LawDebenture

April 2022

Law Debenture's investment proposition

A proud history

133 years of value creation for shareholders

Strength and diversity of income

Flexibility and valuation uplift from IPS + consistent portfolio outperformance

Proven record delivering consistent long and short-term share price outperformance

126.3% outperformance of our benchmark and the FTSE Actuaries All-Share Index for over ten years (51.0% over five years and 40.4% over three years)

Low ongoing charges ratio of 0.50% compared to industry average of 1.05%

Consistent dividend growth

43 years of increasing or maintaining dividends to shareholders (104% increase in dividend over the last ten years)

8% CAGR dividends over the last 10 years

5.5% increase in 2021 DPS

42% of total 2021 dividend funded by IPS

IPS has a proven record of growth under the management team

CAGR of 11.3% for revenue and 8.5% for EPS over last four years

Ambition to grow profits of IPS by mid to high single percentage growth

IPS valuation has increased by 115% between 2017 and 2021 to £166m

IPS enables greater flexibility in portfolio holdings

IPS accounts for 18% of the 2021 NAV but has funded 36% of dividends over the last 10 years

Drivers of long-term outperformance in investment portfolio

UK weighting (82% portfolio) has potential to outperform

UK has lagged global stock markets

Around half of earnings of the FTSE 100 come from outside the UK

Significant UK valuation discount has attracted significant M&A activity

1. Law Debenture: A highly differentiated and unique business model

Total Shareholder Return

Investment Portfolio

~ 82% NAV

- Equity portfolio managed by James Henderson and Laura Foll of Janus Henderson
- Selective, bottom-up approach, diversified by sector and geography
- Objective to achieve long term capital growth in real terms and steadily increasing income in excess of the Trust's benchmark (FTSE All-Share Index)
- Regular IPS revenues create greater flexibility in stock selection
- Strong track record and history of outperformance

Independent Professional Services (IPS)

~ 18% NAV

- Trusted, professional, independent third party provider:
  - Pensions
  - Corporate Trust
  - Corporate Services
- International presence: UK, Cayman Islands, Channel Islands, Delaware, Dublin, Hong Kong and New York
- Increases the ability to pay dividends to shareholders
- Tax efficient

2. Investment Portfolio: Outperformance over 1, 3, 5 and 10 years

	1 year %	3 year %	5 year %	10 year %
NAV total return[1] (with debt at par)	23.1	49.3	59.7	199.2
NAV total return[1] (with debt at fair value)	25.1	47.3	59.4	187.7
FTSE Actuaries All-Share Index Total Return[2]	18.3	27.2	30.2	110.7
Share price total return[2]	19.2	67.6	81.2	237.0
Change in Retail Price Index[2]	7.5	11.2	18.9	32.7

Investment performance as at 31 December 2021

What does the combination with IPS bring to the portfolio?

- Key driver of long-term outperformance – allows flexibility to:
  - Hold zero/low dividend yield shares
  - Avoid high dividend yield industries in structural decline
  - Invest flexibly overseas

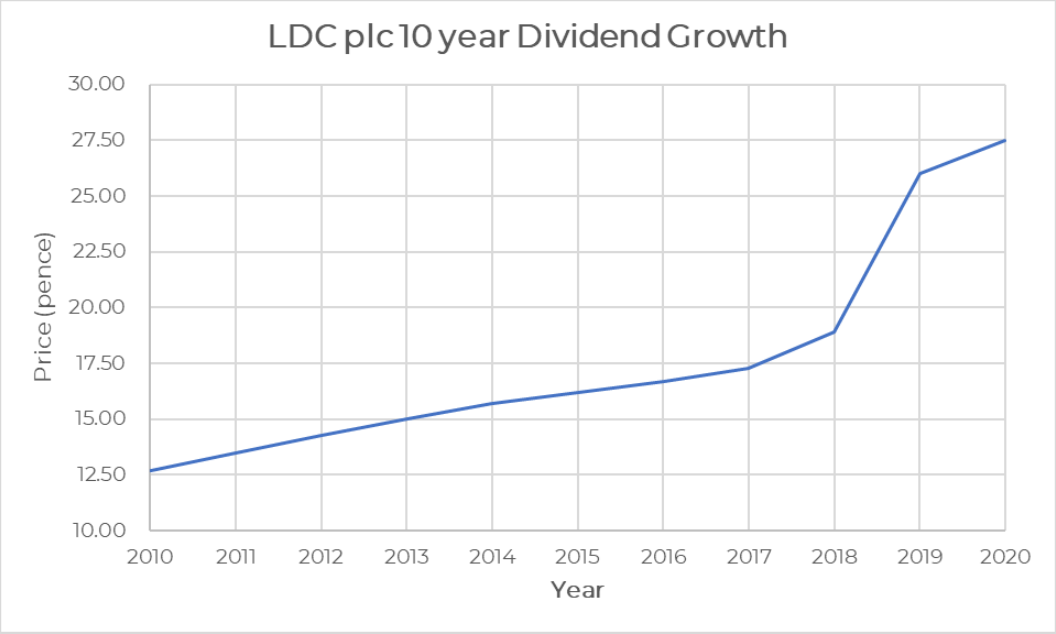
- Underpins the dividend of the Trust – this was particularly important in years like 2020 and 2021.

1 NAV is calculated in accordance with the AIC methodology, based on performance data held by Law Debenture including fair value of the IPS business and long-term borrowings. NAV is shown with debt measured at par and with debt measured at fair value
2 Source: Office for National Statistics.

3. Investment Portfolio: Dividend performance over 1, 3, 5 and 10 years

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Dividends (pence)	14.25	15.00	15.70	16.20	16.70	17.30	18.90	26.00	27.50	29.00
Share price (pence)[1]	425.0	529.0	530.0	498.0	530.0	629.0	540.0	650.0	690.0	799.0
(Discount)/premium (%)[1]	0.1	(2.4)	(2.3)	(5.1)	(11.4)	(6.0)	(12.1)	(7.4)	3.6	1.4
NAV at fair value (pence)[1]	424.7	541.8	542.3	524.5	598.5	669.5	614.1	702.2	666.2	787.8
Market capitalisation (£m)[1]	501.9	625.0	627.1	589.3	627.2	744.5	639.3	769.8	817.3	982.1

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.



4. IPS: What Professional Services businesses make up IPS?

Pensions	Corporate Trust	Corporate Services
The longest established and largest provider of independent pension trustees in the UK	A leading independent corporate trustee across international capital markets	Highly regarded range of outsourced solutions to corporates Including - Company Secretarial - Accounting - Service of Process

- Trusted, professional and independent
- High quality reputation and brand strength in core markets
- Excellent record of customer retention
- **Strong repeat revenues, around two thirds from on-going contractual commitments**
- Cost base kept under control
- **IPS grew its revenues by 20.6%, with PBT up 9.1% and EPS up 7.0% compared to 2020[1]**
- Acquisition of Company Secretarial business from Eversheds Sutherland 24th January 2021

1 As disclosed in the 2021 Full Year Report, the material increase in revenue was driven primarily by the acquisition of CSS

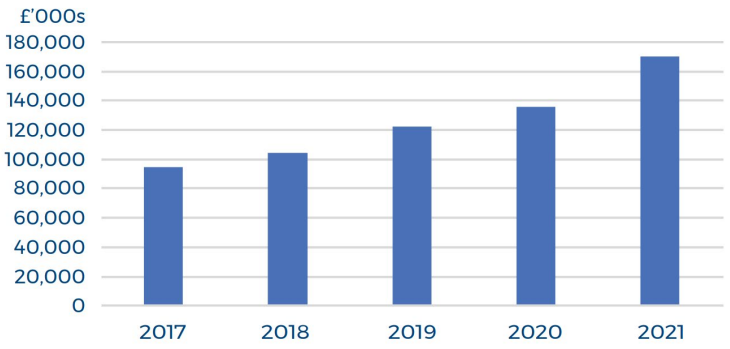
5. IPS: Revenue Breakdown

DIVISION	Net revenue 2019 £000	Net revenue 2020 £000	Net revenue 2021 £000	Growth 2020/2021 %
Corporate trust	9,024	10,788	9,772	(9.4)%
Pensions	10,598	11,479	13,060	13.8%
Corporate services	12,167	12,226	18,755	53.4%
Total	31,789	34,493	41,587	20.6%

Net revenue is calculated by reducing segment income for cost of sales.
Corporate services: 2021 includes additional revenue arising from the acquisition of the CSS business from Eversheds Sutherland (International) LLP.

- Diverse mix of revenue streams has held up well in the light of COVID-19.
- **IPS business provided 36% of Group Earnings per Share in 2021**
- Objective of mid to high single digit organic growth delivered in 2020 and 2021 against the backdrop of COVID-19, highlighting the strength and diversity of the revenue base.
- Valuation of the fair value of the IPS business has increased by 115% in 5 years to £165m[1].

TOTAL IPS FAIR VALUE



1 As disclosed in the 2021 Full Year Report.

6. IPS: In Summary

- **Favourable cash generating characteristics:**
  - High margins and high return on capital.
  - Proven track record of delivery of mid-to-high single digit growth.
  - Approximately 2/3 of revenues are highly repeatable.
  - Strong free cash flow offers bolt-on/cash reinvestment opportunities and underpins the dividend.

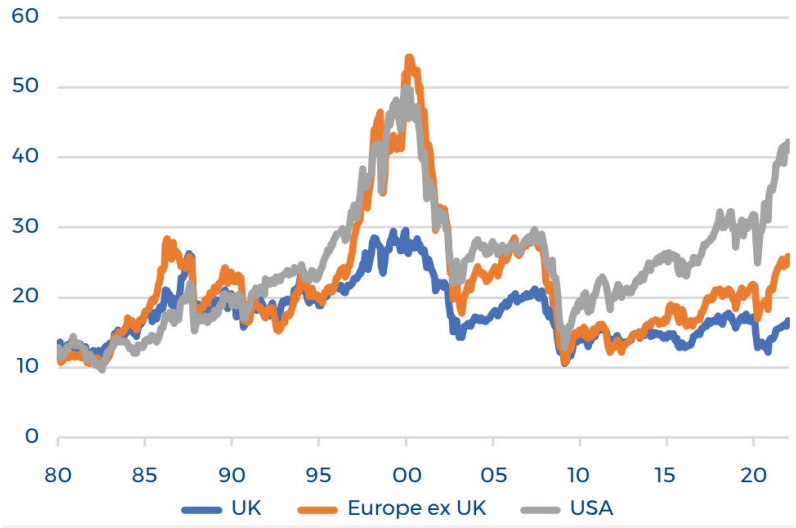
- **But we must invest to maintain and circulate the growth:**
  - On-going investment in technology/quality of service, people, reputation and clients.
  - Increased and more proactive promotion of our businesses and a focus on new products.
  - Continue to strengthen our team to support our growth objectives, with an eye always to the bottom line.

- **And we must explain ourselves better:**
  - Pro-active in our engagement with our stakeholders, enhancing our communication and improving transparency to better tell the Law Debenture story.

7. Investment Portfolio: Investment approach

- Investment objective: long term capital growth in real terms and steadily increasing income.
- Selective, bottom-up approach, deliberately diversified by sector and geography.
- Valuation-driven process, **aims to identify market leading, high quality companies that are undervalued at the point of purchase.**
- Overseas stocks used selectively where there is no UK equivalent.

CYCLICALLY-ADJUSTED P/E OF THE UK VERSUS OTHER GLOBAL EQUITY MARKETS



- UK weighting (82% portfolio) has potential to outperform:
- UK has lagged global stock markets
- More than half of earnings of the FTSE 100 come from outside the UK
- UK valuation discount has attracted significant M&A activity

Source: Citigroup as at 31 December 2021

8. Investment Portfolio: Drivers of short-term outperformance

Calendar year 2021 stock attribution

Largest absolute contributors to performance over 1 year:	Largest absolute detractors from performance over 1 year:
1. Royal Mail	1. AFC Energy
2. Applied Materials	2. Ceres Power
3. BP	3. Simec Atlantis
4. Royal Dutch Shell	4. ITM Power
5. Senior	5. Flutter Entertainment

Based on performance as at 31st December 2021. Figures on a total return, GBP basis. Source: Janus Henderson

9. Investment Portfolio: Drivers of long-term outperformance

Largest stock contributors to relative performance over 5 years:
1. Ceres Power
2. British American Tobacco (not held)
3. ITM Power
4. Microsoft (no longer held)
5. HSBC (underweight)

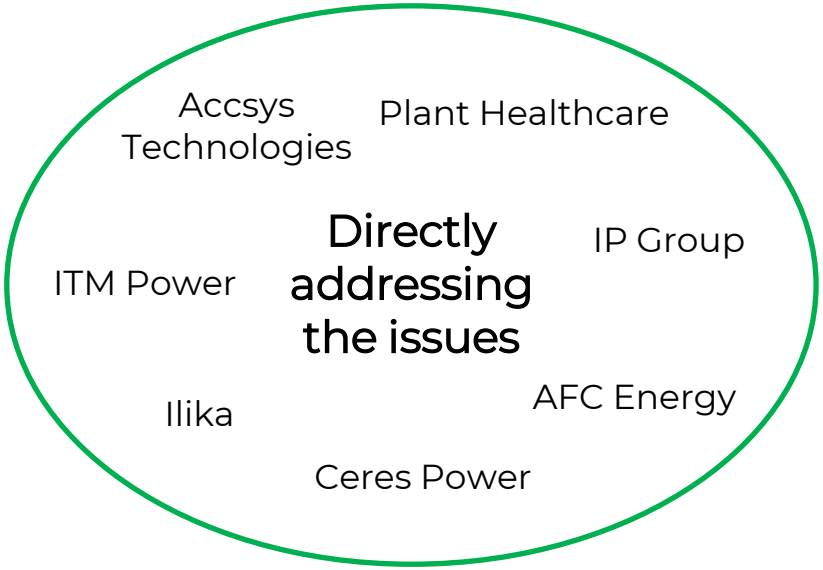
Key drivers of outperformance:

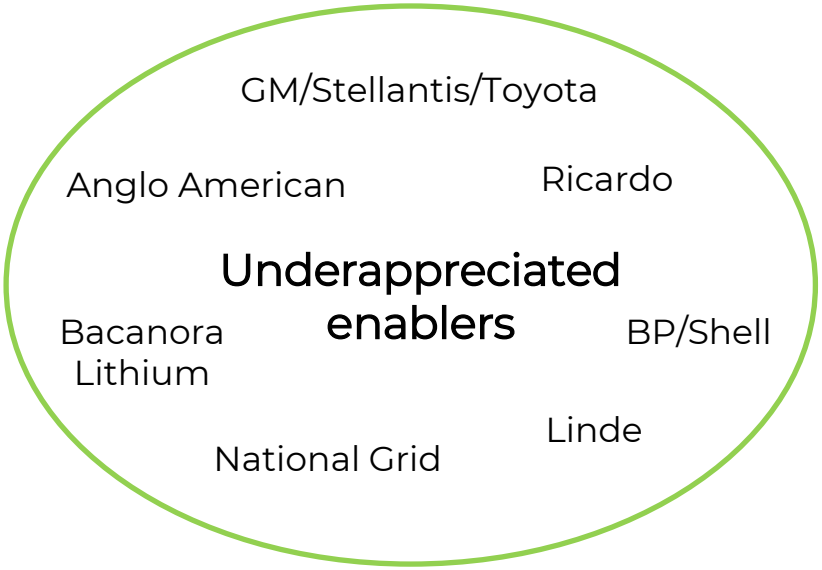
- Ability to hold zero/low dividend yield shares (eg Ceres Power, ITM Power)
- Ability to avoid high dividend yield industries in structural decline (eg; BAT)
- Ability to go flexibly overseas (eg; Microsoft)

Based on performance as at 31st December 2021. Source: Janus Henderson

10. Investment Portfolio: ESG integration

ESG seen as an **investment opportunity** - identifying companies with 'ESG tailwinds'





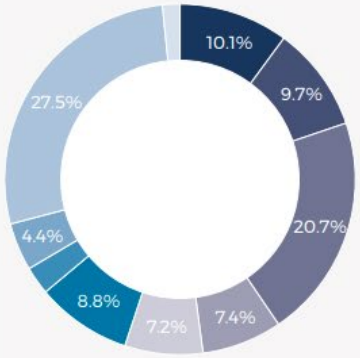
Source: Law Debenture. Portfolio as of 31 December 2021

11. Investment Portfolio: Current positioning

Top Equity Portfolio Holdings (%)

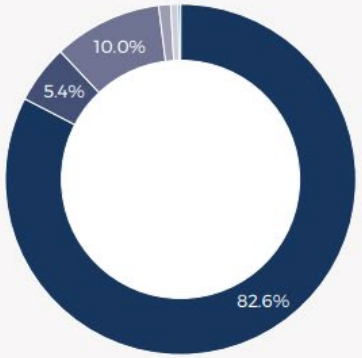
1	GlaxoSmithKline	2.7
2	Royal Dutch Shell	2.1
3	Barclays	2.0
4	HSBC	2.0
5	BP	1.9
6	Rio Tinto	1.9
7	Accsys Technologies	1.6
8	Herald Investment Trust	1.5
9	National Grid	1.5
10	Severn Trent	1.5

Sector Breakdown



Oil & Gas	10.1%
Basic Materials	9.7%
Industrials	20.7%
Consumer Goods	7.4%
Health Care	7.2%
Consumer Services	8.8%
Telecommunications	2.6%
Utilities	4.4%
Financials	27.5%
Technology	1.6%

Regional Breakdown



United Kingdom	82.6%
North America	5.4%
Europe	10.0%
Japan	1.1%
Other Pacific	0.7%
Other	0.2%

Source: Law Debenture. Portfolio as of 31 December 2021

12. Investment Portfolio: Where are we adding?

- The UK:
  - £55mn (net) invested in the UK portfolio in 2021
  - Continues to trade at a valuation discount to other developed equity markets.
  - Recent portfolio takeover activity helps validate our view (eg Blue Prism, Meggitt, RSA)

- Purchasing well-managed and market leading businesses poised to adapt to higher inflation:
  - Pharmaceuticals (new positions in 2021 in Sanofi and Merck)
  - Specialist retailers (new positions in 2021 in Kingfisher and Vertu Motors)
  - Consumer staples with pricing power (new position in 2021 in Reckitt Benckiser)

Source: Law Debenture as at 31 December 2021

Henderson GLOBAL INVESTORS

13. Investment Portfolio: Conclusion

- The IPS business and the portfolio being managed under the same Trust 'umbrella' allows greater breadth in the investible universe and underpins the Trust's income for shareholders.

- As portfolio managers we need to take full advantage of this flexibility relative to other UK income Trusts, seeking to identify the best total return opportunities across the whole market.

- OCR 50 bps.

Source: Janus Henderson, as at 31 December 2021

Henderson GLOBAL INVESTORS

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43 years of increasing or maintaining dividends to shareholders

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Flexibility and valuation uplift from IPS + consistent portfolio outperformance

Proven record delivering consistent long and short-term share price outperformance

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IPS has a proven record of growth under the management team

CAGR of 11.3% for revenue and 8.5% for EPS over last four years

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

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