EDISON

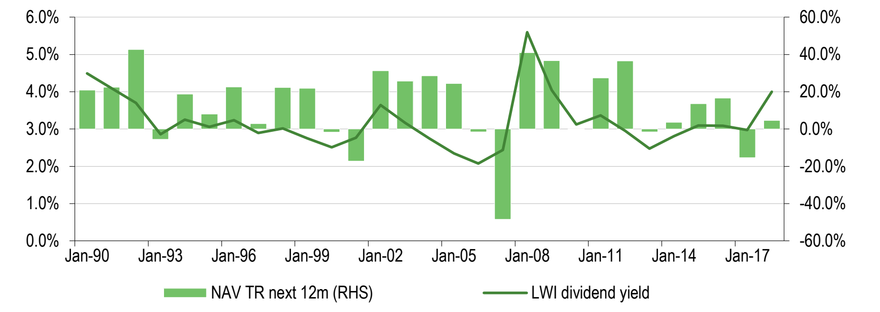
Lowland Investment Company

Value-orientated portfolio with 4.5% dividend yield

Investment trusts
UK income and growth

Lowland Investment Company (LWI) has suffered a period of poor performance recently, with both its share price and NAV close to 12-month lows, as its value investment style has remained out of favour in a market where investors have preferred highly rated growth companies. Managers James Henderson and Laura Foll continue to see opportunities in both large and smaller UK companies that are growing their dividends, and LWI's own dividend yield has reached a cyclical high of c 4.5%, a level that has historically been followed by strong NAV returns in subsequent years. Although underperformance in the past 12 months has weighed on the trust's medium-term performance record, it has generated NAV and share price total returns of c 14% pa over 10 years, well ahead of both the FTSE All-Share Index return and the AIC UK Equity Income peer group.

Strong NAV performance has tended to follow an LWI dividend yield above 4%



Source: Lowland Investment Company, Edison Investment Research

The market opportunity

UK equities remain out of favour with global investors, thanks to the still unquantified risk of a disorderly exit from the EU, as well as the market's lack of exposure to high-growth areas such as technology. However, the high dividend yield on offer (4.06% for the FTSE All-Share Index versus 2.45% for the FTSE World Index) should provide support for total returns in the event of further market volatility.

Why consider investing in Lowland?

- Performance recovery could be pronounced in the event of a style rotation from growth to value in the broader market.
- Current high dividend yield (4.5%) looks attractive versus government bonds, and is supported by dividend growth from portfolio companies.
- Managers see significant value in out-of-favour UK stocks, although short-term headwinds (such as the risk of a no-deal Brexit) remain a potential issue.
- Experienced management team with record of long-term outperformance.

Relatively tight discount and above-average yield

At 20 August 2019, LWI's shares traded at a 6.1% discount to cum-income NAV. This was wider than the one-year average of 5.7%, after the NAV recovered by more than the share price in mid-August market volatility. LWI's current dividend yield of 4.5% is higher than historically, but is well supported by underlying dividend growth, and LWI is on track to grow its own dividend by c 10% for a seventh consecutive year.

21 August 2019

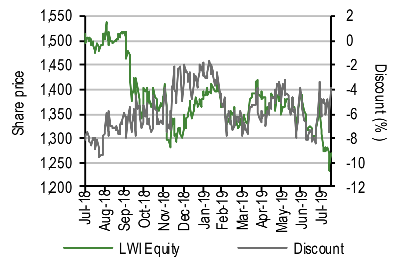
Price	**1,270.0p**
Market cap	**£343.1m**
AUM	**£423.9m**

NAV*	1,318.1p
Discount to NAV	3.6%
NAV**	1,351.8p
Discount to NAV	6.1%

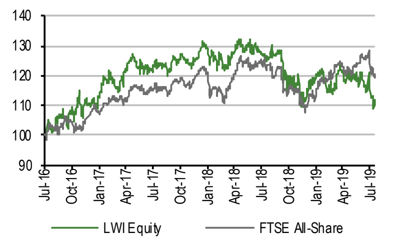
*Excluding income, with debt at fair (market) value. **Including income, with debt at fair (market) value. As at 19 August 2019.

Yield	4.5%
Ordinary shares in issue	27.0m
Code	LWI
Primary exchange	LSE
AIC sector	UK Equity Income
Benchmark	FTSE All-Share index

Share price/discount performance



Three-year performance vs index



52-week high/low	1,540.0p	1,235.0p
NAV* high/low	1,651.9p	1,321.7p

*Including income.

Gearing

Net*	15.0%

*As at 31 July 2019.

Analyst

Sarah Godfrey +44 (0)20 3681 2519
investmenttrusts@edisongroup.com
Edison profile page

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 FTSE All-Share Index total return.

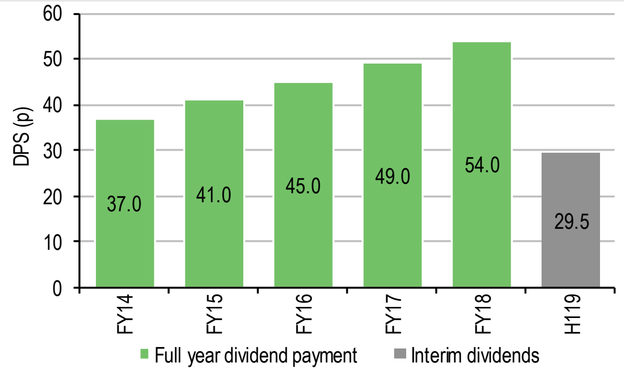
Recent developments

- 7 June 2019: Results for the six months ended 31 March 2019. NAV TR -10.6% and share price TR -9.8% versus -1.8% for the FTSE All-Share Index. Short-term underperformance was largely attributable to weakness in smaller companies and industrial stocks.
- 7 June 2019: Appointment of Tom Walker, former manager of Martin Currie Global Portfolio, to the board of LWI with effect from 1 July 2019.
- 7 June 2019: Second interim dividend of 15.0p to be paid on 31 July 2019.

Forthcoming		Capital structure		Fund details	
AGM	January 2020	Ongoing charges	0.6% (H119)	Group	Janus Henderson Investors
Annual results	December 2019	Net gearing	15.0%	Managers	James Henderson, Laura Foll
Year end	30 September	Annual mgmt fee	Tiered (see page 8)	Address	201 Bishopsgate, London, EC2M 3AE
Dividend paid	Quarterly	Performance fee	Yes (see page 8)		
Launch date	October 1963	Trust life	Indefinite	Phone	+44 (0) 7818 1818
Continuation vote	None	Loan facilities	Up to £90m	Website	www.lowlandinvestment.com

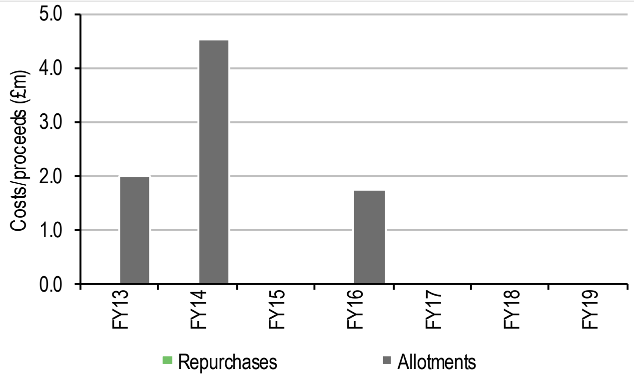
Dividend policy and history (financial years)

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.

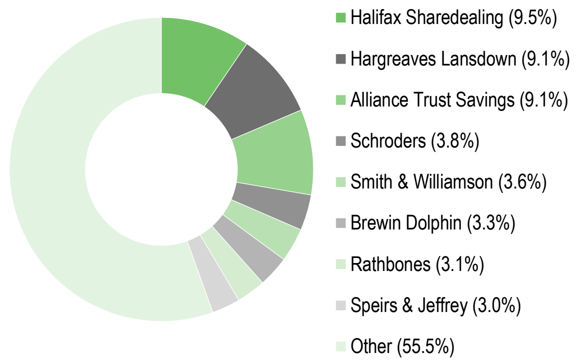


Share buyback policy and history (financial years)

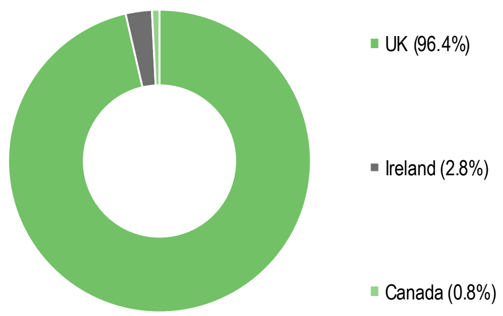
LWI has the authority to buy back up to 14.99% of shares, but in practice this is not used. It may also issue new shares at a premium to NAV in response to investor demand.



Shareholder base (as at 28 June 2019)



Portfolio exposure by geography (as at 31 July 2019)



Top 10 holdings (as at 31 July 2019)

Company	Country	Sector	Portfolio weight %	
			31 July 2019	31 July 2018*
Royal Dutch Shell	UK	Oil & gas	6.0	6.9
GlaxoSmithKline	UK	Healthcare	3.4	1.9
HSBC	UK	Financials	2.6	2.7
Phoenix Group	UK	Financials	2.6	2.3
Hiscox	UK	Financials	2.6	2.9
Prudential	UK	Financials	2.5	2.3
Senior	UK	Industrials	2.3	3.1
Standard Chartered	UK	Financials	2.0	1.7
Severn Trent	UK	Utilities	1.9	N/A
Johnson Service Group	UK	Industrials	1.9	N/A
Top 10 (% of holdings)			**27.8**	**27.1**

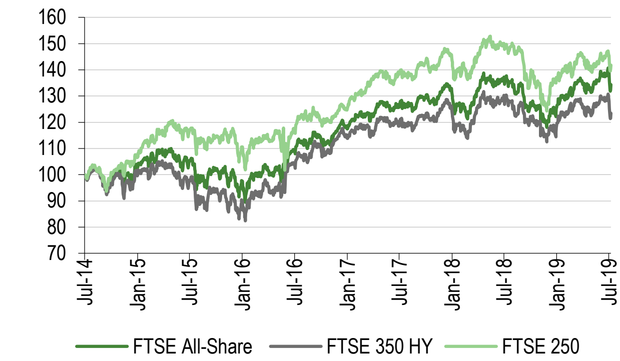
Source: Lowland Investment Company, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-July 2018 top 10.

Market outlook: Higher yields for unloved domestic UK

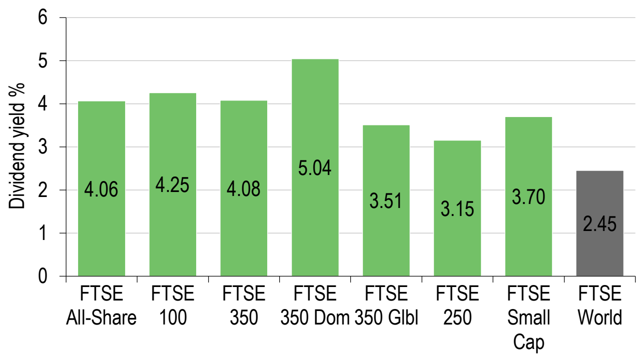
World stock market volatility has picked up significantly over the past 12 months, and the UK has been no exception. Fund manager surveys suggest the British stock market is one of the least favoured globally, as investors focus on the risks surrounding the UK's planned exit from the European Union (with or without a deal). There are also signs that these worries are spilling over into the real economy, with GDP contracting over the second quarter of 2019. While the UK market in aggregate has made gains over the past five years (Exhibit 2, left-hand chart), the picture at the stock level is far from uniform, with investors showing a marked preference for large companies with global revenues (which are boosted by the weakness of sterling) in areas perceived to be 'safe havens', such as consumer staples. This is evident in dividend yields (right-hand chart): large and mid-cap stocks with predominantly non-domestic earnings (FTSE 350 Global) currently yield 14.0% less than the broad FTSE 350 Index, while those with predominantly UK revenues (FTSE 350 Domestic) yield 23.5% more. While higher yields can simply be the result of falling share prices, and are no guarantee of future dividend growth, dividends can nevertheless provide an important support to total returns in times of heightened market volatility.

Exhibit 2: Market performance and valuation

Performance of UK indices over five years



Dividend yields for UK and world indices (31 July 2019)



Source: Refinitiv, FTSE Russell, Edison Investment Research

Fund profile: Long-term capital and income growth

Lowland Investment Company (launched in 1963) invests mainly in UK companies from across the market capitalisation spectrum, with the aim of achieving capital growth and a growing income for its investors. It has been managed since October 1990 by James Henderson, with Laura Foll appointed joint fund manager in 2016, having worked alongside Henderson since 2013. The pair also manage Henderson Opportunities Trust and the investment portfolio of The Law Debenture Corporation. LWI sits in the Association of Investment Companies' UK Equity Income sector, and measures its performance versus the FTSE All-Share Index, although it tends to have a much higher weighting (currently more than 50%) outside the FTSE 100 Index than the All-Share, where the largest 100 stocks currently make up c 81% of the total. Up to 20% of the portfolio (currently 3.5%) may be invested in overseas stocks. The managers prefer to invest in value and recovery situations, which has been a headwind for performance recently, as markets have largely been driven by share price momentum in highly rated 'quality' companies.

The use of gearing to enhance returns is an important element of the investment strategy, and LWI has a mix of short- and longer-term borrowings equating to maximum gearing of £90m or c 25% of net assets. Net gearing at 31 July 2019 was 15%. The managers tend to use the gearing to invest in companies with dividend yields above the cost of borrowing, leading to an immediate positive impact in terms of revenue returns.

The fund managers: James Henderson and Laura Foll

The managers' view: Unusually high yield points to opportunity

While Henderson and Foll have more of a focus on companies that can grow their dividends rather than those offering a high starting yield, they note that LWI's own dividend yield has risen substantially in recent months. This has been supported by strong growth in portfolio income, as well as an accounting change whereby some of the trust's running costs are now charged to capital, in line with the expected split of returns. Foll says: 'Even though we are not in a recession, the valuations are suggesting we are. The reason LWI is on a dividend yield above 4% is that investors do not think the yields on UK companies are sustainable, but we do not see that on a company-by-company basis. In fact, in making our earnings forecasts, we feel more comfortable rather than less, and yet the trust's yield is higher.' She adds that with the 10-year gilt yielding c 0.8%, there has rarely been such a wide differential between bond and equity yields.

Foll points out that LWI's dividend yield has not often breached 4% in the past (it is currently 4.5%, owing to a combination of a depressed share price and healthy year-on-year dividend growth), but that when it has, it has been at times of significant market dislocation that have subsequently favoured the managers' value approach, leading to strong performance. Considering three points in the past when LWI's dividend yield has been close to or above 4% (1990, 2002 and 2008), over the subsequent three years the trust produced aggregate NAV total returns of c 100%. While past performance is not a guide to the future – and recent years have been characterised by a quite extreme investor preference for 'quality growth' over 'value' stocks – the managers remain optimistic that their strategy of taking profits on stocks where strong performance has led to valuations becoming extended, and reinvesting in lower-rated companies with good dividend growth, will once again translate into positive performance over the medium term. LWI's underlying portfolio yield is currently close to 5%.

Asset allocation

Investment process: Tried-and-tested approach with value focus

Henderson and Foll take a bottom-up, valuation-aware approach to constructing LWI's diversified portfolio of c 120 mainly UK companies. The philosophy underlying the process has remained broadly unchanged since the trust's launch in 1963. It is founded on four core beliefs:

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

LWI's managers use a range of valuation criteria to unearth the companies in their investment universe of c 1,500 stocks that have potential to generate both capital appreciation and a growing income. They meet the management of hundreds of companies every year, seeking businesses with real prospects of sales and earnings growth. 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. Because they believe dividend growth is a key to long-term capital growth, the managers favour companies that pay sustainable dividends, although they may buy into non-yielding companies if there is a reasonable near-term prospect of a dividend being paid.

Historically the trust has been invested around one-third each in large-cap (FTSE 100), mid-cap (FTSE 250) and small-cap (FTSE Small Cap and AIM) stocks, although in recent years the FTSE

100 weighting has risen somewhat, and currently stands at c 45%. Portfolio construction is unconstrained by the benchmark FTSE All-Share Index, and LWI may invest in overseas stocks, although currently these make up only 3.6% of the portfolio, and are mainly listed in Ireland.

Current portfolio positioning

At 31 July 2019, there were 117 holdings in LWI's portfolio, down from 122 a year earlier. Because of the focus on value stocks and the high proportion of holdings (more than 50%) outside the blue-chip FTSE 100 Index, 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. However, there is a reasonable degree of top 10 concentration (currently 27.8% of the portfolio, compared with 27.1% at 31 July 2018).

Exhibit 3: Portfolio sector exposure vs FTSE All-Share Index (% unless stated)

	Portfolio end-July 2019	Portfolio end-July 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	33.7	33.7	0.0	25.6	8.1	1.3
Industrials	25.2	27.4	(2.2)	11.5	13.7	2.2
Consumer services	10.2	9.7	0.5	11.6	(1.4)	0.9
Oil & gas	9.5	10.0	(0.5)	14.1	(4.6)	0.7
Healthcare	6.1	4.7	1.4	9.1	(3.0)	0.7
Utilities	4.9	4.5	0.4	2.5	2.4	1.9
Basic materials	4.4	4.8	(0.4)	7.8	(3.4)	0.6
Consumer goods	4.2	3.2	1.0	14.2	(10.0)	0.3
Telecommunications	1.4	1.8	(0.4)	2.6	(1.2)	0.5
Technology	0.5	0.3	0.2	1.1	(0.6)	0.5
	100.0	**100.0**		**100.0**		

Source: Lowland Investment Company, Edison Investment Research

Portfolio sector weightings have remained relatively stable over 12 months (Exhibit 3), with the biggest moves being a 2.2pp reduction in industrials (largely as a result of performance), a 1.4pp increase in healthcare, and a 1.0pp increase in consumer goods, which nonetheless remains the biggest underweight (-10.0pp) versus the FTSE All-Share Index, while industrials is the largest overweight (+13.7pp).

Other overweight exposures include financials (+8.1pp), which includes insurance and real estate, and utilities (+2.4pp). Both these sectors have seen notable purchases by Henderson and Foll in the past 12 months. Having previously had very little exposure to banks, the managers have built a c 1% position in Royal Bank of Scotland, bought on a c 8% yield but also offering capital growth potential. In utilities they have been adding to Severn Trent on valuation grounds; it is now a top 10 position. Henderson says that while there is some political risk in utility stocks (which could be renationalised by a future government), their sensitivity to economic contraction is low, and names such as Severn Trent and National Grid offer good yields, which can provide support to share prices in choppy markets. The managers have also been adding to healthcare giant GlaxoSmithKline, which they say is attractively valued and has good growth prospects driven by its vaccines and consumer health divisions. Further additions have been made to Direct Line (on a yield of c 9%) and Hammerson, which is trading at a deep discount to the value of its property portfolio.

In smaller companies, Henderson and Foll opened a position in technology company XP Power after it de-rated from a forward P/E of c 20x to c 11x on fears over the semiconductor cycle (which only affects around one-third of the company's earnings). They also bought into Vitec, which supplies broadcasting equipment to a broad range of customers, from Netflix and Amazon to individual YouTube vloggers. The stock was purchased at c 12x P/E with a 3.5% yield.

The managers tend to build and exit positions gradually, and the only complete exits recently have come as a result of takeover activity, with property firm A&J Mucklow bought out by LondonMetric Property, and Manx Telecom acquired by a private equity buyer. Portfolio turnover in H119 (ended 31 March) was 7.2%.

Performance: Style weighs on returns in last 12 months

Exhibit 4: Five-year discrete performance data

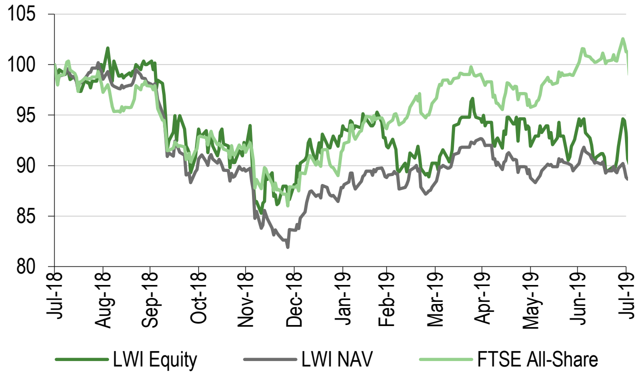
12 months ending	Share price (%)	NAV (%)	FTSE All-Share (%)	FTSE 350 HY (%)	FTSE 250 (%)	FTSE Small Cap (%)
31/07/15	2.2	6.0	5.4	(2.0)	17.1	10.5
31/07/16	(5.7)	(0.8)	3.8	6.3	0.5	2.1
31/07/17	23.0	22.3	14.9	13.8	17.6	23.4
31/07/18	4.2	6.1	9.2	9.9	8.4	2.1
31/07/19	(6.8)	(11.1)	1.3	(1.0)	(3.0)	(9.3)

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

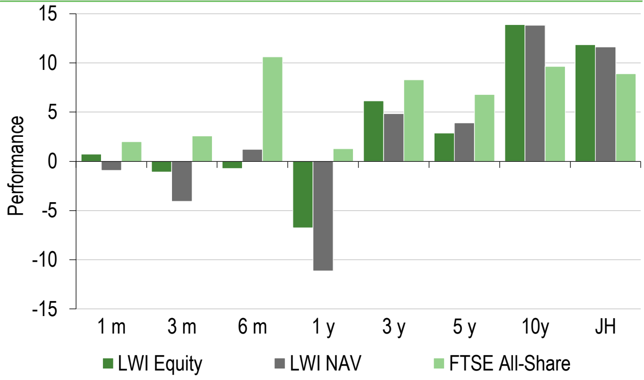
LWI has a very strong long-term performance record (as shown in Exhibit 5 (RHS), it has produced share price and NAV total returns of c 14% pa over the past 10 years). However, more recently its value-orientated investment style has been a headwind as markets have been driven more by momentum, with highly valued companies being bid up to ever higher valuations. Foll describes the current environment as ‘winner takes all’, with wide valuation differentials opening up between the favoured stocks in a sector and less fashionable peers, for example chemicals companies Croda International (forward P/E of c 26x) and Elementis (forward P/E of c 11x).

Exhibit 5: Investment trust performance to 31 July 2019

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



Price, NAV and benchmark 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.

LWI’s NAV and share price total returns have been flattish to negative over periods of one year and less to 31 July 2019 (Exhibit 5). As well as the managers’ style being out of favour, smaller companies (more than half the LWI portfolio is invested outside the blue-chip FTSE 100 Index) have underperformed larger companies, and stocks that are more focused on the domestic UK economy (another area of focus for LWI) have tended to do worse than more internationally exposed names, which have benefited from the weakness of sterling as Brexit uncertainty continues. However, the managers’ focus on attractively valued, smaller, domestically orientated UK companies has driven LWI’s positive performance in the past, and Henderson and Foll are remaining true to their style, while admitting that it may continue to weigh on short-term performance.

Specific detractors in the first six months of 2019 include specialist plastics firm Carclo, where an ill-judged expansion in its Wipac division (which makes LED lighting for supercars) caused cost overruns, putting pressure on an already stretched balance sheet. The shares are currently suspended, but make up a very small part (less than 0.2%) of the LWI portfolio. Specialist textiles company Low & Bonar also saw its balance sheet come under pressure as a result of challenging end-market conditions; LWI’s managers participated in a rights issue in February, but the shares remain depressed, even after the sale of two of the company’s divisions (raising c £20m, which will be used to reduce debt).

Redde, which works with motor insurers to provide courtesy cars and repair accident damage, saw its shares sell off after it lost a major contract, but it has since regained some lost ground. Sub-prime/in-home lenders International Personal Finance (IPF) and Provident Financial also detracted, IPF because of poor collection figures in Mexico, which LWI's managers argue should have been cancelled out by positive regulatory developments in Romania, and Provident Financial after an ultimately failed hostile bid from smaller peer Non-Standard Finance.

Positive contributions came from stocks including catering crockery supplier Churchill China, a long-term holding that Henderson and Foll have been reducing after its forward P/E topped 20x; closed-book life insurance company Phoenix Group and engineering firm Senior, which both saw a good recovery in the first half of 2019 having sold off heavily in Q418; textile rental specialist Johnson Service (another position the managers are reducing on the back of a higher valuation); and Anexo, which deals with claims and repairs in motorcycle insurance.

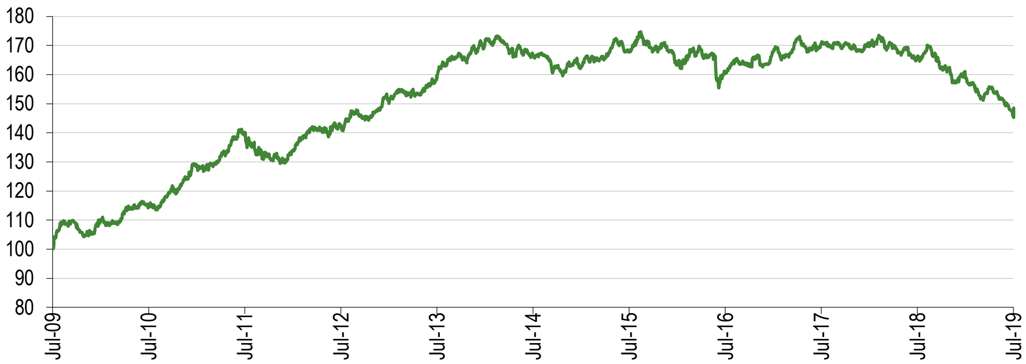
The more difficult conditions for LWI's investment style, as well as some stock-specific issues, have dented relative returns versus both larger and smaller UK indices over both the short and medium term (Exhibit 6), although as shown in Exhibit 7, almost all of the underperformance versus the FTSE All-Share Index has come in the past 12 months. Over the very long term (nearly 29 years under manager James Henderson), LWI has outperformed the FTSE All-Share, FTSE 350 Higher Yield, FTSE 250 and FTSE Small Cap indices in both share price and NAV total return terms.

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 FTSE All-Share	(1.3)	(3.6)	(10.3)	(7.9)	(5.8)	(17.1)	46.4	114.8
NAV relative to FTSE All-Share	(2.9)	(6.5)	(8.5)	(12.3)	(9.2)	(12.8)	45.5	102.3
Price relative to FTSE 350 HY	(0.5)	(3.0)	(8.6)	(5.9)	(3.5)	(10.7)	58.8	82.6
NAV relative to FTSE 350 HY	(2.1)	(5.9)	(6.8)	(10.3)	(7.0)	(6.1)	57.9	71.9
Price relative to FTSE 250	(0.6)	(1.1)	(7.1)	(3.9)	(3.3)	(20.8)	13.9	7.1
NAV relative to FTSE 250	(2.2)	(4.1)	(5.3)	(8.4)	(6.8)	(16.7)	13.2	0.9
Price relative to FTSE Small Cap	2.6	4.3	(1.0)	2.9	4.6	(10.7)	26.8	183.9
NAV relative to FTSE Small Cap	0.9	1.2	0.9	(2.0)	0.9	(6.0)	26.1	167.4

Source: Refinitiv, Edison Investment Research. Note: Data to end-July 2019. Geometric calculation. *JH: since managed by James Henderson, 30 October 1990.

Exhibit 7: NAV total return performance relative to benchmark over 10 years

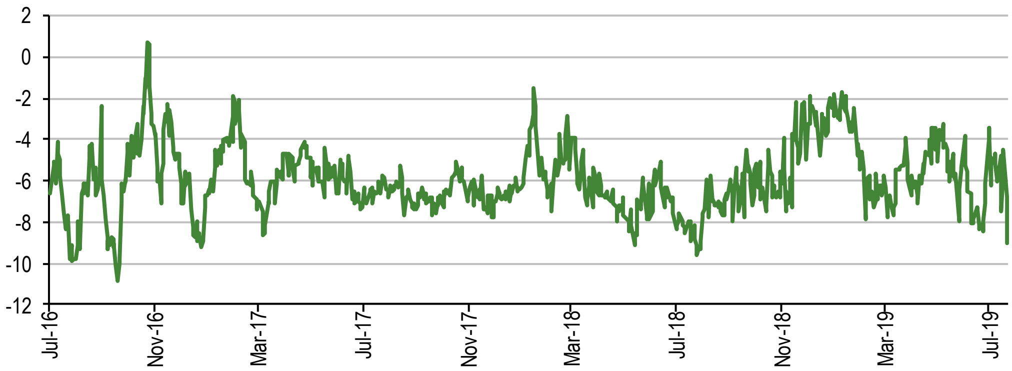


Source: Refinitiv, Edison Investment Research

Discount: Broadly in line with peer group average

At 20 August 2019, LWI's shares traded at a 6.1% discount to cum-income NAV (with debt at fair value). This is somewhat wider than both short- and longer-term averages, respectively 5.7%, 5.9%, 4.8% and 4.1% over one, three, five and 10 years. 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 LWI's discount has remained in a range of 2% to 8% over most of the past three years (Exhibit 8). It is also reasonably close to the average for the UK Equity Income peer group.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

LWI is a conventional investment trust with one class of share; at 20 August 2019, there were 27.0m ordinary shares in issue (unchanged for the past three years). Gearing is available through a mixture of short- and long-term borrowing, with £30m of 20-year loan notes issued in 2017 with a fixed coupon of 3.15%, and a three-year, £40m (with the option to increase to £60m) bank loan facility with Scotiabank, expiring in October 2020. This equates to potential gearing of c 19.2% based on 20 August 2019 net assets (c 24.6% including the extra £20m facility), compared with a permitted limit of 29.99% at the time of drawdown. At 31 July 2019, net gearing was 15%.

Janus Henderson Investors receives an annual management fee of 0.5% of the first £375m of LWI's net assets, falling to 0.4% above that level. This is charged 50% to revenue and 50% to capital with effect from 1 October 2018 (previously 100% to revenue). A performance fee may also be paid if LWI's NAV total return exceeds that of the FTSE All-Share Index by more than 10%. This is charged at a rate of 15% above the 10% hurdle, and is capped at 0.25% of net chargeable assets, meaning the total fees payable (management plus performance) will not exceed 0.75% of assets up to £375m (0.65% thereafter). Regardless of the level of outperformance of the index, no performance fee is payable if the NAV at the year-end is lower than at the start. A performance fee was last paid in respect of FY17. LWI's ongoing charge figures at end-H119 (31 March) was 0.6%, unchanged versus six months and a year earlier.

Dividend policy and record

LWI has a 43-year record of maintaining or increasing its annual dividends, which have been paid quarterly since 2013. Since adopting quarterly dividends, each quarter's dividend has been higher than the same quarter of the preceding year. Having previously paid the first three interim dividends at the level of the fourth dividend of the previous year, with a 1p rise in the fourth dividend, in FY18 the increase was brought forward to the third interim stage. A change in the allocation of management fees (charged 100% to the revenue account until end-FY18 but now split 50:50 between revenue and capital) is expected to boost the revenue return per share by c 5–6p a year, and with this in mind the board increased the first FY19 dividend by 0.5p to 14.5p, with a further 0.5p increase to 15.0p at the second interim stage. Barring unforeseen circumstances, the intention is to pay two further dividends of 15.0p for FY19, bringing the total dividend per share for the year to 59.5p, a 10.2% increase on the 54.0p paid in respect of FY18. Dividends have grown at a compound annual rate of 9.7% over the past five years (to end-FY18). LWI currently has a dividend yield of 4.5% based on the last four dividends.

Peer group comparison

In Exhibit 9 we show a subset of the Association of Investment Companies' UK Equity Income sector, made up of those funds with a market capitalisation above £300m. LWI is towards the smaller end of this group. Funds in the sector are all mostly (c 80%+ of assets) invested in the UK and seek to reward investors with income as well as capital growth, but beyond that they are a diverse group with a range of investment approaches. This is evident in the wide dispersion of performance outcomes (particularly over one year), with funds following a more quality/growth strategy outperforming those with more of a focus on value. LWI's NAV total return performance is below average over one, three and five years, but above average (ranking second out of 12 funds) over 10 years. Medium-term (three- and five-year) returns have been dented by LWI's underperformance over the past 12 months, as the gap between value and growth stock returns has become more extreme. Ongoing charges are in line with the average for the subgroup (particularly among the larger funds, charges in the UK Equity Income sector are very competitive), although LWI is the only fund in the group that may levy a performance fee. LWI's discount is narrower than the average, while its gearing is above average. The dividend yield is above average both for the subgroup and the wider sector. As noted in The managers' view (also see front-page chart), this is very unusual for LWI, as its managers invest more for dividend growth than a high starting yield; historically, when LWI's dividend yield has breached the 4% level, it has subsequently outperformed.

Exhibit 9: AIC UK Equity Income sector (market cap over £300m) as at 16 August 2019*

% 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	**343.1**	**(14.7)**	**2.7**	**13.3**	**212.6**	**0.6**	**Yes**	**(4.9)**	**115**	**4.7**
BMO Capital & Income	309.4	(1.9)	23.1	46.2	151.0	0.6	No	(4.3)	101	3.7
City of London	1,525.2	(2.0)	10.1	30.9	169.2	0.4	No	2.6	109	4.6
Diverse Income Trust	316.2	(7.6)	11.9	37.7	--	1.2	No	(8.4)	100	4.4
Dunedin Income Growth	392.7	3.8	16.0	30.5	152.7	0.6	No	(7.6)	107	4.7
Edinburgh Investment Trust	1,030.8	(14.8)	(7.6)	20.6	162.6	0.6	No	(13.9)	105	5.2
Finsbury Growth & Income	1,822.3	11.2	44.6	99.0	426.3	0.7	No	0.6	101	1.7
JPMorgan Claverhouse	378.1	(5.9)	17.1	33.6	151.0	0.7	No	(5.4)	109	4.2
Law Debenture Corporation	667.7	(2.6)	20.2	40.3	190.9	0.5	No	(11.3)	108	3.5
Merchants Trust	495.1	(10.7)	9.2	15.9	130.4	0.6	No	(1.3)	117	6.0
Murray Income Trust	536.8	4.0	18.4	35.5	161.7	0.7	No	(6.6)	103	4.1
Perpetual Income & Growth	661.0	(15.6)	(10.8)	7.0	140.0	0.7	No	(14.5)	115	5.1
Temple Bar	785.1	(6.0)	9.8	20.3	146.0	0.5	No	(4.4)	109	4.6
Peer group average (13 funds)	**712.6**	**(4.8)**	**12.7**	**33.1**	**182.9**	**0.6**		**(6.1)**	**108**	**4.3**
Whole sector average (25 funds)	**406.7**	**(5.1)**	**10.8**	**30.5**	**174.5**	**1.1**		**(5.2)**	**111**	**4.5**
LWI rank in peer group	**11**	**11**	**11**	**12**	**2**	**9**		**6**	**2**	**5**

Source: Morningstar, Edison Investment Research. Note: *Performance to 15 August 2019 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

LWI has five directors, all non-executive and independent of the manager. Robert Robertson joined the board in 2011 and became chairman in January 2017. Karl Sternberg is the longest-serving director, having been appointed in 2009. Duncan Budge has been a director of LWI since 2014, and Gaynor Coley (chairman of the audit committee) was appointed in 2016. The newest director, Tom Walker, joined the board in July 2019 following the retirement of Kevin Carter, who had served since 2009. Walker is a retired fund manager who until recently was manager of Martin Currie Global Portfolio trust. The other directors have professional backgrounds in industry, investment management and accountancy.

General disclaimer and copyright

This report has been commissioned by Lowland Investment Company and prepared and issued by Edison, in consideration of a fee payable by Lowland Investment Company. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia