



# Lowland Investment Company plc

Annual Report 2020

MANAGED BY  
**Janus Henderson**  
— INVESTORS —

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## Investment Objective

The Company aims to give shareholders a higher than average return with growth of both capital and income over the medium to long-term by investing in a broad spread of predominantly UK companies. The Company measures its performance against the FTSE All-Share Index Total Return.

## Investment Policy

### Asset Allocation

The Company will invest in a combination of large, medium and smaller companies listed in the UK. We are not constrained by the weightings of any index; we focus instead on controlling absolute risk by diversifying on the basis of underlying company characteristics such as size, industry, economic sensitivity, clients and management. In normal circumstances up to half the portfolio will be invested in FTSE 100 companies; the remainder will be divided between small and medium-sized companies. On occasions the Manager will buy shares listed overseas. The Manager may also invest a maximum of 15% in other listed trusts.

### Dividend

The Company aims to provide shareholders with better-than-average dividend growth.

### Gearing

The Board believes that debt in a closed-end fund is a valuable source of long-term outperformance, therefore the Company will usually be geared. At the point of drawing down debt, gearing will never exceed 29.99% of the portfolio valuation. Borrowing will be a mixture of short and long-dated debt, depending on relative attractiveness of rates.



# Strategic Report: Key Data

## Net Asset Value Total Return<sup>1</sup>

2020  
**-24.8%**

2019  
**-9.6%**

## Benchmark Total Return<sup>2</sup>

2020  
**-16.6%**

2019  
**2.7%**

## Growth in Dividend

2020  
**0.8%**

2019  
**10.2%**

## Dividend for the Year<sup>3</sup>

2020  
**60.0p**

2019  
**59.5p**

	Year ended 30 September 2020	Year ended 30 September 2019
NAV per share at year end	<b>1,031p</b>	1,428p
Share price at year end <sup>4</sup>	<b>914p</b>	1,280p
Market Capitalisation	<b>£247m</b>	£346m
Dividend per share	<b>60.0p<sup>3</sup></b>	59.5p
Ongoing Charge including the Performance Fee	<b>0.66%</b>	0.63%
Ongoing Charge excluding the Performance Fee	<b>0.66%</b>	0.63%
Dividend Yield <sup>5</sup>	<b>6.60%</b>	4.60%
Gearing at year end	<b>15.00%</b>	12.80%
Discount at year end <sup>6</sup>	<b>9.15%</b>	9.10%
AIC UK Equity Income Sector – Average Discount	<b>5.70%</b>	4.50%

1. Net asset value per share total return (including dividends reinvested)

2. FTSE All-Share Index (including dividends reinvested)

3. Includes the final dividend of 15.0p per ordinary share for the year ended 30 September 2020 that will be put to shareholders for approval at the Annual General Meeting on Wednesday 27 January 2021

4. Mid-market closing price

5. Based on dividends paid in respect of the previous 12 months and the share price at year end

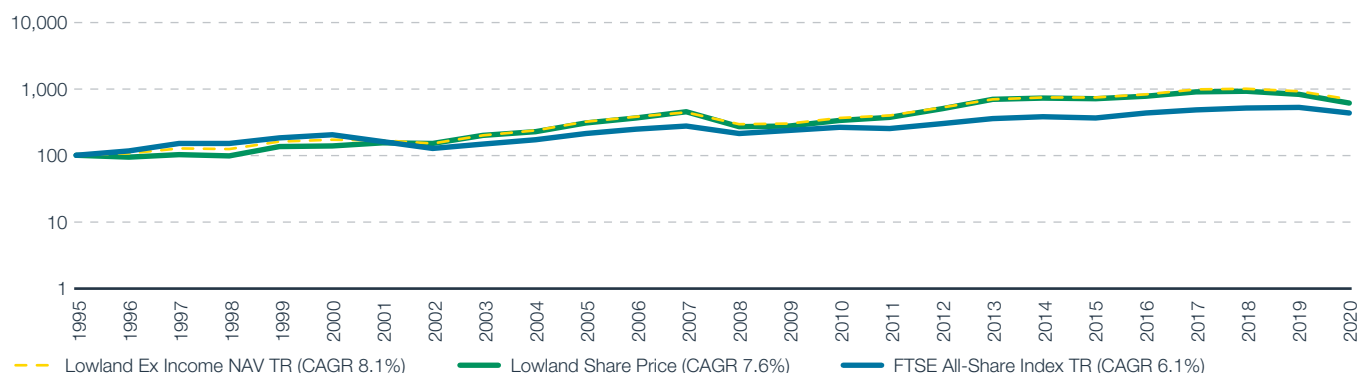
6. Calculated using year end fair value NAVs including current year revenue

Sources: Morningstar for the AIC, Janus Henderson, Refinitiv Datastream

A glossary of terms including Alternative Performance Measures is included on pages 75 to 77

# Strategic Report: Historical Performance

## Lowland's Net Asset Value has outperformed the FTSE All-Share Index over the past 25 years

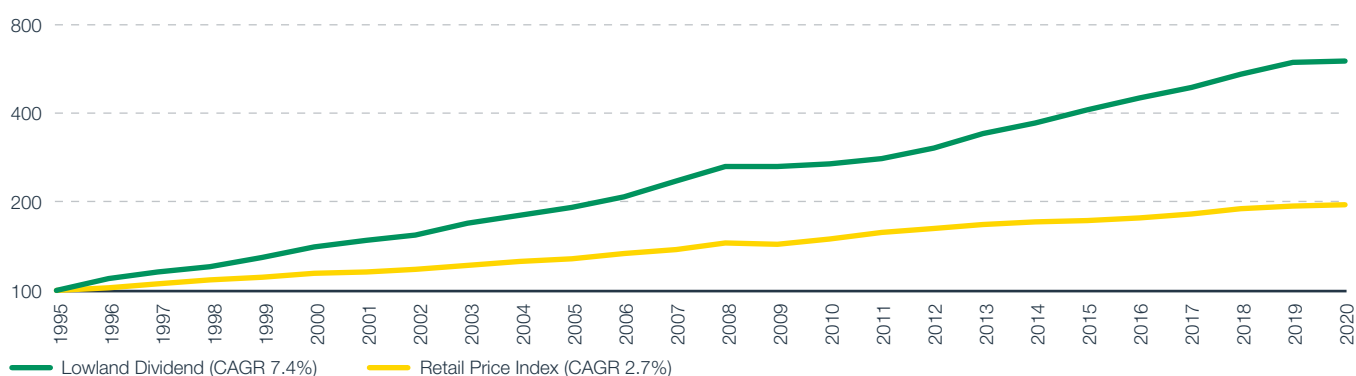


Total Return basis and shown on a logarithmic scale (30 September 1995 = 100)

CAGR – Compound Annual Growth Rate

Source: Thomson Financial, Refinitiv Datastream

## Lowland's Dividend Growth over the past 25 years as compared to the Retail Price Index



Total Return basis and shown on a logarithmic scale (30 September 1995 = 100)

Source: Janus Henderson

## Historical Performance

Year ended 30 September	Dividend per ordinary share in pence	Total return/(loss) per ordinary share in pence	Net revenue return per ordinary share in pence	Total net assets in £'000	Net asset value per ordinary share in pence	Share price per ordinary share in pence
2010	27.0	139.5	22.5	203,484	770.3	699.5
2011	28.0	68.3	28.8	214,251	811.0	762.5
2012	30.5	229.9	31.1	266,401	1,008.4	991.5
2013	34.0	330.1	36.7	347,202	1,306.9	1,325.0
2014	37.0	73.3	39.4	361,856	1,345.6	1,355.0
2015	41.0	11.8	46.4	354,563	1,318.4	1,287.0
2016	45.0	156.4	47.7	386,910	1,432.0	1,336.5
2017	49.0	243.2	49.1	439,896	1,628.1	1,504.0
2018	54.0	47.4	58.6	438,934	1,624.6	1,515.0
2019	59.5	(138.7)	68.0	385,904	1,428.3	1,280.0
<b>2020</b>	<b>60.0<sup>1</sup></b>	<b>(336.9)</b>	<b>33.8</b>	<b>278,653</b>	<b>1,031.3</b>	<b>914.0</b>

1. Includes the final dividend of 15.0p per ordinary share for the year ended 30 September 2020 that will be put to shareholders for approval at the Annual General Meeting on Wednesday 27 January 2021

# Chairman's Statement



**Robert Robertson**  
Chairman

# Strategic Report: Chairman's Statement

## Performance

Lowland's NAV declined by 24.8% during the year, and its share price by a similar amount. These declines compare with a fall in the Company's benchmark, the FTSE All-Share index, of 16.6%. The Company has always taken a long-term view, but it is disappointing that we need to look at the ten year period, as well as longer periods, to see outperformance over the index. It is particularly disappointing as the year started very well, and it looked as if our multi-cap focus, with a bias towards modestly valued UK stocks, was to be rewarded for patience. The unprecedented impact of the COVID-19 pandemic hit the portfolio in March. The NAV having been down 30.3% at the half year, saw modest recovery in the second half.

The Fund Managers provide a detailed analysis of performance in their report. Suffice it to observe here, that the underperformance in absolute and relative terms was due predominantly to the effect of the pandemic on the stocks held in our portfolio, exacerbated by the effects of gearing. There have obviously been companies which have benefitted from the consequences of the pandemic, technology-driven international companies for instance; but our portfolio consisted predominantly of companies which suffered from the effects of the pandemic and governments' response to it. The Fund Managers operate on a bottom-up stock selection basis, but the two sectors in which we were materially overweight – Industrials and Insurance – were disproportionately hit by the pandemic. In particular, our exposure to insurance companies, and those related to aerospace, was punished. While the Fund Managers have reassessed their exposure to companies in these sectors, they remain confident that the valuation of current holdings overly discounts their long term prospects.

Consideration of strategy is intensified in times of difficulty. Whereas some value-focused trusts have abandoned their historic approach, we are persuaded to stick to our last, and convinced that rewards will ensue.

## Dividends

UK dividends are forecast to fall by about 40%, excluding special dividends, in the 2020 calendar year. Small and medium-sized companies have cut their dividends more aggressively than larger companies. In the second calendar quarter of the year, the worst period for dividend cuts, dividends paid by FTSE 100 companies fell 45% while dividends paid by small and medium-sized companies fell by three quarters.

As a result of lower dividend receipts, Lowland's revenue earnings per share fell from 68p in 2019, to 33.8p.

Lowland has pursued a progressive quarterly dividend policy since 2013. At the half year stage, I said "Revenue reserves

are there for a rainy day. At present, it feels more like a thunderstorm, and we will have to make a judgement on whether we can maintain the policy. We are cognisant of shareholders' desire for regular income and it is our firm intention to maintain the policy if possible". It would be rash to forecast a speedy return to clement weather conditions, although some companies have resumed dividends where they had been suspended.

We will draw on our Revenue Reserves to fund a little under half the proposed total dividend for this year. Revenue Reserves declined from £18.4m (68.0p per share) to £11.3m (41.8p per share) at the year end.

We will continue to monitor the dividend outlook very closely. Our latest review concluded that, under a reasonable domestic recovery scenario, we can return to almost covering the current level of dividend in our 2022 financial year. If prospects appear much worse than this, we may have to review our policy.

We propose to shareholders at the forthcoming AGM an unchanged final dividend of 15.0p. This brings the total for the year to 60.0p, marginally higher than last year.

## Investment Review and Gearing

Although net debt went down, from £45.6m at the beginning of the year, to £42.6m at year end, as a percentage it increased from 12.8% to 15.0% over the period. This reflects the reduction in the value of the portfolio. Gearing amounted to £44.0 million, or 13.0%, on 4 December 2020.

The weighting of small, medium, and large companies has not changed materially from last year. In terms of sector weightings, Industrials and Financials remain the two largest positions.

## Ongoing Charge and Fee Arrangements

The ongoing charge was 0.66% compared to the previous year's 0.63%.

As previously announced, from 1 October 2020 the performance fee has been removed. This brings us into line with competing trusts in our sector. The level at which the management fee drops from 0.5% to 0.4% of net chargeable assets has also been reduced from £375m to £325m.

We believe these fee arrangements, and the level of ongoing charges, to be competitive.

## Share price discount

During a volatile year, the Company traded briefly at a premium, but on average at a discount of 7.0%, ending the year at a 9.2% discount. The policy on discount is set out on page 29.

# Strategic Report: Chairman's Statement (continued)

## The Board

Karl Sternberg has indicated that he will step down between now and the 2022 AGM, once the Board has agreed on a suitable successor. Karl has been an outstanding Director, and is an example of one whose contribution has been enhanced both by the duration of his service and the experience gained from a wide range of other activities. It is unfashionable to say this but his tenure, which will amount to twelve years, has done nothing whatsoever to diminish his independence; neither have his other activities impinged remotely on his availability to fulfil his duties or his enthusiasm in so doing. Our approach with regard to tenure, and to ensure that our Directors are not 'overboarded' in any meaningful sense, is set out on page 41. The Lowland Board has never been fashion conscious; it is merely guided by shareholders' interests.

I would like to thank Karl, on behalf of shareholders, and fellow Directors, for his considerable contribution to the Company.

An announcement as to his successor will be made in due course.

## Contact with Shareholders

We are always keen to hear shareholders' views and so I would invite anyone who wishes to contact me to do so at: [itsecretariat@janushenderson.com](mailto:itsecretariat@janushenderson.com)

## Annual General Meeting

While we normally look forward to seeing shareholders at our AGM, the restrictions and limitations imposed by the pandemic mean that this is unlikely to be possible in 2021. Instead, we will broadcast the AGM via **Zoom [https://jhi.zoom.us/webinar/register/WN\\_jO3n\\_WjSSDKtISvCXs3hNw](https://jhi.zoom.us/webinar/register/WN_jO3n_WjSSDKtISvCXs3hNw)** on 27 January 2021. Voting on the resolutions will be conducted via poll, and I strongly encourage you to vote using the proxy form provided with the copy of this report. Please do sign up to register for the AGM, so you can log on to hear from the Fund Managers and ask any questions you may have of them or the Board.

## Outlook

Hopefully it is safe to believe that the US presidential election has been resolved, and that the roll-out of vaccines will enable the COVID-19 virus to be brought substantially under control over the course of 2021. We shall know soon whether good sense from the EU and the UK will prevail in bringing about an orderly Brexit. The resolution of so much serious uncertainty should make us optimistic. Reflecting a reversal of the pattern experienced during the financial year, the Company's NAV has increased by 23.3% compared with an increase of 13.3% in the benchmark since the year end (both on a total return basis).

Whilst asset prices generally are at elevated valuations, the exception is the UK equity market. Our approach to investment will remain bottom-up, but in looking at the prospects for individual companies, the prominence of macroeconomic challenges will be unusually apparent. It is impossible to foresee how governments will deal with the massive levels of debt incurred by their reactions to the pandemic, and there are many differences between this and the last severe recession. After the financial crisis, the British and many other governments chose financial orthodoxy by spending cuts to rebalance the books. This time around, governments seem more inclined to respond with expansionary policies. Money supply hardly grew after 2007, but is now growing at its fastest rate since the 1980s. We struggle to understand whether inflation can continue to lie fallow. We face the prospect of increasing unemployment and bankruptcies. We cannot yet know which of these contrary influences will prevail.

Assuming that the very immediate dangers which have preoccupied the last months are overcome, markets' initial relief may soon be displaced by a new focus on the more medium-term concerns of this sort. Our Fund Managers do see considerable value in many parts of the UK market but a bumpy ride looks assured.

Robert Robertson  
Chairman  
7 December 2020



# Fund Managers' Report



**James Henderson**  
Fund Manager



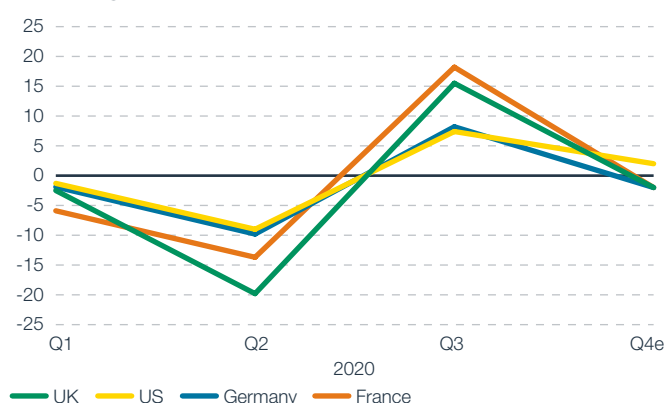
**Laura Foll**  
Fund Manager

# Strategic Report: Fund Managers' Report

## Background

The UK economy has shrunk materially, and as investors closely linked to corporate UK, we have suffered. The underlying companies we hold have significantly more of their earnings derived from the UK than from overseas. This has helped the portfolio in periods when the UK has grown well relative to other developed economies, but not when the UK has substantially lagged. Contraction in economic activity has been more marked in the UK than in other major economies.

### % change in GDP on previous quarter



Source: Lazarus Economics

The virus came at a time of already large structural change in the economy, and it has further accelerated the process. The move in retailing from physical stores to online is a striking example. It has meant older, established businesses with traditional infrastructures have suffered disproportionately more than the new businesses with less capital tied up in physical assets. A portfolio that has a bias towards dividend-paying companies will usually have more in the older cash generating stocks than in the cash-consuming younger companies.

The fallout from COVID-19 also hit some industries much harder than others, with aerospace and insurance being particularly affected. The Lowland portfolio has a large exposure to both. The UK has been a leader in both these industries with globally recognised successful companies. The aerospace sector had been growing faster than aggregate global economic growth for a number of years, but the pandemic grounded around 80% of global fleets. This has had a devastating effect on the industry; the fall-out will take several years to remedy. In the insurance sector, confusion over the level of business interruption risk that was being covered, meant the liability was not being properly recognised and the scale of the loss has been significantly bigger than anticipated.

Good management teams are those which, when tested, can deal with the unexpected. It has been impressive watching how many of the companies held have dealt with the challenge of COVID-19. We have made further investments in companies already in the portfolio where management teams are tackling the problems they face and can emerge from the downturn with a strong product (or service) proposition.

Many of these companies will also emerge to a more subdued competitive environment and with a leaner cost base.

## Performance Attribution

It was a very difficult year for performance, both on an absolute basis and relative to the FTSE All-Share benchmark.

Before examining the reasons for underperformance at the stock and sector level, it is worth noting the impact on net asset value of gearing.

At the start of the financial year, gearing was 12.8%. Valuation levels in the UK equity market were low relative to other developed equity markets, and the UK market was substantially 'out of favour' (prior to the UK General Election and clarity that Brexit was to happen). Therefore, at the start of the year, it was our view that the portfolio should be modestly geared to reflect a broad range of attractive investment opportunities. The NAV performance in the last quarter of the 2019 calendar year reflected our view of what could happen if confidence returned to the UK market, and it was a strong period for the portfolio (both on an absolute and relative basis). However, at a time of material market weakness in the Spring when the effects of the pandemic and the subsequent policy response became evident, this gearing level materially detracted from returns. We estimate gearing detracted 3.5% from net asset value total return during the year.

At the sector level, the biggest detractor from relative returns was the overweight position in the Industrials and Financials sectors. However, in both cases the driver of negative returns was predominantly stock selection, rather than sector allocation. Therefore in examining the reasons for underperformance we are focusing on stocks, rather than sectors. Trading conditions faced by companies even in the same industry were very disparate, which is a further reason for focusing on the stock-specific drivers of performance.

The largest five holdings contributing to relative return:

Company Name	Average weight in portfolio during the financial year (%)	Share price total return (%)	Contribution to relative return (%)
Avon Rubber	1.4	157.4	1.4
Ilika	0.6	303.0	0.8
XP Power	1.1	85.7	0.8
Phoenix Group	3.0	7.1	0.7
Somero Enterprises	1.0	45.9	0.5

Examining each in turn:

**1. Avon Rubber.** A provider of defence equipment (such as gas masks and body armour). In recent years they have used selective acquisitions and disposals to re-shape the portfolio. The valuation rose to a materially higher level than where it had traded historically and relative to defence peers, therefore the position was reduced.

# Strategic Report: Fund Managers' Report (continued)

**2. Ilika.** A designer and manufacturer of solid state batteries, with the potential for faster charging and longer battery life than traditional batteries. This year Ilika made further progress towards commercialisation, and the shares performed well as a result.

**3. XP Power.** A designer and manufacturer of power converters for a range of end-markets. Healthcare and semiconductor end markets have proven resilient, offsetting weakness in industrial end markets and allowing group earnings to continue to grow during 2020.

**4. Phoenix Group.** A closed book life insurer (life insurance policies and pension funds that are in gradual run-off). It continued to grow via selective acquisitions and benefitted from its ability to continue to pay an attractive dividend yield throughout the year, at a time when many companies reduced or suspended dividend payments.

**5. Somero Enterprises.** A producer of concrete levelling equipment for the commercial building industry. After initial weakness in Spring, demand recovered strongly and recovered to historic levels in their key North American market.

The largest five holdings detracting from relative return:

Company Name	Average weight in portfolio during the financial year (%)	Share price total return (%)	Contribution to relative return (%)
Senior	1.5	(76.0)	(1.6)
Hiscox	1.9	(46.1)	(0.8)
Hammerson	0.5	(96.1)	(0.8)
International Personal Finance	0.8	(58.1)	(0.7)
Rolls-Royce	1.0	(83.5)	(0.6)

Examining each in turn:

**1. Senior.** An engineering firm that produces equipment such as structures for aeroplane wings and fluid transportation systems for aerospace, industrial and energy markets. Approximately half of group sales are exposed to the civil aerospace market, where production cuts from Boeing and Airbus have meant material earnings downgrades. With a large portion of the global aeroplane fleet currently grounded, overcapacity in the market is likely to extend for several years even as passenger demand recovers (which, in our view, it

will). This means profitability for Senior is likely to be suppressed for several years. We reduced the position during the period but we have maintained a small holding on a recovery in earnings as the valuation is very low.

**2. Hiscox.** A global insurer that writes predominantly small- and medium-sized business insurance. Among its coverage is business interruption and event cancellation insurance, an area that has seen highly contested claims as the insurance was not intended to cover prolonged forced closures as a result of a pandemic. There has recently been clarity on claims levels as a result of a test case in the UK High Court. We modestly added to the holding during the year in a placing by the company to ensure the balance sheet could fund COVID-19 claims.

**3. Hammerson.** An owner and operator of prime retail assets in the UK and Continental Europe. At a time when there was already a structural shift in consumer spending to online, there was then a forced closure of a material portion of their retail estate, leading to low rental payments from tenants. Towards the end of the financial year Hammerson undertook a rights issue (in which the Company participated) and disposal of some properties in order to re-set the balance sheet. In our view, there is a future for prime retail assets in combination with online, allowing a coherent multichannel offering for brands. However, in the short term, with uncertainty as to the extent of enforced closures, the trading outlook for retailers, and therefore the outlook for rents, remains uncertain.

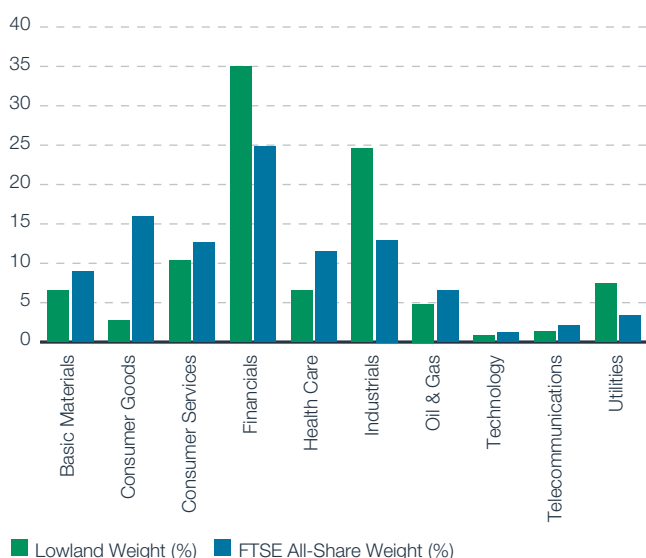
**4. International Personal Finance.** A provider of door-to-door and digital lending. A wide range of regulatory changes (including debt moratoria) were imposed across a number of end markets at the beginning of the pandemic, leading to concerns of heightened bad debts. While this effect has (so far) been manageable, there were also concerns regarding the company's ability to refinance a sizeable corporate bond which expires early in 2021. This refinancing issue has, following the financial year end, been resolved. The valuation of the company has modestly recovered but remains low.

**5. Rolls-Royce.** A designer and manufacturer of engines. As with Senior, approximately half of group sales are exposed to the civil aerospace market. Therefore both aftermarket sales and new engine sales have been materially impacted by reduced demand. Other markets to which the group is exposed, such as defence, have been more resilient and the management team have responded to the downturn with material cost savings across the business.

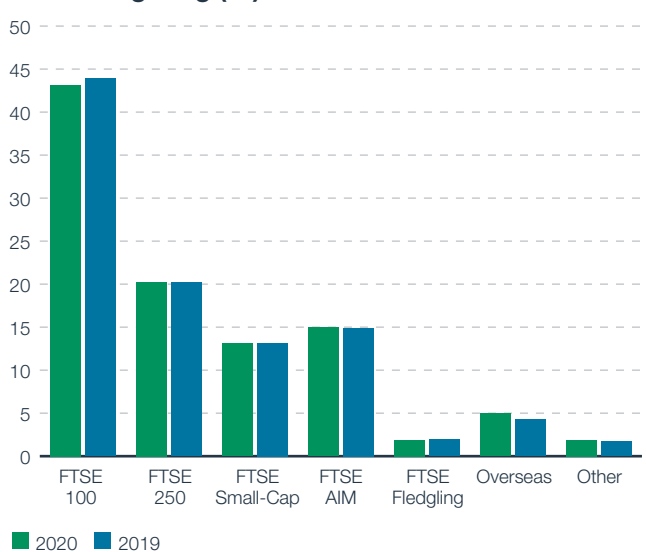
# Strategic Report: Fund Managers' Report (continued)

## Portfolio Positioning

### Sector weighting (%)



### Index weighting (%)



Source: Janus Henderson Investors as at 30th September 2020

The largest sector weighting within the portfolio remains Financials. Within this, the portfolio has a substantial weighting in insurance (both life and non-life insurance) with a relatively low weighting in banks (4.3% of the portfolio as at the end of September).

The second largest sector weighting is the Industrials sector. Aerospace & defence, having been a large subsector weighting in the portfolio over many years, remains a small overweight position versus the benchmark, but at an aggregate level is now modest at 3.5% of the portfolio (versus

6.5% at the end of the previous financial year). This reduction in exposure to aerospace & defence is a combination of reducing positions held in companies such as Senior and Rolls-Royce, and underperformance of the subsector as a result of weakness in the civil aerospace market.

Historically the Company has held a material weighting in Insurance and Industrials on the view that the two sectors provide diversification benefits; the insurance industry follows the underwriting cycle, while industrial companies broadly follow the economic cycle. This year has been exceptionally unusual in that the same underlying event (COVID-19) has materially impacted the earnings of both sectors. In insurance, as described in the portfolio attribution sector, writers of business interruption insurance (such as **Hiscox** and **RSA**) faced an uncertain claims backdrop as a result of forced business closures. These claims costs have recently been clarified following a test case in the High Court. In industrials, what began as a supply shock (with industrial facilities forced to close early in calendar 2020 to prevent localised outbreaks), swiftly became a demand shock, with particularly acute demand weakness in end markets such as civil aerospace and energy. This demand weakness led to material earnings downgrades across much of the Industrials sector, although there remained some resilient areas such as healthcare and semiconductors.

The Company continues to hold a sizeable weighting in the Industrials and Financials sectors. Following the Financial Crisis the Industrials sector performed well, as sales recovered and the drop-through from sales to earnings surprised positively. We are expecting similar dynamics when sales recover from the current downturn. Industrial companies are currently focused on cost savings; several companies held have accelerated cost reduction plans that would have taken up to three years, to 12-18 months. In many cases these are permanent savings, such as closing manufacturing sites. Therefore when sales recover (it is a 'when' in our view, rather than an 'if'), the drop-through to earnings could again surprise positively, at a time when valuations (on a lower earnings level) are low. For the Insurance sector, following several years of high natural catastrophe losses and subsequently high claims as a result of COVID-19, this is driving a hardening of the market with material price rises across a number of lines. This hardening market comes at a time when valuations are low. Therefore we continue to hold the positions in both areas.

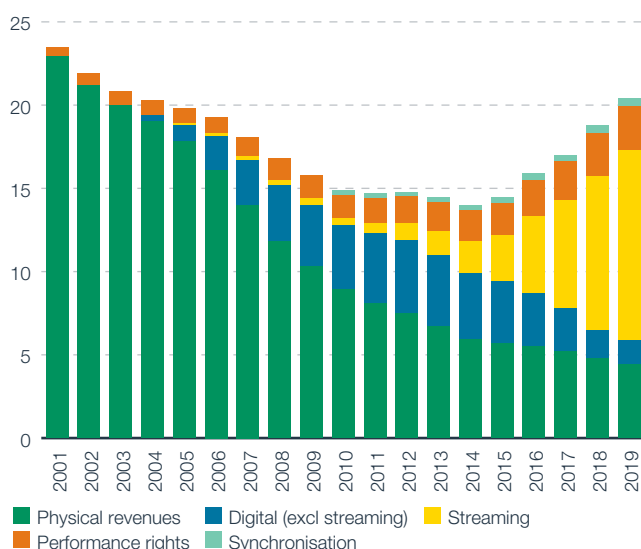
## Portfolio Activity

The largest new positions purchased during the year fall broadly into two categories; companies which are well placed to continue growing their earnings (and dividends) irrespective of the progression of the pandemic, and companies where a return to 'normal' trading conditions is not, in our view, factored into the current valuation.

# Strategic Report: Fund Managers' Report (continued)

Among the largest purchases in the former category were **Tesco** and **Hipgnosis Songs Fund**. Tesco is guiding to 'at least' flat retail profits year on year, with higher costs as a result of COVID-19 being offset by higher like-for-like sales growth as food consumption shifts from restaurants to eating at home. Tesco continues to be the market leader in the UK and has substantially reduced the debt on its balance sheet. This leaves it well placed to return a material portion of its cash generation to shareholders. Hipgnosis Songs Fund is an investment trust which purchases back catalogues of songs from song writers. They have so far purchased catalogues from a variety of well known artists. The music industry, having been in decline for many years as a result of piracy and the decline of CD purchases, has recently returned to growth as a result of streaming services such as Spotify. This streaming growth, which in our view is a structural shift in the way music is consumed, should continue largely independent of the broader economic backdrop. Therefore the over 4% dividend yield currently paid by Hipgnosis should prove defensive with good scope to grow.

## In recent years the music industry has returned to growth driven by streaming



Source: Global recorded music revenue, IFPI Global Music Report 2020

A number of new positions were also purchased in companies where earnings have been materially impacted by the pandemic, but where we can see a clear path to sales and earnings recovery as trading conditions normalise. These companies have often temporarily suspended their dividend, but we are purchasing positions at what we think will prove to be an attractive dividend yield when dividends resume. Among the largest purchases in this area were new positions in retailers **Marks & Spencer** and **Halfords**. Marks & Spencer

is a company that we have historically avoided within the portfolio; it has ceded market share for many years in clothing and as a result group earnings have struggled to grow. However, there are two aspects of the investment case that have recently changed; a new management team (led by new Chairman Archie Norman) and a joint venture with Ocado. Under a new management team they have begun to address many of their legacy issues, including their store estate and an (at times) bewilderingly large number of similar items. The partnership with Ocado allows their food division to move online, potentially allowing material scale benefits in bringing their (historically successful) food division to a larger end-market. Halfords was a new purchase in February, that was subsequently increased once the effects of the pandemic became clearer. Under a new management team it has improved both its consumer proposition (for example a materially improved website) and its focus on return on capital. On a short-term basis it has also benefitted from strong trading in its cycling division.

Among the sales during the period were pub operator **Greene King**, medical device manufacturer **Consort Medical**, clothing retailer **Moss Bros** and building materials company **Low & Bonar**, all of which were sold following takeover approaches. Other large reductions included defence equipment manufacturer **Avon Rubber** (where the remainder of the position was sold shortly after the year end) and **Royal Dutch Shell**. Avon Rubber had been in the portfolio for over fifteen years, progressing from a supplier of milking equipment to the dairy industry to a strategic supplier to the US Department of Defense (providing protective equipment such as gas masks). Fifteen years ago the share price was £2.14; the final sale just after the period end was at £43.99 and there have been many dividends received in addition. This achievement is a testament to both the current and previous management teams that have undertaken selective acquisitions at sensible valuations to grow the earnings materially while maintaining a strong balance sheet.

Royal Dutch Shell was reduced both prior to and following the two thirds dividend cut announced this year. The reason for the reduction was that it became clear the company had been historically over-distributing; cash spent on its dividend relative to its capital expenditure had been gradually rising over a number of years and it was also becoming increasingly indebted. Other material reductions included textile rental company **Johnson Service Group** and restaurant crockery designer and manufacturer **Churchill China**. In both cases they are market leaders in the UK, with well invested facilities, experienced management teams and a history of strong organic growth. However, both are materially exposed to the hospitality industry, which has been very badly impacted by a prolonged period of closure during 'lockdown' and a subsequent slow recovery in trading activity.

# Strategic Report: Fund Managers' Report (continued)

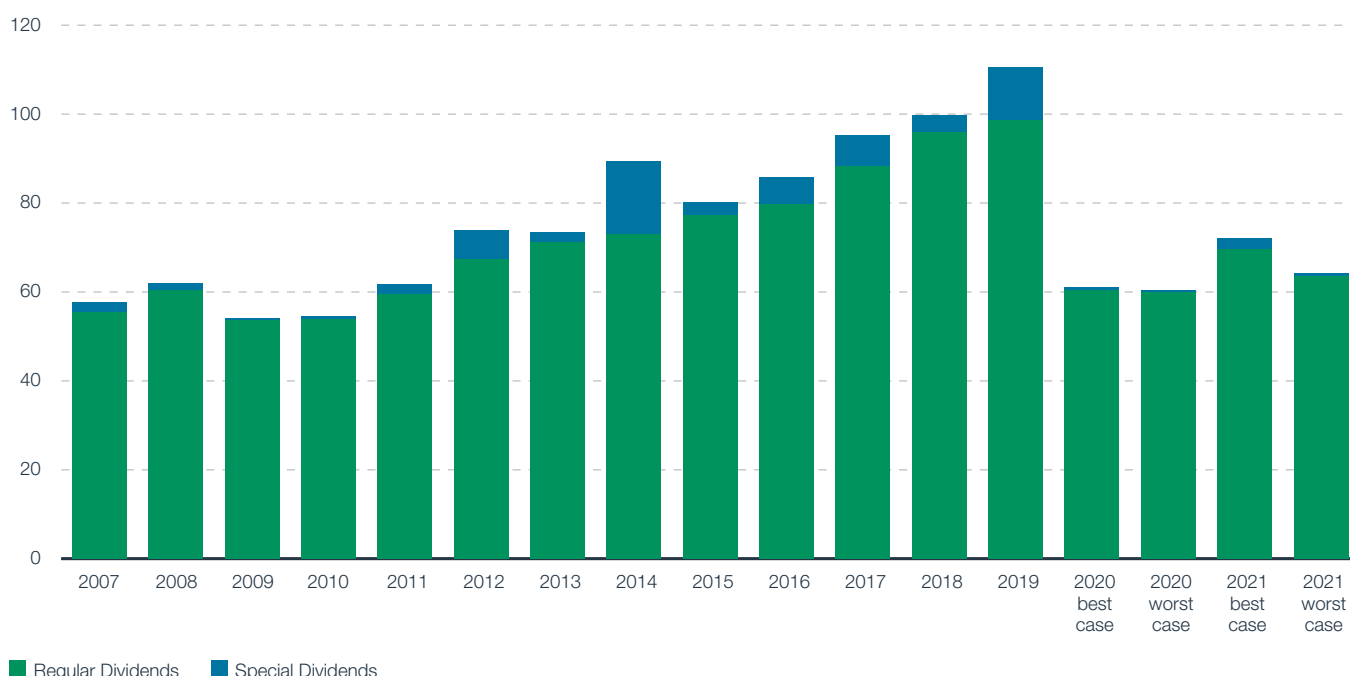
## Dividends

At the peak of uncertainty in Spring this year, UK dividends were cut at an unprecedented rate. In the second quarter of 2020, UK dividend payments fell 50% (excluding special dividends), with steeper cuts among small and medium sized companies, where dividend payments fell by three quarters. Dividend cuts were most pronounced among cyclical sectors including Financials, while in more defensive sectors payments continued largely unaffected.

For Lowland specifically, earnings per share (including special dividends) fell 50% during the financial year. While the portfolio was less affected than the broader market by large company

dividend cuts (such as Royal Dutch Shell, BP and HSBC, where we hold comparatively less than the FTSE All-Share benchmark), the portfolio holds more in small and medium sized companies, where companies (generally at an earlier stage in their life cycle and more exposed to the domestic economy) were quicker to suspend their dividend. A number of the non-life insurers held (such as Hiscox, RSA and Direct Line), also suspended their dividend because of an uncertain claims outlook, although some (such as Direct Line and Aviva), have subsequently resumed payments.

### UK dividends (full-year basis) (£ billions)



Source: Link Group UK Dividend Monitor, Q2 2020

Since the peak period of dividend cuts in the second quarter, there has been an encouraging trend of companies returning to paying dividends across a broad range of sectors. Examples of this include paper and packaging company Mondi, defence equipment provider BAE Systems and industrial engineer IMI.

Our approach to the dividend trajectory for the Company has been to model investment income under a reasonable domestic recovery scenario out to FY22 (the financial year starting September 2021), in order to determine whether earnings per share can realistically recover to the point where it can cover the dividend payment. Based on what we view as reasonable (and in some cases conservative) assumptions regarding dividend payments, we think earnings per share can recover to near their historic trajectory.

# Strategic Report: Fund Managers' Report (continued)

## Outlook

Since the majority of this statement was written, the US election has taken place and Pfizer, Moderna and AstraZeneca have released promising initial trial results from their COVID-19 vaccines. This has (at least to a degree) removed two key uncertainties, leaving our future trading relationship with the EU as the remaining overhang on the UK equity market. The Company's net asset value has responded positively to news of a vaccine. As at the close of business on Friday 4 December, the Company's NAV (on a total return basis) had risen 23.3% since the financial year end, while the FTSE All-Share rose 13.3% over the same period. In a reversal of the pattern described in the attribution section of this report, the best performing shares since year end have been those most positively exposed to a 're-opening' of the domestic and global economy. Despite the recent move upwards in equity prices we continue to see excellent value opportunities across the UK equity market as we look ahead into 2021.

The UK economy could see a strong recovery from 2021 onwards as the spending deferred during lockdown 'kicks in' on consumer and business confidence returning. The result could be a rapid improvement in corporate margins as sales recover. However, it is important to remain mindful that the debt taken in the pandemic by governments and companies needs to be paid back over time. The long-term implications of the pandemic on economic life will need to be worked through over an extended period.

James Henderson and Laura Foll  
Fund Managers  
7 December 2020

# Strategic Report: Portfolio Analysis

Sector		United Kingdom %	Overseas %	Total 30 September 2020 %	FTSE All-Share Index 2020* %	Total 30 September 2019 %
<b>Oil &amp; Gas</b>	Alternative Energy	0.6	–	<b>0.6</b>	–	0.3
	Oil & Gas Producers	3.8	–	<b>3.8</b>	6.5	8.6
	Oil Equipment, Services & Distribution	–	0.9	<b>0.9</b>	0.1	0.1
		<b>4.4</b>	<b>0.9</b>	<b>5.3</b>	<b>6.6</b>	<b>8.9</b>
<b>Basic Materials</b>	Chemicals	2.0	–	<b>2.0</b>	0.8	1.7
	Forestry & Paper	1.5	–	<b>1.5</b>	0.4	1.1
	Mining	3.0	–	<b>3.0</b>	7.6	1.2
		<b>6.5</b>	<b>–</b>	<b>6.5</b>	<b>8.8</b>	<b>4.0</b>
<b>Industrials</b>	Aerospace & Defence	3.5	–	<b>3.5</b>	1.4	6.5
	Automobiles & Parts	–	–	<b>–</b>	0.1	0.0
	Construction & Materials	3.7	–	<b>3.7</b>	1.5	2.4
	Electronic & Electrical Equipment	5.2	–	<b>5.2</b>	0.9	2.8
	General Industrials	1.1	–	<b>1.1</b>	1.7	1.5
	Industrial Engineering	5.7	–	<b>5.7</b>	1.1	4.7
	Industrial Metals & Mining	–	–	<b>–</b>	0.1	–
	Industrial Transportation	2.3	–	<b>2.3</b>	0.3	2.4
	Support Services	2.0	–	<b>2.0</b>	6.0	4.8
		<b>23.5</b>	<b>–</b>	<b>23.5</b>	<b>13.1</b>	<b>25.2</b>
<b>Consumer Goods</b>	Beverages	–	–	<b>–</b>	3.6	–
	Food Producers	–	–	<b>–</b>	0.7	–
	Household Goods & Home Construction	2.7	–	<b>2.7</b>	4.1	3.6
	Leisure Goods	–	–	<b>–</b>	0.2	0.1
	Personal Goods	–	–	<b>–</b>	3.2	0.4
		<b>2.7</b>	<b>–</b>	<b>2.7</b>	<b>11.8</b>	<b>4.4</b>
<b>Health Care</b>	Health Care Equipment & Services	–	–	<b>–</b>	1.0	0.7
	Pharmaceuticals & Biotechnology	6.5	–	<b>6.5</b>	10.4	5.0
		<b>6.5</b>	<b>–</b>	<b>6.5</b>	<b>11.4</b>	<b>5.7</b>
<b>Consumer Services</b>	Food & Drug Retailers	1.0	–	<b>1.0</b>	2.2	–
	General Retailers	3.0	–	<b>3.0</b>	2.6	1.4
	Media	4.1	–	<b>4.1</b>	3.6	3.5
	Travel & Leisure	1.5	1.6	<b>3.1</b>	4.2	5.8
	<b>9.6</b>	<b>1.6</b>	<b>11.2</b>	<b>12.6</b>	<b>10.7</b>	
<b>Telecommunications</b>	Fixed Line Telecommunications	–	–	<b>–</b>	0.5	–
	Mobile Telecommunications	1.3	–	<b>1.3</b>	1.6	1.5
		<b>1.3</b>	<b>–</b>	<b>1.3</b>	<b>2.1</b>	<b>1.5</b>
<b>Utilities</b>	Electricity	–	–	<b>–</b>	0.8	–
	Gas Water & Multiutilities	7.2	–	<b>7.2</b>	2.6	5.3
		<b>7.2</b>	<b>–</b>	<b>7.2</b>	<b>3.4</b>	<b>5.3</b>
<b>Financials</b>	Banks	4.3	–	<b>4.3</b>	6.1	5.6
	Equity Investment Instruments	2.8	–	<b>2.8</b>	7.0	2.7
	Financial Services	7.6	–	<b>7.6</b>	4.5	7.0
	Life Insurance	8.3	–	<b>8.3</b>	3.2	6.9
	Non-Life Insurance	6.4	1.4	<b>7.8</b>	1.2	7.3
	Real Estate	2.3	–	<b>2.3</b>	0.4	4.4
	Real Estate Investment Trusts	1.9	–	<b>1.9</b>	2.5	–
	<b>33.6</b>	<b>1.4</b>	<b>35.0</b>	<b>24.9</b>	<b>33.9</b>	
<b>Technology</b>	Software & Computer Services	0.8	–	<b>0.8</b>	1.1	0.5
	Technology Hardware & Equipment	–	–	<b>–</b>	0.1	–
		<b>0.8</b>	<b>–</b>	<b>0.8</b>	<b>1.2</b>	<b>0.5</b>
<b>Tobacco</b>	Tobacco	–	–	<b>–</b>	4.1	–
		–	–	<b>–</b>	<b>4.1</b>	–
	Investments	96.1	3.9	<b>100.0</b>	100.0	100.0
	<b>96.1</b>	<b>3.9</b>	<b>100.0</b>	<b>100.0</b>	<b>–</b>	
	<b>96.4</b>	<b>3.6</b>	<b>–</b>	<b>100.0</b>	<b>100.0</b>	



# Strategic Report: Twenty Largest Holdings

## Twenty Largest Holdings as at 30 September 2020

The stocks in the portfolio are a diverse mix of businesses operating in a wide range of end markets.

Rank 2020 (2019)	Company	% of portfolio	Approximate market capitalisation	Valuation 2019 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2020 £'000
1 (2)	<b>GlaxoSmithKline</b> A global pharmaceutical, vaccine and consumer healthcare company. The consumer healthcare and vaccine businesses should be steady growers over time while the pharmaceutical division under a new leadership team could turnaround what has been a mixed research and development track record.	4.1	£73bn	15,265	1,369	(722)	(2,771)	<b>13,141</b>
2 (3)	<b>Phoenix</b> The company operates primarily in the UK and specialises in taking over and managing closed life insurance and pension funds.	3.6	£4.9bn	11,561	–	–	(52)	<b>11,509</b>
3 (8)	<b>Severn Trent</b> A UK water utility with a well invested network and strong track record on operational performance. There is a good dividend yield with scope to grow.	2.9	£5.8bn	9,201	–	(1,291)	1,236	<b>9,146</b>
4 (14)	<b>National Grid</b> A regulated utility (electricity and gas distribution) operating in the US and UK. The regulated asset base has good scope to grow in both the US and the UK. The shares pay an attractive dividend yield.	2.3	£31.2bn	7,202	–	–	65	<b>7,267</b>
5 (6)	<b>Prudential</b> The company provides an assortment of insurance and investment products around the world. The business in the Far East has grown impressively in recent years.	2.2	£28.9bn	9,588	–	–	(2,379)	<b>7,209</b>
6 (19)	<b>Direct Line</b> A UK provider of car and home insurance. The company has well-known brands which will allow it to grow policies well, while maintaining underwriting discipline. A strong balance sheet allows it to pay an attractive dividend yield to shareholders.	2.2	£3.6bn	6,454	1,348	–	(798)	<b>7,004</b>
7 (10)	<b>Relx</b> The company publishes information for the scientific, medical, legal and business sectors serving customers worldwide. The company is a consistent, high quality growth business.	2.1	£33.2bn	7,730	–	–	(826)	<b>6,904</b>
8 (1)	<b>Royal Dutch Shell</b> The company explores, produces and refines oil; it produces fuels, chemicals and lubricants as well as operating filling stations worldwide. The company reduced their cost base to adapt to a lower oil price. While the dividend has recently been re-based, the dividend yield remains attractive and the dividend has scope to grow.	2.1	£113bn	24,475	–	(4,523)	(13,282)	<b>6,670</b>

\* Not in the top 20 largest investments last year

1. Overseas listed stock (Ireland)

# Strategic Report: Twenty Largest Holdings (continued)

Rank 2020 (2019)	Company	% of portfolio	Approximate market capitalisation	Valuation 2019 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2020 £'000
9 (4)	<b>Hiscox</b> The international insurance company manages underwriting syndicates and underwrites a range of personal and commercial insurance. The company is a disciplined underwriter and has over the long term achieved a high return on capital. On a shorter term basis shares have performed poorly due to an uncertain claims backdrop in business interruption insurance during the pandemic.	1.9	£3.1bn	11,311	66	–	(5,199)	<b>6,178</b>
10 (*)	<b>Rio Tinto</b> A diversified mining company with exposure to commodities including iron ore, copper and aluminium. Its mines are well positioned on the global cost curve, allowing strong cash generation even in a volatile commodity price backdrop. The shares pay an attractive dividend yield.	1.8	£75.5bn	5,261	–	–	558	<b>5,819</b>
11 (*)	<b>Morgan Advanced Materials</b> A designer and producer of specialist materials and components for a range of end markets including transportation, semiconductors, healthcare and general industry. Under a new management team the business has invested in research and development and the results are beginning to be evident in improved organic growth and margins.	1.8	£679m	4,297	1,930	–	(574)	<b>5,653</b>
12 (16)	<b>Irish Continental<sup>1</sup></b> The group provides passenger transport, roll-on and roll-off freight transport and container services between Ireland, the United Kingdom and Continental Europe. The shares have been impacted by an uncertain trading relationship between the UK and the EU. However, they continue to be a well managed business operating in a duopolistic industry.	1.6	£529m	6,967	–	–	(1,669)	<b>5,298</b>
13 (*)	<b>Henderson Opportunities Trust</b> An investment trust focused primarily on UK smaller companies, managed by James Henderson and Laura Foll. The portfolio has little cross-over with Lowland and brings diversification to the portfolio through its exposure to earlier stage, often lower yielding, smaller UK companies.	1.6	£68m	5,478	–	–	(282)	<b>5,196</b>
14 (*)	<b>Pennon</b> A UK water utility with a well invested network. The shares have benefitted from the disposal of Viridor, Pennon's waste management business, to private equity at what was perceived to be a high valuation.	1.6	£4.3bn	4,135	–	–	1,020	<b>5,155</b>

\* Not in the top 20 largest investments last year

1. Overseas listed stocks (Ireland)

## Strategic Report: Twenty Largest Holdings (continued)

Rank 2020 (2019)	Company	% of portfolio	Approximate market capitalisation	Valuation 2019 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2020 £'000
15 (20)	<b>Aviva</b> This company provides a wide range of insurance and financial services. Under a new CEO there is a heightened focus on simplifying the business and exiting peripheral geographies.	1.6	£11.2bn	6,189	535	–	(1,724)	5,000
16 (*)	<b>Mondi</b> A vertically integrated producer of paper and packaging products. It is well positioned on the cost curve across the products it produces, allowing strong cash generation and attractive margins.	1.5	£8.0bn	4,674	–	–	245	4,919
17 (5)	<b>HSBC</b> The global bank provides international banking and financial services. The diversity of the countries it operates in as well as its exposure to faster growing economies make it well placed.	1.5	£61.4bn	11,117	–	(919)	(5,435)	4,763
18 (9)	<b>Standard Chartered</b> The international banking group operates principally in Asia, Africa and the Middle East. The management team has focused the bank on areas of relative strength in growing markets.	1.5	£11.2bn	9,092	–	–	(4,360)	4,732
19 (*)	<b>Hill &amp; Smith</b> An engineering firm operating in the US and UK that produces materials for infrastructure, along with galvanising services. Its products and services are positively exposed to the commitment of both the UK and US governments to grow infrastructure spending.	1.4	£948m	4,394	248	–	(147)	4,495
20 (*)	<b>FBD<sup>1</sup></b> An Irish insurer with a focus on the agricultural sector, as well as writing motor and business insurance. The shares have performed poorly in the short term because of business interruption claims as a result of the pandemic. On a longer term basis it is a disciplined underwriter and the balance sheet is strong.	1.4	£276m	5,434	711	–	(1,787)	4,358
				<b>169,825</b>	<b>6,207</b>	<b>(7,455)</b>	<b>(38,161)</b>	<b>130,416</b>

At 30 September 2020 these investments totalled £130,416,000 or 40.7% of portfolio.

\* Not in the top 20 largest investments last year

1. Overseas listed stock (Ireland)

# Strategic Report: Investment Portfolio

30 September  
2020

Position	Investments	Sector	Market value £'000	% of Portfolio
1	GlaxoSmithKline	Pharmaceuticals & Biotechnology	13,141	4.1
2	Phoenix	Life Insurance	11,509	3.6
3	Severn Trent	Gas Water & Multiutilities	9,146	2.9
4	National Grid	Gas Water & Multiutilities	7,267	2.3
5	Prudential	Life Insurance	7,209	2.2
6	Direct Line	Non-Life Insurance	7,004	2.2
7	Relx	Media	6,904	2.1
8	Royal Dutch Shell	Oil & Gas Producers	6,670	2.1
9	Hiscox	Non-Life Insurance	6,178	1.9
10	Rio Tinto	Mining	5,819	1.8
<b>10 largest</b>			<b>80,847</b>	<b>25.2</b>
11	Morgan Advanced Materials	Electronic & Electrical Equipment	5,653	1.8
12	Irish Continental	Travel & Leisure (Ireland)	5,298	1.6
13	Henderson Opportunities Trust	Equity Investment Instruments	5,196	1.6
14	Pennon	Gas Water & Multiutilities	5,155	1.6
15	Aviva	Life Insurance	5,000	1.6
16	Mondi	Forestry & Paper	4,919	1.5
17	HSBC	Banks	4,763	1.5
18	Standard Chartered	Banks	4,732	1.5
19	Hill & Smith	Industrial Engineering	4,495	1.4
20	FBD	Non-Life Insurance (Ireland)	4,358	1.4
<b>20 largest</b>			<b>130,416</b>	<b>40.7</b>
21	BAE Systems	Aerospace & Defence	4,338	1.4
22	Vodafone	Mobile Telecommunications	4,177	1.3
23	Randall & Quilter <sup>1</sup>	Non-Life Insurance	4,144	1.3
24	Hipgnosis	Equity Investment Instruments	3,979	1.2
25	Somero Enterprises <sup>1</sup>	Industrial Engineering	3,952	1.2
26	Anglo American	Mining	3,939	1.2
27	Epwin <sup>1</sup>	Construction & Materials	3,872	1.2
28	Ilika <sup>1</sup>	Electronic & Electrical Equipment	3,867	1.2
29	Studio Retail	General Retailers	3,722	1.2
30	Land Securities	Real Estate Investment Trusts	3,658	1.1
<b>30 largest</b>			<b>170,064</b>	<b>53.0</b>
31	Clarkson	Industrial Transportation	3,646	1.1
32	K3 Capital <sup>1</sup>	Financial Services	3,633	1.1
33	Standard Life Aberdeen	Financial Services	3,596	1.1
34	TT Electronics	Electronic & Electrical Equipment	3,577	1.1
35	XP Power	Electronic & Electrical Equipment	3,544	1.1
36	Anexo <sup>1</sup>	Support Services	3,509	1.1
37	Numis <sup>1</sup>	Financial Services	3,478	1.1
38	IMI	Industrial Engineering	3,450	1.1
39	Redde Northgate	Industrial Transportation	3,430	1.1
40	M&G	Financial Services	3,429	1.1
<b>40 largest</b>			<b>205,356</b>	<b>64.0</b>

1. AIM stocks

2. Unlisted investments

3. In administration

# Strategic Report: Investment Portfolio (continued)

30 September  
2020

Position	Investments	Sector	Market value £'000	% of Portfolio
41	DS Smith	General Industrials	3,429	1.1
42	Castings	Industrial Engineering	3,429	1.1
43	Ten Entertainment	Travel & Leisure	3,411	1.1
44	Croda	Chemicals	3,289	1.0
45	BP	Oil & Gas Producers	3,265	1.0
46	Tesco	Food & Drug Retailers	3,188	1.0
47	Balfour Beatty	Construction & Materials	3,146	1.0
48	AstraZeneca	Pharmaceuticals & Biotechnology	3,087	1.0
49	Gibson Energy	Oil Equipment, Services and Distribution (Canada)	3,039	0.9
50	Headlam	Household Goods & Home Construction	3,015	0.9
<b>50 largest</b>			<b>237,654</b>	<b>74.1</b>
51	IP Group	Financial Services	3,004	0.9
52	Chesnara	Life Insurance	2,907	0.9
53	St Modwen Properties	Real Estate	2,790	0.9
54	Bellway	Household Goods & Home Construction	2,704	0.9
55	4D Pharma <sup>1</sup>	Pharmaceuticals & Biotechnology	2,638	0.8
56	H&T Group <sup>1</sup>	Financial Services	2,592	0.8
57	Marks & Spencer	General Retailers	2,584	0.8
58	Palace Capital	Real Estate	2,549	0.8
59	STV	Media	2,519	0.8
60	Elecosoft <sup>1</sup>	Software & Computer Services	2,460	0.8
<b>60 largest</b>			<b>264,401</b>	<b>82.5</b>
61	NatWest	Banks	2,280	0.7
62	Halfords	General Retailers	2,268	0.7
63	Euromoney	Media	2,208	0.7
64	Avon Rubber	Aerospace & Defence	2,167	0.7
65	Elementis	Chemicals	2,166	0.7
66	RSA	Non-Life Insurance	2,146	0.6
67	Babcock	Aerospace & Defence	2,003	0.6
68	Helical	Real Estate	1,921	0.6
69	Tyman	Construction & Materials	1,891	0.6
70	Senior	Aerospace & Defence	1,870	0.6
<b>70 largest</b>			<b>285,321</b>	<b>89.0</b>
71	Lloyds Banking	Banks	1,845	0.6
72	Churchill China <sup>1</sup>	Household Goods & Home Construction	1,828	0.6
73	Provident Financial	Financial Services	1,813	0.6
74	Ibstock	Construction & Materials	1,759	0.5
75	Vitec	Industrial Engineering	1,716	0.5
76	Daily Mail & General Trust	Media	1,656	0.5
77	Oxford Sciences Innovation <sup>2</sup>	Pharmaceuticals & Biotechnology	1,640	0.5
78	Johnson Service <sup>1</sup>	Support Services	1,543	0.5
79	International Personal Finance	Financial Services	1,468	0.5
80	Alpha Financial Markets <sup>1</sup>	Support Services	1,428	0.4
<b>80 largest</b>			<b>302,017</b>	<b>94.2</b>

1. AIM stocks

2. Unlisted investments

3. In administration

# Strategic Report: Investment Portfolio (continued)

30 September  
2020

Position	Investments	Sector	Market value £'000	% of Portfolio
81	Ricardo	Construction & Materials	1,404	0.4
82	Hammerson	Real Estate Investment Trusts	1,386	0.4
83	Sabre Insurance	Non-Life Insurance	1,332	0.4
84	Secure Income REIT <sup>1</sup>	Real Estate Investment Trusts	1,197	0.4
85	Atlantis Resources <sup>1</sup>	Alternative Energy	1,186	0.4
86	Centrica	Gas Water & Multiutilities	1,102	0.4
87	Appreciate <sup>1</sup>	Financial Services	1,097	0.4
88	Renold <sup>1</sup>	Industrial Engineering	1,077	0.3
89	Airea <sup>1</sup>	Household Goods & Home Construction	1,031	0.3
90	Shoe Zone <sup>1</sup>	General Retailers	990	0.3
<b>90 largest</b>			<b>313,819</b>	<b>97.9</b>
91	Indus Gas <sup>1</sup>	Oil & Gas Producers	854	0.3
92	Carclo	Chemicals	797	0.3
93	Wadworth – Ordinary shares <sup>2</sup>	Travel & Leisure	729	0.2
94	Rolls-Royce	Aerospace & Defence	715	0.2
95	Jadestone Energy <sup>1</sup>	Oil & Gas Producers	661	0.2
96	Velocys <sup>1</sup>	Alternative Energy	589	0.2
97	Cineworld	Travel & Leisure	551	0.2
98	Stobart	Industrial Transportation	462	0.1
99	Faron Pharmaceuticals <sup>1</sup>	Pharmaceuticals & Biotechnology	385	0.1
100	Severfield	Industrial Engineering	240	0.1
<b>100 largest</b>			<b>319,802</b>	<b>99.8</b>
101	Providence Resources <sup>1</sup>	Oil & Gas Producers	209	0.1
102	Premier Oil	Oil & Gas Producers	208	0.1
103	Wadworth – Preference shares <sup>2</sup>	Travel & Leisure	126	–
104	Chamberlin <sup>1</sup>	Industrial Engineering	95	–
105	Infrastructure India <sup>1</sup>	Equity Investment Instruments	83	–
106	Mercantile Ports & Logistics <sup>1</sup>	Industrial Transportation	27	–
107	Carillion <sup>3</sup>	Support Services	–	–
108	Conviviality Retail <sup>3</sup>	Food & Drug Retailers	–	–
109	Encor Power <sup>3</sup>	Electricity Generation and Distribution	–	–
110	Interserve <sup>3</sup>	Support Services	–	–
<b>Total Investments</b>			<b>320,550</b>	<b>100.0</b>

1. AIM stocks

2. Unlisted investments

3. In administration

# Strategic Report: Business Model

## Purpose and Values

The Company's purpose is to deliver growth in income and capital for shareholders by investing in equities. We do this by following a disciplined process for investment and by controlling costs and using borrowings to enhance returns.

The Board aspires to follow high standards of governance, with a culture based on openness, mutual respect, integrity, constructive challenge and trust. The Board seeks always to act in the best interests of shareholders, making the most effective use possible of the diversity of skills and experience of its members. This culture of openness and constructive challenge extends to the Board's interaction with the Manager, being the Company's most important service provider. The Board expects the Manager and all of the Company's other service providers to hold values which align with the high standards promoted by the Board.

## Our Strategy

We fulfil our purpose by operating as an investment company, enabling us to delegate operational matters to specialised third-party service providers. Their performance is monitored and challenged by a Board of Directors which retains oversight of the Company's operations.

The framework of delegation provides a cost-effective mechanism for delivering operations whilst allowing the Company to take advantage of the capital gains tax treatment afforded to investment trusts which are approved under section 1158/9 of the Corporation Tax Act 2010 as amended ('s.1158/9'). The closed-ended nature of the Company enables the Fund Managers to take a longer term view of investments and supports a fully invested portfolio as the Company has no redemptions to meet. A significant advantage over other investment fund structures is the ability to use leverage to increase returns for shareholders.

The Board is comprised entirely of non-executive Directors accountable to shareholders, who have the ability to remove a Director from office where they deem it to be in the interests of the Company.

## The Company's Status

The Company is registered as a public limited company, founded in 1960, and is an investment company as defined in Section 833 of the Companies Act 2006 ('the Act'). The Company is not a close company. It operates as an investment trust in accordance with s.1158/9 and has obtained approval from HMRC for its status. The Directors are of the opinion that the Company has conducted its affairs in compliance with s.1158/9 since approval was granted and intends to continue to do so.

The Company is listed on the Main Market of the London Stock Exchange and is subject to the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority ('FCA'). The Company is a member of the Association of Investment Companies.

The Company, and the Board, is governed by its Articles of Association, amendments to which must be approved by shareholders by way of special resolution.

## Investment Objective

The Company aims to give shareholders a higher than average return with growth of both capital and income over the medium to long-term by investing in a broad spread of predominantly UK companies. The Company measures its performance against the FTSE All-Share Index Total Return.

## Investment Policy

### Asset Allocation

The Company will invest in a combination of large, medium and smaller companies listed in the UK. We are not constrained by the weightings of any index; we focus instead on controlling absolute risk by diversifying on the basis of underlying company characteristics such as size, industry, economic sensitivity, clients and management. In normal circumstances up to half the portfolio will be invested in FTSE 100 companies; the remainder will be divided between small and medium-sized companies. On occasions the Manager will buy shares listed overseas. The Manager may also invest a maximum of 15% in other listed trusts.

### Dividend

The Company aims to provide shareholders with better-than-average dividend growth.

### Gearing

The Board believes that debt in a closed-end fund is a valuable source of long-term outperformance, therefore the Company will usually be geared. At the point of drawing down debt, gearing will never exceed 29.99% of the portfolio valuation. Borrowing will be a mixture of short and long-dated debt, depending on relative attractiveness of rates.

## Promoting the Company's Success

### Section 172 statement

The Directors' overarching duty is to promote the success of the Company for the benefit of investors, with consideration of stakeholders' interests, as set out in Section 172 of the Act. The Board regards a well governed business as essential for the successful delivery of its investment proposition.

Shareholders' assets are managed taking account of our stakeholders and their interests. The Board has mapped who these stakeholders are to support it in identifying and understanding who the stakeholders are and fostering the appropriate level and form of interaction with them.

The Company has no employees, premises, assets other than financial assets or operations. The Board engages reputable third-party suppliers with established track records to deliver day-to-day operations. The most important of these is the Manager, in particular the Fund Managers, who are responsible for the management of the Company's assets in

# Strategic Report: Business Model (continued)

line with the investment objective, the Corporate Secretary, the Director and Head of Investment Trusts and the Financial Reporting Manager for Investment Trusts. The Board maintains a close working relationship with the Manager and holds it to account for the smooth running of the Company's day-to-day business. There is continuous engagement and dialogue between Board meetings, with communication channels remaining open and information, ideas and advice flowing freely between the Board and the Manager.

The Board retains responsibility for decisions over corporate strategy, corporate governance, risk and internal control assessment, determining the overall limits and restrictions for the portfolio and in respect of gearing and asset allocation, investment performance monitoring and setting marketing budgets.

The Fund Managers promote the Company with the support of the Manager's dedicated investment trust sales team and the Board makes additional spend available to support marketing activities aimed at raising the profile of the Company among retail investors in the UK.

As the Manager holds the overall day-to-day relationship with the Company's other third-party suppliers, the Board places reliance on the Manager in this regard. The Board is confident that Janus Henderson has developed and maintains good working relationships with all of the Company's third-party suppliers. To ensure the chosen service providers continue to deliver the expected level of service, the Board receives regular reports from them, evaluates the control environments in place at each service provider and formally assesses their appointment annually. By doing so, the Board seeks to ensure that the key service providers continue to be appropriately remunerated to deliver the level of service that it demands of them.

The Directors carry out their duties under Section 172 of the Act to act in good faith to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decisions in the long term, the need to foster the Company's business relationships with suppliers, customers and others, the impact of the Company's operations on the community and the environment and the desirability of the Company maintaining a reputation for high standards of business conduct.

The Directors are responsive to the views of shareholders and the Company's wider stakeholders. Shareholders may contact the Board via the Corporate Secretary (please refer to page 26 for contact details).

For more information about the responsibilities with which the Board and its Committees are charged, please refer to the Corporate Governance Statement (pages 38 to 43), the Audit Committee Report (pages 44 to 45), the Directors' Remuneration Report (pages 36 to 37) and the Report of the Directors (pages 33 to 34) in addition to the Strategic Report. The Schedule of Matters Reserved for the Board as well as the Terms of Reference for each of the Committees of the Board can be found on the Company's website.

## Engagement with Stakeholders

The Company's main stakeholders are its shareholders and investors, the Manager and other third-party service providers and the companies in which it invests. Wider stakeholders include the Company's lenders and regulatory and legislative bodies. Interaction is facilitated through meetings (both face-to-face and, particularly more recently, via video conferencing and other electronic means), seminars, presentations, publications and the Company's website. Set out below are examples of the way the Board and the Company interacts with its stakeholders.

Stakeholder	Engagement	Outcome
<b>Shareholders and investors</b>	<p>The Board communicates with shareholders through the annual and half year reports, fact sheets, press releases, website and videos recorded by the Fund Managers. The Board meets with shareholders at the Annual General Meeting, which is usually live-streamed and shareholders are therefore able to join the Meeting online if they cannot attend in person. The Annual General Meeting includes a Fund Manager presentation and Q&amp;A session.</p> <p>The Chairman and Directors are available to meet with the Company's largest shareholders. The Fund Managers, the Manager's sales and marketing team, the broker and external marketing research providers (Edison) also meet with shareholders and analysts.</p>	<p>Shareholders are able to make informed decisions about their investments.</p> <p>Correspondence from shareholders is shared with the Chairman immediately and with the Board at each meeting.</p> <p>Due to the ongoing restrictions on large gatherings, shareholders will be unable to attend the Annual General Meeting on 27 January 2021 in person and it will be held as a 'closed meeting'. Voting on the resolutions to be proposed will be conducted on a poll, and shareholders will be able to submit their Forms of Proxy to ensure their vote counts.</p> <p>The Board would, however, like to engage with shareholders and therefore a live zoom conference will be held, which shareholders are encouraged to register for, at <a href="https://jhi.zoom.us/webinar/register/WN_jO3n_WjSSDKtISvCXs3hNw">https://jhi.zoom.us/webinar/register/WN_jO3n_WjSSDKtISvCXs3hNw</a>. This will feature a live presentation from the Fund Managers and a chance to ask questions of the Manager and Board.</p> <p>The presentation from the Fund Managers will also be available to watch on the Company website.</p>



# Strategic Report: Business Model (continued)

Stakeholder	Engagement	Outcome
<b>Manager</b>	<p>The Fund Managers attend all Board meetings. The Board receives timely and accurate information from the Manager at meetings and engages with the Fund Managers and Corporate Secretary between meetings as well as with other representatives as and when it is deemed necessary.</p> <p>In addition to reporting at each meeting, the Board meets with key representatives of the Manager throughout the year to develop strategy and assess internal controls and risk management, e.g. sales and marketing activities, to promote the success of the Company and raise its profile.</p>	<p>The Board places great value on the expertise and experience of the Fund Managers to execute the investment objective and deliver returns for shareholders, and on the Manager's internal controls and risk management.</p> <p>Throughout the course of the COVID-19 pandemic the Board has been in regular contact with the Manager, receiving updates on areas such as portfolio activity, gearing and the impact on income and the Company's ability to meet its investment objective.</p>
<b>Service providers</b>	<p>As an investment company, all services are outsourced to third-party service providers. The Board considers the Company's key service providers to be the Manager, Broker, Depositary, Registrar, Auditor and Administrator. The Board regularly considers the support provided by the service providers, including quality of service, succession planning and any potential interruption of service or other risks to provision.</p> <p>The Board is conscious of the need to foster good business relationships with its suppliers as well as its shareholders and others.</p>	<p>The Manager maintains the overall day-to-day relationship with the service providers and reports back to the Board on performance at least annually. The Corporate Secretary contacted all of the Company's key third-party suppliers in the wake of the COVID-19 pandemic to seek clarification that the Company would continue to receive a 'business as usual' service, and to work collaboratively with them to find solutions in the event of any service disruption. There has been no change to the level of service provided by the Manager or the Company's other third-party suppliers.</p>
<b>Investee companies</b>	<p>The Board sets the investment objective and discusses stock selection and asset allocation with the Fund Managers regularly.</p> <p>On behalf of the Company, the Manager engages with the investee companies, exercising good stewardship practices, including a focus on ESG matters with an approach agreed with the Board.</p>	<p>The Manager has a dedicated Governance and Responsible Investment Team that the Fund Managers can use when making investment decisions and voting.</p>

## Management

The Company qualifies as an Alternative Investment Fund ('AIF') in accordance with the Alternative Investment Fund Managers Directive ('AIFMD').

The Company has appointed Henderson Investment Funds Limited ('HIFL') to act as its Alternative Investment Fund Manager ('AIFM') in accordance with an agreement which was effective from 22 July 2014 and is terminable on six months' notice (or less, in which case compensation would be payable to the Manager). The Manager can terminate the agreement on twelve months' notice. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the FCA. References to Janus Henderson and the Manager within this report refer to the services provided by both entities.

The fund management team is James Henderson and Laura Foll. James Henderson has been Manager since 1990 and Laura has been co-Manager since 2016.

Janus Henderson and its subsidiaries provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of Janus Henderson, by BNP Paribas Securities Services. Helena Harvey ACG acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

## Management and Performance Fee Arrangements

The management fee was calculated on a tiered basis at the rate of 0.5% per annum of the first £375m of the average net chargeable assets with the balance above that charged at a reduced rate of 0.4% per annum for the financial year under review. The Board has agreed with the Manager that a revised fee will be payable with effect from 1 October 2020. This revised fee arrangement removes the performance fee. The level at which the management fee drops from 0.5% to 0.4% of net chargeable assets has also been reduced from £375m to £325m. Management fees are charged 50% to revenue and 50% to capital.

Net chargeable assets are defined as total assets less current liabilities and without limitation any borrowings at fair value, less the value of any investment in Janus Henderson Group plc and the value of any investment in any funds managed by Janus Henderson.

For the year under review, the performance fee was 15% of any outperformance on a total return basis of Lowland's benchmark (currently the FTSE All-Share Index Total Return) by more than 10% (the 'hurdle rate') over the average of the last three years. Any performance fee paid would be charged to the capital account. There was a cap on the performance fee of 0.25% per annum of average net chargeable assets in any one year.

No performance fee was payable if the net asset value per share on the last day of the relevant calculation period was lower than the net asset value per share on the first day of that calculation period. No performance fee was payable in respect of the year ended 30 September 2020.

# Strategic Report: Biographies



From left to right: James Henderson, Gaynor Coley, Karl Sternberg, Laura Foll, Robert Robertson, Thomas Walker, Duncan Budge.

All Directors are independent of Janus Henderson and are members of the Audit (except the Chairman and Mr Sternberg), Nominations, Management Engagement and Insider Committees.

## Directors

### Robert Robertson

**Position:** Chairman of the Board and of the Nominations and Management Engagement Committees (Chairman 24 January 2017)

**Date of appointment:** 1 May 2011

Robert is a director of a number of private companies. He was previously chairman of West China Cement Limited, a director of BlackRock Smaller Companies Trust plc, Buro Happold Engineers Limited, Metallon Corporation plc and Mondi Europe and chief executive of Tarmac Group Limited and Anglo American's Industrial Minerals division. His early career was in finance, working in London, Paris, Johannesburg, New York and Rio de Janeiro. He brings over forty years' involvement in companies of all sizes, many sectors and geographies, and in executive and non-executive capacities as well as investment experience.

### Duncan Budge

**Position:** Director

**Date of appointment:** 14 July 2014

Duncan has extensive experience within the investment trust sector. He is Chairman of Dunedin Enterprise Investment Trust PLC and Artemis Alpha Trust plc. He is a non-executive director of Menhaden plc, Biopharma Credit plc and Asset Value Investors Ltd. He was formerly a director and Chief Operating Officer of RIT Capital Partners plc, and a director of J. Rothschild Capital Management Limited (RIT's management company). Prior to this he spent six years at Lazard Brothers & Co. Limited.

# Strategic Report: Biographies (continued)

(Susan) Gaynor Coley

**Position:** Director and Chairman of the Audit Committee (Audit Chairman 24 January 2017)

**Date of appointment:** 1 November 2016

Gaynor is a director and Chair of the Audit Committee of the Secured Investment Fund plc, Asia Dragon Trust plc and Foresight 4 VCT plc. She is Chairman of The Wave Group Limited, a private company based in Bristol building inland surfing venues and is also a partner in Coley Hill Consultancy. She was previously the Director of Public Programmes at the Royal Botanic Gardens Kew, Managing Director of the Eden Project in Cornwall, and Director of Finance at Plymouth University. A qualified chartered accountant, she has over 30 years of experience in private and public sector finance and governance.

Karl Sternberg

**Position:** Director

**Date of appointment:** 1 January 2009

Karl is Chairman of Monks Investment Trust PLC, and a director of Jupiter Fund Management PLC, JPMorgan Elect plc, Herald Investment Trust plc and Alliance Trust plc. He is also a Fellow of Christ Church, Oxford. He was formerly Chief Investment Officer for Deutsche Asset Management (Europe and Asia Pacific) and Chief Executive of Oxford Investment Partners Limited. He is also used to managing investment teams in a large fund management organisation. His varied non-executive directorships give him a good understanding of contributing to the supervision of an investment trust portfolio; his involvement in operating companies also allows him to share insights with the managers on the issues businesses face in the financial sector.

Thomas Walker

**Position:** Director

**Date of appointment:** 1 July 2019

Tom is currently a non-executive director of EP Global Opportunities Trust plc and JPMorgan Japan Smaller Companies Trust plc and has longstanding trustee experience with the Church of Scotland Investors Trust. He is a qualified chartered accountant and has broad international experience of managing funds, including investment trusts. He was formerly a Fund Manager with Martin Currie Investment Management, where latterly he headed up the global long-term unconstrained team and was also the manager of the global investment trust, Martin Currie Global Portfolio Trust plc.

## Fund Managers

James Henderson

James Henderson is Director of UK Investment Trusts and a Fund Manager at Janus Henderson Investors, a position he has held as part of the Janus Henderson team since 2003. He joined Janus Henderson in 1983 as a trainee fund manager and, during his tenure with the firm, has been successfully managing a number of investment trusts, and Lowland since 1990. Prior to joining Janus Henderson he was an accountant trainee at Binder Hamlyn. James graduated with an MA (Hons) in economics from Cambridge University and has 37 years of financial industry experience.

Laura Foll

Laura Foll is a Fund Manager at Janus Henderson Investors, a position she has held as part of the Janus Henderson team since 2014. Laura joined Janus Henderson in 2009 as part of the graduate scheme. She was subsequently named a global analyst on the value and income team and later an assistant fund manager for the global equity income team. Laura graduated from the London School of Economics with an honours degree in economic history with economics. She holds the Chartered Financial Analyst designation and has 11 years of financial industry experience.

# Strategic Report: Corporate Information

## Registered Office

201 Bishopsgate  
London EC2M 3AE

## Service Providers

### Alternative Investment Fund Manager

Henderson Investment Funds Limited  
201 Bishopsgate  
London EC2M 3AE

### Corporate Secretary

Henderson Secretarial Services Limited  
201 Bishopsgate  
London EC2M 3AE  
Telephone: 020 7818 1818  
Email: ITSecretariat@janushenderson.com

### Depository and Custodian

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### Stockbrokers

J.P. Morgan Cazenove  
25 Bank Street  
Canary Wharf  
London E14 5JP

### Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone: 0370 707 1057

## Independent Auditor

Ernst & Young LLP  
25 Churchill Place  
London E14 5EY

## Financial Calendar

Annual results	announced December 2020
Ex dividend date	24 December 2020
Dividend record date	29 December 2020
Annual General Meeting <sup>1</sup>	27 January 2021
Final dividend payable on	29 January 2021
Half year results	announced June 2021

## Information Sources

For more information about Lowland Investment Company plc, visit the website at [www.lowlandinvestment.com](http://www.lowlandinvestment.com).

To sign up for expert insights about investment trusts, updates from our fund managers as well as AGMs and Trust TV episodes please visit this page: <https://www.janushenderson.com/en-gb/investor/subscriptions/>

## Follow Janus Henderson Investment Trusts on Twitter, YouTube and Facebook

For alternative access to Janus Henderson's insight you can now follow on Twitter, YouTube and Facebook.



## Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

## Nominee Share Code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend General Meetings and speak at them when invited to do so by the Chairman.

1. The AGM will be broadcast as a zoom webinar. Please register to receive the link at [https://jhi.zoom.us/webinar/register/WN\\_jO3n\\_WjSSDKtISvCXs3hNw](https://jhi.zoom.us/webinar/register/WN_jO3n_WjSSDKtISvCXs3hNw)

# Strategic Report: Corporate Information (continued)

## Managing Risks

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal risks and uncertainties, including emerging risks, facing the Company including those that would threaten its business model, future performance, solvency, liquidity and reputation. The Board regularly considers the principal risks facing the Company and has drawn up a matrix of risks. The Board has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been

identified and the steps taken by the Board to mitigate these are set out in the table below. The principal financial risks are detailed in note 14 to the financial statements.

The Board has also considered the impact of the COVID-19 pandemic on the Company. Originally identified as an emerging risk, the pandemic developed significantly and swiftly, triggering sharp falls in global stock markets and resulting in uncertainty about the ongoing impact on markets and companies, and around future dividend income. The risks associated with the pandemic were therefore removed from emerging risks into one of the principal risks facing the Company.

Principal risks	Mitigating measure
<p><b>Global pandemic</b></p> <p>The impact of the coronavirus pandemic on the Company's investments and its direct and indirect effects, including the effect on the global economy.</p>	<p>The Fund Managers maintain close oversight of the Company's portfolio, and in particular its gearing levels, and the performance of investee companies. Regular stress testing of the revenue account under different scenarios for dividends is carried out. The Board monitors the effects of the pandemic on the operations of the Company and its service providers to ensure that they continue to be appropriate, effective and properly resourced.</p>
<p><b>Investment activity and strategy risk</b></p> <p>An inappropriate investment strategy or poor execution, for example, in terms of asset allocation or level of gearing, may result in underperformance against the Company's benchmark index and the companies in its peer group, and also in the Company's shares trading on a wider discount to the net asset value per share.</p>	<p>The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. Janus Henderson operates in accordance with investment limits and restrictions and policy determined by the Board, which includes limits on the extent to which borrowings may be employed.</p> <p>The Board reviews the investment limits and restrictions on a regular basis and the Manager confirms adherence to them every month. Janus Henderson provides the Board with management information, including performance data and reports and shareholder analyses.</p> <p>The Board monitors the implementation and results of the investment process with the Fund Managers at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.</p>
<p><b>Portfolio and market price</b></p> <p>Although the Company invests almost entirely in securities that are listed on recognised markets, share prices may move rapidly. The companies in which investments are made may operate unsuccessfully, or fail entirely. A fall in the market value of the Company's portfolio would have an adverse effect on equity shareholders' funds.</p>	<p>The Board reviews the portfolio at the five Board meetings held each year and receives regular reports from the Company's brokers. A detailed liquidity report is considered on a regular basis.</p> <p>The Fund Managers closely monitor the portfolio between meetings and mitigate this risk through diversification of investments. The Fund Managers periodically present the Company's investment strategy in respect of current market conditions. Performance relative to the FTSE All-Share Index, and other UK equity income trusts is also monitored.</p>
<p><b>Dividend income</b></p> <p>A reduction in dividend income could adversely affect the Company's dividend record.</p>	<p>The Board reviews income forecasts at each meeting. The Company has revenue reserves of £11.3 million (before payment of the third interim and final dividend) and distributable capital reserves of £265.6 million.</p>

# Strategic Report: Corporate Information (continued)

Principal risks	Mitigating measure
<p><b>Financial risk</b></p> <p>The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk, currency risk and credit and counterparty risk.</p>	<p>The Company minimises the risk of a counterparty failing to deliver securities or cash by dealing through organisations that have undergone rigorous due diligence by Janus Henderson. The Company holds its liquid funds almost entirely in interest bearing bank accounts in the UK or on short-term deposit. This, together with a diversified portfolio which comprises mainly investments in large and medium-sized listed companies mitigates the Company's exposure to liquidity risk. Currency risk is mitigated by the low exposure to overseas stocks. Please also see note 14 to the accounts.</p>
<p><b>Gearing risk</b></p> <p>In the event of a significant or prolonged fall in equity markets gearing would exacerbate the effect of the falling market on the Company's NAV per share and, consequently, its share price.</p>	<p>At the point of drawing down debt, gearing will never exceed 29.99% of the portfolio valuation.</p> <p>The Company minimises the risk by the regular monitoring of the levels of the Company's borrowings in accordance with the agreed limits. The Company confirms adherence to the covenants of the loan facilities on a monthly basis.</p>
<p><b>Tax and regulatory</b></p> <p>Changes in the tax and regulatory environment could adversely affect the Company's financial performance, including the return on equity.</p> <p>A breach of s.1158/9 could lead to a loss of investment trust status, resulting in capital gains realised within the portfolio being subject to corporation tax. A breach of the Listing Rules could result in suspension of the Company's shares, while a breach of the Companies Act 2006 could lead to criminal proceedings, or financial or reputational damage.</p>	<p>The Manager provides its services, inter alia, through suitably qualified professionals and the Board receives internal control reports produced by the Manager on a quarterly basis, which confirm legal and regulatory compliance. The Fund Managers also consider tax and regulatory change in their monitoring of the Company's underlying investments.</p>
<p><b>Operational</b></p> <p>Disruption to, or failure of, the Manager's or its administrator's (BNP Paribas Securities Services) accounting, dealing or payment systems or the Depositary's records could prevent the accurate reporting and monitoring of the Company's financial position. Cyber crime could lead to loss of confidential data. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service.</p>	<p>The Board monitors the services provided by the Manager and its other suppliers and receives reports on the key elements in place to provide effective internal control.</p> <p>Cyber security is closely monitored and the Audit Committee receives an annual presentation from Janus Henderson's Head of Information Security.</p> <p>Details of how the Board monitors the services provided by Janus Henderson and its other suppliers and the key elements designed to provide effective internal control are explained further in the Internal Controls section of the Corporate Governance Statement on page 39.</p>

## Emerging risks

In addition to the principal risks facing the Company, the Board also regularly considers potential emerging risks, which are defined as potential trends, sudden events or changing risks which are characterised by a high degree of uncertainty in terms of the probability of them happening and the possible effects on the Company. Should an emerging risk become sufficiently clear, it may be moved to a significant risk, as described above in relation to the coronavirus pandemic.

## Viability Statement

The Company is a long-term investor; the Board believes it is appropriate to assess the Company's viability over a five-year period in recognition of our long-term horizon and what we

believe to be investors' horizons, taking account of the Company's current position and the potential impact of the principal and emerging risks and uncertainties as documented above in this Strategic Report.

The assessment has considered the impact of the likelihood of the principal and emerging risks and uncertainties facing the Company, in particular investment strategy and performance against benchmark, whether from asset allocation or the level of gearing, and market risk, in severe but plausible scenarios, and the effectiveness of any mitigating controls in place.

The Board has taken into account the liquidity of the portfolio and the gearing in place when considering the viability of the Company over the next five years and its ability to meet liabilities as they fall due. This included consideration of the

# Strategic Report: Corporate Information (continued)

duration of the Company's loan facilities and how a breach of the loan facility covenants could impact on the Company's liquidity, net asset value and share price.

The Board does not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place. Also the Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Only a substantial financial crisis affecting the global economy could have an impact on this assessment.

In coming to this conclusion, the Directors have considered the impact of the COVID-19 pandemic and the UK's ongoing negotiations having left the European Union, in particular the impact on income and the Company's ability to meet its investment objective. The Board does not believe that they will have a long-term impact on the viability of the Company and its ability to continue in operation, notwithstanding the short-term uncertainty they have caused in the markets.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five-year period.

## Key Performance Indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of Janus Henderson, the Directors take into account the following key performance indicators:

### Performance Measured against the Benchmark

The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company and its benchmark, which is the FTSE All-Share Index Total Return.

### Discount/Premium to Net Asset Value

At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant Association of Investment Companies ('AIC') sector (UK Equity Income).

The Board does not believe that a discount control mechanism is in the interests of shareholders. It would negate some of the benefits of a closed-end fund. It might force the Company to purchase its own shares at a time when it does not have spare cash; when it may be inopportune to realise investments; or when there are good buying opportunities in the market. Furthermore it could shrink the size of the Company, reducing the audience of potential investors, increase the ongoing charges ratio, and reduce liquidity in the Company's shares. The Board may agree to purchase

Lowland shares opportunistically if it believes that the benefits in terms of NAV enhancement are sufficient.

The Board believes that the best way of reducing or eliminating the discount is to provide superior returns to shareholders, and to elucidate the attractions of investment in Lowland to as large and diverse an audience as possible.

The Board is prepared to issue shares at a premium, provided the transaction will enhance cum-income NAV after costs; and provided that a premium has prevailed for sufficient time for current shareholders to have had the opportunity to sell shares at a premium. The Board would see the advantages as including NAV enhancement, reducing the ongoing charge ratio, growing the Company, and increasing liquidity in its shares. The Board believes that each of these four factors will be in the interests of Lowland's shareholders.

The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and includes current financial year revenue items.

### Performance against the Company's Peer Group

The Company is included in the AIC UK Equity Income sector. In addition to comparison against the stated benchmark, the Board also considers the performance against its AIC peer group at each Board meeting.

### Ongoing Charge

The Ongoing Charge is a measure of the recurring expenses incurred by the Company expressed as a percentage of the average shareholders' funds over the year. The Board regularly reviews the Ongoing Charge and monitors all Company expenses.

The charts and tables on pages 2 and 3 show how the Company has performed against these KPIs and the Chairman's Statement and Fund Managers' Report give more information on performance.

## Borrowings

The Company had a committed loan facility with Scotiabank of up to £40m, which allowed it to borrow as and when appropriate. The facility expired on 27 October 2020. The Company also had a conditional option to increase the facility by £20m.

The maximum amount drawn down in the year under review was £23.7m (2019: £30.2m), with borrowing costs for the year totalling £241,000 (2019: £383,000). £16.1m (2019: £21.2m) of the facility was in use at the year end.

The Company negotiated a new £40m revolving credit facility with Industrial and Commercial Bank of China to replace the expiring Scotiabank facility. The facility, which bears interest at LIBOR plus 0.9%, expires on 27 October 2022, and also makes provision for a conditional option to increase the facility by £20m.

# Strategic Report: Corporate Information (continued)

The Company has in issue £30m fixed rate 20 year senior unsecured loan notes at a fixed sterling coupon rate of 3.15%.

Gearing at 30 September 2020 was 15.0% (2019: 12.8%) of net asset value.

## Future Developments

The future performance of the Company is dependent on international financial markets which are subject to various external factors, including political and economic conditions. It is the Board's intention that the Company will continue to pursue its stated investment objective and policy. The Chairman's Statement and the Fund Managers' Report provide commentary on the outlook of the Company.

## Environmental, Social and Governance Matters ('ESG')

The Board has reviewed the Janus Henderson Stewardship Statement and its ESG Investment Principles.

Janus Henderson supports the UK Stewardship Code, and seeks to protect and enhance value for our shareholders through active management, integration of ESG factors into investment decision making, voting and company engagement. Janus Henderson is a signatory to the United Nations Principles of Responsible Investment and an active member of a wide range of organisations and initiatives that work to promote ESG integration and responsible investment. Janus Henderson supports the Stewardship Code and, as required by the FRC, will report on how they have applied the provisions in their annual Responsible Investment Review in early 2021.

Janus Henderson seeks to understand how investee companies are managing ESG risks, including climate change, through their policies and processes and where their investments are targeted to evolve their business models to remain sustainable over the long term. Janus Henderson engages actively with companies and their management teams and uses a variety of sources to help identify and monitor material ESG risks, including research from their fund managers and analysts, input from the Janus Henderson Governance and Responsible Investment team and third-party data providers.

These issues are important not only as a standalone objective in order to allocate the capital of the Company to the companies with the most responsible practices, but are also an integral part of the investment process.

As data quality and availability on ESG is in some cases poor, potential or current investments are not rigidly excluded on quantitative metrics. However, each new position in the portfolio is reviewed for ESG issues and any concerns that the Managers view as material are discussed with company management. In addition, the existing portfolio is screened for 'red flags', which are then discussed with management and monitored.

Substantial progress has been made in the governance area in recent years, where data is more easily quantifiable. As the data on environmental and social issues improves, we will expand our engagement in these areas.

For Lowland, responsible investing incorporates:

- A focus on companies' long-term plans. We are a long-term investor and therefore we should invest in companies that are cognisant of changing standards with regards to, for example, single-use plastic or renewable energy (even before these changing societal standards are fully recognised in legislation). These changing expectations need to be viewed within the context of the investment proposition.
- Reacting to evidence of poor corporate governance where identified (whether by screening, external research or internal meetings), engaging with the company involved, and monitoring improvement.
- Engaging thoughtfully on corporate remuneration. A company's board and senior executive remuneration policy needs to be appropriately struck relative to both its peers and (increasingly) relative to its broader employee base. There needs to be a defensible logic to how corporate remuneration levels have been set.

## Voting

The Board believes that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Responsibility for voting the rights attached to the shares held in the Company's portfolio has been delegated to the Manager, who actively votes at shareholder meetings and engages with companies as part of the voting process.

Voting decisions are guided by the best interests of the investee companies' shareholders and made in consultation with the Fund Managers, who have an in-depth understanding of the respective companies' operations. Voting decisions are taken in keeping with the provisions of the Manager's ESG Investment Principles, which set out the Manager's approach to corporate governance, corporate responsibility and compliance with the Stewardship Code, and are publicly available on the Manager's website at [www.janushenderson.com](http://www.janushenderson.com). To retain oversight of the process, the Directors regularly receive reports on how the Manager has voted the shares held in the Company's portfolio, and they review the ESG Investment Principles at least annually.

In the period under review, investee companies held 136 general meetings. The shares held in the Company's portfolio were voted in respect of all of these meetings. The level of governance in leading global companies is generally of a high standard in terms of best practice, which meant support in favour of the resolutions proposed by management was warranted. However, in respect of 13 resolutions (0.7% of the



# Strategic Report: Corporate Information (continued)

resolutions proposed), support was not warranted and, following discussion between the Fund Managers and Janus Henderson's governance team, the shares were voted against the board recommendation. On occasion, the Fund Managers take voting decisions after consultation with the Chairman on behalf of the Board.

In terms of the resolutions not supported, these covered two predominant themes relating to executive remuneration and irregularities in the financial statements.

## The environment

As an investment company with all of its activities outsourced to third parties, the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. For the same reasons, the Company considers itself to be a low energy user under the Streamlined Energy & Carbon Reporting regulations and therefore is not required to disclose energy and carbon information.

## Business ethics

As the Company's operations are delegated to third-party service providers, the Board seeks assurances, at least annually, from its suppliers that they comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Finances Act 2017

## Board Diversity and Experience

The Company's affairs are overseen by a Board comprised of five non-executive Directors – one female and four males. The Directors are diverse in their experience, bringing knowledge of investment markets, banking and accounting and auditing expertise to discussions regarding the Company's business. The Directors regularly consider the leadership needs and specific skills required to achieve the Company's investment objective, and are cognisant of diversity when making appointments to the Board. The Board welcomes the recommendations from the Hampton-Alexander Review on gender diversity on boards and the Parker Review about ethnic representation on boards. It is not in scope for compliance with the recommendations and is not currently compliant with either, but will consider both when making new appointments. The Company has no employees and therefore has no further disclosures to make in respect of gender representation within the Company.

## Approval

The Strategic Report has been approved by the Board.

Robert Robertson  
Chairman  
7 December 2020

# Corporate Report

# Report of the Directors

The Directors present their report and the audited financial statements of the Company for the year ended 30 September 2020.

Lowland Investment Company plc ('the Company') (registered in England & Wales with company registration number 670489) was active throughout the year under review and was not dormant.

## Results and Dividends

The results for the year are set out in the financial statements. Three interim dividends of 15.0p each, totalling 45.0p per share, have been declared and/or paid in respect of the year to 30 September 2020. See note 10 on page 62 for more information. A final dividend of 15.0p per share is being proposed.

## Directors' Remuneration and Shareholdings

The Directors' Remuneration Report on pages 36 and 37 provides information on the remuneration and interests of the Directors.

## Directors' Conflicts of Interest

The Company's Articles of Association permit the Board to consider, and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('situational conflicts'). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continue to operate effectively.

## Share Capital

The Company's share capital comprises ordinary shares with a nominal value of 25p each. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's ordinary shares or voting rights, no shares which carry specific rights with regard to the control of the Company and no agreement which the Company is party to that affects its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue reserves and realised capital gains) are available for distribution by way of dividends to the holders of the ordinary

shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holding of ordinary shares. As at 30 September 2020, there were 27,018,565 ordinary shares in issue. No shares were issued during the year or in the period up to the date of this report. At the AGM held in January 2020 the Directors were granted authority to buy-back 4,050,082 shares. At 30 September 2020 no shares had been bought back from this authority. The Directors have remaining authority to purchase 4,050,082 shares. This authority will expire at the conclusion of the 2021 AGM.

The Company will seek authority from its shareholders at the 2021 AGM to renew the authorisation to allot new shares, to dis-apply pre-emption rights and to buy-back shares for cancellation or to be held in Treasury. The main circumstances in which the Board may choose to exercise these authorities are set out in the section on Discount/Premium to Net Asset Value on page 29.

## Reappointment of Auditor

Ernst & Young LLP act as the Company's Auditor. Resolutions to reappoint Ernst & Young LLP as Auditor and to authorise the Audit Committee to determine the Auditor's remuneration will be put to the AGM.

## Holdings in the Company's Shares

There were no declarations of interests in the voting rights of the Company as at 30 September 2020 in accordance with the Disclosure, Guidance and Transparency Rules.

No changes have been notified in the period 1 October 2020 to 7 December 2020.

## Fund Managers' Interests

James Henderson, Fund Manager, has a beneficial interest in 92,490 ordinary shares of the Company (2019: 92,490). Laura Foll, Fund Manager, has a beneficial interest in 3,958 ordinary shares of the Company (2019: 2,334).

## Related Party Transactions

The Company's current related parties are its Directors and Janus Henderson. There have been no material transactions between the Company and its Directors during the year. The fees and expenses paid to Directors are set out on page 37. There were no outstanding amounts payable at the year end.

In relation to the provision of services by Janus Henderson, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services, there have been no material transactions with Janus Henderson affecting the financial position of the Company during the year under review. More details on transactions with Janus Henderson, including amounts outstanding at the year end, are given in note 20 on page 70.

# Report of the Directors (continued)

## Annual General Meeting ('AGM')

The AGM will be held on Wednesday 27 January 2021 at 3.30 p.m. The Notice of Meeting and details of the resolutions to be put at the AGM are contained in the separate document being sent to shareholders with this report.

The meeting will be held as a closed meeting due to the restrictions imposed by the COVID-19 pandemic, and only the Directors and Fund Managers will form the quorum. A live zoom webinar will be held for shareholders to attend and see a presentation by the Fund Managers, and to have an opportunity to ask questions of the Manager and Board. Please register to attend on [https://jhi.zoom.us/webinar/register/WN\\_jO3n\\_WjSSDKtISvCXs3hNw](https://jhi.zoom.us/webinar/register/WN_jO3n_WjSSDKtISvCXs3hNw).

## Corporate Governance

The Corporate Governance Statement set out on pages 38 to 43 forms part of the Report of the Directors.

## Other Information

Information on future developments and financial risks are detailed in the Strategic Report and notes to the accounts.

## Directors' Statement as to Disclosure of Information to the Auditor

Each of the Directors who were members of the Board at the date of approval of this report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's Auditor is unaware and he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditor is aware of that information.

## Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

## Approval

The Strategic Report has been approved by the Board.

Henderson Secretarial Services Limited  
Corporate Secretary  
7 December 2020

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice comprising FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' (United Kingdom Accounting Standards) and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## Directors' Responsibility Statement

Each of the Directors, who are listed on pages 24 and 25, confirms that, to the best of his/her knowledge:

- the Company's financial statements, which have been prepared in accordance with UK Accounting Standards and applicable law give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic Report, Report of the Directors and financial statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Robert Robertson  
Chairman  
7 December 2020

The financial statements are published on [www.lowlandinvestment.com](http://www.lowlandinvestment.com) which is a website maintained by Janus Henderson.

The maintenance and integrity of the website is the responsibility of the Manager. The work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Directors' Remuneration Report

## Remuneration Policy

The Remuneration Policy sets out the principles applied in the remuneration of the Company's Directors. An ordinary resolution to approve the Remuneration Policy was last put to shareholders at the AGM on 28 January 2020. The Remuneration Policy has been reviewed to ensure that it meets the requirements of The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019. It is also available on the website:

[www.lowlandinvestment.com](http://www.lowlandinvestment.com).

The Board's approach is that fees payable to the Directors should:

- reflect the time spent by them on the Company's affairs;
- reflect the responsibilities borne by them as Directors;
- be sufficient to promote the long-term success of the Company; and
- not exceed the aggregate limit of £250,000 per annum as established by the Articles of Association.

Directors are remunerated in the form of fees which are payable quarterly in arrears.

No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

The Directors may be reimbursed for all reasonable and properly documented expenses incurred in the performance of their duties. The level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in a change to the rate.

All Directors, including any new appointments to the Board, are paid at the same rate. The Chairman of the Board and Chairman of the Audit Committee are paid a higher fee in recognition of their additional responsibilities.

The Remuneration Policy has been in place since 22 January 2014 and will remain in place unless it is amended by way of an ordinary resolution put to shareholders at a general meeting. The Remuneration Policy, irrespective of any changes, should be put to shareholders at intervals of not more than three years. The Board may amend the levels of remuneration paid to individual Directors within the parameters of the Remuneration Policy.

## Shareholders' Views

Any feedback from shareholders on the fees paid to Directors would be taken into account by the Board when reviewing remuneration levels. None was received for the year under review.

## Letters of Appointment

All Directors are non-executive and are appointed under a letter of appointment, which is an engagement for services and not a contract for employment. The appointment may be terminated at any time by written notice with no compensation payable. The Company has no executive directors or employees.

## Annual Report on Remuneration

The Directors' Remuneration Report (the 'Report') is prepared in accordance with Schedule 8 of The Large and Medium-sized

Companies and Group (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations').

A resolution to approve this Report will be put to shareholders at the AGM to be held on Wednesday 27 January 2021.

## Statement from the Chairman

As the Company has no employees and the Board is comprised entirely of non-executive Directors, the Board has not established a separate Remuneration Committee. Directors' remuneration is determined by the Board as a whole, at its discretion, with an aggregate ceiling of £250,000 per annum.

Directors' fees for the year under review were £39,000 for the Chairman, £30,500 for the Chairman of the Audit Committee and £25,500 for the remaining Directors.

The last fee increase took effect from 1 October 2019. During 2020, the Board carried out a review of Directors' remuneration which included a comparative peer assessment of Directors' fees together with external data. The Board reviewed the assessment and decided that no change to fees was required. As a result, Directors fees remain unchanged. No changes have been made to the way in which the policy will be implemented in the next financial year.

## Directors' Interests in Shares (audited)

The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year under review are set out in the table below.

	Ordinary shares of 25p	
	30 September 2020	1 October 2019
<b>Beneficial:</b>		
Robert Robertson	59,225	59,225
Duncan Budge	9,779	5,000
Gaynor Coley	500	500
Karl Sternberg	9,629	9,629
Thomas Walker	1,600	1,600
<b>Non Beneficial:</b>		
Robert Robertson	12,000	12,000

There have been no changes to any of the Directors' holdings in the period 1 October 2020 to the date of this report.

In accordance with the Company's Articles of Association no Director is required to hold any shares of the Company by way of qualification.

## Relative Importance of Spend on Pay

In order to show the relative importance of spend on pay, the table below sets out the total level of remuneration compared to the distributions paid to shareholders by way of dividends. There were no other significant distributions, payments or other uses of the Company's profit or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2020 £	2019 £	Change £
Total remuneration paid to Directors	148,419	145,106	3,313
Ordinary dividends paid during the year	16,211,139	15,535,675	675,464

# Directors' Remuneration Report (continued)

## Directors' Fees and Expenses (audited)

The remuneration paid to the Directors who served during the years ended 30 September 2020 and 30 September 2019 was as follows:

	Year ended 30 September 2020 Total salary and fees £	Year ended 30 September 2019 Total salary and fees £	Year ended 30 September 2020 Taxable benefits £	Year ended 30 September 2019 Taxable benefits £	Year ended 30 September 2020 Total £	Year ended 30 September 2019 Total £	% change <sup>5</sup>
Robert Robertson <sup>1</sup>	39,000	38,500	–	312	39,000	38,812	1.3
Duncan Budge	25,500	25,000	–	–	25,500	25,000	2.0
Kevin Carter <sup>2</sup>	–	18,750	–	–	–	18,750	–
Gaynor Coley <sup>3</sup>	30,500	30,000	1,387	1,113	31,887	31,113	1.7
Karl Sternberg	25,500	25,000	–	–	25,500	25,000	2.0
Tom Walker <sup>4</sup>	25,500	6,250	1,032	181	26,532	6,431	–
<b>Total</b>	<b>146,000</b>	<b>143,500</b>	<b>2,419</b>	<b>1,606</b>	<b>148,419</b>	<b>145,106</b>	

HMRC view certain expenses incurred by Directors (primarily travel to/from Board meetings) as a taxable benefit. The Board has decided that with effect from the 2019/2020 tax year onward, Directors' expenses in relation to travel to/from Board meetings will be reimbursed as a 'grossed up' amount to compensate the affected Directors for the additional tax cost that is incurred as a result of the HMRC decision.

### Notes:

The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay, vesting performance-related pay and pension-related benefits were made

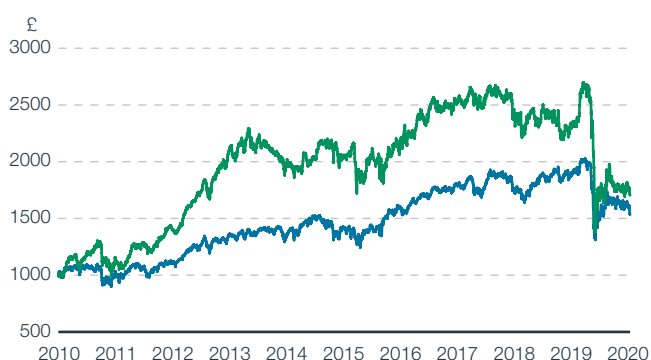
1 Chairman and highest-paid Director. 2 Resigned on 30 June 2019. 3 Chairman of the Audit Committee. 4 Appointed on 1 July 2019. 5 In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 this column shows the annual percentage change over the preceding financial year and the relevant financial year in respect of each Director that has served for a minimum of two financial years. The Board will publish this annual percentage change cumulatively each year going forward until there is an annual percentage change over the five financial years preceding the relevant financial year to meet the legislative requirements

The fees paid to the Directors during the year were: Chairman £39,000, Audit Committee Chairman £30,500 and Directors £25,500.

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former Directors or third parties specified by any of them.

## Performance

The graph below compares the mid-market price of the Company's ordinary shares over the ten-year period ended 30 September 2020 with the return from the FTSE All-Share Index Total Return over the same period.



Source: Refinitiv Datastream

— Lowland Investment Company plc share price total return, assuming the investment of £1000 on 30 September 2010 and the reinvestment of all dividends (excluding dealing expenses)

— FTSE All-Share Index Total Return, assuming the notional investment of £1000 on 30 September 2010 and the reinvestment of all income (excluding dealing expenses)

## Statement of Voting at AGM

A binding ordinary resolution adopting the Directors' Remuneration Policy was approved at the AGM held on 28 January 2020. The votes cast by proxy were as follows:

	% of votes cast
For	98.65
Against	0.43
At the Chairman's discretion	0.92
Votes withheld	16,502

A non-binding ordinary resolution adopting the Directors' Remuneration Report for the year ended 30 September 2019 was approved by shareholders at the AGM held on 28 January 2020. The votes cast by proxy were as follows:

	% of votes cast
For	98.42
Against	0.41
Discretionary	1.17
Votes withheld	17,246

The percentage of votes in the tables above excludes votes withheld.

On behalf of the Board

Robert Robertson  
Chairman  
7 December 2020

# Corporate Governance Statement

The Corporate Governance Statement forms part of the Report of the Directors.

## Applicable Corporate Governance Codes

The Company is required by the Listing Rules and the Disclosure Guidance and Transparency Rules issued by the FCA to disclose how it has applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject. The UK Corporate Governance Code (the 'UK Code') issued by the Financial Reporting Council ('FRC') in July 2018 is applicable, along with the related Code of Corporate Governance issued by the AIC (the 'AIC Code') in February 2019 (together the 'Governance Codes').

The AIC Code addresses all of the applicable principles set out in the UK Code, as well as principles and recommendations which are of specific relevance to investment trust companies. The FRC has confirmed that by following the AIC Code, the boards of investment companies will meet their obligations in relation to the UK Code and the disclosure requirements of the Disclosure Guidance and Transparency Rules.

Copies of the AIC Code and the UK Code can be found on the respective organisations' websites: [www.theaic.co.uk](http://www.theaic.co.uk) and [www.frc.org.uk](http://www.frc.org.uk).

## Statement of Compliance

The Board has considered the principles and recommendations of the Governance Codes and believe the Company has complied with the applicable provisions throughout the period under review and up to the date of this report except as set out below.

The UK Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons explained in the AIC Code, the Board considers these provisions are not relevant to the Company as it is an externally managed investment trust company. The Company has no executive directors, employees or internal operations and has therefore not reported further in these respects.

All the Directors are non-executive, and as there is a Chairman and a Chairman of the Audit Committee amongst them, the appointment of a Senior Independent Director is considered to be superfluous.

## The Board

As at the date of this report, the Board comprises five non-executive Directors who were in office throughout the period under review. Biographical details for each Director are set out on pages 24 and 25.

## Responsibilities of the Board

The Board is responsible for providing leadership, setting the investment objective of the Company, establishing an appropriately robust internal control framework enabling effective risk management and monitoring the performance delivered by the Company's third party service providers in meeting the objective within the control framework.

The Board meets formally at least five times a year, with additional Board or committee meetings arranged when required. The Directors have regular contact with the Fund Managers and other employees of the Manager in connection with the delivery of company secretarial, sales and marketing and other administrative services.

The Board has a formal schedule of matters specifically reserved for its decision, which includes setting strategy and providing oversight of performance against agreed measures. It approves any changes to the structure and capital arrangements for the Company, has oversight of financial reporting and assesses the effectiveness of the internal control framework. The Board approves communications with shareholders, the appointments of new Directors, oversees corporate governance matters and is responsible for determining the remuneration of Directors.

Each meeting follows an agenda agreed with the Chairman and includes a review of the Company's investment performance, financial position, compliance with the investment parameters, reporting from the Depositary, a review of shareholder movements along with any sales or marketing activities undertaken and any other relevant business matters in order to ensure that control is maintained over the Company's affairs.

The Board has delegated contractually to external third-party service providers the management of the investment portfolio, the custodial services (which encompasses the safeguarding of the Company's assets by the Depositary and, separately, the Custodian), the day-to-day accounting, company secretarial, administration and registration services.

Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board, and its committees, maintain oversight of the third party service providers through regular and ad hoc reporting addressing any specific areas which the Board has requested.



# Corporate Governance Statement (continued)

The Manager ensures that the Directors receive all relevant management, regulatory and financial information. Employees of the Manager attend each Board meeting enabling the Directors to probe further on matters of concern. The Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provides a forum to discuss industry matters. The Directors have access to the advice and services of the Company Secretary through its designated representative who is responsible for ensuring that Board and committee procedures are followed and that the applicable rules and regulations are complied with. The proceedings of all Board and committee meetings are minuted, with any particular concerns raised by the Directors appropriately recorded. The Board and the Manager operate in a supportive, co-operative and open environment.

The Company has a procedure for Directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

## Internal Controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness as set out on the chart on the following page. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company.

The process accords with the FRC's guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in September 2014. The system was in operation throughout the year and up to the date of this report. The system is designed to meet the specific risks faced by the Company and takes account of the nature of the Company's reliance on its service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute assurance against material misstatement or loss.

The key components of the internal control framework include:

- Clearly defined investment criteria, specifying levels of authority and exposure limits. The Board reviews reports on investment performance against and compliance with the criteria at each meeting.
- Regular financial reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting.

- Contractual agreements with the Manager and all other third party service providers. The Board reviews performance levels and adherence to relevant provisions in the agreements on a regular basis through reports it receives and conducts a formal evaluation of the overall level of service provided at least annually.
- The review of controls at the Manager and other third party service providers. The Board receives quarterly reporting from the Manager and Depositary, and reviews annual assurance reports on the effectiveness of the control environments at the Company's key service providers.
- Review of additional reporting provided by:
  - The Manager's Risk team on the control environment in operation at the Manager and their view of the control environments in place at the third party service providers used by the Company.
  - The Manager's Internal Audit team on areas of operation which are relevant to the Company.

The Audit Committee noted the service auditors' qualifications in respect of the Janus Henderson assurance report which covered controls during the reporting period. The Committee understands from Janus Henderson that the project put in place to remediate the exception that caused the qualification was completed during the period covered by the report. The Committee is satisfied that none of the exceptions identified impact the Company for the year ended 30 September 2020 and that appropriate actions have been taken to address the issues identified.

The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 September 2020. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant.

In addition the Audit Committee has considered the cyber-attack safeguards its third party service providers have in place.

## Internal Audit Function

Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable. The Company's management functions are delegated to third parties and the Board monitors the controls in place with support from the Manager's internal audit department. As such the Board has determined that there is currently no need for the Company to have its own internal audit function.

# Corporate Governance Statement (continued)



# Corporate Governance Statement (continued)

## System of Internal Controls

### Directors

#### Appointment, Retirement and Tenure

The Board may appoint Directors to the Board without shareholder approval. Any Director appointed during the year must stand for election by the shareholders at the next AGM in accordance with the provisions of the Articles. Directors are generally expected to serve two terms of three years, which may be extended at the discretion of the Board and subject to satisfactory performance evaluation and re-election by shareholders.

All Directors retire at intervals of not more than three years and the Company's Articles stipulate that at least one third of the Directors should retire at each AGM. The UK Code and AIC Code recommend that all directors stand for election annually. All Directors will stand for re-election at the 2021 AGM.

The Articles permit shareholders to remove a Director before the end of his term by passing an ordinary resolution at a general meeting. An appointment may be terminated by either party giving written notice without compensation payable.

The Board is anxious to ensure that each Director has sufficient time to devote to his or her duties, whether in normal times or in times of crisis. To this end, each Director, actual or prospective, is required to provide to the Nominations Committee an account of time commitments to all his or her professional activities. This procedure is repeated if a Director seeks the Chairman's approval to take up an additional post.

With regard to tenure, the Board intends that one Director be replaced on average every three years. This brings the benefit of, on the one hand, experience of past vicissitudes and, on the other, fresh thought. It should also facilitate a pool of internal candidates from which the Chair may be chosen.

#### Independence

The independence of the Directors is determined with reference to the AIC Code and is reviewed by the Nominations Committee at least annually. The Committee considers each of the Directors other appointments and commitments, as well as their tenure of service and any connections they may have with the Manager. Following conclusion of the evaluation in September 2020, the Committee concluded that all Directors continued to be independent in character and judgement.

Two Directors have served longer than nine years, and each of their independence was considered as part of the Board evaluation. Following an extensive review of their contribution, time commitments and conduct, both have been considered independent. The Audit Chair conducted a review of the Chairman's performance and independence separately from the Board evaluation.

There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was materially interested and which is or was significant in

relation to the Company's business. No Director has a contract of service with the Company and there are no agreements between the Company and its Directors concerning compensation for loss of office.

#### Induction and Ongoing Training

Newly appointed Directors are offered a bespoke induction programme which covers the legal and regulatory framework for investment trust companies and the operations of the Manager, including the compliance and risk management frameworks, accounting, sales and marketing, and other administrative services carried out by the Manager.

Directors are regularly provided with information on the Company's policies, regulatory and statutory requirements affecting the Company, as well as changes to the Directors' responsibilities as they arise.

Directors are encouraged to attend external training and industry seminars, and may do so at the expense of the Company.

#### Directors' Insurance and Indemnification

Directors' and officers' liability insurance cover is in place which indemnifies the Directors against certain liabilities arising from the carrying out of their duties. The Company's Articles and the provisions of English law, permit a qualifying third party provision indemnity to be provided to Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court. No indemnity was given during the year or up until the date of this report.

## Meeting Attendance

The attendance of each Director at scheduled meetings is set out in the table below:

	Board	AC	MEC	NC
Number of meetings	5	2	1	1
Robert Robertson <sup>1</sup>	5/5	2/2	1/1	1/1
Duncan Budge	5/5	2/2	1/1	1/1
Gaynor Coley	5/5	2/2	1/1	1/1
Karl Sternberg <sup>2</sup>	5/5	2/2	1/1	1/1
Thomas Walker	5/5	2/2	1/1	1/1

1. Mr Robertson is not a member of the Audit Committee but attends its meetings by invitation
2. Mr Sternberg resigned from the Audit Committee on 10 September 2019 but attends its meetings by invitation

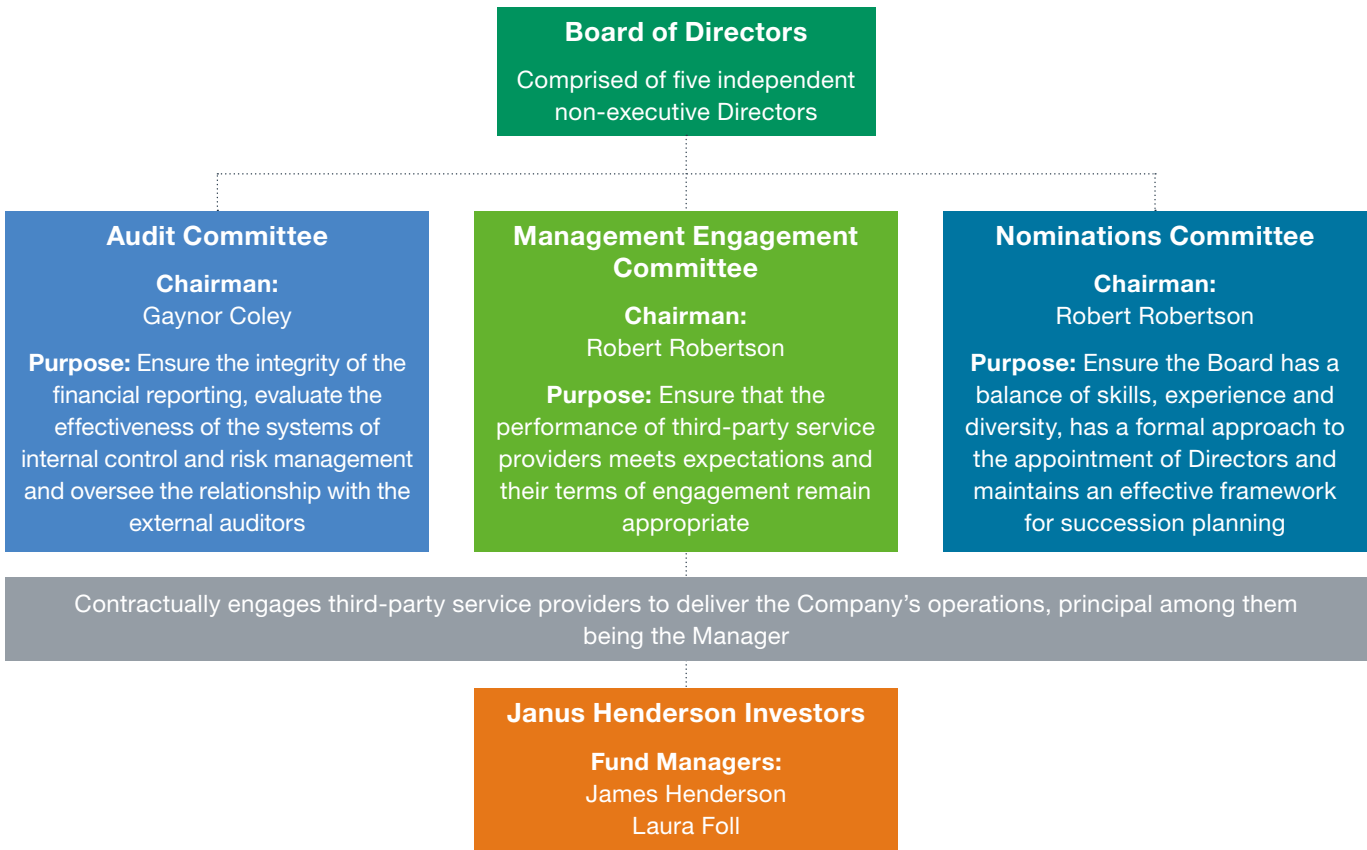
A Committee of the Board met during the year to approve various items of business including the Company's half-year results. The Board met several times by telephone or video conference on an ad hoc basis in response to the rapid changes in market conditions caused by the COVID-19 pandemic to understand the impact on the Company and its portfolio and management.

# Corporate Governance Statement (continued)



## The Board's committees

The Board has three principal committees: the Audit Committee, the Management Engagement Committee and the Nominations Committee.



## Performance Evaluation

The Board conducted a review of its own performance, together with that of its committees and each individual Director. The evaluation was carried out through the use of a questionnaire. The outcome concluded that the Board continued to have an appropriate balance of skills and experience and that each Director continued to make a significant contribution to the affairs of the Company.

Ms Coley led the performance evaluation of the Chairman, taking feedback from all Directors after completion of a questionnaire. The review of the Chairman's performance concluded that he had displayed effective leadership during the year.

## Committees of the Board

The terms of reference for the Audit, Management Engagement and Nominations committees are available on the website [www.lowlandinvestment.com](http://www.lowlandinvestment.com).

The Board has also constituted an Insider Committee which meets when required to assist the Board in discharging its responsibilities under the Market Abuse Regulation.

## Audit Committee

The Audit Committee is responsible for ensuring the integrity of the Company's financial reporting, evaluating the effectiveness of the systems of internal control and risk management and monitoring the effectiveness and objectivity of the external Auditor.

The Committee is chaired by a qualified chartered accountant and all of the independent non-executive Directors (with the exception of Mr Sternberg and the Chairman) are members of the Committee. The Board is satisfied that at least one member has recent and relevant experience and the Committee as a whole has competence relevant to the sector in which the Company operates.

The Audit Committee Report can be found on pages 44 and 45.

## Nominations Committee

The Nominations Committee is responsible for ensuring the Board retains an appropriate balance of skills, experience and diversity, has a formal, rigorous and transparent approach to the appointment of Directors and maintains an effective framework for succession planning.

The Committee is chaired by the Chairman of the Board. All of the independent non-executive Directors are members of the Committee. In discharging its duties over the course of the year, the Committee considered:

# Corporate Governance Statement (continued)

- The composition of the Board and each of its committees, taking account of the skills, experience and knowledge of each Director and whether the diversity of these continued to contribute to the success of the Company;
- The outcomes of the Board performance evaluation with a view as to whether adjustments should be made to the number of Directors or knowledge and skills represented on the Board;
- The tenure of each of the Directors, giving consideration as to whether the Board retained a sufficient balance of length of service without becoming ossified;
- The independence of the Directors taking account of the guidelines established by the AIC Code and the Directors' other commitments; the time commitment of the Directors and whether this had been sufficient over the course of the year;
- Succession planning for appointments to the Board taking account of the provisions of the Articles of Association regarding the retirement and rotation of Directors and the tenure of the current Directors; and
- The performance and contribution of the Directors standing for re-election at the 2021 AGM.

Following completion of its reviews, the Committee concluded that no changes to the composition of the Board were required at present and that each Director continued to commit sufficient time to fulfilling their duties. Taking account of the performance of individual Directors, the Committee recommended to the Board that it should support the re-appointment of each of the Directors, who are retiring and standing for re-election at the forthcoming AGM.

## Management Engagement Committee

The Management Engagement Committee is responsible for formally evaluating the overall performance of the Manager and other third-party service providers engaged by the Company. The Committee is chaired by the Chairman of the Board. All of the independent non-executive Directors are members of the Committee. In discharging its duties over the course of the year, the Committee considered:

- The investment performance of the Company, taking account of the benchmark and performance of competitors in the AIC UK Equity Income sector, the share price, level of discount and gearing;
- The quality and experience of the team involved in managing all aspects of the Company's business;
- The fee structures of its closed-ended competitors and other, similar sized investment trust companies;
- The key clauses of the investment management agreement, how the Manager had fulfilled these and whether these continued to be appropriate; and
- The performance and fees of the Company's other third-party service providers, including the Broker, Depositary, Registrar and sales, marketing and research providers.

Following completion of its reviews, the Committee concluded that the continued appointment of the Manager remained in

the best interests of the Company and the shareholders, and therefore recommended to the Board the re-appointment of Janus Henderson for a further year. The reasons for this are discussed in the Chairman's Statement.

## Bribery Act 2010

The Company has no employees. The Board has reviewed the implications of the Bribery Act 2010 and confirmed its zero tolerance to bribery and corruption in its business activities. It receives assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

## Criminal Finances Act 2017

The Board has also considered the changes made by the Criminal Finances Act 2017, which came into effect in September 2018, which introduced a corporate criminal offence of failing to take reasonable steps to prevent the facilitation of tax evasion. The Company has received assurances from the Company's main contractors and suppliers that they maintain a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

## Relations with Shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the Annual Report and half year results which aim to provide shareholders with a clear understanding of the Company's activities and financial position. This information is supplemented by the daily calculation and publication of the NAV per share and a monthly fact sheet which is available on the website. The Manager provides information on the Company and videos of the Fund Managers on the Company's website, via various social media channels.

The Board encourages shareholders to attend and participate in the AGM. Shareholders have the opportunity to address questions to the Chairman of the Board, the Fund Managers and all Directors. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and Notice of Meeting are issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also available on the website.

Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time are invited to do so by writing to the Chairman at the registered office. General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Fund Managers and shareholders are reported to the Board.

# Report of the Audit Committee

The Audit Committee is responsible for ensuring the integrity of the Company's financial reporting, evaluating the effectiveness of the systems of internal control and risk management and monitoring the effectiveness and objectivity of the external Auditor.

## Membership

The Chairman of the Committee is Gaynor Coley who is an experienced chartered accountant.

All of the independent non-executive Directors are members of the Committee with the exception of Mr Sternberg and the Chairman of the Board. Both the Chairman of the Board and Mr Sternberg attend the Committee meetings in the ordinary course of business.

## Meetings

The Committee met twice during the year under review and invited the Auditor to attend as appropriate. The Manager's designated Financial Reporting Manager for the Company also attends meetings.

## Roles and Responsibilities

In discharging its duties over the course of the year, the Committee considered:

- The Company's Annual Report and half-year financial statements, the appropriateness of the accounting policies applied and the use of the going concern statement;
- The assessment of the principal and emerging risks facing the Company and the long-term viability statement in light of these risks;
- The areas of judgement in the financial statements including the valuation of the Company's unquoted investments and performance fee calculation;
- The overall approach to paying dividends and the appropriate level of dividend to be paid in respect of the year ended 30 September 2020;
- The appointment and evaluation of the effectiveness and objectivity of the Auditor, and determining their remuneration;
- Agreeing the nature and scope of the statutory audit and reviewing the Auditor's findings;
- Monitoring and evaluating the effectiveness of the Company's system of internal controls, and assessing the need for a separate internal audit function;
- The policy on the provision of non-audit services; and
- The whistle-blowing arrangements in place at the Manager enabling staff to raise concerns about possible improprieties in confidence.

## Appointment and Tenure of the Auditors

As a Public Interest Entity listed on the London Stock Exchange, the Company is required to rotate its audit firm after a period of 10 years. Ernst & Young LLP ('EY') were appointed by the Board following a formal tender process which concluded in 2016.

This is the fourth year the current audit partner, Matthew Price, has been in place.

The Audit Committee remains satisfied with the effectiveness of the audit provided by EY. On the basis of the Auditor's performance the Audit Committee recommended their continuing appointment to the Board. The Auditor has indicated their willingness to continue in office. Accordingly, resolutions to confirm the re-appointment of EY as Auditor to the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the AGM.

The Committee discusses the audit process with the Auditor without representatives of Janus Henderson present and considers the effectiveness of the audit process after each audit. This is the fourth year EY has audited the Company's Annual Report.

## Policy on Non-Audit Services

The Committee reviewed the policy on the provision of non-audit services by the Auditor.

The Company's Auditor will only be considered for non-audit work where these are not prohibited by the regulations and where they do not appear to affect the independence and objectivity of the Auditor. Such services require approval in advance by the Audit Committee, or Audit Committee Chairman, following due consideration of the proposed services. No non-audit services were provided by the Auditor during the year.

## Audit Independence and Effectiveness

During the year, the Committee met with EY and reviewed their audit plan for the year ended 30 September 2020 and assessed their independence.

EY attended the half year and year-end Audit Committee meetings to present their planning and results reports and observe the Committee's review of the financial statements and internal controls reporting by Janus Henderson. Based on its review of EY's reporting, interactions with the audit team throughout the process and our discussions with representatives of Janus Henderson, the Audit Committee is satisfied with the effectiveness of the audit provided by EY and that they are independent of the Company. The current audit partner, Matthew Price, is expected to serve until the 2022 AGM.

# Report of the Audit Committee (continued)

## Audit from the Year Ended 30 September 2020

In relation to the Annual Report for the year ended 30 September 2020 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
<b>Valuation and ownership of the Company's investments</b>	The Directors have appointed Janus Henderson, who outsource some of the administration and accounting services to BNP Paribas Securities Services, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Janus Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments is verified by reconciliation to the Custodian's records and the Audit Committee has received quarterly reports of the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation. For more information please refer to note 1(c) on page 57.
<b>Recognition of income</b>	Income received is accounted for in line with the Company's accounting policies (as set out in note 1(e) on page 58 and is reviewed by the Committee at each meeting. The Committee also considers the treatment of income received from special dividends and the revenue forecast at each meeting.
<b>Compliance with Section 1158/9 of the Corporation Tax Act 2010</b>	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving supporting documentation from Janus Henderson and BNP Paribas Securities Services.
<b>Performance fee</b>	The calculation of the performance fee to Janus Henderson is reviewed by the Audit Committee before being approved by the Board (when payable). No performance fee is payable for the year ended 30 September 2020. The performance fee was removed with effect from 1 October 2020.
<b>Maintaining internal controls</b>	The Committee receives regular reports on internal controls from Janus Henderson, BNP Paribas Securities Services and HSBC and its delegates and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The Audit Committee noted the service auditor's qualification in respect of the assurance report of Janus Henderson which covered controls during the reporting period and that it had been remediated by Janus Henderson during the period covered by the report. The Audit Committee was satisfied that none of the exceptions noted across the assurance reports were considered to have a material impact on the Company and appropriate actions have been taken to address the issues identified at Janus Henderson.

## Annual Report for the year ended 30 September 2020

The Audit Committee in conclusion recommended to the Board that the Annual Report, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## Auditor's Fees

Fees paid or payable to the Auditor amounted to £35,000 plus VAT. No non-audit services by the Auditor have been provided in the year under review. Further detail can be found in note 6 on page 60.

Gaynor Coley  
Audit Committee Chairman  
7 December 2020

# Independent Auditor's Report to the Members of Lowland Investment Company plc

## Opinion

We have audited the financial statements of Lowland Investment Company PLC (the 'Company') for the year-ended 30 September 2020, which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Overview of our audit approach

### Key audit matters

1. Risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement.
  2. Incorrect valuation and ownership of the investment portfolio held at fair value through profit and loss including unlisted investments.
  3. Impact of COVID-19.
- Overall materiality of £2.78m which represents 1% of Net Assets as at 30 September 2020.

### Materiality

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 27 and 28 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 28 in the annual report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 57 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 28 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.



# Independent Auditor's Report to the Members of Lowland Investment Company plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement</b></p> <p>Refer to the Audit Committee Report (page 45); Accounting policy 1(e) (page 58); and Note 3 of the Financial Statements (page 59).</p> <p>Investment income is received primarily in the form of dividends from UK quoted equities.</p> <p>The investment income receivable by the Company during the year directly affects the Company's ability to pay a dividend to shareholders. There is a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or apply appropriate accounting treatment.</p> <p>Special dividends represent dividends paid by investee companies that are additional to the normal or expected dividend cycle for that company.</p> <p>In accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP'), special dividends can be included within either the revenue or capital columns of the Income Statement, depending on the commercial circumstances behind payments.</p> <p>The Directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'. As such, there is a manual and judgemental element in classifying special dividends between revenue and capital.</p>	<p><b>We have performed the following procedures:</b></p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the Manager's and BNP Paribas Securities Services' ('the Administrator') processes and controls for recording investment income, including the classification of special dividends.</li> <li>• Reviewed a sample of dividends received from the Company's income report and agreed key details (dividend rate, ex-date, payment date) to an independent source, agreed holdings at ex-date to the transactions report and agreed proceeds to bank statements.</li> <li>• Agreed a sample of dividends paid on investments held during the year from an independent pricing source to the income report.</li> <li>• For all accrued dividends, agreed key details (dividend rate, ex-date, payment date) to an independent source, agreed the holding at ex-date to the transactions report and where possible, agreed proceeds to post year-end bank statements.</li> <li>• Performed a review of special dividends received that exceed our testing threshold and assessed the appropriateness of the accounting treatment.</li> <li>• Traced all special dividends to the Company's income report, agreeing key details (dividend rate, ex-date, payment date) to an independent source, agreed holdings at ex-date to the transactions report and agreed proceeds to the bank statement.</li> <li>• Tested the completeness of special dividends by comparing, for a sample of investments, the special dividends declared by that portfolio company during the year to the list of special dividends reported by the Company and additionally reviewed the transaction listing for special dividends through filtering for items that were corporate actions and tested items above the testing threshold.</li> <li>• Tested the completeness of the income report by ensuring that the total income balance agrees to the sum of the relevant journal entries.</li> </ul>	<p><b>The results of our procedures are:</b></p> <p>We had no matters to report to the Audit Committee having performed the stated procedures.</p>

# Independent Auditor's Report to the Members of Lowland Investment Company plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Incorrect valuation and ownership to the investment portfolio including unlisted investments</b></p> <p>Refer to the Audit Committee Report (page 45); Accounting policies 1(c) (page 57); and Note 11 of the Financial Statements (page 63).</p> <p>95.2% of the Company's portfolio is invested in UK listed equity investments, 4.0% is invested in overseas listed equity investments and 0.8% is invested in UK unquoted investments.</p> <p>Quoted investments are valued at the bid price or last trade price on the relevant date depending on the convention of the exchange on which the investments are listed.</p> <p>Unquoted investments are valued according to observable market data such as broker quotes and net asset value.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p>	<p><b>We have performed the following procedures:</b></p> <ul style="list-style-type: none"> <li>Obtained an understanding of the Administrator's processes surrounding the investment portfolio by reviewing their internal control reports and by performing our walkthrough procedures.</li> <li>Agreed the prices of 100% of the quoted investment portfolio to an independent pricing vendor, which is different to the vendor used by the Company.</li> <li>Reviewed the stale price report to assess the liquidity of the listed equity investments held. Where any items were stale, we assessed the trading volume post year-end in order to check the accuracy of the fair value and stated investment level.</li> <li>Agreed the Company's holdings as at 30 September 2020 to independently obtained Custodian and Depository reports (both HSBC Bank plc).</li> <li>Reviewed that the valuation calculation and methodology for unquoted investments held at the year-end approximate fair value through reviewing the methodology used and verifying the inputs to third party supporting evidence.</li> </ul>	<p><b>The results of our procedures are:</b></p> <p>We had no matters to report to the Audit Committee having performed the stated procedures.</p>
<p><b>Impact of COVID-19</b></p> <p>Refer to the accounting policy 1(b) (page 57).</p> <p>The COVID-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in global equity and debt markets. As of the date of our audit report, the longer-term impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of the financial statements.</p> <p>The COVID-19 pandemic had the most significant impact on our audit of the financial statements in the following areas:</p> <p><b>Going concern</b></p> <p>There is increased uncertainty in certain of the assumptions underlying management's assessment of future prospects, which includes the ability of the Company to meet debt covenants and fund ongoing costs.</p> <p><b>Financial statement disclosures</b></p> <p>There is a risk that the impact of COVID-19 is not adequately disclosed in the financial statements.</p>	<p><b>We performed the following procedures:</b></p> <p><b>Going Concern</b></p> <ul style="list-style-type: none"> <li>We inspected management's assessment of going concern, which includes consideration of the impact of COVID-19 on revenue and cash forecasting. We have agreed the inputs and assumptions used in the assessment to our audit working papers and historically observed results of the Company.</li> <li>We confirmed the availability of the Company's financing arrangements and reporting of their compliance with relevant covenants.</li> </ul> <p><b>Financial statements disclosures</b></p> <ul style="list-style-type: none"> <li>We reviewed the adequacy of the going concern disclosures by evaluating whether they were consistent with the Board's assessment. We reviewed the disclosures for compliance with the reporting requirements.</li> </ul>	<p><b>The results of our procedures are:</b></p> <p>We had no matters to report to the Audit Committee having performed the stated procedures.</p>

# Independent Auditor's Report to the Members of Lowland Investment Company plc (continued)

Given the volatility of global markets during the year we have included the 'Impact of COVID-19' as a key audit matter in the current year's audit report. The other two key audit matters are consistent with prior year.

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including changes in the business environment, when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.78m (2019: £3.86m), which is 1% (2019: 1%) of Net Assets. We believe that shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

During the course of our audit, we reassessed initial materiality and found no reason to alter the basis of calculation at year-end.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £2.09m (2019: £2.89m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold for the revenue column of the Income Statement of £0.57m (2019: £0.93m), being 5% of the revenue net return before taxation.

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.14m (2019: £0.19m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 35** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 44** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

# Independent Auditor's Report to the Members of Lowland Investment Company plc (continued)

- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 38** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158/9 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to management override in relation to inappropriate journals pertaining to the allocation of special dividends. Further discussion of our approach is set out in the section on the key audit matters above.

# Independent Auditor's Report to the Members of Lowland Investment Company plc (continued)

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- We have reviewed that the Company's control environment is adequate for the size and operating model of such a listed investment company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Other matters we are required to address

We were appointed by the Company on 24 January 2017 to audit the financial statements for the year-ended 30 September 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 30 September 2017 to 30 September 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit Committee.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Price (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP (Statutory Auditor)  
London  
7 December 2020

### Notes:

1. The maintenance and integrity of the Company's website is the responsibility of the Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

# Financial Statements

# Income Statement

Notes	Year ended 30 September 2020			Year ended 30 September 2019			
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000	
2	Losses on investments held at fair value through profit or loss	–	(98,742)	(98,742)	–	(54,206)	(54,206)
3	Income from investments	11,124	–	11,124	20,640	–	20,640
4	Other interest receivable and similar income	128	–	128	121	–	121
	<b>Gross revenue and capital losses</b>	<b>11,252</b>	<b>(98,742)</b>	<b>(87,490)</b>	<b>20,761</b>	<b>(54,206)</b>	<b>(33,445)</b>
5	Management fee	(835)	(836)	(1,671)	(983)	(983)	(1,966)
6	Administrative expenses	(547)	–	(547)	(539)	–	(539)
	<b>Net return/(loss) before finance costs and taxation</b>	<b>9,870</b>	<b>(99,578)</b>	<b>(89,708)</b>	<b>19,239</b>	<b>(55,189)</b>	<b>(35,950)</b>
7	Finance costs	(594)	(593)	(1,187)	(669)	(670)	(1,339)
	<b>Net return/(loss) before taxation</b>	<b>9,276</b>	<b>(100,171)</b>	<b>(90,895)</b>	<b>18,570</b>	<b>(55,859)</b>	<b>(37,289)</b>
8	Taxation on net return	(144)	–	(144)	(205)	–	(205)
	<b>Net return/(loss) after taxation</b>	<b>9,132</b>	<b>(100,171)</b>	<b>(91,039)</b>	<b>18,365</b>	<b>(55,859)</b>	<b>(37,494)</b>
9	Return/(loss) per ordinary share – basic and diluted	33.8p	(370.7p)	(336.9p)	68.0p	(206.7p)	(138.7p)

The total columns of this statement represent the Profit and Loss Account of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. The Company had no other comprehensive income. The net return is both the profit for the year and the total comprehensive income.

# Statement of Changes in Equity

Notes	Year ended 30 September 2020	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total shareholders' funds £'000
	At 1 October 2019	6,755	61,619	1,007	298,139	18,384	385,904
	Net (loss)/return after taxation	–	–	–	(100,171)	9,132	(91,039)
10	Third interim dividend (15.0p) for the year ended 30 September 2019 paid 31 October 2019	–	–	–	–	(4,053)	(4,053)
10	Final dividend (15.0p) for the year ended 30 September 2019 paid 31 January 2020	–	–	–	–	(4,053)	(4,053)
10	First interim dividend (15.0p) for the year ended 30 September 2020 paid 30 April 2020	–	–	–	–	(4,053)	(4,053)
10	Second interim dividend (15.0p) for the year ended 30 September 2020 paid 31 July 2020	–	–	–	–	(4,053)	(4,053)
	<b>At 30 September 2020</b>	<b>6,755</b>	<b>61,619</b>	<b>1,007</b>	<b>197,968</b>	<b>11,304</b>	<b>278,653</b>

Notes	Year ended 30 September 2019	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total shareholders' funds £'000
	At 1 October 2018	6,755	61,619	1,007	353,998	15,555	438,934
	Net (loss)/return after taxation	–	–	–	(55,859)	18,365	(37,494)
10	Third interim dividend (14.0p) for the year ended 30 September 2018 paid 31 October 2018	–	–	–	–	(3,783)	(3,783)
10	Final dividend (14.0p) for the year ended 30 September 2018 paid 31 January 2019	–	–	–	–	(3,782)	(3,782)
10	First interim dividend (14.5p) for the year ended 30 September 2019 paid 30 April 2019	–	–	–	–	(3,918)	(3,918)
10	Second interim dividend (15.0p) for the year ended 30 September 2019 paid 31 July 2019	–	–	–	–	(4,053)	(4,053)
	<b>At 30 September 2019</b>	<b>6,755</b>	<b>61,619</b>	<b>1,007</b>	<b>298,139</b>	<b>18,384</b>	<b>385,904</b>



# Statement of Financial Position

Notes		As at 30 September 2020 £'000	As at 30 September 2019 £'000
	<b>Fixed assets</b>		
11	<b>Investments held at fair value through profit or loss</b>		
	Listed at market value in the United Kingdom	256,935	351,431
	Listed at market value on AIM	48,425	65,428
	Listed at market value overseas	12,695	15,906
	Unlisted	2,495	2,422
		<b>320,550</b>	<b>435,187</b>
	<b>Current assets</b>		
12	Debtors	2,424	1,710
	Cash at bank	3,232	2,008
		<b>5,656</b>	<b>3,718</b>
13	<b>Creditors: amounts falling due within one year</b>	(17,772)	(23,222)
	<b>Net current liabilities</b>	<b>(12,116)</b>	<b>(19,504)</b>
	<b>Total assets less current liabilities</b>	<b>308,434</b>	<b>415,683</b>
13	<b>Creditors: amounts falling due after one year</b>	(29,781)	(29,779)
	<b>Net assets</b>	<b>278,653</b>	<b>385,904</b>
	<b>Capital and reserves</b>		
15	Called up share capital	6,755	6,755
	Share premium account	61,619	61,619
	Capital redemption reserve	1,007	1,007
16	Other capital reserves	197,968	298,139
	Revenue reserve	11,304	18,384
	<b>Total shareholders' funds</b>	<b>278,653</b>	<b>385,904</b>
17	<b>Net asset value per ordinary share – basic and diluted</b>	<b>1,031.3p</b>	<b>1,428.3p</b>

The financial statements on pages 53 to 70 were approved and authorised for issue by the Board of Directors on 7 December 2020 and signed on their behalf by:

Robert Robertson  
Chairman

# Statement of Cash Flows

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
<b>Cash flows from operating activities</b>		
Net loss before taxation	(90,895)	(37,289)
Add back: finance costs	1,187	1,339
Add: losses on investments held at fair value through profit or loss	98,742	54,206
Withholding tax on dividends deducted at source	(177)	(282)
Decrease in other debtors	814	386
(Decrease)/increase in other creditors	(784)	1,159
<b>Net cash inflow from operating activities</b>	<b>8,887</b>	<b>19,519</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(53,045)	(51,677)
Sale of investments	67,917	54,923
<b>Net cash inflow from investing activities</b>	<b>14,872</b>	<b>3,246</b>
<b>Cash flows from financing activities</b>		
Equity dividends paid (net of refund of unclaimed distributions and reclaimed distributions)	(16,212)	(15,536)
Net loans repaid	(5,109)	(5,342)
Interest paid	(1,207)	(1,344)
<b>Net cash outflow from financing activities</b>	<b>(22,528)</b>	<b>(22,222)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,231</b>	<b>543</b>
Cash and cash equivalents at start of year	2,008	1,445
Effect of foreign exchange rates	(7)	20
<b>Cash and cash equivalents at end of year</b>	<b>3,232</b>	<b>2,008</b>
Comprising:		
Cash at bank	3,232	2,008
	<b>3,232</b>	<b>2,008</b>

Cash inflow from dividends net of taxation was £11,713,000 (2019: £20,564,000)

# Notes to the Financial Statements

## 1 Accounting Policies

### a) Basis of Preparation

The Company is a registered investment company as defined in section 833 of the Companies Act 2006 and is incorporated in the United Kingdom. It operates in the United Kingdom and is registered at the address on page 26.

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ('the SORP') issued in October 2019.

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The Financial Statements have been prepared under the historical cost basis except for the measurement of fair value of investments. In applying FRS102, financial instruments have been accounted for in accordance with Section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

The preparation of the Company's financial statements on occasion requires the Directors to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures.

These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

The Directors do not believe that any accounting judgements or estimates have been applied to this set of financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

### b) Going Concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the Directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The Directors have also considered the impact of COVID-19, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio. They have concluded that they are able to meet their financial obligations as they fall due for at least twelve months from the date of issuance. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

### c) Investments held at Fair Value through Profit or Loss

Listed investments, including AIM stocks are held at fair value through profit or loss and accordingly are valued at fair value, deemed to be the quoted bid price or the last trade price depending on the convention of the exchange on which the investment is quoted.

Unlisted investments have also been classified as held at fair value through profit or loss and are valued by the Directors using primary valuation techniques such as recent transactions and net assets.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as 'gains or losses on investments held at fair value through profit or loss'. Also included in this are transaction costs incurred on the purchase and disposal of investments. All purchases and sales are accounted for on a trade date basis.

### d) Foreign Currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and equity investments held at fair value through profit or loss which are denominated in foreign currencies at the Statement of Financial Position date are translated into sterling at the exchange rates ruling at that date.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or to the revenue return of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

# Notes to the Financial Statements (continued)

## 1 Accounting Policies (continued)

### e) Income

Dividends receivable on equity shares are taken to the revenue return on an ex-dividend basis except where, in the opinion of Directors, the dividend is capital in nature in which case it is taken to the 'losses on investments' in the capital return column. The ordinary element of scrip dividends received in lieu of cash dividends is recognised as revenue. Any enhancement above the cash dividend is treated as capital. Income from fixed interest debt securities and preference shares is based on the coupon payable by the instrument adjusted to spread any premium or discount on purchase or redemption over its remaining life.

Bank interest and income from stock lending are accounted for monthly on an accruals basis and shown in the revenue return based on amounts to which the Company is entitled.

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, a derivative financial instrument is recognised initially at fair value. The derivative is re-measured subsequently at fair value, with the related gains and losses being reflected in the Income Statement. Net losses arising from these derivatives, where actual or expected loss from taking up the securities underwritten exceeds the commission income, are allocated to the capital return. Net gains are allocated to the revenue return.

Fees earned from stock lending are accounted for monthly on an accruals basis and shown in the revenue return after deduction of amounts withheld by the counterparty arranging the stock lending facility.

### f) Management Fees, Performance Fees, Administrative Expenses and Finance Costs

All expenses and finance costs are accounted for on an accruals basis. All administrative expenses except the management fee and finance costs, are charged to the revenue return of the Income Statement. The management fee and finance costs are charged 50% to the capital return of the Income Statement and 50% to the revenue return of the Income Statement. Any performance fees payable are allocated wholly to capital.

### g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from return before taxation as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the applicable rate of corporation tax for the accounting period.

In line with the recommendations of the AIC SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not reversed by the Statement of Financial Position date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. Any liability to deferred tax is provided at the average rate of tax expected to apply based on tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

### h) Borrowings

Interest bearing bank loans and overdrafts are recorded initially at fair value, being the proceeds received, less direct issue costs. They are subsequently re-measured at amortised cost. Finance costs including interest payable, premiums on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Senior unsecured notes are recorded initially at proceeds received, less direct issue costs. They are subsequently re-measured at amortised cost. The issue costs will be amortised over the life of the loan notes. Finance costs, including interest payable, are accounted for on an accruals basis in the Income Statement using the effective interest rate method.

### i) Dividends Payable to Shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid, or in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Statement of Changes in Equity.

# Notes to the Financial Statements (continued)

## 1 Accounting Policies (continued)

### j) Capital and Reserves

Called up share capital represents the nominal value of ordinary shares issued.

The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

The capital redemption reserve represents the nominal value of ordinary shares that have been repurchased and cancelled.

Other capital reserves are split into two components, the capital reserve arising on investments sold and the capital reserve arising on investments held. The following analyses what is accounted for in each of these components.

#### Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposals of investments;
- realised foreign exchange differences of a capital nature;
- cost of repurchasing ordinary share capital; and
- expenses and finance costs allocated to capital net of tax relief.

#### Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

### k) Distributable reserves

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend.

## 2 Losses on investments held at fair value through profit or loss

	2020 £'000	2019 £'000
(Losses)/gains on the sale of investments based on historical cost	(2,753)	13,452
Less: revaluation gains recognised in previous years	(4,313)	(11,057)
<b>(Losses)/gains on investments sold in the year based on carrying value at previous Statement of Financial Position date</b>	<b>(7,066)</b>	<b>2,395</b>
Revaluation losses on investments held at 30 September	(91,669)	(56,621)
Exchange (losses)/gains	(7)	20
	<b>(98,742)</b>	<b>(54,206)</b>

## 3 Income from Investments

	2020 £'000	2019 £'000
<b>UK dividends:</b>		
Listed investments	9,493	16,682
Unlisted	49	69
Property income dividends	169	442
	<b>9,711</b>	<b>17,193</b>
<b>Non UK dividends:</b>		
Overseas dividend income	1,413	3,447
	<b>1,413</b>	<b>3,447</b>
	<b>11,124</b>	<b>20,640</b>

# Notes to the Financial Statements (continued)

## 4 Other Interest Receivable and Similar Income

	2020 £'000	2019 £'000
Stock lending commission	121	112
Income from underwriting	5	5
Bank interest	2	4
	<b>128</b>	<b>121</b>

At 30 September 2020 the total value of securities on loan by the Company for stock lending purposes was £21,774,000 (2019: £74,715,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2020 was £74,214,000 (2019: £118,213,000). The Company's agent holds collateral comprising FTSE 100 stocks, gilts, overseas equities and overseas government bonds with a collateral value of £22,937,000 (2019: £78,772,000) amounting to a minimum of 105% (2019: minimum 105%) of the market value of any securities on loan. Stock lending commission has been shown net of brokerage fees of £30,000 (2019: £28,000).

## 5 Management and Performance Fees

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	835	836	1,671	983	983	1,966
<b>Total fee</b>	<b>835</b>	<b>836</b>	<b>1,671</b>	<b>983</b>	<b>983</b>	<b>1,966</b>

A description of the basis for calculating the management fee and performance fees is given in the Strategic Report on page 23. For the year ended 30 September 2020, no performance fee is payable (2019: same). This is based on the Company's 3 year average NAV total return to 30 September 2020 of -10.0% compared to the FTSE All-Share Index Total Return (plus a 10% hurdle rate) of -3.0%.

## 6 Administrative Expenses

	2020 £'000	2019 £'000
Directors' fees and expenses (see Directors' Remuneration Report on page 37) <sup>1</sup>	148	145
Auditor's remuneration – for audit services	35	23
AIC subscriptions	21	21
Directors' and Officers' liability insurance	8	8
Listing fees (Stock Exchange, newspapers and internet)	36	36
Safe custody and bank charges	20	22
Loan facility fees	67	47
Printing and postage	17	14
Registrar's fees	19	18
General expenses and marketing expenses payable to Janus Henderson	64	74
Depositary fees	31	30
Other expenses	40	57
Irrecoverable VAT	41	44
	<b>547</b>	<b>539</b>

1. All transactions with Directors, as disclosed in the Directors' Remuneration Report, are related party transactions

# Notes to the Financial Statements (continued)

## 7 Finance Costs

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
On bank loans and overdrafts repayable within one year	121	120	241	191	192	383
On senior unsecured notes	473	473	946	478	478	956
<b>Total fee</b>	<b>594</b>	<b>593</b>	<b>1,187</b>	<b>669</b>	<b>670</b>	<b>1,339</b>

The allocation between revenue return and capital return is explained in note 1(f) on page 58.

## 8 Taxation on Net Return

Analysis of tax charge for the year

	2020			2019		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas tax suffered	184	–	184	277	–	277
Overseas tax reclaimable	(40)	–	(40)	(72)	–	(72)
<b>Total taxation for the year</b>	<b>144</b>	<b>–</b>	<b>144</b>	<b>205</b>	<b>–</b>	<b>205</b>

Factors affecting the tax charge for the year

	2020			2019		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net return/(loss) before taxation	9,276	(100,171)	(90,895)	18,570	(55,859)	(37,289)
Corporation tax at standard rate of 19% <sup>1</sup>	1,762	(19,032)	(17,270)	3,528	(10,613)	(7,085)
Effects of:						
Non-taxable UK dividends	(1,813)	–	(1,813)	(3,179)	–	(3,179)
Other non-taxable income	(268)	–	(268)	(655)	–	(655)
Overseas tax suffered	144	–	144	205	–	205
Excess expenses/non-trading deficits for the year	319	271	590	306	314	620
Currency losses/(gains)	–	1	1	–	(4)	(4)
Non-taxable/deductible capital losses	–	18,760	18,760	–	10,303	10,303
<b>Total tax charge</b>	<b>144</b>	<b>–</b>	<b>144</b>	<b>205</b>	<b>–</b>	<b>205</b>

1. The Company's profit for the accounting year is taxed at the standard rate of 19%. The standard rate of corporation tax has been 19% since 1 April 2017

No provision for deferred taxation has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation and disposal of investments as it is exempt from tax on these items because of its investment trust status. The Company has not recognised a deferred tax asset totalling £11,504,000 (2019: £9,765,000) based on a prospective corporation tax rate of 19% (2019: 17%).

The deferred tax asset arises as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised, to any material extent, if the Company has profits chargeable to corporation tax in the future because changes are made either to the tax treatment of the capital gains made by investment trusts or to the Company's investment profile which require them to be used.

# Notes to the Financial Statements (continued)

## 9 Return per Ordinary Share – Basic and Diluted

The loss per ordinary share is based on the net loss attributable to the ordinary shares of £91,039,000 (2019: £37,494,000) and on 27,018,565 ordinary shares (2019: 27,018,565) being the weighted average number of ordinary shares in issue during the year. The loss per ordinary share can be further analysed between revenue and capital, as below

	2020 £'000	2019 £'000
Net revenue return	9,132	18,365
Net capital loss	(100,171)	(55,859)
<b>Net total loss</b>	<b>(91,039)</b>	<b>(37,494)</b>
<b>Weighted average number of ordinary shares in issue during the year</b>	<b>27,018,565</b>	<b>27,018,565</b>

	2020 Pence	2019 Pence
Revenue return per ordinary share	33.8	68.0
Capital loss per ordinary share	(370.7)	(206.7)
<b>Total loss per ordinary share</b>	<b>(336.9)</b>	<b>(138.7)</b>

The Company does not have any dilutive securities, therefore the basic and diluted returns per share are the same.

## 10 Dividends Paid and Payable on the Ordinary Shares

Dividends on ordinary shares	Record date	Payment date	2020 £'000	2019 £'000
Third interim dividend (14.0p) for the year ended 30 September 2018	4 October 2018	31 October 2018	–	3,783
Final dividend (14.0p) for the year ended 30 September 2018	4 January 2019	31 January 2019	–	3,782
First interim dividend (14.5p) for the year ended 30 September 2019	5 April 2019	30 April 2019	–	3,918
Second interim dividend (15.0p) for the year ended 30 September 2019	5 July 2019	31 July 2019	–	4,053
Third interim dividend (15.0p) for the year ended 30 September 2019	4 October 2019	31 October 2019	4,053	–
Final dividend (15.0p) for the year ended 30 September 2019	3 January 2020	31 January 2020	4,053	–
First interim dividend (15.0p) for the year ended 30 September 2020	3 April 2020	30 April 2020	4,053	–
Second interim dividend (15.0p) for the year ended 30 September 2020	3 July 2020	31 July 2020	4,053	–
			<b>16,212</b>	<b>15,536</b>

The third interim dividend and the final dividend for the year ended 30 September 2020 have not been included as a liability in these financial statements. The total dividends payable in respect of the financial year, which form the basis of the retention test under Section 1158 of the Corporation Tax Act 2010, are set out below.

	2020 £'000
Revenue available for distribution by way of dividends for the year	9,132
First interim dividend (15.0p) for the year ended 30 September 2020	(4,053)
Second interim dividend (15.0p) for the year ended 30 September 2020	(4,053)
Third interim dividend (15.0p) for the year ended 30 September 2020	(4,053)
Final dividend (15.0p) for the year ended 30 September 2020 (based on 27,018,565 ordinary shares in issue at 7 December 2020)	(4,053)
<b>Revenue deficit in respect of the year</b>	<b>(7,080)</b>



# Notes to the Financial Statements (continued)

## 11 Investments held at Fair Value through Profit or Loss

	2020 £'000	2019 £'000
Cost at start of year	406,813	396,607
Investment holding gains at start of year	28,374	96,052
Valuation at start of year	435,187	492,659
<b>Analysis of transactions made during the year</b>		
Additions at cost	53,509	51,677
Disposal proceeds received	(69,411)	(54,923)
Realised losses on investments	(98,735)	(54,226)
<b>Valuation at end of year</b>	<b>320,550</b>	<b>435,187</b>
Cost at end of year	388,158	406,813
Investment holding (losses)/gains at end of year	(67,608)	28,374
<b>Valuation at end of year</b>	<b>320,550</b>	<b>435,187</b>

Included in the total investments are unlisted investments shown at the Directors fair value of £2,495,000 (2019: £2,422,000)

Purchase transaction costs for the year ended 30 September 2020 were £229,000 (2019: £228,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2020 were £29,000 (2019: £22,000).

The Company received £69,411,000 (2019: £54,923,000) from investments sold in the year. The book cost of these investments when they were purchased was £72,164,000 (2019: £41,471,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

As at 30 September 2020, the Company holds 3% or more of any class of capital in 13 investee companies (2019: 17). Within the 13, there were 5 whose valuation represented more than 1% of the value of the total investment portfolio held by the Company.

	2020 Valuation £'000	2020 % of voting rights	2019 Valuation £'000	2019 % of voting rights
Henderson Opportunities Trust	5,196	7.6	5,478	7.6
Epwin	3,872	3.9	–	–
Ten Entertainment	3,411	3.8	5,934	3.8
K3 Capital	3,633	3.7	–	–
Ilika	3,867	3.3	–	–

## 12 Debtors

	2020 £'000	2019 £'000
Prepayments and accrued income	723	1,537
Sales for future settlement	1,495	–
Taxation recoverable	206	173
	<b>2,424</b>	<b>1,710</b>

# Notes to the Financial Statements (continued)

## 13 Creditors

Amounts falling due within one year

	2020 £'000	2019 £'000
Unsecured sterling bank loans	16,056	21,165
Purchases for future settlement	464	–
Other creditors	1,252	2,057
	<b>17,772</b>	<b>23,222</b>

The Company had a 3 year loan facility of up to £40m with Scotiabank (Ireland) Designated Activity Company Limited. As at 30 September 2020 £16.1m (2019: £21.2m) of the facility was drawn down. The Company also had a conditional option to increase the facility by £20m.

Amounts falling due after more than one year

	2020 £'000	2019 £'000
3.15% senior unsecured loan notes 2037	29,781	29,779
	<b>29,781</b>	<b>29,779</b>

On 5 January 2017 the Company issued £30m 3.15% senior unsecured notes due 2037, net of costs totalling £255,000. The issue costs will be amortised over the life of the notes.

The £30m senior unsecured notes are redeemable at par on 5 January 2037.

## 14 Financial Risk Management Policies and Procedures

As an investment trust, the Company invests in equities and other investments for the long-term so as to secure its investment objective and policy as stated on page 21. In pursuing its investment objective and policy, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks, including market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk, and the Directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board and Janus Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below:

- straight-through processing via a deal order and management system ('OMS') is utilised for securities, with connectivity to third-party affirmation and trade repository services;
- portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third-party software applications: Charles River Development OMS and/or Imagine;
- fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services) which utilises HiPortfolio software; and
- the IT tools to which the Janus Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
  - Charles River Compliance module for investment restrictions monitoring;
  - Nasdaq Bwise operational risk database;
  - Riskmetrics, UBS Delta, Style Research, Cognity and Barra for market risk measurement;
  - Bloomberg for market data and price-checking; and
  - HiPortfolio for portfolio holdings and valuations.

These are supplemented by in-house developments: derivatives risk and compliance database ('DRAC') and counterparty exposure ('CER') reports.

### 14.1 Market Risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 14.1.1), currency risk (see note 14.1.2) and interest rate risk (see note 14.1.3). The Board reviews and agrees policies for managing these risks. Janus Henderson assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

# Notes to the Financial Statements (continued)

## 14 Financial Risk Management Policies and Procedures (continued)

### 14.1.1 Market Price Risk

Market price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of listed and unlisted investments.

The Company's exposure to market price risk at 30 September 2020 is represented by its investments held on the Statement of Financial Position under the heading 'Investments held at fair value through profit or loss' on page 55.

#### Management of the Risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objectives, and is directly responsible for investment strategy and asset allocation.

#### Concentration of Exposure to Market Price Risks

An analysis of the Company's investment portfolio is shown on pages 14 to 20. This shows that the majority of the investments' value is in UK listed companies. Accordingly, there is a concentration of exposure to market price risk, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

#### Market Price Risk Sensitivity

The following table illustrates the sensitivity of the total return after taxation for the year and the net assets to an increase or decrease of 20% (2019: 20%) in the fair values of the Company's investments. This level of change is considered to be reasonably possible based on observation of market behaviour in the last few years.

#### Sensitivity analysis – Market prices if prices change by 20%

	2020		2019	
	If prices go up £'000	If prices go down £'000	If prices go up £'000	If prices go down £'000
Investments at year end	320,550	320,550	435,187	435,187
Impact on income statement:				
Revenue return	(256)	256	(348)	348
Capital return	64,110	(64,110)	87,037	(87,037)
<b>Impact on net assets and total return (excluding gearing)</b>	<b>63,854</b>	<b>(63,854)</b>	<b>86,689</b>	<b>(86,689)</b>

### 14.1.2 Currency Risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and presentational currency). As a result, movements in exchange rates may affect the sterling value of those items. As the Company's investments are predominantly in sterling denominated securities its exposure to currency risk is not considered material and no sensitivity analysis has been presented. Investments held in currencies other than sterling were £12,695,000 (2019: £15,906,000) representing 4.0% (2019: 3.7%) of the total investments of the Company.

#### Management of the Risk

Janus Henderson monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. Janus Henderson measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and total return of a movement in the exchange rates to which the Company's assets, liabilities, income and expenses are exposed.

Investment income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

# Notes to the Financial Statements (continued)

## 14 Financial Risk Management Policies and Procedures (continued)

### 14.1.3 Interest Rate Risk

Interest rate movements may affect:

- the fair value of investments in fixed interest securities;
- the level of income receivable from interest-bearing securities and cash at bank and on deposit; and
- the interest payable on the Company's variable rate borrowings.

#### Management of the Risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the loan facility. The Company, generally, does not hold significant cash balances, with short term borrowings being used when required. The Company finances part of its activities through borrowings at levels approved and monitored by the Board. Derivative contracts have not been used during the year to hedge against the exposure to interest rate risk.

#### Interest Rate Exposure

The Company's exposure to floating interest rates can be found on the Statement of Financial Position under the heading 'Cash at bank' and in note 13 under the heading 'Unsecured sterling bank loans'.

Interest receivable and finance costs are at the following rates:

- Interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR (2019: same); and
- Interest paid on borrowings under the loan facility is at a margin over LIBOR for the type of loan. The weighted average interest rate of these is 0.98% as at 30 September 2020 (2019: 1.7%).

The Company had fixed interest rate asset exposure at 30 September 2020 on the holding in Wadworth at £126,000 (2019: £126,000). The Company also had fixed interest rate liability exposure through the senior unsecured loan notes.

#### Interest Rate Risk Sensitivity

The Company is primarily exposed to interest rate risk through its loan facility with Scotiabank (Ireland) Designated Activity Company Limited. The sensitivity is as follows:

- Borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings (net of cash) at the year end were £12,824,000 (2019: £19,157,000) and if that level of borrowing was maintained for a full year, then a 200 basis points change in LIBOR (up or down) would decrease or increase net revenue and total net return after taxation by approximately £256,000 (2019: £383,000).

### 14.2 Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

#### Management of the Risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company had unsecured sterling loan facilities totalling £60,000,000 (2019: £60,000,000) and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facilities are subject to regular review.

The Board gives guidance to Janus Henderson as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should generally remain fully invested and that short-term borrowings be used to manage short-term cash requirements.

The contractual maturities of the financial liabilities at 30 September based on the earliest date on which payment can be required are as follows:

	Due within 1 year £'000	Due within 1-5 years £'000	Due after 5 years £'000
<b>At 30 September 2020</b>			
Bank loans <sup>1</sup>	16,068	–	–
Senior unsecured notes <sup>2</sup>	945	3,780	40,868
Other creditors	1,483	–	–
	<b>18,496</b>	<b>3,780</b>	<b>40,868</b>

# Notes to the Financial Statements (continued)

## 14 Financial Risk Management Policies and Procedures (continued)

### 14.2 Liquidity Risk (continued)

At 30 September 2019	Due within 1 year £'000	Due within 1-5 years £'000	Due after 5 years £'000
Bank loans <sup>1</sup>	21,216	–	–
Senior unsecured notes <sup>2</sup>	945	3,780	41,813
Other creditors	1,803	–	–
	<b>23,964</b>	<b>3,780</b>	<b>41,813</b>

1. Includes the interest payable to maturity

2. The above figures show interest payable over the remaining term of the senior unsecured notes. The figures in the 'due after 5 years' column also include the capital to be repaid. Details of the repayment are set out on page 64

### 14.3 Credit and Counterparty Risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

#### Management of the Risk

The risk is managed as follows:

- Investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by Janus Henderson, and limits are set on the amount that may be due from any one broker; and
- Cash at bank is held only with reputable banks with high quality external credit ratings.

The table below summarises the credit risk exposure of the Company at year end.

	2020 £'000	2019 £'000
Fixed interest securities	126	126
Cash	3,232	2,008
Debtors:		
– prepayments and accrued income	686	1,497
– sales for future settlement	1,495	–
– taxation recoverable	206	173
	<b>5,745</b>	<b>3,804</b>

### 14.4 Fair Values of Financial Assets and Financial Liabilities

Except as noted below, the financial assets and financial liabilities are either carried in the Statement of Financial Position at their fair value (investments) or the Statement of Financial Position amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank, bank overdrafts and amounts due under the loan facilities). The senior unsecured loan notes are carried in the Statement of Financial Position at amortised cost.

At 30 September 2020, the fair value of the senior unsecured loan notes was estimated to be £36,624,000 (2019: £35,029,000). The fair value of the senior unsecured loan notes is calculated using a discounted rate which reflects the yield on a UK Gilt of similar maturity plus a suitable credit spread.

The senior unsecured notes are categorised as level 3 in the fair value hierarchy.

### 14.5 Fair Value Hierarchy Disclosures

The table below analyses fair value measurements for investments held at fair value through profit or loss. These fair value measurements are categorised into different levels in the fair value hierarchy based on the valuation techniques used and are defined as follows under FRS 102:

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not observed on observable market data.

# Notes to the Financial Statements (continued)

## 14 Financial Risk Management Policies and Procedures (continued)

### 14.5 Fair Value Hierarchy Disclosures (continued)

Financial assets at fair value through profit or loss at 30 September 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	318,055	–	2,495	320,550
<b>Total</b>	<b>318,055</b>	<b>–</b>	<b>2,495</b>	<b>320,550</b>

Financial assets at fair value through profit or loss at 30 September 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	432,765	–	2,422	435,187
<b>Total</b>	<b>432,765</b>	<b>–</b>	<b>2,422</b>	<b>435,187</b>

There have been no transfers during the year between any of the levels.

A reconciliation of movements within Level 3 is set out below:

	2020 £'000	2019 £'000
Opening balance	2,422	2,256
Total gain included in the Income Statement		
– on investments held	73	166
<b>Closing balance</b>	<b>2,495</b>	<b>2,422</b>

The Company's holdings in Oxford Sciences was revalued upward and in Wadworth revalued downward during the year. The Level 3 revaluation in the prior year related to Oxford Sciences and Wadworth.

### 14.6 Capital Management Policies and Procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern and to maximise the revenue and capital return to its equity shareholders. This is achieved through an appropriate balance of equity capital and debt.

The Company's capital at 30 September 2020 comprises its equity share capital, reserves and loans that are shown in the Statement of Financial Position at a total of £324,490,000 (2019: £436,848,000).

The Board, with the assistance of Janus Henderson, monitors and reviews the structure of the Company's capital on an ongoing basis. This review includes the planned level of gearing.

The Company is subject to several externally imposed capital requirements:

- borrowings under the bank facility are not to exceed 30% of the adjusted net asset value;
- adjusted net asset value not less than £105,000,000;
- net asset value not to be less than £150,000,000;
- total borrowings not to exceed 35% of the net asset value;
- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet the capital restriction tests imposed on investment companies by company law.

The Company has complied with these requirements.

# Notes to the Financial Statements (continued)

## 15 Called Up Share Capital

	Number of shares entitled to dividend	Total number of shares	Nominal value of shares £'000
At 30 September 2019	27,018,565	27,018,565	6,755
<b>At 30 September 2020</b>	<b>27,018,565</b>	<b>27,018,565</b>	<b>6,755</b>

During the year, the Company issued no ordinary shares (2019: nil).

## 16 Other Capital Reserves

	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 2019	28,375	269,764	298,139
Transfer on disposal of investments	(4,313)	4,313	–
Net losses on investments	(91,669)	(7,066)	(98,735)
Expenses and finance costs allocated to capital	–	(1,429)	(1,429)
Exchange differences	–	(7)	(7)
<b>At 30 September 2020</b>	<b>(67,607)</b>	<b>265,575</b>	<b>197,968</b>

The capital reserve arising on revaluation of investments held at 30 September 2020 includes a gain of £305,000 (2019: £232,000) based on historical book cost, in respect of the revaluation of unlisted investments.

	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 2018	96,053	257,945	353,998
Transfer on disposal of investments	(11,057)	11,057	–
Net (losses)/gains on investments	(56,621)	2,395	(54,226)
Expenses and finance costs allocated to capital	–	(1,653)	(1,653)
Exchange differences	–	20	20
<b>At 30 September 2019</b>	<b>28,375</b>	<b>269,764</b>	<b>298,139</b>

## 17 Net Asset Value per Ordinary Share

The net asset value per ordinary share of 1,031.3p (2019: 1,428.3p) is based on the net assets attributable to the ordinary shares of £278,653,000 (2019: £385,904,000) and on 27,018,565 (2019: 27,018,565) shares in issue on 30 September 2020.

The movements during the year of the assets attributable to the ordinary shares were as follows:

	2020 £'000	2019 £'000
Total net assets at start of year	385,904	438,934
Total net loss after taxation	(91,039)	(37,494)
Net dividends paid in the year	(16,212)	(15,536)
<b>Net assets attributable to the ordinary shares at 30 September</b>	<b>278,653</b>	<b>385,904</b>

# Notes to the Financial Statements (continued)

## 18 Net Debt Reconciliation

	Cash and cash equivalents £'000	Bank loans and overdraft repayable within one year £'000	Other debt repayable after more than one year £'000	Total £'000
Net debt at 1 October 2019	2,008	(21,165)	(29,779)	(48,936)
Cash flows	1,231	5,109	–	6,340
Exchange movements	(7)	–	–	(7)
Non cash flow:				
Amortisation of issue costs	–	–	(2)	(2)
<b>Net debt at 30 September 2020</b>	<b>3,232</b>	<b>(16,056)</b>	<b>(29,781)</b>	<b>(42,605)</b>

	Cash and cash equivalents £'000	Bank loans and overdraft repayable within one year £'000	Other debt repayable after more than one year £'000	Total £'000
Net debt at 1 October 2018	1,445	(26,507)	(29,767)	(54,829)
Cash flows	543	5,342	–	5,885
Exchange movements	20	–	–	20
Non cash flow:				
Amortisation of issue costs	–	–	(12)	(12)
<b>Net debt at 30 September 2019</b>	<b>2,008</b>	<b>(21,165)</b>	<b>(29,779)</b>	<b>(48,936)</b>

## 19 Capital Commitments and Contingent Liabilities

### Capital Commitments

There were no capital commitments as at 30 September 2020 (2019: £nil).

### Contingent Liabilities

There were no contingent liabilities in respect of underwriting participations as at 30 September 2020 (2019: £nil).

## 20 Transactions with the Manager and related parties

Under the terms of an agreement effective from 22 July 2014, the Company has appointed Janus Henderson to provide investment management, accounting, administrative and secretarial services. Janus Henderson has contracted with BNP Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given in the Strategic Report on page 23. The total of the management fees paid or payable to Janus Henderson under this agreement in respect of the year ended 30 September 2020 was £1,671,000 (2019: £1,966,000). The amount outstanding at 30 September 2020 was £806,000 (2019: £1,474,000). The total of the performance fee paid or payable to Janus Henderson under this agreement in respect of the year ended 30 September 2020 was £nil (2019: £nil).

In addition to the above services, Janus Henderson facilitates marketing activities with third parties which are recharged to the Company. Janus Henderson also provided sales and marketing services. The total amounts paid to Janus Henderson in respect of marketing for the year ended 30 September 2020 amounted to £64,000 (2019: £74,000).

Details of fees paid to Directors are included in the Directors' Remuneration Report on page 37 and in note 6 on page 60.



# Securities Financing Transactions

The Company engages in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015. Securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions or sell-buy back transactions and margin lending transactions). In accordance with Article 13 of the Regulation, the Company's involvement in and exposures related to securities lending for the year ended 30 September 2020 are detailed below.

## Global Data

The amount of securities on loan as a proportion of total lendable assets and the Company's net assets as at 30 September are disclosed below:

Market value of securities on loan £'000	Stock lending 2020	
	% of lendable assets	% of assets under management
21,774	6.79	7.81

## Concentration Data

The ten largest collateral issuers across all the securities financing transactions as at 30 September are disclosed below:

Issuer	2020 Market value of collateral received £'000
UK Treasury	5,247
Government of Japan	4,493
Government of Germany	3,668
Government of Finland	1,067
Government of Austria	993
Total	488
Ashtead	381
Sealed Air	381
Microsoft	381
Agnico Eagle	381
	<b>17,480</b>

The top ten counterparties of each type of securities financing transactions as at 30 September are disclosed below:

Counterparty	2020 Market value of securities on loan £'000
Barclays	5,220
Citigroup	4,599
HSBC	3,658
Bank of Nova Scotia	3,593
BNP Paribas	2,176
Credit Suisse (Europe)	1,169
Société Générale	628
Credit Suisse (Dublin)	424
UBS	241
JP Morgan	66
	<b>21,774</b>

All counterparties have been included.

# Securities Financing Transactions (continued)

## Aggregate Transaction Data

The following table discloses a summary of aggregate transaction data related to the collateral received from securities on loan as at 30 September:

### Stock lending 2020

Counterparty	Counterparty country of origin	Type	Quality	Collateral currency	Settlement basis	Custodian	Market value of collateral received £'000
Barclays	United Kingdom	Government Debt	Investment Grade	JPY	Tri-party	HSBC	3,242
		Government Debt	Investment Grade	EUR	Tri-party	HSBC	1,068
		UK Gilts	Investment Grade	GBP	Tri-party	HSBC	892
		Equity	Main Market Listing	JPY	Tri-party	HSBC	223
		Equity	Main Market Listing	GBP	Tri-party	HSBC	60
Citigroup	United States	Government Debt	Investment Grade	EUR	Tri-party	HSBC	3,974
		Equity	Main Market Listing	EUR	Tri-party	HSBC	488
		Government Debt	Investment Grade	JPY	Tri-party	HSBC	373
HSBC	Hong Kong	UK Gilts	Investment Grade	GBP	Bilateral	HSBC	3,842
Bank of Nova Scotia	Canada	Equity	Main Market Listing	USD	Tri-party	HSBC	1,981
		Equity	Main Market Listing	CAD	Tri-party	HSBC	762
		Equity	Main Market Listing	GBP	Tri-party	HSBC	714
		UK Gilts	Investment Grade	GBP	Tri-party	HSBC	239
		Equity	Main Market Listing	EUR	Tri-party	HSBC	91
		Government Debt	Investment Grade	USD	Tri-party	HSBC	20
BNP Paribas	France	Government Debt	Investment Grade	JPY	Tri-party	HSBC	851
		Equity	Main Market Listing	EUR	Tri-party	HSBC	689
		Government Debt	Investment Grade	EUR	Tri-party	HSBC	599
		Equity	Main Market Listing	SEK	Tri-party	HSBC	144
		Equity	Main Market Listing	HKD	Tri-party	HSBC	10
Credit Suisse (Europe)	Switzerland	Equity	Main Market Listing	EUR	Tri-party	HSBC	534
		Equity	Main Market Listing	USD	Tri-party	HSBC	254
		Equity	Main Market Listing	AUD	Tri-party	HSBC	249
		Equity	Main Market Listing	HKD	Tri-party	HSBC	120
		Equity	Main Market Listing	NOK	Tri-party	HSBC	57
		Equity	Main Market Listing	GBP	Tri-party	HSBC	14
		UK Gilts	Investment Grade	GBP	Tri-party	HSBC	8
		Government Debt	Investment Grade	JPY	Tri-party	HSBC	3
Société Générale	France	Equity	Main Market Listing	JPY	Tri-party	HSBC	412
		Equity	Main Market Listing	EUR	Tri-party	HSBC	154
		Equity	Main Market Listing	GBP	Tri-party	HSBC	74
		Government Debt	Investment Grade	JPY	Tri-party	HSBC	25
Credit Suisse (Dublin)	Switzerland	UK Gilts	Investment Grade	GBP	Tri-party	HSBC	267
		Government Debt	Investment Grade	EUR	Tri-party	HSBC	91
		Equity	Main Market Listing	USD	Tri-party	HSBC	45
		Equity	Main Market Listing	CAD	Tri-party	HSBC	36
		Equity	Main Market Listing	JPY	Tri-party	HSBC	5
		Equity	Main Market Listing	EUR	Tri-party	HSBC	2
UBS	Switzerland	Equity	Main Market Listing	HKD	Tri-party	HSBC	106
		Equity	Main Market Listing	AUD	Tri-party	HSBC	82
		Equity	Main Market Listing	GBP	Tri-party	HSBC	39
		Equity	Main Market Listing	NOK	Tri-party	HSBC	26
		Equity	Main Market Listing	EUR	Tri-party	HSBC	2
JP Morgan	United States	Equity	Main Market Listing	EUR	Tri-party	HSBC	57
		Equity	Main Market Listing	GBP	Tri-party	HSBC	13
							22,937

### Re-use of Collateral

The Company does not engage in any re-use of collateral.

### Return and Cost

The return and cost of engaging in securities lending by the Company and the securities lending agent in absolute terms and as a percentage of overall returns are disclosed below:

Total gross amount of securities lending income	Direct and indirect costs and fees deducted by securities lending agent	% return of the securities lending agent	Net securities lending income received by the Company	% return of the Company
£151,000	£30,000	20%	£121,000	80%

# General Shareholder Information

## AIFMD Disclosures

In accordance with the Alternative Investment Fund Managers Directive ('AIFMD'), information in relation to the Company's leverage (leverage is considered in terms of the Company's overall exposure to financial or synthetic gearing and includes any method by which its exposure is increased whether through borrowing of cash or securities, foreign currency holdings, leverage embedded in derivative positions or by any other means) and remuneration of Henderson Investment Funds Limited, as the Company's Alternative Investment Fund Manager ('AIFM') are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document called 'AIFMD Disclosures' which can be found on the Company's website.

## BACS

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar, Computershare Investor Services PLC. Alternatively, shareholders can write to the Registrar (the address is given on page 26) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

## Common Reporting Standard

With effect from 1 January 2016 tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information will have to be provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

## Equality Act

Copies of this report and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 707 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

## General Data Protection Regulation ('GDPR')

The General Data Protection Regulation ('GDPR') came into force on 25 May 2018. It aims to protect and empower individual data privacy and reshape the way organisations approach data privacy. A privacy statement can be found on the website [www.janushenderson.com](http://www.janushenderson.com).

## ISA

The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

## Key Investor Document

Information in relation to the Company's disclosures in accordance with the Packaged Retail and Insurance-based Investment Products ('PRIIPs') Regulation are contained in a 'Key Investor Document' which can be found on the Company's website.

## Non-Mainstream Pooled Investment ('NMPI') Status

The Company currently conducts its affairs so that its ordinary shares of 25p each can be recommended by IFAs to ordinary retail investors in accordance with the FCA Rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

## Packaged Retail and Insurance-based Investment Products Regulation ('PRIIPs')/ Key Information Document ('KID')

Investors should be aware that the PRIIPs Regulation requires the Manager, as the PRIIP manufacturer, to prepare a key information document in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by the law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

## Performance Details/Share Price Information

Details of the Company's share price and NAV can be found on the website. The address is [www.lowlandinvestment.com](http://www.lowlandinvestment.com). The Company's NAV is published daily.

# General Shareholder Information (continued)

## Shareholder Details

Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, via **www.computershare.com**.

Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

## Share Price Listings

The market price of the Company's ordinary shares is published daily in The Financial Times. The Financial Times also shows figures for the estimated NAV and the discount.

The market price of the Company's shares can be found in the London Stock Exchange Daily Official List.

## Warning to Shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Company Secretary at the number provided on page 26.

# Glossary

## Alternative Investment Fund Managers Directive ('AIFMD')

Agreed by the European Parliament and the Council of the European Union and transposed into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ('AIFs') and requires them to appoint an Alternative Investment Fund Manager ('AIFM') and Depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

## Association of Investment Companies ('AIC')

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

## Benchmark

An index against which performance is compared. For the Company this is the FTSE All-Share Index Total Return.

## Custodian

The Custodian is responsible for ensuring the safe custody of the Company's assets and that all transactions in the underlying holdings are transacted in an accurate and timely manner.

## Depositary

With effect from 22 July 2014 all AIFs were required to appoint a Depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings. The Depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The Depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

## Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts. The Company did not use derivatives in the year under review.

## Dividend Dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's registrars to know which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value will be disclosed ex-dividend.

## Investment Trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

## Initial Public Offering ('IPO')

The first time that the stock of a private company is offered to the public.

## Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

## Market Capitalisation ('Market Cap')

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

## Retail Price Index

An inflationary indicator that measures the change in the cost of a fixed basket of retail goods.

# Alternative Performance Measures

The Company uses the following Alternative Performance Measures ('APMs') throughout the annual report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders to help assess the Company's performance against its peer group.

## Capital Return per Ordinary Share

The capital return per share, is the capital profit/(loss) for the year (see Income Statement) divided by the weighted average number of ordinary shares in issue during the year (see note 9 on page 62).

## Discount or Premium

The amount by which the market price per share of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

	NAV with Debt at fair value	NAV with Debt at par	Share price	(Discount)/ premium to fair value NAV	(Discount)/ premium to par value NAV
<b>At 30 September 2020</b>	<b>1,006.0p</b>	<b>1,031.3p</b>	<b>914.0p</b>	<b>-9.2%</b>	<b>11.4%</b>
At 30 September 2019	1,408.9p	1,428.3p	1,280.0p	-9.1%	-10.4%

## Net Asset Value (NAV) per Ordinary Share

The value of the Company's assets (i.e. investments held at fair value through profit or loss (see note 11) and cash held (see Statement of Financial Position)) less any liabilities (i.e. Unsecured sterling bank loans and senior unsecured notes (see note 13)) for which the Company is responsible divided by the number of ordinary shares in issue (see note 15). The aggregate NAV is also referred to as Total shareholders' funds in the Statement of Financial Position. The NAV per ordinary share is published daily and the year end NAV can be found on page 3 and further information is available on page 69 in note 17 within the notes to the financial statements.

## Net Asset Value (NAV) with Debt at Fair Value

The Company's debt (bank borrowings and senior unsecured notes, further details can be found in note 13 on page 64) is valued in the Statement of Financial Position (page 55) at amortised cost, which is materially equivalent to the repayment value of the debt on assumption that it is held to maturity. This is often referred to as 'Debt at Par'. The current fair value of the debt, which assumes it is repaid under current market conditions, is referred to as 'Debt at Fair Value'. This fair value is detailed in note 14.4 on page 67. The difference between the fair and par values of the debt is subtracted from or added to the Statement of Financial Position on page 55 to derive the NAV with debt at fair value. The NAV with debt at fair value at 30 September 2020 was £271,810,000 (1,006.0p per ordinary share) and the NAV with debt at par was £278,653,000 (1,031.3p per ordinary share).

## Gearing/(Net Cash)

Gearing represents the excess amount above shareholders' funds of total investments, expressed as a percentage of the shareholders' funds. If the amount calculated is negative, this is a 'net cash' position and no gearing.

		2020	2019
Investments held at fair value through profit or loss (page 55) (£'000)	(A)	320,550	435,187
Net assets (page 55) (£'000)	(B)	278,653	385,904
Gearing (C = A / B - 1) (%)	(C)	15.0%	12.8%

# Alternative Performance Measures (continued)

## Ongoing Charges

The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total investment management fees and administrative expenses and expressed as a percentage of the average daily net asset values throughout the year.

	2020 £'000	2019 £'000
Management fees (note 5)	1,671	1,966
Other administrative expenses (note 6)	547	539
Less: non-recurring expenses	(67)	(64)
<b>Ongoing charges</b>	<b>2,151</b>	<b>2,441</b>
Performance fee	–	–
<b>Ongoing charges including performance fee</b>	<b>2,151</b>	<b>2,441</b>
<b>Average net assets<sup>1</sup></b>	<b>326,351</b>	<b>386,452</b>
<b>Ongoing charges ratio</b>	<b>0.66%</b>	<b>0.63%</b>
<b>Ongoing charges ratio including performance fee</b>	<b>0.66%</b>	<b>0.63%</b>

1. Calculated using the average daily net asset value

The ongoing costs provided in the Company's Key Information Document ('KID') is calculated in line with the PRIIPs regulations. The ongoing costs in the KID includes finance costs.

## Revenue Return per Ordinary Share

The revenue return per ordinary share, is the revenue return for the year (see Income Statement) divided by the weighted average number of ordinary shares in issue during the year (see note 9 on page 62).

## Total Return

The return on the share price or NAV with debt at fair value taking into account both the rise and fall of NAV/share prices and dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return). Dividends paid and payable are set out in note 10 on page 62.

	NAV per share	Share price
NAV/Share Price per ordinary share at 30 September 2019 (pence)	1,408.9	1,280.0
NAV/Share Price per ordinary share at 30 September 2020 (pence)	1,006.0	914.0
Change in the year	(28.6%)	(28.6%)
Impact of dividends reinvested	5.3%	5.6%
<b>Total return for the year</b>	<b>(24.8%)</b>	<b>(24.6%)</b>

## Yield

The yield is the annual dividend expressed as a percentage of the year end share price.

		30 September 2020	30 September 2019
Annual dividend (pence)	(A)	60.0	59.5
Share price (pence)	(B)	914.0	1,280.0
Yield (C=A/B) (%)	(C)	6.6	4.6

Lowland Investment Company plc  
Registered as an investment company in England and Wales with registration number 670489  
Registered office: 201 Bishopsgate, London EC2M 3AE

SEDOL/ISIN number: 0536806/GB00 053680 62  
London Stock Exchange (TDIM) Code: LWI  
Global Intermediary Identification Number (GIIN): 2KBHLK.99999.SL826  
Legal Entity Identifier (LEI): 2138008RHG5363FEHV19

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MANAGED BY  
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INVESTORS

**aic**  
The Association of  
Investment Companies



**WINNER**  
INVESTMENT TRUST  
GROUP OF THE YEAR  
Henderson Global Investors



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