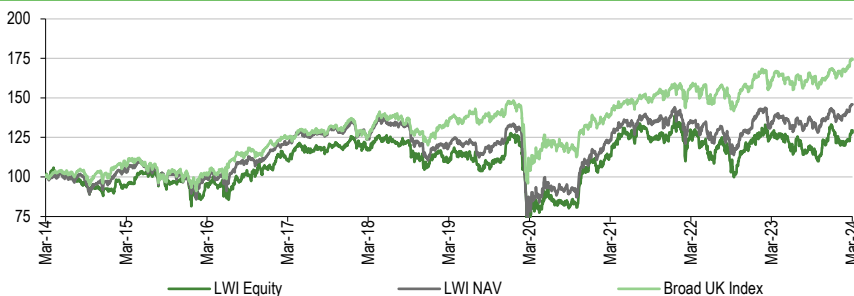


Lowland Investment Company

Is the tide turning?

Lowland Investment Company's (LWI's) unconstrained, multi-cap investment policy differentiates it from most peers in the AIC UK Equity Income sector. It offers investors broad market exposure, outside of the large, traditional 'income stocks' at a 13% discount to NAV. The underperformance of small- and mid-cap companies versus larger peers has slowed and a turnaround would be very positive for LWI. Portfolio returns are already benefiting from acquisition activity, spurred by low valuations, and LWI has been outperforming its benchmark for the past 18 months. Meanwhile, quarterly DPS is running at 4.9% above the previous year, an annualised rate of 6.4p, reflecting a prospective yield of 5.3%.

Recent market focus on large-caps has created a multi-cap headwind



Source: LSEG, Edison Investment Research

Anticipating a re-rating of domestic SME companies

LWI has a strong record of outperforming its broad market benchmark and sector peers over the long term. However, the marked underperformance of domestically focused businesses, of which there is a strong small- and mid-cap (SME) company representation, since Brexit, has negatively affected nearer-term performance. With typically no more than 50% invested in the largest stocks versus a benchmark weight of more than 80%, the underperformance is now apparent in the 10-year data. There are indications that the tide may be turning. The margin by which overseas-oriented, often defensive larger stocks have outperformed SME stocks has narrowed over the past year and in its fiscal year to September 2023 LWI outperformed the benchmark by 3.4pp, ahead of the market in every market cap segment. Since September, sensing a turn in the interest rate cycle, mid-cap stocks have outperformed the market and LWI too, albeit slightly. While the valuation opportunity in SME companies has yet been widely recognised in the market, low valuations are being increasingly underpinned by takeover activity, including several LWI holdings. The investment managers note that history suggests that buying good stocks when they are on low valuations enhances long-term returns. Moreover, they believe that a tough economic outlook is more than priced into share prices and note that a recovery towards historical norms of profits and valuations would be a potent cocktail for returns. Meanwhile, the shares provide a dividend yield and are trading at a 13% discount to NAV.

Investment trusts UK Equity Income

12 April 2024

Price 120p
Market cap £324m
Total assets £416m

NAV* 138.2p
Discount to NAV 13.2%

*At fair value including income. As at 10 April 2024.

Yield* 5.3%

*Based on last quarterly DPS annualised

Shares in issue 270.2m

Code/ISIN LWI/GB00BNXGHS27

Primary exchange LSE

AIC sector UK Equity Income

Financial year-end 30 September

52-week high/low 144.5p 100.0p

NAV* high/low 150.1p 114.3p

*Including income

Net gearing* 13%

*As at 31 March 2024.

Fund objective

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

Bull points

- Strong recovery in portfolio revenue.
- One of the higher-yielding funds among peers.
- Portfolio trades on a historically low valuation.

Bear points

- The UK remains unloved by investors.
- Multi-cap investment strategy can be volatile.
- Value style can be out of favour.

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

An alternative approach to income growth

LWI seeks to provide investors with a higher than average medium-term return, from a combination of capital and income, by investing in a broad spread of predominantly UK companies¹ across the whole range of market capitalisations, unconstrained by any index.² This flexible, multi-cap approach enables the trust to invest in companies that have greater growth potential, usually but not always small- and mid-cap, increasing the capital base of the portfolio and distributable income over time, and thereby supporting the progressive dividend strategy. In this respect, LWI is clearly differentiated from the majority of peers within the AIC UK Equity Income sector, which typically have a greater focus on traditional 'income' areas of the market.

The trust was established in 1963 and is managed jointly by James Henderson (since 1990) and Laura Foll (since 2013) of Janus Henderson Investors (JHI). In turn, they are supported by the broader resources of the JHI equity team. The managers consistently apply a patient, long-term, bottom-up investment strategy, with a strong valuation overlay. They seek companies that have an underlying strength that is yet to be realised by the market. In many cases, these may be SME companies. It also includes turnaround situations ('self-help') where a route to improvement can be clearly identified. SME companies are generally at a relatively earlier stage of their development, with the potential to deliver stronger sales and earnings growth than their larger peers and, over time, faster dividend growth. SMEs are often under-researched and overlooked, and more likely to trade at valuations that are yet to reflect their potential. Larger sector peers typically provide more immediate dividend income and are often to be found in more defensive industries such as pharmaceuticals and utilities, with the potential to mitigate risks in challenging market conditions. In general, they have much more internationally focused businesses, providing diversification opportunities compared with the broader UK market.

Summary of the investment case

The key reasons to consider an investment in LWI at this time, explored in detail in this report, include:

- The valuation of UK equities is low in historical and relative terms, and for SME companies even more so. The trailing P/E for the LWI portfolio is c 10x, substantially below the 10-year average of 13x.
- There are increasing signs that the divergent share price performance of large versus SME companies may have come to an end. In the first six months of LWI's FY24 financial year, mid-cap stock share prices rose 10.2% versus 6.4% for the largest companies.
- While the valuation opportunity in SME companies has not yet been widely recognised in the market, low valuations are being increasingly underpinned by takeover activity, including several LWI holdings.
- Smaller companies are typically more exposed to the UK economy than larger companies, and with the economic outlook uncertain it may be too early to call a turn in the relative fortunes of SME equities. The investment managers believe that a tough economic outlook is more than priced into share prices and note that history suggests that buying good stocks when they are on low valuations enhances long-term returns.
- Meanwhile, the board has a strong commitment to dividends, and based on the quarterly run rate (1.6p) the shares provide a prospective 5.3% yield, LWI has maintained or increased dividends each year since it was established in 1963, including through the pandemic. With

¹ 96.2% of the portfolio value at 31 January 2024.

² Although unconstrained, LWI is benchmarked against a broad UK equity index.

dividend cover building, the rate of quarterly distribution was increased by 4.9% from Q323 (to 1.60p from 1.525p).

Striking a balance

By market capitalisation, the trust's portfolio is typically split between larger, medium and smaller companies in equal parts, intended to optimise the balance between immediate income and income growth over time. The weighting towards larger companies is rarely above 50% but during the past approximately two years has been close to this level, until recently. At the end of March 2024, it was c 47%.

Exhibit 1: LWI positioning by market cap segments

	Mar-22	Sep-22	Mar-23	Sep-23	Mar-24	31-Mar-24
	H122	FY22	H123	H223	H124	Index
Top 100	47.4%	47.8%	47.4%	47.7%	44.6%	84.2%
Mid-market	19.8%	15.9%	19.9%	18.3%	23.0%	13.6%
Small cap	11.0%	12.1%	10.9%	12.9%	10.6%	2.2%
UK broad market	78.2%	75.8%	78.2%	78.9%	78.2%	100.0%
Other	21.8%	24.2%	21.8%	21.1%	21.4%	N/A
Total	100.0%	100.0%	100.0%	100.0%	100.0%	N/A

Source: LWI data, Edison Investment Research. Note: *Other is primarily AIM-listed stocks but also includes fledgling stocks and overseas stocks.

LWI's largest exposure is still to the top 100 UK-listed companies but is well below the broad UK market weighting of more than 80% and has recently been reducing. Conversely, LWI's investment in SME stocks is well ahead of the benchmark weight, and it is here where the managers identify the strongest opportunities.

The strategy has produced long-term gains but near-term pains

LWI benchmarks its performance against the broad UK equity market index, although its clearly expressed and consistently applied strategy means that its weightings, by market cap, stock and sector, are inevitably and structurally very different. Performance divergence from the benchmark is to be expected over shorter periods, but the extent and duration of SME underperformance is notable, and this is reflected in the trust's more recent returns.

Exhibit 2: Over 10 years, mid- and small-cap stocks have given up long-term outperformance...

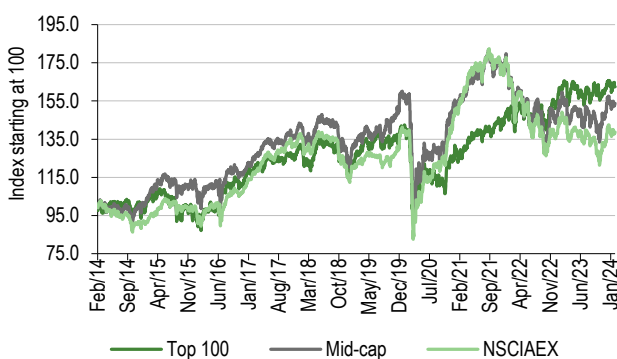


Exhibit 3: ...but over one year, the outperformance of larger stocks shows signs of moderating



Source: LSEG. Note: The NSCIAEX is the Numis Smaller Companies Index, including AIM but excluding investment companies.

LWI has a strong track record of long-term performance and outperformance of its benchmark. Over 25 years, its NAV total return is 635% compared with the broad equity market index return of

250%. However, taking the data to end February 2024, LWI's NAV³ total return is behind the benchmark over one, three, five and 10 years.

Exhibit 4: Cumulative 10-year performance to 28 March 2024

	One month	Three months	Six months	One year	Three years	Five years	10 years	25 years
LWI share price total return	7.0	-2.0	8.9	1.8	14.4	17.1	29.5	769.0
LWI NAV total return	5.0	2.5	7.5	8.5	18.8	23.1	45.9	634.9
Broad UK Index	4.8	3.6	6.9	8.4	26.1	30.3	75.3	249.9

Source: LWI, LSEG

Breaking the performance down into discrete years provides an insight into returns, in different market conditions, over the past 10 years. We note the tendency for LWI to outperform the benchmark when investor sentiment is positive and the broad market is rising strongly. This was very much the case in FY21, capturing the strong market rally, even more so in SME stocks, as the vaccine roll-out began and the economy emerged from lockdowns. In 2022, it was only the top 20 stocks in the broad UK equity market that collectively delivered positive performance.

Exhibit 5: LWI's 10-year performance on a financial year basis relative to its broad market benchmark

Year to 30 September	H124*	FY23	FY22	FY21	FY20	FY19	FY18	FY17	FY16	FY15	FY14	FY13
NAV total return	7.5%	17.2%	-14.8%	51.0%	-24.8%	-9.6%	2.7%	17.0%	12.2%	0.8%	5.7%	29.1%
Benchmark total return	6.9%	13.8%	-4.0%	27.9%	-16.6%	2.7%	5.9%	11.9%	16.8%	-2.3%	6.1%	17.3%
Versus benchmark	0.6%	3.4%	-10.8%	23.1%	-8.2%	-12.3%	-3.2%	5.1%	-4.6%	3.1%	-0.4%	11.8%

Source: LWI data. Note: *Performance to 29 February 2024.

The change in market dynamics in recent years is clear from a comparison of pre-Brexit performance versus the period since. In the five years ending FY15, in the run up to the Brexit vote in 2016, LWI delivered an NAV total return of c 101%, c 63% ahead of the benchmark. In the period since and up to end-FY23, LWI's NAV total return is c 36%, c 30% behind the broad market.

Encouragingly, during FY23, LWI outperformed its benchmark by 3.4pp. Larger stocks continued to outperform during the year but by a lower margin than in FY22 and, although underweight in larger stocks, LWI outperformed in each market segment (large-, mid- and small-cap).

In the six months to 31 March 2024 (H124), mid-cap stocks have outperformed larger stocks, particularly in November and December 2023 as market expectations shifted towards a faster decline in interest rates. Small-cap stocks have performed broadly in line with the largest stocks in the same period. The sharp upward movement in both mid- and small-cap stocks in October and November demonstrates how quickly market conditions for SME stocks can turn.

Exhibit 6: Mid-cap versus top 100, monthly

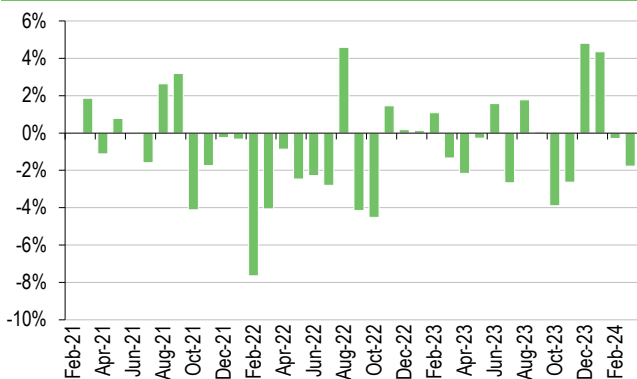
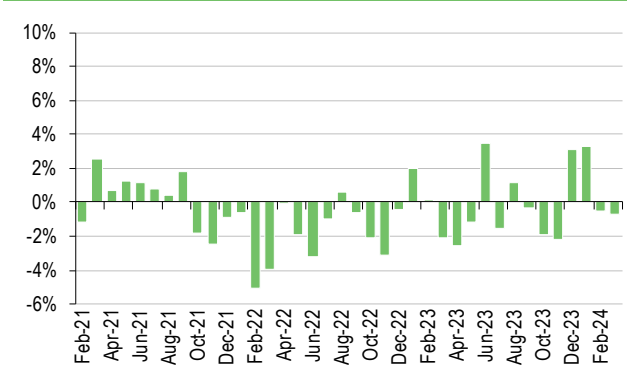


Exhibit 7: Small-cap versus top 100, monthly



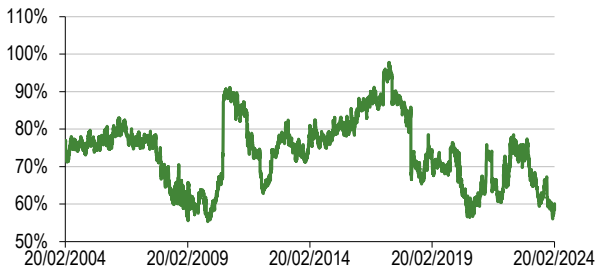
Source: LSEG, Edison Investment Research. Note: Monthly return for top 100 UK shares less monthly performance for UK mid-cap shares.

³ NAV cum income at fair value.

Attractive UK equity valuation

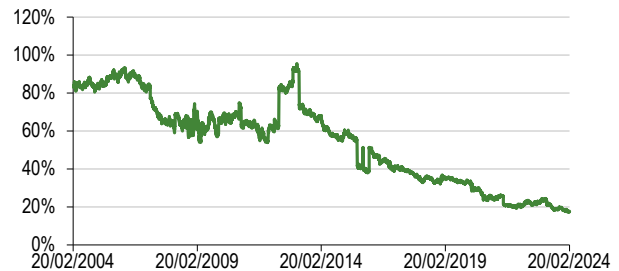
That the UK market is low valued in absolute terms and relative to other global markets is not new, but the investment managers point out that a trailing P/E for the portfolio of 10.1x is substantially lower than its 10-year average of 13x, while the 12-month forward portfolio yield 5.2%. If that were not enough, they add that dividend cover is relatively high and earnings forecasting remains 'cautious'. This is especially the case for domestically focused SME companies, where they see particular value.

Exhibit 8: UK trailing P/E ratio versus US



Source: LSEG

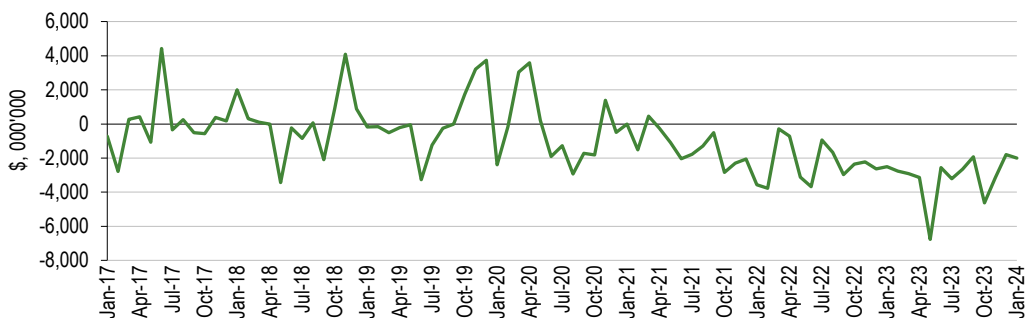
Exhibit 9: UK P/book value versus world



Source: LSEG

There may be no immediate catalyst for a re-rating of the UK market and fund flows remain weak. Overseas investors have little enthusiasm for UK equities, UK pension funds have continued to reallocate away from equities and for many other UK institutional investors, SME equities have become too small and too illiquid, while UK funds continue to see negative outflows. This poses the risk of the market being a 'value trap' but, as investors wait, the relatively high yield supports returns and the low P/E should mitigate against adverse economic or global equity market corrections.

Exhibit 10: UK equity fund flows



Source: Morningstar

Valuations are increasingly confirmed by takeover activity

Although the valuation opportunity in SME companies has not as yet been widely recognised in the market, it has been reflected in much-increased takeover activity across the market and in LWI portfolio companies. The acquirers have been a mix of trade buyers and private equity investors.

The investment managers attribute the preponderance of transactions involving LWI investments to the types of companies they typically hold, generally established, well managed, cash-generative businesses, which display leadership in their own, sometimes niche, market segments. These are all elements that are likely to attract bidders of all types.

Notwithstanding the positive impact on the trust's performance, these come with some regret on the part of the investment managers, as they believe that in many cases the prices paid do not recognise the full potential of the acquired companies.

In addition to the completed transactions shown below, it was reported in the press⁴ that the chemicals company Elementis had rejected an approach from a private equity firm, KPS Capital Partners, although this was not confirmed by either party.

In March 2024, Direct Line Insurance also received a conditional offer from Belgian insurer Ageas. Rejected by the Direct Line board, it has since been withdrawn. In a mix of cash and shares, at the time, the proposal would have valued Direct Line at 237p per share compared with 163p before the first proposal.

Exhibit 11: Acquisitions affecting LWI

Date announced	Company	Sector	Acquirer	Offer premium
Nov-22	Devro	Food producers	Saria	65% premium to last traded price and 75% premium to one-month average
Dec-22	K3 Capital	Investment banking & brokerage services	Private equity	17% premium to last traded price and 31% premium to three-month average
Nov-22	Appreciate Group	Finance & credit services	PayPoint	69% premium to last traded price and 64% premium to three-month average
Apr-23	Numis	Investment banking & brokerage services	Deutsche Bank	72% premium to last traded price and 31% premium to 60-day average
Jul-23	DWF	Legal services	Private equity	53% premium to last traded price and 72% premium to three-month average
Sep-23	Finsbury Foods	Food producers	Private equity	55% premium to last traded price before first disclosure of interest. 24% premium to price before offer and 22% premium to 12-month average
Jan-24	Wincanton	Industrial transportation	Ceva Logistics	52% premium to last traded price and 60% premium to three-month average
Mar-24	DS Smith*	General Industrials	Mondi	33% premium to last traded price before start of offer period

Source: LWI, London Stock Exchange, Edison Investment Research. Note: *Not yet a firm offer.

A reassessment of UK prospects would particularly benefit LWI

Many investor concerns, such as geopolitical tensions, are not specific to the UK, where the differentiating factor is perhaps the level of pessimism about the domestic economy. Having performed more robustly through 2023 than had been widely expected at the beginning of the year, GDP was nonetheless flat during the year and data for the final quarter of the year indicated that the economy 'technically' entered a recession, defined as two consecutive quarters of negative growth. The preliminary estimate for January 2024 is that GDP increased 0.2% in the month. It could be that activity is indeed softening in response to the significant rise in borrowing costs and cost of living pressures for consumers, but for now it is probably fair to say that the UK economy is continuing to flatline, as it has since early 2022.

Positively, a combination of higher wages and declining inflation is lifting consumers' real disposable incomes, with the prospects of interest rate cuts to follow. This more favourable perspective would be consistent with the general picture that the investment managers are getting from their interaction with many companies and is the key reason why they see potential for a stronger UK economic development than is widely forecast.

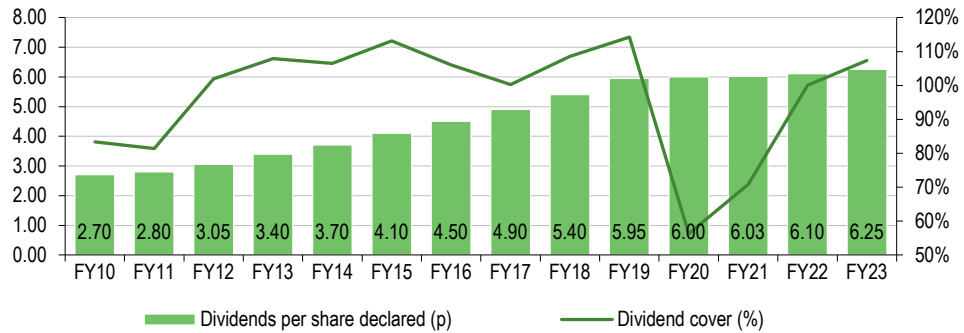
⁴ Reuters, City AM, 25 January 2024.

Progressive dividend with growth accelerating

The company has maintained or increased dividends each year since it was established in 1963 and aims to pay progressive dividends over time, with each quarterly distribution equal to or greater than the previous one. Over the 25 years to end FY23, DPS has grown by an average 6.8% pa. Progress was modest during the pandemic but the five-year average of 3.0% is above that of most of the trusts in LWI's peer group and 10-year growth of 6.3% pa is close to the long-term average. During the pandemic and its aftermath, the trust was able to flex its revenue reserves to maintain the dividend policy and with dividend cover building, the rate of quarterly distribution was increased by 4.9% from Q323 (to 1.60p from 1.525p). The 6.40p annualised run rate of quarterly DPS compares with 6.25p for all of FY23 (3.05p in H1 and 3.20p in H2).

Encouragingly, the managers note that the corporate dividend payout in the UK market remains well below pre-pandemic levels and therefore should be more sustainable.

Exhibit 12: Revenue smoothing supports stable, progressive dividends



Source: LWI data, Edison Investment Research

Long-term, bottom-up stock selection with a strong valuation overlay

The portfolio managers, James Henderson and Laura Foll, are focused on long-term returns, with investment decisions driven by a selective, bottom-up approach with a strong valuation overlay. Henderson joined the industry in 1982 and the company in 1984, and Foll joined the industry and the company in 2009.

Using a range of valuation metrics, the managers seek to invest in companies that are trading at a discount valuation, in some cases compared with their trading history and in others compared with their peer group. There can be many reasons for a valuation discount, including disappointing recent financial performance, balance sheet or management concerns, and this alone is insufficient reason to invest. The managers want to see a route to recovery from whatever issues the company is facing, with the prospect of delivering sales, earnings and dividend growth, and their assessment of company leadership is one of the most important factors in making this judgement. They comment that a good management team can navigate a difficult economic backdrop, while poor management can get it wrong even in the good times.

As a result of the investment process, the portfolio managers engage with hundreds of companies every year. In doing this they are supported by the deep resources of JHI, where both are members of the JHI global equity team and work closely with the UK smaller and mid-sized company teams.

JHI has considerable resources, and long and broad-ranging experience in active equity management. It has c £150bn of equity assets under management, with investment and research capabilities across a wide range of strategies, sectors and styles. The investment team comprises more than 150 equity investment professionals, with an average of approximately 20 years' financial industry experience, including specialist teams focusing on key sectors including healthcare, technology and energy. All JHI's investment professionals, whatever their particular focus, combine insights gleaned from company meetings, to form the proprietary knowledge that enables them to generate the original, independent views that shape investment strategy across the company.

Portfolio positioning

Portfolio diversification is a key element of risk management, primarily within the SME portion of the portfolio. At 28 February 2024, there were 114 holdings, within the trust's expected 100–120 range. Eight of the top 10 holdings were top 100 companies, with a focus on higher-yielding financials and oil and gas producers. Also within the top 10 holdings were two Irish companies, non-life insurer FBD and maritime transport provider Irish Continental. In aggregate, the top 10 represented 23% of the portfolio, with the other 104 holding representing 77%.

The trust has the flexibility to invest up to 20% in non-UK stocks but in practice it is typically less than 5% and was 3.9% at the end of February, comprising the two Irish holdings. FBD, with a market cap of c £475m, has a leading market position within the Irish agricultural sector. The managers are attracted by its strong track record of disciplined underwriting, generating strong cash flow and dividends, including a special dividend in 2023. Irish Continental is Ireland's leading maritime transport group, with a market cap of c £730m. It provides passenger, roll-on and roll-off freight services between Ireland and the UK. The managers note that it is a well-managed business operating in a duopolistic industry.

Exhibit 13: Top 10 holdings (%)

Company	Industry	Portfolio weight*			Change in portfolio weight since:	
		Most recent	FY23	H123	FY23	H123
		29-Feb-24	30-Sep-23	31-Mar-23	30-Sep-23	31-Mar-23
BP	Oil & Gas	2.8	3.3	3.1	(0.5)	(0.3)
HSBC	Banks	2.6	2.8	2.3	(0.2)	0.3
GlaxoSmithKline	Pharma & biotech	2.5	2.2	2.1	0.3	0.4
Shell	Oil & Gas	2.3	3.6	3.1	(1.3)	(0.8)
M&G	Asset management	2.3	2.0	1.9	0.3	0.4
Standard Chartered	Banks	2.2	2.6	2.0	(0.4)	0.2
Rolls-Royce	Aerospace and defence	2.2	1.4	0.9	0.8	1.3
Aviva	Life insurance	2.2	1.9	2.0	0.3	0.2
FBD	Non-life insurance	2.1	2.0	2.2	0.1	(0.1)
Irish Continental Group	Industrial transportation	1.8	1.9	1.0	(0.1)	0.8
Total top 10**		23.0	24.2	23.2	(1.2)	(0.2)

Source: LWI data, Edison Investment Research. Note: *The total weighting in those stocks comprising the top 10 holdings at 31 January 2024. **The total weighting in the actual top 10 holdings at each point in time.

With stock selection being bottom up, sector weightings are substantially an output rather than a deliberate target. However, sector trading conditions and valuations will nonetheless have an impact on where the managers identify the best opportunities. Financials and industrials account for c 62% of the portfolio, around 27pp above the benchmark. The financials holdings are skewed towards large-cap banks and insurers, with the exception of FBD, whereas the industrials holdings have a larger exposure to a broad range of mid- and small-cap companies.

Exhibit 14: Sector exposure versus the broad UK equity market (%)

	Most recent	FY23	H123	Index weight	Active weight	Change in portfolio weight since:	
	29-Feb-24	30-Sep-23	31-Mar-23	31-Jan-24	31-Jan-24	30-Sep-23	31-Mar-23
Financials	31.9	34.2	34.5	23.3	8.6	(2.3)	(2.6)
Industrials	30.3	26.8	25.3	11.7	18.6	3.5	5.0
Consumer discretionary	8.5	9.1	8.6	12.5	(4.0)	(0.6)	(0.1)
Energy	7.0	9.4	8.0	10.8	(3.8)	(2.4)	(1.0)
Basic materials	4.9	5.1	5.0	7.1	(2.2)	(0.2)	(0.1)
Utilities	2.3	2.2	3.8	3.7	(1.4)	0.1	(1.5)
Healthcare	3.0	2.8	3.6	11.3	(8.3)	0.2	(0.6)
Telecommunications	2.0	2.2	2.6	1.1	0.9	(0.2)	(0.6)
Consumer staples	4.6	3.7	4.0	14.4	(9.8)	0.9	0.6
Real estate	4.1	2.8	2.9	2.7	1.4	1.3	1.2
Technology	1.5	1.7	1.7	1.4	0.1	(0.2)	(0.2)
Total	100.0	100.0	100.0	100.0	0.1	0.1	0.1

Source: LWI data, Edison Investment Research

Current opportunities and portfolio activity

It is outside of the largest companies that the managers see the greatest current opportunities, particularly in domestically focused businesses and those where 'self-help' actions are improving prospects, yet to be appreciated by market. A number of new positions have been taken and existing holdings increased, in large part recycling capital released by takeover activity.

In February 2024, the managers established new positions in two retailers, **Dunelm** and **Sainsbury's**. They note Dunelm's ability to offer good-value products (across bedding and curtains, etc) while still having a single-digit market share and room for growth. The UK grocery market remains strong and larger operators such as Sainsbury's have been winning market share. The company's well-situated, large-format stores are well placed to benefit from the growth in omnichannel sales (combining in-store fulfilment with home delivery and click and collect).

Since the FY23 year-end in September, two UK property companies, **Shaftesbury** and **Workspace**, have been added to the portfolio. Workspace is a well-established business with a strong record of growth in providing flexible office space in and around London. Shaftesbury owns a portfolio of prime properties in London's West End. In both cases, the shares were trading at a material discount to NAV, while operating trends (such as rental values) have remained encouraging.

A new position was also established in **Beazley**, which writes insurance across a range of end-markets and has been a leader in the development of cyber breach insurance. At the time of purchase, it was trading on a lower-than-average valuation with good prospects to return excess capital in the form of increased dividends or share buybacks.

Prior to its acquisition, the managers had been building a position in **Wincanton**, the third-party logistics company, with customers such as Kingfisher and Sainsbury's. It had been trading at a material discount to its long-run averages, providing protection against cyclical risks and not recognising the potential upside from structural growth trends in its sector, and its 'self-help' investments in robotics and automation. Additionally, higher interest rates had opened up an interesting opportunity, reducing the value of pension fund liabilities and freeing up cash flow for planned investments, as well as shareholder distributions.

A new position was also established in defence contractor **Babcock**, which specialises in areas such as submarine maintenance. The managers note that under a new management team, the company has reduced its debt, taken out costs and migrated the business further towards contracts that allow for certain costs to be automatically passed through to the end-customer, providing greater margin certainty. In the same sector, and following good share price performance, the whole position in **BAE Systems** was sold on valuation grounds.

The managers have also identified opportunities to invest, at already reduced valuations, in companies that they believe have good long-term prospects but which have been negatively affected by shorter-term trading conditions or events, requiring additional capital to be raised. They participated in capital raisings by **Videndum**, a leading maker of hardware and software used in film, television and content creation, and **XP Power**, a leading manufacturer of power control solutions for the industrial technology, healthcare and semiconductor manufacturing sectors.

In recent months, existing positions have been increased in a range of companies including car distributor **Inchcape**, audio-visual equipment maker **Midwich**, crockery designer and manufacturer **Churchill China**, buildings material producer **Marshalls** and Scottish housebuilder **Springfield**.

Peer group comparison

The AIC's UK Equity Income sector, of which LWI is a member, is one of the largest AIC peer groups and encompasses funds with a wide range of investment approaches within the overall remit of providing income and capital growth from a portfolio at least 80% made up of UK equities.

LWI's multi-cap investment policy and significant exposure to mid- and small-cap stocks differentiates it from most peers. The Diverse Income Trust and abrdn Equity Income Trust are perhaps the closest comparators. We have also pointed to LWI's greater exposure to domestic UK earnings and cyclicals, areas where it aims to identify attractive investment opportunities and which are more highly represented within the mid- and small-cap sectors.

As with the trust's performance versus the chosen benchmark, long-term performance versus peers is also very strong. The trust is one of the strongest performers in the peer group over 20 years.

In the nearer term, LWI's multi-cap investment policy and value-oriented approach has affected returns, which now feeds through to 10-year performance.

Costs are moderate and below the peer group average. Gearing is above the sector average and has recently increased as a reflection of the managers' optimism. In part benefiting from gearing and an above-average discount to NAV (c 10% vs the peer average of c %),⁵ LWI's dividend yield of 5.2% is among the highest in the peer group.

Exhibit 15: Selected peer group*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	NAV TR 20 year	Ongoing charge	Discount	Net gearing	Dividend yield
Lowland	325.6	7.9	13.9	20.4	45.8	378.4	0.64	(12.9)	113	5.2
abrdn Equity Income Trust	140.0	1.1	1.0	(4.3)	22.4	218.9	0.94	(6.8)	111	7.8
CT UK Capital and Income	324.7	10.8	15.2	24.5	85.9	292.9	0.66	(3.6)	106	3.8
CT UK High Income Trust	70.4	11.4	8.0	21.0	52.7		1.02	(8.8)	113	6.7
City of London	2,023.6	6.4	25.8	28.5	77.6	354.2	0.37	(2.3)	107	5.0
Diverse Income Trust (The)	277.4	3.6	(9.5)	19.3	61.0		1.09	(5.2)	97	4.6
Dunedin Income Growth	401.3	7.2	13.5	34.9	75.1	242.7	0.63	(11.7)	108	5.0
Edinburgh Investment Trust	1,052.8	12.3	34.6	35.6	88.0	343.2	0.53	(10.7)	106	3.8
Finsbury Growth & Income	1,541.2	(2.3)	7.0	19.2	115.7	702.4	0.61	(7.6)	101	2.3
Invesco Select UK Equity	108.0	8.3	20.4	34.7	87.8		0.81	(17.4)	94	4.3
JPMorgan Claverhouse	397.5	8.9	16.3	24.9	74.4	308.0	0.68	(5.8)	107	5.0
Law Debenture Corporation	1,057.9	9.6	27.9	56.1	119.3	664.1	0.49	(2.9)	112	4.0
Merchants Trust	796.5	2.7	25.6	46.9	88.8	307.4	0.55	(3.1)	112	5.3
Murray Income Trust	886.7	6.5	16.7	33.6	79.7	329.2	0.50	(11.2)	109	4.6
Schroder Income Growth	185.5	5.2	17.3	25.7	75.5	324.9	0.77	(13.0)	113	5.2
Temple Bar	709.4	14.2	28.9	21.9	60.7	386.4	0.53	(8.9)	109	3.9
Simple average (17 funds)	643.7	7.1	16.4	27.7	75.6	373.3	0.68	(8.2)	108	4.8
LWI rank in peer group	10	8	11	13	15	4	8	14	1	4

Source: Morningstar, Edison Investment Research. Note: *Latest published performance data as at 9 April 2024 based on ex-par NAV. TR is total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

⁵ As at the date of this report.

LWI's approach to ESG

LWI's managers view responsible investing as a long-term process that depends not just on businesses meeting current legislative standards, but also on operating with an understanding of changing societal attitudes towards issues such as climate change, pollution and working conditions. While ESG risks do not preclude ownership of a stock, they are a key consideration in arriving at an appropriate valuation and position size. Where evidence of poor practice emerges, the managers will engage with the company to discover how the problem is being addressed and will monitor progress to assess evidence of improvements. Specifically on governance, LWI always votes at the AGMs of investee companies, and the managers seek to work constructively with firms on appropriate executive remuneration structures to ensure the best alignment of the interests of management and shareholders.

Rather than relying on external ratings, which may be absent in the case of smaller companies or based on flawed, outdated or incomplete data, the managers review each new investment idea for potential ESG shortcomings. Any material issue they discover is discussed with JHI's governance and sustainable investing team and/or the company itself before an investment is made.

A detailed description of the trust's ESG policies can be found [here](#).

Additional company details

Fees and charges

Management fees are paid on a sliding scale, reducing as net assets increase and allowing investors to benefit from the growth in the size of the fund and economies of scale. Fees are calculated at a rate of 0.5% on the first £325m of net assets and 0.40% thereafter, split equally between the capital and revenue account. There is no performance fee. Ongoing charges for FY23 were 0.64% (FY22: 0.62%), which compares favourably with the AIC UK Equity Income sector's simple average of 0.69% and is similar to the weighted average 0.58%.

Gearing

Henderson and Foll are keen to maximise the benefits of LWI's investment trust structure, one of which is the ability to use gearing. The board has set a limit of c 30% of the fund's value at the point of drawing, although in practice gearing fluctuates at a level significantly below this. Gearing allows the fund to continue to be a net investor during periods of market volatility when the managers may not wish to sell other holdings. As income investors, there is often an immediate 'carry' in using borrowings at relatively low rates of interest to invest into higher-yielding assets.

Net gearing as defined by the company⁶ was c 13% at end-February 2024 and 12.3% at end September 2023 (end FY23) compared with 12.5% year earlier.

The trust's borrowings are a mix of long-term, fixed-rate notes and floating rate medium-term bank facilities. The £30m loan notes do not mature until 2037 and the 3.15% pa cost is highly attractive in current market conditions. The bank facilities, with BNP, allow LWI to draw up to £40m, priced at a lending margin of 0.9% plus the SONIA base lending rate, and mature in October 2025. The company has an option (conditional on lender approval) to increase the facility by £20m.

⁶ The excess of investments held at fair value through the profit and loss account, or 'the investment portfolio' (A) over net assets (B). Thus gearing equals (A/B - 1)%.

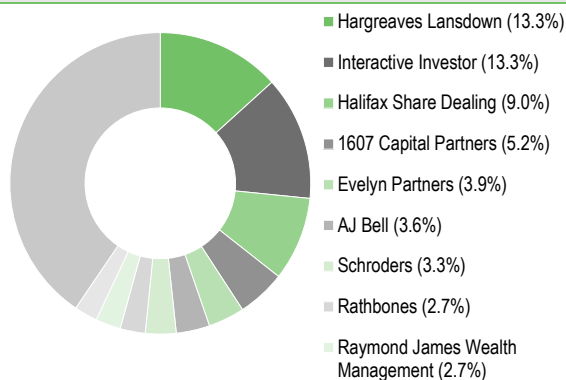
Capital structure and ownership

LWI is a conventional investment trust with a single share class and an unlimited life. There are 270.2m shares in issue and there has been no issuance nor repurchases during the past five years.

The top 10 shareholders account for c 60% of shares outstanding. Reflecting its strong retail following, within this, c 40% of shares are held on retail share-dealing platforms such as Interactive Investor, Hargreaves Lansdown, AJ Bell and Halifax Share Dealing. The other top 10 shareholders are mostly traditional wealth managers and 1607 Capital Partners, a US investor with a specialism in UK investment companies. In February 2022 a 10-for-one share split was implemented to increase the ease of trading and reinvestment of dividends for smaller holdings.

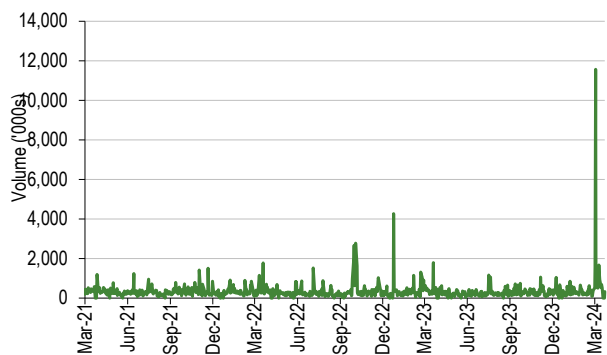
The value of shares traded over the past 12 months is £95m (c 30% of market cap) or an average c £370k per trading day, and has most recently increased.

Exhibit 16: Major shareholders



Source: Bloomberg, as at 8 April 2024

Exhibit 17: Average three-year trading volume

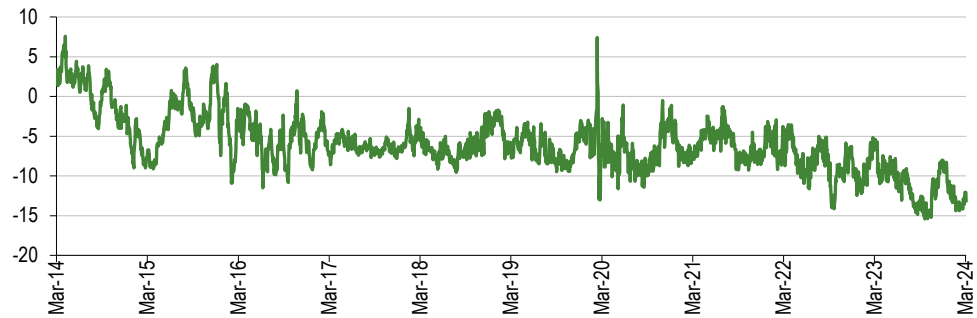


Source: LSEG. Note: Data to 8 April 2024.

Discount management

Although the current c 13% discount to NAV is greater than the average of the past five (c 8%) and 10 years (c 6%), and wider than that of the peer group average (c 9%), given that this appears to be driven by current market conditions, with SME companies significantly out of favour, we would be surprised if the board were to change its current approach to discount management. It does not believe that a formal discount control mechanism is in the best interests of shareholders. It sees the use of share buybacks as negating some of the benefits of the closed-end structure, as well as potentially shrinking the size of the trust, reducing the audience of potential investors, increasing the ongoing charges ratio and reducing liquidity in the shares. In the board's opinion, the best way to close or eliminate the discount is to provide attractive returns and to engage as broadly as possible with investors.

Exhibit 18: 10-year premium/(discount) to NAV



Source: LSEG

The board

The board consists of six members who collectively bring a range of relevant experience including senior management in the public and private corporate world, investment management expertise and investment trust management.

Exhibit 19: LWI's board of directors

	Date of appointment	FY23 remuneration (£m)	FY22 remuneration (£m)	End-FY23 shareholding	End-FY22 shareholding
Robert Robertson (chair)	May 2011*	42,000	40,000	592,250**	592,250**
Gaynor Coley***	Nov-16	33,000	31,500	97,790	97,790
Duncan Budge	Jul-14	27,500	26,250	10,450	10,450
Helena Vinnicombe	May-21	27,500	26,250	10,000	10,000
Thomas Walker	Jul-19	27,500	26,250	40,000	16,000
Mark Lam	Jan-24	N/A	N/A	N/A	N/A

Source: LWI. Note: *Chair from 2017. **Additionally, Robert Robertson had a non-beneficial interest in 120,000 shares. ***Chair of the Audit Committee.

As part of the trust's succession planning, Robert Robertson, who has been chair since 2017, having joined the board in 2011, will step down at the 2025 AGM. LWI says it is expected that he will be replaced by one of the serving directors. Mr Robertson has brought extensive senior experience to the board, gained in a range of quoted and private companies including industrial and materials businesses globally as well as other investment companies.

As part of the overall planning process, Mark Lam was appointed to the board with effect from 1 January 2024. He has a strong understanding of technology, having formerly been chief technology and information officer for Openreach, the telecommunications infrastructure provider. He also has a good knowledge of governance, with many years of board-level commercial experience.

His fellow board members are Duncan Budge, a former chief operating officer at RIT Capital Partners, a chairman of two investment companies and a non-executive director at a further three trusts; Gaynor Coley, a chartered accountant who has worked at senior levels in the public and private sectors across a range of industries, and is a board member for three other investment companies; Thomas Walker, a chartered accountant and former fund manager with Martin Currie, who sits on the board of a further two investment trusts; and Helena Vinnicombe, with senior investment experience from Evelyn Partners (formerly Smith & Williamson), who is on the advisory board of M&G Charity Multi-Asset Fund and is chief investment officer for Child Health Research.

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