The guarantee ends in 2019.

23. Lease commitments

At the year end date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £000	2017 £000
Less than one year	1,173	1,077
Two to five years	1,048	1,658
More than five years	21	83
	2,242	2,818

Lease payments represent rentals payable by the group for its office properties. The lease for the main property was negotiated for a term of 20 years and rentals are fixed for an average of five years.

Notes to the accounts continued

for the year end 31 December 2018

24. Pension commitments

For some employees, the group operates a funded pension plan providing benefits for its employees based on final pensionable emoluments. The assets of the plan are held in a separate trustee administered fund. The plan closed to future accrual of benefits on 31 December 2016 and benefits now increase broadly in line with inflation.

Under the defined benefit pension plan, each member's pension at retirement is related to their pensionable service and final pensionable emoluments. The weighted average duration of the expected benefit payments from the plan is around 20 years. The defined benefit scheme is operated from a trust, which has assets which are held separately from the group and is overseen by an independent sole trustee who ensures the plan's rules are strictly followed.

These figures were prepared by an independent qualified actuary in accordance with IAS19 (revised), and are based on membership data as at 31 December 2018. The funding target is for the plan to hold assets equal in value to the accrued benefits based on projected pensionable emoluments. If there is a shortfall against this target, then the group and the Trustee will agree deficit contributions to meet this deficit over a period.

There is a risk to the group that adverse experience could lead to a requirement for the group to make additional contributions to reduce any deficit that arises.

Contributions are set based upon funding valuations carried out every three years; the next valuation in respect of 31 December 2018 is currently underway. The estimated amount of total employer contributions expected to be paid to the plan during 2019 is £0.9 million (2018 actual: £0.9 million).

Actuarial gains and losses are recognised immediately through other comprehensive income.

The major assumptions in the 31 December 2018 disclosure under IAS19 (revised) are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2018 %	2017 %	2016 %	2015 %	2014 %
Significant actuarial assumptions:					
Retail Price Inflation	3.2	3.2	3.2	3.0	3.0
Consumer Price Inflation	2.2	2.2	2.2	2.0	2.0
Discount rate	2.9	2.4	2.7	3.7	3.7
5% limited RPI pension increases in payment	n/a	3.1	3.1	2.9	2.9
General salary increases	n/a	n/a	n/a	4.5	4.5
				2018 years	2017 years
Life expectancy of male/female aged 65 in 2018				23.6/25.4	23.7/25.5
Life expectancy of male/female aged 65 in 2038				25.3/26.8	25.4/26.9
				2018 £000	2017 £000
The amounts recognised in profit or loss are as follows:					
Interest cost				—	100
Past service cost				300	—
Total expense recognised in profit or loss				300	100

	2018		2017	
	Allocation %	£000	Allocation %	£000
The current allocation of plan assets is as follows:				
Equities	47	25,600	49	28,400
Bonds	10	5,300	10	5,500
Gilts	26	14,000	24	13,900
Pensioner annuities	1	700	1	800
Diversified growth funds	14	7,700	14	8,100
Other	2	800	2	900
Total	100	54,100	100	57,600

	2018 £000	2017 £000
Reconciliation of present value of defined benefit obligation		
At 1 January	57,300	56,000
Employer's part of current service cost	—	—
Interest on plan liabilities	1,300	1,500
Contributions by plan participants	—	—
Actuarial losses/(gains) due to:		
Experience on benefit obligations	—	—
Changes in financial assumptions	(5,100)	3,400
Changes in demographic assumptions	(600)	(1,300)
Benefits paid	(1,600)	(2,300)
Curtailments and settlements	300	—
At 31 December	51,600	57,300

	2018 £000	2017 £000
Reconciliation of fair value of plan assets		
At 1 January	57,600	53,700
Interest on plan assets	1,300	1,400
Actual returns net of interest	(4,100)	3,900
Contributions by the employer	900	900
Contributions by plan participants	—	—
Benefits paid	(1,600)	(2,300)
At 31 December	54,100	57,600

The pension plan is exposed to investment risk, (the movement of the discount rate used against the value of the plans assets,) interest rate risk (decreases/ increases in the discount rate which will increase/ decrease the defined benefit obligation) and longevity risk, (changes in the estimation of mortality rates of members).

Notes to the accounts continued

for the year end 31 December 2018

24. Pension commitments continued

	2018 £000	2017 £000
Movement in the net defined benefit obligations		
(Asset)/deficit at 1 January	(300)	2,300
Expense charged to profit and loss	300	100
Amount recognised outside of profit and loss	(1,600)	(1,800)
Employer contributions	(900)	(900)
Closing net (assets) at 31 December	(2,500)	(300)

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Plan assets and obligations						
Present value of defined benefit obligation	51,600	57,300	56,000	45,200	46,390	40,720
Fair value of plan assets	(54,100)	(57,600)	(53,700)	(43,800)	(43,140)	(39,631)
(Asset)/deficit	(2,500)	(300)	2,300	1,400	3,250	1,089

25. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Company

The related party transactions between the Company and its wholly owned subsidiary undertakings are summarised as follows:

	2018 £000	2017 £000
Dividends from subsidiaries	8,500	8,650
Interest on intercompany balances charged by subsidiaries	2,562	2,562
Management charges from subsidiaries	260	250

The key management personnel are the directors of the Company. Details of their compensation are included in note 5 to the accounts and in Part 3 of the remuneration report on pages 49 to 50. Key management personnel costs inclusive of employers national insurance are £958,286 (2017: £797,647).

Alternative performance measures

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the financial framework that the Company has chosen to apply (International Financial Reporting Standards and the AIC SORP). The directors use these measures as a means of assessing the Company's performance. The measures are particularly relevant for investment trusts and are widely used across the investment trust sector.

Net Asset Value (NAV) per ordinary share

The value of the Company's assets and cash at bank less any liabilities for which the Company is responsible, divided by the number of shares in issue. In Law Debenture's case, the published NAV will include adjustments to reflect the fair value of the IPS business and the Company's long term debt. There is a detailed summary of the NAV, including a description of how it is calculated, on page 30 of the annual report. The NAV per ordinary share is published weekly and immediately after each month end.

The change in NAV per share (see total return below) over one, three, five and ten years, as shown at page 3, is calculated by taking total return over the respective period and dividing by the opening NAV at the start of each period.

Ongoing charges

The ongoing charges have been calculated in accordance with AIC guidelines: annualised charges (total expenses), excluding non-recurring expenses, incurred by the Company, divided by the average net asset values throughout the year.

Premium/discount

The amount by which the market price per share of the Company is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

Total return – on share price and NAV

The return on the share price or NAV taking into account both the movement of share price, NAV and the dividends and interest paid to shareholders and long term debt noteholders. Any dividends paid by Law Debenture to a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return) at the prevailing NAV/ share price.

Financial calendar

Dividend and interest payments

Ordinary shares:

Interim announced July	Paid September
Final announced February/March	Paid April
6.125% guaranteed secured notes	Paid April and October
3.77% senior secured notes	Paid March and September

Group results

Half year results	Announced in July
Full year results	Announced in February/March
Report and accounts	Published in March
Annual general meeting	Held in London in April
Factsheets	Published monthly on the Company's website

Payment methods for dividends

Dividends and interest can be paid to shareholders by means of BACS. Mandate forms for this purpose are available on request from the Company's registrars.

Subsidiary company details

Subsidiary companies not incorporated in the United Kingdom, as listed at page 80, are registered at the following addresses:

Companies registered in Hong Kong	Suite 1301 Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong
Companies registered in the Republic of Ireland	Second Floor, 5 Harbourmaster Place, IFSC, Dublin 1, Ireland
Companies registered in USA other than Delaware Corporate Services	801 2nd Avenue, Suite 403, New York, NY 10017, USA
Companies registered in USA - Delaware Corporate Services	901 N Market St #705, Wilmington, DE 19801, USA
Company registered in Jersey	PO Box 150, 3rd Floor, Standard Bank House, 47-49 La Motte Street, St Helier, Jersey JE4 5NW
Company registered in Cayman Islands	Elgin Court, Elgin Avenue, PO Box 448, Georgetown, Grand Cayman, KY1 1106, Cayman Islands
Company registered in Australia	PO Box 1385, Nowra, NSW 2541, Australia

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the 129th annual general meeting of the Company will be held on 11 April 2019 at 10.00am at the Brewers' Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. **To receive the report of the directors, the strategic report and the audited accounts for the year ended 31 December 2018.**
2. **To receive and approve the directors' remuneration report for the year ended 31 December 2018.**
3. **To approve amendments to the Company's remuneration policy.**
4. **To declare a final dividend of 12.9p per share in respect of the year ended 31 December 2018.**
5. **To re-elect Denis Jackson as a director.**
6. **To re-elect Robert Hingley as a director.**
7. **To re-elect Robert Laing as a director.**
8. **To re-elect Mark Bridgeman as a director.**
9. **To re-elect Tim Bond as a director.**
10. **To elect Katie Thorpe as a director.**
11. **To increase the aggregate amount of ordinary remuneration of the non-executive directors set out in article 72 of the Company's articles of association from £200,000 to £400,000 per annum with immediate effect (see note 13).**
12. **To re-appoint BDO LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the audit committee to determine their remuneration.**
13. **General authority to allot shares.**

THAT:

- (a) the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 (the 'Act') to exercise for the period ending on the date of the Company's next annual general meeting, all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £295,954;
- (b) the Company may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

Special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

14. **Disapplication of statutory pre-emption rights.**

THAT:

- (a) in exercise of the authority given to the directors by resolution 13 above, the directors be empowered pursuant to section 570 of the Act to allot shares or grant rights to subscribe for or to convert any security into shares in the Company for the period ending on the date of the Company's next annual general meeting wholly for cash generally up to an aggregate nominal amount of £295,954 (i.e. 5% of the issued share capital) as if section 561 of the Act did not apply to such allotment, provided always that no more than 7.5% of the issued share capital shall be issued on a non pre-emptive basis within any three year period;
- (b) the Company may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

15. **General authority to buy back shares.**

THAT: the Company be and is generally and unconditionally authorised in accordance with sections 693 and 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of any of its issued ordinary shares of 5p each in the capital of the Company, in such manner and upon such terms as the directors of the Company may from time to time determine, PROVIDED ALWAYS THAT:

- (a) the maximum number hereby authorised to be purchased shall be limited to 17,745,767 shares, or if less, that number of shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;
- (b) the minimum price which may be paid for a share shall be 5p;

Notice of annual general meeting continued

(c) the maximum price which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the shares for the five business days immediately preceding the day on which the share is purchased;

(d) unless previously revoked, renewed or varied, the authority hereby conferred shall expire on the date of the Company's next annual general meeting provided that a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of shares may be made in pursuance of any such contract.

16. Authority to convene a general meeting - notice.

THAT: a general meeting of the Company, other than an annual general meeting, may be called on not less than 14 clear days' notice.

By order of the board

Law Debenture Corporate Services Limited

Secretary | 26 February 2019

Registered No. 30397

Registered office:

Fifth Floor

100 Wood Street

London EC2V 7EX

Notes to the notice of annual general meeting

1. A member who holds ordinary shares on the register of members and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place (or in the case of a corporation, to appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member). A proxy need not be a member of the Company. Proxy rights do not apply to nominated persons although the nominated person may have a right under an agreement with the registered member to appoint a proxy. In addition to instructing a proxy to vote for or against a resolution, the form enables shareholders to instruct a 'vote withheld' if preferred. A vote withheld is not a vote in law and will not be counted in the calculation of votes. It may be used, for example, to convey a message of dissatisfaction on a particular issue, where the strength of feeling is not so great as to oppose the resolution, but supporting it is not appropriate either.
2. Shareholders who hold shares on the register of members (as opposed to holding them in a nominee) will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged electronically by accessing www.investorcentre.co.uk/eproxy or by post at the office of the Company's registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. CREST members can register votes electronically by using the service provided by Euroclear. Proxies must be received not less than 48 hours before the time appointed for the holding of the meeting. This is also the voting record date by which a person must be entered on the register in order to have a right to attend and vote at the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.
3. The register of directors' interests will be available for inspection at the registered office of the Company during normal business hours and at the annual general meeting. No director has a service contract with the Company of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividend payments will be made on 18 April 2019 to shareholders on the register on the record date on 15 March 2019.
5. **Resolution 2** is to receive and approve the directors' remuneration report for the year ended 31 December 2018. The remuneration report, which follows the format required by the relevant regulations, is set out at pages 42 to 52 of the annual report.
6. **Resolution 3** is to approve amendments to the Company's remuneration policy. The revised and updated policy is being proposed for the reasons set out by the remuneration committee chairman on page 42.
7. **Resolution 5:** Denis Jackson offers himself for re-election. The board supports his re-election. Denis has an excellent understanding of our IPS business and he has begun to deliver on his clear vision to deliver growth and increased profits. The board is confident that Denis's strategy is proving effective, already having increased IPS profits, which in turn enhances shareholder value. His biography is included on page 54 of the annual report.
8. **Resolution 6:** Robert Hingley offers himself for re-election. The board supports his re-election. Robert has quickly established himself as a knowledgeable and effective chairman. His corporate finance and market experience enables him to deliver constructive guidance and counsel that the board and the chief executive have found extremely helpful. His biography is included on page 54 of the annual report.
9. **Resolution 7:** Robert Laing offers himself for re-election. The board supports his re-election. The board's effectiveness is greatly enhanced by having a non-executive director with a legal background and experience of one or more of the professional services sectors where Law Debenture operates. Robert Laing matches this requirement. He is an effective senior independent director and chairman of the remuneration committee, as well as providing wise counsel as a NED on the IPS operating businesses board. His biography is included on page 55 of the annual report.
10. **Resolution 8:** Mark Bridgeman offers himself for re-election. The board supports his re-election. The board recognises the value in having at least one non-executive director with fund management experience and Mark fulfils that need. He is an effective director and chairs the audit committee skillfully. His biography is included on page 55 of the annual report.
11. **Resolution 9:** Tim Bond offers himself for re-election. The board supports his re-election. The board believes that it is desirable to have input from someone with a global, strategic macroeconomic background and an expert insight into the capital markets generally. Both from his current and previous experience, Tim is able to contribute in this way and does so effectively. His biography is included on page 55.
12. **Resolution 10:** Katie Thorpe offers herself for election and the board supports her election. Katie joined Law Debenture in June 2018 as chief financial officer and was appointed to the board as an executive director with effect from 1 January 2019. She is a chartered accountant. Since arriving, Katie has demonstrated a sound understanding of both the investment trust and the IPS business. Her experience in the investment trust sector is proving to be of great value to Law Debenture and she has made a positive contribution to the way that the businesses operate. She works effectively with Denis Jackson to deliver enhanced shareholder value. Her biography is included on page 54.
13. **Resolution 11** concerns the non-executive directors' fees. The Company's articles of association currently stipulate a maximum limit on the aggregate level of ordinary remuneration that can be paid to the non-executive directors per annum, currently £200,000. This limit was approved by shareholders in 2008 and has remained unchanged since. "Ordinary remuneration" describes

Notes to the notice of annual general meeting continued

the base fee payable to NEDs. Should the nominations committee recommend that one or more additional non-executive directors be appointed, as may be the case in order to accommodate developing governance requirements about – for example – diversity, then the article limit might be breached. Accordingly, the board recommends that the limit on fees be increased from £200,000 to £400,000 per annum. This is within best practice guidelines (i.e. that article limits should be increased by a factor no greater than two times current levels) and if approved, will provide sufficient headroom for the board to operate strategically for some years to come.

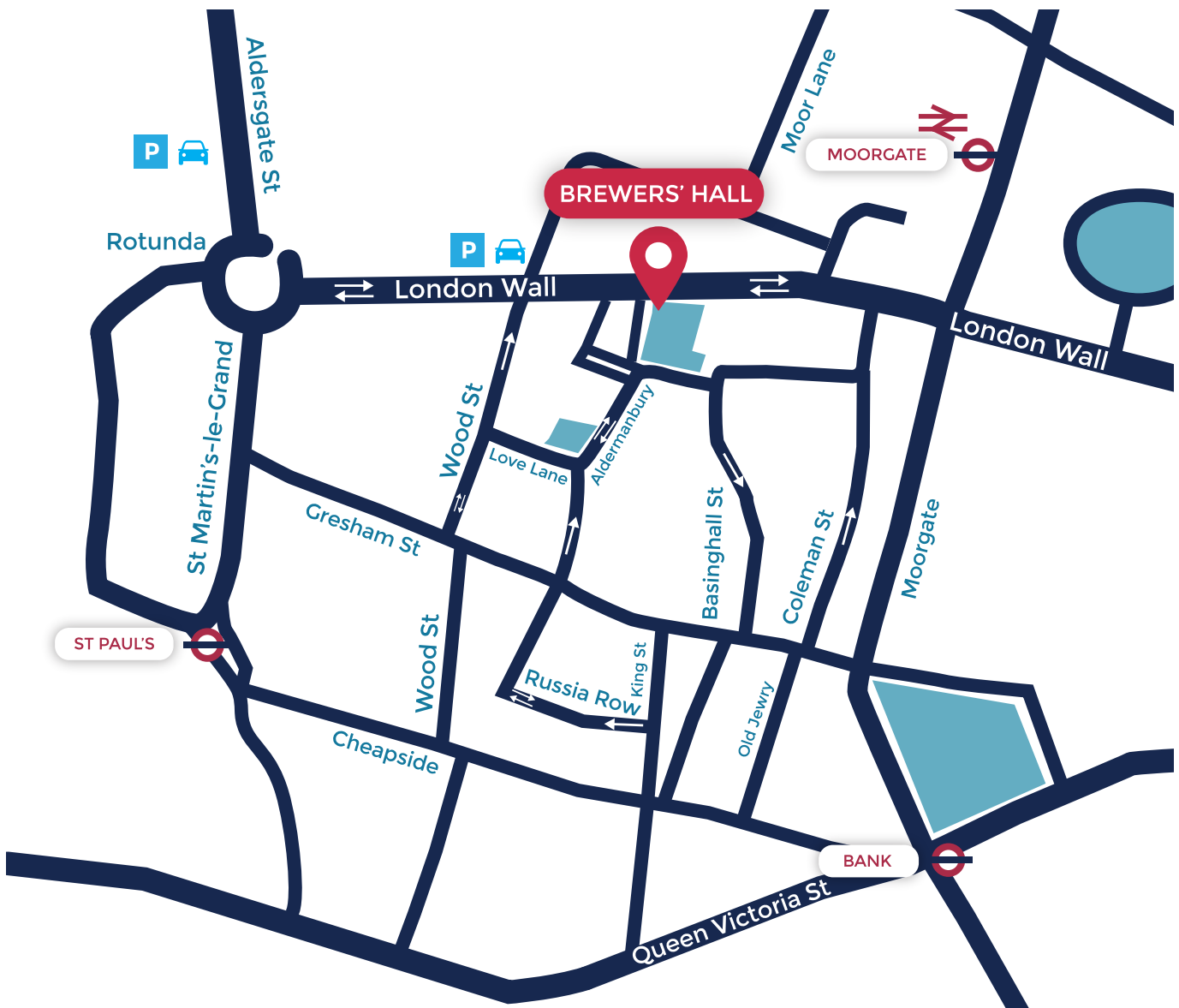
14. **Resolution 12** is to re-appoint BDO LLP as the Company's auditors. BDO LLP were first appointed on 31 October 2008 and were the successful firm in the audit tender conducted in the autumn of 2017.
15. **Resolution 13** renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,919,202 shares, being 5% of the issued share capital. This authority would be exercised only at times when it would be advantageous to the Company's shareholders to do so. Shares would not be issued under this authority at a price lower than market price or net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting. N.B. In the ordinary course of business, the power given by this resolution will only be used to allot shares to participants in the HMRC approved Save As You Earn Sharesave scheme.
16. **Special resolution 14** is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 13 it is in the best interests of the Company and its shareholders to permit the allotment of a maximum of 5,919,202 shares, being 5% of the issued share capital, other than on a pre-emptive basis. The board would not, however, issue more than 7.5% of the issued share capital on a non-pre-emptive basis within any three year period.
17. **Special resolution 15** renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at a premium to net asset value.
18. **Special resolution 16** seeks authority to convene a general meeting (but not the annual general meeting) by giving not less than 14 clear days' notice. While the directors have no current intention to call a general meeting in the year ahead, circumstances might arise when such a meeting might become necessary and the directors deem it in the best interests of shareholders that it be held as quickly as possible. Such circumstances might include, for example, a decision to make a material amendment to the investment strategy (shareholder approval for such a change being a regulatory stipulation).
19. **Meeting notice requirements** – the Company is required under the Act to make a number of additional disclosures as follows. The Company's website – www.lawdebenture.com/investment-trust/investor-information – contains a copy of this notice, which includes the current total voting rights, as set out below. Should the required number of members requisition the Company to publish any statement about the audit or related matters that the relevant members propose to raise at the AGM (in accordance with section 527 of the Act), this would be published at the Company's expense on the website and forwarded to the auditor. Similarly, any shareholder statements, resolutions and matters of business connected with the meeting received after publication of this notice will be published on the website subject to compliance by the submitting party with the Act. At the AGM, the Company will cause to be answered any question relating to the business being dealt with at the meeting put by a shareholder in attendance.

Total voting rights and share information

The Company has an issued share capital at 25 February 2019 of 118,384,040 ordinary shares with voting rights and no restrictions and no special rights with regard to control of the Company. There are no other classes of share capital and none of the Company's issued shares are held in treasury. Therefore the total number of voting rights in The Law Debenture Corporation p.l.c. is 118,384,040.

Annual general meeting venue

Brewers' Hall, Aldermanbury Square, London EC2V 7HR



RAILWAY

Main line stations within one mile include:

- Holborn Viaduct
- Blackfriars
- Cannon Street
- London Bridge
- Fenchurch Street
- Farringdon
- Liverpool Street

Main line stations within two miles are:

- Charing Cross,
- Waterloo
- King's Cross
- St Pancras

UNDERGROUND

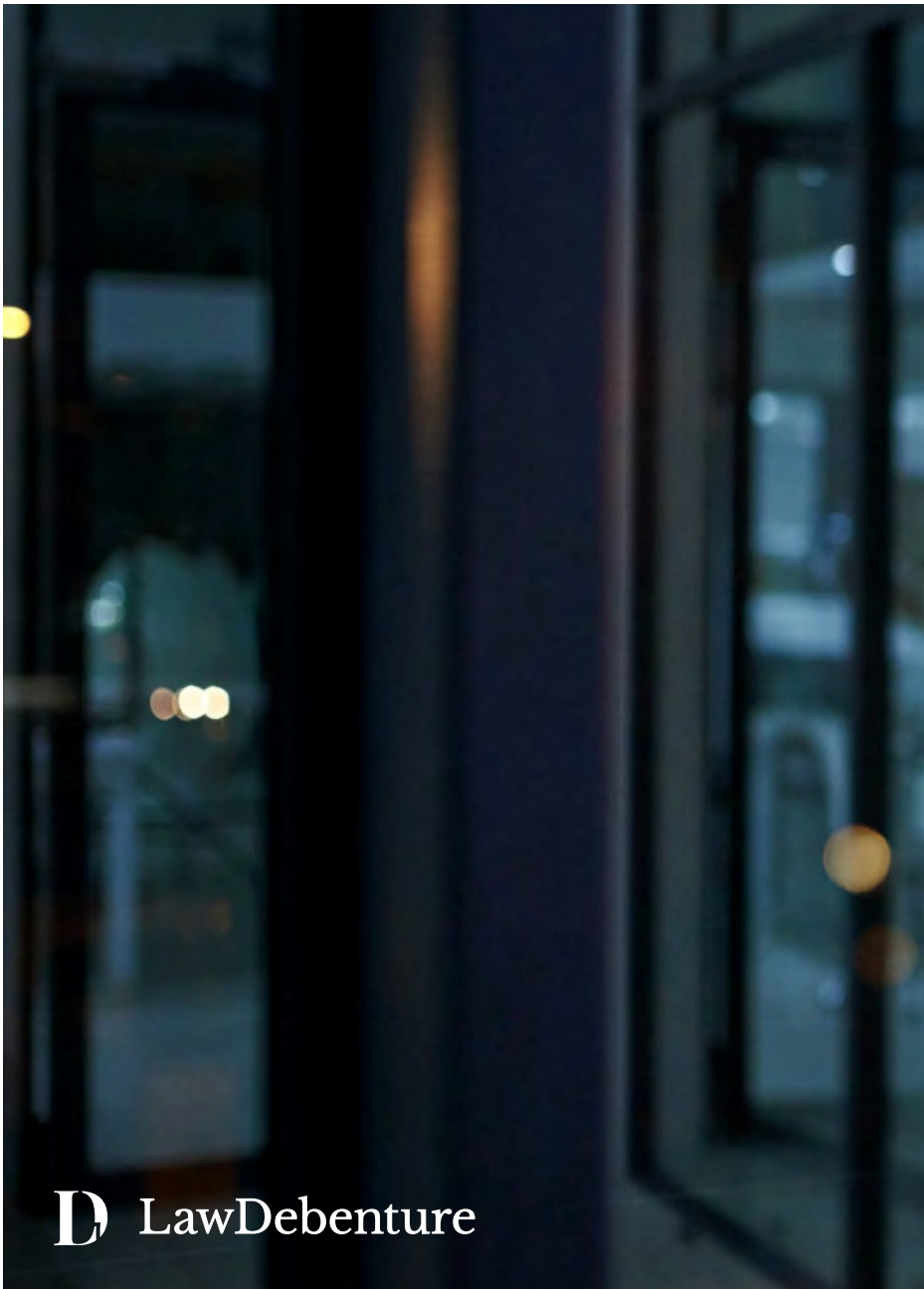
- Moorgate**
(Circle, Metropolitan, Hammersmith & City, and Thames Link)
- Bank**
(Central, Northern, Waterloo & City)
- St Paul's**
(Central)

BUSES

From Cheapside the 501 service connects London Bridge and Waterloo via Holborn, from Moorgate the 43 and 133 buses go to Liverpool Street, from London Wall the 172 goes to Blackfriars.

PARKING

There is limited meter parking in business hours near the hall. Underground parking is available beneath London Wall, entrance being by the corner of Coleman Street and on the north side of London Wall immediately before Bastion House. There is multi-storey parking in Aldersgate Street just north of the intersection with London Wall.



D LawDebenture

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