

Law Debenture

Annual Results 2015



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Presented by

Law Debenture

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- In September 2015 long term gearing was increased from £40 million to £115 million, following issue of £75 million fixed rate 30 year notes at 3.77% per annum.
- Short term borrowings of £30 million repaid. Ongoing effective interest rate 4.589%, currently all receiving tax relief against IFS business trading profits.
- IFS business fair valued at 31 December 2015. Historic financial and performance data restated with assistance of AIC and Morningstar.

- Board has concluded it will provide a better understanding of NAV/share price for individual shareholders.
- Accounts not amended to incorporate fair value, however, methodology and value disclosed in notes to the accounts. Based on EBITDA multiple of 8.4 (2014:8.9)
- Fair value does not take into account full value to shareholders, as guidelines and methodology require standalone basis. Value of tax relief from investment trust is excluded. The tax charge in 2015 was reduced by £1,169,000

Revenue and charges

	2015	2014	Change
	Pence	Pence	%
Investment trust	11.01	10.08	+9.2
Independent fiduciary services	7.09	6.87	+3.2
Total revenue earnings per share	18.10	16.95	+6.8
Dividends per share	16.20*	15.70	+3.2
Ongoing charges	0.46%	0.47%	

* Subject to shareholder approval

Financial performance

	2015	2014	2013	2012	2011
Share price total return (1)	(3.0)	3.1	28.3	32.0	(2.9)
NAV total return (2)	(0.3)	2.8	29.4	15.6	(0.1)
FTSE Actuaries All-Share Index total return	1.0	1.2	20.8	12.3	(3.5)

(1) Source AIC

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

Net asset value and retained revenue reserves

	Pence
NAV at 31 December 2014 at fair value after final dividend	531.35
Capital return	(21.93)
Revenue return	18.10
Dividends	(16.20)
Change in fair value of debt	1.33
Foreign exchange, pension and movement in shares	0.89
NAV at 31 December 2015	<u>513.54</u>
Investment Trust	436.89
Independent fiduciary services	76.65
	<u>513.54</u>
Retained revenue reserves	22.60

NAV and discount

	2015 Pence	2014 Pence
Share price	498.00	530.00
NAV per share after proposed final dividend at fair value (1)	513.54	531.35
	%	%
Discount	(3.0)	(0.2)

(1) At 31 December

Long Term Performance

	5 years	10 years
	%	%
NAV total return (1)	53.2	124.0
FTSE Actuaries All-share index total return (2)	33.8	71.8
Share price total return (2)	64.4	146.1
Change in retail price index (2)	13.7	33.7
Investment trusts (Global) (3)	57.7	129.7
Unit trusts/OEICs (Global) (3)	32.8	69.3
Investment trusts (UK all companies) (3)	54.6	93.3
Unit trusts/OEICs (UK all companies) (3)	42.7	77.9

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

(2) Source AIC

(3) Source: IMA/Morningstar – produced by Canaccord Genuity

Summary of revenue returns 2015

	Investment portfolio £000	Independent fiduciary services £000	Total £000
Income	19,030	30,555	49,585
Cost of sales	-	(3,461)	(3,461)
Administration costs	(2,926)	(17,485)	(20,441)
	16,104	9,609	25,713
Interest (net)	(3,117)	(390)	(3,507)
Return, before taxation	12,987	9,219	22,206
Taxation	-	(847)	(847)
Return, after taxation	12,987	8,372	21,359
Standalone return per ordinary share	11.01	6.10	17.11
Tax benefit of structure*	-	0.99	0.99
Revenue return per share	11.01	7.09	18.10
Retained revenue reserves			22.60

*Tax benefit enhanced group revenue by 5.8% in 2015

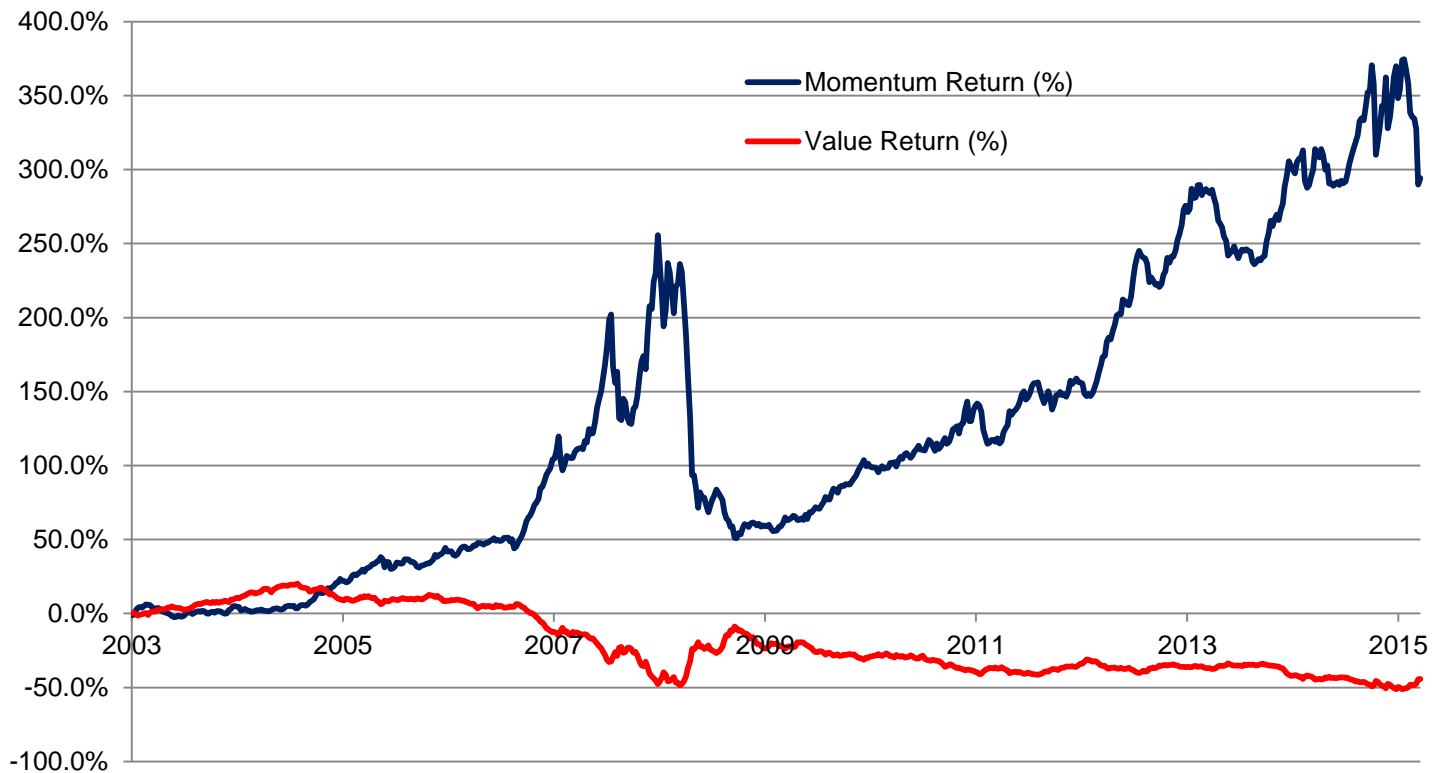
Investment trust

	2015 £000	2014 £000	Change %
Revenue			
UK dividends	16,456	14,685	12.1
Overseas dividends	2,549	2,128	19.8
Interest from securities	-	103	
Other	25	60	
	19,030	16,976	
Expenses	(2,926)	(2,606)	12.3
	16,104	14,370	
Interest			
Debenture interest	(3,199)	(2,450)	
Inter-company interest	82	(48)	
	12,987	11,872	
Tax	-	-	
Total	12,987	11,872	9.4
Return per ordinary share	11.01p	10.08p	9.2

- Aim to achieve a better return than the FTSE All Share.
- Stock picking valuation based approach.
- Overseas holdings bring exposure to opportunities that cannot be found in the UK stock market.
- The equity portfolio is expected to provide good dividend growth over long term.
- Gearing 12% at year end (2014: 5%).

Momentum has outperformed value since the financial crisis

Can this continue indefinitely?



Investing the proceeds of the debenture

Adding to positions at attractive valuations

New positions in:

- Ibstock
- Anglo American
- Standard Chartered
- Johnson & Johnson
- Apple

Added to positions in:

- Royal Dutch Shell
- Rolls-Royce
- Weir Group
- International Personal Finance
- Elementis

Investment equity portfolio
Asset breakdown at 28 February 2016

	%
UK	72
Europe	7
USA	10
Japan	3
Far East	6
Other	2
<hr/>	
Total	100
Equity Gearing	17.4
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Total Gearing	14.7

Major contributors to performance for 2015

Biggest rises by value

Company	Value appreciation	Portfolio valuation
	£000	%
1 Amlin	4,525	1.8
2 Redrow	3,748	1.2
3 Bellway	2,912	0.8
4 Marshalls	2,911	1.6
5 Provident Financial	2,497	1.5

Biggest falls by value

Company	Value depreciation	Portfolio valuation
	£000	%
1 Glencore	(6,265)	0.8
2 Velocys	(5,992)	0.4
3 Rio Tinto	(4,753)	1.7
4 Royal Dutch Shell	(4,506)	1.9
5 Senior	(4,228)	2.1

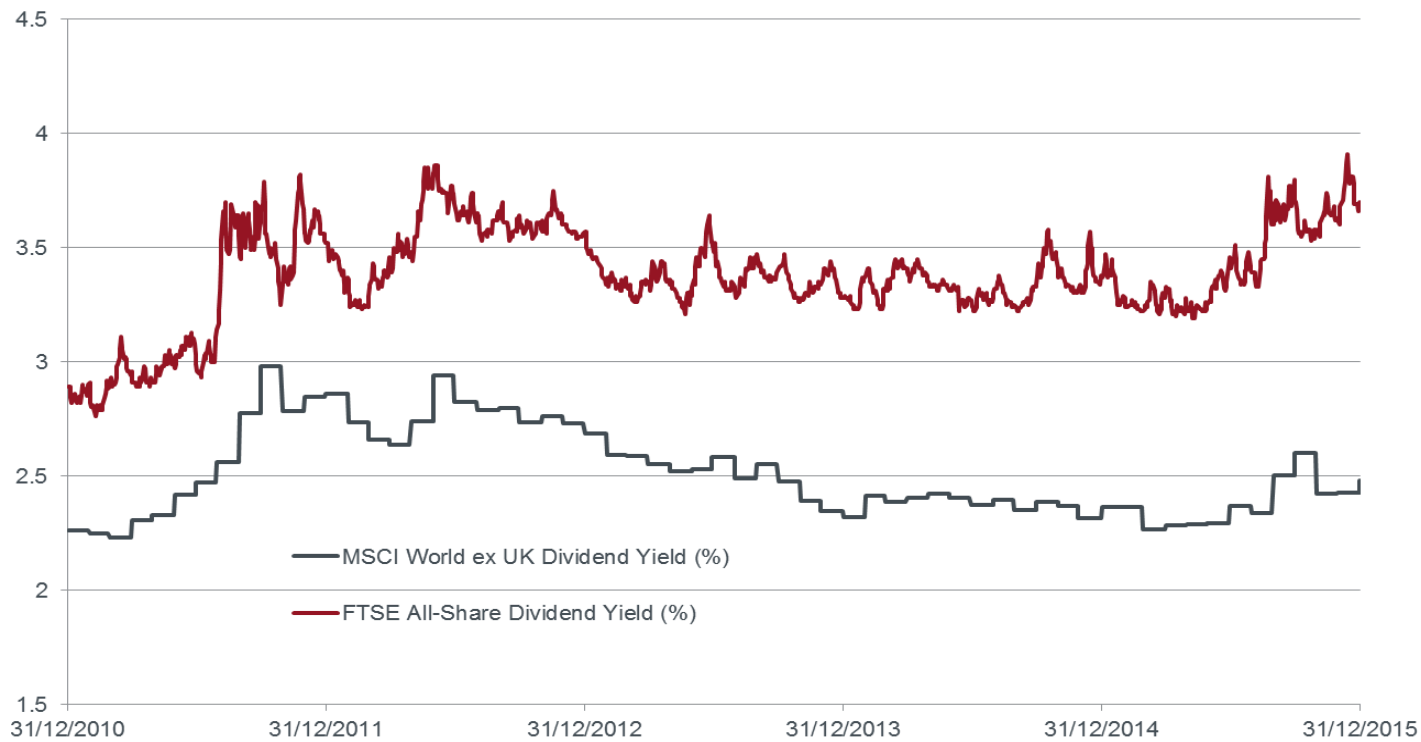
UK portfolio Sector breakdown of direct equity holdings at: 28 February 2016

Size biases	Law Debenture
	%
Industrials	30
Financials	19
Consumer Services	12
Basic Materials	11
Oil & Gas	9
Consumer Goods	8
Health Care	6
Utilities	3
Telecommunications	1
Technology (including Herald)	1
Total	100

UK portfolio (cont'd)
Ten largest holdings at: 28 February 2016

		%
1	Royal Dutch Shell	2.7
2	GKN	2.0
3	BP	2.0
4	Senior	1.9
5	HSBC	1.8
6	Smith (DS)	1.7
7	GlaxoSmithKline	1.7
8	Hill & Smith	1.6
9	Rio Tinto	1.6
10	IP Group	1.6

UK dividends still look attractive on a global basis



Source: Datastream as at 31st December 2015

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

IFS Objectives

- To grow the business safely. Management look for opportunities to stretch the brand, but are risk averse.
- To help the investment trust grow earnings so that dividends to shareholders can increase.
- To maintain the tax efficiency of the group to enhance the returns to shareholders.

Independent fiduciary services summary

- Underlying income flat relative to 2014.
- Costs remain stable and controlled.
- Overall profit before tax down 0.9% from 2014.
- Effective tax rate of 9.2%, benefitting from relief of investment trust costs and reduction in UK tax rate.
- Revenue per share up 3.2% to 7.09p, which represents 39% of group revenue.

Independent fiduciary services

	2015 £000	2014 £000	Change %
Revenue	30,555	32,526	(4.8)
Cost of sales	(3,461)	(5,291)	(26.8)
Underlying income	27,094	27,235	(0.5)
Administration costs	(17,485)	(17,625)	(0.8)
	9,609	9,610	
Interest (net)	(390)	(310)	
Return, including profit on ordinary activities before taxation	9,219	9,300	(0.9)
Taxation	(847)	(1,199)	(29.3)
Return, including profit attributable to shareholders	8,372	8,101	3.3
Return per ordinary share	7.09p	6.87p	3.2

- Our income is generated by acceptance fees on new business, annual trustee fees and fees for post-issuance work which may arise from restructurings, ratings down grades and other actions required by the trust deed.
- New business in UK Corporate trust had a good 2015 including: new issuances for National Grid, Vodafone and trustee for project finance for International Finance Corporation.
- Also involved in acting as security trustee on a number of aircraft financing structures for Emirates, Iberia and Qatar Airways.
- Our recognised independence as an impartial third party continues to enable us to secure many escrow agent appointments.
- Our role in the US, as separate trustee, continues to develop, however bankruptcy/successor trustee market remains at historic low levels.

- Our pension trusteeship service had another good year in a market environment that continues to change.
- An increased focus on defined contribution schemes and the continued refinement of the needs of final salary schemes provided an increasing demand for our services, especially as chair of trustees.
- The performance of our sole trusteeship services, where we act as the sole trustee of final salary schemes and deliver one-stop governance cost effectively, continues to show progress.
- Our governance and board effectiveness business is still in demand in what has become a highly competitive market.

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

- Our long established and highly regarded service of process business had another solid year.
- The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) saw some gains, despite sluggish securitisation markets.
- New appointments were secured for clients including Virgin Money and Blackrock.
- We continued to win new customers with company secretarial, M&A and corporate governance appointments.

- Our external whistleblowing service had another successful year with a considerable number of new appointments.
- As pressure increases from regulators, both in the UK and around the world, more and more organisations are looking to enhance their compliance programmes. This has been particularly evident in the financial sector, with the FCA looking to promote a culture where individuals feel able to raise concerns and challenge poor practice and behaviour and for well know brands concerned with non compliance with their environmental and social responsibilities harming their reputations.
- Notable appointments during 2015 included Clydesdale Bank, SSE, Paddy Power, UBM & Aer Lingus.

Conclusion

- We expect that 2016 will be another flat year. Wider uncertainties surrounding commodities and the emerging markets are not good news for some of our businesses. Nor is the threat of a Brexit.
- We will continue to keep under review the range of services that we offer and remain open to any prospect that might allow us safely to grow the IFS businesses.
- We remain committed to cost control and maintaining our professional standards.

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