The Law Debenture Corporation

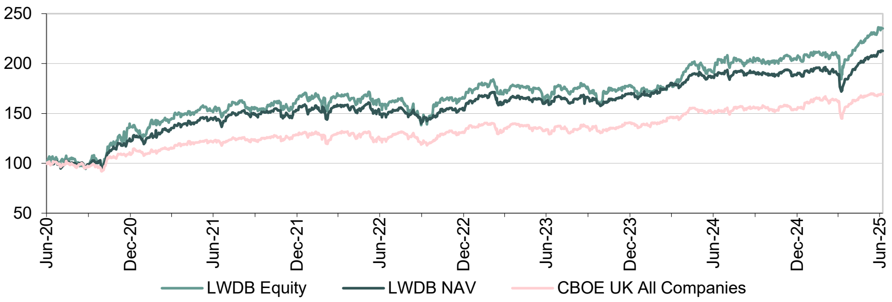
The difference shows

Investment companies
UK Equity Income

31 July 2025

The Law Debenture Corporation (LWDB) delivered a very strong performance in the six months to 30 June 2025 (H125), building on its already strong long-term track record. The share price total return of 14.2% was 5.1pp ahead of the benchmark, while the professional services business (IPS) grew revenues, earnings and operational fair value. The Q1 DPS was 4.7% ahead of last year. The prospects for continued growth in IPS look good, and the portfolio managers remain positive about the prospects for the mostly (89%) UK investment portfolio.

Exhibit 1: Sustained outperformance of benchmark and peers



Source: LSEG Data & Analytics, Edison Investment Research

LWDB has generated significant outperformance over multiple periods versus its broad UK equity market benchmark and peers in the AIC UK Equity Income sector. This has been achieved with a level of consistency that has been progressively reflected in an excellent long-term performance. The fair value NAV total return over the 10 years to end-H125 was 160% or 67pp above the benchmark. Versus large peers, LWDB is the best performer over 10 and 20 years and is consistently within the top three.

LWDB's unique structure is a significant factor in this performance. IPS is a well-diversified, resilient and growing business, and is relatively insensitive to short-term economic and market fluctuations. Its operational fair value has increased by c 160% since 2017 or c 14% per year. It accounts for 18% of fair value NAV, but its strong cash generation has funded c 34% of the trust's dividends over the past 10 years. The significant income contribution from IPS provides the portfolio managers with much greater freedom in stock selection, while balancing the requirements for immediate income with the goal of growing capital values and hence dividend potential over time. It means that they can avoid higher-yielding stocks they deem unattractive and invest in attractive lower- or non-yielding stocks with greater growth potential or significant, identifiable recovery potential. LWDB's investment strategy means that while it is not the highest yielding constituent in its peer group, its five-year DPS growth is more than the group average.

Larger companies account for around 50% of LWDB's portfolio and small- and mid-cap companies the rest. UK equity valuations remain low in absolute and relative terms, reflected more in the high level of merger and acquisition activity than in market prices. The managers see strong opportunities across the market but particularly in smaller and mid-cap companies, even though they may be more exposed to the UK economy than large caps. The investment managers identify many attractively valued, good-quality, well-managed businesses with strong growth prospects or recovery potential, almost irrespective of the economy.

Price		**1,006.00p**
Market cap		**£1,355m**
Total assets		**£1,531m**
NAV		1,019.8p

[1]At 29 July 2025 with debt and IPS at fair value.

Discount to NAV		1.4%

[1]Premium to NAV as at date of publication

Current yield		3.3%
Shares in issue		133.9m
Code/ISIN		LWDB/GB0031429219
Primary exchange		LSE
AIC sector		UK Equity Income
Financial year end		31 December
52-week high/low	1,022.0p	733.6p
Net gearing		12.0%

[1]As at 30 June 2025

Fund objective

The Law Debenture Corporation's investment 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 broad UK stock market through investing in a diversified portfolio of mainly UK equities with some international holdings. The IPS business provides a regular flow of income, which augments the dividend income from the equity portfolio.

Bull points

- Experienced management.
- IPS revenue contribution gives fund managers flexibility and security of income.
- Large, liquid, low cost and historically trades at or close to NAV.

Bear points

- Lower yielding than some income peers.
- Smaller growth stock holdings may be more volatile than large-cap yield stocks.
- Relatively high structural gearing would be a drag on performance in a falling market.

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Differentiated from peers

LWDB is differentiated from other investment trusts in that it comprises two distinct but complementary parts, each supporting the other. It is this unique structure that underpins its long-term track record of outperformance versus its benchmark and peers.

Alongside the investment portfolio, accounting for 82% of net assets, is IPS, a leading provider of independent professional services (18% of net assets). IPS is a highly profitable, resilient, growing and cash-generative business comprising a diversified range of operations and income streams. IPS revenues are significantly based on recurring income from structurally supported sectors, and others that provide attractive returns but with increased market sensitivity. As well as creating capital growth for LWDB, it generates income for dividends well above its share of NAV. Always a solid performer, IPS was reinvigorated under new leadership in 2017, and up to the end of 2024, in an often-challenging environment, underlying profit before income and tax (PBIT) had increased by almost two-thirds, from £9.6m to £16.0m, or 7.6% per year. Now into its eighth year of mid-to-high single-digit growth, in line with LWDB's medium-term expectation, H125 net revenue increased 7.7% versus H124 and PBIT was up 7.5%. Over the past 10 years, IPS earnings have funded 34% of LWDB's dividends. The operational fair value of IPS has also increased and continues to do so, up by more than 160% since 2017. The relationship between IPS and the investment portfolio is a symbiotic one. IPS benefits from being part of the larger LWDB, a trusted and well-governed UK 250 company with c £1.3bn in gross assets, and this is hugely important to IPS when it comes to winning business. Meanwhile, the consistently positive income generation from IPS provides the portfolio investment managers with much greater flexibility in stock selection, and this has been a significant contributor to LWDB's outperformance.

LWDB's investment portfolio has been managed over many years by James Henderson and Laura Foll of Janus Henderson Investors. Their investment mandate is focused on both income and capital growth, and they highlight the positive impact that IPS has on meeting these goals, enabling them to run a multi-cap portfolio that includes a blend of stocks that can deliver more immediate income with those that can grow sales, earnings and dividends faster over time. This provides a wider pool of opportunities from which to build a diversified portfolio and avoids the need to 'chase yield'. Stock selection is selectively bottom-up with a strong valuation overlay and aims to identify market-leading, high-quality companies that are undervalued at the point of purchase. The portfolio is concentrated in UK stocks (c 89% of the total) and is highly diversified (c 150 stocks) to manage risks to capital and aid consistency of performance.

LWDB has a winning business model

The combination of the well-diversified and resilient IPS business with the portfolio is a well-proven model that has generated strong long-term results. Structural tailwinds that drive market growth, opportunities for market share and business investment all support the prospects for continued growth in IPS over the medium term, in line with its mid-to-high single-digit medium-term target. For the portfolio, the investment managers are very positive about the UK equity market in particular, and see strong potential for further capital and income growth. Together this provides a strong investment case for LWDB, the key elements of which are:

- **LWDB has generated significant outperformance over multiple time periods** versus its broad UK equity market benchmark and its peer group within the AIC UK Equity Income sector. Over the 10 years to 30 June 2025 it delivered a fair value NAV total return of 160%, 67pp ahead of the benchmark return of 93%. Over five years it has delivered a 120% NAV total return, 53pp ahead of the benchmark. Compared with the six large-cap peers, LWDB has generated the highest level of share price total return over 10 and 25 years and is above the median over one, three and five years.
- **Strong dividend growth.** LWDB is now into its 16th year of unbroken dividend growth, a period that included the COVID-19 pandemic when many corporates and some peers reduced payouts. The dividend has been held or increased for 46 consecutive years. In FY24, aggregate DPS increased by 4.7% and the Q125 DPS was up 4.7% on Q124. In the five years to end-FY24, DPS increased by 5.2% per year on average and by 7.9% per year over 10 years. Five-year growth for the large-cap peer group is a little under 2% and for the broad UK Equity Income sector a little over 3% (source: Morningstar). LWDB's dividend yield of 3.3% is below the narrow peer average of c 3.8%, which reflects the managers' investment strategy of balancing immediate income returns with long-term capital growth, building the asset base from which dividends can grow.

- **Consistent IPS growth** and profitability. IPS has now delivered seven consecutive years of mid-to-high single-digit underlying growth and is well into its eighth year. It continues to invest in its people, technology and platforms to broaden and enhance its offering and deliver a similar level of sustainable growth going forward. Over the same period, the IPS operational fair value grew by c 14% per year and increased by 4.8% in H125 compared with end-FY24. Accounting for 18% of fair value NAV, the growth of IPS earnings and valuation is important, but so too is the sustainability of its cash earnings contribution and its continued support for the portfolio investment strategy. In this respect, IPS has proven itself to be highly resilient across a range of economic and market cycles and, as with the investment portfolio, diversification and risk-spreading is a core strength.
- **A significant opportunity in UK equities.** Sentiment towards UK equities has begun to improve, at least on the part of overseas investors, having been poor for many years. Domestic flows into UK equities have remained weak, which may be seen as an opportunity, and although the market has been rising, the level of valuation remains low in historical and relative terms. For smaller companies this is even more so, and Henderson and Foll see strong opportunities among small and mid-cap companies, where they find many good-quality, well-managed businesses, with strong growth prospects, trading at low valuations that additionally build modest expectations for improvement. Although the valuation opportunity has not yet been widely recognised in the market, low valuations are being increasingly underpinned by a high level of takeover activity.

A strong absolute and relative first-half performance

During H125, LWDB's NAV total return (cum income with debt at fair value, or 'NAV') was 15.0%, and was 5.9pp ahead of the broad UK equity market benchmark total return of 9.1%. With debt at par value rather than fair value, the NAV total return was also 15.0%. The share price broadly kept pace with NAV growth and the share price total return was 14.2%.

On a fair value basis, LWDB has significantly outperformed its benchmark over one, three, five and 10 years.

Exhibit 2: Performance summary to 31 December 2024

Period to 30 June 2025	YTD (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NAV total return (with IPS at fair value and debt at par)	15.0	18.9	46.5	97.7	145.3
NAV total return (with IPS and debt at fair value)	15.0	19.1	52.2	120.4	160.4
Broad UK equity market benchmark total return	9.1	11.2	35.5	67.3	92.7
Share price total return	14.2	22.8	48.0	135.9	187.5
Change in Retail Price Index	3.2	4.7	19.0	38.2	56.2
NAV vs benchmark (with IPS and debt at fair value)	**5.9**	**7.9**	**16.7**	**53.1**	**67.7**
Share price vs benchmark	**5.1**	**11.6**	**12.5**	**68.6**	**94.8**

Source: The Law Debenture Corporation

LWDB is one of the seven constituents of the AIC UK Equity Income sector that have a market capitalisation of more than £500m, and within this group it has a consistently strong performance record. Over 10 years and 25 years it has delivered a materially higher share price total return than peers, it is well ahead of the peer average over three years and five years, and above average over one year. In H125, LWDB generated the second-strongest share price total return.

Exhibit 3: LWDB share price total return versus large peers (to 30 June 2025)

	Market cap (£000's)	YTD (%)	1 year (%)	3 years`(%)	5 years (%)	10 years (%)	25 years (%)
Law Debenture	1,347	14.2	22.8	48.0	135.8	187.4	972.2
City of London	2,458	15.8	21.8	41.1	84.3	97.8	505.6
Edinburgh Investment	1,157	10.4	14.3	50.5	111.5	81.6	342.8
Finsbury Growth & Income	1,306	1.9	10.0	26.1	21.3	93.3	825.5
Murray Income Trust	880	6.9	4.3	17.7	38.5	88.4	420.8
Merchants Trust	828	6.4	7.8	23.3	93.7	111.2	474.3
Temple Bar	976	19.9	28.7	66.1	154.1	104.7	694.0
Average	**1,268**	**10.2**	**14.4**	**37.5**	**83.9**	**96.2**	**543.8**
LWDB position	2	3	2	3	2	1	1

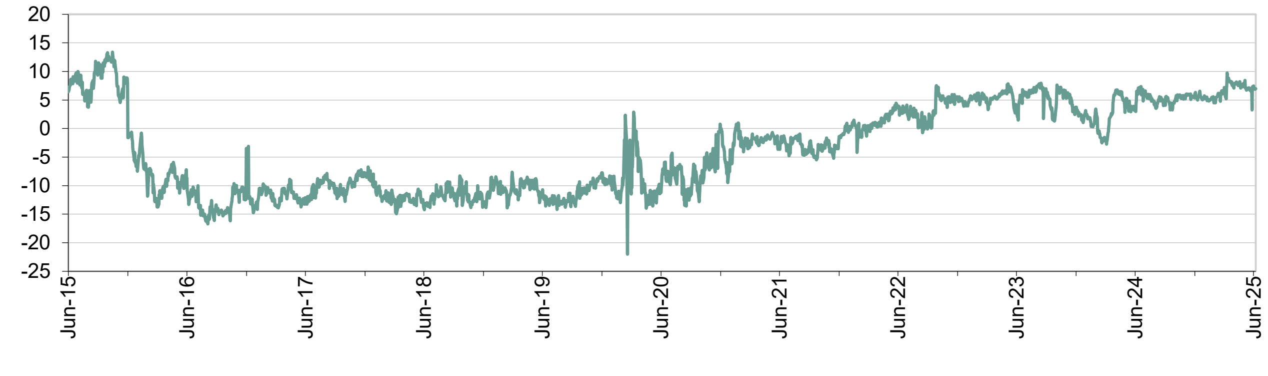
Source: Morningstar data

With debt at par value, the shares have traded at an average c 5% premium to NAV over the past year, with a peak premium of just under 10% and a low of c 3%.

On a fair value basis, the shares have traded broadly in line with NAV over the past year, in a range of +3% to -3%. At the time of writing, the discount to fair value NAV (cum income) is 1.4%, a higher than average P/NAV valuation within its peer group.

Reflecting the premium to NAV that was in place throughout much of the period, LWDB was able to satisfy investor demand by issuing shares under its authority at an accretive average premium. Approximately 1.3m shares were issued in H125 (2024: 1.4m), at a premium to NAV, raising net proceeds of £11.6m (FY24: £12.4m) for ongoing investment.

Exhibit 4: NAV at par discount/premium history



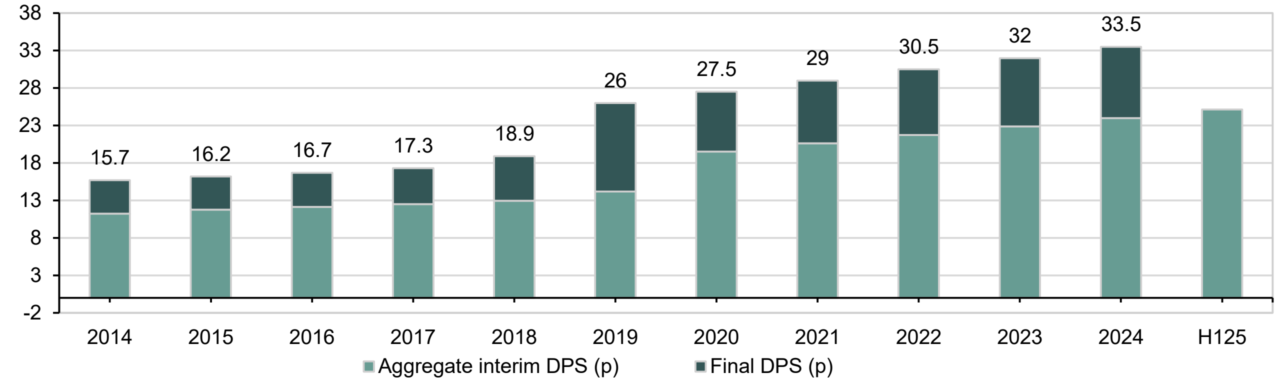
Source: LSEG Data & Analytics

Strong commitment to consistent dividend growth

LWDB pays dividends quarterly, in July, October, January and April, and it has a progressive dividend policy that aims to pay aggregate annual dividends that are at least in line with the prior year. As is its usual practice, in the current financial year, the board intends to pay three quarterly dividends of 8.375p (FY24: 8.0p), each being one-quarter of the FY24 aggregate DPS of 33.5p, with a final dividend to be declared in March 2026 (FY24: 9.5p). The Q1 dividend (+4.7% year-on-year) was paid in July 2025 and the Q2 dividend is due to be announced in September.

The FY24 dividend was effectively fully covered by statutory revenue earnings of 33.48p and more than fully covered on an underlying basis excluding c £1m (net) of exceptional costs taken within IPS. H125 revenue earnings per share were 20.15p (H124: 19.00p).

Exhibit 5: Progressive DPS



Source: The Law Debenture Corporation data

IPS: Well balanced, sustainable value and cash flow generation

The IPS business has a long history, with its origins dating back to 1889 when Law Debenture was established as a bond trustee. However, after years of steady, successful, but sometimes unambitious performance, IPS was reinvigorated in 2017 under CEO Denis Jackson. Since then, the business has developed a greater strategic focus and has invested significantly in people, technology and platforms to broaden and enhance its offering and deliver sustainable growth. In the seven years to end-FY24, IPS almost doubled net revenues and has increased underlying operating profit (before interest and tax) by 67%, maintaining a highly attractive PBT margin of more than 30% despite the continuing investment for future growth. Further progress was made in H125.

Throughout this period, IPS has proven itself to be highly resilient across economic and market cycles. Like the portfolio, diversification is a core strength of IPS, across a range of operations and income streams, significantly based on recurring income from structurally supported sectors, and others that provide attractive returns but with increased market sensitivity. Investment in people, skills and systems has continued, providing a solid foundation from which to build further growth with enhanced efficiency. LWDB continues to target mid-to-high single-digit growth for IPS over the medium term. Our March note provides a detailed explanation of each of the IPS businesses and in this note we focus on the key H125 developments.

Exhibit 6: Consistent IPS growth

£m unless stated otherwise	2017	2018	2019	2020	2021	2022	2023	2024	7-year compound growth to 2024
Pensions	8.3	9.5	10.6	11.5	13.1	14.3	17.4	16.7	11%
Corporate trust	7.9	8.4	9.0	10.8	9.8	10.6	12.5	14.1	9%
Corporate services	11.0	11.7	12.2	12.2	18.8	20.2	20.6	22.9	11%
Total net revenue	27.1	29.6	31.8	34.5	41.6	45.2	50.5	53.7	10%
Y-o-y change	-3.5%	9.0%	7.5%	8.5%	20.6%	8.6%	11.8%	6.2%	
Underlying administrative expenses	(17.6)	(19.3)	(20.5)	(22.3)	(28.2)	(30.8)	(35.4)	(37.6)	
Underling profit before interest & tax (PBIT)	9.6	10.2	11.3	12.2	13.3	14.4	15.1	16.0	8%
EBIT margin	35.3%	34.6%	35.4%	35.3%	32.1%	31.8%	29.8%	29.9%	
Underlying profit before tax (PBT)	9.7	10.5	11.5	12.2	13.3	14.4	15.9	16.3	8%
Y-o-y change	10.6%	7.6%	9.4%	6.6%	9.1%	8.1%	10.5%	2.4%	
Underlying PBT margin	35.9%	35.4%	36.1%	35.4%	32.1%	31.9%	31.6%	32.3%	
Underlying EPS (p)	7.2	7.9	8.5	9.3	10.0	10.4	11.0	11.8	7%

Source: The Law Debenture Corporation data

H125 net revenues were up 7.7% compared with H124 and c 3% compared with H224. At a divisional level there has been a reallocation of revenues, reflected in the table below. The H124 divisional net revenues have been restated but H224 and the earlier data remain on the old basis. The restated H124 data reflect a transfer of £0.3m from Corporate Services to Corporate Trusts. On a like-for-like basis, compared with H124, the Pensions performance is robust despite a non-repeat of the unusually elevated level of activity from late 2022 to early 2024 (see below), and the Corporate Services and Corporate Trusts divisions showed strong growth. Total IPS PBT increased 10.8% to £8.2m and, reflecting an increased tax rate, EPS increased by 2.7% to 5.4p.

Exhibit 7: Summary of IPS half-yearly performance

£m unless stated otherwise	H123	H223	H124	H224	H125	H125/H124
Pensions	8.6	8.8	9.0	7.7	8.5	-4.7%
Corporate trust	5.8	6.7	6.7	7.6	7.9	17.6%
Corporate services	9.7	10.9	10.6	12.1	11.8	11.9%
Total net revenue	24.1	26.4	26.2	27.4	28.2	7.7%
Y-o-y change	11.2%	12.4%	8.8%	3.9%	7.7%	
Underlying administrative expenses	(17.5)	(17.9)	(19.0)	(18.6)	(20.4)	
Underling profit before interest & tax (PBIT)	6.6	8.5	7.3	8.8	7.8	
EBIT margin	27.3%	32.2%	27.7%	32.0%	27.6%	
Underlying profit before tax (PBT)	6.8	9.1	7.4	8.9	8.2	
Y-o-y change	8.5%	12.0%	9.2%	-2.7%	10.8%	
Underlying PBT margin	28.3%	34.5%	28.4%	32.3%	29.2%	
Underlying EPS (p)	4.8	6.2	5.2	5.8	5.4	

Source: The Law Debenture Corporation data

The long-term growth in the **Pensions** business has been underpinned by the demand from pensions trustees and in-house pension teams for high-quality expertise to navigate regulatory changes and increased complexity, and this remains the case. In addition, with many defined benefit pension schemes seeing an improved position, there is increased interest in buy-in and buy-out strategies as well as corporate sponsors working with trustees to consider the viability of running schemes in surplus on a long-term basis. The year-on-year net revenue was 4.7% lower, with the comparison continuing to reflect the unusual surge in activity that followed the liability-driven investment crisis that followed the government's Autumn 2022 financial statement.

The **Corporate Trusts** business, saw strong growth year-on-year, consolidating the high level of revenues achieved in H224. Although the uncertainty created by US tariff policy since April has dampened new debt issuance, the majority of revenues are recurring in nature, generated from servicing the existing book of business. LWDB has continued to win new mandates. When bonds default, post-issuance work generates additional, counter-cyclical, ad hoc revenues and these have shown some pick-up, with pockets of the UK economy finding trading conditions particularly challenging. The smaller escrow business has continued to grow.

Corporate Services, which comprises a diverse collection of businesses, including whistleblowing (Safecall), structured finance services, company secretarial services (CSS) and service of process (SoP), also saw good growth year-on-year. Revenues in SoP, the most economically sensitive of all IPS businesses, were slightly ahead of H124, despite the uncertain trading environment, but were below the stronger H224 level.

Safecall had an excellent first half and continued to experience strong revenue growth, following a 25% increase in FY24. An increasing recognition that the provision of whistleblowing services represents best business practice provides a strong tailwind and investment in the business has positioned it well to meet this demand and increase market share.

CSS is well advanced with its significant investment in the right people, skills and systems to further exploit the growing need for outsourced governance solutions. Although this is yet to feed through in a meaningful way, H125 revenues were slightly up and LWDB is increasingly optimistic that a record sales pipeline will begin to feed through as the year progresses.

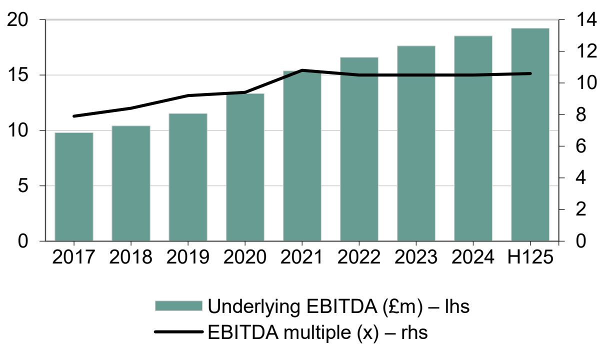
Structured finance had a solid first half. It is a relatively small part of the business, seeking to grow by leveraging the quality of its offering for which a pick-up in securitisation markets would be beneficial.

Continuing to build value

LWDB has published an operational value of the stand-alone IPS business since 2015 to address the fact that the IFRS consolidation, representing the net assets of IPS, fails to recognise the full value added. The determination of an appropriate value inevitably requires the exercise of judgement and in doing so the board takes external professional advice. Starting in FY24, this valuation is based on a forward-looking discounted cash flow (DCF) valuation, the previous EBITDA multiple basis rendered unsatisfactory by a shrinking range of market comparators.

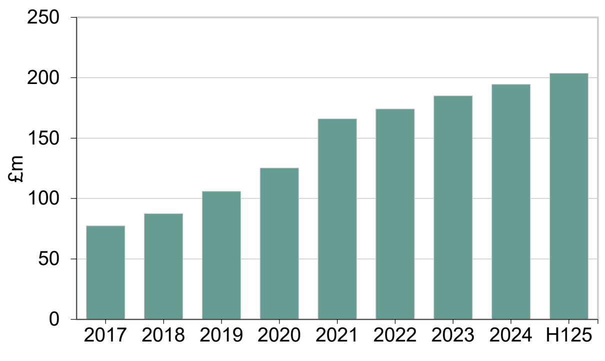
The operational fair value of IPS continued to increase in H125 (+4.8%), with the DCF-derived valuation reflecting a 10.6x multiple of the underlying EBITDA in the previous 12 months (FY24: 10.5x). A full explanation of the methodology is provided in the annual report, but in our view, taking account of the expected further growth of IPS, the valuation continues to be conservative.

Exhibit 8: IPS underlying EBITDA & EBITDA multiple



Source: The Law Debenture Corporation data

Exhibit 9: Growth in IPS fair value



Source: The Law Debenture Corporation data

The H125 operational fair value of IPS was £196.7m higher than the value reflected in LWDB's balance sheet on a statutory basis, representing a fair value uplift of 147.7p. The 30 June 2025 (end-H125) NAV per share at fair value, using the now published IPS H125 results and fair value adjustment, was 983.64p, just slightly below the provisional figure provided at the end of June (based on the IPS end-FY24 fair value) of 977.24p.

Exhibit 10: IPS fair valuation adjustment to NAV

	H125		2024	
	£m	Pence per share	£m	Pence per share
Trailing 12m EBITDA (underlying)	19.2		18.5	
Multiple	10.6		10.5	
Gross fair value of IPS business	203.8	153.0	194.5	147.5
IPS net assets attributable to IPS valuation	26.2	19.6	18.8	14.3
Fair valuation of IPS business	**229.9**	**172.7**	**213.3**	**161.7**
Removal of IPS net assets included in group net assets	(33.2)	(25.0)	(25.9)	(19.7)
Fair value uplift for IPS business	**196.7**	**147.7**	**187.4**	**142.1**

Source: The Law Debenture Corporation

Portfolio positioning, performance and strategy

Bottom-up, diversified, with a strong valuation focus

The investment portfolio is managed with the aim of achieving long-term capital growth and a steadily increasing income. There is a strong focus on UK stocks, although there is flexibility to invest in overseas stocks, most usually exercised when there is no compelling UK equivalent. The UK weighting continues to be at a relatively high level (89% at end-H125 versus 88% at end-FY24), which reflects the investment manager's strong conviction in the further potential for UK stocks compared with global peers. A net £35m was invested in the UK market during the period, in part funded by new share issuance at a premium to NAV.

Holdings are spread across large, medium-sized and smaller companies, across a variety of activities, balancing the requirement for immediate income with the potential for capital growth. Reflecting the prospects of faster long-term growth in sales, earnings and dividends from mid-caps and small caps, these are significantly overweighted in the portfolio compared with the all-market benchmark. Selective holdings in larger companies (around half the portfolio is top 100 companies) can meet the need for immediate income, albeit with the likelihood of slower growth, and are more established and hence less 'risky'.

Investment decisions are driven by bottom-up stock selection with a strong valuation overlay. From across the broad equity market, the investment managers seek to identify well-managed, high-quality companies with a strong competitive advantage in their chosen market segments, at attractive prices.

With a focus on long-term returns, the investment managers are prepared to take contrarian positions. This includes stocks that may have fallen out of favour, perhaps because they have disappointed on earnings, they have balance sheet issues or there are concerns over management, and which they believe to offer attractive long-term value. However, they do not invest on valuation alone and must be able to identify a resolution to whatever the issue may be and a route to growth in revenues, earnings and dividends.

Given the focus on stocks rather than index weightings, the portfolio is deliberately highly diversified to enhance the consistency of performance and protect capital over the long term. There are typically c 150 holdings (151 at end-H125), spread across a broad range of business activities, market capitalisation and risk profile. The top 10 holdings at end-H125, accounting for 22% of the portfolio, included eight UK top 100 companies, Flutter Entertainment, with a market capitalisation of almost £40bn, which switched its main listing from London to the New York Stock Exchange during 2024, and Kier Group, a UK 250 company with a market capitalisation of almost £1bn. Kier became a top 10 holding during H125 as a result of strong price appreciation (see below), replacing Rio Tinto. The other 78% of the portfolio was spread across 141 companies.

Exhibit 11: Top 10 holdings

		Portfolio weight (%)			Percentage point change since:	
Company	**Sector**	**30-Jun-25**	**31-Dec-24**	**30-Jun-24**	**31-Dec-24**	**30-Jun-24**
Barclays	Banks	3.2	3.0	2.6	0.3	0.7
HSBC	Banks	3.2	3.3	3.0	(0.1)	0.2
Shell	Oil & gas producers	2.6	3.0	3.5	(0.3)	(0.9)
Rolls Royce	Aerospace & defence	2.4	2.3	4.0	0.1	(1.6)
Flutter Entertainment	Travel & leisure	2.4	3.8	2.2	(1.4)	0.1
GlaxoSmithKline	Pharmaceuticals	1.9	2.1	2.5	(0.2)	(0.6)
BP	Oil & gas producers	1.7	2.1	2.7	(0.4)	(1.0)
Tesco	Grocery & general retail	1.7	1.8	1.5	(0.1)	0.1
Standard Chartered	Banks	1.5	1.8	1.4	(0.3)	0.2
Kier	Industrials	1.5	1.2	1.1	0.3	0.4
Total		**22.1**	**24.3**	**24.5**	**(2.2)**	**(2.4)**
Weight of actual top 10 holding at period-end		22.1	24.8	26.0	(2.7)	(3.9)

Source: The Law Debenture Corporation

Sector weightings represent an output from stock selection rather than being a target in themselves. The largest portfolio weighting is towards financials and this increased in H125, largely through performance, and is now in line with the broad market benchmark. The second-largest sector weighting in the portfolio is towards industrials, and this remains well ahead of the benchmark. Combining the portfolio ungeared beta of 1.1 at end-H125 with the trust's gearing indicates likely outperformance in a rising market. The investment managers estimate that the end-H125 forward P/E multiple for the portfolio was 11.7x, lower than that of the UK market at 12.6x.

Exhibit 12: Sector weightings

	Portfolio weight (%)			Benchmark weight	Change in portfolio weight since:	
	30-Jun-25	**31-Dec-24**	**30-Jun-24**	**30-Jun-25**	**31-Dec-24**	**30-Jun-24**
Financials	30.5	26.7	25.4	30.4	3.8	5.1
Industrials	23.9	23.0	25.5	13.5	0.9	(1.6)
Oil & gas	8.8	8.8	10.6	8.7	0.0	(1.8)
Consumer goods	7.9	8.4	8.7	14.3	(0.5)	(0.8)
Basic materials	4.2	5.0	5.4	5.0	(0.8)	(1.2)
Health care	5.7	5.7	5.5	10.6	0.0	0.2
Consumer services	10.9	13.9	11.3	8.0	(3.0)	(0.4)
Utilities	4.2	3.5	3.6	4.1	0.7	0.6
Telecommunications	2.2	2.2	2.2	1.2	0.0	0.0
Technology	1.7	1.8	1.8	4.2	(0.1)	(0.1)

Source: The Law Debenture Corporation

The drivers of outperformance

Among the top five contributors to H125 performance, three of the companies (Rolls-Royce, Babcock and BAE Systems) benefited from their sizeable exposure to rising UK defence spending, which the managers say is coinciding with operational improvements under the stewardship of refreshed management teams. Taken together, this has led to expectations of higher earnings, which in turn has been reflected in higher valuation levels, and in each case, reflecting the managers' valuation discipline, the trust was taking profits in the period. Rolls-Royce again showed the largest single appreciation in value, as it had in FY24, and is a good example of the investment managers identifying the turnaround potential of the business before it became recognised in the valuation of the shares. When LWDB invested, Rolls-Royce was not paying a dividend, and it is the income contribution from IPS that provides the managers with the flexibility to hold such positions.

Barclays, along with other bank holdings in the trust, benefited from a stable UK economy, low loan loss provisions and interest rates falling less quickly than had previously been expected, supporting net interest margins.

Kier, the construction services and property group, benefited from a good trading performance and strong order book and the expectation that it will be a key beneficiary of the UK government's infrastructure spending plans.

Exhibit 13: Top five portfolio contributors in H125

Stock	Appreciation (£m)	Appreciation (%)
Rolls-Royce	15.3	64.0
Babcock	10.4	108.4
Barclays	8.0	25.8
BAE Systems	6.6	60.2
Kier	5.2	40.5
Total	**45.5**	

Source: The Law Debenture Corporation

Leading the list of the top five detractors from portfolio performance was clean energy technology company Ceres Power. Ceres suffered from the decision by Bosch to end its strategic partnership with the company and divest its c 17% stake. The investment managers note that the company has a number of other licensing partners, and they expect its fuel cell technology will play an important role in the move away from fossil fuels.

The other four main detractors all suffered from cyclical exposures in an uncertain global trading environment.

Toyota Motor from Japan is a global leader in car manufacturing, and with no UK equivalent was complementary to the portfolio. It was acquired at a low valuation that seemed not to reflect its expanding position in the growing electric vehicle market but was negatively affected in H125 by US tariff policy uncertainty. Thus far in H2 the shares have staged a recovery.

WPP shares were negatively affected by continuing weak organic sales growth, in part due to a lack of confidence on the part of corporate advertisers, but compounded by the further loss of clients to global peers. Having re-appraised the investment case, the shares have been sold.

The specialist materials producer Morgan Advanced Materials lowered guidance for the current year as a result of subdued demand in China and Europe. The investment managers believe the shares do not reflect the longer-term margin potential and used the weakness to add to the holding in small size.

Cummins is a US multinational that designs, manufactures and distributes diesel engines, electric vehicle components and power generation products. Amid tariff uncertainty, management withdrew 2025 guidance, negatively affecting the share price, although it has recently begun to recover.

Exhibit 14: Top five portfolio detractors in H125

Stock	Depreciation (£m)	Depreciation (%)
Ceres Power	(4.1)	(57.6)
Toyota Motor	(2.9)	(19.2)
WPP	(2.2)	(68.2)
Morgan Advanced Materials	(2.2)	(15.7)
Cummins	(1.8)	(55.1)
Total	**(13.2)**	

Source: The Law Debenture Corporation

Other portfolio activity

New positions added during the period were the conglomerate AB Foods, consumer goods business Reckitt Benckiser, asset manager Aberdeen, renewable investor Greencoat UK Wind and HICL Infrastructure. A number of existing positions were added to, including property owner Great Portland Estates, European semiconductor producer Infineon and automotive catalyst producer Johnson Matthey.

The investment managers note that at the point of acquisition, AB Foods was trading at its lowest valuation in 20 years. Market concerns about trading at its Primark subsidiary presented what the managers believe to be an attractive entry point, with the valuation failing to reflect the sustainable growth potential of the business, its cash generation and strong balance sheet.

The investment in Aberdeen reflects what the investment managers believe is an underappreciation by the market of the value of its retail investment platform, Interactive Investor. They expect this ‘hidden’ value to be realised at some point while meanwhile earning an attractive dividend yield.

Under a new CEO, consumer goods manufacturer Reckitt has been undertaking a ‘strategic reset’ aimed at simplifying the company and sharpening its portfolio to drive growth and create value. With the programme beginning to take effect, the company has recently increased guidance, lifted its dividend and launched a new share buyback programme, with a positive impact on the share price.

The infrastructure investment companies Greencoat UK Wind and HICL Infrastructure should both benefit from positive growth in the renewables and infrastructure markets. This provides the potential for large discounts to narrow. Meanwhile, both provide attractive dividend yields.

As with Rolls-Royce, Babcock and BAE Systems, the significant holding in Flutter Entertainment was reduced on valuation grounds. Both Rolls-Royce and Flutter Entertainment remained top 10 holdings. The position in medical devices producer Convatec was sold in its entirety on valuation.

The continuing high level of corporate activity across the market has also extended to LWDB holdings. AIM-listed transmission products producer Renold has agreed to be acquired by a private equity investor at a c 50% premium to the pre-bid share price. Spectris, a high-quality precision measurement, instrumentation and testing company, has also agreed to be acquired by a private equity investor, Kohlberg Kravis Roberts (KKR), at a premium to an offer for the company made in June by another private equity investor. The agreed sale price is almost twice the share price prior to the June offer but is less than 40% above the price at which Spectris traded a year ago. In January 2025, Dowlais, an autos supplier, agreed to be acquired by a US peer in a share and cash transaction.

Current valuation and performance metrics

Compared with the wider UK Equity Income sector, in terms of NAV total return, LWDB is consistently among the top thwo performers over all time periods and is first over 10 years. It has an above-average price to NAV multiple and one of the lowest ongoing charges. It is on dividend yield where LWDB scores lowly versus peers, but it has the second-highest five-year dividend growth. The lower yield reflects the investment strategy of balancing immediate income returns with long-term capital growth, compensated for by much faster dividend growth and well-above-average capital growth.
Net gearing is among the highest in the group, which, with a blended cost of borrowing of c 4%, has been a positive contributor to performance as the market has risen.

Exhibit 15: UK Equity Income peer group as at 25 July 2025 (%)

Trust	Market cap (£m)	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	NAV TR 10 years	Premium/ (discount)	Ongoing charges	Net gearing	Dividend yield	5-year DPS growth
Law Debenture Corporation Ord	**1,347**	**18.8**	**46.2**	**113.4**	**159.0**	**(1.4)**	**0.5**	**112**	**3.3**	**5.2**
City of London Ord	2,431	15.9	42.1	86.9	96.6	1.5	0.4	105	4.3	2.3
Edinburgh Investment Ord	1,147	5.7	38.9	88.9	70.7	(6.7)	0.5	110	3.6	0.1
Finsbury Growth & Income Ord	1,284	10.4	18.2	32.9	110.8	(7.9)	0.6	102	2.1	3.4
Murray Income Trust Ord	877	3.1	17.9	47.2	90.0	(6.8)	0.5	110	4.4	2.5
Merchants Trust Ord	818	4.9	20.8	102.9	96.6	(7.1)	0.5	111	5.3	1.4
Temple Bar Ord	952	21.7	63.6	145.8	100.5	(1.0)	0.6	107	3.2	1.8
Average (market cap > £500m)	**1,251**	**10.3**	**33.6**	**84.1**	**94.2**	**(4.7)**	**0.5**	**107**	**3.8**	**1.9**
LWDB position	**2**	**2**	**2**	**2**	**1**	**3**	**4**	**1**	**5**	**1**
Aberdeen Equity Income Trust	177	11.2	22.6	67.9	34.6	0.9	0.9	112	6.3	2.2
BlackRock Income and Growth Ord	40	6.7	27.9	63.3	74.7	(11.5)	1.2	108	3.7	1.1
Chelverton UK Dividend Trust Ord	33	(3.6)	9.3	79.2	31.7	(2.4)	2.7	97	9.0	6.3
CT UK Capital and Income Ord	329	4.1	22.2	71.0	95.2	(4.7)	0.7	102	3.8	1.9
CT UK High Income Ord	88	12.8	33.5	65.3	76.2	(1.5)	1.0	108	5.6	2.1
Diverse Income Trust Ord	243	15.7	19.9	48.1	80.2	(5.4)	1.1	98	4.1	3.1
Dunedin Income Growth Ord	380	4.9	21.1	43.1	84.9	(7.9)	0.6	111	4.7	2.3
JPMorgan Claverhouse Ord	435	12.8	37.1	77.9	90.3	(5.8)	0.6	107	4.5	4.1
Lowland Ord	316	12.0	37.7	93.7	71.4	(10.7)	0.7	115	4.5	1.5
Schroder Income Growth Ord	215	11.6	32.4	82.9	87.5	(9.4)	0.8	110	4.5	2.7
Shires Income Ord	112	12.4	29.2	65.8	95.8	(2.9)	1.0	115	5.3	2.3
All sector average	**623**	**12.2**	**34.1**	**80.1**	**86.2**	**(7.2)**	**0.8**	**112**	**4.7**	**2.7**
LWDB all-sector position	**2**	**2**	**2**	**2**	**1**	**4**	**15**	**3**	**16**	**2**

Source: Morningstar data

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