EST. 1889

LawDebenture

ANNUAL REPORT
2019

The Law Debenture Corporation p.l.c.

A differentiated investment proposition

A PROUD HISTORY

131 years of value creation for shareholders

STRENGTH AND DIVERSITY OF INCOME

32.8% of total 2019 dividend funded by our Independent Professional Services business

LONG-TERM DIVIDEND GROWTH

41 years of increasing or maintaining dividends to shareholders (113.1% increase in dividend over the last ten years)

CONSISTENT LONG-TERM OUTPERFORMANCE OF BENCHMARK

53.4% outperformance of benchmark over ten years, 12.8% over five years and 25.5% over three years

Key statistics

for the year ended 31 December 2019

702.2p
NAV per share
(2018: 614.1p)

37.6%
Proposed increase in 2019 dividend per share
(2018: 9.2%)

19.4%
NAV total return for the year (with debt at par)
(2018: (6.6)%)

17.9%
NAV total return for the year (with debt at fair value)
(2018: (5.8)%)

830.1m[1]
Net Asset Value
(2018: 725.9m)

44.3%
Increase in revenue return per share

19.2%
Benchmark total return for the year
(2018:(9.5)%)

21.0%[2]
Growth in fair valuation of IPS
(2018: 13.1%)

1 Please refer to page 38 for calculation of net asset value.
2 Increase in annual valuation of IPS business, excluding change in surplus net assets.

LawDebenture

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, it has 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 Portfolio

c. 85% of NAV

Managed by James Henderson and Laura Foll of Janus Henderson

OBJECTIVE: LONG-TERM CAPITAL GROWTH IN REAL TERMS & STEADILY INCREASING INCOME

- Focused on long-term returns
- Low ongoing charges ratio at 0.48%[1] compared to industry average of 1.04%[2]
- Contrarian investment style:
  - Out of favour equities standing at valuation discounts to their long-term historical average
  - High quality companies with strong competitive advantage at attractive valuations
- Selective, bottom-up approach
- Diversified portfolio by sector (predominant UK weighting)

Independent Professional Services (IPS) business

c. 15% of NAV

PENSIONS

The longest established and largest UK provider of independent pension trustees

CORPORATE TRUST

A leading independent corporate trustee across international capital markets

CORPORATE SERVICES

Range of outsourced solutions to corporates internationally

INTERNATIONAL PRESENCE:

United Kingdom, New York, Ireland, Hong Kong, Delaware, and Channel Islands

All divisions have further potential for growth through the overall market growth for these services and market share gains, alongside better leveraging technology, strong relationships and a high quality brand

Significant, consistent income contribution from IPS gives greater flexibility in stock selection

1 Calculated based on data held by Law Debenture for the year ended 31 December 2019.
2 Source: Association of Investment Companies industry average (excluding 3i) as at 31 December 2019.

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LawDebenture

Financial summary

	31 December 2019 £000	31 December 2018 £000	Change
Net assets[1]	830,139	725,863	+14.4%
	Pence	Pence	
Net Asset Value (NAV) per share at fair value[1]*	702.17	614.07	+14.3%
Revenue return per share			
Investment portfolio	22.18	13.23	+67.6%
Independent professional services	8.54	7.87	+8.5%
Group charges	(0.04)	0.16	n/a
Group revenue return per share[5]	30.68	21.26	+44.3%
Capital (loss)/return per share[5]	79.27	(71.85)	n/a
Dividends per share	26.00	18.90	+37.6%
Share price	650.00	540.00	+20.4%
	%	%	
Ongoing charges[3]*	0.48	0.43	
Gearing[3]	9	3	
Discount*	(7.4)	(12.1)	

Performance

	1 year %	3 years %	5 years %	10 years %
NAV total return[2]* (with debt at par)	19.4	27.6	52.4	192.4
NAV total return[2]* (with debt at fair value)	17.9	27.6	49.4	181.5
FTSE Actuaries All-Share Index Total Return[4]	19.2	22.0	43.8	118.3
Share price total return[4]*	24.5	34.6	43.5	217.8
Change in Retail Price Index[4]	2.2	9.3	13.4	33.9

* Items marked "*" are considered to be alternative performance measures and are described in more detail on page 115.

1 Please refer to page 38 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. NAV is shown with debt measured at par and with debt measured at fair value.

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 34.

4 Source: Bloomberg.

5 Effective from 1 January 2019, allocation of finance costs and investment management fees in the income statement is split 25% to revenue and 75% to capital (2018: 100% to revenue) in order to better reflect the expected split of future returns between revenue and capital. This change in allocations is not a change in accounting policy.

Chairman's statement

In what has been a year of significant progress for Law Debenture, I am delighted to introduce our 2019 annual report.

Performance

Our aim is to produce long-term capital growth and steadily increasing income for our shareholders. Against those two aims, 2019 proved a very successful year for Law Debenture, seeing a share price total return of 24.5%. We are proud to have generated almost £157m of value for our shareholders over the course of last year and to see the share price end the year at £6.50, up from £5.40 at the end of 2018.

Following an easing of negative sentiment towards the UK, 2019 saw something of a reversal of fortunes for the UK market. Our benchmark, the FTSE Actuaries All-Share Index, delivered a 19.2% total return, following a 9.5% decline in 2018. Our aim, as we say, is long-term capital growth. We take an active management approach, meaning shareholders should not expect our investment performance to directly track the market. We are pleased that, against that back-drop, the Company's NAV total return (with debt at par) marginally outperformed the benchmark, with a total return of 19.4% for 2019. Including debt at fair value, the total return for the year was 17.9%. This follows a performance in 2018 which reflected only 60% of the market decline.

Over the longer term, we have outperformed our index by 25.5% over three years, 12.8% over five years and 53.4% over ten years[1], demonstrating our ability to consistently outperform the market over time. £1,000 invested in Law Debenture ten years ago would have been worth £3,178 [2] at the end of 2019. Looking back further still to the start of 1993, when James Henderson first became involved in the management of the portfolio, the trust has outperformed the FTSE All-share by 230%[3].

Law Debenture has a very well diversified equity portfolio which aims to be a one-stop-shop for investors seeking largely UK quoted market exposure to high quality companies. Our investment managers have a strong record of long term outperformance and a proven ability to seek out attractive and undervalued stocks. The team continue to view the UK market as attractive on a relative valuation basis as it has underperformed other global equity markets over the last five years despite a strong absolute showing in 2019.

Dividend

Law Debenture has increased or maintained its dividend in each of the last 41 years. Since becoming Chairman, I, along with your Board, have been looking carefully at the balance we provide between our objectives of long-term capital growth and steadily increasing income.

Our IPS business provides us with a unique advantage: we are far less reliant on the level of dividends paid by our underlying investments than other funds and trusts. Indeed, 35%[4] of our dividends in the ten years to 31 December 2019 have been funded by our IPS business and we are confident that the new management team can continue to deliver growth in the longer term.

We have listened to the feedback from our shareholders, alongside our own observations of our dividend yield compared to peers. The combination of strong profit growth in both our IPS business and our investment trust portfolio, the opportunity for greater flexibility of payment caused by the adjustment of our expense allocation and the strength of our reserves has provided the Board with a unique opportunity to reset our dividend to a level closer to our peers and to the wider market.

Subject to your approval, we propose to pay a final dividend of 19.4 pence per share, an increase of 50% on the 2018 final dividend of 12.9 pence per share. The dividend will be paid on 16 April 2020 to holders on the register on the record date of 13 March 2020. This will provide shareholders with a total dividend of 26.0 pence per share for 2019, compared to 18.9 pence in 2018, an increase of 38%. We are happy to make this recommendation in the context of £62.5m of consolidated retained earnings and a revenue profit for the year of £36.3m. This enhanced payment represents a dividend yield of 4.4% based on our share price of 592 pence on 25 February 2020, compared to 3.5% yield at 31 December 2018. If approved, we will have increased the dividends paid to shareholders by more than 100% over the past ten years, with an annualised dividend growth of 7.9%[5].

We have given careful consideration to the long-term sustainability of this increase and are confident we can deliver a closer to market yield without restricting Janus Henderson's investment approach. Looking to 2020 and beyond, we will aim to continue to deliver gradually increasing income payments in excess of inflation over time, subject to unforeseen circumstances. We are also taking this opportunity to move to a schedule of quarterly dividend payments. We hope that increasing the amount, predictability and regularity of our dividends will prove attractive for both new and existing shareholders.

1 Calculated on a total return basis with debt at fair value.
2 Calculated on a total return basis assuming dividend re-investment between 31 December 2009 and 31 December 2019.
3 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 2019. FTSE Actuaries All Share Total Return measured over the same performance period. Bloomberg data includes the adjustment to the fair value of the investment trust in respect of the IPS business from 29 February 2016.
4 Calculated based on dividends paid in respect of the financial years between 2010 and 2019.
5 Calculated on an annualised basis on dividend payments in respect of accounting years between 1 January 2010 and 31 December 2019.

Investment portfolio

2019 has been a significant year for the investment trust and the portfolio. In May, we completed our transfer from the AIC's Global sector to the UK Equity Income Sector, better reflecting the reality of our long-term portfolio construction, which has seen at least a 70% allocation to UK stocks over the past decade.

Over the course of 2019, our UK exposure has increased to 80.7% from 74.5% at the end of 2018. The conviction to increase our exposure to the UK ahead of the election result by our fund managers, James Henderson and Laura Foll of Janus Henderson, proved astute. Combined with their methodical long-term approach to stock selection, this lead to a robust 19.4% NAV total return (with debt at par) for 2019.

Laura's appointment as co-manager came into effect from 1 August, changing little from an operational perspective, but better reflecting Laura's contribution to the overall running of the portfolio. You can read more from James and Laura in their investment review on pages 18 to 22, where we continue to enhance disclosure to help our shareholders better understand how they approach managing the portfolio. We have also introduced a question and answer section on pages 8 to 10 where you can read in their own words what has worked well for the portfolio in 2019 and what has them excited from an investment perspective for 2020.

Our on-going charges ratio for 2019 of 0.48% for the investment trust remains significantly lower than the average for UK investment trusts of 1.04%[1]. This, in turn, means shareholders are experiencing a significantly reduced drag on their on-going investment performance than may be the case for other trusts.

Independent professional services (IPS)

2019 was another solid year for our IPS business. We provided forward guidance for our shareholders for the first time in respect of 2019, stating our commitment to achieving mid to high single-digit growth. In that context, I am pleased to report revenue growth of 7.5%[2] and an increase in earnings per share of 8.5%. We have been able to achieve this despite a difficult market backdrop, with continued Brexit uncertainty, fears of globally escalating trade wars and reduced levels of investment banking activity, all of which have negatively affected our capital markets facing businesses.

Work continues to lay the foundations for future growth. We are confident that we are still at the early stages of growth and believe we can continue to grow our revenue and earnings significantly over time. The belief in this growth was a key factor in the determination of an increased dividend to shareholders. Our aim is for our IPS business again to deliver mid to high single-digit growth for our investors over the course of 2020.

As we continue to drive growth and improve the transparency of the nature and operations of our business, we are starting to see the investor community pay increasing attention to this business.

The capital valuation of the business has increased by 21.0% over the course of 2019, details of which can be found on page 38. We are confident that this unique business can continue to support both of our objectives of long-term capital growth and steadily increasing income.

Your Company's Board

Having welcomed Katie Thorpe our Chief Financial Officer to the Board from 1 January 2019, we were delighted to appoint Claire Finn to the Board on 2 September 2019. Claire has in-depth knowledge of the UK asset management, pensions and insurance landscape, having had a career spanning over 18 years in financial services. We have a Board which is diverse in terms of its skill set and is well placed to guide your Company going forwards.

Report and accounts

Following the modernisation of the look and feel of the report and accounts in 2018, we have continued to evolve and improve our disclosure to investors. You will find numerous points of enhanced disclosure throughout this document, including an expansion of our thought process around Environmental, Social and Governance (ESG), additional disclosure on the investment rationale behind our largest investments and improved reporting on our IPS business and how we calculate its value. In response to shareholder feedback, we will be publishing a full portfolio listing every month, rather than simply publishing our top 10 investments. We aim to continue to evolve our reporting into 2020 and beyond.

Looking forwards

For our investment portfolio, James and Laura remain net investors into the market on days of weakness, using their disciplined and contrarian approach to identify stocks with strong fundamentals currently overlooked by the market.

For our IPS business, we believe we remain in the early stages of a re-invigorated growth cycle and that there is great value to be created for our shareholders as we remain focussed on growing our revenues while controlling our cost base.

Robert Hingley
Chairman
26 February 2020

1 Law Debenture's on-going charges of 0.48% has been calculated based on guidance provided by the AIC and includes the Janus Henderson management fee of 0.3% of the NAV of the investment trust. There is no performance related element to the fee. The average on-going charges ratio for UK investment trusts of 1.04% as at 31 December 2019 has been sourced from the AIC website.

2 Revenue growth for the IPS business for 2019, after the deduction of costs of sales, which comprises solely of legal fees that we incur on behalf of and then recharge to clients.

Q&A with Denis Jackson, Chief Executive Officer

What is the Board's view of the 2019 investment performance and what do you believe are the prospects for the portfolio in 2020?

Having sheltered our investors from approximately 40% of our benchmark's decline in 2018, it was very pleasing to participate fully in the upside for 2019.

The sands are shifting quickly under many traditional business models. Newsfeeds are littered with tales of investor losses as companies fail to adapt to rapidly changing consumer behaviours and investor demands.

While James and Laura didn't avoid every stock that had a challenging year, on balance we remain very pleased with both the short-term and long-term performance.

As we start 2020, we are reminded of our need to focus on creating value for our shareholders in the long term. Short-term sentiment is being weighed on heavily by the rapidly spreading Coronavirus in China, an event that was not flagged by anyone in their 2020 Investment Outlooks.

James and Laura invest in great companies that (in almost every case) produce real cash profits. We are optimistic that, as 2020 unfolds and the UK's trading relationships with both the EU and the major economies becomes clearer, the relative cheapness of UK equities will start to reverse. James and Laura provide further context on this in the investment managers' review.

Why do you think it was important for Law Debenture to move from AIC's Global to the UK Equity Income sector?

During my first year of investor meetings we often received feedback that our 'Global' classification was causing some confusion among investors, particularly as they tried to reconcile this label to our historically UK-biased portfolio. Post the change, this distraction has fallen away and our investors are rightly focused on how we are executing rather than how we are categorised.

You inherited a great business in IPS, but growth had stalled. What have you done differently to inject growth back in to the business?

I think there are three simple changes that we continue to work on that have had the largest impact. First, we have endeavoured to raise the ambition of each of our great businesses. Secondly, we are gradually becoming much more outwardly rather than inwardly focused; put simply we listen more keenly to understanding the commercial problems that our clients are trying to solve in order to evolve our products. Thirdly, we have attracted new talent to our business, broadening the diversity of our skill set and encouraging innovation.

One thing we have not changed is the focus on quality of client experience. This remains very much top of the agenda for every employee.

You provided forward guidance to shareholders on the growth prospects of the IPS business for the first time last year. Were you pleased with this year's performance?

I am pleased with the excellent momentum that our Pensions and Whistleblowing businesses continue to build. The strong regulatory tail-winds that are accelerating their growth are also very welcome. The Capital Markets facing businesses, however, had a tougher year. Given that we started acting as a bond trustee over 130 years ago, it is difficult to argue that we are not operating in very mature markets. We need to use our competitive advantages of speed and technical excellence together to grow market share in more complex transactions.

Do you believe you can sustainably grow all three divisions of the IPS business?

Yes. If we didn't believe that, we should exit any business that we felt would be dilutive to shareholders. Our investment objective is simple: long-term capital gains and steadily increasing income. One of the great things about having permanent capital is that we are able to invest for the long term. We remain alert to any prospective acquisitions that would enhance our businesses and offer value to our shareholders.

What key themes are you thinking about across all aspects of your business?

Law Debenture's reputation is built on independence and trust. We are extremely careful every day to protect these values. The increasing use of technology and evolution of ESG initiatives are the two main themes that permeate all of our divisions.

Like many professional services firms, we had been relatively slow adopters of technology. This is rapidly changing. We have significantly added depth and breadth to the technology team that we employ. This in turn has galvanised many initiatives that enhance the way that we interact with our clients. That said, we are still at the early stages of this journey. Critical to our long-term success will be our ability to adopt best-in-class third party software solutions that increase control, build scale, and enhance our clients' experience.

Turning to ESG, our professional service businesses all form part of the "G" in the ESG lexicon. The rapid, and still accelerating adoption by investors globally of ESG factors when making capital allocation decisions is an irresistible force.

Given our role as a bridge between bond investors and corporate issuers (corporate trust), pension investors and allocation of capital (pensions), and whistle-blowers and their employer (Safecall). We are well placed to grow our market share in a market we believe will expand significantly over the next few years.

What do you think the biggest challenge is for the IPS business in 2020 and what excites you most about the year to come?

We have touched on this several times elsewhere, but following a tough year for our capital markets facing businesses in 2019, our biggest challenge will be to accelerate our growth in this highly competitive space. We are investing in new people and skills to upgrade our offerings and will play to our strengths.

I am most excited about our Monday morning management meetings. We start each week by reviewing client activities of note across our businesses from the prior and coming week.

I never cease to be energised by the quality of clients, and the successful outcomes that a firm of around 140 people can generate week in and week out.

Q&A with James Henderson & Laura Foll investment managers

Can you sum up your approach to investing for our shareholders?

James: The approach is to look for excellent quality, often globally competitive companies, and invest at the point at which the valuation is low. This could be for a variety of reasons; short term results might have been disappointing; there might have been a change of management team; it could simply be that (and this is often the case with small and medium sized companies) the company is not well known and potentially misunderstood. We are investors for the long term. The approach is to start with a small position and gradually increase it as confidence in the investment case builds. We will then often hold the position for five years or longer. Where we go overseas for holdings it is where there is no UK equivalent. The best example of this is Microsoft where there is, unfortunately, no UK company that is comparable.

You have been working as a team for nearly ten years now. Can you explain to shareholders how that partnership works in practice?

Laura: The blend of our complementary skills has served the portfolio exceptionally well, both in terms of experience and sector knowledge. James has a long history of successful investing through previous cycles, as well as in depth knowledge of sectors that are a material portion of the portfolio such as industrials and insurance.

James: Laura has offered a great deal of valuable insight since joining me in 2011. Her significant expertise in pharmaceuticals is just one example of where Laura's insight has been a real asset as we looked for high quality stocks that are somewhat out of favour but have significant potential for growth and attractive valuations. I'm delighted by the Board's decision to appoint her as co-manager and look forward to many more years of successful delivery for our stakeholders.

How do you think about and manage risk in the portfolio?

James: Primarily through position-sizing and a relatively long list of holdings, meaning the capital at risk and the income being provided by any one stock is comparatively low as a proportion of the total. The IPS business also provides an additional layer of diversification for the portfolio, so we are less exposed to any potential dividend cuts from the equity holdings.

What do you enjoy most about running the Law Debenture portfolio?

Laura: The unique advantage of Law Debenture is the combination of the professional services business with the investment trust. What this allows James and me to do is run the portfolio with less of an income constraint, while knowing that the yield of the overall Company will still be attractive for shareholders.

The UK has been out of fashion with investors in recent years, particular since the country voted to leave the European Union. How has this impacted the portfolio?

James: Domestically focused UK companies were effectively discounted by the market following the EU referendum. This discount has only very recently begun to close, from the fourth quarter of 2019 onwards. For Law Debenture this de-valuation of 'domestic UK' (along with the devaluation of Sterling) has meant that its overseas weighting has been a material positive contributor to performance as overseas markets, particularly the US, have outperformed. It has also meant a number of attractive valuation opportunities became available in the UK. Dunelm, for example, was added to the portfolio at what looked like a very low valuation, partly because it is entirely domestic in its exposure. This is now one of our largest 15 investments for the investment trust and has generated a 144% share price total return since the investment was added in August 2018.

What was the best decision you made for the portfolio in 2019?

Laura: Being a net investor in the market and increasing the gearing level steadily during the year. The fourth quarter of 2018 was a weak period for equity markets globally with concerns about a potential global slowdown and even a US recession in 2019 (that did not ultimately materialise). This presented a valuation opportunity for those with a longer time horizon and we were net investors of over £60m during the calendar year.

What stock are you currently most excited about?

James: Our portfolio aims to be balanced in its exposure, which means that no individual stock or 'theme' will be the sole driver of performance. That said, there are of course stocks that we are particularly excited about.

At the moment one of those stocks is insurance company Hiscox. The holding has been in the Law Debenture portfolio since I started running it in 2002. The share price of Hiscox has gone up around ten times since then and has also delivered a strong stream of dividends. There have been times we have reduced the holding on portfolio balance and valuation considerations, and others when we have put money in when they have had a capital raise. The holding has added very considerable value over time as the company has grown to be a substantial global insurance company.

Recently it has experienced some share price weakness as insurance claims have been running at a high level. The company has the same disciplined culture that has served it well over many years, meaning we expect it to move forward again when insurance rates rise and profitable growth resumes. We will be adding to the holding when we see the evidence for this coming through.

Where do you sit on the ESG debate and how will this affect the Law Debenture portfolio going forwards?

Laura: ESG has long been an integral part of our investment process, for the key reason that we are long-term investors and therefore any material ESG factors are also material to the investment case. It is, however, a very broad topic, and while governance is comparatively easy to measure (and there has already been substantial improvement in this area), environmental and social concerns are both broader and more difficult to measure quantitatively. Therefore the approach we have is pragmatic. While we do have quantitative metrics on ESG available for the portfolio, we are not going down the route of explicitly screening companies out on ESG ratings as the data quality is sometimes poor. The route we go down instead is any material issues flagged are discussed directly with the company and monitored for improvement. We are not afraid to exit positions where management fail to deliver expected improvements.

ESG issues are considered both directly by James and I, and also by the experienced responsible investing team at Janus Henderson. We recognise that many of these issues are complex and, in some cases, subjective. Therefore we need both the internal resource at Janus Henderson and external data providers such as Sustainalytics, to reach an informed decision on companies. This includes how they compare versus listed peers, whether they are improving and what the material controversies are. We consider our own discussions with companies, the views of the internal responsible investing team and Sustainalytics, but ultimately the investment decisions fall to us as Fund Managers.

We will always vote at company AGMs; we see this as a key part of our role as institutional shareholders. Where we have concerns (for example regarding executive pay) we will flag these for discussion ahead of the vote, with the hope that changes will be made and a compromise reached. Therefore in ideal circumstances votes against companies will be rare, but if we do not see evidence of adequate change we absolutely are prepared to vote against that resolution.

The Board has stated their ambition to increase the yield paid to investors. Were you supportive of that decision and do you think it is sustainable in the longer term?

Laura: We were fully supportive of the decision and are very pleased with the dividend increase as both shareholders and fund managers.

James: The investment income grew strongly year on year. Partly because the gearing level increased but also due to good underlying income growth and a number of special dividends (many of which we think will recur in 2020). When we review the dividend forecast, we are comfortable with the durability of the dividend. From an equity portfolio perspective we are less reliant than the Index on a few large companies because of the long, diverse list of holdings. From a shareholder perspective, the professional services business brings another layer of diversity to the income that is unique to this Company. Therefore we think this Company is well placed to be an attractive income holding for shareholders and are pleased to see the Board making full use of the opportunity to grow the dividend materially.

What key themes in 2020 will drive the performance of the portfolio and what do you think the key challenges will be?

James: The investment portfolio is deliberately diverse in its exposure and therefore there is not any one key theme that will drive performance. That being said, there are a number of key considerations that we are thinking about this year. These considerations are both an opportunity and, potentially, a challenge:

- Will the global economy continue to grow at a modest pace? The portfolio has a material portion invested in industrial and financial companies, both of which would benefit if the global economy continues to grow modestly. Conversely, if the global economy materially slows, this would be a difficult backdrop for these companies to grow earnings. Current economic data would suggest that industrial activity is bottoming out with modest signs of improvement.
- Will UK economic growth start to accelerate? Consensus expectations for economic growth in the UK this year could, we think, look too low. This would benefit some of the more domestic UK holdings (for example Dunelm and Johnson Service Group). If the UK economy were to materially slow, this would be a modest negative for the portfolio, as we have increased the domestic UK exposure.
- How do we position the portfolio for the transition to a lower carbon economy? There is undoubtedly a desire to shift the global economy away from fossil fuels at an accelerating pace. In recent years we have purchased a number of positions such as Ceres Power and ITM that will benefit from this shift and this is an area we will continue to monitor closely. This area is not only an opportunity for these new portfolio companies but also a challenge for the more traditional fossil fuel companies, such as Royal Dutch Shell and BP.

What do you believe the outlook is for the UK economy?

Laura: The UK economy has a number of long-term positives that have been lost in the 'fog' of political uncertainty. We have an excellent corporate governance framework, a relatively open market for corporate activity, good demographics (the UK is not the next Japan) and relatively low levels of red tape. The UK equity market is also starting from a point where valuation is low relative to other global equity markets and sentiment (while improving) is still relatively poor. Putting all of this together makes us positive on the UK equity market, so we are happy with our current allocation of around 80% of the portfolio to the UK.

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

As James Henderson and Laura Foll explain in their investment review, the reliable nature of the IPS earnings have covered around 35% of total annual dividend payments in the past ten years, allowing James and Laura increased flexibility in portfolio construction.

Chief Executive Officer's review

Introduction

As you have heard from our Chairman, at the core of Law Debenture's financial objectives are two keys aims; the first is to achieve long-term capital growth, the second is to steadily increase income for our shareholders. Our investment portfolio appreciated by over £100m in 2019, our investment portfolio income increased by 25.9% and the earnings per share generated by our IPS business increased by 8.5% showing significant progress across all of those metrics.

Our investment trust

The strength of our investment return continues to build. As CEO of the Group, I see the enormous benefit for our shareholders in the long-term partnership between James Henderson and Laura Foll of Janus Henderson Investors. I take great comfort in observing the passion James and Laura have for the portfolio. As we step up our efforts to meet investors, they speak with great clarity and conviction around their investment thesis, coupled with a depth of long-term understanding about the companies in which we invest.

Over the past three quarters of 2019, their confidence in the attractive valuation opportunities within the UK market could have been considered by many as a contrarian play, in light of continued uncertainties over Brexit and the uncertain outcome of the general election. Ultimately the judgement to reposition the portfolio by reducing certain overseas holdings and increasing leverage proved profitable for shareholders in 2019. While not every call will be right, their depth of knowledge and experience continue to deliver outstanding results for our shareholders year on year. I would like on behalf of our Board to extend our sincere thanks to James and Laura for the expert way in which they continue to guide the portfolio.

> At the core of Law Debenture's financial objectives are two keys aims; the first is to achieve long-term capital growth, the second is to steadily increase income for our shareholders.

Our independent professional services business (IPS)

Our IPS business remains a key differentiator between us and other investment trusts. As we continue to grow that business, the contribution we are able to make to the income paid out to our shareholders increases.

At the start of 2019, we committed to shareholders that we would grow the IPS business by mid to high single-digits, and that is exactly what we have achieved. In the face of significant headwinds in capital markets, we were able to grow our full-year revenues by 7.5% in 2019. This emphasises the strength of the diversification of our revenue streams, particularly in the context of difficult trading results reported by many capital markets facing businesses. It is of critical importance that this increase in revenue growth translates to greater rewards for our shareholders. We were able to increase our earnings per share from our IPS business by 8.5% in 2019, supporting a third of the proposed dividend payment.

IPS earnings have covered 35% of total annual dividend payments in the past ten years, allowing James and Laura increased flexibility in portfolio construction. It is this diversification, coupled with our on-going growth agenda for the IPS business, which I believe makes us uniquely placed to support the step change in dividend payments the Board is proposing.

We remain 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 business is built on three excellent foundations; our pension, corporate trust and corporate services businesses.

2019 may well come to be seen as the year in which discussion about ESG swung from being a niche question about 'ethical' investment to a mainstream recognition that these factors can and do affect the financial performance of pension scheme assets.

The table below sets out the revenue by division for the past three years, alongside a percentage growth number for 2019 compared to prior year. This number is presented net of cost of sales. This means we have deducted the cost of any legal advice we have been required to take to discharge our duties as trustees, where the cost of this advice has ultimately been charged to our client. We believe this provides our shareholders with a true representation of the growth of our business.

DIVISION	Net revenue 2017 £000	Net revenue 2018 £000	Net revenue 2019 £000	Growth 2018/2019 %
Pensions	8,270	9,488	10,598	11.7
Corporate trust	7,900	8,362	9,024	7.9
Corporate services	10,977	11,734	12,167	3.7
Total	27,147	29,584	31,789	7.5

Taking each business in turn:

Pensions

Our pensions business is now more than 50 years old and continues to go from strength to strength. Our team of trustees grew by 10% over the course of 2019 and is now supporting in excess of 200 clients, with oversight of over £350bn of assets, providing pension benefits to more than three million families.

Market dynamics

The trend towards consolidation among the UK's 5,500 defined benefit pension schemes is now firmly established. Consolidation provides an opportunity for smaller schemes to enhance governance, improving outcomes for pensioners as well as for the companies funding these schemes. This in turn presents the opportunity for Law Debenture to increase market share, with larger schemes having the appetite and financial resources to employ a professional trustee. Indeed, we have won some significant new mandates in light of this trend.

Stewardship and ESG

Over the 50 years that we have acted as independent trustees, our primary duty has been to act in the best interests of beneficiaries. This duty remains the cornerstone of the trustee role; however, 2019 has also seen a significant extension of that role, with an increasing focus on stewardship and environmental, social and governance (ESG) factors.

This presents us with an opportunity to expand our product offering in what we expect will be a fast growing market over the short, medium and longer term.

The Pensions Regulator has broadened the definition of stewardship to consider the sustainability of value creation by pension schemes, not only for beneficiaries but for the economy and wider society.

From October 2019, trustees have been required to explain how they engage with debt and equity holders on not only investment performance, strategy and risk, but also on the environmental, social and governance impact of those businesses. 2019 may well come to be seen as the year in which discussion about ESG swung from being a niche question about 'ethical' investment to a mainstream recognition that these factors can and do affect the financial performance of pension scheme assets.

Some of our schemes have carried out surveys of their membership and have found that an ESG investment focus can carry considerable support and can be a way of engaging younger members who have grown up amid the reality of climate change.

We are not complacent about the challenges presented by ESG: this is an emerging area, and both climate science and the response of financial institutions to it are evolving. But we do believe there are opportunities for us as professional trustees to provide valuable assistance to our clients to help them to address those challenges.

Professional trusteeship

In 2019, the Pensions Regulator consulted on a range of proposals, including a suggestion that all trustees should be required to have a professional trustee on Board. Whilst they did not support a mandatory requirement, we expect it to be a question they ask frequently moving forward. We think that will lead to an increasing demand for our professional trustee services.

Chief Executive Officer's review continued

The consultation also focused on the 'sole trustee' model, which is becoming increasingly popular as employers are distanced from legacy pension schemes, and it becomes even harder to find member representatives willing to serve on the pension trust board. We were pleased to be able to meet the Pensions Regulator to discuss our approach to sole trusteeship, which provides a robust governance and decision-making framework for pension schemes.

A further area of focus from the Regulator is the requirement for trustees and employers to have a workable road map to get their scheme into a position of long-term sustainability. This could be through buy-out, a low dependency model or transfer of the scheme to a consolidator. The Pensions Regulator's long-awaited consultation on a new defined benefit funding code is expected in March 2020.

Risk Transfer to the Insurance Sector

The last few years have seen a significant increase in company pension schemes looking to reduce risk through risk transfer to the insurance sector. Law Debenture has played an important role in many of these deals. 2019 saw the largest bulk annuity transaction to date of £4.7bn by Telent's GEC 1972 Plan, which we supported through our role on the trustee board. We were involved in a further third of all other large bulk annuity deals transacted in 2019, which collectively amounted to an additional £5bn+ of value. This included the deal between Legal & General and Tate & Lyle, where we have acted as trustee for more than 10 years. The longevity swap market (which transfers longevity risk from company pension schemes to the insurance market) has also seen some very large deals being transacted. We were involved as part of the trustee team in the £10bn longevity swap recently completed by the Lloyds Banking Group pension schemes. Involvement in these important market-leading deals puts our trustees in an excellent position to support other schemes wishing to undertake these material risk-reducing transactions, as well as increasing the security of members' benefits in the schemes undertaking the transactions.

Highlights

Our pension's team goes from strength to strength under the leadership of Michael Chatterton and Mark Ashworth. Our results in 2019 continue to build on strong growth in 2018, with revenue up 11.7% from £9.5m to £10.6m. One of our key differentiators is the quality and diversity of skill sets within our team. By appointing Law Debenture, our clients access not just one highly commercial and qualified individual, but a collective 400 years of knowledge and experience of the pensions industry. As we continue to lead the market in supporting and innovating for our clients, we have an exciting pipeline of new business for 2020 and beyond.

In order to grow our business, we are always searching for the best possible staff. We have critically challenged our recruitment processes over the course of 2019 to support our agenda of increasing diversity. We are delighted that we contracted four outstanding women to join our business over the course of 2019 and the start of 2020, helping the continued evolution over time from a largely male trustee population. The demand for diversity is not just one of gender; by encouraging diversity in all of its forms we weave a richer web of experience with which to deliver innovative and insightful thinking to our clients. Our clients in turn are thinking hard about diversity, so it is vital we continue to expand our team in a way that meets our clients demands.

2019 saw further excellent progress in our Pension's Governance Service business, Pegasus. Investment in the expansion of our team delivered a 55% increase in revenue in 2019, with a very strong pipeline of prospective clients promising an even higher level of growth for 2020.

Outlook for our pension business

Our defined benefit scheme clients continue to represent the majority of our revenues. The combination of our excellent team and reputation, leaves us well placed to continue to grow our market share. At the same time, we have an eye to the future where we believe that the growth in importance of our defined contribution (DC) work relative to our total revenues will continue. We are confident too in our ability to grow our Pegasus business over time.

I would like to thank Mark, Michael and their team for their persistent pursuit of superior outcomes for their clients.

Corporate trust

Our corporate trust business led to the creation of Law Debenture over 130 years ago and happily one of our first appointments as a trustee remains in place today. Our duty as a corporate trustee is to act as a bridge between bondholders and a bond issuer. Over the course of 2019, we acted as trustee for more than £60bn of new bond issues. We are currently acting as trustee for bonds with a collective face value of more than £600bn across almost 8,700 live appointments.

As a trustee, we are typically paid an inflation linked annual fee to discharge our duties throughout the lifetime of a bond. We started 2019 with almost two thirds of our £9.0m annual revenue contractually secured, with an overall inflation linked increase of 1.9% on those same contracted revenues in 2018. We also earn revenue when amendments to documentation or other actions are required. This will often be separately remunerated and provides us with an additional income stream, which represented 15% of our corporate trust revenue for 2019.

The revenue and risk profile of the trustee can shift substantially in instances where a bond goes into default. In these scenarios, the trustee may be required to perform material extra work that, given an optimum result, can lead to significant additional income. However, default scenarios may involve the business incurring cost and can take years to play out.

Our corporate trust team are conservative and careful in taking on new business, operating 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

2019 proved a difficult year for capital markets-facing businesses. Investment banking revenue was down 4% globally, with Europe the weakest region, down 14%[1]. We have fought hard to maintain our market share in a highly competitive market place and are pleased to report revenue growth of 7.9% over the course of 2019 from £8.4m to £9.0m.

Clean Energy

We have deep expertise and experience in green energy project finance. For example, in 2019 we were appointed as trustee on a €200m note issuance by Alerion Clean Power S.p.A., an Italian company whose principal activity is managing a portfolio of wind farms. The proceeds of this note will be used to finance wind farm projects, which comply with the International Capital Markets Association Green Bond Principals 2018.

Eliot Solarz continues to lead a team with a market reputation for outstanding technical knowledge, speed, quality of service and willingness to innovate. We are privileged to have been appointed by many of the UK's best known brands such as Lloyds, M&G, Sainsbury's and Next, during the year for Investment Grade corporate bond issues.

We continue to play very much to our strengths. Our depth of market knowledge, coupled with the absence of bureaucracy, provides us with a distinct competitive advantage when competing against global banks for more complex products. We often have an edge in long-dated 'real asset' financings, an example of which is given below:

The combination of significant demand and political will to create new affordable housing will, we believe, lead to an expansion in this market. We are well placed to grow our market share in light of that expected expansion.

Highlights

We took on 265 trustee engagements in 2019, booking revenues of £0.6m in 2019 for these contracts, a small fraction of the full value over their life cycle of around £6.0m. In light of the challenging conditions across capital markets, fees from new business were slightly lower than in 2018. The multi-year impact of new business wins, coupled with a release of reserves of £0.4m lead to an overall increase in year-on-year revenue of £0.7m.

Key client appointments include:

CAMELOT

nationalgrid

William HILL

2019 saw a number of senior hires to re-invigorate the Hong Kong branch of our business. While social unrest and latterly the outbreak of the coronavirus has made it more challenging to do business, we were delighted to see a strong turnout of both our long-term and new clients to our celebration to re-launch Law Debenture Asia in October. As a Company, we are building for the long term, we are confident that the quality of our team in Asia will bear significant fruit for shareholders over time.

Outlook for our corporate trust business

The long-term nature of appointments in the corporate trust universe provides a desirable 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

Social Housing

One in ten people lives in a Housing Association home.[2] We have long standing relationships with many players in this sector and social purpose lies at the core of what they do. Our appointments include bond trustee, security, trustee, note holder representative and loan agency roles.

A chronic shortage of social housing was highlighted by all sides during the December election campaign. The new Government has pledged to bring forward publication of a Social Housing White Paper and also pledged to simplify our planning laws.

We are hopeful that these initiatives will be followed through and in turn accelerate investment in much needed projects. We are actively engaged with both existing and new clients and investors to help facilitate vital growth in our nation's housing infrastructure.

2 Source: English Housing Survey 2016/7

1 Source: Dealogic

Chief Executive Officer's review continued

niches where our speed and deep expertise provide us with a significant advantage.

With the possibility of some of the Brexit clouds finally starting to clear, 2020 has started with improved sentiment among our customers. We will continue to pursue new opportunities to lock in multi-year index-linked revenue streams.

Corporate services

Corporate services provide outsourced solutions across a range of company secretarial, accounting and facility agent services. These services are provided largely, but by no means exclusively, to corporates and special purpose vehicles.

Market dynamics

The traditional credit card, mortgage and asset backed securitisation aspect of this market remains below its pre-financial crisis peak and the marketplace remains fiercely competitive. In the short term, over-capacity (in part underwritten by private equity money) needs to work its way through to a conclusion. In the meantime, 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, 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 2019 despite tough investment banking conditions. Led by Anne Hills, it has a market-leading reputation with law firms in London, New York and Hong Kong.

We also provide independent whistleblowing services, through our subsidiary Safecall, in what is a dynamic and fast growing industry. Safecall provides an independent, confidential, anonymous (if desired) route to raise issues to the highest levels of organisations. In addition to providing a service which allows the whistle-blower to feel supported and listened to, the reporting mechanism to our clients provides members of senior management and the Board with increased confidence that a robust independent process is in place to uncover and address potential wrongdoing before it has further negative impact on their company.

Governments continue to legislate in this area. The EU Whistleblowing Directive was adopted in April 2019 with a two year implementation period. The start of 2020 saw the first reading of the 'Office of the Whistleblower Bill' in the House of Lords, calling for the creation of legislative frameworks to underpin citizen and workers' rights. Safecall is helping to develop ISO37002 Whistleblowing Management Systems to standardise best practice within businesses, which is due for publication in 2021. In a world where ESG has become an integral part of good business practice, the demand for our services is set to increase.

Highlights

Revenue from these businesses grew from £11.7m in 2018 to £12.2m in 2019, an increase of 3.7%. Our traditional corporate services businesses were able to achieve a moderate level of growth, notwithstanding the difficult conditions within capital markets highlighted above.

By contrast and again showing the benefit of the diversity of our income, the market for our whistleblowing service continues to expand significantly. Headed up by Graham Long, he and his team have delivered a 20% increase in revenue in 2019 and a 50% increase in revenue over the past three years.

Today, Safecall has over 500 clients. We work with businesses with as few as 25 staff, right the way to multinationals with 80,000 staff, where we are able to assist them in more than 100 languages.

Key client wins for this year include:

Between our exceptional investment managers and our talented and hardworking IPS team, we generated £157m of value for our shareholders in 2019. While our team feels justifiably proud of that achievement, rest assured that our focus remains firmly on our clients and on 2020.

Outlook

We believe the team at Safecall offers a product superior to their competitors at a competitive price. We continue to think long-term for this business, building the right technological solutions and products for our clients today that we can continue to evolve for many years to come.

Red Tractor: supporting welfare improvements in our supply chains

Our client Red Tractor provides a quality assurance standard for food and drink sourced in the UK. Their challenge was to have a greater understanding of potential wrongdoing within the farms accredited under their standard. Possible users of the service ranged from farm workers, vets and suppliers, as well as the general public. We provided a customised online solution that allows anyone who witness wrongdoing to inform Safecall of their concerns. By using our service, Red Tractor has the tools to identify and address instances of unacceptable behaviour taking place in the food chain.

The need to tackle a broad range of issues including animal welfare, environmental protection and modern slavery are rapidly rising up the agenda for governments, companies and individuals. In light of this, we expect the market for our services to continue to grow rapidly. More information is available at www.safecall.co.uk.

Investment in technology

Towards the end of 2018, we appointed David Williams as Chief Technology Officer (CTO). David brought with him a great wealth and depth of experience as the former CTO of Marshall Wace LLP and Tibra Trading. Building on our successes in 2018, David has hired a further seven full-time technical experts to facilitate delivery of high quality technical solutions. We are a people business, but, in today's world, it is critical that we are smart users of technology. David and his team are working tirelessly to improve the services that we provide to our clients, be that introducing additional functionality, enhancing security or reducing costs by delivering efficiencies in our operations. Many more valuable initiatives are at various stages of delivery across a rolling two year plan.

Premises

The lease on our London office expires in July of this year. We are currently exploring options as to whether to renew our current lease or seek accommodation elsewhere. Any decision we make will be balanced between our key stakeholders, our clients, our staff and our shareholders.

Prospects

2019 was a very successful year for Law Debenture with the share price rising by 24.5% and a proposed increase in the final dividend of 50%. Regarding income, the Group's aim is also to continue to deliver gradually increasing dividend payments in excess of inflation over time.

We are encouraged that IPS has delivered on its ambitions with a second year of mid to high single-digit growth despite a challenging backdrop for capital market activity. We remain in the early stages of a re-invigorated growth cycle and continue to see opportunities to grow revenue and earnings significantly over time. IPS has very attractive financial characteristics and we continue to invest in talent and technology to take advantage of material market share opportunities. We are also alert to opportunities presented by acquisitions, where we believe we could utilise our balance sheet to accelerate the growth in returns for our shareholders.

Both the long and short-term performance of our investment portfolio remains strong. We have an excellent investment management team, who the Board is confident are well placed to continue to position the equity portfolio for future longer-term growth. They continue to see opportunities to seek out quality stocks with high entry barriers.

Our differentiated business model allows increased flexibility in portfolio construction. We are confident that our unique combined businesses are well placed for the future and continued delivery of long term capital growth and steadily increasing income.

Denis Jackson
Chief Executive Officer
26 February 2020

Investment managers' review

Following the intention flagged to our shareholders at the start of 2019, the Company completed the transition from the AIC's Global sector to the UK Equity Income sector in May. We believe this sector provides a much more relevant comparator to what your portfolio is aiming to deliver, while retaining flexibility for us to allocate a portion of the portfolio outside of the UK, as we have done successfully over many years.

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, 80.7%, was invested in UK stocks at the year end, of which around 55% was invested in the FTSE 100, with the remainder in mid and small cap stocks. This allocation to the UK is a notable increase from 74.5% at the end of 2018, driven by a net investment of £102m into the UK during the year. We increased our leverage and repositioned our holdings over the course of the year to take advantage of comparatively low valuations within the UK market, particularly for domestic stocks.

> We increased our leverage and repositioned our holdings over the course of the year to take advantage of comparatively low valuations within the UK market, particularly for domestic stocks.

Although our focus is, and will remain, the UK, we confidently go to other geographies for companies that do not have a credible UK equivalent. Microsoft remains the largest overseas position, having been held in the portfolio for the last eight years. There is, unfortunately, no UK equivalent. While we have reduced the position in recent years on valuation grounds, the organic growth being achieved, considering the scale of the company, remains impressive and we therefore remain happy with a modest position. 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. This had fallen to 8.3% in North America, 7.8% in Europe and 3.1% in the rest of the world by the end of 2019 as a result of the portfolio repositioning. Overall, we were net investors of £60m across the portfolio in 2019.

The Company'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.

Our investment process

We take a bottom-up approach, spending a great deal of time with the management teams of our portfolio companies, conducting detailed analysis of the strengths, weaknesses and growth prospects of those companies into which we invest your money. Responsible investing (incorporating environmental, social and governance issues) has always been an integral feature of the investment process as we are long-term investors. Therefore, any material responsible environmental issues are also material to the investment case. These issues are of growing prominence to both investors and companies.

Therefore, while they have always been an implicit part of the investment process, we are now explicitly both monitoring internally and discussing with company management teams any particular issues or areas of concern. We have decided not to explicitly exclude any sectors, partly because on the more difficult to measure environmental and social area the data quality remains, in some cases, poor and partly because in our view it is better to engage with companies on better practices rather than to sell the shares.

We often buy stocks at the point at which they have either fallen out of favour or are relatively unknown, but importantly that we believe have significant potential for earnings growth. They will typically be world class brands selling globally, that operate in an industry with high barriers to entry that therefore enables them to generate a good operating margin. One such example, where we added almost £9m to the holding during 2019, was GlaxoSmithKline. The business was trading at a material valuation discount to the global pharmaceutical sector despite having within the Group world-class consumer healthcare and vaccines businesses.

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

	1 year %	3 years %	5 years %	10 years %
NAV total return with debt at par[1]	19.4	27.6	52.4	192.4
NAV total return with debt at fair value[1]	17.9	27.6	49.4	181.5
FTSE Actuaries All-Share Index total return[2]	19.2	22.0	43.8	118.3

1 NAV is calculated in accordance with AIC methodology, based on performance data held by Law Debenture including fair value of IPS business. NAV total return with debt at par excludes the fair value of long-term borrowings, where NAV total return with debt at fair value includes the fair value adjustment.

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

is sufficient to influence the portfolio performance as a whole. 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 53.4%.

The Company has paid £196m to its shareholders in dividends over the past ten years, of which £68m, or 35%, has been funded by the IPS business[3]. We are supportive of the Board using the growth in the IPS business, the increase in investment income and the change in the allocation of investment management fees and interest to substantially increase the final dividend to be paid to shareholders for 2019.

We are confident (subject to unforeseen circumstances) that this dividend is sustainable in the longer term. We retain the historical freedom afforded to us by the contribution of the IPS business to bypass stocks which do not fit our investment criteria, but which that others seeking to provide a yield to shareholders may be forced to buy. We are 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.

We regularly interact with private shareholders who hold Law Debenture as their only equity investment. We 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. It is our firm belief that, if we focus on growing capital, it will result in increased dividend income from that capital. This is the cornerstone of our investment philosophy and is unaffected by the development of the Company's dividend policy.

After a difficult and volatile 2018, 2019 proved fruitful for those who kept faith with the UK economy. We are pleased to report that our patient approach continues to see your portfolio (with debt at par) outperform its benchmark on a one, three, five and ten year basis.

More information on our investment approach can be found on pages 32 to 33 of the strategic report.

Review of 2019

2019 was a year of strong performance for the Law Debenture portfolio. Overall, the Company generated a total return of 19.4% (with debt at par), creating £141m of value for our shareholders. Investment income grew by 25.9%, affording the Board greater flexibility on its approach to dividends. Over that same period, the FTSE Actuaries All-Share Index total return was 19.2%. This means we were able to capture the market increase, having protected the portfolio from 40% of the overall market decline in 2018.

2019 was a year of strong performance for the Law Debenture portfolio. Overall, the Company generated a total return of 19.4% (with debt at par), creating £141m of value for our shareholders. Investment income grew by 25.9%, affording the Board greater flexibility on its approach to dividends.

Economic backdrop

The good returns generated by global equity markets (including the UK equity market) in 2019 need to be considered in the context of a weak period for equities in the fourth quarter of 2018. Towards the end of 2018 there was concern, led by the escalating trade war between the US and China, that there would be a synchronised global economic downturn and, in a worst case scenario, a US recession. This meant that towards the end of 2018 market expectations for earnings growth in 2019 were revised downwards. Therefore, when the global economy continued to grow at a modest pace in 2019 there was scope, from low expectations, for earnings to positively surprise and for valuations to move upwards.

The UK economy continued to grow modestly during 2019, with real economic growth of just over 1%. This placed UK economic growth roughly in line with much of the Eurozone, despite the political uncertainty that created an overhang on business investment and consumer confidence. At the time of writing, consensus expectations are that the UK economy will grow at a similar pace (1.1%) in 2020, with an acceleration in growth towards the end of the year. This could in our view look pessimistic. Pent-up business investment may go ahead this year and the UK consumer could, having had decent

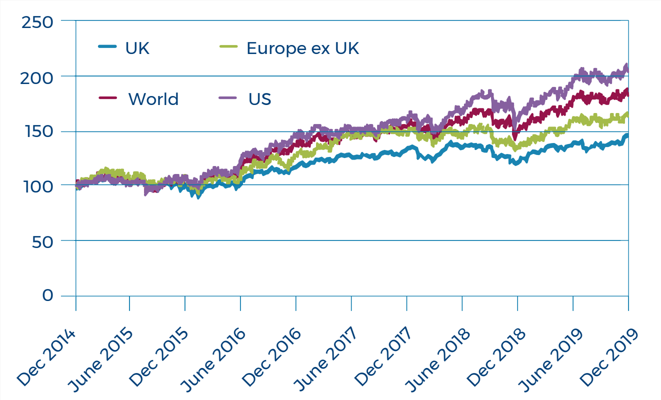
Investment managers' review continued

levels of real wage growth, choose to spend the extra income rather than increase their savings.

Market review

While the UK equity market performed well in 2019, on a longer term basis it has underperformed other global equity markets.

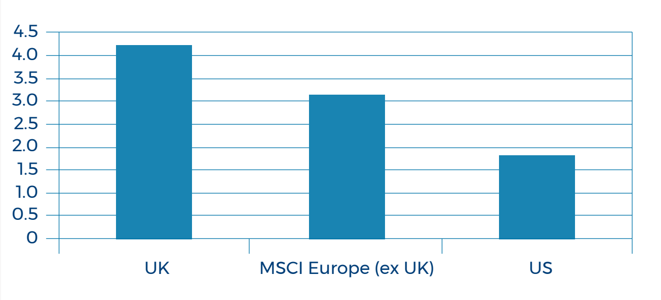
The UK equity market has underperformed other global equity markets over the last five years



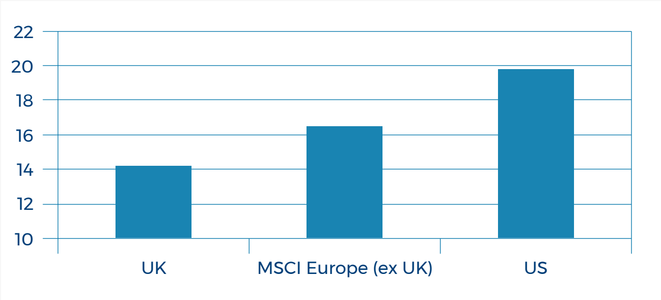
Source: Datastream as at 31st December 2019. Rebased to 100 as at 31st December 2014. Total Return, £. UK – FTSE All Share, World – MSCI World, Europe ex UK – MSCI World ex UK, US – S&P 500.

This underperformance has meant the UK continues to look attractive on a relative valuation basis, with an attractive, over 4%, dividend yield:

Estimated 2020 dividend yield (%)



12 month forward P/E



Source: Bloomberg as at 31 December 2019

The valuation discount and attractive dividend yield on the UK market should be seen in the context of a number of structural positives for the UK economy including an excellent corporate governance framework, a relatively open market for corporate activity and low red tape. In our view, the long-term positives of the UK market have been forgotten with the political uncertainty in recent years, but continue to represent a valuation opportunity for long-term investors. We therefore remain happy with approximately 80% of the portfolio invested in the UK as at the end of December.

Portfolio attribution

The best performer during the year was **Johnson Service Group**, a UK textile rental company that operates across workwear, hotel linen and restaurant linen. The shares performed well on a combination of strong earnings growth (earnings per share are forecast to have grown a low-teens percentage during 2019) and a revaluation upwards of the shares. The share price total return for the year was 71.3%. On a longer term basis, Johnson Service Group has performed well by providing a continually high level of service and reliability for customers. They have also undertaken selective acquisitions, often in adjacent regions in the UK where they did not historically have a presence.

Another of the best performers was homeware retailer **Dunelm**, which was first purchased for the portfolio when Dunelm listed on the market in 2006. We added to the position materially in the final quarter of 2018 when the shares were trading on a low valuation. Dunelm is the market leader in homeware in the UK, and is benefitting from store closures from some competitors (such as Debenhams), as well as its own internal initiatives under a new management team, such as substantially improving the website and adding features such as Click & Collect. The share price total return for 2019 was 129.5%.

Top five contributors

The following five stocks produced the largest absolute contribution for 2019:

Stock	Share price total return (%)	Contribution (£m)
Johnson Service Group	71.3	7.1
Dunelm	129.5	6.2
Marshalls	89.7	4.9
Microsoft	51.4	4.5
Ceres Power	59.8	4.1

Source: Share price total returns from Bloomberg, all in £

Top five detractors

The following five stocks produced the largest negative impact on the portfolio valuation for 2019:

Stock	Share price total return (%)	Contribution (£m)
Eddie Stobart Logistics	N/A[1]	-7.1
Kier	-76.1	-3.8
Rolls Royce	-16.5	-2.4
Tullow Oil	-63.4	-2.3
IP Group	-34.6	-1.8

Source: Share price total returns from Bloomberg, all in £

1 Shares in Eddie Stobart Logistics are suspended and the valuation has been substantially written down from the last traded price.

Eddie Stobart Logistics is suspended from share dealing. The company's auditors have found irregularities, which has meant the group has so far failed to produce its report and accounts for last year. There has been a cash injection that has diluted existing shareholders but may ensure the company remains trading.

Kier is a major contractor in the UK. The level of debt has become a great concern of investors. The company is taking action by focusing the business and selling the housing division.

Rolls Royce has had a difficult period as its major customer, Boeing, has had to suspend manufacturing of it's best-selling plane. The long-term demand for Rolls Royce's Trent engine remains in place.

Portfolio activity

What we've been buying

The two largest new positions during the year were **Lloyds** and **RBS**. This represented quite a shift in the portfolio, having held no domestic banks since the financial crisis (we have held two internationally focused banks – HSBC and Standard Chartered). What changed was a confluence of factors coming together. The ongoing capital requirement is now clearer following a period of capital 'creep' upwards following the financial crisis. Payment protection insurance provisions have also come to an end following the cut-off for new claims. These two factors came at a time when Lloyds and RBS were trading on low valuations (roughly at book value in the case of Lloyds and substantially below book value in the case of RBS). Both pay an attractive dividend yield to shareholders.

Outside of the FTSE 100, the largest purchases included adding materially to the existing position in motor and home insurer **Direct Line**, which is making good progress under its new chief executive officer. Despite a difficult backdrop for car insurance (with high claims inflation), it continues to generate good underwriting returns. We also participated in fund raisings for **Hipgnosis Songs Fund** which purchases music back catalogues from song writers (for which they receive a royalty stream if the song is, for example, streamed on services such as Spotify, or broadcast). This pays an attractive approximately 5% dividend yield to shareholders and has the additional benefit that it brings diversification to the portfolio (as it should, for example, not be exposed to the economic cycle).

In the US the largest new position was **Bristol-Myers Squibb**, which was purchased subsequent to Bristol announcing a merger with Celgene that was poorly received. As a result, the shares were trading on a low valuation for a pharmaceutical company that is among the world leaders in oncology.

What we've been selling

The two largest sales during the year were the two open ended Fund holdings, **Baillie Gifford Overseas Growth** and **Stewart Investors Asia Pacific Leaders**. Both had been good performers for the investment trust over the long term and had brought additional diversity to the portfolio, both in terms of geography and sector exposure. We continue to hold a selection of closed ended Funds that in our view bring diversification to the investment trust in areas outside of our expertise. A good example is **Herald Investment Trust** which has been an excellent performer for the portfolio over time.

Also among the largest sales during the year was **Greene King**, which was sold following a cash takeover approach from Hong Kong conglomerate CK Asset Holdings. Property company **A&J Mucklow** was also sold following a cash and shares takeover from UK-listed peer LondonMetric. We expect there to be further corporate activity within the portfolio in 2020, as UK listed

In our view the long-term positives of the UK market have been forgotten with the political uncertainty in recent years, but continue to represent a valuation opportunity for long-term investors. We therefore remain happy with approximately 80% of the portfolio invested in the UK as at the end of December.

Investment manager's review continued

companies remain at a valuation discount, but with greater political clarity following the general election.

Where we reduced positions during the year it tended to be on valuation grounds following a period of strong performance. For example the positions in textile rental company **Johnson Service Group** and paving stone company **Marshalls** were reduced.

Details of your Company's largest holdings, along with our investment case, can be found on pages 24 and 25.

A full portfolio listing can be found on pages 28 to 31.

Outlook

The future relationship of the UK with the rest of Europe will start to be resolved over the course of this year but the UK economy faces continued uncertainties; Sterling could be volatile and tariffs are a concern if a free trade deal is not achieved. At the same time, many industries are facing structural change. For instance, the growth of online shopping is dramatically changing the retail landscape. The need to reduce carbon emissions is leading to profound changes for the business model of heavy energy users. These changes will create opportunities as well as threats for companies, but overall economic growth is expected to be fairly subdued. However, the stocks in the portfolio are not a proxy for the UK economy but, rather a broad mix of companies with management teams that, through quality of their services or products, are expected to add value in spite of the economic background.

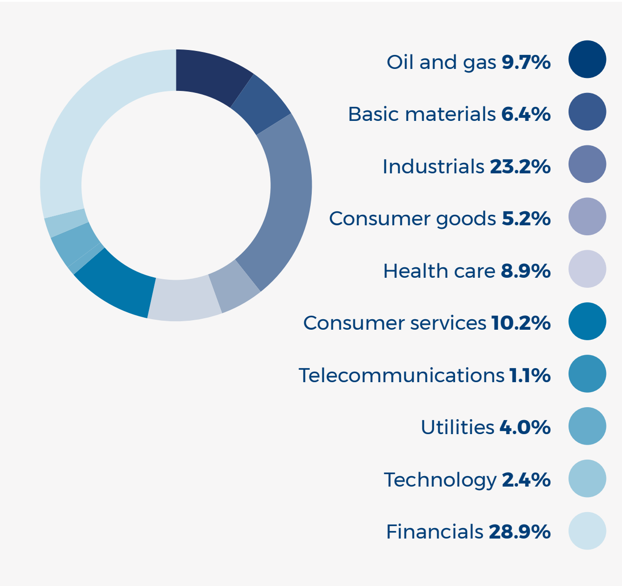
The focus is to find stocks where there is an excellence in their offering but that it is not recognised in the valuation. The discipline of having a valuation screen is important. A product or service may be very competitive currently, but the pace of change means this will not necessarily be maintained. The life cycle of products is generally getting shorter. For this reason, the belief that a stock can be held 'forever' is flawed. Therefore, we will be reducing the 'winners' when valuations are high and buying the forgotten companies on low valuations; hopefully, before they reinvent themselves and return to growth.

Buying these recovery stocks will at times result in holding companies that do not return to growth and fail. This is why a successful investor using this approach will have a relatively long list of stocks. During periods of low economic activity, good opportunities often emerge to refresh the portfolio with future strong growing companies. These companies will often have an above average dividend yield as they are out of favour with investors. Therefore the new buying is expected to add to the dividend potential of Law Debenture as well as providing capital growth as these stocks gain traction.

James Henderson & Laura Foll
Investment manager
26 February 2020

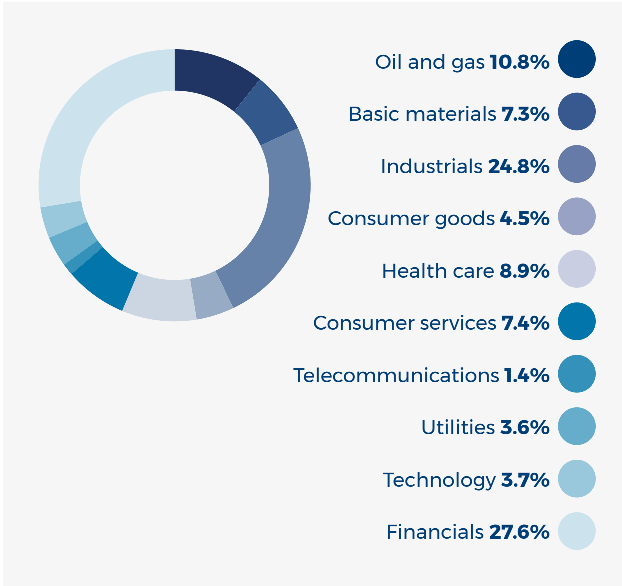
Portfolio by sector

2019



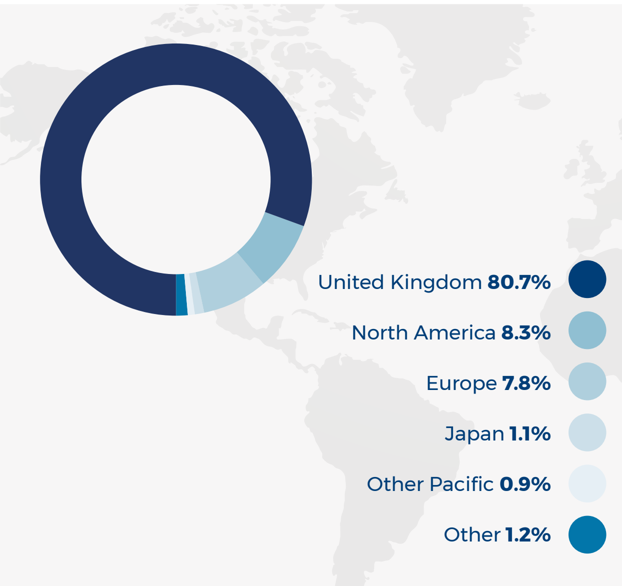
Portfolio by sector

2018



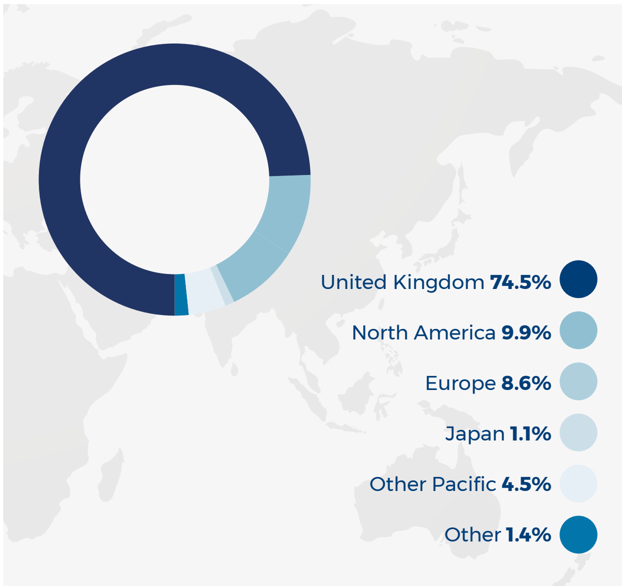
Geographical distribution of portfolio by value

2019



Geographical distribution of portfolio by value

2018



Fifteen largest holdings: Investment Rationale

at 31 December 2019

Rank 2019	Company	% of portfolio	Approx Market Cap.	Valuation 2018 £000	Purchases £000	Sales £000	Appreciation/ (Depreciation) £000	Valuation 2019 £000
1	**GlaxoSmithKline**	3.6	£89bn	17,149	8,981	–	3,662	29,792
GlaxoSmithKline is one of the world's largest pharmaceutical, vaccine and consumer healthcare companies. The position was added to in 2019 as we gained confidence in the strategy under the (relatively) new CEO Emma Walmsley. GSK has historically traded at a discount to the global pharmaceutical sector. While they have world leading consumer healthcare and vaccines businesses, the pharmaceutical division has lagged behind others in, for example, innovative oncology drugs. Under a new management team (as well as Emma there is a new head of pharmaceuticals and new head of research & development) they are re-investing in R&D and focussing on innovative products. Given the long development time within pharmaceuticals, it will take years for this change to become fully evident, but we are seeing early stages of an improved drug pipeline.								
2	**Royal Dutch Shell**	3.4	£176bn	29,213	–	–	(1,219)	27,994
Royal Dutch Shell is a vertically integrated oil & gas company. Following the material oil price fall from 2014 to 2015 and subsequent acquisition of BG Group, Shell focussed intensely on reducing its operating and capital expenditure in order to improve its free cash generation at a lower oil price. The management have successfully brought down the 'break-even' oil price at which Shell can generate free cash flow, such that their existing over 6% dividend yield is covered by cash generation. Shell are also perceived to be leading the transition to renewable energy within integrated oil and gas companies, which we believe will be a vital component of their success over time.								
3	**Rio Tinto**	2.1	£73bn	13,986	–	(688)	3,586	16,884
Rio Tinto is one of the world's largest mining companies, with a particular focus on iron ore, aluminium and copper. Their mines are well positioned on the cost curve, often at the lowest cost quartile globally, meaning that they can continue to be highly cash generative despite volatile commodity prices. This cash generation, combined with a strong balance sheet, has meant that they have been able to return excess cash to shareholders in the form of special dividends in recent years, a trend we expect to continue in the current year. They fully exited all coal production in 2018 and score highly relative to other mining companies on environmental, social and governance risk factors.								
4	**HSBC**	1.9	£120bn	17,054	–	–	(1,448)	15,606
HSBC are a global bank with a market-leading presence in Hong Kong as well as some emerging economies. Their geographic focus brings worthwhile diversity to the portfolio, and they currently pay an attractive dividend yield of over 6%. Under a new management team, they are scaling back their comparatively lower returning US and European operations and seeking to redeploy the capital in Asia and the Middle East in order to improve the returns of the group overall. This is not, in our view, factored into the current valuation.								
5	**BP**	1.8	£96bn	15,870	–	–	(779)	15,091
BP is a vertically integrated oil and gas company. Similar to Royal Dutch Shell, they materially reduced operating and capital expenditure following the last oil price fall, meaning their 'break-even' oil price has been substantially reduced. They currently pay an attractive over 6% dividend yield that is covered by free cash flow. Under their new CEO they have committed to achieving net zero carbon emissions by 2050 (both from their own operations and those of their upstream oil & gas customers), while continuing to grow free cash flow and dividends.								
6	**Relx**	1.7	£37bn	12,124	–	–	2,164	14,288
Relx (formerly Reed Elsevier) are an information services provider across a broad range of industries. For example, their LexisNexis software is used as a reference and analytical tool by the majority of law firms globally. They also manage exhibitions and publish scientific and medical journals. Relx have done an excellent job of growing sales and earnings consistently in recent years, with low single-digit organic sales growth plus a small amount of margin growth leading to high single-digit earnings growth. This consistency has meant they have acquired a (in our view justified) valuation premium relative to the broader market.								
7	**Johnson Service**	1.7	£725m	10,191	–	(3,047)	7,123	14,267
Johnson Service Group is a UK textile rental company operating across workwear, hotel and restaurant linen. It has grown well both organically and via 'bolt-on' acquisitions in recent years, often filling in geographic gaps in the portfolio. This has led it to consistently grow earnings while maintaining an only modestly geared balance sheet. In 2019, the position was modestly reduced, not because of fundamental concerns about the business, but rather because the shares have performed well and, as a result, are on a higher valuation than they have been historically.								

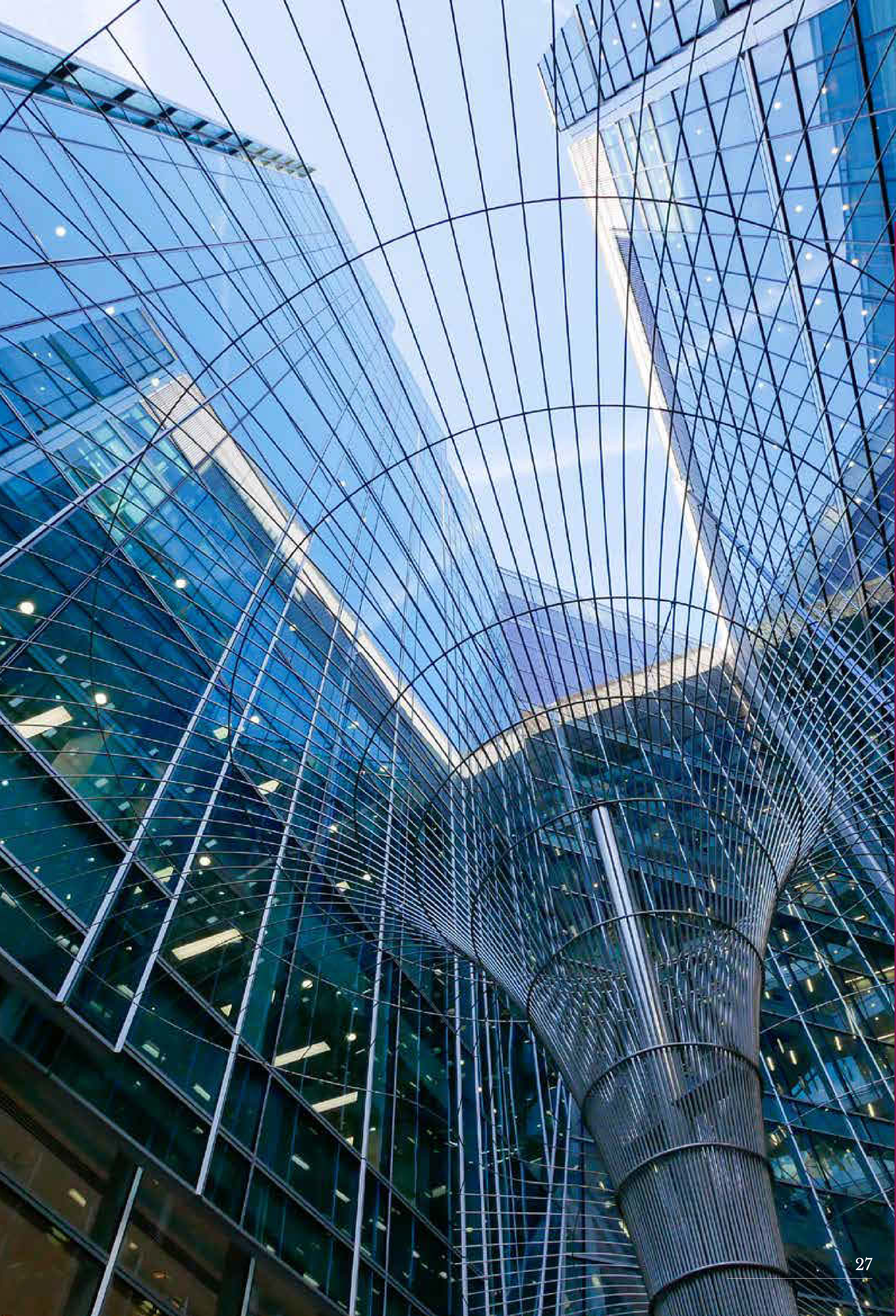
Rank 2019	Company	% of portfolio	Approx Market Cap.	Valuation 2018 £000	Purchases £000	Sales £000	Appreciation/ (Depreciation) £000	Valuation 2019 £000
8	**AstraZeneca**	1.7	£100bn	10,492	–	–	3,117	13,609
AstraZeneca are a global pharmaceutical company. Following the appointment of Pascal Soriot as CEO in 2012, the business has invested heavily in R&D and has become one of the world leaders in oncology drugs. The shares have performed well and now trade at a valuation premium to the global pharmaceutical sector. However, the fast growing new oncology products in the portfolio mean it is also growing sales and earnings substantially faster than peers.								
9	**Prudential**	1.6	£38bn	13,095	–	(1,467)	1,878	13,506
The company is a leading provider of insurance products in Asia, with additional operations in the US. In 2019 Prudential spun off its M&G division which constituted its UK business. This brings a clearer focus to the company and enhances its growth prospects. The savings market in Asia is immature and has strong growth drivers.								
10	**National Grid**	1.6	£33bn	10,769	–	–	2,538	13,307
National Grid are a regulated utility company with operations in both the UK and the US. The position was added to substantially in 2018 as it was trading at a material discount to global peers, partly due to the threat of nationalisation of its UK assets under a potential Labour government. In our view this valuation discount was underestimating how global its operations are, with the US already generating roughly 50% of its earnings (where they own gas and electricity distribution networks in cities such as New York). Electricity networks will play a crucial role in the transition away from fossil fuels – the widespread adoption of electric cars will put increasing pressure on electricity networks that will require substantial investment. This would be a long term positive for National Grid as their regulated asset base grows. The shares have performed well and the position brings defensive qualities whilst continuing to pay an attractive dividend yield.								
11	**Herald Investment Trust**	1.5	£1bn	9,095	–	–	3,485	12,580
Herald is a global technology focussed investment trust managed by Katie Potts (who launched the trust in 1994). Its technology focus brings worthwhile diversity to the portfolio and it has been an excellent performer over time (on both a short term and long term basis). The trust is predominantly focused on the UK and North America, with a high weighting to fast-growing software companies. Katie and her team cover the approximately 300 holdings in the trust to a high level of detail with substantial specialist knowledge of the technology sector.								
12	**Severn Trent**	1.5	£6bn	8,163	925	–	3,487	12,575
Severn Trent is a UK water utility. Similar to National Grid the position was added to substantially in 2018 and early 2019 on the view that the threat of nationalisation was causing the valuation to be too low. Severn Trent is one of the best-quality water companies in the UK on metrics such as preventing leakages as it has a well invested network. It also scores highly on environmental, social and governance concerns relative to other listed (and privately held) water companies. The shares have performed well particularly since the UK election, but the position brings defensiveness to the overall portfolio and the dividend yield remains attractive.								
13	**Land Securities**	1.5	£7bn	8,435	1,524	–	2,400	12,359
Land Securities are a property owner in the UK with assets roughly equally split between offices and retail. Largely due to the retail exposure, they have traded at a discount to estimated net asset value. However, this discount could in our view be too simplistic because of the quality of their retail assets. For example, only 20% of their portfolio is in retail outside of London, with their shopping centres in London often being more focussed on food outlets than traditional clothing retail (a good example of this would be their 'One New Change' shopping centre in St Paul's). They are among the leaders in UK property companies in environmental targets, recently announcing their aim to become a net zero carbon business.								
14	**Ceres Power**	1.5	£403m	6,372	1,590	–	4,090	12,052
The company operates as a fuel cell technology and engineering business. The technology is fuel flexible (it can use a combination of hydrogen and natural gas) and the company has licensed it out to Bosch, Weichi, Minra and Doosan, therefore strong revenue growth is expected in coming years. Recently Bosch have taken a substantial stake in the company and a seat on the board. The desire to push towards lowering carbon emissions drives the need for fuel cell technology to be adopted.								
15	**Dunelm**	1.5	£2bn	4,873	852	–	6,182	11,907
Dunelm are an in-store and online homeware retailer in the UK. Under a (relatively) new CEO they have taken a number of measures to improve both financial and operating performance, leading to an improvement in trading both in store and online (where they have materially improved their website and are seeing the benefit of this). Their trading performance has been particularly impressive in what has been a difficult retail trading backdrop in the UK.								

Classification of investments

based on market values at 31 December 2019

	U.K. %	North America %	Europe %	Rest of the world %	Total 2019 %	Total 2019 £000	Total 2018 %	Total 2018 £000
Oil & gas								
Oil & gas producers	6.12	0.88	0.46	–	7.46	61,340	9.24	61,055
Oil equipment services & distribution	1.79	0.42	–	–	2.21	18,114	1.58	10,517
	7.91	1.30	0.46	–	9.67	79,454	10.82	71,572
Basic materials								
Chemicals	1.70	–	0.46	–	2.16	17,732	2.87	19,109
Forestry & paper	1.02	–	–	–	1.02	8,419	0.99	6,534
Mining	3.24	–	–	–	3.24	26,656	3.48	23,060
	5.96	–	0.46	–	6.42	52,807	7.34	48,703
Industrials								
Construction & materials	4.01	–	0.12	–	4.13	33,971	5.19	34,376
Aerospace & defence	5.73	–	–	0.61	6.34	52,140	7.33	48,486
General industrials	1.32	–	0.21	–	1.53	12,525	1.37	9,073
Electronic & electrical equipment	2.67	–	0.27	–	2.94	24,158	2.59	17,166
Industrial engineering	2.31	2.56	–	–	4.87	39,990	5.16	34,246
Industrial transportation	1.11	–	–	–	1.11	9,089	1.08	7,163
Support services	2.01	–	0.28	–	2.29	18,778	2.02	13,405
	19.16	2.56	0.88	0.61	23.21	190,651	24.74	163,915
Consumer goods								
Automobiles & parts	–	0.76	–	1.06	1.82	14,910	2.13	14,125
Beverages	–	–	0.31	–	0.31	2,534	0.36	2,406
Food producers	–	–	0.43	–	0.43	3,499	0.42	2,803
Household goods & home construction	1.70	–	–	–	1.70	13,952	1.42	9,403
Personal goods	–	–	–	–	–	–	0.21	1,394
Tobacco	0.98	–	–	–	0.98	8,079	–	–
	2.68	0.76	0.74	1.06	5.24	42,974	4.54	30,131
Health care								
Health care equipment & services	1.05	–	–	–	1.05	8,608	2.28	15,093
Pharmaceuticals & biotechnology	5.28	1.74	0.77	–	7.79	64,098	6.64	43,912
	6.33	1.74	0.77	–	8.84	72,706	8.92	59,005
Consumer services								
General retailers	1.88	–	–	–	1.88	15,462	1.03	6,816
Media	2.85	–	0.45	–	3.30	27,105	2.32	15,377
Travel & leisure	3.58	–	1.39	–	4.97	40,946	4.05	26,725
	8.31	–	1.84	–	10.15	83,513	7.40	48,918
Telecommunications								
Mobile telecommunications	0.62	–	0.51	–	1.13	9,325	1.38	9,124
	0.62	–	0.51	–	1.13	9,325	1.38	9,124
Utilities								
Electricity	0.70	–	–	–	0.70	5,825	0.70	4,612
Gas water & multi utilities	3.26	–	–	–	3.26	26,775	2.86	18,932
	3.96	–	–	–	3.96	32,600	3.56	23,544
Financials								
Banks	5.67	–	0.51	–	6.18	50,890	4.33	28,749
Nonlife insurance	3.48	–	0.65	–	4.13	33,916	4.03	26,710
Life insurance/assurance	3.40	–	–	–	3.40	28,048	2.96	19,625
Real estate investment & services	1.12	–	–	0.57	1.69	13,916	1.59	10,481
Real estate investment trusts	3.97	–	–	–	3.97	32,633	3.34	22,115
Financial services	5.13	–	0.51	–	5.64	46,442	4.47	29,753
Equity investment instruments	3.05	–	–	0.88	3.93	32,315	6.91	45,868
	25.82	–	1.67	1.45	28.94	238,160	27.63	183,301
Technology								
Software & computer services	–	1.16	0.50	–	1.66	13,676	2.08	13,814
Technology hardware & equipment	–	0.78	–	–	0.78	6,450	1.59	10,566
	–	1.94	0.50	–	2.44	20,126	3.67	24,380
TOTAL 2019	80.75	8.30	7.83	3.12	100.00	822,316		
TOTAL 2018	74.50	9.88	8.61	7.01	–	–	100.00	662,593

The above table excludes bank balances and short-term deposits



Investment portfolio valuation

based on market values at 31 December 2019

Holding name	Location	Sector	Industry	£000	%
GlaxoSmithKline	UK	Health Care	Pharmaceuticals & Biotechnology	29,792	3.62
Royal Dutch Shell	UK	Oil & Gas	Oil & Gas Producers	27,994	3.41
Rio Tinto	UK	Basic Materials	Mining	16,884	2.05
HSBC	UK	Financials	Banks	15,606	1.90
BP	UK	Oil & Gas	Oil & Gas Producers	15,091	1.84
Relx	UK	Consumer Services	Media	14,288	1.74
Johnson Service	UK	Industrials	Support Services	14,267	1.74
AstraZeneca	UK	Health Care	Pharmaceuticals & Biotechnology	13,609	1.66
Prudential	UK	Financials	Life Insurance / Assurance	13,506	1.64
National Grid	UK	Utilities	Gas Water & Multiutilities	13,307	1.62
Herald Investment Trust	UK	Pooled Equity Investments.	Equity Investment Instruments	12,580	1.53
Severn Trent	UK	Utilities	Gas Water & Multiutilities	12,575	1.53
Land Securities	UK	Financials	Real Estate Investment Trusts	12,359	1.50
Ceres Power	UK	Oil & Gas	Oil Equipment Services & Distribution	12,052	1.47
Dunelm	UK	Consumer Services	General Retailers	11,907	1.45
Senior	UK	Industrials	Aerospace & Defence	11,293	1.37
Rolls Royce	UK	Industrials	Aerospace & Defence	11,273	1.37
Morgan Advanced Materials	UK	Industrials	Electronic & Electrical Equipment	11,095	1.35
Standard Chartered	UK	Financials	Banks	10,940	1.33
Smith (DS)	UK	Industrials	General Industrials	10,816	1.32
Lloyds Banking	UK	Financials	Banks	10,625	1.29
Hiscox	UK	Financials	Nonlife Insurance	10,522	1.28
Hammerson	UK	Financials	Real Estate Investment Trusts	10,341	1.26
BAE Systems	UK	Industrials	Aerospace & Defence	10,166	1.24
Direct Line Insurance	UK	Financials	Nonlife Insurance	10,156	1.24
Urban Logistics REIT	UK	Financials	Real Estate Investment Trusts	9,933	1.21
BHP	UK	Basic Materials	Mining	9,772	1.19
Microsoft (USA)	USA	Technology	Software & Computer Services	9,510	1.16
Royal Bank Of Scotland	UK	Financials	Banks	9,492	1.15
Flutter Entertainment	UK	Consumer Services	Travel & Leisure	9,206	1.12
St Modwen Properties	UK	Financials	Real Estate Investment & Services	9,195	1.12
Hill & Smith	UK	Industrials	Industrial Engineering	9,068	1.10
Watkin Jones	UK	Consumer Goods	Household Goods & Home Construction	8,730	1.06
Toyota Motor (Jap)	Japan	Consumer Goods	Automobiles & Parts	8,693	1.06
Smith & Nephew	UK	Health Care	Health Care Equipment & Services	8,608	1.05
International Consolidated Airlines	UK	Consumer Services	Travel & Leisure	8,594	1.05
Croda	UK	Basic Materials	Chemicals	8,429	1.03
Mondi	UK	Basic Materials	Forestry & Paper	8,419	1.02
Accsys Technologies	UK	Industrials	Construction & Materials	8,218	1.00
Carnival	UK	Consumer Services	Travel & Leisure	8,186	1.00
Cummins (USA)	USA	Industrials	Industrial Engineering	8,103	0.99
British American Tobacco	UK	Consumer Goods	Tobacco	8,079	0.98
RSA Insurance	UK	Financials	Nonlife Insurance	7,916	0.96

Holding name	Location	Sector	Industry	£000	%
Babcock	UK	Industrials	Aerospace & Defence	7,811	0.95
Caterpillar (USA)	USA	Industrials	Industrial Engineering	7,802	0.95
Marshalls	UK	Industrials	Construction & Materials	7,740	0.94
Provident Financial	UK	Financials	Financial Services	7,466	0.91
Scottish Oriental Smaller Companies Trust	Other Pacific	Pooled Equity Investments	Equity Investment Instruments	7,237	0.88
Gibson Energy (Can)	Canada	Oil & Gas	Oil & Gas Producers	7,223	0.88
Ibstock	UK	Industrials	Construction & Materials	6,919	0.84
Royal Mail	UK	Industrials	Industrial Transportation	6,789	0.83
Euromoney Institutional Investor	UK	Consumer Services	Media	6,545	0.80
Meggitt	UK	Industrials	Aerospace & Defence	6,544	0.80
Irish Continental (Ire)	Ireland	Consumer Services	Travel & Leisure	6,506	0.79
Applied Materials (USA)	USA	Technology	Technology Hardware & Equipment	6,450	0.78
IP Group	UK	Financials	Financial Services	6,299	0.77
General Motors (USA)	USA	Consumer Goods	Automobiles & Parts	6,217	0.76
Hipgnosis Songs Fund	UK	Pooled Equity Investments	Equity Investment Instruments	6,210	0.76
Spectris	UK	Industrials	Electronic & Electrical Equipment	6,175	0.75
International Personal Finance	UK	Financials	Financial Services	5,877	0.71
Johnson & Johnson (USA)	USA	Health Care	Pharmaceuticals & Biotechnology	5,502	0.67
Standard Life Aberdeen	UK	Financials	Financial Services	5,434	0.66
Chesnara	UK	Financials	Life Insurance / Assurance	5,419	0.65
Aviva	UK	Financials	Life Insurance / Assurance	5,380	0.65
Elementis	UK	Basic Materials	Chemicals	5,297	0.64
Balfour Beatty	UK	Industrials	Construction & Materials	5,261	0.64
Taylor Wimpey	UK	Consumer Goods	Household Goods & Home Construction	5,222	0.64
IMI	UK	Industrials	Industrial Engineering	5,156	0.63
Vodafone	UK	Telecommunications	Mobile Telecommunications	5,137	0.62
Deere (USA)	USA	Industrials	Industrial Engineering	5,105	0.62
Embraer (Bra)	Other	Industrials	Aerospace & Defence	5,053	0.61
Ryanair (Ire)	Ireland	Consumer Services	Travel & Leisure	4,958	0.60
Grit Real Estate Income	Other	Financials	Real Estate Investment & Services	4,721	0.57
Allied Minds	UK	Financials	Financial Services	4,699	0.57
TT Electronics	UK	Industrials	Electronic & Electrical Equipment	4,680	0.57
Indus Gas	UK	Oil & Gas	Oil & Gas Producers	4,633	0.56
Pfizer (USA)	USA	Health Care	Pharmaceuticals & Biotechnology	4,434	0.54
Foresight Solar	UK	Pooled Equity Investments	Equity Investment Instruments	4,393	0.53
Bristol-Myers Squibb (USA)	USA	Health Care	Pharmaceuticals & Biotechnology	4,357	0.53
SSE	UK	Utilities	Electricity	4,316	0.52
Muenchener Rueckver (Ger)	Germany	Financials	Nonlife Insurance	3,865	0.47
Oxford Sciences Innovation (unlisted)	UK	Financials	Financial Services	3,855	0.47
Total (Fra)	France	Oil & Gas	Oil & Gas Producers	3,802	0.46
Koninklijke DSM (Net)	Netherlands	Basic Materials	Chemicals	3,769	0.46

Investment portfolio valuation continued

based on market values at 31 December 2019

Holding name	Location	Sector	Industry	£000	%
Phoenix	UK	Financials	Life Insurance / Assurance	3,743	0.46
Vivendi (Fra)	France	Consumer Services	Media	3,703	0.45
Studio Retail	UK	Consumer Services	General Retailers	3,555	0.43
Nestlé (Swi)	Switzerland	Consumer Goods	Food Producers	3,499	0.43
Roche (Swi)	Switzerland	Health Care	Pharmaceuticals & Biotechnology	3,475	0.42
Marstons	UK	Consumer Services	Travel & Leisure	3,403	0.40
Sigmaroc	UK	Industrials	Construction & Materials	3,125	0.38
Bawag (Aus)	Austria	Financials	Banks	3,123	0.38
Weir Group	UK	Industrials	Industrial Engineering	3,018	0.37
SAP (Ger)	Germany	Technology	Software & Computer Services	2,984	0.36
Morses Club	UK	Financials	Financial Services	2,968	0.36
Novo-Nordisk (Den)	Denmark	Health Care	Pharmaceuticals & Biotechnology	2,929	0.35
M and G	UK	Financials	Financial Services	2,806	0.33
Redde	UK	Financials	Financial Services	2,650	0.32
Pernod-Ricard (Fra)	France	Consumer Goods	Beverages	2,534	0.31
Schlumberger (USA)	USA	Oil & Gas	Oil Equipment Services & Distribution	2,427	0.29
Deutsche Börse (Ger)	Germany	Financials	Financial Services	2,403	0.29
ITM Power	UK	Oil & Gas	Oil Equipment Services & Distribution	2,294	0.28
SGS (Swi)	Switzerland	Industrials	Support Services	2,293	0.28
Daily Mail & General Trust	UK	Consumer Services	Media	2,288	0.28
Deutsche Telekom (Ger)	Germany	Telecommunications	Mobile Telecommunications	2,224	0.27
Augean	UK	Industrials	Support Services	2,218	0.27
Legrand (Fra)	France	Industrials	Electronic & Electrical Equipment	2,208	0.27
Cellnex Telecom (Spa)	Spain	Telecommunications	Mobile Telecommunications	1,964	0.24
Amundi (Fra)	France	Financials	Financial Services	1,772	0.22
Kier	UK	Industrials	Construction & Materials	1,762	0.21
Sig Combibloc (Swi)	Switzerland	Industrials	General Industrials	1,709	0.21
Hipgnosis Songs Fund - Class C	UK	Pooled Equity Investments	Equity Investment Instruments	1,545	0.19
Simec Atlantis Energy	UK	Utilities	Electricity	1,509	0.18
Allianz (Ger)	Germany	Financials	Nonlife Insurance	1,457	0.18
Wincanton	UK	Industrials	Industrial Transportation	1,425	0.17
Tullow Oil	UK	Oil & Gas	Oil & Gas Producers	1,274	0.15
Premier Oil	UK	Oil & Gas	Oil & Gas Producers	1,227	0.15
Prosus (Net)	Netherlands	Technology	Software & Computer Services	1,182	0.14
ING Group (Net)	Netherlands	Financials	Banks	1,100	0.13
Renold	UK	Industrials	Industrial Engineering	1,041	0.13
National Oilwell Varco (USA)	USA	Oil & Gas	Oil Equipment Services & Distribution	946	0.12
Assa Abloy (Swe)	Sweden	Industrials	Construction & Materials	946	0.12
Centrica	UK	Utilities	Gas Water & Multiutilities	893	0.11
Eddie Stobart Logistics	UK	Industrials	Industrial Transportation	875	0.11
Severfield	UK	Industrials	Industrial Engineering	697	0.08
Better Capital (2012)	UK	Pooled Equity Investments	Equity Investment Instruments	350	0.04

Holding name	Location	Sector	Industry	£000	%
Velocys	UK	Oil & Gas	Oil Equipment Services & Distribution	289	0.04
Mirriad Advertising	UK	Consumer Services	Media	281	0.03
Carclo	UK	Basic Materials	Chemicals	237	0.03
LDIC Investments	UK	Financials	Financial Services	213	0.03
Now (USA)	USA	Oil & Gas	Oil Equipment Services & Distribution	106	0.01
Providence Resources	UK	Oil & Gas	Oil & Gas Producers	96	0.01
Fastjet	UK	Consumer Services	Travel & Leisure	93	0.01
Permanent TSB (Ire)	Ireland	Financials	Banks	4	0.00
				822,316	100.00

Changes in geographical distribution

	Valuation 31 December 2018 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation)* £000	Valuation 31 December 2019 £000	%
United Kingdom	493,564	132,493	(596)	(31,731)	70,291	664,021	80.7
North America	65,495	4,743	(1)	(17,891)	15,836	68,182	8.3
Europe	57,053	23,497	(63)	(27,963)	11,885	64,409	7.8
Japan	7,433	—	—	—	1,260	8,693	1.1
Other Pacific	29,928	—	—	(25,303)	2,612	7,237	0.9
Other	9,120	2,373	(1)	—	(1,718)	9,774	1.2
	662,593	163,106	(661)	(102,888)	100,166	822,316	100.0

* Please refer to note 2 on page 90.

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 has two distinct areas of business: we are an investment trust with an investment portfolio and a leading provider of independent professional services (IPS or IPS business).

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 of stocks.

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 2019) 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 outside 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.

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

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 34. 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. It is permissible to hedge against currency movements on both the capital and income account, and 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:

	Minimum %	Maximum %
UK	55	85
North America	0	20
Europe	0	10
Japan	0	10
Other Pacific	0	10
Other	0	10

- 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 sought at 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.

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. It provides 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 does not 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 business, thus reducing the overall tax liability of the Group.

Fee structure and ongoing charges

Our portfolio of investments is managed under delegation by James Henderson and Laura Foll 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 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 strong 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 considered over the longer term and Janus Henderson has delivered positive returns 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 40). 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 shown on page 5 is one of the lowest in the marketplace. No performance fees are paid to the investment manager.

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 retail investors in accordance with relevant FCA rules.

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

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

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 a mainstream investment.

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 28 to 31) and half-yearly report – with regular monthly updates on the composition of the top ten holdings in the portfolio. From February 2020, we will be publishing our full portfolio listing monthly, to further improve the transparency around the portfolio for investors.

Law Debenture's latest published level of ongoing charges is one of the lowest in the marketplace at 0.48%. No performance fees are paid to the investment manager.

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. These funds can be used to increase the size of the portfolio, or assets from within the portfolio can be sold to reduce debt and even be "negatively geared". This means selling assets to hold cash so that less than 100% of the Company's assets are invested in equities. At 31 December 2019, our gearing was 9% (2018: 3%).

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 107. The weighted average interest payable on the Company's structural borrowings is 4.589% (2018: 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 portfolio

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 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 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 risks, 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 Board is cognisant that, with an ever changing political, market and regulatory backdrop, it is increasingly important to monitor and identify new and emerging risk.

The Company views effective risk management as a key priority 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. In May 2019, the Company moved to the UK Equity Income sector AIC category from the previous global sector classification. The strategy for the IPS business remains to continue to drive growth; more detail can be found in the Chief Executive Officer's review on pages 12 to 17.

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 under-performance 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 45.

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 115.

Investment strategy – implementation

The way in which we implemented the investment strategy during 2019 is described in the investment manager's review on pages 18 to 22.

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

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 managers, who in turn may notify Law

Strategic report continued

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 executives, outsourced pension services, corporate trust services, 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 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 2019 are given in the Chief Executive Officer's review at pages 12 to 17.

Principal risks and uncertainties – IPS business

The principal risks to the business model for IPS arise where transactions to which we provide a service come under stress. An example of this would be where we act as trustee on a bond which goes 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.

The single KPI of the IPS business is revenue return per share, which is reported within the financial summary and the ten year record at pages 3 and 39.

Statement in compliance with section 172 of the Companies Act 2006

The Board is responsible for the overall strategy and management of the Group, setting investment strategy and ensuring that the Company is acting in accordance with its legal and regulatory obligations. In discharging its responsibilities, the Board takes into account the Group's purpose, value and culture and acts in good faith in a way that is most likely to promote the success of the Company and to maintain high standards of business conduct. It considers the key stakeholders with whom the business interacts and which are impacted by the Company's activities including shareholders, principal service providers, clients, employees, the community and the environment.

Shareholders: The Board actively communicates with its shareholders as detailed in the Directors' report on page 41. In addition, meetings are held with shareholders throughout the year which are attended by Executive and Non-Executive Directors along with representatives from the investment manager. Key topics of discussion during the year included prospects and valuation of the IPS business, performance against benchmark, prospects for the UK economy and the investment style and stock selection. As a result of shareholder feedback, the Company will be publishing a full portfolio listing on the website every month going forwards and reporting will evolve in 2020 and beyond. When making decisions the Board considers the interests of shareholders as a whole and the need to act fairly as between members of the Company.

Service providers: The Company has regard for principal service providers, and in particular the investment manager, with which it engages on an on-going basis. The investment manager provides an update on management of the portfolio at every Board meeting and the Directors meet annually with relevant senior Janus Henderson employees to consider the systems and controls in place in respect of the management of Law Debenture's portfolio. The Board also receives presentations from each IPS business head on a rolling basis during the course of the year, including details of client relationship management initiatives and proposed new service offerings to expand the client base.

Employees: With effect from 1 January 2019, the Board appointed Mark Bridgeman as its designated Non-Executive Director to gather the views of Law Debenture's workforce. He commissioned an employee engagement survey across the entire employee base, the results of which have been considered by the Board. Employees are also invited to attend and ask questions at an all staff "townhall" presentation from the Executives and investment manager following the result of the half year and annual results.

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 access to medical reviews. 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.

Community and environment: 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 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 on page 35).

Key decisions impacting shareholders in 2019: One of the key decisions taken this year was in relation to dividend policy and a move to pay quarterly dividends, as explained more in the Chairman's Statement on page 4. The Board sees this as a positive for shareholders and many of our employees who are also long term shareholders, and perceive no impact on other stakeholders.

The Remuneration Committee have reviewed the Company's Remuneration Policy and, as described in full in the remuneration report on pages 50 to 62, has recommended that a new policy be approved by shareholders. Some of the larger shareholders and their representative bodies were consulted on the policy. The Board believes the new policy will ensure both strong differentiation of performance alignment of management rewards with the shareholder experience, while providing a more competitive remuneration package that will help attract, retain and motivate key talent to ensure the successful delivery of strategy.

The Board initiated consultation with the Association of Investment Companies to assess whether it remained appropriate for Law Debenture to stay within the Global sector. Following this consultation, the AIC elected to move the Company into the UK Equity Income sector. It is the Board's belief that this move will assist all stakeholders in being able to compare the Company with its peers and assess its performance.

Breakdown of employees by sex

We report that at the 2019 year end:

- two Directors of the Group parent were female (2018: nil).
- 31% of the senior managers of the Group were female (2018: 23%) (senior manager being any individual with responsibility for planning, directing or controlling an activity of one of the subsidiary companies, excluding the Chief Executive Officer and the Chief Financial Officer); and
- 50% (2018: 43%) of the Group employees were female.

Future trends and factors

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

The Chairman's statement, the investment manager's review and the Chief Executive Officer's review (all of which form part of this strategic report) respectively set out the Company's 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.

Performance and related data

Pages 3, 13 and 18 to 22, which contain performance and related data, form a part of this strategic report.

Law Debenture Corporate Services Limited
Company Secretary
26 February 2020

Calculation of net asset value (NAV) per share

Valuation of our IPS Business

Accounting standards require us to consolidate the income, costs and taxation of our IPS business into the Group income statement on page 80. The assets and liabilities of the business are also consolidated into the Group column of the statement of financial position on page 81. A segmental analysis is provided in note 7 (page 93) to these accounts which shows a detailed breakdown of the split between the investment portfolio, IPS business and Group charges.

Consolidating the value of the IPS business in this way failed to recognise the value created for the shareholder by the IPS business. To address this, from December 2015, the NAV we have published for the Group has included a fair value for the standalone IPS business.

The current fair value of the IPS business is calculated based upon historical earnings before interest, taxation, depreciation and amortisation (EBITDA) for 2019, with an appropriate multiple applied. The EBITDA for the IPS business for 2019 was £11,515,000. This number is reached by taking the return, including profit attribution on ordinary activities before interest and taxation of £11,356,000 from note 7 on page 93 and adding back the depreciation charge for property plant and equipment of £93,000 and the amortization of intangible assets of £65,000 shown in note 3 on page 91.

The calculation of the IPS valuation and methodology used to derive it are included in the annual report at note 14. In determining a calculated basis for the fair valuation of the IPS business, the Directors have taken external professional advice. 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 size, liquidity, margin and growth. A range of multiples is then provided by the professional valuation firm, from which the Board selects an appropriate multiple to apply. The multiple selected for the current year is 9.2x, which represents a discount of almost 30% on the mean multiple across the comparable businesses.

Valuation guidelines require the fair value of the IPS business be established on a stand-alone basis. The valuation does not therefore reflect the value of Group tax relief from the investment trust to the IPS business reduced the tax charge by £1,120,000 (2018: £845,000), 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. As stated above, management is aiming to achieve mid to high single digit growth in 2020. The valuation of the business has increased by £31.8m/35.2% since the first valuation of the business as at 31 December 2015.

In order to assist investors, the Company restated its historical NAV in 2015 to include the fair value of the IPS business for the last ten years. This information is provided in the annual report within the 10 year record on the opposite page.

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.

Calculation of NAV per share

The table below shows how the NAV at fair value is calculated. The value of assets already included within the NAV per the Group statement of financial position that relate to IPS are removed (£30,445,000) and substituted with the calculation of the fair value and surplus net assets of the business (£122,305,000). An adjustment of £36,992,000 is then made to show the Group's debt at fair value, rather than the book cost that is included in the NAV per the Group statement of financial position. This calculation shows an NAV fair value for the Group as at 31 December 2019 of £830,139,000 or 702.17 pence per share:

	31 December 2019		31 December 2018	
	£000	Pence per share	£000	Pence per share
Net asset value (NAV) per Group statement of financial position	775,272	655.76	669,364	566.27
Fair valuation of IPS: EBITDA at a multiple of 9.2x (2018: 8.4x)	105,938	89.61	87,562	74.08
Surplus net assets	16,367	13.84	16,844	14.25
Fair value of IPS business	122,305	103.45	104,406	88.33
Removal of assets already included in NAV per financial statements	(30,445)	(25.75)	(25,967)	(21.97)
Fair value uplift for IPS business	91,860	77.70	78,439	66.36
Debt fair value adjustment	(36,992)	(31.29)	(21,940)	(18.56)
NAV at fair value	830,139	702.17	725,863	614.07

Long-term performance record

10 year record

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net assets (£m)[1]	342.4	412.6	390.9	451.9	569.1	574.2	557.3	662.3	748.3	669.4	775.3
Revenue return (pence)	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96	21.66	21.26	30.68
Capital return (pence)	62.77	58.22	(19.07)	50.24	97.18	3.87	(17.47)	89.30	67.10	(71.85)	79.27
Total (pence)	75.79	71.48	(3.55)	65.38	113.45	20.82	0.63	105.26	88.76	(50.59)	109.95
Revenue return (pence)											
Investment trust	7.33	7.07	8.27	8.47	9.31	10.08	11.01	10.88	11.61	13.23	22.18
Independent professional services	5.69	6.19	7.25	6.67	6.96	6.87	7.09	7.68	9.93[3]	7.87	8.54
	13.02	13.26	15.52	15.14	16.27	16.95	18.10	18.56	21.54	21.10	30.72
Group charges[2]	—	—	—	—	—	—	—	(2.60)	0.12	0.16	(0.04)
	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96	21.66	21.26	30.68
Dividends (pence)	12.20	12.70	13.50	14.25	15.00	15.70	16.20	16.70	17.30	18.90	26.00
Share price (pence)[1]	284.5	356.6	333.5	425.0	529.0	530.0	498.0	530.0	629.0	540.0	650.0
(Discount)/premium (%)[1]	(15.7)	(10.5)	(13.4)	0.1	(2.4)	(2.3)	(5.1)	(11.4)	(6.0)	(12.1)	(7.4)
NAV at fair value (pence)[1]	337.5	398.5	385.1	424.7	541.8	542.3	524.5	598.5	669.5	614.1	702.2
Market capitalisation (£m)[1]	335.9	418.6	393.8	501.9	625.0	627.1	589.3	627.2	744.5	639.3	769.8

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, excluding which, normalised earnings per share were 7.21 pence per share
Note: The 10 year record has been restated (2009-2014) 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 2019. The Company operates as an investment trust in accordance with Sections 1158-1159 of the Corporation Tax Act 2010 as amended (s1158-1159) and has been approved as such by HM Revenue & Customs. In the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to be an Approved Investment Trust under s1158-1159. 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 corporate governance report forms 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 2019 was 30.68p per share. The Directors recommend a final dividend of 19.4p per share, which, together with the interim dividend of 6.60p paid in September 2019, will produce a total of 26.0p per share (2018: 18.90p). The final dividend will be paid on 16 April 2020 to holders on the register on the record date of 13 March 2020. After deduction of the interim and final dividends of £30,788,000 (2018: £22,339,000), consolidated revenue reserves increased by £4,854,000 (2018: increase of £4,075,000).

Directors

The Directors at the date of this report are listed on pages 72 and 73. All Directors held office throughout the year other than Claire Finn, who was appointed on 2 September 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.

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 can confirm 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.

Information required to be disclosed in accordance with Listing Rule 9.8.4 is included as referenced below:

Rule	Detail	Where
9.8.4 (1)	Interest capitalised	Note 6, page 92
9.8.4 (7)	Allotment of equity securities	Note 18, page 101
9.8.4 (2-6) (8-14)	Not applicable	n/a

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, 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 has been 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 2019, the maximum amount of leverage under the gross and commitment methods was 1.50 and actual amounts were 1.06 and 1.15 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 2019 were 228.63 tonnes of CO_2e (2018: 265.64 tonnes of CO_2e). This equates to 0.0062 tonnes of CO_2e per £000 of IPS revenue (2018: 0.0079 tonnes of CO_2e).

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 Directors 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 1). 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 at the 2020 AGM.

Share capital and substantial shareholdings

The Company's share capital is made up of ordinary shares with a nominal value of 5p each. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's ordinary shares or voting rights and no shares which carry specific rights with regard to the control of the Company. There are no other classes of share capital and none of the Company's issued shares are held in treasury. As at 31 December 2019, there were 118,429,010 ordinary shares in issue with 118,429,010 voting rights. Note 18 includes details of share capital changes in the year.

As at 25 February 2020, 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 32 and 101.

Shareholder relations

The Company encourages communication between 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

Laura Foll held 1,750 shares in the Company as at 31 December 2019 (2018: nil). James Henderson did not have a beneficial interest at 31 December 2019 (2018: nil), although persons connected to him had an interest of 100,000 shares (2018: 100,000 shares). In addition, a charity with which James Henderson has non-beneficial connections owns 100,000 shares (2018: 100,000 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 154,026 shares in the Company at 31 December 2019 (2018: 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/issue of shares

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 2019 were:

Date of grant	Number of option holders	Shares under option	Exercise price
27 August 2014	2	3,801	518.00p
19 August 2015	13	24,872	512.50p
23 August 2016	8	13,611	495.75p
15 August 2017	12	18,153	594.75p
15 August 2018	23	47,380	606.00p
14 August 2019	16	27,761	592.00p

Directors' report continued

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

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year and have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit and loss for the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare a Director's report, a strategic report and Director's remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company'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 website is the responsibility of the Company. The work carried out by the auditors does not involve consideration of these matters and, accordingly the auditors accept no responsibility for any changes that may have occurred to the annual report since it was initially presented on the website.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the 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 2020

Corporate governance report

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 July 2018, a copy of which may be obtained by visiting www.frc.org.uk. The FRC has recognised that the Board structure of investment companies such as Law Debenture might affect the relevance of some of the provisions of the Code. The Company has therefore considered the provisions of the Code that are applicable to it as a FTSE 250 listed investment company. 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 and should be read in conjunction with the strategic report on pages 32 to 37.

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 72 and 73 of the annual report. Katie Thorpe was appointed as an Executive Director on 1 January 2019 and Claire Finn was appointed as a Non-Executive Director on 2 September 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 2019, attended by all of the Directors, the investment manager and certain senior executives.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	7	9	4	2
Meetings attended by:				
D. Jackson	7	–	4	–
K. Thorpe	7	–	4	–
R. Hingley	7	9	4	2
R. Laing	7	9	3	2
M. Bridgeman	7	9	4	2
T. Bond	7	8	4	2
C. Finn*	3	4	1	–

* Appointed on 2 September 2019

Whilst not members of the Committees, Denis Jackson, Katie Thorpe attend meetings at the invitation of the relevant Committee. The same is true in relation to Robert Hingley's attendance at Audit Committee meetings.

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. The Board notes the requirement of the Code for Companies in the FTSE 350 to undertake an external evaluation at least every three years. Since its move to the FTSE 250 in 2019, the Board will be considering the appropriate time to undertake such a review.

Robert Laing is the SID. The SID is available to shareholders who have concerns that cannot be addressed through the Chairman, Chief Executive Officer or Chief Financial Officer.

Corporate governance report continued

The Board – independence

At least half of the Board, excluding the Chairman, must be independent Non-Executive Directors (NEDs). The Board can confirm that as at the date of this report, excluding the Chairman, four of the six other Directors are independent NEDs. In assessing Directors' 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, having no current or previous connections with the Company or any of its subsidiaries.

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.

Claire Finn was independent at appointment in September 2019 and the Board is satisfied that she 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 and comfort being obtained in relation to their other commitments to ensure they have sufficient time to devote to the role.

All new Directors undergo an induction process, involving presentations by the Chief Executive Officer, 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, other than the Chairman whose tenure is explained on page 45. 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 pages 50 to 70.

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 position of the Company as an investment trust, the Board is deliberately kept small and it 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.

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

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 Officer);
- 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 Nomination Committee is also responsible for considering the policy on the tenure of the Chairman of the Board and planning for the chair's succession. Robert Hingley was appointed to the Board in October 2017 and, in line with the policy on tenure and the recommendations of the Code, he will stand down after nine years although this period may be extended for a limited time to facilitate effective succession planning.

The Committee engaged Nurole, the online Board and C-level recruitment platform (which has no other connection with the Company) to conduct a search for a new Non-Executive Director and, as a result, Claire Finn was appointed. Our diversity policy states that, while the Board remains small, it will endeavour to have at least two Directors who are female. That objective is being met at the date of this report. 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
C. Finn
R. Laing

Audit and Remuneration Committees

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 48 and 49.

Information on the role of the Remuneration Committee is with the separate annual remuneration report on pages 50 to 70.

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 42. The independent auditors' report appears on pages 75 to 79. The Directors confirm that the Group and Company 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. The performance metrics of the Group remain strong. The Trust has outperformed its benchmark by 230% over the last ten years and the IPS business has shown positive growth following the introduction of a new management team. 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 Officer. 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.

Internal controls

The framework of internal controls ensures that the Company has sound risk management systems to enable it to operate within the desired risk appetite. The following paragraphs provide a description of the main features of the internal control and risk management systems in relation to the financial reporting process, which fulfill the obligations of the FRC "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" and the UKLA's Disclosure and Transparency Rules. This section should be read in conjunction with the strategic report section which sets out how the Directors manage or mitigate the principal risks relating to the Company and Group business model.

The Board monitors the effectiveness of internal controls on a continuous basis to ensure that internal control and risk mitigation is incorporated in to the day to day management of the organisation, both directly through main Board general reviews and by the more specific work carried out by the Audit Committee. The annual internal audit programme and system of compliance checks have both been developed using a risk-based methodology and an evaluation of the existing process controls. Other mechanisms in place to monitor risk include:

- Board review of the Group's matrix of key risks and controls managed by the legal, risk and compliance officer, reporting to an executive risk committee;
- an internal audit function, which involves business departments and business wide processes (including overseas offices) being subject to audit on a regular basis;
- testing by the legal, risk and compliance officer of the Financial Conduct Authority (FCA) regulated business systems and controls;
- testing by the legal, risk and 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 legal, risk and compliance officer about legal and regulatory changes, and the steps that the Board must take to comply; and
- review of the reports produced by the external auditors on their annual audit work.

Corporate governance report continued

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. In addition to safeguarding the ongoing maintenance of proper accounting records to enable the production of robust financial information to support appropriate business decisions, the Board has hired a new head of internal controls and started a programme of investment to further enhance the controls in operation across the business. This is in recognition of the importance of ensuring that the controls in place are not only effective but also efficient and support the delivery of the Company's growth strategy. This includes enhancing the data available to the Board to allow for consideration of 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 performance of 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 2019 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. Any concerns which are raised will be subject to proportionate and independent investigation, with appropriate follow up action. All employees also have to access to en external whistleblowing service. 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.

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).

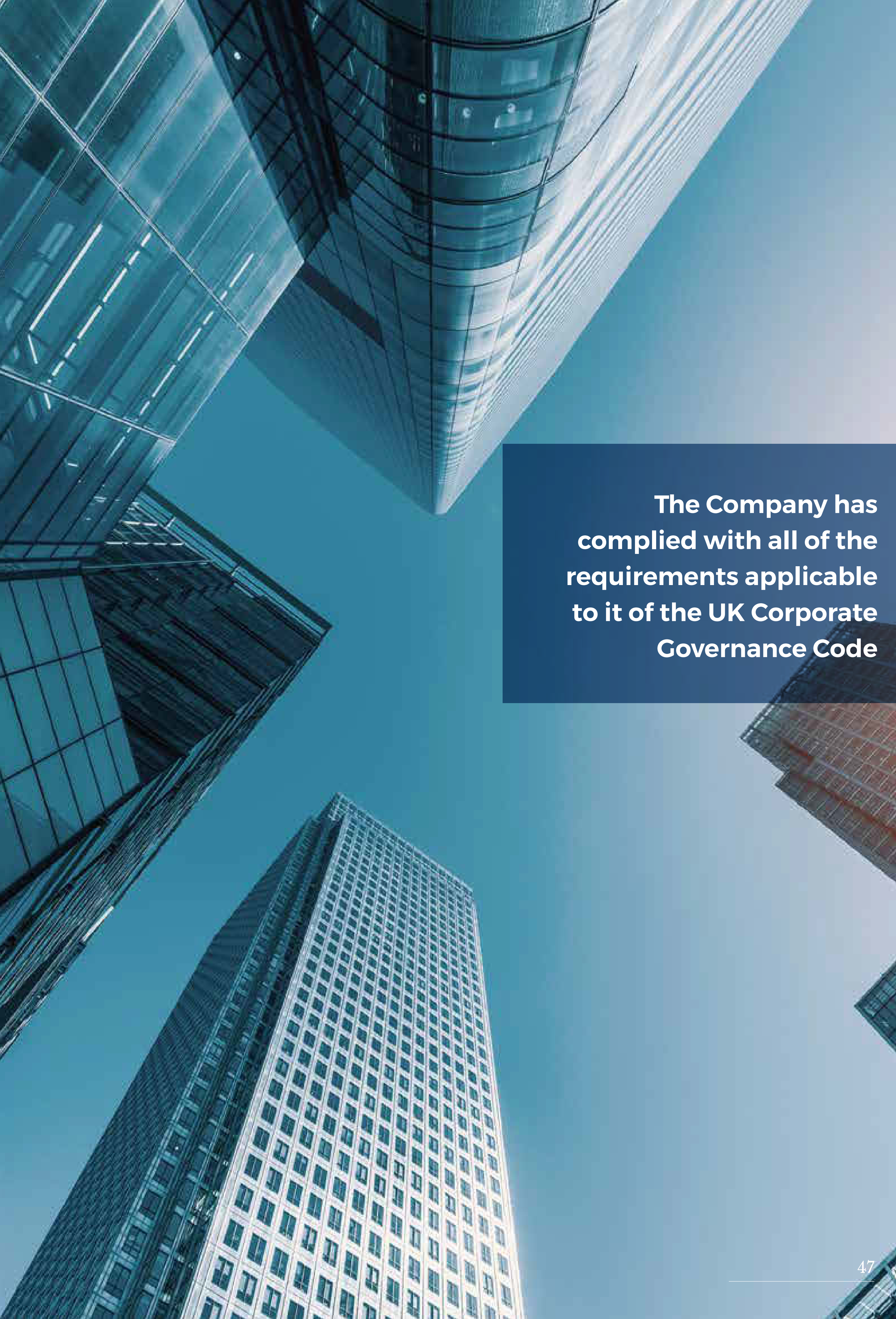
Annual general meeting (AGM)

Details of the AGM for 2020 are set out at pages 117 to 121.

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. In line with governance recommendations, if 20% or more of the votes cast are against any Board resolution, the Company would announce what action it intended to take to consult shareholders views and provide a summary of the outcome. The Board confirms that none of the resolutions put to shareholders at the AGM in 2019 received votes against above 20% of the votes cast. 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.



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 2019.

The Committee was comprised at the year end of Robert Laing, Tim Bond, Claire Finn and me. Robert Hingley, whilst not a member of the Committee, is invited to attend.

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 reappointment of the external auditors;
- 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 extensive experience as a fund manager and from my executive management experience. Similarly, Tim Bond satisfies the requirement 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 2018 financial statements and, in the fourth quarter, to plan the 2019 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 2019 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 head of legal, risk and compliance reports through an executive risk Committee, but in line with good practice in this area, the terms of reference give her 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.

Audit tendering

BDO LLP (BDO) were first appointed as the Company's auditors on 31 October 2008. Having consideration of the experience of staff and level of service provided, it is recommended that BDO LLP 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 audit firm (BDO) and a reserve audit firm. The Board resolved to appoint BDO as auditor. Whilst the Audit Committee continues to believe that the level of service provided by BDO is satisfactory, it has recommended to the Board that the Company should undertake an audit tender during the course of 2020 to ensure that the costs of the audit are competitive following the step increase in the audit fees for the 2019 audit.

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, fees for non-audit services have historically been low and in the year under review were £14,000 (2018: £14,000).

Significant financial issues relating to the 2019 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 2020

Annual remuneration report

Part 1 Remuneration Committee Chairman's annual statement

Dear Shareholder

On behalf of the Board, I am pleased to present the Company's Directors' Remuneration Report for the year ending 31 December 2019. This year we have overhauled the report to improve transparency and clarity for all stakeholders and improve alignment with governance best practice.

The current Remuneration Policy is due to expire in 2020, and therefore a new Remuneration Policy is being presented for shareholder approval at the AGM in April 2020. This report summarises the new Policy, how it will be implemented in 2020, and how the current Policy has been operated during the year.

New Remuneration Policy

During the year, the Committee, undertook a comprehensive review of the Policy to ensure that it supports the Company's strategy. The IPS is a key differentiator between Law Debenture and other investment trusts. A key component of the Company's strategy is to drive sustainable long-term growth in the IPS business to increase profit, which will fund dividends and create value for shareholders. It provides a regular flow of dividend income to the Company, contributing 35% of annual dividend payments to shareholders in the past ten years[1], which has allowed the investment portfolio manager, increased flexibility in constructing the investment portfolio.

For a professional services business such as IPS, the most important driver of growth is the quality of the people. It is therefore critical for Law Debenture to have a remuneration structure that is effective to attract, retain and motivate key talent of the right calibre to drive long-term sustainable growth in the IPS business, ensuring the successful delivery of the strategy and creation of value for shareholders. The Committee has reviewed the current Policy and concluded that it is no longer fit for purpose, as it provides neither a sufficient link between management reward and business performance to achieve this, nor sufficient lock-in or shareholder alignment.

The Committee has sought to address these issues in the new Policy through restructuring the incentives to include a new Long-Term Incentive Plan ("LTIP") and a simplified, more robust annual bonus structure. At the same time, the Committee has taken the opportunity to align the new Policy with the 2018 UK Corporate Governance Code ("the Code") and best practice. Further details of these changes are provided below.

New Long-Term Incentive Plan

From 2020, the Executive Directors will receive annual awards of conditional shares worth 100% of salary under the LTIP which vest based on performance over a 3-year period and are released after five years from grant. Other individuals will be eligible to participate at a lower level at the Committee's discretion. The main arguments in support of the introduction of the LTIP are as follows:

- **Market practice**: A review of the remuneration policies of a comparator group of companies revealed that an important component in the remuneration of senior executives was the ability to participate in an LTIP. The Committee therefore believe that the introduction of an LTIP is an important element in its ability to recruit and retain key individuals.
- **Conservative quantum**: When designing the LTIP, the Committee was cognisant of the potential increase in total remuneration as a result of its introduction. It has therefore been careful to calibrate award levels to ensure that the overall pay positioning against the comparator group is conservative and not excessive. Whilst the Company is in the FTSE 250, for which the median CEO LTIP award is 200% of salary, the Committee took a conservative approach and set a lower award level of 100% of salary.

  This was felt to be more reflective of the size and complexity of the area of the business directly within management's control.
- **Management shares in the value created for shareholders**: The LTIP provides a link between value creation for shareholders and LTIP rewards for management by allowing them to share in a percentage of incremental profit. At least 50% of the awards will normally be based on IPS EPS profit (2020: 100%), this being the single KPI of the IPS business, with targets calibrated to deliver rewards only for meeting or exceeding shareholder expectations. The additional growth in EPS driven by the LTIP should help to reduce the discount to NAV as investors become more confident in its ability to generate real value over the longer term. While the IPS performance condition focusses on the main business area directly in management's control, the delivery of the awards in Company shares ensures that management are fully aligned with shareholders and remain focussed on the business as a whole.
- **Alignment with LTIP market and best practice**: The Terms & Conditions of the new LTIP fully comply with the 2018 UK Corporate Governance Code and best practice.

Revised annual bonus framework

For 2020, the Committee is introducing a more robust framework for determining Executive Director bonuses that is simple and provides greater clarity and transparency of the link between pay and performance for both participants and shareholders. This was felt necessary because the current bonus structure, whereby Executive Directors have a maximum bonus based on performance targets but are also subject to the same general bonus pool applying to the workforce, is complex and unusual in the listed environment and does not readily support clear articulation and disclosure of the assessment of bonus outcomes by the Committee. The new simplified framework will operate as follows:

- Financial and non-financial targets are set at the start of the year (at least 50% based on IPS financial measures).

1 Calculated based on dividends paid in respect of the financial years between 2010 and 2019.

- The maximum individual bonus limit for Executive Directors is unchanged at 100% of salary and is de-linked from the general bonus pool.
- The total bonus for Executive Directors is capped at 25% of the general bonus pool to provide protection for shareholders and prevent excessive bonuses relative to the wider workforce.
- The first £100,000 will be paid in cash, with half of any bonus above deferred in shares for three years. This provides for greater levels of deferral at higher bonus payouts.
- Greater disclosure of bonus targets and achievements will be provided in the Annual Report.

A general bonus pool available to all staff other than the Executive Directors will be retained that will normally be funded by a flat percentage of up to 20% of IPS profit before tax subject to a threshold of 90% of the previous year's profit.

Changes to improve alignment with governance best practice

The Committee has ensured that the introduction of the LTIP is accompanied by the incorporation of several best practice governance features and that the new Policy is fully aligned with the 2018 Code. In particular, the following changes have been made in the new Policy:

- Introduction of a minimum shareholding requirement of 200% of salary for Executive Directors, extending for two years post-cessation of employment.
- Enhanced malus and clawback triggers to include serious reputational damage and corporate failure, in line with the FRC Guidance on Board Effectiveness.
- Remuneration Committee discretion included to override formulaic outcomes in incentives to reflect overall business performance.
- Improved disclosure of bonus measures, targets and assessment of outcomes.

Shareholder engagement

The Committee consulted with nine of our largest institutional shareholders and the main proxy voting agencies (the Investment Association, ISS and Glass Lewis) to gain their input on the proposed new Policy prior to its finalisation.

Implementation of the new Policy in 2020

The new CFO, who was appointed on 1 January 2019, was initially recruited on a below market-competitive salary with the intention of moving to a more competitive level as she became more established and proved herself in her first PLC director role. The Committee reviewed her performance at the end of her first year and determined that an increase was warranted to a more competitive level given her strong performance. The Committee is therefore proposing to increase her salary by 6.4% to £240,000 for 2020. The CEO's salary will be increased by 3.0% to £325,000 for 2020, in line with the increase to the wider workforce. For the remainder of the Policy, the Committee intends to limit Executive Director salary increases to the level of increase for the wider workforce. The Executive Directors' pension contributions will continue to be aligned with the workforce at 12% of salary.

The maximum bonus opportunity will remain unchanged at 100% of salary for 2020, with 50% of performance measures based on IPS financial targets and with the remainder based on non-financial measures aligned to the strategic priorities of both the IPS and the Company as a whole. Further details are provided on page 54 of this report, and the specific targets will be published together with the bonus outcome in the Annual Report on Remuneration for 2020. The deferral requirement has been enhanced under the new Policy such that half of any bonus earned above £100,000 will be deferred in shares for three years.

Executive Directors will receive LTIP awards of 100% of salary in 2020 which will vest based on 3-year IPS EPS targets ranging from 4% p.a. growth at threshold (at which 25% of the award vests) to 10% p.a. at stretch. Given the internal business plan, analyst forecasts, the historically flat performance of the IPS business, and economic uncertainty, to sustain the proposed stretch level of earnings growth for three years would be exceptional. Any shares vesting must be held for a further two years. Further details are provided on page 54 of this report.

Performance and outcomes for 2019

Financial and operational highlights

Our aim is to produce long-term capital growth and steadily increasing income for our shareholders. Against those two aims, 2019 proved a very successful year for Law Debenture, seeing a share price total return of 24.5%. We are proud to have generated £157m of value for our shareholders over the course of last year and to see the share price end the year at £6.50, up from £5.40 at the end of 2018.

2019 was another positive year for our IPS business with revenue growth of 7.5% and an increase in earnings per share of 8.5% after several years of flat performance prior to the recruitment of the new management team. Please refer to the Chairman's Statement on pages 4 and 5 for further overview of the financial and operational highlights for 2019.

Annual bonus outcomes for 2019

We believe that the changes to the Policy set out in this Report will help drive continued growth of the IPS and the recruitment and retention of key personnel to the benefit of shareholders. Management delivered well against a stretch target for IPS earnings per share of 9.0% and revenue growth of 8.0%. This has been achieved despite a difficult market backdrop, namely continued Brexit uncertainty, fears of globally escalating trade wars and reduced levels of investment banking activity, all of which have

Annual remuneration report continued

Part 1 Remuneration Committee Chairman's annual statement continued

particularly affected our capital markets facing businesses. It has also been pleasing to see the maintenance of margin, despite new hiring and investment in technology which will help to further accelerate the growth of the business over the longer term.

Discretions

The Committee determined that the annual bonus outcomes for 2019, based on the application of the performance conditions, were in line with the overall performance of the business and did not exercise its discretion to alter the outcomes. The Committee did not make any adjustments to account for share price appreciation or depreciation over the vesting period. The Remuneration Policy operated over the 2019 financial year as the Committee intended. In view of the positive outcome for the IPS business in what has been a difficult year and the progress that has been made in achieving various strategic objectives including the recruitment of new senior management, starting the process of overhauling the IT systems as well as their support in numerous shareholder meetings and presentations, we have decided to award a bonus of 91% to the CEO and 91% to the CFO.

Wider workforce considerations and fairness

In developing the proposed executive remuneration policy, the Committee has carefully considered remuneration arrangements across the Group. The Committee receives information on wider workforce remuneration of our staff, ensuring they have a good understanding of the structure and application of the reward policies throughout the Group.

We are strengthening our approach to communicating with our employees in line with the provisions of the 2018 UK Corporate Governance Code. During the year we appointed Mark Bridgeman as the Non-Executive Director with responsibility for enhancing that engagement process. Since making that appointment, various methods of communication (including presentations, email correspondence and availability for face-to-face meetings) have been utilised to raise employee awareness of the role and engagement with the Board more broadly. An employee engagement survey was commissioned towards the end of the year. Steps have already taken to address some of the issues raised, with a longer term plan currently being put in place to deal with others.

Conclusions

In summary, the proposed changes to the executive remuneration Policy provide a framework which is in line with best practice and the 2018 UK Corporate Governance Code. We are confident the proposed changes ensure both strong differentiation of performance and alignment of management rewards with the shareholder experience, while providing a more competitive remuneration package that will help attract, retain and motivate key talent to ensure successful delivery of the strategy.

I would like to thank our shareholders and their representative bodies for the constructive consultation on the new Remuneration Policy. We hope shareholders will be able to give their support at the AGM in April 2020. I will be available at the meeting to answer any questions in relation to this Remuneration report and the new Policy.

Robert Laing
Chairman, Remuneration Committee
26 February 2020

Part 2 Remuneration Policy

The Remuneration Committee is required to put the new Directors' Remuneration Policy to a binding shareholder vote at the next Annual General Meeting on 7 April 2020, as the current Policy that was approved at the 2017 AGM is approaching the end of its three-year approval period. This new Policy, set out below, will take effect from the date of that meeting and is intended to apply for three years.

Our remuneration principles

A key objective of our Policy is 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.

Committee Process to determine the new Remuneration Policy

In determining the 2020 Remuneration Policy the Committee:

- Considered the Company's strategy, how the current Policy related to and supported the strategy, and formed its own views on the changes (if any) required to the Policy to align with the strategy;
- Considered feedback from Shareholders and investor bodies on the 2018 Remuneration Report;
- Sought advice from independent remuneration consultants on the impact of the 2018 UK Corporate Governance Code, Regulations and current investor sentiment in formulating the new Policy;
- Reviewed wider workforce remuneration and incentives to ensure a consistent approach;
- Consulted with senior management on the proposed changes to the Policy; and
- Conducted a full consultation exercise with major Shareholders and investor bodies on the changes.

The Committee was mindful in its deliberations on the new Policy of any potential conflicts of interest and sought to minimise them through an open and transparent internal consultation process; by seeking independent advice from its external advisers and by undertaking a full shareholder consultation exercise.

Annual remuneration report continued

Changes to the new Remuneration Policy

ELEMENT	CURRENT POLICY	PROPOSED CHANGE	RATIONALE
Long-Term Incentive Plan (LTIP)	None.	New LTIP • Annual award of performance shares. • Maximum limit of 100% of salary. • Based on 3-year IPS EPS growth. • Vests after 3 years with a 2-year holding period post-vesting.	Drives long-term sustainable growth of the IPS business, in line with the strategy. Provides lock-in of critical talent and long-term alignment with shareholders, both lacking from the current Policy.
Annual bonus	Executive Director bonuses are allocated from the general bonus pool. High level disclosure of payouts, with specific targets not clearly disclosed. A third of the bonuses is deferred in shares for three years.	Executive Director bonuses will be de-linked from the general bonus pool and based solely on pre-defined financial and non-financial objectives. The maximum individual limit is unchanged at 100% of salary, however an aggregate cap will apply to Executive Director bonuses of up to 25% of the general pool awarded to all other staff. Enhanced disclosure of metrics, targets and the assessment of bonus outcomes. Half of any bonus earned above £100,000 will be deferred in shares for three years (enhanced malus and clawback provisions will apply as described below).	Robust, simplified bonus structure that is more appropriate for a listed environment. Improved pay-performance linkage. Improved clarity and transparency for all stakeholders. Enhanced deferral results in a greater level of deferral for higher payouts. Aggregate bonus cap based on a percentage of the general bonus pool provides protection for shareholders and prevents excessive bonuses relative to the wider workforce.
Shareholding requirement	None.	200% of salary for Executive Directors, extending for two years post-cessation. 50% of vesting deferred bonus and LTIP awards are retained, net of tax, until met.	In line with the 2018 Code, investor expectations and the IA guidance. An Employee Benefit Trust or nominee account will be used to hold shares to enable the post cessation requirements to be operated.
Malus/clawback triggers	• IPS profits overstated. • Breach of contract.	• Gross misconduct. • Misstatement of results. • Error in calculation. • Serious reputational damage. • Corporate failure.	Enhanced to align with the FRC Guidance on Board Effectiveness.
Remuneration Committee discretion	Bonus outcome is subject to a discretionary assessment.	Committee discretion to override formulaic outcomes in the bonus and LTIP to reflect overall business performance.	In line with the 2018 Code. Ensures rewards reflect the shareholder experience and prevents rewards for failure.

In determining the new Remuneration Policy, the Committee paid attention to Provision 40 of the 2018 UK Corporate Governance Code, as follows:

FACTOR	HOW OUR NEW REMUNERATION POLICY ALIGNS
Clarity remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	• Bonus and LTIP performance conditions are based on the core KPIs of the strategy and therefore there is a clear link to all stakeholders between their delivery and reward provided to management. • The LTIP provides annual grants of shares which must be retained for the longer-term to ensure a focus on sustainable performance. This provides complete clarity of the alignment of the interests of management and shareholders.
Simplicity remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	• Executive Director bonuses will be delinked from the general bonus pool and be linked to clearly defined corporate objectives to ensure the payout is reflective of corporate performance. • The performance conditions for the annual bonus and LTIP are based on the Company's key strategic objectives. This alignment of reward with the delivery of key markers of the success of the implementation of the strategy ensures simplicity.
Risk remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The Remuneration Policy includes: • Compulsory deferral of a substantial proportion of pay in shares for a material period; • Aligning the performance conditions with the strategy of the Company; • Ensuring a focus on long-term sustainable performance through the LTIP; and • Ensuring there is enough flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes. These elements mitigate against the risk of target-based incentives by: • Deferring the value in shares for the long-term which helps ensure that the performance earning the award was sustainable and thereby discouraging short term behaviours; • Aligning any reward to the agreed strategy of the Company; • The LTIP supports a focus on the sustainability of performance over the longer term; • Reducing the awards or cancelling them if the behaviours giving rise to the awards are inappropriate; and • Reducing the awards or cancelling them if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy.	• The Remuneration Policy sets out clearly the range of values and discretions in respect of the remuneration of management. • LTIP award levels are set to be conservative to avoid any egregious payouts.
Proportionality the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	• The annual bonus and LTIP provides a clear link between the reward provided to management and the delivery of the strategy through incentivising management to deliver the KPIs. • The LTIP provides a focus on long-term sustainable performance through the build-up of a long-term locked in shareholding. • Both incentive plans allow the Remuneration Committee to exercise its discretion to override formulaic outcomes. • Executive Director bonuses are subject to an aggregate cap based on a percentage of the general bonus pool to prevent excessive bonuses relative to the wider workforce.
Alignment to culture incentive schemes should drive behaviours consistent with company purpose, values and strategy.	• The annual bonus drives behaviours consistent with the strategy. • The LTIP drives behaviours consistent with the Company's purpose and values which are focused on the long-term future of the business throughout the business cycle.

Annual remuneration report continued

Policy table for Executive Directors

COMPONENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPERATION	PERFORMANCE FRAMEWORK
Base salary	To provide an appropriate level of salary to attract and retain individuals of the required calibre to successfully deliver the business strategy.	Typically reviewed annually, taking account of the following: • Scope and responsibilities of role; • Individual skills, experience and performance; • Business performance and the external economic environment; • Appropriate market data; and • Pay and conditions elsewhere in the Company.	Salary increases will normally be in line with those of the wider workforce. Increases may be made above this level in certain circumstances, including (but not limited to): • An increase in scale, scope or responsibilities of the role; • To ensure salaries remain market competitive; and • Where individuals have been recruited or promoted with salaries below the targeted policy level initially and have become more established in their role.	None.
Benefits	To provide market competitive benefits.	Benefits may include (but are not limited to) private medical insurance, life insurance cover, disability income plan, season ticket loans and professional subscriptions. Other benefits may be introduced from time to time to ensure the benefits package is competitive and reflects the circumstances of the individual Director, for example relocation allowances. The Remuneration Committee may award non-pensionable cash payments in lieu of one or more of these benefits.	Benefits may vary by role and individual circumstance and are reviewed periodically.	None.
Pension	To provide funding for retirement at market competitive levels.	Executive Directors may receive pension contributions to a personal pension scheme and/or cash allowances in lieu of contributions.	Executive Directors (including current incumbents and new Directors) receive a contribution of 12% of salary in line with the contribution for the wider workforce.	None.

COMPONENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPERATION	PERFORMANCE FRAMEWORK
Annual bonus	To incentivise and reward the achievement of annual business objectives to enable successful implementation of the Group strategy, and to align the interests of Executive Directors with shareholders and support retention.	Performance measures, targets and weightings are set at the start of the year. At the end of the year, the Committee determines the extent to which the targets have been achieved and the resulting proportion of the maximum individual opportunity payable to Executive Directors. Half of any bonus earned above £100,000 will be deferred in shares for three years. Dividend equivalents may accrue on deferred bonus awards and be paid on those shares which vest. The Plan contains malus and clawback provisions (see below for details).	Maximum individual annual bonus opportunity is 100% of base salary. The total aggregate annual bonus payment for Executive Directors is capped at 25% of the general bonus pool for employees. 20% of the maximum will be payable for threshold performance and 50% of the maximum will be payable for on-target performance, with full payment for stretch performance. Payment increases on a straight-line basis between threshold, target and stretch.	Performance measures, targets and weightings are determined each year to reflect key business priorities and are measured over a period of one financial year. A minimum of 50% of the bonus is based on financial measures. The remainder is based on non-financial measures aligned to the strategic priorities of the business and may also contain individual performance objectives. The Committee has discretion to adjust the formulaic bonus outcome to reflect underlying Company performance. Any adjustments or discretion applied by the Committee will be fully explained in the following year's Remuneration Report.
LTIP	To drive sustained long-term performance that supports the creation of shareholder value, and to encourage and facilitate substantial long-term share ownership.	An award of conditional shares or nil cost-options may be granted annually. Awards vest after three years, subject to performance and continued employment. Following vesting, an additional two-year holding period will apply (net of tax), such that shares are not released until five years from grant. Award levels and performance conditions are reviewed in advance of each grant to ensure they remain appropriate. Dividend equivalents may accrue on shares held under the Plan and be paid on those shares which vest. These will be delivered in shares in line with the Investment Association Guidelines. The Plan contains malus and clawback provisions (see below for details).	Maximum award of 100% of salary. 25% of the award will vest for threshold performance, with full vesting for stretch performance. Vesting increases on a straight-line basis between threshold and stretch.	At least half of the award will be based on financial measures, normally profit-based measures linked to the IPS business. The Committee has discretion to adjust the formulaic vesting outcome to reflect underlying Company performance. Any adjustments or discretion applied by the Committee will be fully explained in the following year's Remuneration Report.

Annual remuneration report continued

Policy table for Executive Directors continued

COMPONENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPERATION	PERFORMANCE FRAMEWORK
All Employee Plans	To encourage share ownership throughout the Company	The Executive Directors are eligible to participate in an HMRC-approved Save As You Earn Share Save Plan (SAYE) and/or Share Incentive Plan (SIP) on the same basis as all other eligible UK employees. The Committee intends to maintain and operate these schemes in accordance with scheme rules and HMRC Regulations.	The prevailing HMRC approved limits apply.	None.

Legacy arrangements

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the Policy set out in this report where the terms of the payment were agreed before the Policy came into effect or at a time when the relevant individual was not a Director of the Company.

Minimum shareholding requirement

The Committee believes that Directors should build a sizeable shareholding in Law Debenture over time to ensure that they are as closely aligned as possible with the Shareholder experience. The minimum shareholding guideline for Executive Directors is two times their gross basic salary. Executive Directors are required to retain 50% of the post-tax number of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained.

On cessation of employment, Executive Directors are required to retain their minimum shareholding requirement immediately prior to departure for two years. Where their actual shareholding at departure is below the minimum shareholding requirement, the Executive Director's actual shareholding is required to be retained on the same terms and for the same periods. In addition, the Company is using an Employee Benefit Trust or nominee accounts in which to hold shares to enable the post cessation requirements to be operated.

Performance measure selection

Performance Measures used under the annual bonus and LTIP are selected annually to reflect the Group's main short- and long-term objectives and reflect both financial and non-financial priorities. For Executive Directors, performance measures in incentives will focus predominantly on the profitability of the IPS business which is central to Law Debenture's business model and unique identity and is the area of the business fully within management's control.

The performance targets are set to be stretching but achievable, taking into account a range of internal and external reference points and having regard to the particular strategic priorities and economic environment.

Malus and clawback

Malus is the adjustment of deferred annual bonus awards or unvested LTIP awards, because of the occurrence of one or more circumstances listed below. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of cash payments made under the annual bonus or vested LTIP awards as a result of the occurrence of one or more circumstances listed below. Clawback may apply to all or part of a participant's payment or award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- Gross misconduct;
- Misstatement of the financial results;
- Error in reporting or calculation;
- Serious reputational damage; or
- Corporate failure.

Malus applies to deferred annual bonus awards and unvested LTIP awards up to the date of vesting. Clawback applies to cash annual bonus payments and vested LTIP awards for up to two years from payment or vesting.

Annual bonus payments and LTIP awards are subject to malus and clawback for up to two years from payment of the bonus or vesting of shares.

Discretion

The Committee will operate all incentive plans according to the rules and discretions contained therein to ensure that the implementation of the Remuneration Policy is fair, both to the individual Director and to the shareholders. The discretions cover aspects such as:

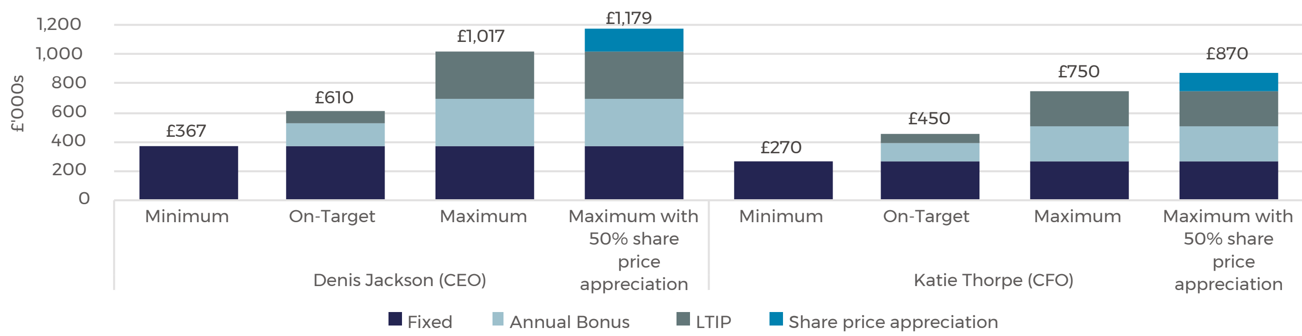
- selection of participants;
- timing of grant and vesting of awards;
- size of awards (subject to the Policy limits);
- choice of measures, weightings and targets;
- determining level of payout or vesting based on an assessment of performance;
- settlement of awards in cash or shares;
- treatment of awards on termination of employment and change of control;
- adjustment of awards in certain circumstances, e.g. changes in capital structure, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award;
- adjustment of performance conditions in exceptional circumstances provided the new targets are fair and reasonable and neither materially more or less challenging than the original targets; and
- application of malus and/or clawback.

Any such use of discretion will be fully disclosed in the subsequent Annual Report and may, as appropriate, be the subject of consultation with the Company's major Shareholders.

Illustrations of total remuneration opportunity

The charts below provide estimates of the potential future reward opportunities under the Policy for each of the Executive Directors and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On Target', 'Maximum' and 'Maximum with share price growth of 50% over 3 years'. The 'Minimum; scenario includes base salary, pension and benefits only (i.e. fixed remuneration).

The Committee was mindful in its deliberations on the new Policy of any potential conflicts of interest and sought to minimise them through an open and transparent internal consultation process; by seeking independent advice from its external advisers and by undertaking a full shareholder consultation exercise.



ELEMENT	ASSUMPTIONS
Total fixed pay	**Base salary**: CEO £325,000, CFO £240,000 (effective 1 January 2020).
	Pension: 12% of salary.
	Benefits: As disclosed in single figure table on page 64.
Annual bonus	Minimum: No payout. On-target: 50% of maximum (50% of salary). Maximum: 100% of maximum (100% of salary).
LTIP	Minimum: No vesting. On-target: 25% of maximum (25% of salary). Maximum: 100% of maximum (100% of salary).
Share price growth	Impact of 50% share price appreciation on maximum remuneration over three years.

Annual remuneration report continued

Recruitment Policy

When determining the remuneration arrangements of a new appointment to the Board, the Committee will seek to apply the following principles:

- Although we operate in a competitive market for talent, we are mindful to pay no more than is necessary to attract and retain high-quality talent;
- The Committee will appoint new Executive Directors with a package that is in line with the Remuneration Policy in place at the time, as indicated in the table below. In particular, the maximum level of variable remuneration will be in line with the limits set out in the Policy table.

Approach on recruitment

ELEMENT	ASSUMPTIONS
Salary	• The base salaries of new appointees will be determined by reference to the individual's role and responsibilities, experience and skills, relevant market data and pay and conditions elsewhere in the Company. • Base salary may be higher or lower than the previous incumbent. Salaries may be set at a lower level initially with the intention of increasing salaries at a higher than usual rate as the executive gains experience in the role.
Pension	• New appointees will be eligible to receive pension contributions (or cash in lieu) in line with the Policy.
Benefits	• New appointees will be eligible to receive benefits in line with the Policy, including relocation benefits if the Committee deems it appropriate.
Annual bonus	• The structure described in the Policy table will normally apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of the year served. The Committee retains the flexibility to determine that for the first year of appointment any annual incentive award will be subject to such terms as it may determine.
LTIP	• New appointees will be eligible for awards under the LTIP which will normally be on the same terms as other executives, as described in the Policy table.

To facilitate recruitment, it may be necessary to "buy-out" remuneration arrangements forfeited on leaving a previous employer. This will be considered on a case-by-case basis and may comprise cash or performance and non-performance related share awards and would be in such form as the Committee considers appropriate considering all relevant factors such as the form, performance conditions, expected value, anticipated vesting and timing of the forfeited remuneration. The Committee's intention is that the value awarded would be no more than the commercial value of the awards forfeited.

For internal promotions, the approach will be consistent with the policy for external appointees. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements.

Service contracts

Executive Director service contracts can be terminated by not less than six months' notice given in writing by either party to the contract, with no contractual provisions for compensation payable on early termination of the contract. The Directors are subject to annual re-election at the AGM. Non-Executive Directors' contracts are available to view at the Company's registered office.

Termination Policy

Executive Directors will be entitled to receive salary and benefits during the notice period, which may be paid 'in lieu' of all or part of any period of notice. Payments may be made as either a lump sum or in equal monthly instalments until the end of the notice period at the discretion of the Company and Executive Directors will be expected to mitigate their loss.

The Committee will seek to ensure that there are no unjustified payments for failure. 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 12 months of any change in control of the Company, he/she will be given not less than 12 month's written notice and the same arrangements for receiving salary and benefits during this period will apply as described above.

The Committee may authorise payments for statutory entitlements in the event of termination, reasonable settlement of potential legal claims, and payment of reasonable reimbursement of professional fees in connection with such agreements.

PLAN	GOOD LEAVERS[1]	ALL OTHER LEAVERS	CHANGE OF CONTROL
Annual bonus	• Typically paid at the same time as continuing employees, to the extent that the performance conditions are achieved with pro-rating for the proportion of the financial year served, unless the Committee determines otherwise. • Deferred bonus awards will continue until the normal vesting date or may vest earlier at the discretion of the Committee.	• No bonus payable. • Unvested deferred bonus awards lapse.	• Normally paid immediately on the effective date of change of control, subject to the achievement of the performance conditions and pro-rated for the proportion of the year served to the date of change of control, unless the Committee determines otherwise. • Deferred bonus awards vest immediately in full on the effective date of change of control.
LTIP	• Unvested LTIP awards will typically vest on the normal vesting date, to the extent that the performance conditions are achieved with pro-rating for the proportion of the financial year served, unless the Committee determines otherwise. • Vested awards will remain subject to any holding period.	• Unvested awards lapse. • Vested awards will remain subject to any holding period.	• Unvested LTIP awards will typically vest immediately in full on the effective date of change of control, subject to the achievement of the performance conditions and pro-rated for the proportion of the year served to the date of change of control, unless the Committee determines otherwise. • The holding period applicable to any awards will end at the time of change in control. • Alternatively, awards may be exchanged for new equivalent awards in the acquiring company.

1 The Committee has discretion to determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders. A good leaver is typically defined as an employee who ceases to hold employment by reason of: death, injury, ill-health or disability; retirement with the agreement of the Group; redundancy; the participant's employing Company being transferred to an entity which is not a Group member; Transfer of undertaking; or any other reason at the Committee's discretion.

External appointments

It is the Board's policy to allow Executive Directors to take up one Non-Executive position on the Board of another company, subject to the prior approval of the Board. Any fee earned in relation to outside appointments is retained by the Executive Director.

Consideration of employment conditions elsewhere

In determining the remuneration arrangements for Executive Directors, the Committee considers pay and conditions of other employees across the IPS business and aims to ensure a consistent approach. To facilitate this, the Committee receives information on wider workforce remuneration, ensuring they have a good understanding of the structure and application of the reward policies throughout the Group.

Mark Bridgeman has been appointed as the Non-Executive Director with responsibility for engaging with the workforce. Since making that appointment, various methods of communication (including presentations, email correspondence and availability for face-to-face meetings) have been utilised to raise employee awareness of the role and engagement with the Board more broadly. The Company has also commissioned an annual engagement survey to receive employee feedback.

Differences in remuneration policy for Executive Directors compared with other employees

The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies.

In terms of variable incentives, all employees are eligible to participate in an annual bonus scheme with business area-specific metrics and individual performance taken into account where appropriate. The maximum bonus opportunity of 100% of salary is consistent across all staff.

Annual remuneration report continued

Senior managers may be eligible to participate in the LTIP with annual awards up to 100% of salary. Performance conditions are consistent for all participants, while award sizes vary by level. Specific cash incentives are also in place to motivate, reward and retain staff below Board level.

When determining incentive outcomes, 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. For all other employees, performance is primarily based on the IPS business.

All UK employees are eligible to participate in the Company's SAYE and SIP schemes on the same terms.

Policy for Chairman and Non-Executive Directors

The Non-Executive Directors, including the Chairman, do not have service contracts and are appointed for an indefinite term. Non-Executive Directors will not be entitled to compensation on termination of their Directorship, no matter what the reason for termination. The Directors are subject to annual re-election at the AGM. Non-Executive Directors' letters of appointment are available to view at the Company's registered office.

Non-Executive Directors do not receive benefits from the Company, and they are not eligible to join the Company's pension scheme or participate in any bonus or share incentive plans. Where specific cash or share arrangements are delivered to the Chairman or Non-Executive Directors, these will not include share options or any other performance related elements. Any reasonable expenses that they incur in the furtherance of their duties are reimbursed by the Company (including any tax liability thereon).

PURPOSE AND LINK TO STRATEGY	OPERATION	FEE LEVELS
To attract and retain Non-Executive Directors of the required calibre by offering market competitive fees.	The Chairman is paid a single annual all-inclusive fee for all Board responsibilities. Non-Executive Directors receive a basic annual Board fee. Additional fees may be payable for additional Board responsibilities such as Chairmanship or Membership of a Committee, or the role of Senior Independent Director. The Chairman's fee is determined by the Committee, and fees to Non-Executive Directors are determined by the Board. Fees are reviewed periodically, considering time commitment, scope and responsibilities, and appropriate market data. Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company, including any tax due thereon.	Fee increases are typically expected to be in line with wider employee rises. In exceptional circumstances (including, but not limited to, material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil the role) the Board may make appropriate adjustments to fee levels to ensure they remain market competitive and fair to the Director. The maximum annual aggregate fee for all Non-Executive Directors will be within the limit set out in the Company's Articles of Association.

Minor amendments

The Committee may make minor amendments to the Policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining Shareholder approval for that amendment.

Consideration of Shareholder views

The Remuneration Committee is committed to shareholder dialogue and engages with shareholders as appropriate to address any remuneration issues that arise in relation to the Executive Directors. This feedback is taken into account when developing executive remuneration arrangements, in addition to guidelines of investor bodies and shareholder views. The Committee continues to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate and commits to undertake a shareholder consultation in advance of any material changes to the Remuneration Policy.

Part 3 Annual remuneration report

This section provides details of how our Remuneration Policy was implemented during the financial year ended 31 December 2019, and how the Committee intends to implement the new Policy in 2020.

Remuneration Committee membership and activities during 2019

The members of the Committee who served during the year were:

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

Claire Finn was appointed as a Non-Executive Director with effect from 2 September 2019 and became a member of the Remuneration Committee on that date.

Details of Committee meetings and attendance can be found on page 43.

Key activities of the Committee during the year included:

- Determining 2018 annual bonus outturns and payments;
- Preparing the 2018 Directors' Remuneration Report;
- Determining salary adjustments;
- Setting annual bonus measures and targets for 2019;
- Reviewing Corporate governance and regulatory updates, and matters requiring further action in respect of the 2018 UK Corporate Governance Code;
- Reviewing the remuneration Policy for 2020;
- Designing the new LTIP and reviewing the operation of the annual bonus;
- Benchmarking pay for the Executive Directors;
- Determining executive pay for 2020, including performance conditions for the first LTIP awards;
- Reviewing workforce terms and conditions and the workforce engagement mechanism;
- Review of Remuneration Committee Terms of Reference; and
- Reviewing Gender Pay Gap reporting.

Support provided to the Committee

PricewaterhouseCoopers LLP ('PwC') was appointed by the Remuneration Committee on 14 February 2019 as independent adviser following a formal selection process. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under its Code of Conduct in its dealings with the Committee. PwC's fees charged for the provision of independent advice to the Committee during the year were £50,000. Other than in relation to advice on remuneration, PwC provides support to the Company in relation to valuation of the IPS business and tax advice. The Committee is satisfied that PwC engagement does not have connections with the Group that may impair their objectivity and independence.

During the year, the Committee also took advice from the CEO and CFO, whose attendance at Committee meetings was by invitation from the Chair, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of the Senior Management team, including the development of the new LTIP. No Director was present for any discussions that related directly to their own remuneration.

Key responsibilities of the Committee

The Committee's Terms of Reference are published on the Company's website (www.lawdebenture.com/investment-trust/corporate-governance). The Committee is reviewing its Terms of Reference for 2020 to ensure it reflects the broader responsibilities under the new UK Corporate Governance Code in relation to wider workforce remuneration and the operation of incentive plans throughout the Company. The key responsibilities of the Remuneration Committee are to:

- Determine the Remuneration Policy for Executive Directors and Senior Managers (including the Company Secretary) in the context of pay and conditions across the workforce, and engaging with shareholders thereon;
- Determine the individual remuneration packages for Executive Directors and Senior Managers;
- Approve the remuneration package of the Chairman;
- Consider the design of, determine targets for, and review outcomes for the annual bonus plan;
- Determine the design of, quantum and performance conditions for long-term incentive plans;
- Review workforce remuneration and related policies across the Company as a whole;
- Review pension arrangements, service contracts and termination payments for Executive Directors and Senior Managers; and
- Approving the Directors' Remuneration Report, ensuring compliance with governance requirements.

Annual remuneration report continued

Statement of shareholder voting at the Company's AGMs

The table below sets out the results of the most recent shareholder votes on the Policy Report and the Annual Report on Remuneration at the AGM on 11 April 2019.

	Percentage of votes cast		Number of votes cast		
	For	Against	For	Against	Withheld[1]
Policy Report	97.94%	2.06%	31,560,733	662,366	63,565
2018 Annual Report on Remuneration	97.91%	2.09%	31,523,592	673,060	115,012

1 A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

Single total figure of remuneration (audited)

The table below sets out the single figure for the total remuneration received by each Executive Director and Non-Executive Director for the year ended 31 December 2019 and the prior period:

		Salary/fees	Taxable benefits[1]	Annual bonus[2]	LTIP[3]	Pension[4]	Other[5]	Total	Amount attributable to share price appreciation
Executive Directors									
Denis Jackson	2019	£315,425	£7,909	£286,750	–	£33,309	–	£643,393	–
	2018	£286,750	£7,305	£286,750	–	£30,281	£100	£611,186	–
Katie Thorpe[6]	2019	£225,500	£3,421	£205,000	–	£25,013	–	£458,934	–
	2018	–	–	–	–	–	–	–	–
Non-Executive Directors									
Christopher Smith[7]	2019	–	–	–	–	–	–	–	–
	2018	£22,462	–	–	–	–	–	£22,462	–
Robert Hingley	2019	£85,000	–	–	–	–	–	£85,000	–
	2018	£69,170	–	–	–	–	–	£69,170	–
Robert Laing	2019	£54,153	–	–	–	–	–	£54,153	–
	2018	£52,000	–	–	–	–	–	£52,000	–
Mark Bridgeman	2019	£51,940	–	–	–	–	–	£51,940	–
	2018	£46,909	–	–	–	–	–	£46,909	–
Tim Bond	2019	£44,000	–	–	–	–	–	£44,000	–
	2018	£41,250	–	–	–	–	–	£41,250	–
Claire Finn[8]	2019	£13,750	–	–	–	–	–	£13,750	–
	2018	–	–	–	–	–	–	–	–

1 Benefits received in 2018 and 2019 were the cost of life insurance cover and the disability income plan together with private medical insurance.
2 This is the total bonus earned in respect of performance during the relevant year, including any deferred bonus. For 2018 and 2019, one third of the bonus was deferred. Further details of the performance criteria, achievement and resulting awards for the 2019 bonus are set out below.
3 There were no long-term incentive arrangements in place during 2018 and 2019.
4 During 2018 and 2019, the Executive Directors received pension contributions of 12% of salary, in line with the workforce. Where this was received as a cash allowance, 88% of that contribution was payable.
5 Other payments include a contractual payment for signature of the service agreement.
6 Katie Thorpe was promoted to the Board as an Executive Director with effect from 1 January 2019.
7 Christopher Smith retired 11 April 2018.
8 Claire Finn joined the Board as a Non-Executive Director with effect from 2 September 2019.

Annual bonus payout in respect of 2019 (audited)

For 2019 the maximum bonus opportunity for the Executive Directors was 100% of salary. Performance conditions were based 60% on financial metrics and 40% on strategic metrics. Details of the specific measures, weightings, targets and outcome achieved are set out below:

Measure	Weighting	Threshold (0% of maximum)	Target (50% of maximum	Maximum (100% of maximum)	Actual	Denis Jackson (% of salary)	Katie Thorpe (% of salary)
IPS EPS growth	30%	4%	6.5%	9%	8.5%	27%	27%
IPS revenue growth	30%	3%	5.5%	8%	7.5%	27%	27%
Market standing	25%	Further details set out below				23%	23%
Governance and risk management	15%	Further details set out below				14%	14%
Total	100%					91%	91%

Strategic objectives

Executive Directors' strategic objectives are linked to the delivery of Law Debenture's strategic priorities. By their nature, some objectives require a more subjective assessment than others and this is done by the Committee following the input from the wider Board and other Board Committees as appropriate.

Recognising that the retail investment space is highly competitive, the Executive Directors have been targeted to improve the market standing of Law Debenture as an investment proposition. In assessing the Executive Directors performance against this metric, the Committee has considered the improved engagement with analysts, wealth managers, fund platforms, journalists and investors they have delivered which has helped to broaden and deepen the knowledge of our investment case. The Committee believes that significant progress has been made with regards to market standing over the course of 2019. The discount moved from 12.1% at the 31 December 2018 to 7.4% at 31 December 2019. While it is impossible to assess the specific impact these efforts have had in narrowing the discount, (particularly given improved sentiment to the UK and sustained strong performance from the portfolio), it is never-the-less the belief of the Committee that the significant efforts of the Executive Directors have contributed to this shift which has helped to create value for shareholders.

It is of critical importance to the Board that the standard of strong Governance & Risk Management is maintained by the Executive Directors as the IPS business starts to accelerate its growth. In assessing performance against this metric, the Committee has considered the steps taken to modernise and enhance the governance, risk and control environment over the course of the 2019. Significant improvements have been made to the underlying IT systems and infrastructure that support the business, including implementation of cloud based solutions and introduction of higher levels of automation to reduce the risk of human error. It is the assessment of the Committee that significant enhancements to governance and risk management were achieved over the course of 2019.

The Committee is satisfied that the bonus outcomes above are reflective of the performance delivered over the year and therefore has not used any discretion to adjust the payouts.

One third of the bonus earned is deferred in shares for three years.

Long-term incentives vesting and scheme interests awarded during 2019 (audited)

There are currently no long-term incentive arrangements in place. It is proposed that a new Long-Term Incentive Plan will be introduced from 2020 under the new Policy.

Payments for loss of office (audited)

There were no payments to former Directors during the year.

Payments to past Directors (audited)

There were no payments to former Directors during the year.

Annual remuneration report continued

Directors' shareholdings (audited)

The table below shows the interests of the Directors and connected persons in shares (owned outright or vested) as at 31 December 2019. There have been no changes in Directors' interests in the period between 31 December 2019 and 25 February 2020.

		Outstanding scheme interests						
	Shares owned outright	Unvested shares not subject to performance[4]	Unvested options not subject to performance[5]	Vested but unexercised share options[5]	Total scheme interests	Shareholding guideline (% of salary)[6]	Current shareholding (% of salary)[7]	Guideline met
Denis Jackson	1,854	19,075	–	–	19,075	200	3.82	No
Katie Thorpe[1]	1,767	6,620	2,475	–	9,095	200	5.09	No
Robert Hingley	4,870	–	–	–	–	n/a	n/a	n/a
Robert Laing	12,300	–	–	–	–	n/a	n/a	n/a
Mark Bridgeman[2]	4,513	–	–	–	–	n/a	n/a	n/a
Tim Bond	–	–	–	–	–	n/a	n/a	n/a
Claire Finn[3]	–	–	–	–	–	n/a	n/a	n/a

1 Katie Thorpe joined the Board as an Executive Director with effect from 1 January 2019.
2 Interests of connected persons in addition to his beneficial holding – 1,120 shares.
3 Claire Finn joined the Board as a Non-Executive Director with effect from 2 September 2019.
4 Includes deferred bonus awards granted under the Deferred Share Plan.
5 Includes options awarded under the Save As You Earn Share Save Plan.
6 There was no minimum shareholding requirement for Executive Directors in 2019. A new shareholding requirement is being introduced under the new Policy from 2020. Further details are provided on page 54.
7 Based on the share price on 31 December 2019 of 650p. Shares owned outright have been included.

Directors' interests in shares and option plans (audited)

	Scheme	Interests held at 1 January 2019	Granted in the year	Date of grant	Market price at grant	Vested in the year	Lapsed / forfeited in the year	Exercised in the year	Exercise price	Market price at date of exercise	Interests held at 31 December 2019	Vesting / first exercise date
Denis Jackson	DSP[1]	–	2,981	02.03.18	572.00p	–	–	–	5.94546p	n/a	2,981	01.03.21
	DSP[2]	–	16,094	11.03.19	582.00p	–	–	–	5.93890p	n/a	16,094	11.03.22
	Total	–	19,075								19,075	
Katie Thorpe	DSP[2]	–	6,620	11.03.19	582.00p	–	–	–	5.93890p	n/a	6,620	11.03.22
	SAYE[3]	2,475	–	15.08.18	612.00p	–	–	–	606.00p	n/a	2,475	01.10.23
	Total	2,475	6,620								9,095	

1 Deferred Share Plan 2018.
2 Deferred Share Plan 2019.
3 Save As You Earn Save Plan 2018.

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration, comprising salary, taxable benefits and annual bonus, and comparable data for the average of all UK employees within the Company.

	CEO			
	2019 (£000)	2018 (£000)	% change[1]	All UK employees[2] % change
Salary	315	287	10.0	3.0
Benefits	41	37	9.7	6.1
Annual bonus	287	287	–	7.1
Total	643	611	5.3	4.0

1 Calculations are based on actual numbers in whole pounds as shown on page 64.
2 All UK employees of L.D.C. Trust Management Limited have been used as the comparator group.

The CEO was initially remunerated at the same salary level as his predecessor. When the salary was reviewed at the end of his first full year in office, the Committee calculated that a 10% increase was justified to make it more competitive with market rates. The increase in taxable benefits is broadly in line with that of employees. The rationale for the bonus calculation can be found on page 65. Based on this calculation, his total bonus remained unchanged year on year, compared to an increase of 7.1% for the employee population.

Relative importance of spend on pay

The chart below shows the Company's actual expenditure on Shareholder distributions (including dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2018 and 31 December 2019.

	2019 (£000)	2018 (£000)	% change
Total employee pay expenditure[1]	£14,709	£13,964	5.3
Total distributed to shareholders[2]	£30,778	£22,339	37.8

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.

Distribution to shareholders has been subject to a significant increase for the current year as explained in the Chairman's statement on pages 4 and 5. The average number of employees has increased from 123 in 2018 to 133 in 2019, which has lead to an increase in employee pay expenditure. The increase also includes an element of inflationary increase in individuals remuneration.

Historical remuneration and TSR chart

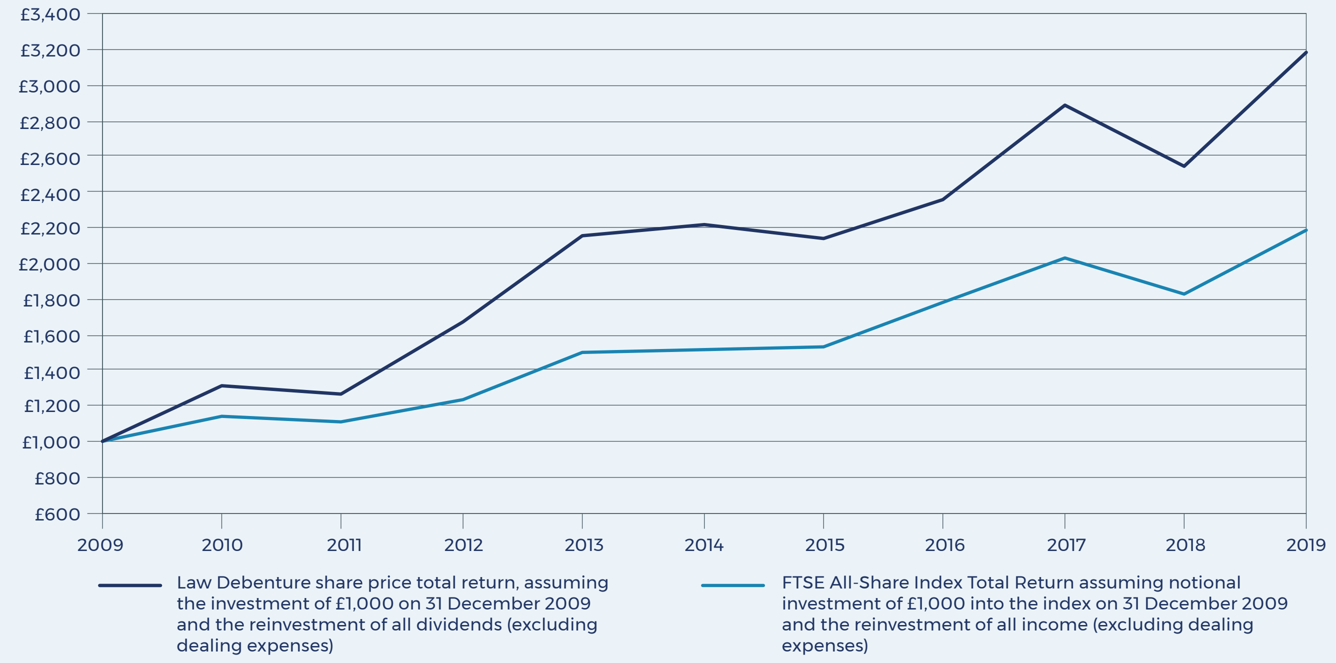
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Incumbent	C. Banszky	C. Banszky	C. Banszky	C. Banszky	C. Banszky	C. Banszky	C. Banszky	M. Adams[1] C. Banszky	T. Fullwood[2] M. Adams	D. Jackson[3]	D. Jackson[3]
CEO single figure of total remuneration (£000)	528.4	588.5	602.7	636.9	636.9	690.7	677.5	180.5 757.8	142.2 344.1	611.2	643.4
Annual bonus and deferred bonus awarded (against maximum %)	67.5%	90.0%	75.0%	70.0%	72.1%	62.0%	100.0%	65.1% 0.0%	100.0% 0.0%	100.0%	90.9%

1 C. Banszky stepped down as CEO on 31 August and was succeeded by M. Adams on the same date following his appointment to the Board on 4 August.
2 T. Fullwood was appointed interim Chief Executive Officer from 22 October for a fixed term until retirement at 31 December 2017.
3 D. Jackson was appointed as CEO on 1 January 2018.

Annual remuneration report continued

Total Shareholder Return (TSR) chart and historical remuneration

The graph below compares the value of £1,000 invested in Law Debenture's shares, including reinvested dividends, with the FTSE All-Share Total Return Index over the last ten years. This index was selected because it is the index adopted as Law Debenture's benchmark.



Notes
1. 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.
2. Dividends have been reinvested.
3. 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.

External appointments

It is the Board's policy to allow the Executive Directors to take up one non-executive position on the board of another company, subject to the prior approval of the Board. The CEO had one external directorship of Meinl Capital Markets Limited from which he earned £5,625 in 2019. He stepped down from this role effective 30 September 2019.

Implementation of the Policy in 2020

Base salary

Executive Director salary increases for 2020 are provided in the table below:

Committee member	Base salary effective 1 January 2020	% change	Base salary effective 1 January 2019	% change	Base salary effective 1 January 2018
Denis Jackson	£325,000	3.0%	£315,425	10.0%	£286,750
Katie Thorpe	£240,000	6.4%	£225,500		

During 2019, the Committee increased the salaries of the new CEO and CFO by 10% in recognition of their strong performance in 2018 in achieving growth in the IPS business after a long period of stagnation. The Committee recognises that this was a large increase in the current environment but on balance believed it is in the best interests of shareholders to retain and motivate the new management team given their criticality to the business at an important time, and as their total levels of remuneration were below the market.

For 2020, the Committee conducted a holistic review of the remuneration Policy for Executive Directors. In case of the new CFO, who joined in June 2018 and was appointed to the Board on 1 January 2019, she was initially recruited on a below market-competitive salary with the intention of moving to a more competitive level as she become more established and proved herself in her first PLC director role. The Committee reviewed her performance at the end of her first year on the Board and determined that a further increase was warranted to a more competitive level given her strong performance. The Committee is therefore proposing to increase her salary to £240,000 for 2020. The CEO's salary will be increased by 3% to £325,000 for 2020, in line with the increase for the wider workforce.

For the remainder of the term of the Policy, the Committee intends to limit Executive Director salary increases to the level of increase for the wider workforce.

Pension and Benefits

For 2019, Executive Directors' benefits will include private medical insurance, life insurance cover and disability income protection. Pension contributions for the CEO and CFO will be 12% of salary, in line with the contribution to the wider workforce. Where this is received as a cash allowance, 88% of that contribution is payable.

Annual bonus

The maximum annual bonus opportunity for Executive Directors will be 100% of salary for 2020, subject to an aggregate cap for Executive Director bonuses of 25% of the general bonus pool. The performance measures will be based 50% on IPS financial targets, with the remainder based on non-financial measures aligned to the strategic priorities of both IPS and the Company as a whole. Half of any bonus earned above £100,000 will be deferred in shares for 3 years. Dividend equivalents will accrue on deferred bonus awards and be paid on those shares which vest. Malus and clawback provisions may apply in the event of gross misconduct, misstatement of financial results, an error in reporting or calculation, serious reputational damage, or corporate failure. Full disclosure on the targets, performance achieved and resulting bonus payouts for 2020 will be provided in next year's report.

Long-Term Incentive Plan awards

The first awards under the new LTIP will be granted to Executive Directors in 2020 at a level of 100% of salary. The awards will vest after three years based on IPS EPS performance, and any vested shares (net of tax) will be subject to a further two-year holding period. The performance targets will be as follows:

	% vesting	IPS EPS 3-year CAGR (p.a.)
Below threshold	0%	Less than 4%
Threshold	25%	4%
Stretch	100%	10%

Vesting increases on a straight-line basis between threshold and stretch

Prior to vesting, the Committee will consider whether a discretionary adjustment is required to the outcome to reflect overall business performance.

Dividend equivalents will accrue over the vesting period and be paid on those shares which vest. Malus and clawback provisions may apply in the event of gross misconduct, misstatement of financial results, an error in reporting or calculation, serious reputational damage, or corporate failure.

Annual remuneration report continued

Implementation of the Policy in 2020 continued

Non-Executive Director fees

For 2020, the fees for the Chairman and Non-Executive Directors have been increased in line with the wider workforce:

Fee	Fees effective 1 January 2020	Fees effective 1 January 2019	% change
Chairman fee	£87,550	£85,000	3.0
Non-Executive Director base fee	£45,320	£44,000	3.0
Additional fee for Chairman of Audit Committee	£5,665	£5,500	3.0
Additional fee for Chairman of Remuneration Committee	£5,665	£5,500	3.0
Additional fee for oversight of workforce engagement	£5,665	£5,500	3.0

For and on behalf of the Remuneration Committee.

Robert Laing
Chairman of the Remuneration Committee

26 February 2020

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 managers

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 joined Janus Henderson Investors in 2009 and has held the position of Portfolio Manager on the Global Equity Income Team since 2014. She first became involved with Law Debenture's portfolio in September 2011 and became joint portfolio manager in 2019.

Alternative Investment Fund Manager

The Law Debenture Corporation p.l.c.

Investment portfolio manager

Janus Henderson Global Investors
201 Bishopsgate, London EC2M 3AE

Auditors

BDO LLP, 55 Baker Street, London W1U 7EU

Depositary

NatWest Trustee and Depositary Services Limited
250 Bishopsgate, London EC2M 4AA

Global custodian

HSBC Group (under delegation by the depositary)
8 Canada Square, London E14 5HQ

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.

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 the Financial Times.

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

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 non-executive director of Marathon Asset Management, chairman of Euroclear UK and Ireland Limited, a member of The Takeover Panel and trustee of a charitable organisation. 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.

Mark Bridgeman

Non-Executive Director

Appointed to the Board in March 2013. He spent 19 years with Schroders 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 president of the board of the Country Land and Business Association (CLA) and is also on the boards of two charities. Chairman of the Audit Committee, a member of the Remuneration and Nominations Committees and the designated Non-Executive Director appointed to oversee workforce engagement.

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.

Claire Finn

Non-Executive Director

Appointed to the Board in September 2019. She had a career spanning over 18 years in financial services, with extensive experience in fund product development and distribution to retail and institutional investors. She was previously at BlackRock, where she spent almost 13 years, rising to become managing director – head of UK DC, unit-linked and platforms, responsible for strategy, innovation and growth. She is a non-executive director of Artemis Fund Managers Limited. She is a member of the Audit, Remuneration and Nominations Committees.

Independent auditor's report

to the Members of the Law Debenture Corporation P.l.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 2019 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 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 2019 and of the group's profit 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 directors' confirmation set out on page 34 in the Annual Report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the directors' statement set out on page 45 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 parent company'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 35 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
Valuation, existence and ownership of investments Investments comprise 90% of the total assets of the group. The investment portfolio at the year-end comprised of listed equity investments valued at £818m and unlisted investments valued at £4m (notes 1 and 14 to the financial statements). Investments represent the most significant balance in the financial statements and underpins the principal activity of the entity therefore we identified the following areas to be of significant focus: • Valuation, existence and ownership of listed equity investments • Completion, accuracy and clarity of the investment related disclosures • Valuation of investments with respect to unrealised gains/losses	We responded to this matter by testing the valuation, existence and ownership of 100% of the portfolio of listed investments. We performed the following procedures: • Checked against independent data sources that the correct bid-price has been used for the year end fair value • Performed a total recalculation of the listed portfolio using the holdings per the third party HSBC report and the independent bid prices as above • Checked the appropriateness of the valuation methodology applied and checked 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 in the name of the group to independently received third party confirmation from the custodian to confirm existence, ownership and completeness • Reviewed the latest available independent assurance report addressing the relevant controls in place at the custodian to assess whether any of the exceptions identified had an impact on our audit approach • We corroborated a sample additions to the BNP third party confirmations and recalculated the cost recognised in the financial statements • For a sample of disposals, we corroborated the proceeds figure to the BNP third party confirmation and recalculated the realised gains and losses based on the brought forward book cost We also tested the completeness, accuracy and clarity of investment related disclosures. 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. We did this by taking the portfolio holdings at three different points in the year and corroborating the bid prices to independent sources, obtaining evidence comfort over the unrealised movements recognised between these points. **Key observations:** Based on our procedures performed, we did not identify any exceptions with regards to valuation, existence or ownership of listed investments as well as the corresponding disclosures.
Completeness of income from investments (Notes 1 and 7 to the financial statements) We considered the completeness of dividend income recognised 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 October 2019 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 is demonstrating the performance of the portfolio.	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 and presented in accordance with this stated accounting policy. In respect of completeness of dividend income, we tested that the appropriate dividends had been recognised in the year by reference to independent data of dividends declared on a sample of investment holdings in the portfolio. **Key observations:** Based on our procedures performed, we did not identify any exceptions with regards to the completeness of income from investments.
Accuracy of income in relation to the provision of professional services (Notes 1 and 7 to the financial statements) Revenue in relation to the provision of professional services also consists of fees receivable from the provision of various professional services including, but not limited to, annual trustee services, transaction fees, service of process fees, company secretarial fees, special fees, daily rates, single payments, new fee structure and European Medium Term Note revenue. 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.	In respect of fee income from the provision of professional services, our audit strategy differed per revenue stream. For annual trustee fees in all entities bar Safecall, we agreed a sample of recorded revenue to a 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 based on the above to check that the appropriate proportion of income had been recognised in the year. The same approach was taken for transaction fees, service of process, company secretarial fees and special fees. For annual fees within the Safecall subsidiaries, as well as the daily rates revenue stream, we tested controls around the establishment of a contract, the authorisation of sales invoices raised and controls around the bank reconciliations performed. This testing was supported by tracing a sample of items to invoice and bank receipt. Single payments, New Fee Structure and European Medium Term Note revenue generated was tested through a sample being agreed to client agreements or recent correspondence where a countersigned agreement was not available, sales invoices and bank receipts; in addition to a revenue recalculation being performed. Assurance over completeness was gained through a number of procedures to confirm that revenue is recognised in the correct period. We reviewed client take on records and tested post year-end credit notes raised to ascertain revenue raised in 2019 that has been nullified post year end. We performed controls testing where appropriate, on the key manual controls operating in the year assessing their implementation and effectiveness. **Key observations:** Based on our procedures performed, we did not identify any exceptions with regards to the accuracy of income in relation to the provision of professional services.

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 applicable to the Group, the quantum and purpose of which are tabulated below.

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.	• The value of investments • The level of judgement inherent in the valuation • The range of reasonable alternative valuations	£8,220,000 (31 December 2018: £6,630,000)
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.	• Risk and control environment	£6,165,000 (31 December 2018: £4,970,000)
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.	• Net revenue returns of the Group	£1,884,000 (31 December 2018: £1,325,000)
Parent company financial statement materiality (95% of Group materiality)	Assessing whether the parent company financial statements as a whole present a true and fair view.	• A principal consideration in assessing the financial performance of the Group	Materiality - £7,809,000 Performance materiality (75%) - £5,857,000 (31 December 2018: Materiality - £6,300,000, Performance materiality (75%) - £4,720,000)

Full scope audits of the seven significant components were performed at a materiality level calculated based on a level appropriate to the relative scale of the business concerned. Five of the components had a materiality calculated based on 5% of their adjusted profit before tax with LDCTM based on 1% of expenditure and the parent company capped at 95% of Group materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £164,000 for the financial statements as a whole (2018: £133,000) and £38,000 for items impacting net realised returns this year (2018: £27,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

All significant 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 £7,809,000. For components where full scope audits were not undertaken, the group audit team undertook audit procedures on material balances with a performance materiality of 75% in all cases.

Our audit approach was developed by obtaining an understanding of the group's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the group's transactions and balances which were most likely to give rise to a material misstatement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit to detect irregularities, including fraud
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 AIC SORP and International Financial Reporting Standards (IFRSs) as adopted

Independent auditor's report continued

An overview of the scope of our audit continued

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 considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiries with Management, review of the reporting to the directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

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. 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 directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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, within the director's report set out on page 42, 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 reappointed on 11 April 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ending 31 December 2009 to 31 December 2019.

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 2020

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

Group income statement

as at 31 December 2019

	Notes	2019 Revenue £000	2019 Capital £000	2019 Total* £000	2018 Revenue £000	2018 Capital £000	2018 Total* £000
UK dividends		23,458	–	23,458	18,892	–	18,892
UK special dividends		2,364	–	2,364	810	–	810
Overseas dividends		3,294	–	3,294	3,407	–	3,407
Overseas special dividends		85	–	85	90	–	90
		29,201	–	29,201	23,199	–	23,199
Interest income	6	706	–	706	480	–	480
Independent professional services fees		36,815	–	36,815	33,252	–	33,252
Other income		20	–	20	176	–	176
Total income		66,742	–	66,742	57,107	–	57,107
Net gain/(loss) on investments held at fair value through profit or loss	2	–	100,023	100,023	–	(84,301)	(84,301)
Total income and capital gains/(losses)		66,742	100,023	166,765	57,107	(84,301)	(27,194)
Cost of sales		(5,026)	–	(5,026)	(3,668)	–	(3,668)
Administrative expenses	3	(22,835)	(2,379)	(25,214)	(22,705)	(610)	(23,315)
Provision for onerous contracts	4	113	–	113	319	–	319
Operating profit/(loss)		38,994	97,644	136,638	31,053	(84,911)	(53,858)
Finance costs							
Interest payable	6	(1,319)	(3,958)	(5,277)	(4,617)	–	(4,617)
Profit/(loss) before taxation	7	37,675	93,686	131,361	26,436	(84,911)	(58,475)
Taxation	8	(1,420)	–	(1,420)	(1,318)	–	(1,318)
Profit/(loss) for the year	7	36,255	93,686	129,941	25,118	(84,911)	(59,793)
Return per ordinary share (pence)	10	30.68	79.27	109.95	21.26	(71.85)	(50.59)
Diluted return per ordinary share (pence)	10	30.67	79.27	109.94	21.25	(71.84)	(50.59)

* See note 1

Statement of comprehensive income

as at 31 December 2019

GROUP	2019 Revenue £000	2019 Capital £000	2019 Total £000	2018 Revenue £000	2018 Capital £000	2018 Total £000
Profit/(loss) for the year	36,255	93,686	129,941	25,118	(84,911)	(59,793)
Foreign exchange on translation of foreign operations	–	(214)	(214)	–	450	450
Pension actuarial gains/(losses)	(800)	–	(800)	1,600	–	1,600
Taxation on pension	152	–	152	(304)	–	(304)
Other comprehensive (loss)/income for the year	(648)	(214)	(862)	1,296	450	1,746
Total comprehensive income/(loss) for the year	35,607	93,472	129,079	26,414	(84,461)	(58,047)

Statement of financial position

as at 31 December 2019

Assets	Notes	GROUP 2019 £000	GROUP 2018 £000	COMPANY 2019 £000	COMPANY 2018 £000
Non-current assets					
Goodwill	11	1,930	1,952	–	–
Property, plant and equipment	12	64	100	–	–
Right-of-use asset	23	1,057	–	–	–
Other intangible assets	13	104	186	16	–
Investments held at fair value through profit or loss	14	822,316	662,593	822,102	662,379
Investments in subsidiary undertakings	14	–	–	61,283	61,233
Retirement benefit asset	24	2,700	2,500	–	–
Deferred tax assets	8	–	11	–	–
Total non-current assets		828,171	667,342	883,401	723,612
Current assets					
Trade and other receivables	15	7,213	6,925	542	384
Other accrued income and prepaid expenses		6,438	5,768	2,155	1,687
Cash and cash equivalents	16	71,236	124,148	46,128	100,321
Total current assets		84,887	136,841	48,825	102,392
Total assets		913,058	804,183	932,226	826,004
Current liabilities					
Amounts owed to subsidiary undertakings		–	–	53,990	47,840
Trade and other payables	17	13,010	11,888	1,420	1,404
Lease liability	23	730	–	–	–
Corporation tax payable	8	710	199	20	20
Deferred tax liability		83	–	–	–
Other taxation including social security		540	583	534	497
Deferred income		5,625	4,005	16	16
Total current liabilities		20,698	16,675	55,980	49,777
Non-current liabilities and deferred income					
Long-term borrowings	21	114,157	114,112	74,551	74,534
Deferred income		2,463	3,796	135	145
Lease liability	23	350	–	–	–
Provision for onerous contracts	4	118	236	–	–
Total non-current liabilities		117,088	118,144	74,686	74,679
Total net assets		775,272	669,364	801,560	701,548
Equity					
Called up share capital	18	5,921	5,919	5,921	5,919
Share premium		9,147	8,904	9,147	8,904
Own shares	18	(1,332)	(966)	–	–
Capital redemption		8	8	8	8
Translation reserve		1,897	2,111	–	–
Capital reserves	19	697,119	603,433	755,717	662,031
Retained earnings		62,512	49,955	30,767	24,686
Total equity		775,272	669,364	801,560	701,548
Total equity pence per share		655.76	566.27		

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own income statement, however its gain for the year was £122,817,000 (2018: loss £60,070,000). Approved and authorised for issue by the Board on 26 February 2020 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 2019

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
Balance at 1 January 2018	5,918	8,787	(1,033)	8	1,661	688,344	44,573	748,258
Net loss for the period	–	–	–	–	–	(84,911)	25,118	(59,793)
Foreign exchange	–	–	–	–	450	–	–	450
Actuarial gain on pension scheme (net of tax)	–	–	–	–	–	–	1,296	1,296
Total comprehensive loss for the period	–	–	–	–	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
Balance at 1 January 2019	5,919	8,904	(966)	8	2,111	603,433	49,955	669,364
Net gain for the period	–	–	–	–	–	93,686	36,255	129,941
Foreign exchange	–	–	–	–	(214)	–	–	(214)
Actuarial gain on pension scheme (net of tax)	–	–	–	–	–	–	(648)	(648)
Total comprehensive income for the period	–	–	–	–	(214)	93,686	35,607	129,079
Issue of shares	2	243	–	–	–	–	–	245
Dividend relating to 2018	–	–	–	–	–	–	(15,272)	(15,272)
Dividend relating to 2019	–	–	–	–	–	–	(7,813)	(7,813)
Statute barred dividends	–	–	–	–	–	–	35	35
Movement in own shares	–	–	(366)	–	–	–	–	(366)
Total equity at 31 December 2019	5,921	9,147	(1,332)	8	1,897	697,119	62,512	775,272

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 2019

COMPANY	Share capital £000	Share premium £000	Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
Balance 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
Balance at 1 January 2019	5,919	8,904	—	8	—	662,031	24,686	701,548
Total comprehensive gain for the period	—	—	—	—	—	93,686	29,131	122,817
Issue of shares	2	243	—	—	—	—	—	245
Dividend relating to 2018	—	—	—	—	—	—	(15,272)	(15,272)
Dividend relating to 2019	—	—	—	—	—	—	(7,813)	(7,813)
Statute barred dividends	—	—	—	—	—	—	35	35
Total equity at 31 December 2019	5,921	9,147	—	8	—	755,717	30,767	801,560

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 2019

	GROUP		COMPANY	
	2019 £000	2018 £000	2019 £000	2018 £000
Operating activities				
Operating profit before interest payable and taxation	136,638	(53,858)	128,207	(54,521)
Losses/(gains) on investments	(97,644)	84,911	(97,644)	82,994
Foreign exchange losses/(gains)	20	(7)	–	–
Depreciation of property,plant and equipment	55	93	–	–
Depreciation of right-of-use assets	1,101	–	–	–
Interest on lease liability	99	–	–	–
Amortisation of intangible assets	104	85	–	–
Decrease/(increase) in receivables	(958)	(1,273)	(626)	342
(Decrease)/increase in payables	1,298	(138)	60	138
Transfer from capital reserves	(1,680)	(200)	(1,680)	(200)
Normal pension contributions in excess of cost	(1,000)	(600)	–	–
Cash generated from operating activities	38,033	29,013	28,317	28,753
Taxation	(663)	(820)	–	–
Operating cash flow	37,370	28,193	28,317	28,753
Investing activities				
Acquisition of property, plant and equipment	(21)	(70)	–	–
Expenditure on intangible assets	(23)	(110)	(16)	–
Purchase of investments	(163,106)	(113,396)	(163,106)	(113,396)
Sale of investments	102,888	102,166	102,888	102,141
Sales of subsidiary undertakings	–	–	–	35,078
Acquisition of subsidiary undertakings	–	–	(50)	–
Cash flow from investing activities	(60,262)	(11,410)	(60,284)	23,823
Financing activities				
Intercompany funding	–	–	6,150	(5,757)
Derivative financial instrument	–	(1,390)	–	(1,390)
Interest paid	(5,277)	(5,748)	(5,390)	(5,549)
Dividends paid	(23,050)	(21,032)	(23,050)	(21,032)
Payment of lease liability	(1,177)	–	–	–
Proceeds of increase in share capital	245	118	245	118
Purchase of own shares	(366)	67	–	–
Net cash flow from financing activities	(29,625)	(27,985)	(22,045)	(33,610)
Net (decrease)/increase in cash and cash equivalents	(52,517)	(11,202)	(54,012)	18,966
Cash and cash equivalents at beginning of period	124,148	134,011	100,321	78,549
Foreign exchange (losses)/gains on cash and cash equivalents	(395)	1,339	(181)	2,806
Cash and cash equivalents at end of period	71,236	124,148	46,128	100,321

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 71. 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 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 October 2019 (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 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 asset	
	at 31 December 2019 £ million	at 31 December 2018 £ million
Discount rate +0.1%	(1.1)	(0.9)
Inflation assumptions +0.1%	0.9	0.7
Life expectancy at 65 +1 year	2.0	2.0
RPI/CPI gap 1.0% instead of 0.8% (2018: 1.1% instead of 1.0%)	(0.6)	(0.2)

The Directors take advice from an actuary when selecting assumptions.

New IFRSs

The following relevant standard and interpretation was issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (IFRIC) before the period end:

IFRS 16 Leases (effective from 1 January 2019).

IFRS 16 'Leases' replaces IAS 17 and addresses the definition, recognition and measurement of leases. The key change arising from IFRS 16 is that most operating leases will be accounted for on the balance sheet as a right-of-use asset and a lease liability based on discounted future lease payments. The asset will be depreciated over its useful economic life while the lease payment will be apportioned between a capital repayment of the lease liability and a finance charge representing the incremental borrowing.

1. Summary of significant accounting policies continued

New IFRSs continued

The Group elected to apply the modified retrospective approach for incorporating this standard in 2019, which does not require restatement of comparative periods. This method applies a cumulative effect for the current year and therefore the Group will only recognise leases on the balance sheet at 1 January 2019. In addition it has decided to measure the right-of-use assets using the lease liability on that date. Leases of low value (under £5,000) or less than 12 months remaining have been excluded from reporting in incorporation of this new standard. The impact to the Group using the modified retrospective approach is immaterial for 2019.

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 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 has been:

- 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 portfolio 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 and right-of-use assets

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.

Right-of-use assets are measured at cost less accumulated depreciation. The carrying amount is adjusted for any re-measurement of the lease liability.

Leasehold improvements	over the remaining lease period
Office furniture and equipment	3-10 years
Right-of-use asset	over the remaining lease period

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 Group has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. Transaction costs are expensed immediately.

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, subject to insignificant changes in fair value.

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.

1. Summary of significant accounting policies continued

Financial instruments continued

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.

Investment in subsidiaries
Investments in subsidiaries are carried at cost.

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.

Corporate Services
Corporate Services provide governance services and includes Corporate Services, Service of Process and Safecall. 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 fulfilled at the point in time we are appointed as process agent for the client, who is the contract counter party. The performance obligation is the arising provision of contract services for Corporate Services and Safecall.

The transaction price can include any combination of one-off acceptance fees, regular annual payments, and special fees for extra work. Transactions are billed as a single payment at point of engagement or as on-going annual fees. Revenue is recognised over the period of time it is taken to fulfil the contracted performance obligation.

Corporate Trust

Contract terms are dealt with either in trust deeds or appointment letters. 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 an annual or quarterly basis. The transaction price can include any combination of one-off acceptance fees, regular annual payments, and special fees for extra work, and are recognised over the annual term or when the performance obligation is met.

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 over the period for which the trust or structure will be in place.

Pensions

Pension trusts provide professional trustee and governance services to clients, typically on a fixed annual fee basis or a time cost basis.

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. The transaction price may be determined either by time billed or as an annual fixed fee.

The performance obligation is provision of the time of the Pensions professionals and the transfer of the services is at that point of time.

Employee benefits

Pension costs

The Group operates a defined benefit pension plan, which was closed to 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.

1. Summary of significant accounting policies continued

Reserves continued

Translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and in prior years 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 reclassified under right-of-use model

Previously under IAS 17, 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, were charged to the income statement on a straight-line basis over the period of the lease.

From 1 January 2019 IFRS 16 replaces IAS 17; and the right-of-use model replaces the risks and rewards of ownership model. Under this new standard leases previously classified as operating leases are recognised on the balance sheet, and the impact to the income statement is a change to both the expense character (rent expenses replaced with depreciation and interest expense) and recognition pattern (acceleration of lease expense relative to the recognition pattern for operating leases today).

Further detail on leases is provided in note 23 of the accounts.

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.

2. Net capital gain/(loss) on investments

	2019 £000	2018 £000
Realised gains based on historical cost	39,043	38,273
Amounts recognised as unrealised in previous years	(22,242)	(34,390)
Realised gains based on carrying value at previous year end date	16,801	3,883
Unrealised gain/(loss) on investments	83,365	(87,984)
	100,166	(84,101)
Transfers (to) revenue	(143)	(200)
	100,023	(84,301)

3. Administrative expenses

	2019 £000	2018 £000
Administrative expenses include:		
Salaries and Directors' fees	12,731	11,953
Social security costs	1,457	1,211
Other pension costs	878	800
	15,066	13,964
Investment management fee*	512	2,144
Depreciation – property, plant and equipment	55	93
Depreciation – right-of-use asset	1,101	–
Amortisation – intangible assets	104	85
Interest on lease liability	99	–
Foreign exchange	54	(21)
Auditors' remuneration	265	193

* From 1 January 2019 25% of the management fee is charged to revenue, and 75% to capital reserves, to better reflect the expected split of future returns between income and capital. Further details are given in note 1 on page 88.

During the year, the Group employed an average of 133 staff (2018: 123). 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 33 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 represent legal charges incurred to discharge trustee duties which are recovered from clients as part of fees.

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

	2019 £000	2018 £000
Audit services		
– fees payable to the Company's auditors for the audit of its financial statements*	251	179
– audit related regulatory	14	14
	265	193

* Including the Company £45,500 (2018: £32,000).

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 48 to 49 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

	2019 £000	2018 £000
GROUP		
At 1 January	236	1,667
(Release) made in the year	(113)	(319)
Utilisation of provision in the year	—	(1,131)
Foreign exchange	(5)	19
At 31 December	118	236

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 $50m 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 2019 comprises of the expected net running costs (including the cost of closure) of $150,000 (2018: $300,000). A reassessment of the provision required at December 2019 resulted in a release of £113,000 (2018: release of £319,000).

5. Remuneration of Directors (key management personnel)

The remuneration of the Directors, who are the key management personnel of the Group, comprises the following:

	2019 £	2018 £
Short-term benefits including fees in respect of Non-Executive Directors	1,351,170	842,977
Deferred share bonus scheme	—	—
	1,351,170	842,977

Details for each individual Director are shown in the remuneration report on page 64.

6. Interest

	2019 £000	2018 £000
Interest Income		
Interest on pension scheme (net)	100	—
Interest on bank deposits	1	1
Returns on money market funds	605	479
	706	480
Interest Payable		
Implied interest on derivative financial instruments	—	471
Interest on long-term debt – revenue	1,319	5,277
Interest on long-term debt – capital	3,958	—
Utilisation of onerous provision in the year (see note 4)	—	(1,131)
	5,277	4,617
Interest (net)	(4,571)	(4,137)

7. Segment analysis

	Investment portfolio		Independent professional services		Group charges		Total	
	31 December 2019 £000	31 December 2018 £000	31 December 2019 £000	31 December 2018 £000	31 December 2019 £000	31 December 2018 £000	31 December 2019 £000	31 December 2018 £000
Revenue								
Segment income	29,201	23,199	36,815	33,252	—	—	66,016	56,451
Net gain on investments	—	—	—	—	—	—	—	—
Other income	17	169	3	7	—	—	20	176
Cost of sales	—	—	(5,026)	(3,668)	—	—	(5,026)	(3,668)
Administration costs	(2,186)	(3,360)	(20,536)	(19,345)	(113)	—	(22,835)	(22,705)
Release of onerous contracts	—	—	—	—	113	319	113	319
	27,032	20,008	11,256	10,246	—	319	38,288	30,573
Interest (net) (note 6)	(822)	(4,372)	209	235	—	—	(613)	(4,137)
Return, including profit on ordinary activities before taxation	26,210	15,636	11,465	10,481	—	319	37,675	26,436
Taxation	—	—	(1,370)	(1,183)	(50)	(135)	(1,420)	(1,318)
Return, including profit attributable to shareholders	26,210	15,636	10,095	9,298	(50)	184	36,255	25,118
Revenue return per ordinary share (pence)	22.18	13.23	8.54	7.87	(0.04)	0.16	30.68	21.26
Assets	870,944	764,771	42,021	39,312	50	100	913,015	804,183
Liabilities	(126,399)	(121,239)	(11,226)	(13,345)	(118)	(235)	(137,743)	(134,819)
Total net assets	744,545	643,532	30,795	25,967	(68)	(135)	775,272	669,364

For the purposes of reporting segmental performance, the table above presents a split of the revenue column between the investment portfolio, the IPS business and Group charges.

Geographic location of revenue: 90% of revenue is based in the UK. Geographic location is based on the jurisdiction in which the contracting legal entity is based.

Major customers: Due to the diverse nature of the IPS revenue streams, there is no single customer or concentration of customers that represents more than 1.6% of gross revenue streams.

Capital element: The capital element of the income statement is wholly gains and losses relating to investments held at fair value through profit and loss (2019 gain of £100,023,000; 2018 loss of £84,301,000), administrative expenses (2019: £2,379,000; 2018: £610,000) and interest payable (2019: £3,958,000; 2018: nil) which corresponds to amounts classified as capital in nature in accordance with the SORP are shown in the capital column of the income statement on page 80.

Details regarding the segments are included on page 1 – Group summary and in note 1 – Segment reporting on page 86.

	Investment portfolio		Independent professional services		Total	
	31 December 2019 £000	31 December 2018 £000	31 December 2019 £000	31 December 2018 £000	31 December 2019 £000	31 December 2018 £000
Other information						
Capital expenditure	—	—	44	180	44	180
Depreciation/amortisation	—	—	159	178	159	178
Depreciation – right-of-use asset	—	—	1,101	—	1,101	—

Group charges before taxation during the year comprised the following:

	2019 £000	2018 £000
Closure of the US trust business:		
Release for onerous contracts (see note 4)	113	319
	113	319

8. Taxation

	2019 £000	2018 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 19.0% (2018: 19.0%)	855	816
Overseas tax charge	327	203
Total current tax charge	1,182	1,019
Deferred tax charge	238	299
Charge for the year	1,420	1,318

Taxation

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

	2019 £000	2018 £000
Profits before taxation	131,361	(58,475)
Tax on ordinary activities at standard rate 19.0% (2018: 19.0%)	24,885	(11,110)
Effects of:		
Expenses not deductible for tax purposes	25	10
Higher rates of tax on overseas income	150	44
Non-taxable capital (gains)/losses	(18,959)	16,133
Tax credit on dividend income	(4,848)	(4,231)
Limit on Group relief for UK interest expense	217	591
Prior year under provision in respect of current tax	–	16
Deferred tax on movement in provision for onerous contracts	(50)	(135)
	1,420	1,318

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 **Deferred tax assets/(liabilities)**	Accelerated tax depreciation £000	Retirement benefit obligations £000	Total £000
At 1 January 2018	671	(57)	614
(Charge) to income	(185)	(114)	(299)
(Charge) to other comprehensive income	–	(304)	(304)
Foreign exchange	–	–	–
At 1 January 2019	486	(475)	11
(Charge) to income	(48)	(190)	(238)
(Charge)/credit to other comprehensive income	–	152	152
Foreign exchange	(8)	–	(8)
At 31 December 2019	430	(513)	(83)

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 £1,245,981 (2018: £1,187,400) as their usability cannot be predicted with reasonable certainty.

9. Dividends on ordinary shares

	2019 £000	2018 £000
Dividends on ordinary shares comprise the following:		
2019 Interim 6.60p (2018: 6.00p)	7,813	7,090
2018 Final 12.90p (2017: 11.80p)	15,272	13,942
Statute barred dividends*	(35)	—
Total for year	23,050	21,032
Proposed final dividend for the year ended 31 December 2019		

* Relates to dividends unclaimed over 12 years old.

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.

	2019 £000	2018 £000
2019 Interim 6.60p (2018: 6.00p)	7,813	7,090
2019 Final 19.40p (2018: 12.90p)	22,975	15,249
	30,788	22,339

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.

10. Net asset value/return per share

NAV per share is calculated based on 118,224,400 (2018: 118,205,909) shares, being the total number of shares in issue of 118,429,010 (2018: 118,381,667), less 204,610 (2018: 175,758) shares, acquired by the ESOT in the open market. The net asset value of £830,139,000 (2018: £725,863,000) comprises the NAV per the balance sheet of £775,272,000, (2018: £669,364,000) plus the fair value adjustment to for the IPS business of £91,860,000, (2018: £78,439,000) less the fair value adjustment for the debt of £36,993,000, (2018: £21,940,000).

Revenue return per share is based on profits attributable of £36,255,000 (2018: £25,118,000).

Capital return per share is based on capital gains for the year of £93,686,000 (2018: loss £84,911,000).

Total return per share is based on gain for the year of £129,941,000 (2018: loss £59,793,000).

The calculations of returns per share are based on 118,181,082 (2018: 118,174,550) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2019, total revenue and capital diluted returns per share were calculated using 118,190,993 shares (2018: 118,187,923 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 47,380 (2018: 83,061) antidilutive shares.

11. Goodwill

GROUP	2019 £000	2018 £000
Cost		
At 1 January	2,397	2,339
Foreign exchange	(38)	58
At 31 December	2,359	2,397
Provision for impairment		
At 1 January	445	419
Provision in year	—	—
Foreign exchange	(16)	26
At 31 December	429	445
Net book value at 31 December	1,930	1,952

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The goodwill is identifiable with separate operating companies (Safecall Limited: £1,419,000; and Delaware Corporate Services Inc.: £512,000). At 31 December 2019 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 2020.

The review for Safecall was assessed using annual growth for five years of 5% with no terminal growth, which is based on the lower end of current expectations and a discount rate of 9% (2018: 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% (2018: 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 (2018: nil).

12. Property, plant and equipment

			2019			2018
GROUP	Office improvements £000	Furniture & equipment £000	Total £000	Office improvements £000	Furniture & equipment £000	Total £000
Cost						
At 1 January	899	1,836	2,735	866	1,791	2,657
Additions at cost	17	4	21	33	37	70
Foreign exchange	(3)	(5)	(8)	—	8	8
At 31 December	913	1,835	2,748	899	1,836	2,735
Accumulated depreciation						
At 1 January	888	1,747	2,635	848	1,680	2,528
Charge	15	40	55	33	60	93
Foreign exchange	(3)	(3)	(6)	7	7	14
At 31 December	900	1,784	2,684	888	1,747	2,635
Net book value at 31 December	13	51	64	11	89	100

The Company holds no property, plant and equipment.

13. Other intangible assets

GROUP	Computer software 2019 £000	Computer software 2018 £000
Cost		
At 1 January	1,792	1,682
Additions at cost	23	110
Foreign exchange	(1)	—
At 31 December	1,814	1,792
Accumulated amortisation		
At 1 January	1,606	1,521
Charge	104	85
Foreign exchange	—	—
At 31 December	1,710	1,606
Net book value at 31 December	104	186

14. Investments

Investments held at fair value through profit or loss

GROUP	2019 Listed £000	2019 Unlisted £000	2019 Total £000	2018 Listed £000	2018 Unlisted £000	2018 Total £000
Opening cost at 1 January	531,245	3,547	534,792	482,125	3,572	485,697
Gains at 1 January	127,264	537	127,801	249,872	303	250,175
Opening fair value at 1 January	658,509	4,084	662,593	731,997	3,875	735,872
Purchases at cost	163,106	—	163,106	113,396	—	113,396
Cost of acquisition	(661)	—	(661)	(408)	—	(408)
Sales – proceeds	(102,888)	—	(102,888)	(102,141)	(25)	(102,166)
– realised gains on sales	39,043	—	39,043	38,273	—	38,273
Gains/(losses) in the income statement	61,138	(15)	61,123	(122,608)	234	(122,374)
Closing fair value at 31 December	818,247	4,069	822,316	658,509	4,084	662,593
Closing cost at 31 December	629,845	3,547	633,392	531,245	3,547	534,792
Gains	188,402	522	188,924	127,264	537	127,801
Closing fair value at 31 December	818,247	4,069	822,316	658,509	4,084	662,593

Fair value through profit or loss

COMPANY	2019 Listed £000	2019 Unlisted £000	2019 Total £000	2018 Listed £000	2018 Unlisted £000	2018 Total £000
Opening cost at 1 January	536,343	3,333	539,676	487,223	3,333	490,556
Gains at 1 January	122,166	537	122,703	244,774	303	245,077
Opening fair value at 1 January	658,509	3,870	662,379	731,997	3,636	735,633
Purchases at cost	163,106	—	163,106	113,396	—	113,396
Cost of acquisition	(661)	—	(661)	(408)	—	(408)
Sales – proceeds	(102,888)	—	(102,888)	(102,141)	—	(102,141)
– realised gains on sales	39,043	—	39,043	38,273	—	38,273
Gains/(losses) in the income statement	61,138	(15)	61,123	(122,608)	234	(122,374)
Closing fair value at 31 December	818,247	3,855	822,102	658,509	3,870	662,379
Closing cost at 31 December	634,943	3,333	638,276	536,343	3,333	539,676
Gains	183,304	522	183,826	122,166	537	122,703
Closing fair value at 31 December	818,247	3,855	822,102	658,509	3,870	662,379

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

	2019 £000	2018 £000
Cost		
At 1 January	61,233	96,311
Investment in subsidiary – capital redemption	—	(35,078)
Additions in year	50	—
At 31 December	61,283	61,233

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Investments in subsidiaries are measured at cost less impairment. The financial statements consolidate the results and financial position of the Group, including all subsidiary undertakings, which are listed in this note under section "subsidiaries and related undertakings".

The cost of subsidiary undertakings includes capital contributions and as a consequence is not comparable to the fair value of the IPS business.

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	2019 £000	2018 £000
EBITDA at a multiple of 9.2 (2018: 8.4)	105,938	87,562
Surplus net assets	16,367	16,844
	122,305	104,406

An increase or decrease of 1 in the multiple would give rise to a £11.5m change in the fair valuation of the IPS. The adjustment to NAV to reflect the IPS fair value is an increase of 77.70p per share (2018: 66.36p).

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 116. 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

L.D.C. Trust Management Limited

Law Debenture Investment Management Limited

Law Debenture (Independent Professional Services) Limited

Beagle Nominees Limited

The Law Debenture Trust Corporation p.l.c.

The Law Debenture Pension Trust Corporation p.l.c.

Pegasus Pensions plc

Law Debenture Corporate Services Limited

Law Debenture Trustees Limited

The Law Debenture Intermediary Corporation p.l.c.

Law Debenture Overseas No. 1 Limited

Law Debenture Finance p.l.c.

Law Debenture Securitisation Services Limited

LDPTC Nominees Limited

Law Debenture Governance Services Limited

Safecall Limited

Safecall Training Limited

The Whistleblowing Company Limited

The Sole Trustee plc

The Law Debenture Corporation (Deutschland) Limited

L.D.C. Latvia Limited

Law Debenture Trustee for Charities

Law Debenture (No. 1 Scheme) Trust Corporation

Law Debenture (No. 2 Scheme) Trust Corporation

Law Debenture (No. 3 Scheme) Pension Trust Corporation

The Law Debenture (No. 5) Trust Corporation

The Law Debenture (1996) Pension Trust Corporation

The Law Debenture (Airborne) Pension Trust Corporation

The Law Debenture (BAA) Pension Trust Corporation

The Law Debenture (BIS Management) Pension Trust Corporation

The Law Debenture (BIS Retirement) Pension Trust Corporation

14. Investments continued

The Law Debenture (Freemans) Trust Corporation

The Law Debenture (GS) Pension Trust Corporation

The Law Debenture (Intel Old Plan) Pension Trust Corporation

The Law Debenture (SAPP) Pension Trust Corporation

The Law Debenture (JLPF) Pension Trust Corporation

The Law Debenture (JLPP) Pension Trust Corporation

The Law Debenture (JGRP) Pension Trust Corporation

The Law Debenture (JGSPS) Pension Trust Corporation

The Law Debenture (JIC) Pension Trust Corporation

The Law Debenture (KBPP) Pension Trust Corporation

The Law Debenture (KGPP) Pension Trust Corporation

The Law Debenture (LBS) Pension Trust Corporation

The Law Debenture (Swiss Re GB) Trust Corporation

Law Debenture (Ocean) Trust Corporation

Law Debenture (Odyssey) Trust Corporation

The Law Debenture (SRL) Pension Trust Corporation

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)

14. Investments continued

Unlisted investments

The Group holds an immaterial amount (approximately 0.5% of the portfolio) in unlisted investments.

Investment trust

The majority of the investment portfolio is invested in listed investments. A small minority of investments are unlisted comprising a small fund investment and a number of other immaterial unquoted investments.

Quarterly valuations for the small fund investment are received. The Investment Valuation Committee updates the valuation of this immaterial investment on a six monthly basis. The minutes of the meeting are shared with the auditors on a bi-annual basis.

Other unquoted investment holdings are reviewed on a bi-annual basis to market value and agreed by the Committee members at the same Investment Valuation Committee meeting.

Independent professional services

As part of the services offered by the Independent Professional Services business, the Group acts as the registered holder of an immaterial amount of unlisted shares in structured finance companies which are held on trust for discretionary charitable purposes. The Group has no beneficial interest in those shares or the results of the companies whose shares are held.

The holdings are reviewed on a bi-annual basis at the Investment Valuation Committee meeting but are not revalued as there is no market rate and the Group has no beneficial or economic interest in those shares.

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.

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 ageing.

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

	2019 £000	2018 £000
Value		
As at 1 January	5,919	5,918
Issued in year	2	1
As at 31 December	5,921	5,919

Shares	Number	Number
As at 1 January	118,381,667	118,358,244
Issued in year	47,343	23,423
As at 31 December	118,429,010	118,381,667

During the year to 31 December 2019, 47,343 shares (2018: 23,423 shares) were allotted under the SAYE scheme for a total consideration of £244,937 (2018: £117,336) which includes a premium of £242,570 (2018: £116,165).

During the year, 27,761 options were granted under the Company's SAYE scheme. At 31 December 2019, options under the SAYE scheme exercisable from 2019 to 2025 at prices ranging from 495.72p to 606.00p per share were outstanding in respect of 135,578 ordinary shares (2018: 180,221 ordinary shares). During 2019, 25,061 options lapsed or were cancelled (2018: 8,233) and 47,343 (2018: 23,423) were exercised.

Further details of options outstanding are given in the Directors' report on page 41.

Own shares held - Group

	2019 £000	2018 £000
Value		
Own shares held - cost	1,332	966

The own shares held represent the cost of 204,610 (2018: 175,758) 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 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 2019 was £1,329,965 (2018: £949,093).

19. Capital reserves

GROUP	2019 Unrealised appreciation £000	2019 Realised reserves £000	2019 Total £000	2018 Unrealised appreciation £000	2018 Realised reserves £000	2018 Total £000
At 1 January	121,273	482,160	603,433	244,457	443,887	688,344
Transfer on disposal of investments	(22,242)	22,242	–	(34,390)	34,390	–
Net gains on investments	83,365	16,801	100,166	(87,984)	3,883	(84,101)
Cost of acquisition	(661)	–	(661)	(408)	–	(408)
Foreign exchange	(181)	–	(181)	(202)	–	(202)
Transfers to revenue	(143)	(5,495)	(5,638)	(200)	–	(200)
At 31 December	181,411	515,708	697,119	121,273	482,160	603,433

COMPANY	2019 Unrealised appreciation £000	2019 Realised reserves £000	2019 Total £000	2018 Unrealised appreciation £000	2018 Realised reserves £000	2018 Total £000
At 1 January	114,554	547,477	662,031	235,821	509,204	745,025
Transfer on disposal of investments	(22,242)	22,242	–	(34,390)	34,390	–
Net gains on investments	83,365	16,801	100,166	(87,984)	3,883	(84,101)
Cost of acquisition	(661)	–	(661)	(408)	–	(408)
Foreign exchange	(181)	–	(181)	1,715	–	1,715
Transfers to revenue	(143)	(5,495)	(5,638)	(200)	–	(200)
At 31 December	174,692	581,025	755,717	114,554	547,477	662,031

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 18 to 31.

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. This policy on dividends is expected to continue going forwards. The investment strategy of the Company is disclosed on page 32 and includes a ceiling on effective gearing of 50%, with a typical range of 10% net cash to 20% gearing. At 31 December 2019 gearing was 9% (2018: 3%). Gearing is calculated in line with net gearing guidelines from the AIC.

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 2019:

GROUP	2019 £000	2018 £000
Assets		
Financial assets held at fair value through profit or loss:		
Equity investments	822,316	662,593
Financial assets held at amortised cost		
Trade and other receivables	7,213	6,925
Cash and cash equivalents	71,236	124,148
	78,449	131,073
Total financial assets	900,765	793,666
Liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables	13,010	11,888
Long-term borrowings	114,157	114,112
Lease liability	1,080	–
Total financial liabilities	128,247	126,000

COMPANY	2019 £000	2018 £000
Assets		
Financial assets held at fair value through profit or loss:		
Equity investments	822,102	662,379
Financial assets held at amortised cost		
Trade and other receivables	542	384
Cash and cash equivalents	46,128	100,321
	46,670	100,705
Total financial assets	868,772	763,084
Liabilities		
Financial liabilities measured at amortised cost		
Amounts owed to subsidiary undertakings	53,990	47,840
Trade and other payables	1,420	1,404
Long-term borrowings	74,551	74,534
Total financial liabilities	129,961	123,778

20. Financial instruments continued

Derivative financial instruments

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 2018 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 2019 fell or rose by 10%, the impact on the Group's total profit or loss for the year would have been £82.2m (2018: £66.3m). Corresponding 10% changes in the valuation of the investment portfolio on the Company's total profit or loss for the year would have been £82.2m (2018: £66.2m).

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:

			2019			2018
GROUP	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary assets £m	Total currency exposure £m
US Dollar	70.7	5.0	75.7	71.5	4.3	75.8
Canadian Dollar	7.2	–	7.2	5.0	–	5.0
Euro	49.6	0.7	50.3	37.1	0.3	37.4
Danish Krone	2.9	–	2.9	2.3	–	2.3
Swedish Krona	1.0	–	1.0	1.6	–	1.6
Swiss Franc	11.0	–	11.0	14.1	–	14.1
Hong Kong Dollar	–	0.4	0.4	–	0.4	0.4
Japanese Yen	8.7	–	8.7	7.4	–	7.4
	151.1	6.1	157.2	139.0	5.0	144.0

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

			2019			2018
COMPANY	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary (liabilities) £m	Total currency exposure £m
US Dollar	70.7	0.1	70.8	71.5	0.2	71.7
Canadian Dollar	7.2	–	7.2	5.0	–	5.0
Euro	49.6	–	49.6	37.1	–	37.1
Danish Krone	2.9	–	2.9	2.3	–	2.3
Swedish Krona	1.0	–	1.0	1.6	–	1.6
Swiss Franc	11.0	–	11.0	14.1	–	14.1
Japanese Yen	8.7	–	8.7	7.4	–	7.4
	151.1	0.1	151.2	139.0	0.2	139.2

The holding in Scottish Oriental Smaller Companies Trust is denominated in sterling but has underlying assets in foreign currencies equivalent to £7.2m (2018: £29.9m which included £23.0m in Baillie Gifford Pacific and Stewart Investors Asia Pacific OEICs which were sold in 2019). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot easily be determined and have not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2019 rose or fell by 10% against sterling, the impact on the Group's total profit or loss for the year would have been £17.6m and £14.2m respectively (2018: £18.9m and £15.4m). 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:

						2019
				GROUP		COMPANY
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m
Floating rate assets	65.1	0.4	5.0	0.7	46.0	0.1

						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

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
	2019 Sterling £m	2018 Sterling £m	2019 Sterling £m	2018 Sterling £m
Fixed rate liabilities	114.2	114.1	74.6	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 £791,000 credit (2018: £1,111,000 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 £40m 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 £593,000 credit (2018: £730,000 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.

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 £78.4m (2018: £131.1m). The Company's maximum exposure to credit risk arising from financial assets is £46.7m (2018: £100.7m).

Trade and other receivables

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

	GROUP		COMPANY	
	2019 £000	2018 £000	2019 £000	2018 £000
Between 31 and 60 days	1,225	1,315	–	–
Between 61 and 90 days	219	437	–	–
More than 91 days	2,330	1,721	–	–
Total	3,774	3,473	–	–

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

The expected loss rates are based on the Company's historical credit losses experienced over a two-year period prior to the year end. The historical loss rates are adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers. At 31 December 2019 the provision in relation to IFRS 9 resulting from credit loss rates is £2,907,000.

Trade and other payables

	GROUP		COMPANY	
	2019 £000	2018 £000	2019 £000	2018 £000
Due in less than one month	12,686	11,621	1,420	1,404
Due in more than one month and less than three months	324	267	–	–
	13,010	11,888	1,420	1,404

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	
	2019 £000	2018 £000	2019 £000	2018 £000
Long-term borrowings are repayable as follows:				
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	39,606	39,578	—	—
3.77% secured senior notes 2045	74,551	74,534	74,551	74,534
	114,157	114,112	74,551	74,534

The 6.125% bonds were issued by Law Debenture Finance p.l.c. and guaranteed by the Company. The £40m nominal tranche, which produced proceeds of £39.1m, 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 £75m nominal tranche, which produced proceeds of £74.5m, 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 £151.2m at 31 December 2019 (2018: £136.1m) would have the effect of decreasing the year end NAV by 31.29p (2018: 18.56p). 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 (2018: 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 provided a guarantee in respect of liabilities that could arise from its US corporate trust business in the period before the business was sold. The guarantee ended in 2019.

23. Right-of-use asset and lease liability

Changes in significant accounting policies: IFRS 16 'Leases'

This note explains the impact of the adoption of IFRS 16 Leases on the financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees and replaces IAS 17, effective from 1 January 2019.

This is the first set of the Group's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in note 1.

i) Definition of a lease

Previously the Group determined at contract inception whether an arrangement was or contained a lease under IAS 17 and IFRIC 4. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group's leasing activities and how these are accounted for

The Group leases various office properties. Rental contracts are typically made for fixed periods of 1 to 10 years and lease terms are negotiated on an individual basis.

As a lessee, the Group previously classified leases as either operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership.

The right-of-use model under IFRS 16 replaces the risks and rewards model in IAS 17, thereby the distinction between finance and operating leases is eliminated under IFRS 16.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for its office lease.

The Group has elected not to recognise right-of-use assets and lease liabilities for some short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets typically comprise IT-equipment, and under £5,000 per IFRS 16.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, adjusted for certain re-measurements of the lease liability and is presented on the face of the statement of financial position.

Lease liabilities are presented in trade and other payables in the statement of financial position, initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used. Generally, the Group uses its incremental borrowing rate as the Group's borrowing rate which is 4.589% as of 1 January 2019.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change to future lease payments arising from a change in an index rate, a change in the estimate of the amount expected to be payable under the residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

ii) Transition

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate of 4.589% as of 1 January 2019.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- for leases previously accounting for as operating leases with a remaining lease term of less than 12 months the Group has applied the optional exemptions not to recognise right-of-use assets but to account for the remaining lease expense on a straight-line basis over the remaining lease term;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4.

iii) Impacts of transition

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the company recognised £2,009,000 of right-of-use assets and (£2,009,000) of lease liabilities as at 1 January 2019.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	GROUP
	£000
Total operating lease commitments disclosed at 31 December 2018	2,242
Recognition exemptions: Recognition exemption for leases with less than 12 months of lease term at transition and other reasons	(73)
Operating lease liabilities before discounting	2,169
Discounted using incremental borrowing rate	(160)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	2,009

The subsequent values at 31 December 2019 were £1,057,000 of right-of-use assets and (£1,080,000) of lease liabilities.

Right -of-use asset

Additional information on the right-of-use assets is as follows:

	GROUP	
	Office building leases £000	Total Right-of-use assets £000
Opening balance at 1 January	2,009	2,009
Leases signed in year	149	149
Depreciation	(1,101)	(1,101)
Closing NBV at 31 December	1,057	1,057

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	GROUP	
	31 December 2019 £000	31 December 2018 £000
Current	730	–
Non-Current	350	–
Total lease liability	1,080	–

iv) Prior Periods

The modified retrospective approach to IFRS 16 has been applied, whereby this standard applies to year ended 2019, but prior year comparatives are unchanged. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019 as a cumulative catch-up.

v) Future leases

In 2020, the Group will sign a lease for its London Headquarters as its current lease at 100 Wood Street expires. At the date of signing, no lease agreement has been signed by the Directors.

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 Company has appointed an independent sole trustee to oversee the governance of the 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 2019. 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 2019 is currently underway. The estimated amount of total employer contributions expected to be paid to the plan during 2019 is £0.9m (2019 actual: £0.9m).

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

The major assumptions in the 31 December 2019 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.

	2019 %	2018 %
Significant actuarial assumptions:		
Retail Price Inflation	2.9	3.2
Consumer Price Inflation	2.1	2.2
Discount rate	2.1	2.9
5% limited RPI pension increases in payment	n/a	n/a
General salary increases	n/a	n/a

	2019 years	2018 years
Life expectancy of male/female aged 65 in 2019	23.6/25.4	23.6/25.4
Life expectancy of male/female aged 65 in 2039	25.4/26.9	25.3/26.8

	2019 £000	2018 £000
The amounts recognised in the income statement are as follows:		
Interest income	(100)	–
Past service cost	–	300
Total (income)/expense recognised in the income statement	(100)	300

	2019 Allocation %	2019 £000	2018 Allocation %	2018 £000
The current allocation of plan assets is as follows:				
Equities	50	30,000	47	25,600
Bonds	9	5,600	10	5,300
Gilts	25	14,900	26	14,000
Pensioner annuities	1	700	1	700
Diversified growth funds	13	8,100	14	7,700
Other	2	1,200	2	800
Total	100	60,500	100	54,100

	2019 £000	2018 £000
Reconciliation of present value of defined benefit obligation		
At 1 January	51,600	57,300
Interest on plan liabilities	1,500	1,300
Actuarial losses/(gains) due to:		
Experience on benefit obligations	(100)	–
Changes in financial assumptions	6,200	(5,100)
Changes in demographic assumptions	–	(600)
Benefits paid	(1,400)	(1,600)
Curtailments and settlements	–	300
At 31 December	57,800	51,600

	2019 £000	2018 £000
Reconciliation of fair value of plan assets		
At 1 January	54,100	57,600
Interest on plan assets	1,600	1,300
Actual returns net of interest	5,300	(4,100)
Contributions by the employer	900	900
Benefits paid	(1,400)	(1,600)
At 31 December	60,500	54,100

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).

24. Pension commitments continued

	2019 £000	2018 £000
Movement in the net defined benefit obligations		
(Asset) at 1 January	(2,500)	(300)
(Income)/expense charged to profit and loss	(100)	300
Amount recognised outside of profit and loss	800	(1,600)
Employer contributions	(900)	(900)
Closing net (assets) at 31 December	(2,700)	(2,500)

	2019 £000	2018 £000
Plan assets and obligations		
Present value of defined benefit obligation	57,800	51,600
Fair value of plan assets	(60,500)	(54,100)
(Asset)/deficit	(2,700)	(2,500)

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:

	2019 £000	2018 £000
Dividends from subsidiaries	3,000	8,500
Interest on intercompany balances charged by subsidiaries	2,562	2,562
Management charges from subsidiaries	600	260

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 63 to 70. Key management personnel costs inclusive of employers national insurance are £1,529,583 (2018: £958,286).

Fees were received from J. Rothschild Capital Management Limited of £17,369 (2018:nil) in respect of the provision of sole trustee services to the entities pension scheme. J. Rothschild Capital Management Limited is a related party to a Director of the Group.

26. Movement in borrowings

Under IAS 7, the movement in borrowings in the year are as follows:

GROUP	31 December 2019 £000	Non-cash items movement £000	31 December 2018 £000	Non-cash items movement £000	31 December 2017 £000
Long-term borrowings					
6.125% guaranteed secured bonds 2034	39,606	28	39,578	26	39,552
3.77% secured senior notes 2045	74,551	17	74,534	18	74,516
	114,157	45	114,112	44	114,068
COMPANY					
Long-term borrowings					
3.77% secured senior notes 2045	74,551	17	74,534	18	74,516
	74,551	17	74,534	18	74,516

The Group had no short-term borrowings in 2019 (2018: nil).

27. Distributable reserves

All historical dividend payments have been made from revenue reserves. The Group has retained earnings to pay 1.3 years of dividend at the current level. The Group has realised capital reserves of £515,708,000 including distributable capital reserves and retained earnings, which would allow 16.8 years of dividend payments at the current level. The Group does not intend to make dividend payments from capital reserves.

CORPORATE INFORMATION

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 38 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:	
Three interim dividends	Announced in June, September and December
	Paid, July, October and January
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 pages 98 and 99, 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	38/39 Fitzwilliam Square, Dublin 2, 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	919 N Market St, Suite 725, 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 130th annual general meeting of the Company will be held on 7 April 2020 at 11.00am at the Pewterer's Hall, Oat Lane, London EC2V 7DE for the following purposes:

Ordinary resolutions

1. **To receive the report of the Directors, the strategic report and the audited accounts and the auditor's report for the year ended 31 December 2019.**
2. **To approve amendments to the Company's remuneration policy.**
3. **To receive and approve the Directors' remuneration report for the year ended 31 December 2019.**
4. **To declare a final dividend of 19.4p per share in respect of the year ended 31 December 2019.**
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 re-elect Katie Thorpe as a Director.**
11. **To elect Claire Finn as a Director.**
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 £296,084;

(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 resolutions

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 £296,084 (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 17,753,225 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;

(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 2020
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 16 April 2020 to shareholders on the register on the record date on 13 March 2020.

5. **Resolution 2** 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 pages 50 and 51.

6. **Resolution 3** is to receive and approve the Directors' remuneration report for the year ended 31 December 2019. The remuneration report, which follows the format required by the relevant regulations, is set out at pages 50 to 70 of the annual report.

7. **Resolution 5:** Denis Jackson offers himself for re-election. The Board supports his re-election. Denis continues to lead the effective implementation of strategy across the Group, and has been instrumental in increasing the profits of the IPS business, as discussed within the annual report. This increase in profits continues to enhance shareholder value. His biography is included on page 72 of the annual report.

8. **Resolution 6:** Robert Hingley offers himself for re-election. The Board supports his re-election. Robert has continued to evidence his abilities 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 Officer have found extremely helpful. His biography is included on page 72 of the annual report.

9. **Resolution 7:** Robert Laing offers himself for re-election. The Board supports his re-election. The Board continues to believe that its effectiveness is enhanced by having Robert Laing as a Non-Executive Director with a legal background and experience of one or more of the professional services sectors where Law Debenture operates. He is an effective Senior Independent Director and Chairman of the Remuneration Committee. His biography is included on page 73 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 73 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 73.

12. **Resolution 10:** Katie Thorpe offers herself for re-election. The Board supports her re-election. Katie has a sound understanding of both the investment trust and the IPS business and her experience in the investment trust sector in particular has been of great value to Law Debenture and how the businesses operate. She works effectively with Denis Jackson to deliver enhanced shareholder value. Her biography is included on page 72.

13. **Resolution 11:** Claire Finn offers herself for election. The Board supports her election. Claire joined the Board in September 2019. The Board recognises the value of having a Director with fund product competence and distribution experience which Claire is able to provide. Her biography is include on page 73.

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 296,084 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 296,084 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).

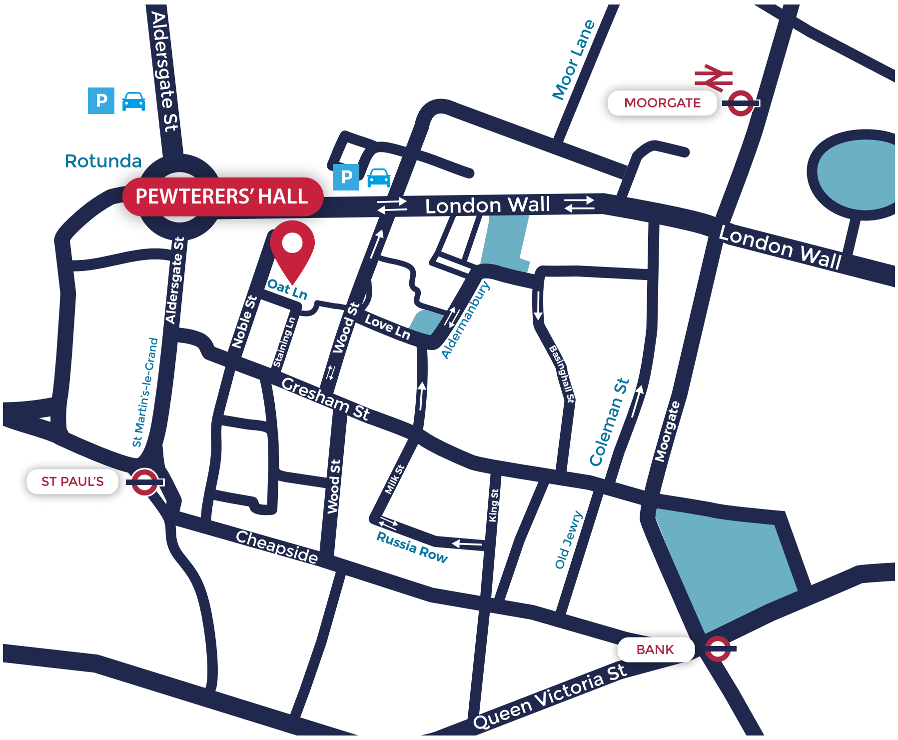
19. **Meeting notice requirements** – the Company is required under the Act to make a number of additional disclosures as follows. The Company's website – www.lawdebenture.com/investment-trust/shareholder-information/corporate-governance/agm – contains a copy of this notice, which includes the current 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 2020 of 118,433,786 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 118,433,786.

Annual general meeting venue

Pewterers' Hall, Oat Lane, London EC2V 7DE



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.

The Law Debenture Corporation p.l.c. Fifth Floor, 100 Wood Street, London EC2V 7EX
Tel: 020 7606 5451 | **www.lawdebenture.com**