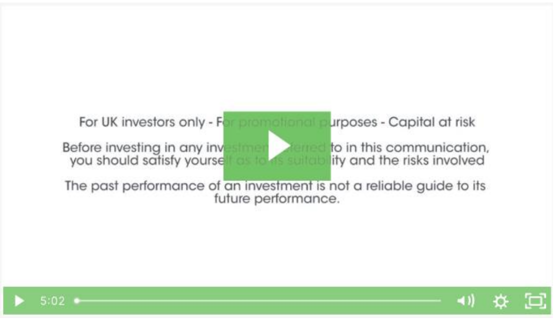
Lowland Investment Company

Looking ahead with quiet optimism

Investment trusts
UK equity income

Lowland Investment Company (LWI) invests across the UK market capitalisation spectrum, seeking a combination of capital and income growth. Although its smaller-cap bias and value-orientated investment approach mean it has underperformed in recent years, managers James Henderson and Laura Foll at Janus Henderson Investors remain confident in the ability of well financed, well managed companies in areas such as engineering and insurance to recover and grow in the medium term. In the meantime, the trust has revenue reserves with which it plans to support its long-term record of maintaining or growing its annual dividends.

Video: How can investment trusts cope with dividend cuts?



Source: Janus Henderson Investors, May 2020

The market opportunity

The UK stock market is badly out of favour with investors dazzled by the stellar performance of big US tech stocks. But although the impact of COVID-19 has been significant on both an individual and a corporate level, and dividend cuts have been widespread and harsh, there remain many well financed UK companies with decent medium-term capital and income growth potential.

Why consider investing in Lowland?

- All-cap approach means the portfolio is less concentrated in areas such as major UK banks and oil companies that have seen big dividend cuts.
- The managers seek attractively valued companies that can grow capital as well as income, providing a firmer footing for long-term dividend growth.
- Performance should benefit if the market rotation from defensive to more cyclical names becomes an established trend.
- The board has stated its 'firm intention' to deliver another year of annual dividend growth in FY20, using reserves as necessary.

Discount remains wider than average; 6.3% yield

At 22 July 2020, LWI's shares traded at an 8.3% discount to cum-income NAV. While this is appreciably lower than the 10-year widest discount of 13.0% seen during the market sell-off in March 2020, it remains towards the wider end of the established long-term range of 0–10%, and is also wider than the average discounts over one, three, five and 10 years (range of 4.0% to 6.6%). The current dividend yield of 6.3% reflects a lower share price, but dividends look secure for FY20.

24 July 2020

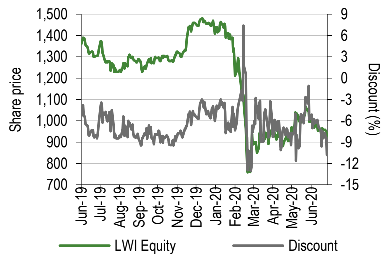
Price	**948.0p**
Market cap	**£256.1m**
AUM	**£336.9m**

NAV*	1,033.7p
Discount to NAV	8.3%
NAV**	1,033.7p
Discount to NAV	8.3%

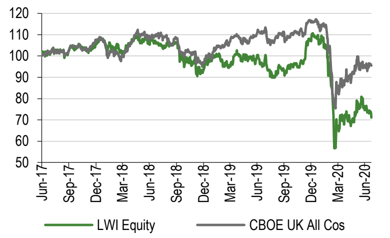
*Excluding income. **Including income. As at 22 July 2020. Shares are currently trading ex-dividend.

Yield	6.3%
Ordinary shares in issue	27.0m
Code	LWI
Primary exchange	LSE
AIC sector	UK Equity Income

Share price/discount performance



Three-year performance vs index



52-week high/low	1,480.0p	758.0p
NAV* high/low	1,539.4p	855.6p

*Including income.

Gearing

Gross*	14.0%
Net*	14.0%

*As at 30 June 2020.

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Lowland Investment Company is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Lowland Investment Company (LWI) aims to give investors a higher-than-average return with growth in both capital and income over the medium to long term by investing in a broad spread of predominantly UK companies. LWI measures its performance against the total return of the broad UK stock market.

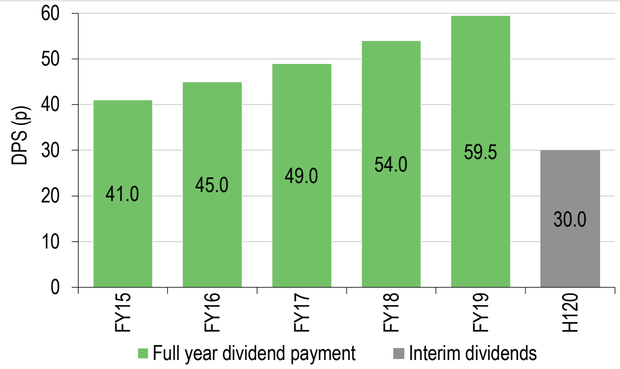
Recent developments

- 5 June 2020: Results for the six months ended 31 March. NAV TR -30.3% and share price TR -28.1% versus benchmark return of -22.0%. Second interim dividend of 15.0p (Q219: 15.0p) declared, meaning LWI remains on track to grow its FY20 dividend (H120: 30.0p versus 29.5p in H119).

Forthcoming		Capital structure		Fund details	
AGM	January 2021	Ongoing charges	0.7% (H120)	Group	Janus Henderson Investors
Annual results	December 2020	Net gearing	14.2%	Managers	James Henderson, Laura Foll
Year end	30 September	Annual mgmt fee	Tiered (see page 9)	Address	201 Bishopsgate, London, EC2M 3AE
Dividend paid	Quarterly	Performance fee	Yes (see page 9)		
Launch date	October 1963	Trust life	Indefinite	Phone	+44 (0) 20 7818 1818
Continuation vote	None	Loan facilities	Up to £90m	Website	www.lowlandinvestment.com

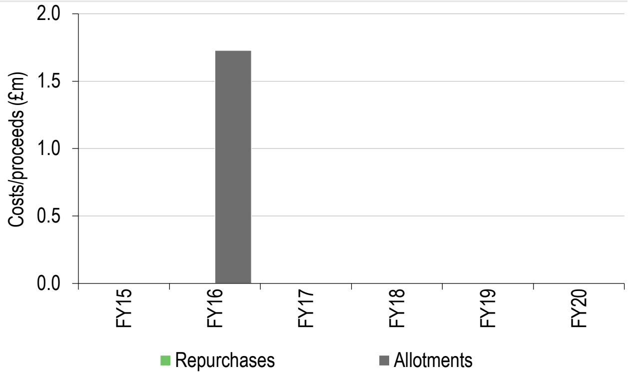
Dividend policy and history (financial years)

Dividends are paid quarterly, in April, July, October and January. LWI aims to achieve a growing income for investors, and has maintained or increased its dividend each year for more than 40 years.

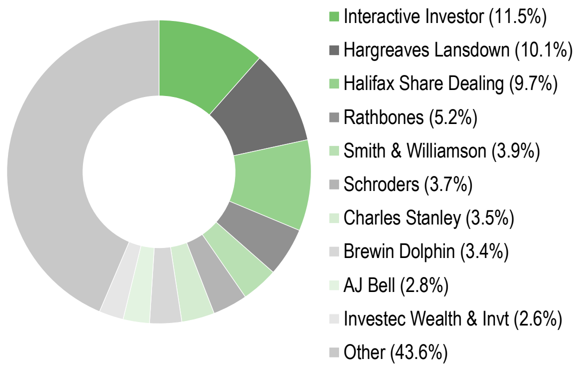


Share buyback policy and history (financial years)

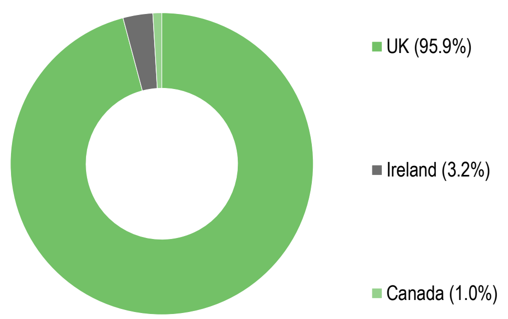
LWI has the authority to buy back up to 14.99% of shares, but in practice this is not used. It may also issue new shares at a premium to NAV in response to investor demand.



Shareholder base (as at 5 May 2020)



Portfolio exposure by geography (as at 30 June 2020)



Top 10 holdings (as at 30 June 2020)

Company	Country	Sector	Portfolio weight %	
			30 June 2020	30 June 2019*
GlaxoSmithKline	UK	Healthcare	4.4	2.8
Phoenix Group	UK	Financials	3.2	2.7
Royal Dutch Shell	UK	Oil & gas	2.9	5.9
Severn Trent	UK	Utilities	2.8	2.0
National Grid	UK	Utilities	2.4	N/A
Prudential	UK	Financials	2.4	2.5
RELX	UK	Media	2.2	1.9
Direct Line Insurance	UK	Financials	2.1	N/A
Irish Continental Group	Ireland	Consumer services	1.8	N/A
HSBC	UK	Financials	1.8	2.8
Top 10 (% of portfolio)			**26.0**	**27.7**

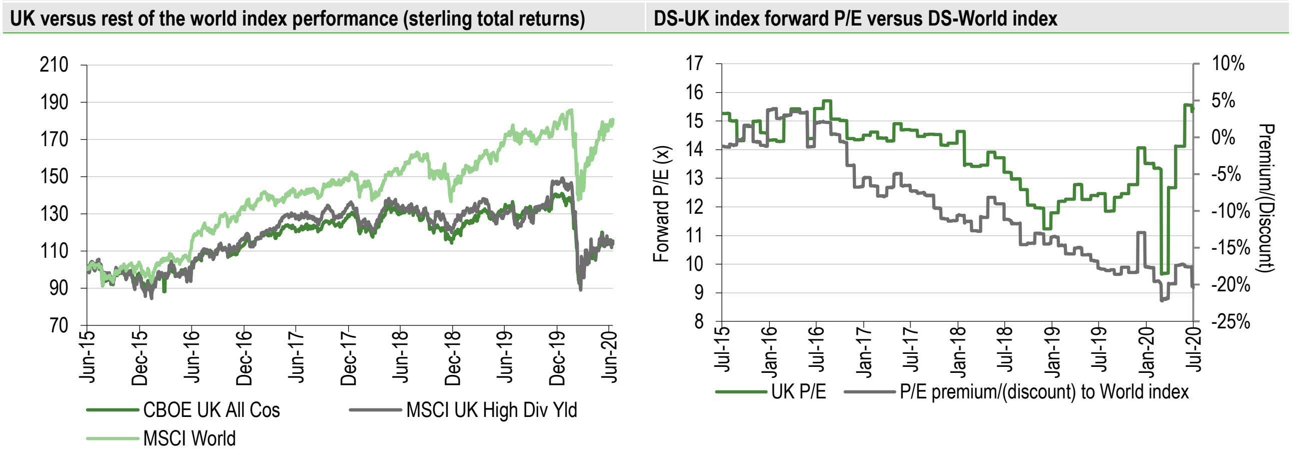
Source: Lowland Investment Company, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-June 2019 top 10.

Market outlook: UK value obscured by COVID clouds?

The investment landscape so far in 2020 – in common with practically everything else – has been heavily dominated by the COVID-19 pandemic. As shown in Exhibit 2 (left-hand chart), market indices fell sharply in the first quarter of the year as disease spread further into the developed world, but bounced in response to co-ordinated fiscal and monetary easing on a scale that exceeded even the response to the Global Financial Crisis of 2007-09. However, the UK market fell further and has recovered less in sterling terms, continuing a trend of underperformance versus the global market (of which the US makes up more than 60%) that has persisted since the Brexit referendum in 2016. Total returns from UK companies could be further curtailed in the immediate future given the higher number of COVID-19 induced dividend cuts than has been seen elsewhere.

While uncertainty over the corporate earnings outlook arguably makes the forward P/E multiple a less useful valuation metric than it is in 'normal' times, the right-hand chart in Exhibit 2 does suggest that despite all the difficulties, the UK offers value versus the rest of the world. The sharp recovery in share prices has seen the forward P/Es on the Datastream UK, US, European and world indices all rising to a level in excess of their 10-year averages, but the UK (with a forward P/E of 15.4x) is a 'mere' 21% above average, compared with 46%, 38% and 40% respectively for the others, which are all at 10-year highs. The UK forward P/E discount to the world index has drifted more or less steadily wider since mid-2016, and currently stands at 20.4% versus a 10-year average of 8.6%. Unless one believes that the post-COVID-19, post-Brexit UK corporate landscape is fundamentally broken, these numbers suggest a level of opportunity may exist for those who are prepared to back Britain.

Exhibit 2: Market performance and valuation



Source: Refinitiv, Edison Investment Research. Note: Data at 21 July 2020.

Fund profile: Value-orientated all-cap UK income fund

Lowland Investment Company (LWI) was established in 1963 and aims to achieve capital growth and a growing income for its shareholders by investing mainly in UK companies from across the market capitalisation spectrum. It is jointly managed by James Henderson (since 1990) and Laura Foll (since 2013), who are members of the global equity income team at Janus Henderson Investors and also co-manage Henderson Opportunities Trust (HOT) and the investment portfolio of The Law Debenture Corporation (LWDB).

LWI is a member of the Association of Investment Companies' UK Equity Income sector, and benchmarks its performance against a broad UK stock market index. However, the portfolio is highly differentiated from the index, with more than 50% of assets invested in mid-cap and smaller companies. The managers' preference for value and recovery situations has been a headwind for performance until recently, as in the last few years markets have largely been driven by share price momentum in highly rated 'quality' companies.

As part of their investment strategy, Henderson and Foll actively use gearing with the aim of enhancing returns, tending to focus on companies with dividend yields above the cost of borrowing, which leads to an immediate positive impact in terms of revenue returns. LWI has a mix of short- and longer-term borrowings equating to maximum gearing of £90m or c 30% of net assets. Net gearing at 30 June 2020 was 14.0%.

The fund managers: James Henderson and Laura Foll

The managers' view: Growth remains the key to income

Henderson and Foll acknowledge the difficulties of running a value-orientated all-cap UK income fund at a time when the UK and value investing have been out of favour for several years. Small- and mid-cap companies were hit disproportionately hard in the coronavirus-induced market sell-off in February and March, and the interruption to corporate revenue streams has sparked widespread dividend cuts at a level not seen in the rest of the world. However, they see remaining true to LWI's core philosophy as the basis of longer-term success.

'We want to stay diversified,' says Henderson. 'There is a danger that if you try to hold up your dividend income, you will have very few stocks to look at, and some large-cap focused income funds may end up confined to a pretty small number of uninteresting investments.' Partly thanks to the comfort afforded by LWI's revenue reserve, the managers say they will continue to hold a wide range of companies across the market cap spectrum, even though in the short term some may have low or no dividends.

Early in the COVID-19 pandemic, Foll stress-tested the LWI portfolio with the assumption of an aggregate 30% fall in dividend income. 'At the time I thought I was being very conservative, but in hindsight a 30% reduction looks optimistic,' she says, pointing to the growing consensus that UK dividends as a whole could be 40–45% lower year-on-year in 2020. 'The real concern on companies' part is that they don't know how long this is going to last, so they have been withdrawing guidance, which means cancelling dividends – no company wants to be the one that paid a £5m dividend and ran out of cash in six months' time,' Foll adds.

For many companies the crisis may represent the opportunity they have been waiting for to rebase their dividends, which could be beneficial for both capital and income growth in the longer term. 'Payout ratios have been unsustainably high in large companies, but the UK dividend culture – where cutting dividends is always seen as a last resort – has made it difficult to rebase them. This is their moment,' Foll comments. So while the immediate outlook for dividends may be worse than in the global financial crisis, 'if you are a long-term investor then companies investing for the future is better than a too-high payout ratio,' she says. 'There has been a lack of much-needed capital expenditure in the UK,' adds Henderson. 'Some companies should pay higher dividends if they are mature businesses that are not in need of capex, but a lot of businesses could do with more capex in the coming year.'

He gives the example of chemical company Elementis, a small holding that the managers topped up after it suspended its dividend, 'which was the right thing for it to do in terms of its balance sheet'. 'Elementis is a good, cash-generative business and it will come back to the dividend list at a certain point, [but] it will help the capital account even if there is no revenue growth for 18 months or so,' the manager says. Elementis's share price (as at 21 July 2020) has nearly quadrupled from its low point on 18 March, the day before the dividend suspension was announced.

Looking ahead, Henderson expects that in the medium term corporate balance sheets are likely to be managed more conservatively; companies will run with higher levels of dividend cover, less focus on return on capital and more on sustainability in the broadest sense, all of which he says are positive over the medium to long term. 'For an income fund this poses a challenge, but the key will be smaller companies coming through with income generation from lower levels,' he adds, concluding: 'We must not keep our investment thinking too confined around income – our multi-cap approach and our revenue reserves allow us to keep our growth angle and not end up with a portfolio full of utilities.'

Asset allocation

Investment process: Focus on sustainable growth and income

LWI's managers seek to create a diversified portfolio of c 100–120 mainly UK companies by investing on a bottom-up basis with a keen awareness of valuations. Four key principles underpin the investment philosophy, which has remained largely unaltered since the trust was set up in 1963:

- The UK is home to many world-class companies with sustainable long-term growth potential.
- Mid-cap and smaller companies make better long-term investments because of their superior growth potential.
- Capital growth and dividend growth go hand-in-hand as drivers of investment performance.
- As long-term investment returns have tended to exceed the cost of borrowing, gearing is an appropriate way of maximising performance.

Henderson and Foll invest across the market capitalisation spectrum, with up to half the portfolio in large, blue-chip stocks and the balance spread between mid-sized and smaller companies, including those listed on the Alternative Investment Market (AIM). This means LWI's profile (and hence its performance) is likely to differ appreciably from the benchmark, where c 80% of total market capitalisation is accounted for by the largest 100 stocks. Because of the focus on value and the high proportion of small and mid-cap holdings, the managers prefer to run a long list in order to limit stock-specific risk, particularly in smaller companies that may be at a relatively early stage of development. The trust may invest up to 20% of its assets overseas; however, non-UK holdings currently account for only c 4% of the total, mainly in Irish-listed companies with significant UK operations.

The managers use a range of valuation criteria to identify the companies in their investment universe of c 1,500 stocks that have potential to generate both capital appreciation and (in normal circumstances) a growing income. They meet with hundreds of companies every year, seeking businesses with real prospects of sales and earnings growth. Access to company managements has if anything improved as a result of the COVID-19 pandemic and associated lockdowns, as executive teams are keen to reassure investors and can do so efficiently by telephone or video call. Henderson and Foll strongly prefer to buy into companies that are trading at low valuations because their potential to recover and grow may be under-appreciated by the wider market. In addition, because they believe dividend growth is a key to long-term capital growth, the managers favour companies that pay sustainable dividends. Clearly the high level of dividend cuts by UK companies so far in 2020 will have an impact on LWI's revenue account in the near term, but the managers are optimistic that many holdings that have cut or suspended dividends will be able to return to the path of dividend growth before the end of 2021.

Current portfolio positioning

At 30 June 2020, LWI had a little over 100 holdings in its portfolio, broadly unchanged on a year earlier. Concentration in the top 10 positions fell slightly from 27.7% to 26.0% over the period. By far the largest sector weightings are in financials (35.4%, +1.0pp compared with 30 June 2019) and industrials (23.3%, -2.4pp versus a year earlier). However, it is important to note that the financials weighting includes relatively few mainstream banks (only HSBC, Standard Chartered and Royal Bank of Scotland were held at the 31 March 2020 half-year end, collectively making up 5% of the portfolio). Instead it is spread over areas such as asset management (Standard Life Aberdeen, M&G), life and non-life insurance (Phoenix Group, Direct Line), capital markets (K3 Capital, Numis Securities), specialist funds (Hipgnosis Songs Fund, Herald Investment Trust) and property (St Modwen Properties, Land Securities). This means that although the weighting is large, it is exposed to multiple return drivers and cycles, and includes both companies that have had to cut their dividends for regulatory reasons (banks, non-life insurers) and those where income generation remains strong (such as some of the specialist funds). The industrials allocation is also diverse, with around 30 holdings representing all seven of the industry subsectors (construction & materials, aerospace & defence, general industrials, electronic & electrical equipment, industrial engineering, industrial transportation and support services). Although civil aerospace stocks have had a particularly tough time of late (see Performance), other areas such as electronic & electrical equipment have held up relatively well. Henderson and Foll note that although earnings estimates have been downgraded steeply in many areas of industrials, companies are cutting costs, and those that can avoid becoming overburdened by debt should therefore be positively geared into the recovery, as any increase in top-line earnings could translate into a sharp rebound in profits.

Exhibit 3: Portfolio sector exposure (% unless stated)

	Portfolio end-June 2020	Portfolio end-June 2019	Change (pp)
Financials	35.4	34.4	1.0
Industrials	23.3	25.6	(2.4)
Consumer services	10.4	9.6	0.8
Utilities	7.4	5.0	2.4
Oil & gas	6.7	9.4	(2.7)
Healthcare	6.1	5.4	0.7
Basic materials	5.6	4.5	1.1
Consumer goods	2.8	4.3	(1.5)
Telecommunications	1.6	1.2	0.4
Technology	0.7	0.5	0.2
	100.0	**100.0**	

Source: Lowland Investment Company, Edison Investment Research

In terms of recent portfolio activity, the managers reduced LWI's bank exposure in the early part of the COVID-19 crisis, in the expectation of dividend cuts, as well as reducing positions that had performed strongly or where valuations looked high, such as Avon Rubber, XP Power, Sabre Insurance and HICL Infrastructure. They have topped up various holdings on share price weakness, or where they felt there were good total return opportunities, such as Hipgnosis Songs Fund, Tesco, K3 Capital, and broadcaster STV. New positions have been opened in mining company Anglo America, insurer RSA and cinema chain Cineworld, while a small position was sold in housebuilder Taylor Wimpey, which had recovered well. Against a backdrop of widespread dividend cuts, many of the new or increased positions are seen as total return stories, which have the potential to benefit from both rising share prices and increasing or reinstating dividends.

Performance: A strong bounce back from March lows

Exhibit 4: Five-year discrete performance data

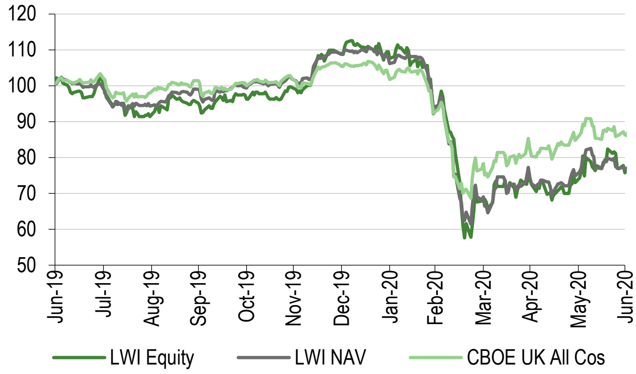
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI UK High Div Yield (%)	CBOE UK 250 (%)	CBOE UK Small Cos (%)
30/06/16	(9.7)	(5.6)	1.7	3.2	(4.1)	(6.7)
30/06/17	25.0	26.9	18.3	23.4	22.5	34.3
30/06/18	5.7	6.8	9.5	4.8	11.5	9.3
30/06/19	(6.9)	(9.6)	0.3	(3.3)	(6.0)	(8.2)
30/06/20	(24.2)	(23.1)	(13.6)	(10.5)	(13.9)	(16.0)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

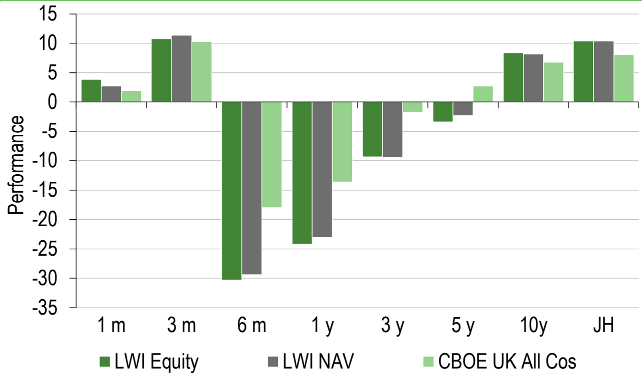
LWI's all-cap approach and value bias meant the portfolio sold off heavily in the coronavirus-induced market weakness of February and March 2020, wiping out the recovery it had staged following the general election in December 2019. The magnitude of the fall – which far exceeded that of the broad UK market index – translates into negative NAV and share price total returns of more than 25% over six months to 30 June (Exhibit 5, right-hand chart), although the portfolio has recovered well since the end of March, outperforming the index return of 10.3% with NAV and share price total returns of 11.4% and 10.8% respectively to end-June.

Exhibit 5: Investment trust performance to 30 June 2020

Price, NAV and index total return performance, one-year rebased



Price, NAV and index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures and performance under James Henderson (JH, since 30 October 1990) annualised.

The trust's recent recovery has been helped by a shift in market leadership during May and June from defensive sectors such as utilities and healthcare towards cyclical sectors such as industrials and financials, which together make up more than half of LWI's portfolio. In May the strongest performers were defence and protective equipment supplier Avon Rubber and retailer Halfords, which remained open during the lockdown and saw good trading for its cycle business. The biggest detractor was civil aerospace stock Rolls-Royce, which suffered from the worldwide grounding of aircraft fleets. In June strong performance came from Morgan Advanced Materials and XP Power, industrial companies with exposure to demand from the healthcare sector, both of which published positive trading updates. The biggest detractor was Ten Entertainment, a small-cap bowling alley operator whose CEO announced he was leaving for a job at student accommodation developer Empiric Student Property. Henderson and Foll have retained the position in Ten Entertainment as it has a resilient balance sheet following an equity raise earlier this year, and should recover well as sites reopen, owing to its good-value family entertainment proposition.

Looking at the longer term (Exhibits 5 and 6), LWI's absolute and relative returns remain positive over 10 years and under Henderson's tenure (30 years this October), but the trust has suffered over periods of five years and less – in large part because of the recent sell-off, but also because of the uncommonly long period in which lowly valued stocks have underperformed the wider market.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years	JH*
Price relative to CBOE UK All Cos	1.9	0.4	(15.0)	(12.3)	(21.5)	(26.4)	16.5	89.5
NAV relative to CBOE UK All Cos	0.8	1.0	(13.9)	(11.0)	(21.7)	(22.1)	14.1	88.8
Price relative to MSCI UK High Div Yld	2.1	(1.2)	(11.9)	(15.3)	(17.8)	(27.2)	8.9	77.2
NAV relative to MSCI UK High Div Yld	1.0	(0.7)	(10.8)	(14.0)	(18.0)	(23.0)	6.7	76.6
Price relative to CBOE UK 250	3.4	(2.1)	(6.4)	(12.0)	(17.5)	(20.7)	(6.3)	(9.4)
NAV relative to CBOE UK 250	2.3	(1.5)	(5.2)	(10.6)	(17.7)	(16.1)	(8.2)	(9.7)
Price relative to CBOE UK Small Cos	3.1	(3.5)	(8.4)	(9.8)	(11.7)	(20.5)	82.1	139.1
NAV relative to CBOE UK Small Cos	2.0	(2.9)	(7.3)	(8.4)	(11.9)	(15.8)	78.4	138.2

Source: Refinitiv, Edison Investment Research. Note: Data to end-June 2020. Geometric calculation. JH = performance under James Henderson (since 30 October 1990).

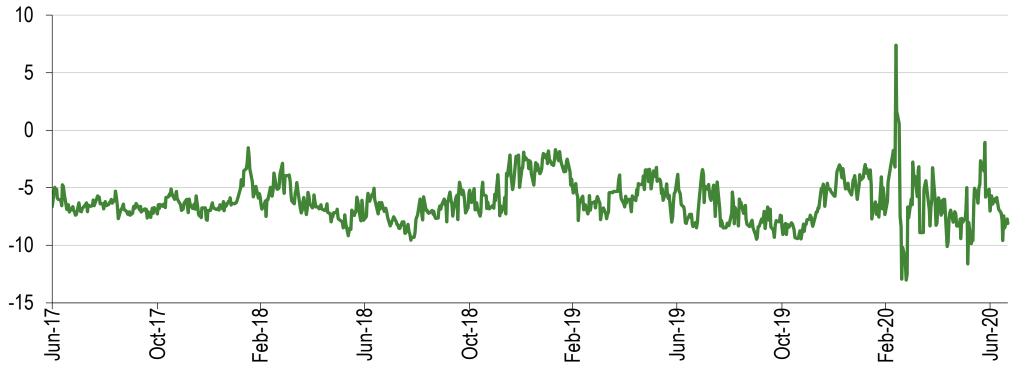
Exhibit 7: NAV total return performance relative to CBOE UK All Cos index over 10 years

Source: Refinitiv, Edison Investment Research

Discount: At the wider end of long-term 0–10% range

LWI's shares have traded broadly in a range between par and a 10% discount to NAV for most of the past five years, with the discount averaging 6.6%, 6.2%, 5.4% and 4.0% over the past one, three, five and 10 years, respectively. In March 2020, during the coronavirus-driven market sell-off, the share price first spiked to a five-year high premium to NAV of 7.4% (as investment trust shares sold off less quickly than those of their underlying holdings), then fell to a 10-year widest discount of 13.0% (as the broader market began to bounce back), before settling back into its established range, albeit with a little more volatility. At 22 July 2020, LWI's discount to cum-income NAV stood at 8.3%.

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

Structured as a conventional investment trust, LWI has one class of share, with 27.0m ordinary shares in issue at 22 July 2020. While the board does have the authority to buy back shares to manage a discount, in practice it does not tend to do so, and the number of shares has remained unchanged since FY16, when c 130,000 new shares were allotted.

The trust is geared (up to a maximum of 29.99% at the time of drawdown) via a mix of long- and short-term borrowing. In 2017, the trust issued £30m of 20-year loan notes with a fixed coupon of 3.15%; there is also a £40m bank loan facility with Scotiabank, with the option to increase to £60m, which expires in October 2020. Taken together (and without extending the bank loan), this equates to potential gearing of c 25%. Actual net gearing at 30 June 2020 was 14.0%.

Janus Henderson Investors is paid a tiered annual management fee of 0.5% on the first £375m of LWI's net assets and 0.4% thereafter, charged 50:50 to the revenue and capital accounts. The manager may also receive a performance fee if the trust's NAV total return in a financial year is more than 10% ahead of the total return on the benchmark (a broad UK stock market index). The performance fee is only payable if LWI's NAV is higher at the end of the financial year than at the start, and is charged at a rate of 15% of excess returns above the 10% hurdle, subject to an overall fee cap (including the management fee) of 0.75% up to £375m of assets and 0.65% above that level. A performance fee was last paid in respect of FY17. At end-H120 (31 March 2020), LWI's ongoing charges figure was 0.7%, a little higher than 0.6% at end-FY19 and at least in part attributable to the fall in net assets to below £375m during the half-year, meaning more of the management fee was charged at the higher rate.

Dividend policy and record

LWI has a progressive dividend policy, and has maintained or increased its annual dividends (paid quarterly since 2013) in each of the last 44 years. Until FY20, each quarter's dividend had been higher than the corresponding quarter of the previous year. However, given the significant headwinds to portfolio income from the widespread cancellation or suspension of UK company dividends as a result of the COVID-19 pandemic, LWI's second interim dividend for FY20 has been maintained at the same level (15p) as Q219. While the trust's board said in the recent H120 report that it will consider the timing and degree of recovery in deciding whether the progressive policy is sustainable, the chairman noted LWI's strong revenue and capital reserves, and said £11m had been added to the revenue reserve since the trust had last paid an uncovered dividend in 2010. To take the most conservative view of LWI's revenue reserve, it stood at c £14.2m or 52.6p per share at end-H120, which falls to c £6.1m or 22.5p per share after deducting the first two interim dividends and without accounting for any income received since 31 March. This is equal to 0.38x the FY19 annual dividend of 59.5p. Given the progressive focus and the fact that two dividends of 15p have already been paid in respect of H120, it seems reasonable to assume that the full year's dividend is intended to be no lower than 60.0p, which would be an increase of 0.8% on FY19. Based on the current share price and the last 12 months' dividends, LWI has a yield of 6.3%.

Peer group comparison

Exhibit 9 shows the 13 largest trusts (out of 25) in the AIC's UK Equity Income sector. LWI currently ranks smallest in the group by market capitalisation. A difficult recent period of performance means LWI's NAV total returns are negative over one, three and five years, ranking 11th out of 13 for all three periods. However, it remains close to the average over 10 years. The dispersion of returns between more value-focused and more growth-orientated investment styles is particularly clear in the performance numbers, with value peers Perpetual Income & Growth and Temple Bar bringing up the rear behind LWI over one, three and five years. LWI's ongoing charges are marginally above the peer group average, and it is the only fund in the group that may pay a performance fee. The discount to NAV is wider than average, gearing is somewhat above average, and the trust's 6.3% dividend yield is also higher than average, ranking fourth in the group. While largely a function of the fall in share price, this is notable because LWI's yield has historically been lower than the peer group average, given its emphasis on dividend growth rather than a high starting yield.

Exhibit 9: Selected peer group as at 21 July 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Lowland	**257.8**	**(23.0)**	**(27.2)**	**(12.4)**	**111.5**	**0.7**	**Yes**	**(8.5)**	**114**	**6.3**
BMO Capital & Income	282.8	(17.0)	(8.3)	17.1	98.1	0.6	No	0.4	107	4.4
City of London	1,390.8	(14.7)	(8.2)	6.4	112.6	0.4	No	(2.3)	110	5.7
Diverse Income Trust	290.0	0.2	1.1	20.9	--	1.2	No	(10.9)	100	4.5
Dunedin Income Growth	391.2	(1.2)	9.2	30.0	125.1	0.6	No	(7.1)	109	4.8
Edinburgh Investment Trust	823.8	(15.5)	(22.7)	(6.9)	113.6	0.6	No	(13.1)	110	6.1
Finsbury Growth & Income	1,826.7	(8.8)	21.1	54.0	271.6	0.7	No	0.1	101	2.0
JPMorgan Claverhouse	336.4	(16.9)	(10.1)	8.0	102.2	0.7	No	(3.3)	112	5.1
Law Debenture Corporation	649.0	(10.2)	(3.9)	19.1	124.5	0.3	No	(0.7)	119	4.7
Merchants Trust	426.2	(18.8)	(12.8)	(0.0)	90.2	0.6	No	(4.5)	117	7.6
Murray Income Trust	513.0	(2.8)	6.4	30.4	124.1	0.7	No	(5.9)	105	4.5
Perpetual Income & Growth	478.0	(23.6)	(31.6)	(24.9)	68.8	0.7	No	(15.0)	111	6.7
Temple Bar	509.6	(32.2)	(28.8)	(15.3)	64.8	0.5	No	(11.6)	109	6.7
Peer group average (13 funds)	**628.9**	**(14.2)**	**(8.9)**	**9.7**	**117.3**	**0.6**		**(6.3)**	**109**	**5.3**
Whole sector average (25 funds)	**370.3**	**(13.6)**	**(9.1)**	**5.8**	**106.3**	**1.2**		**(8.2)**	**113**	**6.0**
LWI rank in peer group	**13**	**11**	**11**	**11**	**7**	**6**		**9**	**3**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance to 20 July 2020 based on cum-fair NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

There are five non-executive directors on the board of LWI, all independent of the manager. The directors have professional backgrounds in investment management, industry and accountancy. Chairman Robert Robertson has served on the board since 2011, assuming his current role in 2017. The longest-serving director, Karl Sternberg, was appointed in 2009 and stepped down from LWI's audit committee during 2019. Duncan Budge joined the board in 2014, and Gaynor Coley, who chairs the audit committee, has been a director since 2016. The newest appointee, Tom Walker, joined the board in July 2019 on the retirement of Kevin Carter. Under the board's succession programme, it is anticipated that a new director will be appointed and an existing director will retire approximately every three years.

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