The Law Debenture Corporation p.l.c.

25 February 2022

Amendment:

The Law Debenture Corporation p.l.c. notes amendments to the announcement of its Annual Financial Report for the period ended 31 December 2021, dated 25 February 2022 (the "original announcement"). Such amendments relate to:

- the table titled "IPS net revenue and PBT – 5 year performance", which is set out after the Chief Executive Officer's review. The table has been corrected by inverting corporate trust and pensions in the "Department" column of the table; and
- the table of comparable companies used in the valuation of the IPS business, which is set out under the heading "Valuation of our IPS business". The Law Debenture Corporation p.l.c.'s IPS Revenue CAGR for 2017 – 2021 has been changed from 10.5% to 11.3%.

There have been no other changes to the original announcement.

## Strong track record for consistent long-term outperformance and dividend growth continues

The Law Debenture Corporation p.l.c. ("Law Debenture") today published its results for the year ended 31 December 2021.

### Group Highlights

- NAV total return with debt and IPS at FV for 2021 of 25.1%, outperforming the FTSE Actuaries All-Share Index by 6.8%
- Another year of strong performance from the Independent Professional Services business (IPS) with profit before tax up by 9.1% and valuation up 32.4%[2] to £166m
- The capital structure has been reviewed to support further investment, resulting in the issuance of 4.5 million new ordinary shares at a premium to NAV, to existing and new investors, with net proceeds of £32.9m. Two tranches of long-term debt, with a total value of £50m, were also issued, with an average coupon of 2.54%
- Continued low ongoing charges of 0.50%, compared to the industry average of 1.05%
- Winner of Investment Week's UK Income Sector Investment Trust of the year

### Dividend Highlights

- 2021 FY dividends increased by 5.5% to 29.0 pence per ordinary share (2020: 27.5p)
- Dividend yield of 3.7%[i], Q4 dividend of 8.375 pence per ordinary share
- 13.8% CAGR in dividends over last four years

### Investment Highlights

- Law Debenture has consistently outperformed its benchmark on short- and longer-term performance measures

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

### IPS Highlights

- The Group's leading wholly-owned independent provider of professional services is a key differentiator to other investment trusts
- Profits before tax are up 9.1% and earnings per share are up 7.0% on prior period, reflecting consistent growth under new management team, funding over a third of the increased 2021 full year dividend
- IPS CAGR of 8.5% for EPS over last four years
- Fair value of the IPS business increased by 32.4%[2] in 2021 to £166m and by 114.5% 2017-21
- IPS accounts for 18% of 2021 NAV but has contributed 36% of cashflows over last 10 years
- Board's ambition to continue to grow IPS at mid to high single digits

### Longer-Term Record

- 133 years of value creation for shareholders
- 43 years of increasing or maintained dividends to shareholders
- 104%[3] increase to dividends over last 10 years

### Robert Hingley, Chairman, said:

*"Law Debenture aims to provide a steadily increasing income for our shareholders whilst achieving long-term capital growth in real terms. In 2021, we have continued to realise these ambitions, exemplified through a significant IPS valuation uplift and another good increase in our full-year dividend of 5.5%. I am pleased at the consistent long-term outperformance of our benchmark.*

*We are confident that, in the long term, the combination of a robust and well-positioned equity portfolio and continued growth in our IPS business will deliver attractive returns for our shareholders."*

### Denis Jackson, Chief Executive Officer, said:

*"2021 marked another strong year of all round progress for Law Debenture. I am particularly encouraged that IPS has now built a proven record with four consecutive years of at least mid to high single digit growth. We have invested significantly in our people, bolstering our team and capabilities and we look forward to capturing the opportunities ahead.*

*I am confident that our Investment Managers' focus on selecting strong business models and attractive valuation opportunities will enable them to continue to position the equity portfolio for future longer-term growth and outperformance.*

*I remain optimistic in Law Debenture's longer-term outlook. We are committed to growing and developing the IPS business and continuing our unbroken 43-year record of maintaining or raising the dividend."*

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### Investment Portfolio:

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

Our objective is to achieve long-term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index Total Return through investing in a diversified portfolio of stocks.

### Independent Professional Services:

We are a leading provider of independent professional services, built on three excellent foundations: our Pensions, Corporate Trust and Corporate Services businesses. We operate internationally, with offices in the UK, New York, Ireland, Hong Kong, Delaware and the Channel Islands.

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


| | |
|---|---|
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## Footnotes

[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] Increase in annual valuation of IPS business, excluding change in surplus net assets.
[3] Calculated on total dividend payments in respect of accounting periods ended 31 December 2012 to 31 December 2021.
[i] Based on the closing share price of 783p as at 23 February 2022

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED 31 DECEMBER 2021 (AUDITED)**

This is an announcement of the Annual Financial Report of The Law Debenture Corporation p.l.c. as required to be published under DTR 4 of the FCA Listing Rules.

The Directors recommend a final dividend of 8.375p per share making a total for the year of 29.0p. Subject to the approval of shareholders, the final dividend will be paid on 14 April 2022 to holders on the register of the record date of 11 March 2022. The annual financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK.

The financial information set out in this Annual Financial Report does not constitute the Company's statutory accounts for 2020 or 2021. Statutory accounts for the years ended 31 December 2020 and 31 December 2021 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2020 and 2021 were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2020 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2021 will be delivered to the Registrar in due course.

The financial information in this Annual Financial Report has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the UK (collectively Adopted IFRSs). The accounting policies adopted in this Annual Financial Report have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the year ended 31 December 2021. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the year ended 31 December 2020.

## Financial summary

| | **31 December 2021 £000** | 31 December 2020 £000 | **Change** |
|---|---|---|---|
| **Net Asset Value – including debt and IPS at fair value(1)** | **964,493** | 787,219 | **22.5%** |
| **Total Net Assets per the balance sheet** | **878,837** | 726,994 | **20.9%** |
| | **Pence** | Pence | |
| **Net Asset Value (NAV) per share at fair value(1)*** | **787.83** | 666.15 | **18.3%** |
| **Revenue return per share** | | | |
| **Investment portfolio** | **18.09** | 12.12 | **49.3%** |
| **Independent professional services** | **10.00** | 9.35 | **7.0%** |
| **Group charges** | **—** | 0.09 | **n/a** |
| **Group revenue return per share** | **28.09** | 21.56 | **30.3%** |

| | | | |
|---|---|---|---|
| **Capital (loss)/return per share** | **94.60** | (19.06) | **596.2%** |
| **Dividends per share** | **29.00** | 27.50 | **5.5%** |
| **Share price** | **799** | 690 | **15.8%** |
| | **%** | % | |
| **Ongoing charges(3)*** | **0.50%** | 0.55% | |
| **Gearing(3)** | **13%** | 9% | |
| **Premium/(Discount)*** | **1.4%** | 3.6% | |

**Performance**

| | 1 year<br>% | 3 years<br>% | 5 years<br>% | 10 years<br>% |
|---|---|---|---|---|
| NAV total return(2)* (with debt at par) | 23.1 | 49.3 | 59.7 | 199.2 |
| NAV total return(2)* (with debt at fair value) | 25.1 | 47.3 | 59.4 | 187.7 |
| FTSE Actuaries All-Share Index Total Return(4) | 18.3 | 27.2 | 30.2 | 110.7 |
| Share price total return(4)* | 19.2 | 67.6 | 81.2 | 237.0 |
| Change in Retail Price Index(5) | 7.5 | 11.2 | 18.9 | 32.7 |

* Items marked "*" are considered to be alternative performance measures and are described in more detail in the annual report.
(1) Please refer below for the calculation of net asset value.
(2) 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.
(3) Ongoing charges are calculated based on AIC guidance, using the administrative costs of the investment trust and include the Janus Henderson Investors' management fee, charged at the annual rate of 0.30% of the NAV. There is no performance related element to the fee. Gearing is described in the strategic report below and in our alternative performance measures in the full annual report.
(4) Source: Refinitiv.
(5) Source: Office for National Statistics.

## Mark Bridgeman's retirement

Having completed nine years on the Board, Mark Bridgeman will retire as a Non-Executive Director of the Company at the conclusion of its Annual General Meeting (AGM), scheduled to take place on 7 April 2022. The Board would like to thank him for his invaluable contributions over the years and wish him the best for the next chapter of his career.

Pars Purewal and Clare Askem will succeed Mark as Chair of the Audit and Risk Committee and designated Non-Executive Director for Workforce Engagement respectively, with effect from 7 April 2022.

## Chairman's statement

In an exciting and eventful year, Law Debenture has shown good progress against its investment objectives and I am delighted to introduce our 2021 Annual Report.

### Performance

Whilst 2021 presented further global economic uncertainty and lockdown-induced interruption, Law Debenture remained committed to delivering on its objective to produce long-term capital growth and steadily increasing income for our shareholders.

Our benchmark, the FTSE Actuaries All-Share Index, delivered a 18.3% total return, and we are pleased that the Company's share price total return marginally outperformed this with a total return of 19.2% for 2021. Additionally, the Company delivered a NAV[1] total return (with debt at fair value) of 25.1%. These achievements were anchored by the quality of our diversified equity portfolio and growing IPS business.

Long-term outperformance remains the Board's priority. Our investment managers have a strong record of share price outperformance compared to the benchmark of the FTSE Actuaries All-Share, outperforming by 40.4% over three years, 51.0% over five years and by 126.3% over ten years. We were pleased to see our performance recognised at the Investment Week Investment Company of the Year Awards 2021 where we won UK Equity Income Sector Investment Trust of the Year.

**Dividend**

In 2020, the market experienced unprecedented dividend cuts and cancellations from listed companies. Although there has been a marked improvement in the last 12 months, the residual effect of the pandemic will likely affect dividend payments for the next several years.

Given our investment objective, one of our top priorities is to gradually increase income by increasing dividend payments. It is with great pride that Law Debenture is now in its 43rd year of maintaining or increasing its dividend payments. This record is supported by the diversified nature of IPS revenues, which have funded roughly 36% of dividends over the last 10 years.

Subject to your approval, we propose paying a final dividend of 8.375 pence per ordinary share. The dividend will be paid on 14 April 2022 to holders on the register on the record date of 11 March 2022. This will provide shareholders with a total dividend of 29.00 pence per share for 2021, an increase of 5.5% compared with 2020. This represents a dividend yield of 3.7% based on our share price of 783 pence on 23 February 2022.

**Capital structure**

During the year, the Board decided to issue equity initially to refinance the £20m acquisition of the Company Secretarial Services (CSS) business from Eversheds Sutherland (International) LLP in 2021. Shares were issued if they were trading at a premium to net asset value, and so be accretive to existing shareholders. Demand for the Company's shares was encouraging and led to the issue of a total of ~4.5m new shares during the year, resulting in net proceeds received by the Company of ~£32.9m.

Having reviewed the capital structure of the Group, the Board decided to issue two tranches of long-term debt, £20m at 2.54% which matures in 2041, and £30m at 2.53%, maturing in 2050. The debt has provided further opportunities for our Investment Managers to be net investors in the market, along with providing optionality to consider further inorganic growth for IPS, should the right opportunity present itself.

**Our investment portfolio**

Our investment managers, James Henderson and Laura Foll have continued to invest in high-quality companies at attractive valuations, which offer good total return opportunities. IPS earnings continue to support our dividend payments, allowing James and Laura flexibility in portfolio construction.

The investment managers' review below offers further commentary on the portfolio performance.

**IPS**
The IPS business remains a key differentiator between us and other UK income funds.

Over the course of 2021, IPS grew its revenues by 20.6%, with profit before tax up 9.1% and earnings per share up 7.0% compared to 2020. The material increase in revenue was driven primarily by the acquisition of CSS. CSS enhances our capabilities and growth opportunities in an attractive market.

We continue to pursue a consistent strategy of developing IPS through a combination of organic growth, operational improvements and potential acquisitions that meet Law Debenture's strict financial and strategic criteria.

2021 continued to test Law Debenture's employees, I am proud of the inspiring efforts of the IPS teams. They have responded with determination, helping clients in innovative ways, and have successfully opened a new office in Manchester.

**Environmental, Social and Governance (ESG) considerations**
Sustainability and climate change is one of the biggest economic and political challenges the world faces. The Board continues to view ESG as part of Law Debenture's operations. Strong governance, transparency and accountability underpin our approach across all areas of the IPS business and investment portfolio.

Within IPS, our core asset is our people. Throughout the year, we have prioritised the well-being of our colleagues and it is pleasing to see that Law Debenture's employee engagement survey showed our staff are empowered, would recommend Law Debenture as a place to work and have a real sense of pride about the services they offer clients.

We want to maximise positive outcomes by embedding sustainability in our culture and our operations and seeking to reduce our impact on the environment. During the pandemic, we moved into a new office which is rated BREEAM (Building Research Establishment's Environmental Assessment Method) excellent for its significant green components.

Our investment managers take positions in companies with long-term sustainable business models. While James and Laura will not exclude companies that can help Law Debenture to meet its income and capital growth investment objectives, they carefully take into account ESG-risks and opportunities when selecting stocks. Our investment managers' approach to ESG is described in the full annual report.

**Governance**
Robert Laing retired from the Board at the close of the AGM in April 2021. On behalf of my fellow Board members, I would like to thank Robert for his nine years of wise counsel and wish him the very best for the future.

Mark Bridgeman will also retire from the Board at the close of the 2022 AGM having served a tenure of nine years. We also thank him for his invaluable contributions over the years and wish him the best for the next chapter of his career.

During the year, we welcomed two new Non-Executive Directors to the Board of Law Debenture. Clare Askem was appointed to the Board on 10 June 2021 and Clare brings extensive experience in strategic development, business change and digital transformation. Clare will succeed Mark as designated Non-Executive Director for Workforce Engagement, following his retirement at the close of the 2022 AGM.

We also welcomed Pars Purewal on 16 December 2021. Pars has exceptional experience in accounting, investment trusts and professional services. Pars will succeed Mark as Audit and Risk Committee Chair, following his retirement.

We are pleased to have ranked second in the FTSE 250 for Women on the Board and in Leadership roles, in the recently published FTSE Women Leaders Review.

Looking ahead, the Board will continue to ensure its membership is diverse in backgrounds, executive experience and perspectives.

We will keep shareholders updated on arrangements to hold a hybrid AGM this year and other investor events through our website.

**Looking forward**
While the outlook for the pandemic for 2022 is more hopeful, it will continue to affect economies and monetary policies around the globe. However, the Board and our investment managers remain confident that the portfolio is well-placed for long-term outperformance.

Work has begun on two other key initiatives: i) expanding our retail shareholder base and ii) articulating our approach to Environmental, Social and Governance matters. This is a complex area which requires us to balance the needs of our shareholders, clients, employees and the wider community. We look forward to sharing progress with shareholders as our work evolves.

IPS remains well-positioned to continue delivering a resilient financial performance and capturing the growth potential in its markets.

Finally, I would like to thank our shareholders for their continuing support, and our investment managers and Executive team for their hard work. I have been truly impressed by Law Debenture's response to the pandemic.

**Robert Hingley**
Chairman of the Board
24 February 2022

[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 returns are shown with debt measured at par and with debt measured at fair value above.

## Chief Executive Officer's review

### Introduction

2021 was a year of recovery blended with significant volatility. It saw companies around the world attempt to bounce back from the shocks of 2020, while adapting their business models to the "new normal". For the UK, the economy registered strong GDP growth, albeit against a very weak 2020, but trends across sectors varied significantly. In the first quarter of 2021, the UK entered a third lockdown and we all had to contend with ongoing Covid-19 related disruptions to the economy. Our good performance through the year reflects well on the Group's ability to adapt to a changeable economic climate and navigate short-term periods of turbulence. Law Debenture delivered on both of its objectives; producing long-term capital growth and steadily increasing income for our shareholders. Our investment managers, James Henderson and Laura Foll of Janus Henderson Investors, have continued their successful long-term record of material outperformance against our benchmark, the FTSE Actuaries All Share Index, over one, three, five and ten years. Our IPS business completed its fourth consecutive year of growth, with net revenue up 20.6% and profit before tax up 9.1%, while retaining its reputation for quality and outstanding client outcomes. Consistent growth is our longer-term objective and IPS now has a good record to build on. We have continued to invest in our people to ensure we have strong foundations for continuing success. I would like to thank our staff for their continued hard work and focus on delivering good outcomes for our clients.

As a UK Equity Income Trust, this Company works to ensure shareholders can depend on us for regular, reliable income. We aim to gradually increase dividend payments over time. This year showed how the unique combination of our equity portfolio and global professional services business can drive value. I was delighted to see Law Debenture's strong and attractive attributes recognised as Investment Week's 2021 Investment Company of the Year in the UK Equity Income sector.

We are proud to have delivered a 104% increase in dividend over the last ten years with 43 years of increasing or maintaining dividends to shareholders. This is supported by the diversified nature of IPS, which has funded around 36% of dividends for the trust over the past 10 years. IPS business net revenues for the full year were up 20.6% at £41.6m (2020: £34.5m) and earnings per share up by 7.0% to 10.0p (2020: 9.35p). We are committed to grow the profits of our IPS business by mid to high single percentage growth. In early 2021, we acquired CSS, which strengthens our existing business and its longer-term earnings outlook. We believe that the significant increase in our CSS market footprint is of strategic importance to the growth of IPS. The business has expanded our client reach and creates new opportunities to cross-sell our other services. With continued investment into our operating infrastructure and talent to support future growth, I am encouraged by our 2021 performance.

Our unique proposition as an investment trust is that the IPS business allows James and Laura increased flexibility in their portfolio construction. This was again highlighted in 2021. The strength of our diversified income streams allowed us to invest into some emerging companies with excellent long-term growth prospects, which may not pay dividends for many years.

| DIVISION | Net revenue 2019 £000 | Net revenue 2020 £000 | **Net revenue 2021 £000** | **Growth 2020/2021 %** |
|---|---|---|---|---|
| **Corporate trust** | 9,024 | 10,788 | **9,771** | **(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 | **41,586*** | **20.6** |

*Total net revenue is calculated by reducing segment income of £49,513k for cost of sales of £7,927k.
Corporate services: 2021 includes additional revenue arising from the acquisition of the CSS business from Eversheds Sutherland (International) LLP.

**Corporate trust**
Law Debenture has been a bond trustee for over 133 years. The role of a bond trustee is to act as a bridge between the issuer of a bond and the individual bondholders. Our responsibilities can vary whether servicing performing or defaulted bond issues.

Normal duties for the bond trustee to support performing issues could include receipt of financial or other covenant-related information, together with the distribution of such information to bondholders. For this work, we are typically paid an annual fee throughout the lifetime of the bond. For the majority of our existing book of business, these annual fees are inflation-linked. When an amendment to bond documentation is required, we can also earn additional revenues to complete the necessary changes.

When bonds default, the workflow, risk, and revenue profiles of our role change. A key duty of the bond trustee is to be the legal creditor of the issuer on behalf of the bondholders. Our role in such default situations requires incremental work that, given a favourable outcome, can lead to significant additional income. That said, defaults often take years to play out and the results are uncertain. Given this, our revenues for this work in any particular year can be somewhat unpredictable. However, such post-issuance work has strong economic counter-cyclicality and has produced sound returns for our shareholders over time.

**Market dynamics**
Following a strong year for primary debt issuance in Europe in 2020 where debt issuance revenues were up by 21% *(Source: Dealogic)* primary market debt issuance revenues for 2021 were up just 1% *(Source: Dealogic)*.

Headwinds in primary issuance were compounded by a significantly tougher market than we might have expected for post issuance work. As we mentioned at the half year, a bi-product of the unprecedented financial support offered to corporates around the world by central governments has been a significant reduction in the number of bankruptcies. November 2021 was the first month since the onset of the pandemic in March 2020 that the number of bankruptcies in the UK was higher than pre-pandemic levels. The full year numbers showed bankruptcies at 14,056 compared to 17,198 in 2019 *(Source: The Insolvency Service)*.

The bankruptcy experience of the UK over the past two years is mirrored by many major developed economies. We would expect bankruptcies to return to more normal levels as temporary support measures from central governments are removed and demand for our post issuance expertise to increase correspondingly.

**Highlights**
The business achieved exceptional net revenue growth of 19.5% in 2020. With market conditions as previously described, delivering revenue growth in 2021 was going to be a challenge. Reporting a 9.4% decrease in revenues to £9.8m is never something a business leader wants to do; however, this is not reflective of the longer-term business performance. In the past four years, since Eliot

Solarz was appointed to lead the business, corporate trust has achieved compound revenue growth of 5.5% per annum.

Despite tough primary market conditions, we competed well. During the year, we have been delighted to have been appointed to support blue chip issuers including BT and Natwest in the UK, Santander and Gamenet in Europe, Nippon Steel in Asia and Oi Movel in South America.

The issuance of green, social, sustainable and sustainability-linked bonds continue to grow rapidly. Regulators are working hard to create alignment on an appropriate taxonomy and we expect final rules of the EU Green Bond Standard to take shape via the legislative process in 2022. In the UK, the FCA is seeking input on whether it should recognise existing ICMA Principles or develop its own UK green bond standard. The European Commission's debut next generation EU green bonds and the UK Government's debut of green gilts issuances were both significant landmarks in 2021.

These types of financing have strong momentum and it is critical that we continue to develop our expertise in support of them. Sustainability-linked bonds typically have a coupon step-up linked to the issuer meeting pre-defined targets in relation to certain key performance indicators, often related to $CO_2$ reduction. During the year, we have been appointed to roles supporting sustainability linked note issuances including Cullinan Luxembourg and Rimini Italy. We also were appointed to support Hanetf's Carbon Securities program and Lithuanian Emerald's issuance to develop wind farms.

We have previously highlighted the work that we do to support social housing issuers in the UK. The market is large, demand for additional properties is vast and politicians of all parties are looking to increase support for the sector. We continue to build on our excellent footprint in this growing sector. Appointments for new issuances in 2021 include Gateway, Scottish Boarders and Metropolitan Thames Valley.

In last year's Annual Report, we explained the increasing demand that we are seeing for our escrow products. We continued to build on this in 2021. Our competitive strengths include our deep domain expertise and ability to move fast. Among the more unusual escrow activity in 2021, there were transactions relating to the acquisition of aircraft landing slots and avoiding trapped surpluses in corporate pension funds.

**Outlook for our corporate trust business**

Levels of primary market activity are difficult to predict; growth in European primary debt issuance revenues in the past three years illustrate this well at -14%, +21% and +1% respectively, *(Source: Dealogic)*. Our post-issuance work is equally difficult to predict but historically has had a strong economic counter-cyclicality. Over time, this business has produced excellent returns to our shareholders. Large elements of our revenue base are contractually repetitive and large elements are inflation linked. Following a decade of very low inflation, the recent increases in inflation will begin to filter through during 2022.

We continue to increase our range of products and have broad relationships with clients, law firms and financial institutions that underpin activity in this market. We have every confidence that over time we can continue to grow this business within our stated target range for the overall business of mid to high single percentage growth.

**Pensions**
We are now in our sixth decade of serving clients in this sector and we are one of the largest independent providers of pension trustees in the UK. Our Pegasus offering of outsourced pensions executive solutions is now a leading provider in the UK in a fast-growing market.

**Market dynamics**
With assets of approx. £2.6 trillion *(Source: WTW)* the UK is the world's third largest pensions market and there is significant momentum to drive the professionalisation of the governance of pension schemes in the UK.

The ability of a board of trustees to positively alter the retirement outcomes for its pensioners is well understood and the UK Pensions Regulator ("the Regulator") is, rightly, increasing its demands of trustees, along with its expectations of governance standards. The Pensions Scheme Act of 2021 introduces new duties for those involved in running pension schemes. New guidance on procedures for dealing with transfer requests comes into effect to help scheme members avoid pensions scams. The Regulator also held a consultation on new enforcement policies that include new powers to impose high fines for malfeasance.

Managing a pension scheme is a serious, ever more complex task. Some pension's governance recruiters still do not place sufficient weight on the need for specialist skills or knowledge. At Law Debenture, we appreciate that the sub-optimal management of people's hard earned retirement monies has serious consequences. All our pension trustees are experienced professionals and hold accreditation from the Association of Professional Pension Trustees.

**Highlights**
Back in 2001, an excellent decision was taken to hire Mark Ashworth, who in turn recruited Michael Chatterton in 2010. However, a number of years ago, Mark Ashworth and Michael Chatterton indicated their desire to step back from their leadership positions during 2021. They are leaders in their field and, as leaders of our business, they grew the business consistently. Over the past five years, revenue has grown from £7.8m in 2016 to £13.2m last year.

Another strength of theirs was identifying talented individuals. With Mark stepping down in January 2021 and Michael doing the same at the end of the year, as of 1 January 2022, Vicky Paramour has been promoted to lead our pensions business. Vicky Paramour joined us in 2015, amongst a number of extremely capable hires. We are fortunate that Mark and Michael remain with us as Senior Directors. The orderly transition is testament to the superb way that Mark and Michael have run the business. I would like to take this opportunity to thank them both for their commitment to our business.

2021 was another strong year for our pensions business with growth in net revenues of 13.8%. Over the past four years, compound revenue growth is 12.1%. In our core pension trustee business, we were delighted to add incremental appointments that included HSBC and Tesco.

We recognise that revenue growth is driven by investing in good people. During the year, we made further appointments in legal and restructuring expertise, and we believe this will continue to be a growth area for us. We also invested in regional and international talent. In Manchester, we hired our first pensions employees to service a large pool of potential clients based in this area. We also made our first appointment in Ireland, with Paul Torsney joining during the first half of the year to develop our Dublin-based pensions offering. We see increasing opportunities in the Irish market from both local and international companies. We have recently been appointed to work with the Workers Master Trust, our first appointment for an entity based in Northern Ireland.

During the year, we were delighted to welcome Sankar Mahalingham to lead Pegasus, our executive pensions offering. This offers pension scheme secretarial services, at its simplest, right through to fully outsourced pensions management and professional sole trustee solutions at its most complex. From a standing start at the end of 2017, this business now has revenues of approx. £3m per annum. We have a broad product range and client base and we see increasing demand for our expertise to independently support projects such as GMP equalisation and de-risking. We also continue to invest in hiring professionals with buy-in, buy-out and wind-down experience which is of high value to a growing number of schemes.

**Outlook**

The increasing governance burden for UK pension schemes means that there are more opportunities for providing independent professional support to schemes of all sizes. For example:

- The Pensions Act 2021 contains more powers for the Regulator which introduces new duties for those sponsoring and running pension schemes
- Schemes moving towards full de-risking solutions
- Trustees face new reporting requirements intended to improve the quality of governance and reporting as they address climate-related risks and opportunities.

At the same time, sponsors of pension schemes are finding it harder to find volunteers to become trustees as well as desiring a focused business-to-business conversation with their trustee board - this is true whatever the size and complexity of the scheme.

We see opportunities for working with new clients who will be appointing their first ever professional trustee as well as other schemes who will be looking to add further professional expertise to their existing board. Working with schemes of all sizes as the pensions landscape evolves, we are well placed to provide value to smaller schemes leveraging insights from our wider portfolio for their benefit.

Many sponsors of pension schemes will also be facing resourcing issues, for example:

- If in-house administration is outsourced for the first time
- Succession planning as pension managers and their teams are due to retire
- Increased governance requirements putting stress on under-resourced teams.

Rather than continue to operate with full in-house teams, an increasing number will look to outsource all or part of their function to third parties. This provides opportunities for Pegasus to grow substantially by taking on these large, outsourced mandates.

We believe that the market for our expanding range of pension governance services will continue to increase steadily over time. We continue to invest in the people and skills required to be a market leader in this growth business.

**Corporate services**

This revenue stream has four constituents: structured finance services, our whistleblowing division Safecall, service of process and our company secretarial services (CSS) business. Pleasingly, all businesses grew revenues during the year, but the combined result of revenues up 53.4% was skewed by the acquisition of CSS on 29 January 2021.

**Company Secretarial Services**
**Market dynamics**
Corporate governance standards are being raised worldwide and statutory and regulatory obligations continue to increase. Commerce is becoming increasingly globalised and the ability to move fast and expand geographically is often critical to success. Outsourcing growth trends have arguably been accelerated by the pandemic. CFOs are forced to examine their cost base and look to allocate capital towards activities that will differentiate their company's offering. Large in-house company secretarial departments are decreasing in number. We have been offering solutions in this sector for over twenty years. The newly acquired business gives us critical mass and we are confident of our ability to increase our share of a growing market.

Within CSS, we provide three main service lines:
Managed services: Based out of our new Manchester office, we deliver global entity management services to over 350 clients. We act as a single point of contact to ensure that legal entities of international subsidiaries are kept in good standing. Client appointments vary in scale and coverage, ranging from a single legal entity in one country at its simplest to over 300 subsidiaries in 50 countries at its most complex. We are paid a fixed annual fee to deliver annual compliance and corporate records maintenance. We may also earn incremental revenues from additional projects, such as incorporations and dissolutions, the co-ordination of global corporate change projects and performing entity validation work. Excellent workflow management and use of technology is critical to compete effectively. We will continue to invest in this space in 2022.

Corporate governance services: we provide all aspects of board and committee support, from full outsourced company secretarial support to attending and minuting meetings, in line with best practice governance standards. We also offer practical company secretarial services to companies preparing for an IPO transaction including support post listing. Our clients range from major Main Market and AIM listed companies, including investment trusts, to leading UK operating subsidiaries of top global brands. Our fees vary between fixed annual fees for specifically scoped mandates but can also be time or project based. Demand here is often for skilled professionals with prior experience in a particular industry and/or governance framework who can seamlessly transition work from being completed in-house. This team is based in London.

Interim resourcing: We offer immediate access to qualified governance professionals whether on-site or remote, full time or part time, as required by the client. Typically, we are paid on a time spent basis, but may complete certain work on a fixed fee basis.

**Company secretarial services**
**Highlights**
Client retention since acquisition has been excellent, with 99% of the client base transitioning with the acquired business to Law Debenture. It is pleasing that there have been a number of new client wins, including several FTSE 100 and Fortune 500 groups on the Managed Service side and FTSE 250 groups and regulated challenger banks on the corporate governance services side. We have also won several mandates for private groups on the journey to IPO.

As with all of our businesses, the quality of our people will determine our long-term success. We have invested in headcount and incremental skills across all our product areas and will continue to do so.

**Whistleblowing: Safecall**
**Market dynamics**
The emerging regulatory frameworks and standards that we have highlighted in previous annual reports continue to build momentum throughout the developed world. Whistleblowing has come of age. A well-run whistleblowing framework is now part of good governance. Excitingly for us, this is not limited to corporates. As many high-profile news stories in 2021 underline, wider society has a need to improve standards in a plethora of areas including sports, charities and the public sector.

**Whistleblowing: Safecall**
**Highlights**
We provided a record number of reports to our clients in 2021, up 25% on 2020. Feedback from our clients shows an increasing appreciation for the value that we can bring to their organisations. Graham Long took the decision to stand down as CEO of Safecall and we were delighted to welcome the new leader of the business, Joanna Lewis, at the end of August 2021. With the country in another national lockdown, it was a slow start to the year, but our sales gained momentum as the year went on and ended with 149 new clients, including Savills, DPD, Barnados and DLA Piper. We ended the year with revenues up and, as we fully emerge from Covid-19, we believe that we can accelerate our growth. We have invested in our sales, account management and marketing efforts and are increasingly providing training as clients look to improve the quality of their responses to the increasing number of issues requiring their attention.

The amount of incoming business through digital channels continues to grow. Critical to our future success will be the quality of our digital offering. We will increase our investment to continue to meet the evolving needs of our clients.

**Structured finance services**
**Market dynamics**
This business provides accounting and administrative services to special purpose vehicles (SPVs). Typical clients include financial institutions that wish to gain risk exposure to a particular asset type - for example aircraft leases or mortgages. These clients regularly access third party outsource providers to help them with the servicing of the assets. Boutique asset managers (private equity and hedge funds), as well as challenger banks, are typical buyers in a growing sector.

The competitive landscape is dominated by the larger providers with long-established relationships. We are a small player and receive strong praise from our clients. Our challenge is to achieve the critical mass necessary to accelerate our growth.

**Structured finance services**
**Highlights**
We were delighted to receive appointments from market leading names, including Carlyle, Avenue, Pepper, One William Street and LendInvest. Particularly pleasing was a transaction that was a long time in the making where we supported a deal for Reinsurance Group of America. This structure uses the risk transfer capability of capital markets and applies it to the insurance sector. The US capital markets are widely used by the insurance sector for risk transfer purposes. It is yet

to be seen if Europe will adopt similar practices, but it can only help to get experience at an early stage in the market's development.

We added incremental business development resource to our efforts here in 2021 and will do so again in 2022.

**Service of process**
**Market dynamics**
This is our highest volume business, and its results are closely correlated with the economic cycle. Unsurprisingly, as the pandemic took hold, 2020 was a particularly difficult year for this business.

**Service of process**
**Highlights**
As we started out in 2021, our year-on-year comparators remained equally unfavourable. The first two months of 2020 (pre-pandemic) were strong whereas in the UK we entered 2021 with our second full lock down from January 4th until March 9th at which point children were allowed to return to school. Thankfully, global economic conditions improved throughout the remainder of the year, and we finished the year with our revenues up.

Anne Hills continues to lead our efforts. A new technology platform was added to help build further scale to the business and we added headcount that is increasingly client focused as we look to be more proactive with our business development initiatives.

**Outlook for our corporate services business**
Following a difficult year in 2020, we are pleased to have grown revenues in all the four businesses that make up our corporate services reporting segment in 2021. Our CSS offering has been transformed. Our whistleblowing business continues to build momentum under a refreshed leadership. Our structured finance services business has added to its high-quality roster of clients. Our service of process business has yet again demonstrated its durability. Demand for our products and services is strong and the markets in which we operate are growing.

**Central functions**
After four years of compound growth of 8.2% in profit before tax*, we recognise that, in order to continue to grow our business, we need to ensure that we have an infrastructure that supports this. With Trish Houston joining us as COO towards the end of 2020, we have made significant progress.

Our people are the biggest asset of our IPS business. Ensuring that we provide an exciting place to work, where people can grow their careers is pivotal to our future success. During the year, we have engaged with our people to articulate our values and culture. The impact of this piece of work has been to unite people across our business lines and our geographical regions to ensure we are continuously challenging ourselves to provide the very best outcomes for our clients. We have also invested in developing a career framework to support our people in their advancement, creating a pipeline of talented future leaders for our business.

The acquisition of CSS, which has an office in Manchester, presented us with an opportunity to look at the structure of our business. As a result of this review, we have established a shared services centre based in our Manchester office, which covers all aspects of operational finance. This creates a scalable platform to support both organic and inorganic growth across the business.

We have invested in business development support for each of our teams. During the year, we have been delighted to build stronger relationships with our existing clients as well as developing relationships with new or potential clients.

*Excludes exceptional item in 2017 for gain on unlisted investment of £3.275m.

**Technology**
The ability of professional services firms to flourish will be increasingly defined by their commercial offerings' "ease of use". Being technically excellent and providing outstanding outcomes for clients, form an excellent foundation but, on their own, will no longer be enough. Firms like ours, and the products that we provide, must be easy to find, simple to engage with and straightforward to use.

We continue to invest in the people, skills and infrastructure required to deliver our professional expertise more efficiently and more effectively using virtual channels.

During 2021, we made further progress with our Safecall and service of process platforms, in particular. Given their relatively high transaction volumes, these two businesses lend themselves well to the effective use of technology.

The optimum technology platform for our clients and employees requires consistent review. We must ensure that we continue to invest in our working environment to provide our people with a stable and sustainable platform upon which to grow our business.

**Prospects**
Law Debenture has a differentiated and unique business model, which has served the Group well for many years, and I remain optimistic about our longer-term outlook. Over the last four years, we have shown an IPS compound annual growth rate (CAGR) of 11.3% and 8.5% respectively for revenue and earnings per share, which compares favourably with our mid to high single percentage growth objective. We are very focused on continuing to grow and develop the IPS business and increase market share by seeking to further capitalise on the significant market opportunities available through both organic investment and disciplined acquisitions, like CSS, where appropriate.

It is a source of great pride that the Group has outperformed our benchmark of the FTSE Actuary All Share Index consistently and by 77.0%, with debt and IPS at FV, over the last 10 years. I am very grateful that Law Debenture has been able to benefit from both James and Laura's expertise and experience. I am confident that their focus on selecting strong business models and attractive valuation opportunities, will enable them to continue to position the equity portfolio for future longer-term growth and outperformance. The fund has a selective, bottom-up approach.

On behalf of the Board, I would like to thank our employees for their outstanding commitment and our shareholders for their continued support. We also greatly value our close partnership with clients. Our business model and actions undertaken in the year mean that we are very well positioned to take advantage of growth opportunities in the future and to continue to deliver on our objective. We remain focussed on continuing our unbroken 43-year track record of maintaining or raising the dividend.

**Denis Jackson**
Chief Executive Officer
24 February 2022

**IPS net revenue and PBT – 5 year performance**

| Department | 2017 £000 | 2018 £000 | 2019 £000 | 2020 £000 | **2021 £000** | **5yr Revenue Variance £000** | **5yr Revenue Variance %** |
|---|---|---|---|---|---|---|---|
| **Pensions** | 8,270 | 9,488 | 10,598 | 11,479 | **13,060** | **4,790** | **57.9%** |
| **Corporate trust** | 7,900 | 8,362 | 9,024 | 10,789 | **9,772** | **1,872** | **23.7%** |
| **Corporate services** | 10,977 | 11,734 | 12,167 | 12,226 | **18,755**[1] | **7,778** | **70.9%** |
| **Total IPS income** | 27,147 | 29,584 | 31,789 | 34,494 | **41,586** | **14,439** | **53%** |
| **% Revenue Growth** | | 9% | 7% | 9% | **21%** | | |
| **Profit before tax** | 9,717[2] | 10,481 | 11,465 | 12,227 | **13,340** | **3,623** | **37%** |

[1]Includes revenue from the acquisition of the Company Secretarial Services business from Eversheds Sutherland (International) LLP.
[2]Excludes exceptional item in 2017 for gain on unlisted investment of £3.275m.

**IPS Valuation**

| | 31.12.2017 £000 | 31.12.2018 £000 | 31.12.2019 £000 | 31.12.2020 £000 | **31.12.2021 £000** | **5yr growth %** |
|---|---|---|---|---|---|---|
| **EBITDA** | 9,797 | 10,424 | 11,515 | 13,335 | **15,369** | **56.9%** |
| **Multiple** | 7.9 | 8.4 | 9.2 | 9.4 | **10.8** | **36.7%** |
| **IPS fair value (excluding net assets)** | 77,396 | 87,562 | 105,938 | 125,349 | **165,985** | **114.5%** |
| **NAV adjustment: total value less net assets already included** | 72,757 | 78,439 | 91,860 | 112,407 | **135,885** | **86.8%** |

## Investment managers' review

### The equity portfolio

The portfolio consists of a relatively long list of stocks (149 holdings at year end). The reason for this long list is the breadth of our investment universe: we invest in large, medium and small companies in the UK, as well as overseas if we see a distinct opportunity. 83% of the portfolio was in UK listed companies at year end, however in aggregate they derive well over half their earnings in overseas markets. It is this diversity within the portfolio that we hope will deliver a good level of consistency of performance in different market conditions. Over time, the smaller company element has produced better returns than the large companies. However, when valuations become stretched and there is a subsequent period of market weakness it will usually be in the small company area that the largest falls occur. Some smaller company holdings were reduced this year as the valuations looked demanding but we have also added some new positions, refreshing the overall portfolio.

The large company element was added to towards the end of 2020 when some bank positions were purchased, alongside some other financials. This has helped recent performance, as the belief is that interest rates will rise further from current modest levels, and this will act as a boost for some financial companies' earnings. It was the previous year's strongest performing area that was the biggest drag this year, with the alternative energy stocks experiencing share price falls. Reductions had been made during their rise for portfolio balance reasons as well as the view that the valuations had become too forward looking. We remain, however, committed to the area as there are real opportunities as the global economy transitions away from fossil fuels and towards renewables. Banks and alternative energy stocks are part of an overall blend that endeavours to provide balanced growth. The key is genuine diversity in the holdings.

**Our investment strategy**

Active investment management that adds worthwhile value means having a view that is different from the consensus. It is what is different in the portfolio to others that will make the trust perform differently over time. It is unnecessary to have strong views about all aspects of the investment portfolio, but it is important where the manager has an insight about an investment that they make it count. We think that this can most consistently be done at a stock level rather than building portfolios around a single theme or a macroeconomic view. The reason is that there are less variables at the stock level than in macroeconomic analysis. Stocks can be under-researched by investors, which means their long-term value will be mispriced. Therefore, the approach used is to pay close attention to companies while being aware of what is happening in the wider economy.

There are several reasons why a company might be under-appreciated and therefore have a share price that does not reflect its long-term value. Investors may have a prejudice against the company for reasons that are no longer valid. The management may have remedied the historical problems. A company may have a management team that is putting the building blocks in place for long-term success but this has yet to be reflected in the reported numbers. These are the sort of factors that lead to opportunities for the active investment manager to acquire shares at levels that will, over time, enhance relative performance. Of course, changes in the economic background will always have a large effect on short-term returns and they need to be factored in when looking at individual companies. For example, at the moment, increasing supply-chain costs and general inflationary pressures mean it is very important, when analysing a prospective investment, to examine whether is has real pricing power. Can it increase the price it gets for goods or services given the onset of rising prices elsewhere? It is through paying attention to the companies that the question can be answered.

| Alternative Performance Measures | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---|---|---|---|
| NAV total return (with debt at par)(1) | 23.1 | 49.3 | 59.7 | 199.2 |
| NAV total return (with debt and IPS at fair value)(1) | 25.1 | 47.3 | 59.4 | 187.7 |
| FTSE Actuaries All-Share Index total return(2) | 18.3 | 27.2 | 30.2 | 110.7 |

[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, whereas NAV total return with debt at fair value includes the fair value adjustment.
[2] Source: Refinitiv Datastream, all references to 'FTSE All-Share' and 'benchmark' in this review refer to the FTSE Actuaries All-Share Index total return.

**Overview of 2021**

**The economic backdrop**

Following much debate in 2020 about what shape the economic recovery would take, in 2021 it became clear that a 'V-shaped' recovery was under way. The current expectation is that UK real GDP will have grown 7% in 2021, with particularly strong growth of above 5% in the second quarter as trading restrictions were eased. At the company level, this economic growth was felt in a fast restoration of demand, with many companies recovering pre-pandemic sales levels quicker than expected. This good demand environment came, however, at a time when supply remained constrained – many companies were struggling with Covid-19 related staff absences and broader difficulties in filling vacancies. At a global level, this 'inelastic' supply was also felt in commodities such as oil, where demand recovered but the supply response remained muted following a prolonged period of low capital investment. The result was price rises across a broad range of areas, as illustrated by UK CPI reaching over 5% in November.

This backdrop of a good economic recovery but rising inflation had a clear directional impact on sector performance during the year. Sectors where earnings benefit directly from rising commodity prices (basic materials and energy) performed well, as did sectors such as industrials that benefitted from a fast recovery in demand. Conversely, consumer-facing sectors (consumer staples and consumer services) underperformed the broader market, as it was perceived that there would, at the very least, be a time lag between these companies facing rising input costs and passing them on to the end consumer.

**UK market backdrop**

While 2021 was a good year in absolute terms for UK equities, from a relative perspective, the UK equity market continued to underperform the US, while performing approximately in line with Continental Europe. This meant there was no closure in the valuation gap that has built up between UK equities and their overseas peers. This valuation discount seems erroneous when it is considered that the majority of earnings from UK equities are derived from overseas. We would expect that, unless this discount materially reduces, 2022 is likely to see further widespread takeover offers for UK companies as buyers seek to take advantage of this arbitrage opportunity.

**Income backdrop**

2021 saw an excellent recovery in UK dividends. Investment income for the portfolio rose to £26.3m, a 45% rise from £18.1m in 2020 (for pre-pandemic comparison, £29.2m investment income was earned in 2019). Among the key drivers of dividend growth were miners, as a result of high commodity prices, and banks, where dividends resumed following their forced suspension by the regulator in 2020. In a broader sense, there was also an annualization benefit from a number of companies that suspended dividends during the peak of the pandemic in Spring 2020, many of which only resumed payments towards the end of that year.

When we look ahead, there are reasons for optimism on the prospects for further dividend growth in the portfolio. This is because there are a number of companies held that are yet to resume dividends. These tend to be companies in industries most affected by the pandemic, such as travel or hospitality. As these end markets will recover, we see it as likely that these companies will return to paying dividends, adding a further leg to portfolio dividend growth. In addition, as we were sizeable net investors over the course of 2021, this will benefit 2022 earnings from the portfolio.

**Portfolio activity**

The most material active decision in 2021 was to continue to be a net investor. We invested £58m (net) over the course of the year, the vast majority of which (£55m) was invested in the UK. Referring back to the 'UK market backdrop' section of this report, this is because we continue to find widespread value opportunities in UK equities relative to overseas peers.

While in the Spring of 2020 there was a deliberate tilt towards purchasing companies that would benefit from the global economic recovery (such as mining companies such as Rio Tinto, and retailers like and Marks & Spencer), in 2021 there was greater breadth to portfolio purchases. Purchases spanned further additions to financials (such as banks, including Barclays, HSBC, Lloyds and Natwest) as well as pharmaceuticals (with new positions in Sanofi and Merck) and specialist retailers (such as Kingfisher and Vertu Motors). The commonality among these purchases is that they are well-managed by experienced teams and are often one of the market leaders in what they are producing. In seeking out these market-leading businesses, we are implicitly seeking out businesses which have the capability to adapt and respond to higher inflation. A company that is a market leader producing an excellent product (or service) has a greater likelihood of being able to pass on higher input costs. This capability will be of increasing importance if, as we expect, inflation proves to be more persistent than is widely expected.

**Top five purchases**

The five largest purchases during the year were:

| Stock | Amount purchased |
|---|---:|
| Kingfisher | £11.7m |
| Flutter Entertainment | £11.0m |
| Barclays | £8.8m |
| Jubilee Metals | £8.6m |
| Sanofi | £8.4m |

**Top five sales**

The five largest sales during the year were:

| Stock | Amount sold |
|---|---:|
| Applied Materials | £12.6m |
| Croda | £11.3m |
| St Modwen Properties | £10.3m |
| Ceres Power | £7.5m |
| Meggitt | £7.5m |

**Outlook**

It appears Covid-19 may be receding as a problem. If this is correct, 2022 should see reasonably strong economic growth as supply bottlenecks are overcome and consumer confidence returns. The macroeconomic concerns are turning from worries about recession to increasing concerns about the persistence of inflation. There are real worries that inflation as a longer-term problem is not going away. There are many reasons for this. For instance, the move to more environmentally sustainable economic growth will come at a cost. The infrastructure required to move economic activity away from fossil fuels to renewable energy will be expensive. However, it will be an added stimulus to economic growth. Successful companies will adapt to the inflationary environment and those with strong product offerings will have the pricing power required to protect their operating margins. We give careful consideration to ESG factors when selecting stocks and constructing the portfolio. Further information on our approach can be found in the ESG section in the full annual report. Meanwhile, the valuations of the companies held in the portfolio are attractive if the earnings projected come through. Equities are a good hedge against inflation if the dividend flow from the underlying companies beats the rate of inflation. The real value of the investment will rise. The stocks held are a diversified collection of companies that as a blend are chosen for this purpose.

**James Henderson and Laura Foll**
Investment managers
24 February 2022

**Portfolio by sector and value**

**Portfolio by sector**

| | 2021 | 2020 |
|---|---|---|
| Oil and gas | 10.1% | 11.6% |
| Basic materials | 9.7% | 9.3% |
| Industrials | 20.7% | 22.0% |
| Consumer goods | 7.4% | 6.2% |
| Health care | 7.2% | 5.2% |
| Consumer services | 8.8% | 8.9% |
| Telecommunications | 2.6% | 1.9% |
| Utilities | 4.4% | 4.8% |
| Financials | 27.5% | 28.5% |
| Technology | 1.6% | 1.6% |

**Geographical distribution of portfolio by value**

| | 2021 | 2020 |
|---|---|---|
| United Kingdom | 82.6% | 82.1% |
| North America | 5.4% | 5.4% |
| Europe | 10.0% | 10.1% |
| Japan | 1.1% | 1.1% |
| Other Pacific | 0.7% | 0.9% |
| Other | 0.2% | 0.4% |

**Fifteen largest holdings**
as at 31 December 2021

| Rank 2021 | Company | % of portfolio | Approx Market Cap. | Valuation 2020 £000 | Purchases £000 | Sales £000 | Appreciation/ (Depreciation) £000 | Valuation 2021 £000 |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1 | GlaxoSmithKline | 2.71 | £80.8bn | 22,478 | — | — | 4,433 | 26,911 |
| 2 | Shell | 2.04 | £124.7bn | 15,743 | — | — | 4,537 | 20,280 |
| 3 | Barclays | 2.04 | £31.3bn | 7,261 | 8,766 | — | 4,169 | 20,196 |
| 4 | HSBC | 1.96 | £91.1bn | 11,881 | 5,297 | — | 2,276 | 19,454 |
| 5 | BP | 1.90 | £65.2bn | 14,524 | — | — | 4,315 | 18,839 |
| 6 | Rio Tinto | 1.85 | £81.0bn | 20,512 | — | — | (2,167) | 18,345 |
| 7 | Accsys Technologies | 1.58 | £0.3bn | 11,131 | 1,372 | — | 3,220 | 15,723 |
| 8 | Herald Investment Trust | 1.51 | £4.6bn | 17,505 | — | (4,034) | 1,559 | 15,030 |
| 9 | National Grid | 1.50 | £38.3bn | 12,189 | — | — | 2,745 | 14,934 |
| 10 | Severn Trent | 1.48 | £7.4bn | 11,440 | — | — | 3,295 | 14,735 |
| 11 | Relx | 1.45 | £46.3bn | 10,755 | — | — | 3,633 | 14,388 |
| 12 | Lloyds Banking Group | 1.45 | £33.9bn | 7,652 | 3,572 | — | 3,116 | 14,340 |
| 13 | Marks & Spencer | 1.42 | £4.5bn | 6,951 | 1,475 | — | 5,689 | 14,115 |
| 14 | NatWest | 1.42 | £25.5bn | 9,213 | 1,480 | — | 3,407 | 14,100 |
| 15 | Direct Line Insurance | 1.41 | £3.7bn | 10,368 | 5,197 | — | (1,615) | 13,950 |

**Changes in geographical distribution**

| | Valuation 31 December 2020 £000 | **Purchases £000** | **Costs of acquisition £000** | **Sales proceeds £000** | **Appreciation/ (Depreciation)* £000** | **Valuation 31 December 2021 £000** | **%** |
|---|---|---|---|---|---|---|---|
| **United Kingdom** | 665,800 | **142,933** | **(558)** | **(86,301)** | **97,560** | **819,434** | **82.6** |
| **North America** | 44,156 | **14,717** | **(2)** | **(17,833)** | **12,627** | **53,665** | **5.4** |
| **Europe** | 82,343 | **42,446** | **(85)** | **(33,684)** | **8,194** | **99,214** | **10.0** |
| **Japan** | 9,297 | **—** | **—** | **—** | **1,854** | **11,151** | **1.1** |
| **Other Pacific** | 7,077 | **—** | **—** | **(998)** | **1,004** | **7,083** | **0.7** |
| **Other** | 3,624 | **—** | **—** | **(1,624)** | **(69)** | **1,931** | **0.2** |
| | 812,297 | **200,096** | **(645)** | **(140,440)** | **121,170** | **992,478** | **100.0** |

## Extracts from the Strategic report

### Who we are

From its origins in 1889, Law Debenture has diversified to become a Group which provides our shareholders, clients and people a unique combination of an investment portfolio and an independent professional services business.

### Our purpose and objective

Our purpose is to deliver peace of mind for our shareholders, clients and people. This is central to our strategy, both at the portfolio and IPS levels, and underpins the way we think and behave every day.

Our objective as an 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 and ownership of the IPS business.

Our IPS clients know that we are independent, experts and have 133 years of experience to call on in delivering vital aspects of their business cycle.

Our purpose and objective are underpinned by our corporate values of:

- We believe it's possible
- We make change happen
- We are better together
- We never stop learning

**Our business model**

Our business model is designed to position the Company for optimal performance in the investment trust sector.

## Total Shareholder Return

**INVESTMENT PORTFOLIO**

(c. 82% of NAV – including IPS and long-term borrowings at fair value)

- Invests in a diverse equity portfolio
- Earns capital returns and dividends
- Low ongoing charges

**INDEPENDENT PROFESSIONAL SERVICES**

(c. 18% of NAV – including IPS and long-term borrowings at fair value)

- Trusted provider of independent governance services, generating recurring revenue.
- Profits provide the investment trust with a steadily increasing revenue stream.
- Tax efficient

**INVESTMENT PORTFOLIO**

- The Company's portfolio will typically contain between 70 and 175 listed investments.
- The portfolio is diversified in order to spread investment risk with no obligation to hold shares in any particular type of company or industry.
- The IPS business does not form part of the investment portfolio.

Whilst performance is measured against the FTSE Actuaries All-Share Index, the composition of the index 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 index.

**INDEPENDENT PROFESSIONAL SERVICES**

Operating through a number of wholly owned subsidiary companies, 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 business in 2021 are given in the Chief Executive Officer's review above.

Law Debenture's shares are intended for private investors in the UK (retail investors), professionally advised private clients and institutional investors. When choosing 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 strategy – implementation**

Our strategy is centred round the unique combination of the investment portfolio and our IPS business. Whilst overseen by the Board, the IPS business operates independently from the portfolio.

The IPS profits provide a regular source of revenue to the investment trust, helping to smooth out equity peaks and troughs. This supports the delivery of steadily increasing income for our shareholders and ensures our investment managers are not constrained to choosing stocks on yield. Instead, the investment managers can benefit from increased flexibility in stock selection supporting the delivery of long-term capital growth.

Our unique structure is also tax efficient as some tax relief, arising from excess costs and interest payments which would otherwise be unutilised, can be passed from the investment trust to the IPS business reducing the tax liability for the Group and increasing shareholder returns.

The way in which we implemented the investment strategy during 2021 is described in more detail in the investment managers' review above.

Performance against KPIs is set out in the full annual report and accounts, which contain tables, charts and data to explain performance both during the year under review and over the long-term.

**Agreement with the investment managers**

Appointed investment managers: James Henderson & Laura Foll, Janus Henderson Investors.

On a fully discretionary basis, our investment managers are responsible for implementing the Company's investment strategy. The contract in place is terminable by either side on six months' notice.

The agreement with Janus Henderson does not cover custody, which is the responsibility of the depository (see section on regulatory compliance in the Directors' Report in the annual report and accounts). It also does not cover the preparation of data associated with investment performance or record keeping, both of which remain the responsibility of the Company.

**Our strategy – guidelines**

The Board sets the investment strategy and actively monitors both the investment managers' and Executive Leadership team's adherence through a series of guidelines and parameters in each scheduled Board meeting. The strategy is reviewed periodically to ensure that the investment trust delivers on its objective.

<table>
<tr><th>Investments</th><th colspan="3">Permitted types of investments are:</th><th>Restrictions:</th></tr>
<tr><td rowspan="10"></td><td colspan="3">Equity Shares</td><td>Trading is not permitted in suspended shares or short positions</td></tr>
<tr><td colspan="3">Collective Investment Products including Open Ended Investment Companies (OEICs)</td><td>No more than 15% of gross assets will be invested in other UK listed investment trusts</td></tr>
<tr><td colspan="3">Fixed Interest Securities</td><td>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 Japan, Asia Pacific or emerging market regions, to more than 40% of the portfolio, including gilts and cash</td></tr>
<tr><td colspan="3">Interests in Limited Liability Partnerships</td><td>The value of a new acquisition in any one company may not exceed 5% of the total portfolio value (including cash) at the time the investment is made</td></tr>
<tr><td colspan="3">Cash</td><td>Further additions shall not cause a single holding to exceed 5%, and Board approval must be sought, at the next Board meeting, to retain a holding should its value increase above the 5% limit</td></tr>
<tr><td colspan="3">Liquid Assets</td><td>The Company may not make investments in respect of which there is unlimited liability</td></tr>
<tr><td colspan="3">The regional parameters are:</td><td rowspan="4"></td></tr>
<tr><td></td><td>Minimum</td><td>Maximum</td></tr>
<tr><td></td><td>%</td><td>%</td></tr>
<tr><td>United Kingdom</td><td>55</td><td>100</td></tr>
</table>

| | | | | |
|---|---|---|---|---|
| | North America | 0 | 20 | |
| | Europe | 0 | 20 | |
| | Japan | 0 | 10 | |
| | Other Pacific | 0 | 10 | |
| | Other | 0 | 10 | |
| Derivatives | May be used with prior authorisation of the Board | | | |
| Hedging | Currency hedges may be put in place to protect against foreign exchange movements on the capital and income accounts | | | |
| Stock-lending | Up to 30% of the value of NAV may be lent | | | |
| Gearing | The Company applies a ceiling on effective gearing of 50%. Typically effective gearing, net of cash, is between 10% and 20%. The Board retains the ability to reduce equity exposure so that net cash is above 10% if deemed appropriate | | | |

**Gearing and long-term borrowing**

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. Alternatively, assets from within the portfolio can be sold to reduce debt and the portfolio can 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 2021, our gearing was 13% (2020: 9%).

The Company has four debentures (long dated sterling denominated financing) details of which are in the full annual report. The weighted average interest payable on the Company's debentures is 3.966% (2020: 4.589%).

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

**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 below. The assets and liabilities of the business are also consolidated into the Group column of the statement of financial position below. A segmental analysis is also provided below 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 does not fully recognise the value created for the shareholder by the IPS business in the NAV. 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 2021, with an appropriate multiple applied. The EBITDA for the IPS business for 2021 was £15.4m. This number is reached by taking the return, including profit attribution on ordinary activities before interest and taxation of £13.3m from note 6 in the full annual report and accounts and adding back the depreciation charge for property plant and equipment of £1.2m, the amortisation of intangible assets of £0.5m, and interest on the lease liabilities shown in note 3 in the full annual report and accounts.

The calculation of the IPS valuation and methodology used are included at note 14 in the full annual report and accounts. In determining a calculated basis for the fair valuation of the IPS business, the Board has taken appropriate external professional advice. The multiple applied in valuing the IPS business is based on comparable companies sourced from market data, with appropriate adjustments to reflect the difference between the comparable companies and IPS business 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 challenge that we faced in this valuation cycle is that many of our core comparators, as presented in the 2020 Annual Report, have been subject to mergers and acquisition activity in the past year. As a result of the premium this builds into the valuations, the companies most like our IPS business were excluded from the comparator group. Whilst the group of companies presented in the table have some likeness to IPS, further work has been required in producing a multiple reflective of the fair value to attribute to IPS.

The multiple of 10.8x has been applied to value the business. The uplift reflects that the IPS business now has four years of revenue and profit growth. The multiple selected represents a discount of almost 13% on the mean multiple across the comparable businesses presented below, to reflect the relative size of the IPS business and the fact that it is unlisted.

The comparable companies used, and their recent performance, are presented in the table below:

| Company | Revenue LTM[1] (£m) | LTM EV/EBITDA 31 Dec 2021 | Revenue CAGR 2017-2021 | EBITDA margin LTM |
|---|---|---|---|---|
| Law Deb IPS | 42 | 10.8x | 11.3% | 37% |
| SEI Investments Company | 1,378 | 13.9x | 5.1% | 31% |
| SS&C Technologies Holding, Inc | 3,674 | 13.1x | 31.2% | 37% |
| EQT Holdings Limited | 55 | 13.8x | 3.8% | 36% |
| Perpetual Limited | 354 | 10.3x | 3.6% | 22% |

[1]LTM refers to the trailing 12 months 'results' which are publicly available.
Source: Capital IQ.

Of the comparator companies previously presented above, the following were the subject of mergers and acquisitions activity: Sanne Group plc was subject to a valuation 23.5x of EBITDA, Link Administration Holdings Limited a valuation 13.4x of EBITDA and Intertrust a valuation at 12.3x of EBITDA.

Valuation guidelines require that the fair value of the IPS business be established on a stand-alone basis. Therefore, the valuation does not reflect the value of Group tax relief applied from the investment trust to the IPS business, which reduced the tax charge by £1.89m (2020: £1.5m).

It is hoped that our continued 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 percentage growth in 2022. The total valuation (including surplus net assets) of the business has increased by £79.5m/88% 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.

**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 the IPS business have been removed (£34.1m) and substituted with the calculation of the fair value and surplus net assets of the business (£170 m). An adjustment of £50.2m 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 a NAV fair value for the Group as at 31 December 2021 of £964.5m or 787.83 pence per share.

| | **31 December 2021** | | 31 December 2020 | |
|---|---|---|---|---|
| | **£000** | **Pence per share** | £000 | Pence per share |
| **Net asset value (NAV) per Group statement of financial position** | **878,837** | **717.86** | 726,994 | 615.19 |
| Fair valuation of IPS: EBITDA at a multiple of 10.8x (2020: 9.4x) | **165,985** | **135.58** | 125,349 | 106.07 |
| Surplus net assets | **4,041** | **3.31** | 10,605 | 8.97 |
| **Fair value of IPS business** | **170,026** | **138.89** | 135,954 | 115.05 |
| Removal of assets already included in NAV per financial statements | **(34,141)** | **(27.89)** | (23,547) | (19.93) |
| **Fair value uplift for IPS business** | **135,885** | **111.00** | 112,407 | 95.12 |
| Debt fair value adjustment | **(50,229)** | **(41.03)** | (52,182) | (44.16) |
| **NAV at fair value** | **964,493** | **787.83** | 787,219 | 666.15 |

**Our approach to risk**

The Group's risk management and internal control framework is embedded in everyday operations and subject to regular enhancements in a continuous risk management process as demonstrated in the diagram below. Top-down Board-level oversight for the Investment Portfolio and IPS business is provided by the Audit and Risk Committee. The Executive Risk Committee has responsibility for the oversight of operational risk within the IPS business. Detailed, bottom-up risk identification and management is owned by individual business lines and overseen by the Group Risk Manager. This framework enables the Board to identify, evaluate and manage principal risks to support the delivery of long-term priorities. The Board recognises that there are certain risks which are inherent in the Group, such as market risk with respect to its investment portfolio, and the controls to mitigate against such risks are paramount to the delivery of our objectives.

On an annual basis, the Audit and Risk Committee consider the risks to the Group and the adequacy of the controls in place to appropriately manage those risks. Consideration is also given to emerging risks to ensure that the risk management framework is updated to protect the business. Where there is insufficient information on the potential risk, ongoing monitoring is put in place.

Following the 2020 review of Group-wide risks and processes, we have continued to enhance our risk management framework. In Autumn 2021 we appointed a new Group Risk Manager, Vicky Skaife. We have also designed a new incident management system, which allows us to more easily identify, assess, evaluate, mitigate and report events in real-time.

**Categorisation of Group risks**
The principal risks of the Law Debenture Group are split into three categories: Group risks, IPS risks and emerging risks.

The identified Group risks predominantly relate to the investment portfolio as that comprises c. 82% of net asset value. We also identify IPS operational risks which could have a material impact on the IPS valuation and therefore the Group.

Given our objective to deliver sustainable long-term capital growth, we continually horizon scan for emerging risks which may impact our ability to deliver to shareholders.

**Governance**
The Group's risk management and internal control framework is managed through its governance structure shown in the diagram set out in the full annual report and overseen by the Audit and Risk Committee. IPS business risks are managed through regular business unit risk committees and management meetings. The outputs of these are fed through to the Executive Risk Committee for its review.

**Group risk summary and mitigating actions**

| PRINCIPAL GROUP RISKS | MITIGATING ACTIVITIES |
|---|---|
| **1. Investment Performance and Market Risk** | |
| The risk of the investment portfolio failing to deliver and/or failing to consider and react to market conditions to deliver the publicly stated strategic objectives to:<br>• Achieve long-term capital growth.<br>• Deliver steadily increasing income.<br>• Achieve a rate of return greater than the FTSE Actuaries All-Share Index.<br>Investment performance and market risk is the largest risk which the Group is exposed to. However, this is an accepted risk and one which the Board actively takes as it believes | Even though this is an accepted risk given the nature of the investment portfolio, the Board is responsible for ensuring that there are adequate controls to help manage the inherent risk. As such, the Board has put in place various controls, such as:<br>• Regular review of the investment managers' report including risk indicators.<br>• Clear risk exposure limits at a stock and regional level which are monitored by Janus Henderson. |

| | |
|---|---|
| long-term equity investment is an attractive proposition. | • Open dialogue with the investment managers on their approach and performance.<br>Furthermore, the NAV is published daily and subject to review by the CFO, which enables ongoing monitoring of the investment portfolio's performance.<br>The Board further notes that the IPS business represents 18% of the NAV and also provides an additional layer of diversification for the portfolio, meaning that the investment portfolio and the Group as a whole are less exposed to any potential dividend cuts from the equity holdings. |
| **2. Financial Reporting** | |
| The risk of inaccurate publication of financial statements, annual reports, NAV, factsheets and other market data that can adversely impact financial results, investor decisions, reputation or which may lead to regulatory fines or sanctions.<br><br>Material financial judgements are supported by advice and review from appropriately qualified independent advisors. | To mitigate these risks, Finance have implemented processes with embedded controls to mitigate potential risks. The management and production of all financial reporting is overseen by appropriately skilled and trained colleagues within the Group's Finance team, with review from the CFO.<br><br>Additionally, the Board, Executive Leadership team, Business Heads and investment managers review and challenge financial information, giving collective ownership of the financial information.<br>The financial statements in the Annual Report are audited by a reputable accounting firm.<br><br>The NAV valuation is calculated internally, based on data reconciled to the custodian/depositary and Janus Henderson, using a specialist third party data source for the pricing and the NAV is reported to the London Stock Exchange and Morningstar daily. |
| **3. Cyber, technology and Systems Risk** | |
| The risk of cyberattacks and security vulnerabilities is ever present, and failures here could lead to reduced revenue, increased costs, liability claims, or harm to our reputation or competitive position. This includes the systems of Janus Henderson, including business continuity/ disaster | Investment and increased use of cloud services across the Group continued in 2021 preparing us for sustainable, scalable technology growth in 2022 and beyond. Incident reporting procedures are in place as well as cyber insurance. |

| | |
|---|---|
| recovery incidents and wider control issues such as fraud or conflicts of interest. | We conduct regular penetration testing and take steps to address identified weaknesses. Janus Henderson are subject to an annual ISAE3402 audit and AAF review to ensure there are no material deficiencies. The Executive Risk Committee also receive a monthly operational report with respect to Janus Henderson's risks and controls. |

**IPS business risk summary and mitigating actions**

| IPS BUSINESS RISKS | MITIGATING ACTIVITIES |
|---|---|
| **1. Strategic & Financial** | |
| A strategic risk arises that the current business model becomes obsolete due to a lack of technical or commercial innovation, market disruption, product obsolesce or regulatory or legislative change.<br><br>Financial risk arises if the IPS business is not able to scale up and deliver on its growth plans to generate revenue growth, profitability, cost savings and react to any changes in market conditions.<br><br>To mitigate the financial risks, monthly management information is provided to the CEO and Business Heads to monitor and assess business performance. | To mitigate this strategic risk, there has been significant investment in people and technology to support the IPS business strategy and this will continue to be monitored along with the three year financial budgeting and planning which forms part of the Group's longer-term viability statement. There are also regular IPS board meetings where the strategy of the business is discussed with the Business Heads and the Executive Leadership team. |
| **2. Change Management** | |
| IPS is in a period of operational and cultural change; new improved systems and technology, evolution of our culture and purchase of a new company secretarial business.<br><br>We run the risk that the change does not meet its intended objective, is delivered late or over budget, or that management time is diverted away from business as usual to projects, to the detriment of clients, current systems or colleagues.<br><br>In order to ensure the integration of the new teams and new joiners, we have increased the headcount in our people team by three, including a Director of People Strategy and a dedicated recruiter. | Governance is in place to provide oversight of operations across the IPS business including a monthly operations committee. New projects across the group are given oversight via the project committee. There is dedicated experienced project management resources across IT and operations teams. |

| 3. **Financial Crime** ***NEW*** | |
|---|---|
| Across all jurisdictions the Group's activities are subject to various financial crime laws and regulations, including sanctions and export control, anti-bribery, anti-corruption, anti-money laundering and counter-terrorist financing. Changes to these laws could have a material adverse impact on our operations or financial results. | Enhanced incident reporting procedures for the Group with timelines for notifications and clear reporting lines.<br><br>Whistleblowing procedures and a clearly defined reporting structure with colleagues having the option to raise any concerns with their line manager, the General Counsel and HR Manager or if those avenues are not appropriate, to the Chairman of the Audit and Risk Committee, who is the employee representative of the Board. If they do not wish to report to any of these persons for any reason, they may report their concerns using our whistleblowing service provided by Safecall, which is available 24 hours a day. Reports using this channel may be made anonymously.<br><br>There are robust policies in place covering AML, fraud prevention, anti-bribery and corruption which are supported by group-wide interactive mandatory training modules. Specialist external training courses are also available to staff. |

**Emerging risks and mitigating actions**

| **EMERGING RISKS** | **MITIGATING ACTIVITIES** |
|---|---|
| 1. **ESG Considerations** ***NEW*** | |
| As ESG becomes an area of increased focus, we are yet to fully understand the risks to our stakeholders.<br>There is also a significant uptick in the ESG regulatory landscape; we must ensure that we do not fall behind in meeting these requirements including climate and ESG-related targets. | The group is reviewing this and will publish the outcome from our ESG review on our Group website during 2022. This is being managed by regular discussion, led by the Group ESG Manager working with the Board, the ESG committee, finance and the General Counsel. Meetings have been scheduled throughout 2022 to ensure we are on track to meeting any mandatory requirements and also to consider and assess non-mandatory requirements. |
| 2. **Digital Disruptors and Change** ***NEW*** | |

| | |
|---|---|
| For the IPS business, the prominence of digital applications and client portals could be a threat if we are unable to keep up with the pace of change resulting in losing new and existing customers. | In 2022, we will review and assess the possibilities of a more digitalised client proposition. |

**Viability statement**
The UK Corporate Governance Code requires the Board to issue a 'viability statement' declaring whether the Directors believe the Company can operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to ensure that the Board focuses on the longer-term and is actively involved in the oversight of the risk management framework and internal control environment.

The Board is required to assess the Company's viability over a period greater than 12 months. Our stated financial objective is to deliver long-term capital growth in real terms and steadily increasing income to our shareholders. As such, the Board considers that the Company is a long-term investment vehicle and, for the purposes of this statement, has decided that three years is an appropriate period over which to consider its viability. We have aligned our business planning process and remuneration at a senior level accordingly.

In assessing the viability of the Company over the review period, the Board have considered a number of key factors, including:

**Our business model and strategy**

- The Board seeks to ensure that the Company delivers long-term performance. The closed-ended nature of the investment trust creates a stable capital basis, which enables our investment manager to take a longer-term view in their construction and management of the portfolio. This significantly mitigates the risk to the Group of potential liquidity issues should shareholders wish to sell their shares, avoiding any untimely requirements to sell down the portfolio.
- As an investment trust, we benefit from the unique structure of a mainly UK-based equity portfolio with a diversified revenue stream arising from the IPS business. As demonstrated by both our long-term performance and during the recent economic crisis brought about by Covid-19, the IPS revenue streams provide protection to the long-term viability of the Company. Over a three year period, the share-price total return is 67.6%. Additionally, the NAV total return with debt and IPS at fair value is 47.3%.
- The IPS business holds enough working capital to meet any short-term requirements of the Group and provides a steady, largely recurring, flow of income. In addition, the majority of the portfolio is invested in UK listed securities which are traded on major stock exchanges, providing the Group with the ability to quickly liquidate assets, should the need arise. This mitigates potential risks to liquidity and the potential inability to meet our obligations.
- A related risk is a breach of our debt covenants resulting in a requirement for the Group to repay the debentures at short notice. Whilst the Board acknowledges this risk, the uncertainty arising due to the Covid-19 pandemic demonstrates the Group's ability to navigate these challenges. At the height of market decline on 23 March 2020, the Group maintained significant headroom on all covenants.

- The Company has an ongoing charge of 0.50%, which is lower than other comparable trusts within our sector.

**Our business operations**

- The Company retains ownership of all assets held by the custodian under the terms of formal agreements with the custodian and depositary. This supports our ability to meet our legal and regulatory requirements and acts as a control to both verify the existence of our assets and further safeguard the interests of our shareholders.
- The Group's cash is all held with banks approved by the Board. The Group's total cash balance, including money market funds, at 31 December 2021 was £25.5m (30 December 2020: £41.3m), with IPS holding a further £9.9m.
- There is long-term borrowing in place comprising of four debentures:

| Maturity date | Amount | Interest |
|---|---:|---:|
| 2034 | £40m | 6.125% |
| 2041 | £20m | 2.54% |
| 2045 | £75m | 3.77% |
| 2050 | £30m | 2.53% |
| **Total** | **£165m** | **Weighted average: 3.966%** |

The weighted average cost of borrowing is 3.966%. Each debenture is subject to a formal agreement, including financial covenants, which the Company has complied with in full during the year. As at the end of December 2021, net gearing was 13%, which is well within the typical operating range of 10%-20%.

- During January 2021, the Company also made arrangements to put in place a £50m unsecured overdraft facility with HSBC. Whilst available, this facility is currently not in use but provides further mitigation of any liquidity risk.
- The Board reviews the investment trust's performance including revenue forecasts, along with other key metrics such as gearing at each Board meeting and receives monthly financial reporting to monitor and manage the principle risk relating to investment performance.

In addition to this, the Board carries out a robust assessment of our principal risks and uncertainties which could threaten the Company's business model. The Board has assessed the emerging risks which may impact the operations of the Group and will continue to actively review the likely impact of these potential risks.

In light of the current conditions, the Board has considered the Company's current financial position and the potential impact of its principal risks and uncertainties, and has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of this Annual Report.

**Balance sheet resilience**

As at 31 December 2021, Law Debenture Corporation held total investments, including cash and the IPS business (based on the valuation as 31 December 2021), of £1.178bn (31 December 2020: £966m). With the exception of the IPS business, the majority of these assets are liquid and could be sold down within a short period of time.

The Board and the Executive Leadership team have actively monitored the cash position across the Group throughout the year, mindful of our commitment to pay quarterly dividends to shareholders. As of 31 December 2021, the Group holds cash of £35.8m (31 December 2020: £41.7m). In addition to this, the Company has an overdraft facility of £50m to protect against any significant fall in cash inflows.

**Repurchase and issue of shares**
At the 2021 AGM, the Directors were given power to buy back up to 17,756,514 ordinary shares or if less the number of shares equal to 14.99% of the Company's issued share capital at that date. During the year, the Company did not repurchase any of its shares for cancellation. This authority will expire at the 2022 AGM. The Company 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 2022 AGM.

The Directors were also given power to allot up to 11,845,573 ordinary shares at the 2021 AGM. From the 2021 AGM to the date of this report the Company issued a total of 4.5m ordinary shares under its share issuance programme, launched in February 2021 our SAYE scheme. The authority will expire at the 2022 AGM at which the Company intends to seek shareholder approval to renew its powers to issue shares up to 10% of the Company's share capital in issue at 24 February 2022.

**Share capital and significant 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 2021, there were 122,915,835 ordinary shares in issue with 122,915,835 voting rights. Note 18 in the full annual report and accounts includes details of share capital changes in the year.

As at 24 February 2022, there were no shareholders that had notified the Company of a beneficial interest in 3% or more of the issued share capital.

**Significant financial issues relating to the 2021 accounts**
The Code requires us to describe any significant issues considered in relation to the financial statements and how those issues were addressed.

The significant issues considered by the Audit and Risk Committee include the valuation of IPS, the acquisition and corresponding accounting treatment of CSS, Pension Defined Benefit Scheme, and a review of the non-application of the IFRS 10 Investment Entity Exemption.

No new significant issues arose during the course of the audit. During the course of the year, the Finance operations of the business underwent significant modernisation, including establishing a Shared Service Centre in our Manchester office and the implementation of a new Finance system.

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.

**Directors' responsibility statement pursuant to DTR4**

The Directors confirm to the best of their knowledge that:

- the Financial Statements have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties that they face.

By order of the Board

## Group income statement

as at 31 December 2021

| | | | **2021** | | | 2020 |
|---|---|---|---|---|---|---|
| | **Revenue £000** | **Capital £000** | **Total £000** | Revenue £000 | Capital £000 | Total £000 |
| UK dividends | **21,426** | **—** | **21,426** | 14,794 | — | 14,794 |
| UK special dividends | **250** | **—** | **250** | 458 | — | 458 |
| Overseas dividends | **4,583** | **—** | **4,583** | 2,685 | — | 2,685 |
| Overseas special dividends | **—** | **—** | **—** | — | — | — |
| Total dividend income | **26,259** | **—** | **26,259** | 17,937 | — | 17,937 |
| Interest income | **—** | **—** | **—** | 89 | — | 89 |
| Independent professional services fees | **49,513** | **—** | **49,513** | 38,898 | — | 38,898 |
| Other income | **551** | **—** | **551** | 219 | — | 219 |
| **Total income** | **76,323** | **—** | **76,323** | 57,143 | — | 57,143 |
| Net gain/(loss) on investments held at fair value through profit or loss | **—** | **121,170** | **121,170** | — | (16,354) | (16,354) |
| **Total income and capital gains/(losses)** | **76,323** | **121,170** | **197,493** | 57,143 | (16,354) | 40,789 |
| Cost of sales | **(8,037)** | **—** | **(8,037)** | (4,405) | — | (4,405) |
| Administrative expenses | **(31,680)** | **(2,456)** | **(34,136)** | (24,879) | (2,216) | (27,095) |
| Provision for onerous contracts | **—** | **—** | **—** | 118 | — | 118 |
| **Operating profit/(loss)** | **36,606** | **118,714** | **155,320** | 27,977 | (18,570) | 9,407 |

**Finance costs**

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest payable | **(1,319)** | **(3,958)** | **(5,277)** | (1,320) | (3,958) | (5,278) |
| **Profit/(loss) before taxation** | **35,287** | **114,756** | **150,043** | 26,657 | (22,528) | 4,129 |
| Taxation | **(1,210)** | **—** | **(1,210)** | (1,178) | — | (1,178) |
| **Profit/(loss) for the year** | **34,077** | **114,756** | **148,833** | 25,479 | (22,528) | 2,951 |
| **Return per ordinary share (pence)** | **28.09** | **94.60** | **122.69** | 21.56 | (19.06) | 2.50 |
| Diluted return per ordinary share (pence) | **28.08** | **94.57** | **122.66** | 21.56 | (19.06) | 2.50 |

## Group statement of comprehensive income
as at 31 December 2021

| | | | **2021** | | | 2020 |
|---|---|---|---|---|---|---|
| | **Revenue £000** | **Capital £000** | **Total £000** | Revenue £000 | Capital £000 | Total £000 |
| **Profit/(loss) for the period** | **34,077** | **114,756** | **148,833** | 25,479 | (22,528) | 2,951 |
| Foreign exchange gain on translation of foreign operations | **—** | **654** | **654** | — | 105 | 105 |
| Pension actuarial gains/(losses) | **8,500** | **—** | **8,500** | (6,500) | — | (6,500) |
| Taxation on pension | **(1,615)** | **—** | **(1,615)** | 1,235 | — | 1,235 |
| Other comprehensive income/(loss) for year | **6,885** | **654** | **7,539** | (5,265) | 105 | (5,160) |
| **Total comprehensive income/(loss) for the year** | **40,962** | **115,410** | **156,372** | 20,214 | (22,423) | (2,209) |

## Statement of financial position
as at 31 December 2021

| | | **GROUP** | | **COMPANY** |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Assets** | **£000** | £000 | **£000** | £000 |
| **Non-current assets** | | | | |
| Goodwill | **18,973** | 1,914 | **—** | — |
| Property, plant and equipment | **1,974** | 1,088 | **—** | — |
| Right-of-use asset | **5,542** | 5,413 | **—** | — |
| Other intangible assets | **3,516** | 619 | **16** | 16 |
| Investments held at fair value through profit or loss | **992,478** | 812,297 | **992,378** | 812,083 |
| Investments in subsidiary undertakings | **—** | — | **61,283** | 61,283 |
| Retirement benefit asset | **6,577** | — | **—** | — |
| Deferred tax assets | **—** | 771 | **—** | — |
| **Total non-current assets** | **1,029,060** | 822,102 | **1,053,677** | 873,382 |
| **Current assets** | | | | |
| Trade and other receivables | **20,466** | 16,664 | **57,581** | 4,185 |
| Contract assets | **6,611** | 5,994 | **583** | 1,889 |
| Cash and cash equivalents | **35,880** | 41,762 | **25,507** | 32,098 |
| **Total current assets** | **62,957** | 64,420 | **83,671** | 38,172 |

| | | | | |
|---|---|---|---|---|
| **Total assets** | **1,092,017** | 886,522 | **1,137,348** | 911,554 |
| | | | | |
| **Current liabilities** | | | | |
| Amounts owed to subsidiary undertakings | **—** | — | **87,631** | 61,698 |
| Trade and other payables | **29,329** | 27,405 | **13,447** | 13,075 |
| Lease liability | **287** | — | **—** | — |
| Corporation tax payable | **925** | 238 | **—** | — |
| Deferred tax liability | **1,060** | — | **—** | — |
| Other taxation including social security | **1,543** | 860 | **850** | 793 |
| Contract liabilities | **5,620** | 4,367 | **34** | 16 |
| **Total current liabilities** | **38,764** | 32,870 | **101,962** | 75,582 |
| | | | | |
| **Non-current liabilities** | | | | |
| Long-term borrowings | **164,245** | 114,201 | **124,586** | 74,569 |
| Contract liabilities | **4,054** | 4,011 | **125** | 125 |
| Lease liability | **6,117** | 5,606 | **—** | — |
| Retirement benefit liability | **—** | 2,840 | **—** | — |
| **Total non-current liabilities** | **174,416** | 126,658 | **124,711** | 74,694 |
| **Total net assets** | **878,837** | 726,994 | **910,675** | 761,278 |
| | | | | |
| **Equity** | | | | |
| Called up share capital | **6,145** | 5,923 | **6,145** | 5,923 |
| Share premium | **41,865** | 9,277 | **41,865** | 9,277 |
| Own shares | **(3,215)** | (1,461) | **—** | — |
| Capital redemption | **8** | 8 | **8** | 8 |
| Translation reserve | **2,656** | 2,002 | **—** | — |
| Capital reserves | **789,423** | 674,591 | **835,293** | 733,189 |
| Retained earnings | **41,955** | 36,654 | **27,364** | 12,881 |
| **Total equity** | **878,837** | 726,994 | **910,675** | 761,278 |
| **Total equity pence per share** | **717.86** | 615.19 | | |

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 £151,510,000 (2020: gain £5,658,000). Approved and authorised for issue by the Board on 24 February 2022 and signed on its behalf by:

R. Hingley, Chairman | D. Jackson, Chief Executive Officer
The Law Debenture Corporation p.l.c. registered number 00030397

**Group statement of changes in equity**
as at 31 December 2021

| 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 2021** | 5,923 | 9,277 | (1,461) | 8 | 2,002 | 674,591 | 36,654 | 726,994 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Profit/(loss) for the period | — | — | — | — | — | 114,756 | 34,077 | 148,833 |
| Foreign exchange | — | — | — | — | 654 | 76 | (738) | (8) |
| Actuarial gain on pension scheme (net of tax) | — | — | — | — | — | — | 6,885 | 6,885 |
| Total comprehensive profit for the period | — | — | — | — | 654 | 114,832 | 40,224 | 155,710 |
| Issue of shares | 222 | 32,588 | — | — | — | — | — | 32,810 |
| Movement in own shares | — | — | (1,754) | — | — | — | — | (1,754) |
| Dividend relating to 2020 | — | — | — | — | — | — | (9,614) | (9,614) |
| Dividend relating to 2021 | — | — | — | — | — | — | (25,309) | (25,309) |
| **Total equity at 31 December 2021** | 6,145 | 41,865 | (3,215) | 8 | 2,656 | 789,423 | 41,955 | 878,837 |

| **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 2020** | 5,921 | 9,147 | (1,332) | 8 | 1,897 | 697,119 | 62,512 | 775,272 |
| Profit/(loss) for the period | — | — | — | — | — | (22,528) | 25,479 | 2,951 |
| Foreign exchange | — | — | — | — | 105 | — | — | 105 |
| Actuarial gain on pension scheme (net of tax) | — | — | — | — | — | — | (5,265) | (5,265) |
| Total comprehensive loss for the period | — | — | — | — | 105 | (22,528) | 20,214 | (2,209) |
| Issue of shares | 2 | 130 | — | — | — | — | — | 132 |
| Movement in own shares | — | — | (129) | — | — | — | — | (129) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Dividend relating to 2019 | — | — | — | — | — | — | (22,976) | (22,976) |
| Dividend relating to 2020 | — | — | — | — | — | — | (23,096) | (23,096) |
| **Total equity at 31 December 2020** | **5,923** | **9,277** | **(1,461)** | **8** | **2,002** | **674,591** | **36,654** | **726,994** |

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss.

**Statement of changes in equity**
as at 31 December 2021

| 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 2021** | 5,923 | 9,277 | — | 8 | — | 733,189 | 12,881 | 761,278 |
| Profit/(loss) for the period | — | — | — | — | — | 114,756 | 36,754 | 151,510 |
| Total comprehensive profit for the period | — | — | — | — | — | 114,756 | 36,754 | 151,510 |
| Issue of shares | 222 | 32,588 | — | — | — | — | — | 32,810 |
| Dividend relating to 2020 | — | — | — | — | — | — | (9,614) | (9,614) |
| Dividend relating to 2021 | — | — | — | — | — | (12,652) | (12,657) | (25,309) |
| **Total equity at 31 December 2021** | **6,145** | **41,865** | **—** | **8** | **—** | **835,293** | **27,364** | **910,675** |

| 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 2020** | 5,921 | 9,147 | — | 8 | — | 755,717 | 30,767 | 801,560 |
| Profit/(loss) for the period | — | — | — | — | — | (22,528) | 28,186 | 5,658 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total comprehensive profit for the period | — | — | — | — | — | (22,528) | 28,186 | 5,658 |
| Issue of shares | 2 | 130 | — | — | — | — | — | 132 |
| Dividend relating to 2019 | — | — | — | — | — | — | (22,976) | (22,976) |
| Dividend relating to 2020 | — | — | — | — | — | — | (23,096) | (23,096) |
| **Total equity at 31 December 2020** | **5,923** | **9,277** | **—** | **8** | **—** | **733,189** | **12,881** | **761,278** |

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss.

**Statements of cash flows**
for the year ended 31 December 2021

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£000** | £000 | **£000** | £000 |
| **Operating activities** | | | | |
| Operating profit before interest payable and taxation | **155,320** | 9,406 | **157,077** | 10,843 |
| Losses/(gains) on investments | **(121,170)** | 18,570 | **(121,170)** | 18,570 |
| Non-cash dividends | **—** | — | | (10,000) |
| Depreciation of property, plant and equipment | **220** | 37 | **—** | — |
| Depreciation of right-of-use assets | **858** | 1,179 | **—** | — |
| Interest on lease liability | **—** | 49 | **—** | — |
| Amortisation of intangible assets | **490** | 59 | **—** | — |
| Loss on sale of fixed assets | **—** | (15) | **—** | — |
| Decrease/(increase) in receivables | **(4,419)** | (9,007) | **2,139** | (3,377) |
| (Decrease)/increase in payables | **1,920** | 14,926 | **2,920** | 11,922 |
| Transfer from capital reserves | **—** | (1,341) | **—** | (1,341) |
| Normal pension contributions in excess of cost | **(940)** | (960) | **—** | — |
| **Cash generated from operating activities** | **32,279** | 32,903 | **40,966** | 26,617 |
| Taxation | **(307)** | (1,103) | **—** | — |
| **Operating cash flow** | **31,972** | 31,800 | **40,966** | 26,617 |
| | | | | |
| **Investing activities** | | | | |
| Acquisition of property, plant and equipment | **(1,075)** | (1,079) | **—** | — |
| Expenditure on intangible assets | **—** | (574) | **—** | — |
| Cash consideration transferred in relation to acquisition | **(18,214)** | **—** | **—** | **—** |
| Purchase of investments | **(200,096)** | (173,831) | **(200,096)** | (173,831) |
| Sale of investments | **140,440** | 166,908 | **140,327** | 166,908 |

| | | | | |
|---|---|---|---|---|
| Goodwill relating to subsidiary undertakings | **—** | 19 | **—** | — |
| Amounts receivable from intercompany | **—** | — | **(55,935)** | — |
| Cash flow from investing activities | **(78,945)** | (8,557) | **(115,704)** | (6,923) |
| | | | | |
| Financing activities | | | | |
| Intercompany funding | **—** | — | **25,933** | 17,708 |
| Interest paid | **(5,277)** | (5,278) | **(5,567)** | (5,206) |
| Dividends paid | **(34,923)** | (46,071) | **(34,923)** | (46,071) |
| Payment of lease liability | **(371)** | (1,163) | **—** | — |
| Proceeds of increase in share capital | **32,810** | 132 | **32,810** | 132 |
| Proceeds of issuance of long-term borrowings | **50,000** | — | **50,000** | — |
| Purchase of own shares | **(1,754)** | (129) | **—** | — |
| Net cash flow from financing activities | **40,485** | (52,509) | **68,253** | (33,437) |
| Net increase/(decrease) in cash and cash equivalents | **(6,488)** | (29,266) | **(6,485)** | (13,743) |
| Cash and cash equivalents at beginning of period | **41,762** | 71,236 | **32,098** | 46,128 |
| Foreign exchange (losses)/gains on cash and cash equivalents | **606** | (208) | **(106)** | (287) |
| **Cash and cash equivalents at end of period** | **35,880** | 41,762 | **25,507** | 32,098 |

NB: Total cash received in relation to dividend income was:
Group: £27,550k (2020: £18,206k)
Company: £42,500k (2020: £31,915k)

## Extracts from the Notes to the Accounts

### Going concern

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 investment at fair value.

The assets of the Company consist of securities that are readily realisable and, accordingly, the Directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

The Directors have also considered the ongoing impact of Covid-19, across the Group, including cash flow forecasting, balance sheet review at entity level, a review of covenant compliance including the headroom above the covenants and an assessment of the liquidity of the portfolio. They have concluded that the Group is able to meet its financial obligations, including the repayment of the debenture interest, as they fall due for a period of at least twelve months from the date of approval of the financial statements. Having assessed these factors and the principal risks, the Directors are not aware of any material uncertainties that cast significant doubt on the Group's ability to continue as a going concern.

### Segment analysis

| | Investment portfolio | Independent professional services | Group charges | Total |
|---|---|---|---|---|

| | 31 December 2021 £000 | 31 December 2020 £000 | 31 December 2021 £000 | 31 December 2020 £000 | 31 December 2021 £000 | 31 December 2020 £000 | 31 December 2021 £000 | 31 December 2020 £000 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| **Dividend income** | **26,259** | 17,937 | **—** | — | **—** | — | **26,259** | 17,937 |
| **IPS fees** | | | | | | | | |
| **Corporate trust** | **—** | — | **13,317** | 15,069 | **—** | — | **13,317** | 15,069 |
| **Corporate services** | **—** | — | **22,981** | 12,249 | **—** | — | **22,981** | 12,249 |
| **Pensions** | **—** | — | **13,215** | 11,580 | **—** | — | **13,215** | 11,580 |
| **Segment income** | **26,259** | 17,937 | **49,513** | 38,898 | **—** | — | **75,772** | 56,835 |
| **Other income** | **551** | 213 | **—** | 6 | **—** | — | **551** | 219 |
| **Cost of sales** | **(110)** | — | **(7,927)** | (4,405) | **—** | — | **(8,037)** | (4,405) |
| **Administration costs** | **(3,434)** | (2,570) | **(28,246)** | (22,301) | **—** | (8) | **(31,680)** | (24,879) |
| **Release of onerous contracts** | **—** | — | **—** | — | **—** | 118 | **—** | 118 |
| | **23,266** | 15,580 | **13,340** | 12,198 | **—** | 110 | **36,606** | 27,888 |
| **Interest payable (net)** | **(1,319)** | (1,260) | **—** | 29 | **—** | — | **(1,319)** | (1,231) |
| **Return, including profit on ordinary activities before taxation** | **21,947** | 14,320 | **13,340** | 12,227 | **—** | 110 | **35,287** | 26,657 |
| **Taxation** | **—** | — | **(1,210)** | (1,178) | **—** | — | **(1,210)** | (1,178) |
| **Return, including profit attributable to shareholders** | **21,947** | 14,320 | **12,130** | 11,049 | **—** | 110 | **34,077** | 25,479 |
| **Revenue return per ordinary share (pence)** | **18.09** | 12.12 | **10.00** | 9.35 | **—** | 0.09 | **28.09** | 21.56 |
| **Assets** | **1,020,114** | 850,255 | **71,903** | 36,246 | **—** | 21 | **1,092,017** | 886,522 |
| **Liabilities** | **(175,418)** | (146,992) | **(37,762)** | (12,536) | **—** | — | **(213,180)** | (159,528) |
| **Total net assets** | **844,696** | 703,263 | **34,141** | 23,710 | **—** | 21 | **878,837** | 726,994 |

Net revenue is calculated by reducing segment income by cost of sales.

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. Group dividends are paid from the investment portfolio segment of revenue reserves.

**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 3% 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 (2021 gain of £121,170,000; 2020 loss of £16,354,000), administrative expenses (2021: £2,456,000; 2020: £2,216,000), interest payable (2021: £3,958,000; 2020: £3,958,000) and a capital dividend payable of £12,652,000 which corresponds to amounts classified as capital in nature in accordance with the SORP are shown in the capital column of the income statement above.

**Financial instruments**
The principal risks facing the Group in respect of its financial instruments remain unchanged from 2020 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 175. 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 2021 fell or rose by 10%, the impact on the Group's total profit or loss for the year would have been £99.2m (2020: £81.2m). Corresponding 10% changes in the valuation of the investment portfolio on the Company's total profit or loss for the year would have been £99.2m (2020: £81.2m).

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:

| | | | **2021** | | | **2020** |
|---|---|---|---|---|---|---|
| **GROUP** | **Investments £m** | **Net monetary assets £m** | **Total currency exposure £m** | Investments £m | Net monetary assets £m | Total currency exposure £m |
| **US Dollar** | **44.7** | **3.6** | **48.3** | 40.1 | 11.7 | 51.8 |
| **Canadian Dollar** | **6.1** | **—** | **6.1** | 5.5 | — | 5.5 |
| **Euro** | **72.6** | **1.1** | **73.7** | 65.2 | 0.4 | 65.6 |
| **Danish Krone** | **2.3** | **—** | **2.3** | 2.3 | — | 2.3 |
| **Swedish Krona** | **1.2** | **—** | **1.2** | — | — | — |
| **Swiss Franc** | **9.6** | **—** | **9.6** | 9.5 | — | 9.5 |
| **Hong Kong Dollar** | **—** | **1.0** | **1.0** | — | 1.0 | 1.0 |
| **Japanese Yen** | **11.2** | **—** | **11.2** | 9.3 | — | 9.3 |
| **Total** | **147.7** | **5.7** | **153.4** | 131.9 | 13.1 | 145.0 |

The Group US dollar net monetary assets is that held by the US operations of £2m (2020: £1.4m) together with £3.6m (2020: £10.3m) held by non-US operations.

| COMPANY | 2021 Investments £m | Net monetary assets £m | Total currency exposure £m | 2020 Investments £m | Net monetary assets £m | Total currency exposure £m |
|---|---|---|---|---|---|---|
| **US Dollar** | **44.7** | **0.1** | **44.8** | 40.1 | 9.9 | 50.0 |
| **Canadian Dollar** | **6.1** | **—** | **6.1** | 5.5 | — | 5.5 |
| **Euro** | **72.6** | **—** | **72.6** | 65.2 | — | 65.2 |
| **Danish Krone** | **2.3** | **—** | **2.3** | 2.3 | — | 2.3 |
| **Swedish Krona** | **1.0** | **—** | **1.0** | — | — | — |
| **Swiss Franc** | **9.6** | **—** | **9.6** | 9.5 | — | 9.5 |
| **Japanese Yen** | **11.2** | **—** | **11.2** | 9.3 | — | 9.3 |
| **Total** | **147.5** | **0.1** | **147.6** | 131.9 | 9.9 | 141.8 |

The holding in Scottish Oriental Smaller Companies Trust is denominated in sterling but has underlying assets in foreign currencies equivalent to £7.1m (2020: £7.1m. 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 2021 rose or fell by 10% against sterling, the impact on the Group's total profit or loss for the year would have been £17.3m and £14.1m respectively (2020: £15.5m and £12.5m). 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:

| | **2021** | | | | | |
|---|---|---|---|---|---|---|
| | **GROUP** | | | | | **COMPANY** |
| | **Sterling £m** | **HK Dollars £m** | **US Dollars £m** | **Euro £m** | **Sterling £m** | **US Dollars £m** |
| **Floating rate assets** | **29.7** | **1.0** | **3.6** | **1.1** | **25.0** | **0.1** |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | GROUP | | | | | COMPANY |
| | Sterling £m | HK Dollars £m | US Dollars £m | Euro £m | Sterling £m | US Dollars £m |
| Floating rate assets | 28.2 | 1.0 | 11.7 | 0.4 | 22.0 | 9.9 |

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** | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |

| | Sterling | Sterling | Sterling | Sterling |
|---|---|---|---|---|
| | **£m** | £m | **£m** | £m |
| Fixed rate liabilities | **164.2** | 114.2 | **124.2** | 74.5 |
| Weighted average fixed rate for the year | **3.966%** | 4.589% | **3.276%** | 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 £314,000 credit (2020: £458,000 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 £233,000 credit (2020: £317,000 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 in the full annual report and accounts. The interest on borrowings is paid bi-annually on March and September for the 2045 secured senior notes, April and October for the 2034 secured bonds and May and November for the 2041 and 2050 senior secured notes.

**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 £56.3m (2020: £57.9m). The Company's maximum exposure to credit risk arising from financial assets is £83.1m (2020: £36.2m).

**Stock lending**
Stock lending agreements are transactions in which the Group lends securities for a fee and receives cash as collateral. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. Because as part of the lending arrangement the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

Stock lending transactions are carried out with a number of approved counterparties. Details of the value of securities on loan at the year end can be found in note 28 in the full annual report and accounts. In summary, the Group only transacts with counterparties that it considers to be credit worthy.

**Trade and other receivables**

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£000** | £000 | **£000** | £000 |
| **Between 31 and 60 days** | **3,342** | 2,382 | **—** | — |
| **Between 61 and 90 days** | **2,403** | 1,108 | **—** | — |
| **More than 91 days** | **10,941** | 10,614 | **—** | — |
| **Total** | **16,686** | 14,104 | **—** | — |

**IFRS 9 credit loss rates**

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 including business area and business geography and ageing.

The expected loss rates are based on the Company's historical credit losses experienced over a three-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. The Group has identified gross domestic product (GDP) and unemployment trends act as key economic indicators which may impact our customers' future ability to pay debt.

The below table displays the gross carrying amount against the expected credit loss provision and specific provisions. Specific provisions relate to balances 91+ days overdue.

The total specific and credit loss provision at 31 December 2021 is £3,314,000 (2020: £3,206,000).

| | **Current £000** | **1-30 days overdue £000** | **31-60 days overdue £000** | **61-90 days overdue £000** | **91+ days overdue £000** | **Total £000** |
|---|---|---|---|---|---|---|
| **31 December 2021** | | | | | | |
| **Expected loss rate** | **2.98%** | **2.94%** | **2.42%** | **4.45%** | **4.12%** | **3.62%** |
| **Gross carrying amount** | **1,343** | **3,939** | **3,342** | **2,403** | **10,941** | **21,968** |
| **Expected credit loss provision** | **(40)** | **(116)** | **(81)** | **(107)** | **(451)** | **(795)** |
| **Specific provision** | **-** | **-** | **-** | **-** | **(2,519)** | **(2,519)** |
| **Net carrying amount** | **1,303** | **3,823** | **3,261** | **2,296** | **7,971** | **18,654** |
| | | | | | | |
| **31 December 2020** | | | | | | |
| Expected loss rate | 2.64% | 4.07% | 4.03% | 5.23% | 4.35% | 4.09% |
| Gross carrying amount | 2,725 | 2,506 | 2,382 | 1,108 | 10,614 | 19,335 |
| Expected credit loss provision | (72) | (102) | (96) | (58) | (462) | (790) |
| Specific provision | - | - | - | - | (2,416) | (2,416) |
| **Net carrying amount** | 2,653 | 2,404 | 2,286 | 1,050 | 7,736 | 16,129 |

**Trade and other payables**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£000** | £000 | **£000** | £000 |
| Due in less than one month | **27,988** | 27,139 | **10,860** | 13,075 |
| Due in more than one month and less than three months | **—** | 266 | **—** | — |
| **Total** | **27,988** | 27,405 | **10,860** | 13,075 |

**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. The Group's basis of fair value calculation on these long-term borrowings uses quoted prices (unadjusted) in active markets for identical liabilities that the entity can access at the measurement date. The Group does not make adjustments to quoted prices, only under specific circumstances, for example when a quoted price does not represent the fair value (i.e. when a significant event takes place between the measurement date and market closing date).

**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:

| | **2021** | 2020 |
|---|---|---|
| | **£000** | £000 |
| **Dividends from subsidiaries** | **14,950** | 13,709 |
| **Interest on intercompany balances charged by subsidiaries** | **2,559** | 2,378 |
| **Management charges from subsidiaries** | **700** | 700 |

The key management personnel are the Directors of the Company. Details of their compensation are included in note 4 and in Part 2 of the remuneration report in the full annual report and accounts. Key management personnel costs inclusive of employers national insurance are £1,438,456 (2020: £1,352,977).

## Annual General Meeting (AGM)

The 132$^{nd}$ AGM will be held in-person at the offices of The Law Debenture Corporation p.l.c., 8th Floor, 100 Bishopsgate, London, EC2N 4AG and electronically on 7 April 2022 at 11.00am. Further details are included in the Notice of AGM included in the full annual report and accounts.

## Access to the Annual Report

On 4 March 2022, the annual report and accounts will be available for download from the National Storage Mechanism (**NSM**) at https://data.fca.org.uk/#/nsm/nationalstoragemechanism and on the Company's website at https://www.lawdebenture.com/investment-trust/shareholder-information/financial-statements.

## Corporate Information
### Company advisers and information

**Directors**
Robert Hingley[*+]
Tim Bond
Mark Bridgeman[#]
Claire Finn[~]
Pars Purewal
Clare Askem
Denis Jackson
Trish Houston

[*]Chairman of the Board
[+]Chairman of the Nomination Committee
[~]Chairman of the Remuneration Committee
[#]Chairman of the Audit and Risk Committee

**Website**
https://www.lawdebenture.com

**Registrar**
Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol
BS99 6ZZ
T: 0370 707 1129

**Auditors**
Deloitte LLP, 110 Queen Street, Glasgow,
G1 3BX

**Alternative Investment Fund Manager**
The Law Debenture Corporation p.l.c.

**Global custodian**
HSBC Bank plc (under delegation by the depositary)
8 Canada Square, London E14 5HQ

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

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

**Investment portfolio manager**
Janus Henderson Global Investors
201 Bishopsgate, London EC2M 3AE

**Investment managers**
James Henderson and Laura Foll are joint managers. They also manage Lowland Investment Company plc, Henderson Opportunities Trust plc and the Henderson UK Equity Income & Growth Fund.

James 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.

Laura 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.

The Law Debenture Corporation p.l.c. is registered in England, company registration number 30397.
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