The Law Debenture Corporation p.l.c

2018 FINAL RESULTS

Consistently outperforming benchmark and increasing the dividend by 9.2%

The Law Debenture Corporation p.l.c., a unique combination of an equity portfolio and leading provider of independent professional services, announces its results and annual financial report for the year ended 31 December 2018.

Group highlights:

- Total proposed dividend of 18.90p per share for 2018 (2017: 17.30p), a 9.2% increase
- Strong performance from the Independent Professional Services (IPS) business continues to support dividend growth
- Katie Thorpe, Chief Financial Officer, was appointed to the board on 1 January 2019
- Low ongoing charges of 0.43%

Investment portfolio highlights:

- Net asset value (NAV) total return outperformed the benchmark, protecting investors from almost 40% of the market decline
- NAV as at 31 December 2018 was 614.07 pence
- The portfolio has consistently outperformed its benchmark on a one, three, five and ten year basis:

	1 year	3 years	5 years	10 years
NAV total return[1]	-5.8%	27.3%	+30.4%	+199.0%
FTSE Actuaries All-Share Index[2]	-9.5%	19.5%	+22.1%	+138.3%

- Transitioning to a UK sector AIC category from current global sector classification later this year to better represent portfolio positioning

Independent Professional Services (IPS) highlights:

- Revenues increased 9.0% to £29.6m (2017: £27.1m) following strong performance from all three divisions: Pensions, Corporate Trust and Corporate Services
- IPS normalised earnings per share increased by 9.2% to 7.87p (2017: 7.21p)
- IPS has provided almost 40% of total annual dividend payments to shareholders over the last 10 years
- New management team in place to drive growth and enhance shareholder returns
- Board remains committed to growing the business over time and increasing transparency

Longer Term:

- 130 years of value creation for shareholders
- 40 years of increased or maintained dividends
- 55% increase in dividend over last ten years
- Annualised dividend growth of 4.5%[3]
- 40% portfolio outperformance of benchmark over three years, 37.6% over five years and 44% over ten years

2019 performance update:

- Year to date NAV total return to 22nd February +6.7%

Robert Hingley, Chairman, commented:

"I am pleased at the relative outperformance of the Group in 2018 and with how the new management team is progressing. Against a backdrop of significant market turbulence our portfolio has outperformed its benchmark on a one, three, five and ten year basis. We remain confident in our investment manager's stock selection given the proven long term record. Our portfolio is not a proxy for the UK economy, the stock selections are generally strong businesses with good management teams at an attractive valuation and dividend yield. I am pleased at the Board's decision to move to a UK sector AIC category from the current global sector classification later this year. Strategically, this will better position the investment trust in light of our significant UK weighting."

Denis Jackson, Chief Executive Officer, said:

"2018 marked a year of progress, investment and outperformance for Law Debenture. Our unique and differentiated business model allows increased flexibility in portfolio construction and will be a key value driver as we aim to deliver continued long-term capital growth and steadily increasing income. IPS revenue (net of cost of sales) increased by 9.2% in 2018 and our ambition is to achieve mid to high single digit growth in 2019. I am confident we can grow IPS over time, while preserving our quality of product, outstanding client outcomes and our hard-won reputation."

For further information, please contact:

The Law Debenture Corporation	+44 (0)20 7606 5451
Denis Jackson, Chief Executive Officer	denis.jackson@lawdeb.com
Katie Thorpe, Chief Financial Officer	katie.thorpe@lawdeb.com
Tulchan Communications (Financial PR)	+44 (0)20 7353 4200
Elizabeth Snow	
David Allchurch	Lawdebenture@tulchangroup.com

About Law Debenture

We are an investment trust and a leading provider of independent professional services.

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group has two distinct areas of business.

Investment trust
Our portfolio of investments is managed by James Henderson of Janus Henderson Investors.

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

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

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

[1]Source: NAV calculated in accordance with AIC methodology, based on performance data held by Law Debenture including fair value of the IPS business and long term borrowings
[2]Source: Bloomberg
[3]Calculated on an annualised basis on dividend payments made by accounting year between 31 December 2008 and 31 December 2018
4 Accounts presented in £000, some rounding differences may be noted when looking at percentage growth calculations for numbers rounded to £m

ANNUAL FINANCIAL REPORT
YEAR ENDED 31 DECEMBER 2018 (AUDITED)

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

The directors recommend a final dividend of 12.90p per share making a total for the year of 18.90p. Subject to the approval of shareholders, the final dividend will be paid on 18 April 2019 to holders on the register on the record date of 15 March 2019. The annual financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial information set out in this Annual Financial Report does not constitute the Corporation's statutory accounts for 2017 or 2018. Statutory accounts for the years ended 31 December 2017 and 31 December 2018 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2017 and 2018 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2017 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2018 will be delivered to the Registrar in due course.

The financial information in this Annual Financial Report has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in this Annual Financial Report have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the year ended 31 December 2018. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the year ended 31 December 2017.

Group income statement

As at 31 December

	2018			2017		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
UK dividends	**18,892**	**-**	**18,892**	17,017	-	17,017
UK special dividends	**810**	**-**	**810**	743	-	743
Overseas dividends	**3,407**	**-**	**3,407**	3,646	-	3,646
Overseas special dividends	**90**	**-**	**90**	57	-	57
	23,199	**-**	**23,199**	21,463	-	21,463
Interest income	**480**	**-**	**480**	139	-	139
Independent professional services fees	**33,252**	**-**	**33,252**	31,021	-	31,021
Other income	**176**	**-**	**176**	344	-	344
Total income	**57,107**	**-**	**57,107**	52,967	-	52,967
Net (loss)/gain on investments held at fair value through profit or loss	**-**	**(84,301)**	**(84,301)**	3,275	79,674	82,949
Total income and capital gains/(losses)	**57,107**	**(84,301)**	**(27,194)**	56,242	79,674	135,916
Cost of sales	**(3,668)**	**-**	**(3,668)**	(3,875)	-	(3,875)
Administrative expenses	**(22,705)**	**(610)**	**(23,315)**	(20,842)	(407)	(21,249)
Provision for onerous contracts	**319**	**-**	**319**	245	-	245
Operating profit/(loss)	**31,053**	**(84,911)**	**(53,858)**	31,770	79,267	111,037
Finance costs						
Interest payable	**(4,617)**	**-**	**(4,617)**	(4,785)	-	(4,785)
Profit/(loss) before taxation	**26,436**	**(84,911)**	**(58,475)**	26,985	79,267	106,252
Taxation	**(1,318)**	**-**	**(1,318)**	(1,391)	-	(1,391)
Profit/(loss) for the year	**25,118**	**(84,911)**	**(59,793)**	25,594	79,267	104,861
Return per ordinary share (pence)	**21.26**	**(71.85)**	**(50.59)**	21.66	67.10	88.76
Diluted return per ordinary share (pence)	**21.25**	**(71.84)**	**(50.59)**	21.66	67.09	88.75

Statement of comprehensive income

As at 31 December

	Revenue 2018 £000	**Capital 2018 £000**	**Total 2018 £000**	Revenue 2017 £000	Capital 2017 £000	Total 2017 £000
Profit/(loss) for the year	**25,118**	**(84,911)**	**(59,793)**	25,594	79,267	104,861
Foreign exchange on translation of foreign operations	**-**	**450**	**450**	-	(495)	(495)
Pension actuarial gains	**1,600**	**-**	**1,600**	1,800	-	1,800
Taxation on pension	**(304)**	**-**	**(304)**	(342)	-	(342)
Other comprehensive income for the year	**1,296**	**450**	**1,746**	1,458	(495)	963
Total comprehensive income for the year	**26,414**	**(84,461)**	**(58,047)**	27,052	78,772	105,824

Financial summary

	31 December 2018 Pence	31 December 2017 Pence
NAV per share at fair value[*1]	614.07	669.53
Revenue return per share		
- Investment trust	13.23	11.61
- Independent professional services (normalised)	7.87	7.21
- Independent professional services (exceptional)	-	2.72
- Group charges	0.16	0.12
Group revenue return per share	21.26	21.66
Capital (loss)/return per share	(71.85)	67.10
Dividends per share	18.90	17.30
Share price	540.00	629.00

	2018 %	2017 %
Ongoing charges[2*]	0.43	0.43
Gearing[2]	3	1

Performance

	1 year %	3 years %	5 years %	10 years %
NAV total return[1*]	(5.8)	27.3	30.4	199.0
FTSE Actuaries All-Share Index Total Return[3]	(9.5)	19.5	22.1	138.3
Share price total return[3*]	(11.6)	19.0	18.8	243.5
Change in Retail Price Index[3]	2.7	9.6	12.7	34.1

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[1] NAV is calculated in accordance with the Association of Investment Companies (AIC) methodology, based on performance data held by Law Debenture including fair value of IPS business and long term borrowings.

[2] Source AIC. Ongoing charges are based on the costs of the investment trust and include the Janus Henderson management fee of 0.30% of the NAV of the investment trust. There is no performance related element to the fee.

[3] Source Bloomberg

[4] Items marked "*" are considered to be alternative performance measures

NAV- Fair value of independent professional services businesses and long term borrowings

NAV per share

		31 December 2018 pence	31 December 2017 Pence
NAV per share per financial statements		566.27	633.28
Fair value adjustment for independent professional services		66.36	61.57
Debt fair value adjustment		(18.56)	(25.32)
NAV per share at fair value		614.07	669.53

Background

Our consolidated financial statements are presented in order to comply with International Financial Reporting Standards ('IFRS'), with the value of the investment portfolio expressed at fair value, which is broadly a rational and unbiased estimate of the potential market value, taking into account acquisition/replacement/disposal costs.

Since 31 December 2015, we have published a fair value NAV that includes the fair value of the IPS businesses and long term borrowings.

The calculation of the IPS valuation and methodology used to derive it are included in the annual report. In accordance with financial reporting standards, the valuation itself is not reflected in the financial statements.

In determining a basis for the fair valuation of the IPS business the directors have taken external professional advice. It should be noted that fair valuation guidelines require that the fair value of the IPS business be established on a stand-alone basis. The valuation does not therefore reflect the full value to the group and its shareholders. The value of group tax relief from the investment trust to the IPS business reduced the tax charge by £845k (2017: £1.2m). It is hoped that our initiatives to inject growth into the IPS business will result in a corresponding increase in valuation over time.

In order to assist investors, the Company restated its historic NAV in 2015 to include the fair value of the IPS business for the last ten years. This information is provided in the annual report within the 10 year record, performance and 10 year performance.

Long term borrowings

The methodology of fair valuing long-term borrowings is to benchmark the group debt against A rated UK corporate bond yields.

Chairman's statement

In what has been my first year as Chairman of Law Debenture, I am pleased to introduce our shareholders to the 2018 annual report.

Performance

Against a backdrop of significant market turbulence and uncertainty over the UK's exit from the EU, the FTSE Actuaries All-Share Index Total Return declined by 9.5% in 2018. In this context, I can report that our Company's net asset value declined by 5.8% on a total return basis over that same period. As investors quite rightly challenge active managers' ability to demonstrate their value over passive counterparts, we are satisfied with this relative outperformance. Our aim is to grow our capital over the long-term; however it is never comfortable to report a decline in net asset value in the short-term. We are comforted that the portfolio was protected from almost 40% of the overall market decline, and that our relative performance remains strong over one, three, five and ten year periods.£1,000 invested in Law Debenture ten years ago would have been worth £3,435[1] at the end of 2018.

Dividend

Law Debenture has increased or maintained its dividend in each of the last 40 years. Over the last ten years, we have delivered a 55% increase in dividend and an annualised dividend growth of 4.5%.[2]

We recognise that, in a low interest rate environment, great value is ascribed by our shareholders to the dividend they receive from this Company. We were pleased to provide investors with a 9.2% increase in the interim dividend paid in September. The board is recommending we maintain that increase for the final dividend. Subject to shareholder approval, we will pay a final dividend of 12.9p per share on 18 April 2019 to holders on the register on the record date of 15 March 2019. This will provide shareholders with a total dividend of 18.9p per share for 2018, compared to 17.3p in 2017. We are happy to make this recommendation in the context of £50.0m of consolidated retained earnings and a revenue profit for the year of £25.1m.

Investment portfolio

We believe the ongoing charges ratio of 0.43% for the trust as a whole offers excellent value for money for our shareholders. Indeed, this is significantly lower than the average ongoing charges ratio for UK investment trusts which the AIC published as 1.21% as at 31 December 2018.

The board has given a great deal of thought on how best strategically to position the investment trust, in light of our portfolio's significant UK weighting. While much of our portfolio comprises UK stocks with a global bias, our performance is more closely linked to the performance of UK markets than it is to broader global markets. Indeed, it is the FTSE Actuaries All-Share Index Total Return against which the board assesses the investment performance. More closely to reflect the reality of our portfolio construction, later this year we will be moving to a UK sector AIC category from the current global sector classification.

Independent professional services (IPS)

The Company benefits from the unique proposition of an equity portfolio combined with a professional services business. Law Debenture has paid in aggregate £172m to shareholders in dividends over the past 10 years, of which £67m, or 39%, has been funded by the IPS business.

As you will hear from our chief executive officer, Denis Jackson, in his report, 2018 was a solid year for our IPS business. When Denis took over as chief executive at the start of 2018, he made a firm commitment to start a trajectory of growth in our IPS business and he has done just that. With the support of a strengthened team, revenue has grown by 9.0% and normalised earnings per share (after the removal of exceptional items) by 9.2%.

We have ambitions to achieve mid to high single digit growth in 2019. This is underpinned by a rigorous business plan and budgeting process. Increased income, combined with a firm control of costs, would drive revenue earnings per share growth and support higher dividends for our shareholders. This will allow us to continue to build on our unbroken 40 year history of maintaining or growing the dividend. Our aim for 2019 is to continue the journey to turn a highly profitable, but relatively static or low-growth business, into something much more dynamic, while at the same time retaining the highest quality of service for our global clients. If we are able to grow our revenue and earnings over time, this should drive a corresponding increase to the valuation of the IPS business, helping to drive capital growth for the trust as a whole.

The board

Having welcomed Katie Thorpe as our chief financial officer in June of 2018, I was delighted to announce her appointment as an executive director from 1 January this year. Her appointment to the board reflects the value that she brings to the organisation. We believe diversity is key to enhancing independent thinking and healthy challenge. To that end, we have a search in place to appoint a further director to the board – we are committed to framing that recruitment with a backdrop of diversity in all of its forms.

As the appointment of an additional director will put us close to the limit on fees set out in the articles of association, we are seeking shareholder approval at the forthcoming AGM to increase the article limit for the first time since 2008 to £400,000. This will allow the board to manage its composition for the foreseeable future in accordance with the articles.

Report and accounts

After following the same tried and tested format for many years, we felt it was the right time to make some changes to modernise the look and feel of our annual report. At the same time, we have listened to feedback from shareholders and analysts and have increased the transparency of reporting around our IPS business. In the annual report that will be published on 7 March, there will be for the first time a breakdown of net revenue by division, along with guidance for 2019 and forecasts. We see this as the start of a journey and will be looking to continue to evolve our reporting into 2020 and beyond.

Looking forwards

We have seen a modest recovery in markets after the woes of the later part of 2018.In that context, we are pleased to report that your Company's net asset value has increased by 6.7% as at 22 February 2019, compared to 7.7% for the FTSE Actuaries All-Share Index Total Return.

Debate continues to rage around the possible outcome for the UK over Brexit, while on the global stage there remain significant concerns around trade disputes between the US and China. The Company has weathered many storms over its long history and will remain relentlessly focussed on creating value for our shareholders.

For our investment trust, James Henderson is an accomplished investor who has been involved in the management of your portfolio for the past 25 years. During that time, the portfolio has generated a net asset value total return of 944% compared to 393% by the FTSE All-Share[3]. We rely on James to continue to do that at which he excels; the identification of quality companies at a favourable valuation at an opportune point in the cycle.

For our IPS business, the diversity and repeatable nature of our income, coupled with a strengthened team, leave us well placed to deliver on our growth objectives for 2019

Robert Hingley
Chairman

1 Calculated on a total return basis assuming dividend re-investment between 31 December 2008 and 31 December 2018
2 Calculated on an annualised basis on dividend payments made by accounting year between 31 December 2008 and 31 December 2018
3 Source: Bloomberg, total return analysis from first available data point on Bloomberg of Law Debenture NAV (measured ex income with debt at par) as at 1 February 1994, measured to31 December 2018. FTSE Actuaries All Share Total Return measured over the same performance period. Bloomberg data includes the adjustment to the fair value of the trust in respect of the IPS business from 29 February 2016.

Chief executive officer's review

I am delighted to be introducing our final results for the twelve months ended 31 December 2018, my first full year as CEO of Law Debenture. Since joining, I have spent a great deal of time getting to know the two complementary, but distinct, areas of Law Debenture that make up our unique business model. I am confident that the powerful combination of our equity portfolio, (ably managed by James Henderson) and our leading global independent professional services business will be a key value driver.

The quality of the overall group and its people has been clearly impressed upon me since joining and I was pleased to welcome Katie Thorpe as CFO following the retirement of Tim Fullwood. She is a fantastic addition to the business given her wealth of experience working with investment trusts. She is well known to investors and is already increasing the transparency and understanding of our business. Following a commendably fast start, Katie joined our board on 1 January 2019.

Our investment trust

It has been a great pleasure getting to know James Henderson over the past year and we were glad to welcome Laura Foll back from maternity leave in the autumn. Laura has assisted James in running the portfolio since 2011.

James' successful long term record has rightly earned him a large and loyal following in the investment trust investor community. NAV total return has consistently outperformed our benchmark on a one, three, five and ten year basis. In the past year, the portfolio has been sheltered from almost 40% of the benchmark decline. Over three years, the portfolio has generated an outperformance of 40.0% and over ten years an outperformance of 43.9%.

The board has given a great deal of thought on how best to strategically position the investment trust. As a result of these deliberations, later this year we will be moving to a UK sector AIC category from the current global sector classification.

For nearly two decades, James has run the portfolio with at least 70% allocated to UK stocks. Our benchmark is UK. A UK sector reflects far more accurately what the portfolio is as an investment proposition.

Our independent professional services business (IPS)

Our IPS business is a key differentiator between us and other investment trusts. As the Chairman explains in his statement, the IPS earnings have covered almost 40% of total annual dividend payments in the past ten years, allowing James increased flexibility in portfolio construction.

Following many meetings in 2018 with brokers, wealth managers and shareholders, it is clear to me that we have more work to do to explain our differentiated investment proposition. It is incumbent on us to better explain both the nature of the professional services that we provide, and the inherent value of IPS to our owners.

Our stated objective is "to achieve long term capital growth in real terms and steadily increasing income". Between 2011 and 2017, IPS earnings were flat. While we score highly for consistency, net operating margin and return on capital employed, we have failed to register growth and we need to address that. I am pleased to report some steps in the right direction in this regard in 2018.

IPS normalised earnings per share increased from 7.21 pence per share in 2017 to 7.87 pence in 2018, a 9.2% increase. Revenue (net of cost of sales) increased from £27.1m to £29.6m, an increase of 9.0%.

We are confident we can grow the IPS business considerably over time, while preserving our quality of product, outstanding client outcomes and our hard won reputation.

Our leading independent professional services provider is built on three excellent foundations; our pensions, corporate trust and corporate services businesses.

The table below sets out the revenue by division net of cost of sales for the past three years, alongside a percentage growth number compared to prior year:

Division	Net Revenue 2016 £000	Net Revenue 2017 £000	Net Revenue 2018 £000	Growth 2016/2017 %	Growth 2017/2018 %
Pensions	7,814	8,270	9,488	5.8	14.7
Corporate trust	8,411	7,900	8,362	(6.0)	5.8
Corporate services	10,117	10,977	11,734	8.5	6.9
Discontinued [1]	828	-	-	-	-
Total	27,170	27,147	29,584	(0.1)	9.0

1 This relates to revenue earned by the US corporate trust business that was discontinued as at 31 December 2016 and a dividend received from Nordic Trustee Holdings ASA which was sold during 2017.

Taking each business in turn:

Pensions

2019 marks the 50th anniversary of our first pension fund client, Demerara Sugar. While the landscape has changed considerably, the fundamental value proposition of a qualified independent pension trustee has not. Many of the reasons for our appointment to Demerara Sugar are as true today as they were 50 years ago: ensuring proper and professional governance; the need to protect against abuse of schemes; and the deployment of an effective strategy to communicate fair management of a scheme and its benefits to a sometimes sceptical workforce.

Market dynamics

No one particularly likes to save for their pension but almost everyone wants to retire one day. Add to this the irresistible demographics of an ageing population and a growing middle class. Overlay this conundrum with the need of the government to put in place tax incentives for people to save in the long term while maintaining tax revenues in the short term. Top this off with the political desire of successive Chancellors of the Exchequer to “solve this once and for all” by introducing yet another refinement to our pensions legislation and we are left with (positive metaphors only) a simply delicious plate of spaghetti for trained professionals only to devour, lest the public choke on the same ingredients.

Politically agnostic, we echo the cries of “hear, hear” in the Commons Chamber with our own “well, well” as successive governments add to the complex web to be untangled.

We currently deal with around 200 Defined Benefit schemes out of around 5,500 schemes in the UK. We firmly believe that the next 10 years will see an increasing trend towards consolidation of these 5,500 in order to optimise operating efficiencies and enhance governance structures given the common problems that many share. Even after consolidation, a market share of 3.6% leaves plenty more schemes to serve and support.

Highlights

The single most important driver of success in professional services is quality of people and, in 2001, we recruited Mark Ashworth. Today, Mark sits at the top table of the profession in the UK and thankfully he too recruits well. Michael Chatterton joined us in 2010, and between them Mark and Michael lead a team that is rightly viewed by its clients as the leading UK independent pension trustee. Our trustee team has grown by 20% over the past two years, as we recruit outstanding commercial professionals from a rich variety of backgrounds.

In 2018, we started to see returns from that investment in people, with revenues up 14.7% from £8.3m to £9.5m. This is a very pleasing result that we are looking to build on in 2019 and beyond.

2018 also saw the launch of our pensions governance business, PEGASUS. There is a recent trend towards the appointment of sole corporate professional trustees, rather than a traditional multi trustee board model. Growing regulatory focus on the sector as a result of the fallout of several high profile corporate and pension failures, has seen lay trustees facing increased pressure, accountability and responsibility. With wins of five additional sole trusteeships in 2018, our provision of sole trustee solutions is now beyond critical mass.

Key client wins for this year include Clara Pensions, Optivo, Smart Pension and Standard Life Aberdeen.

Outlook for our pension business

As we look forward, the long-term decline in the Defined Benefit market is well aired, albeit one that has many years to play out given the long term nature of liabilities to be funded. Accordingly, we believe that the growth in importance of our Defined Contribution (DC) work relative to our total revenues will continue. The considerably increased number of DC appointments in recent years provides us with tangible evidence of this and, while we have an enviable roster of larger clients, our ability to create solutions for the mid-market and to support consolidation type solutions at the smaller end will help drive growth.

In the meantime, I would like to thank Mark and Michael for their outstanding leadership of this business and the whole team for their unstinting professionalism. We are fortunate to have them.

Corporate trust

This business led to the creation of Law Debenture nearly 130 years ago. Our longest appointment is for a share trustee role in 1889, the year in which Law Debenture was founded. This appointment remains in place today.

Our duty as a corporate trustee is to act as a bridge between bondholders and a bond issuer. The trustee's role and income stream can vary greatly between "non-defaulted" and "defaulted" bonds.

In non-default situations, the trustee is typically paid an (inflation linked) annual fee to discharge its duties throughout the lifetime of the bond. We started 2018 with more than two-thirds of our £8.4m annual revenue contractually secured, with an overall inflation linked increase of 1.5% on those same contracted revenues in 2017.

In addition, the trustee becomes involved when amendments to deal with documentation or waivers are required. This will often be separately remunerated and provides us with an additional income stream, which represented 19.5% of our corporate trust revenue for 2018.

In default scenarios, the revenue and risk profile of the trustee often shifts substantially. A key role of the trustee is to be the legal creditor of the issuer on behalf of the bond holders. This can require material extra work that, given an optimum outcome, can lead to significant additional income. However, default scenarios can take years to play out and have uncertain outcomes. The trustee is at risk if it is subsequently judged not to have discharged its duties appropriately.

Our corporate trust team are conservative and careful in taking on new business, and operate in an environment that has long prioritised these qualities. This highly disciplined approach has produced consistent profits for over a century. Our shareholders should understand that swings in our revenue (and in turn profit) can result from adopting a prudent approach to provisioning, as long term defaults work their way to a conclusion.

Market dynamics

Our corporate trust business is a leading independent player; however, the market is highly competitive, particularly as a result of the emergence of multi-service offerings by global banks. Eliot Solarz was appointed to head this team on 1st January 2018 and leads by example as we look to accelerate our growth.

Happily, as with all of our businesses, Eliot has strong foundations on which to build; we consistently receive excellent feedback from clients for our technical knowledge, speed, quality of service and willingness to innovate. We pick our spots carefully and play very much to our strengths.

All bond trustees love an appointment to a standard investment grade corporate bond and we are no exception. We are thrilled when issuers such as Vodafone, Unilever or NatWest appoint us as their trustee. But we have learned long ago that by moving off the beaten path a little, there are more complex products that are well served by our deep technical knowledge and our ability to move fast.

A particular focus is in infrastructure and "real asset" businesses e.g. transportation, energy and real estate. Short-term issuance in these sectors will ebb and flow but as a long-term proposition, experience tells us that global demand for capital in these areas is almost bound to increase. Indeed, we first acted in this space for The Kansai Railway Company in Japan in 1905.

A more recent example is Mutual Energy's 35 year Gas to the West project, which was launched in 2018. This is to finance the extension of a gas network in Ireland, where we provide security trustee, noteholder agent and registrar services. There are other smaller niches, where a deep expertise, reputation for quality and excellence in service delivery among specialist issuers and specialist arrangers serve us well.

Highlights

We took on 250 trustee engagements in 2018, acting as trustee to bonds with an issuance value of close to £600bn. We booked revenues of £0.8m in 2018 for these contracts, a small fraction of the full value over their life cycle of around £10.8m. The majority of that future revenue is index linked. We now have around 1,800 trustee roles on our books for bonds with over £1.8tn of value.

Corporate trust's net increase in revenues for 2018 was 5.8%, with total revenue increasing from £7.9m to £8.4m. Our new business fees earned in 2018 were the second highest recorded since the global financial crisis and at £0.8m were 24% higher than new business fees earned in 2017.

This increase was partially offset by a net addition to reserves of £0.3m across our book of transactions working through various stages of the default journey. Our aim is to recover these amounts in the future, but, as is almost invariably the case, quantum and timing of that recovery remains uncertain.

Key client wins for this year include Unilever.

Outlook for our corporate trust business

The long term nature of appointments in the corporate trust universe provides a stable and index linked source of revenue for the group. As highlighted above, only a small fraction of the value of contracts won in a given financial year will benefit that year's profit and loss account. Our aim is to consistently win new business in both the standard investment grade space and the niches where our speed and agility provide us with a significant advantage.

Corporate services

Corporate services provides outsourced solutions across a continuum of company directors, company secretarial, accounting, corporate administration and facility agent services. These services are provided largely, but by no means exclusively, to corporates and special purpose vehicles.

Market dynamics

The traditional securitisation aspect of this market has not yet returned to its pre-financial crisis peak, but nevertheless the marketplace remains fiercely competitive. We continue to put great effort into building our relationships with arrangers, advisers, sponsors and end users. We are confident over time that, as with all of our businesses, our high quality service, underpinned by outstanding technical knowledge, relentless focus on client delivery and willingness to innovate will yield an incremental stream of repeatable earnings.

We provide a highly regarded global service of process business that had a solid year in 2018. Led by Anne Hills, it has a market leading reputation with law firms in London, New York and Hong Kong.

Highlights

Revenue from these businesses grew from £11.0m in 2017 to £11.7m in 2018 an increase of 6.9%.
This year, the corporate service offering that I would like to highlight is relatively small but our fastest growing: our provider of independent whistleblowing services, Safecall.

Based in Sunderland, Law Debenture acquired Safecall in 2007, following its establishment 20 years ago by Alan Long, a former police officer. It has been expertly led since 2004 by his son Graham Long. He and his team have delivered a 15.4% increase in revenue in 2018 and a 44% increase in revenue over the past three years, with revenue for 2018 exceeding £1.6m for the first time.

Ethics and compliance have leapt onto the front page in 2018, following the multitude of revelations that, unfortunately for many, have come to light too late. Safecall provides an independent, confidential, anonymous (if desired) route to raise issues to the highest levels of organisations that can see that line management chains sometime fail and senior people don't always meet expected standards of behaviour.

We believe the team at Safecall offers a product superior to their competitors at a competitive price point. This is supported by Safecall's ownership structure. Where competitors are almost exclusively private equity backed and focused on extracting value, we are interested in the long-term success of Safecall, underpinned by the quality of the service provided by our highly trained call handlers.

Safecall took on 72 new clients in 2018. The team now support over 400 organisations, employing anywhere between 25 and 80,000 staff, on a truly global basis, covering 100+ languages. We currently act for 41 companies within the FTSE350, with significant growth ambitions for this market.

Key client wins for this year include ARaymond, Bird & Bird, Mazuri International, Nuffield Health, OCS, Rubix and The FA.

In addition to achieving excellent growth in 2018 we have also made strategic investments to set Safecall up for future success. We launched a new website, built a new case management solution as a service offering (SaaS), and have added headcount in business development, technology and client service. More information is available at www.safecall.co.uk.

Investment in technology

2018 has seen a strong focus on advancing the use of technology across IPS in order to improve the service that we provide to our clients, be that introducing additional functionality, enhancing security or reducing costs by delivering efficiencies in our operations.

The primary goal of the application of technology is to further enhance the characteristics that make the IPS business a unique proposition; responsiveness, speed, flexibility, discretion and delivery. We are also aware that key to our value proposition is the expertise of our people. We see technology as a way to enhance our capabilities, enabling our people to do more and faster to help deliver increased revenue, scale and control.

During 2018 we appointed David Williams as Chief Technology Officer (CTO). David is the former CTO of Marshall Wace LLP and Tibra Trading. We have also hired five full-time technical experts to facilitate delivery of high quality technical solutions. This new team has already delivered a new technology platform for Safecall, a new website for both Safecall and Law Debenture; a new collaboration platform and secure file sharing service for our pensions trustees. Many more valuable initiatives are at various stages of delivery across a rolling two year plan.

Prospects

2018 was a year of change and investment for the IPS business, putting in place the foundations for future growth. Looking ahead, I am excited about future prospects. After nearly 130 years, Law Debenture remains focused on building on its reputation for delivering long-term income and capital growth. I'm encouraged by the progress already made by the IPS business in the last year and the outstanding team we now have in place to help future opportunities. We will also remain alert to any prospective acquisitions that would offer accretive value to shareholders without diluting our core brand and strengths.

For ten years, IPS has accounted for almost 40% of total annual dividend payments, which has allowed James Henderson greater flexibility in the equity portfolio's stock selection. The continued performance of IPS and its attractive, recurring revenues will continue to support our ambition to increase the dividend for the benefit of our shareholders. The move to a UK sector AIC category from the current global sector classification will better reflect Law Debenture's overall investment proposition. The board and I remain confident in James' ability to position the equity portfolio for future growth.

Denis Jackson
Chief executive officer

Investment manager’s review

The equity portfolio

We have a diversified portfolio which aims to be a one-stop-shop for investors seeking quoted market exposure to quality companies. The majority of the portfolio, 74.5%, was in listed UK stocks at the year end, of which around two thirds were in the FTSE350 and the remaining third in mid and small cap stocks. Although our focus is the UK, we confidently go to other geographies for companies that do not have a credible UK equivalent – an example of this is Microsoft which we have held in the portfolio for seven years. At the end of 2018, 9.9% of the portfolio was invested in North America, 8.6% in Europe and 7.0% in the rest of the world. The trust’s benchmark is the FTSE Actuaries All-Share Index Total Return and it is against this benchmark that we assess the relative success of the performance of the portfolio.

Recognising that we have consistently allocated at least 70% of the portfolio to UK stocks, the board has taken the decision to move to a UK sector AIC category from the current global sector classification later this year. We support this move; we believe the performance of the portfolio will remain more closely linked to the performance of UK markets than it will to that of broader global markets. This change will better reflects the nature of the portfolio and will have no impact on our long standing investment approach.

Our investment process

We take a bottom-up approach, spending a great deal of time with the management teams of our portfolio companies and conducting detailed analysis of the strengths, weaknesses and long-term growth prospects of those companies into which we invest.

We are patient with our positions and invest for the long-term. We build up positions gradually - having taken the decision to invest in a stock, we typically begin by investing around 30bps of overall net asset value, which we add to over time dependent upon the risk profile of an individual stock.

Our long list of stocks allows us to moderate our position size where we perceive the investment case is higher risk than may be the case elsewhere in the portfolio. This means that we take a risk based approach to our position sizing, while ensuring that, if we get something right, the sizing is sufficient to influence the portfolio performance as a whole. I am ably assisted in this process by Laura Foll.

Our patience keeps our portfolio turnover low, reducing the drag of dealing costs on returns to our investors. That patience has rewarded our shareholders; over 10 years, the portfolio outperformed the benchmark index by 44%.

The trust has paid £172.0m to its shareholders in dividends over the past ten years, of which £67.0m or 39% has been funded by the IPS business. As a manager, this gives us the freedom to bypass stocks which do not fit our investment criteria, that others seeking to provide a yield to shareholders may be forced to buy. I am encouraged to see the growth in the normalised earnings per share of the IPS business and believe that the plans Denis Jackson and his team have will create exciting opportunities for shareholders over time for both income and capital growth.

A great example of this is tobacco stocks. As the decline in global demand for tobacco shows no signs of abating, many income managers have been forced to purchase these traditionally consistent yielding stocks to maintain the dividend yield within their portfolio. As a declining industry, these stocks do not meet our investment criteria of quality global companies with significant prospects for future growth. Our ability to steer clear of stocks of that nature has been accretive to our relative performance over the last twelve months.

We often buy stocks that are slightly unfashionable but that we believe have a significant potential for growth. They will typically be world class brands selling globally, that have fallen out of favour. One such stock is Standard Chartered, which we purchased two years ago when it was experiencing considerable headwinds and had suspended its dividend payment. This is a normally world class stock which had been overly punished by the market and which we were able to purchase at a favourable valuation.

I regularly interact with private shareholders who hold Law Debenture as their only equity investment. I often think about them when making investment decisions, balancing the need to achieve long-term capital growth with the risk of exposing those investors to significant volatility.

Markets were difficult and volatile in 2018, with the possibility for investors to lose significant capital if they got the timing and nature of their investments wrong. With this backdrop, I am pleased to report that our patient approach has seen the portfolio outperform its benchmark on a one, three, five and ten year basis.

More information on our investment approach can be found in the annual report

Review of 2018

As the Chairman said in his statement, we are satisfied with our relative outperformance of the benchmark against a backdrop of troubled and volatile markets. Over 2018, the FTSE All-Share declined by 9.5%, while the Company's net asset value declined by 5.8% on a total return basis. As a manager aiming to grow capital over time, it is never comfortable to report a decline in net asset value. I am, however, content that our bottom up approach to owning quality companies has sheltered the portfolio from almost 40% of the overall market decline.

Top five contributors

The following five stocks produced the largest absolute contribution for 2018:

		Share price total return (%)	**Contribution (£m)**
1.	GKN	53.2	5.1
2.	Sky	74.1	3.3
3.	Microsoft	28.2	2.6
4.	Accsys Technologies	33.1	1.8
5.	GlaxoSmithKline	19.0	1.8

Source: Bloomberg calendar year share price total return (in the case of GKN and Sky, until point of acquisition).

The two largest contributors to return during the year were GKN and Sky, both of which were taken over at a material premium to the prevailing share price at the time of acquisition. The valuation level in the UK market (along with the low value of sterling) may well lead to further corporate activity if the UK market is not re-rated closer to global markets.

The holding in Microsoft was also a strong contributor to performance. As noted above, we have the flexibility to allocate overseas where there is no equivalent company in the UK. The position was purchased in 2011 (for $24 per share), when there were structural concerns regarding the decline in use of desktop computers and the impact this would have on businesses providing their operating systems and software. Under a (relatively) new management team, Microsoft has successfully transitioned the business towards a 'cloud' based subscription model and, as a result, the shares have re-rated materially and were trading at $101 at the year end. We have recently been reducing the position as a result of the higher valuation, but it remains 1.5% of the portfolio at the end of December.

Top five detractors

The following five stocks produced the largest negative impact on the portfolio valuation for 2018:

		Share price total return (%)	**Contribution (£m)**
1.	Fastjet	(89.7)	(8.2)
2.	DS Smith	(35.9)	(5.1)
3.	Senior	(25.6)	(4.2)
4.	Prudential	(24.4)	(3.9)
5.	HSBC	(11.0)	(3.1)

Source: Bloomberg calendar year share price total return

The largest individual detractor from returns was Fastjet, which is aiming to roll out a low-cost airline in Africa. While there is substantial unmet demand for a low-cost carrier serving the African market, Fastjet had to exit its core Tanzanian market when the state-owned carrier added substantial new capacity at an uneconomic return. As at the end of December, Fastjet was 0.1% of the portfolio. Although the position has been disappointing, it demonstrates the importance of running a long, diversified list of holdings in our portfolio.

Although a detractor in 2018, DS Smith, a cardboard packaging company, has been a strong contributor in previous years. It has undertaken a number of successful acquisitions under its current chief executive, entering first the European market and more recently the American market. The shares were weak in 2018 on concerns about a broader economic slowdown and at a company level the amount of debt taken on. The end markets are cyclical, but DS Smith is a far better business than it was going into the previous downturn and, in our view, this is not reflected in the current valuation.

We have maintained our holdings in DS Smith and other stocks where we believe our investment thesis holds true. We have used periods of weakness to selectively add to certain positions bringing our gearing from 1% at the start of the year to 3% at the end.

Attribution

Since the referendum vote in June 2016, the UK stock market has significantly underperformed other major global markets.

This is in contrast to the twenty years before where UK and world markets performed roughly in line.

In a historical context, the UK market therefore appears to offer significant value. Price earnings ratios for UK companies with positive earnings in the FTSE All-Share were an average of 11x for the 12 months ending 31 December 2018, compared to 13.6x for Europe (excluding the UK) and 16.5x for the US. Looking at dividend yield, UK companies in the FTSE All-Share had an average yield of 4.72% as at 31 December 2018, compared to 3.70% for Europe (excluding the UK) and 2.15% for the US.

We are retaining our exposure to the UK and adding to certain positions on days of market weakness, as explained below.

Portfolio activity

What I’ve been buying

During the year, purchases were predominantly in the UK market, many of which can be characterised as global companies listed in the UK. The UK market has materially underperformed global markets in recent years, which has left many good quality companies trading at a discount to both global peers and their recent history. An example of this is insurer and asset manager Prudential, which was added to during the fourth quarter at under 10x current year earnings.

We used the market weakness towards the end of 2018 to be net investors, adding to existing holdings, including pub operator Greene King, cruise operator Carnival and retailer Dunelm. We also for the first time in recent years added a new position in a UK house builder (Taylor Wimpey). The shares had de-rated to near book value, which historically has been a good entry point for the sector. The balance sheet has also improved materially since the financial crisis. This remains a small position (0.3% of the portfolio) but we expect to add to the position opportunistically if presented with further market weakness.

The largest new holding during the year was Kier Group, a contractor and support services provider, which demonstrates characteristics of quality but which has fallen out of favour with the market. This was purchased at £3.60 subsequent to the rights issue in December 2018, which we felt presented an attractive entry point. Following a number of poor performers in the sector, there has been a push among both the market and lenders for companies to operate with less debt. The £250m rights issue provided Kier with a much stronger balance sheet, while underlying operations have not deteriorated. Kier has not historically entered into large fixed cost contracts outside of its areas of expertise, which has proved a problem for peers when they have overrun on costs and impacted profitability. Kier has instead focused on smaller contracts where it continues to generate good margins.

Also among the largest purchases was one of the UK’s water utilities, Severn Trent. Along with many shares that are focussed on the UK, it has de-rated versus recent history. As a result, it is currently paying an attractive 5% dividend yield, with a dividend that is expected to grow above the rate of inflation. Severn Trent is among the best in the sector in terms of operational performance, with a well-invested network. In our view, this was not reflected in the valuation.

What I’ve been selling

The largest sale during the year was aerospace and automotive supplier GKN, which was sold following a takeover from Melrose at a substantial premium. GKN had been a long-held position in the portfolio, having been purchased originally in 2006 at just below £3 and then added to substantially during the financial crisis at 89p in an emergency rights issue. The position was sold at approximately £4.30 early in 2018, providing a total shareholder return of 53.2%. We continue to retain positive exposure to the ongoing development of the civil aerospace sector through our remaining holdings in Senior and Rolls-Royce.

During the year we exited two of the overseas investment trust holdings, Schroder Japan Growth and Templeton Emerging Markets. In the case of Schroder Japan Growth, we purchased the position in 2016 at a double digit discount to net asset value and sold the position following strong portfolio performance and a narrowing in the discount level. Templeton Emerging Markets was sold due to concerns about the outlook for emerging markets. Broadly, we aim to use investment trust and other collective investment holdings to gain exposure to specialist areas. For example, we continue to have a holding in Herald Investment Trust, which brings exposure to emerging technology companies. It has been a strong performer since purchase and provides access to an area of the market to which otherwise we would not have been exposed.

Outlook

Economic forecasting for the UK continues to be difficult. A large unknown looms in 'Brexit' and what it means for business is unclear. The global economy appears to be slowing and UK productivity growth remains disappointing. The dark clouds are considered to be mounting for the UK by many commentators. However, the UK companies we hold are not a proxy for the UK economy; they are strong businesses with good management teams. They are good at what they do and provide competitive products and services; they also earn around 65% of their revenues outside the UK. The negative sentiment towards these businesses has become extreme, which has made valuations and the dividend yield attractive. The intention over the next few months is to move the gearing up by buying UK stocks to take advantage of this dislocation. The US holdings have in aggregate performed well and where the valuation looks stretched they will be further reduced. The UK companies purchased serve a diverse number of end markets and we will likely add to existing holdings. It is important to use the weakness to position the portfolio for an improved investment background.

James Henderson
Investment manager

Statement of financial position

as at 31 December

	2018	2017
	£000	£000
Assets		
Non-current assets		
Goodwill	**1,952**	1,920
Property, plant and equipment	**100**	129
Other intangible assets	**186**	161
Investments held at fair value through profit or loss	**662,593**	735,872
Retirement benefit asset	**2,500**	300
Deferred tax assets	**11**	614
Total non-current assets	**667,342**	738,996
Current assets		
Trade and other receivables	**6,925**	6,417
Other accrued income and prepaid expenses	**5,768**	5,003
Cash and cash equivalents	**124,148**	134,011
Total current assets	**136,841**	145,431
Total assets	**804,183**	884,427
Current liabilities		
Trade and other payables	**11,888**	11,649
Corporation tax payable	**199**	-
Other taxation including social security	**583**	570
Deferred income	**4,005**	3,942
Derivative financial instruments	**-**	299
Total current liabilities	**16,675**	16,460
Non-current liabilities and deferred income		
Long-term borrowings	**114,112**	114,068
Deferred income	**3,796**	3,974
Provision for onerous contracts	**236**	1,667
Total non-current liabilities	**118,144**	119,709
Total net assets	**669,364**	748,258
Equity		
Called up share capital	**5,919**	5,918
Share premium	**8,904**	8,787
Own shares	**(966)**	(1,033)
Capital redemption	**8**	8
Translation reserve	**2,111**	1,661
Capital reserves	**603,433**	688,344
Retained earnings	**49,955**	44,573
Total equity	**669,364**	748,258

Statement of cash flows

for the year ended 31 December

Operating activities

	2018	2017
	£000	£000
Operating (loss)/profit before interest payable and taxation	**(53,858)**	111,037
Losses/(gains) on investments	**84,911**	(79,267)
(Profit) on sale of unlisted investment	**-**	(3,275)
Foreign exchange	**(7)**	(13)
Depreciation of property, plant and equipment	**93**	101
Amortisation of intangible assets	**85**	61
Provision for impairment of goodwill	**-**	-
(Increase)/decrease in receivables	**(1,273)**	(137)
Increase/(decrease) in payables	**(138)**	(2,000)
Transfer (from) capital reserves	**(200)**	(142)
Normal pension contributions in excess of cost	**(600)**	(800)
Cash generated from operating activities	**29,013**	25,565
Taxation	**(820)**	(1,035)
Operating cash flow	**28,193**	24,530
Investing activities		
Acquisition of property, plant and equipment	**(70)**	(74)
Expenditure on intangible assets	**(110)**	(149)
Purchase of investments	**(113,396)**	(80,356)
Sale of investments	**102,166**	120,089
Sale of unlisted investment	**-**	3,318
Cash flow from investing activities	**(11,410)**	42,828
Financing activities		
Settlement of derivative financial instrument	**(1,390)**	1,698
Interest paid	**(5,748)**	(5,916)
Dividends paid	**(21,032)**	(20,081)
Proceeds of increase in share capital	**118**	66
Purchase of own shares	**67**	164
Net cash flow from financing activities	**(27,985)**	(24,069)
Net (decrease)/increase in cash and cash equivalents	**(11,202)**	43,289
Cash and cash equivalents at beginning of period	**134,011**	94,804
Foreign exchange gains/(losses) on cash and cash equivalents	**1,339**	(4,082)
Cash and cash equivalents at end of period	**124,148**	134,011

Statement of changes in equity

	Called up share capital £000	Share premium £000	Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
Equity at 1 January 2017	5,917	8,722	(1,197)	8	2,156	609,077	37,602	662,287
Profit	-	-	-	-	-	79,267	25,594	104,861
Foreign exchange	-	-	-	-	(495)	-	-	(495)
Actuarial gain on pension scheme (net of tax)	-	-	-	-	-	-	1,458	1,458
Total comprehensive income	-	-	-	-	(495)	79,267	27,052	105,824
Issue of shares	1	65	-	-	-	-	-	66
Dividend relating to 2016	-	-	-	-	-	-	(13,582)	(13,582)
Dividend relating to 2017	-	-	-	-	-	-	(6,499)	(6,499)
Movement in own shares	-	-	164	-	-	-	-	164
Total equity at 31 December 2017	5,918	8,787	(1,033)	8	1,661	688,344	44,573	748,258
Equity at 1 January 2018	5,918	8,787	(1,033)	8	1,661	688,344	44,573	748,258
Profit	-	-	-	-	-	(84,911)	25,118	(59,793)
Foreign exchange	-	-	-	-	450	-	-	450
Actuarial gain on pension scheme (net of tax)	-	-	-	-	-	-	1,296	1,296
Total comprehensive income	-	-	-	-	450	(84,911)	26,414	(58,047)
Issue of shares	1	117	-	-	-	-	-	118
Dividend relating to 2017	-	-	-	-	-	-	(13,942)	(13,942)
Dividend relating to 2018	-	-	-	-	-	-	(7,090)	(7,090)
Movement in own shares	-	-	67	-	-	-	-	67
Total equity at 31 December 2018	5,919	8,904	(966)	8	2,111	603,433	49,955	669,364

Segment analysis
As at 31 December

	Investment trust		**Independent professional services**		**Group charges**		**Total**	
	2018	2017	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000	£000	£000
Revenue								
Segment income	**23,119**	21,463	**33,252**	31,021	**-**	-	**56,451**	52,484
Net gain on investments	**-**	-	**-**	3,275	**-**	-	**-**	3,275
Other income	**169**	95	**7**	249	**-**	-	**176**	344
Cost of sales	**-**	-	**(3,668)**	(3,875)	**-**	-	**(3,668)**	(3,875)
Administration costs	**(3,360)**	(3,274)	**(19,345)**	(17,568)	**-**	-	**(22,705)**	(20,842)
Release of onerous contracts	**-**	**-**	**-**	**-**	**319**	245	**319**	245
	20,008	18,284	**10,246**	13,102	**319**	245	**30,573**	31,631
Interest (net)	**(4,372)**	(4,561)	**235**	(85)	**-**	-	**(4,137)**	(4,646)
Return, including profit on ordinary activities before taxation	**15,636**	13,723	**10,481**	13,017	**319**	245	**26,436**	26,985
Taxation	**-**	-	**(1,183)**	(1,287)	**(135)**	(104)	**(1,318)**	(1,391)
Return, including profit attributable to shareholders	**15,636**	13,723	**9,298**	11,730	**184**	141	**25,118**	25,594
Revenue return per ordinary share (pence)	**13.23**	11.61	**7.87**	9.93	**0.16**	0.12	**21.26**	21.66
Assets	**764,771**	816,595	**39,312**	67,613	**100**	227	**804,183**	884,435
Liabilities	**(121,239)**	(90,152)	**(13,345)**	(44,358)	**(235)**	(1,667)	**(134,819)**	(136,177)
Total net assets	**643,532**	726,443	**25,967**	23,255	**(135)**	(1,440)	**669,364**	748,258

The capital element of the income statement is wholly attributable to the investment trust.

Group charges before taxation during the year comprised the following	2018 £000	2017 £000
Closure of the US trust business		
Release of onerous contracts	319	245
	319	245

Provision for onerous contracts

Group	2018 £000	2017 £000
At 1 January	1,667	3,106
(Release) made in the year	(319)	(245)
Utilisation of provision in the year	(1,131)	(1,131)
Foreign exchange	19	(63)
At 31 December	236	1,667

In December 2016 the group completed the disposal of substantially all of its US corporate trust business for a consideration of $1. The disposal was the completion of the first part of a strategy to exit the US corporate trust business, so as to release the $50 million of capital required by the business. At the time of disposal the contracts remaining were assessed and deemed to generate insufficient income to cover the costs of running and financing the remainder of the business up to the eventual date of its closure. A provision for onerous costs representing the expected net future costs up to the date of disposal or completion of the remaining contracts was included in the year ended 31 December 2016 of £3,106,000. The remaining provision at 31 December 2018 comprises of $300,000 net running costs (including the cost of closure) (2017: $725,000). A reassessment of the provision required at December 2018 resulted in a release of £319,000 (2017: release of £245,000).

Portfolio changes in geographical distribution

	Valuation 31 December 2017 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/(depreciation) £000	Valuation 31 December 2018 £000	%
United Kingdom	532,923	83,134	(377)	(52,446)	(69,670)	**493,564**	74.5
North America	68,796	5,297	-	(5,523)	(3,075)	**65,495**	9.9
Europe	61,119	21,914	(31)	(17,892)	(8,057)	**57,053**	8.6
Japan	15,484	-	-	(7,338)	(713)	**7,433**	1.1
Other Pacific	39,618	-	-	(8,155)	(1,535)	**29,928**	4.5
Other	17,932	3,051	-	(10,812)	(1,051)	**9,120**	1.4
	735,872	113,396	(408)	(102,166)	(84,101)	**662,593**	100.0

Strategic Report

Who we are

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct areas of business: we are an investment trust and a leading provider of independent professional services (IPS or IPS business).

Investment trust – objectives, investment strategy, business model

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

Law Debenture shares are intended for private investors in the UK ('retail investors'), professionally advised private clients and institutional investors. By investing in an investment trust, shareholders typically accept the risk of exposure to equities but hope that the pooled nature of an investment trust portfolio will give some protection from the volatility in share price movements that can sometimes affect individual equities.

Our investment strategy (which did not change in 2018) is as follows:

The Corporation carries on its business as a global investment trust.
The Corporation's portfolio will typically contain between 70 and 150 listed investments. The portfolio is diversified both by industrial sector and geographic location of investments in order to spread investment risk.

There is no obligation to hold shares in any particular type of company, industry or geographical location. The IPS business does not form part of the investment portfolio and is outwith this strategy.

Whilst performance is measured against local and UK indices, the composition of these indices does not influence the construction of the portfolio. As a consequence, it is expected that the Company's investment portfolio and performance will from time to time deviate from the comparator indices.

There are some guidelines, set by the board, on maximum or minimum stakes in particular regions and all stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained..

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to adopt a level of gearing that balances risk with the objective of increasing the return to shareholders, in pursuit of its investment objective. Investments may be held in, inter alia, equity shares, collective investment products including open ended investment companies ('OEICs'), fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account and, since December 2018, to lend stocks up to 30% of the NAV, subject again to prior authorisation of the board. Trading in suspended shares and short positions are not permitted. No more than 15% of gross assets will be invested in other UK listed investment trusts. The Company's investment activities are subject to the following limitations and restrictions:

• No investment may be made which raises the aggregate value of the largest 20 holdings, excluding investments in collective investment vehicles that give exposure to the Japan, Asia/Pacific or emerging market regions, to more than 40% of the Corporation's portfolio, including gilts and cash.

• The value of a new acquisition in any one company may not exceed 5% of total portfolio value (including cash) at the time the investment is made. Further additions shall not cause a single holding to exceed 5%, and board approval must be sought to retain a holding, should its value increase above the 5% limit (that approval to be reported to the next board meeting).

• The Company applies a ceiling on effective gearing of 50%. While effective gearing will be employed in a typical range of 10% net cash to 20% gearing, the board retains the ability to reduce equity exposure so that net cash is above 10% if deemed appropriate.

• The Company may not make investments in respect of which there is unlimited liability.

Our business model is designed to position the Company to best advantage in the investment trust sector.

We aim to deliver the investment trust's objective by skilled implementation of the investment strategy, complemented by maintaining and operating our IPS businesses profitably and safely, while keeping them distinct from the portfolio. The operational independence of the IPS means that they can act flexibly and commercially. They provide a regular flow of dividend income to the Company. This helps the board to smooth out equity dividend peaks and troughs, means that the investment manager doesn't have to be constrained by choosing stocks just for yield and is an important element in delivering the objective of steadily increasing income for shareholders, fully covered by current revenues. In turn, some of the tax relief at the investment trust level arising from our debenture interest and excess costs, which would otherwise be unutilised, can be transferred to the IPS.

Fee structure, ongoing charges

Our portfolio of investments is managed under delegation by James Henderson of Janus Henderson Investors (Janus Henderson) under a contract terminable by either side on six months' notice. On a fully discretionary basis, Janus Henderson is responsible for implementing the Company's investment strategy and fees are charged at 0.30% of the value of the net assets of the group (excluding the net assets of the IPS), calculated on the basis adopted in the audited financial statements. This means that the Company continues to maintain one of the most competitive fee structures in the investment trust sector and this, combined with the good performance of Janus Henderson over the years as our investment manager, has led the board to conclude that the continuing appointment of Janus Henderson as the Company's investment manager remains in the best interests of shareholders. Equity investment needs to be seen over the longer term and here Janus Henderson has delivered over many years.

The agreement with Janus Henderson does not cover custody which is the responsibility of the depositary. Nor does it cover the preparation of data associated with investment performance, or record keeping, both of which are maintained by the Company.

Investment trusts are required to publish their ongoing charges This is the cost of operating the trust and includes the investment management fee, depositary and custody fees, investment performance data, accounting, company secretary and back office administration. Law Debenture's latest published level of ongoing charges is one of the lowest in the marketplace at 0.43%. No performance fees are paid to the investment manager.

Capital structure – simple and mainstream

Law Debenture's capital structure is transparent. We have only one class of share – ordinary shares – and each share has the same rights as every other share.

The Company conducts its affairs so that its ordinary shares are capable of being recommended by independent financial advisors to ordinary retail investors in accordance with relevant FCA rules. Our ordinary shares are, we consider, mainstream investment products because they are shares in an investment trust. The Company intends to continue conducting its affairs for the foreseeable future so that the ordinary shares can continue to be categorised as mainstream.

Transparency

In order to assist shareholders in understanding the nature of the underlying investments they are buying into when investing in Law Debenture shares, we publish our entire portfolio twice a year – in the annual report and half yearly report – with regular monthly updates on the composition of the top ten holdings in the portfolio.

Gearing

Investment trusts have the benefit of being able to 'gear' their portfolios according to market conditions. This means that they can raise debt (either short or long term) to generate funds for further investment – i.e. to increase the size of the portfolio – or they can sell assets from within the portfolio to reduce debt and even be "negatively geared" – i.e. selling assets to hold cash so that less than 100% of the trust's assets are invested in equities. At 31 December 2018, our gearing was 3% (2017: 1%). There has been no change in the Company's gearing policy, with effective gearing typically employed in a range of 10% net cash to 20% gearing.

Borrowings

The Company has two debentures (long dated sterling denominated financing) details of which are in the annual report.

The weighted average interest payable on the Company's structural borrowings is 4.589% (2017: 4.589%).

Share price and NAV

Investment trusts can trade at a discount (where the share price is lower than the combined value (NAV) of the underlying assets), or at a premium (where the share price trades at a higher level than the underlying NAV).

Investment trust investors need to understand these concepts as well as examine the underlying portfolio and the way in which it is managed, to decide whether or not an investment trust share represents "good value".

Principal risks and uncertainties – investment trust

The principal risks to the Company's ability to continue operations as an investment trust relate to investment activities generally and include market price risk, foreign currency risk, liquidity risk, interest rate risk, credit risk, country/region risk and regulatory risk. The directors have carried out a robust assessment of these and other risks, which are explained in more detail below and in the annual report.

Market risk could arise from sudden fluctuations in world stock markets. The portfolio deliberately contains a 'long list' of stocks and is diversified to spread risk. In extreme circumstances, as the Company's investments comprise almost entirely of readily realisable, quoted equities, these could be sold to meet funding requirements. The Company conducts stress tests each month, as part of its compliance programme, which gives the board a degree of comfort about the Company's ability to withstand any significant market shock.
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Regulatory risk could arise from failure to comply with legal and regulatory obligations. This could result in suspension of the Company's stock exchange listing and/or regulatory sanction (including financial penalties). Breach of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains. The executive team provides regular reports to the board and the audit committee on the monitoring programmes in place to mitigate these risks. As its own AIFM, the Company is able to monitor investment positions along with levels of forecast income and expenditure and the depositary carries out regular checks on the Company's investment activity and accounting.

Operational risk could arise from failure of the Company's accounting systems, the systems of the investment manager, or those of the custodian, which might result in an inability to provide accurate reporting and monitoring or a misappropriation of assets. All relevant providers of these services have comprehensive business continuity plans which include robust plans for continued operation of the business in the event of a service disruption or other major disruption. The audit committee considers detailed reports on the Company's risk profile and the internal controls in place to mitigate such risk, as well as receiving reports by other key third party providers.

Gearing risk could arise where the Company has borrowed money for investment purposes. If the value of portfolio investments falls, any borrowings will magnify the extent of this loss. All borrowings require the prior approval of the board and gearing levels are kept under close review by the board. As stated in the investment strategy, there is a ceiling on effective gearing of 50%.

The Company takes risk management very seriously and the corporate governance report sets out in detail the control framework in place to manage or mitigate the risks that the group faces.

US subsidiary – return of regulatory capital

Two years ago, we reported that we had completed the sale of substantially all of our US corporate trust business. The associated regulatory cost of business in the US – where since 2013 we had been obliged to maintain capital of US$50m – was unwelcome, so the decision was made that this capital could more usefully be employed elsewhere. In line with the expectation reported to shareholders two years ago, the regulatory capital requirement ceased to apply during 2018. The US$50m capital was returned to the UK and a SWAP that had been in place to hedge the net US$ investment was terminated at the end of its term. These funds are now available to the Company, either for investment or for general corporate use.

Viability statement

The Company is required to publish a longer term statement about its viability.

The directors believe that a forward looking period of three years is appropriate. The directors assess the Company's future prospects by keeping under close review its current and projected financial position, threats/risks to the delivery over the longer term of the investment strategy objectives and the group business model and a macroeconomic overview based on a reasonable time horizon. A three-year time period also takes into account the nature of the markets in which the IPS business operates, where fluctuations in revenue can occur year-on-year for reasons beyond Law Debenture's control.

The directors confirm that they have a reasonable expectation that the Company will continue to implement its investment strategy and business model and to operate and be able to meet its liabilities as they fall due for the next three financial years. There are no current plans to amend the investment policy, which has delivered good capital and dividend returns for shareholders over many years. As reported elsewhere, the Company will be moving during

2019 into a UK sector AIC category from the current global sector classification. The strategy for the IPS businesses remains to continue to grow them; more detail can be found in the chief executive officer's review.

The main qualification to this viability statement is that the investment manager is appointed on a fully discretionary basis, so, while stocks are picked by the manager within the guidelines in the investment strategy, the board does not dictate what individual stocks are bought or sold. Portfolio over or under performance is only properly measurable over the medium and longer term. Short-term fluctuations will not necessarily result in a change of strategy, but might in extreme circumstances pose a risk to viability.

This risk is accepted within the board's risk appetite.

Key performance indicators ('KPI') and alternative performance measures

The KPIs used to measure the progress and performance of the group are:

• NAV total return per share (combining the capital and income returns of the group) and how this compares, over various time intervals, with relevant indices;

• the discount/premium in share price to NAV; and

• the cost of running the portfolio as a percentage of its value.

Since the objective of the investment trust is measurable solely in financial terms, the directors do not consider that it is appropriate to adopt non-financial KPIs. The financial measures adopted as KPIs are part of our financial reporting obligations. Alternative Performance Measures as defined under ESMA guidelines have been adopted.

20 Largest Holdings

Rank	Company	% of portfolio	Approx. Market Cap	Valuation 2017 £000	Purchases £000	Sales £000	Appreciation /Depreciation £000	Valuation 2018 £000
1	Royal Dutch Shell	4.4	£192 bn	31,300	-	-	(2,087)	29,213
2	GlaxoSmithKline	2.6	£73bn	13,839	1,554	-	1,756	17,149
3	HSBC	2.6	£129bn	20,199	-	-	(3,145)	17,054
4	BP	2.4	£100bn	16,707	-	-	(837)	15,870
5	Rio Tinto	2.1	£65bn	14,775	-	-	(789)	13,986
6	Rolls Royce	2.1	£16bn	13,976	-	-	(301)	13,675
7	Stewart Investors APL Fund	2.0	£8bn	15,933	-	(3,303)	830	13,460
8	Prudential	2.0	£36bn	13,968	3,049	-	(3,922)	13,095
9	Relx	1.8	£32bn	13,035	-	-	(911)	12,124
10	Hiscox	1.8	£5bn	11,509	-	(689)	1,155	11,975
11	Senior	1.7	£790m	14,991	189	-	(4,177)	11,003
12	National Grid	1.6	£26bn	4,890	6,711	-	(832)	10,769
13	AstraZeneca	1.6	£74bn	5,118	4,565	-	809	10,492
14	Johnson Service Group	1.5	£430m	12,987	-	-	(2,796)	10,191
15	Microsoft (USA)	1.5	£593bn	9,485	-	(2,111)	2,595	9,969
16	Baillie Gifford Pacific Fund	1.4	£370m	16,024	-	(4,851)	(1,621)	9,552
17	Standard Chartered	1.4	£20bn	10,029	1,312	-	(1,984)	9,357
18	Herald Investment Trust	1.4	£901m	9,894	-	-	(799)	9,095
19	BHP	1.4	£88bn	8,371	-	-	703	9,074
20	Land Securities	1.3	£6bn	8,050	2,241	-	(1,856)	8,435

Portfolio by sector

	2018	2017
Oil & gas	10.8%	9.4%
Basic materials	7.3%	7.1%
Industrials	24.8%	28.2%
Consumer goods	4.5%	5.9%
Health care	8.9%	7.5%
Consumer services	7.4%	8.5%
Telecommunications	1.4%	1.2%
Utilities	3.6%	1.5%
Technology	3.7%	1.9%
Financials	27.6%	28.8%

Geographical distribution of portfolio by value 2018

	2018	2017
United Kingdom	74.5%	72.4%
North America	9.9%	9.4%
Europe	8.6%	8.3%
Japan	1.1%	2.1%
Other Pacific	4.5%	5.4%
Other	1.4%	2.4%

Acquisition of own shares

During the year, the Company did not repurchase any of its shares for cancellation. It intends to seek shareholder approval to renew its powers to repurchase shares for cancellation up to 14.99% of the Company's issued share capital, if circumstances are appropriate.

On 3 March 2018, a subsidiary acquired 70,216 of the Corporation's shares on the open market at 568.33 pence per share in anticipation of fulfilling awards made under the Deferred Share Plan.

Significant financial issues relating to the 2018 accounts

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

No new significant issues arose during the course of the audit. As reported in previous years, an area of consideration is that relating to bad debt provisions.

The group has applied both IFRS 9 and IFRS 15 from 1 January 2018. Based on management's assessment, there has been no material financial impact as a result of the implementation.

Management makes an estimate of a number of bad debt provisions for non-collection of fees and costs as part of the risk management and control framework.

Other issues that arose included: the risk that portfolio investments may not be beneficially owned or correctly valued; and that revenue is appropriately recognised. The audit committee has received assurance on these matters from management.

The audit committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the accounts. Taken in its entirety, the committee was able to conclude that the financial statements themselves and the annual report as a whole are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company and group's position and performance, business model and strategy. That conclusion was reported to the board.

Total voting rights and share information

The Company has an issued share capital at 25 February 2019 of 118,384,040 ordinary shares with voting rights and no restrictions and no special rights with regard to control of the Company. There are no other classes of share capital and none of the Company's issued shares are held in treasury. Therefore the total number of voting rights in The Law Debenture Corporation p.l.c. is 118,384,040.

Long term borrowings

	2018	**2017**
	£000	£000
Long term borrowings are repayable as follows:		
In more than five years – all secured		
6.125% guaranteed secured bonds 2034	39,578	39,552
3.77% secured senior notes 2045	74,534	74,516
	114,112	114,068

The 6.125% bonds were issued by Law Debenture Finance p.l.c. and guaranteed by the Corporation. The £40 million nominal tranche, which produced proceeds of £39.1 million, is constituted by a Trust Deed dated 12 October 1999 and the Corporation's guarantee is secured by a floating charge on the undertaking and assets of the Corporation. The bonds are redeemable at nominal amount on 12 October 2034. Interest is payable semi-annually in equal instalments on 12 April and 12 October in each year.

The 3.77% notes were issued by the Corporation. The £75 million nominal tranche, which produced proceeds of £74.5 million, is constituted by a note purchase agreement and the notes are secured by a floating charge which ranked *pari passu* with the charge given as part of the 6.125% bond issue. The notes are redeemable at nominal amount on 25 September 2045. Interest is payable semi-annually in equal instalments on 25 March and 25 September in each year.

The long term borrowings are stated in the statement of financial position at book value. Including them at a fair value of £136.1 million at 31 December 2018 (2017: £144.0 million) would have the effect of decreasing the year end NAV by 18.56p (2017: 25.32p). The estimated fair value is based on the redemption yield of reference gilts plus a margin derived from the spread of A rated UK corporate bond yields over UK gilt yields (2017: A).

Related party transactions

The related party transactions between the Company and its wholly owned subsidiary undertakings are summarised as follows:

	2018	2017
	£000	£000
Dividends from subsidiaries	8,500	8,650
Interest on intercompany balances charged by subsidiaries	2,562	2,562
Management charges from subsidiaries	260	250

Principal risks and uncertainties – financial instruments

The principal risks facing the group in respect of its financial instruments remain unchanged from 2017 and are:

Market risk

Price risk, arising from uncertainty in the future value of financial instruments. The board maintains strategy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. In addition, the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy. The investment portfolio is exposed to market price fluctuation: if the valuation at 31 December 2018 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £66.3 million (2017: £73.6 million). Corresponding 10% changes in the valuation of the investment portfolio on the Company's total profit or loss for the year would have been £66.2 million (2017: £73.6 million).

Foreign currency risk, arising from movements in currency rates applicable to the group's investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The group's financial assets denominated in currencies other than sterling were:

	2018	2018	2018	2017	2017	2017
Group	Investments	Net monetary assets	Total currency exposure	Investments	Net monetary assets	Total currency exposure
	£m	£m	£m	£m	£m	£m
US Dollar	71.5	4.3	75.8	69.9	3.6	73.5
Canadian Dollar	5.0	–	5.0	5.0	–	5.0
Euro	37.1	0.3	37.4	47.5	0.4	47.9
Danish Krone	2.3	–	2.3	3.8	–	3.8
Swedish Krona	1.6	–	1.6	-	–	-
Swiss Franc	14.1	–	14.1	9.8	–	9.8
Hong Kong Dollar	–	0.4	0.4	–	0.3	0.3
Japanese Yen	7.4	–	7.4	7.7	–	7.7
	139.0	5.0	144.0	143.7	4.3	148.0

The group US dollar net monetary assets is that held by the US operations of £3.1 million together with £1.2 million held by non-US operations.

The holdings in the Baillie Gifford Pacific OEIC, Stewart Investors Asia Pacific OEIC and Scottish Oriental Smaller Companies Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £29.9 million (2017: £59.2 million). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot be determined and this has not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2018 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £18.9 million and £15.4 million respectively (2017: £22.7 million and £18.5 million). Corresponding 10% changes in currency values on the Company's total profit or loss for the year would have been the same. The calculations are based on the investment portfolio at the respective year end dates and are not representative of the year as a whole.

interest rate risk, arising from movements in interest rates on borrowing, deposits and short term investments. The board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The group's interest rate profile was:

2018

		Sterling	HK Dollars	US Dollars	Euro
		£m	£m	£m	£m
Floating rate assets		119.1	0.4	4.3	0.3

2017

	Sterling	HK Dollars	US Dollars	Euro
	£m	£m	£m	£m
Floating rate assets	92.7	0.3	40.6	0.4

The group holds cash and cash equivalents on short term bank deposits and money market funds. Interest rates tend to vary with bank base rates. The investment portfolio is not directly exposed to interest rate risk.

	2018 Sterling	2017 Sterling
	£m	£m
Fixed rate liabilities	114.1	114.1
Weighted average fixed rate	4.589%	4.589%

If interest rates during the year were 1.0% higher the impact on the group's total profit or loss for the year would have been £1,111,000 credit (2017: £924,000 credit). It is assumed that interest rates are unlikely to fall below the current level. The Company holds cash and cash equivalents on short-term bank deposits and money market funds, it also has short-term borrowings. Amounts owed to subsidiary undertakings include £40 million at a fixed rate. Interest rates on cash and cash equivalents and amounts due to subsidiary undertakings at floating rates tend to vary with bank base rates. A 1.0% increase in interest rates would have affected the Company's profit or loss for the year by £730,000 credit (2017: £501,000 credit). The calculations are based on the balances at the respective year end dates and are not representative of the year as a whole.

Liquidity risk

Is the risk arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's strategy largely limits investments to equities and fixed interest securities quoted in major financial markets. In addition, cash balances are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out above.

Credit risk

Is the risk arising from the failure of another party to perform according to the terms of their contract. The group minimises credit risk through policies which restrict deposits to highly rated financial institutions and restrict the maximum exposure to any individual financial institution. The group's maximum exposure to credit risk arising from financial assets is £131.1 million (2017: £140.4 million). The Company's maximum exposure to credit risk arising from financial assets is £100.7 million (2017: £79.5 million).

Trade and other receivables

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

	2018	2017
	£000	£000
Between 31 and 60 days	1,315	657
Between 61 and 90 days	437	293
More than 91 days	1,721	1,047
Total	3,473	1,997

At 31 December 2018, trade and other receivables which were impaired and for which there was a bad debt provision totalled £1,245,000 (2017: £956,000) (Company: £nil (2017: £nil)). All the impaired trade and other receivables were more than 91 days past due.

The group assessed the lifetime expected credit losses for trade receivables and considered the amount immaterial. No provision has been recognised

Trade and other payables

	2018	2017
	£000	£000
Due in less than one month	11,621	11,353
Due in more than one month and less than three months	267	296
	11,888	11,649

Fair value

The directors are of the opinion that the fair value of financial assets and liabilities of the group are not materially different to their carrying values, with the exception of the long-term borrowings.

Principal risks and uncertainties – IPS businesses

The principal risks to the business model from the IPS arise where transactions to which we provide a service come under stress – say by going into default, or where re-financings or other transaction amendments are required. Such risks may arise from the wider economic pressures on some sectors, borrowers and regions. To mitigate these risks, we work closely with our legal advisers and where appropriate, financial advisers, both in the set up phase to ensure that we have as many protections as practicable and on a continuing basis. The directors, via detailed audit committee review, monitor these risks closely to ensure that the risks of the IPS businesses do not impact the investment portfolio.

The single KPI of the IPS is revenue return per share, which is reported within the financial summary and the ten year record in the annual report.

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge:

• the group financial statements have been prepared in accordance with IFRSs and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and

• the annual report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face.

Copies of the annual report will be available from the Corporation's registered office or on its website once published on 7 March 2019.

By order of the board

Law Debenture Corporate Services Limited

Secretary

26 February 2019