



Lowland Investment Company plc



Annual Report 2018

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.

Strategic Report: Key Data

**Net Asset
Value Total
Return¹**
2.7%

**Benchmark
Total
Return²**
5.9%

**Growth
in
Dividend**
10.2%

**Dividend
for the
Year³**
54.0p

	Year ended 30 September 2018	Year ended 30 September 2017
NAV per share at year end	1,625p	1,628p
Share Price at year end ⁴	1,515p	1,504p
Market Capitalisation	£409m	£406m
Dividend per share	54.0p³	49.0p
Ongoing Charge including the Performance Fee	0.57%	0.68%
Ongoing Charge excluding the Performance Fee	0.57%	0.58%
Dividend Yield ⁵	3.6%	3.3%
Gearing at year end	12.2%	6.3%
Discount at year end ⁶	6.8%	7.6%

1 Net asset value per share total return (including dividends reinvested) in the prior year was 17.0%

2 FTSE All-Share Index. The amount includes dividends reinvested

3 Includes the final dividend of 14.0p per ordinary share for the year ended 30 September 2018 that will be put to shareholders for approval at the Annual General Meeting on Monday 28 January 2019

4 Mid-market closing price

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

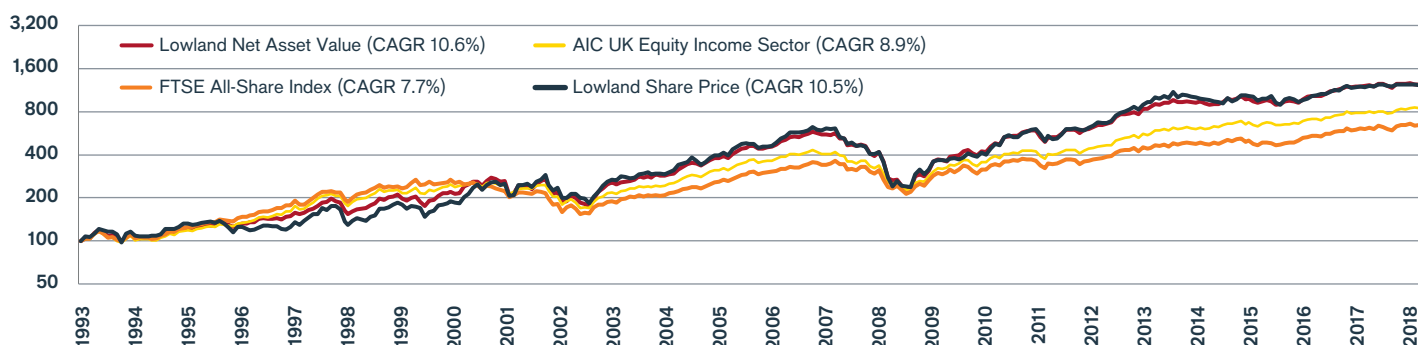
6 Calculated using year-end audited NAVs including current year revenue

Sources: Morningstar for the AIC, Janus Henderson, Datastream

A glossary of terms and alternative performance measures definitions are included on pages 63 and 64

Strategic Report: Historical Performance

Lowland's Share Price and Net Asset Value have outperformed the FTSE All-Share Index over the past 25 years

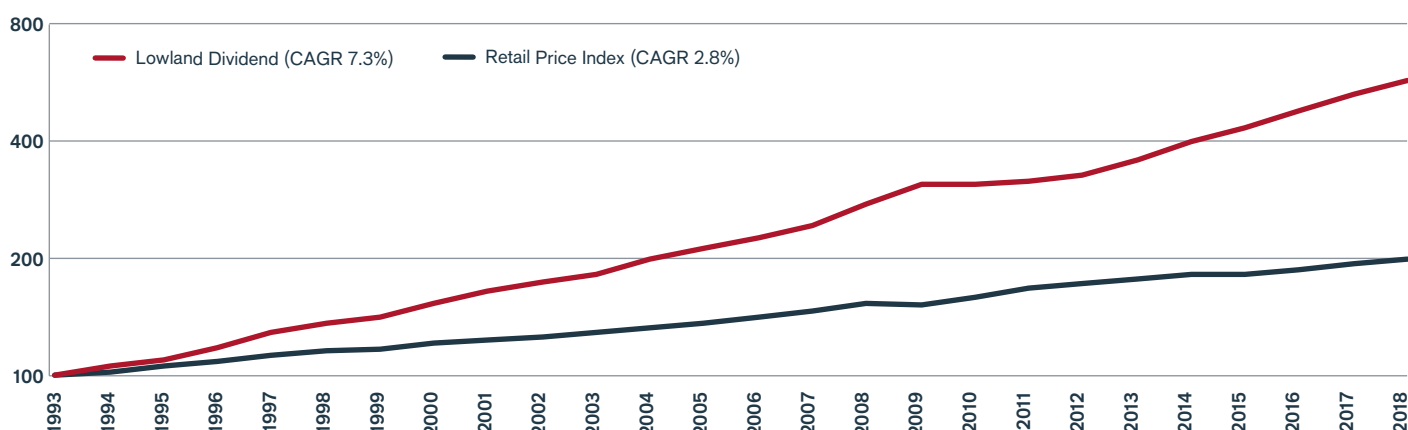


Total Return basis and shown on a logarithmic scale (30 September 1993 = 100)

CAGR – Compound Annual Growth Rate

Source: Thomson Financial, 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 1993 = 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
2008	26.5	(344.4)	33.0	178,411	675.4	625.0
2009	26.5	8.4	22.7	173,633	657.3	610.0
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	54.0¹	47.4	58.6	438,934	1,624.6	1,515.0

¹ Includes the final dividend of 14.0p per ordinary share for the year ended 30 September 2018 that will be put to shareholders for approval at the Annual General Meeting on Monday 28 January 2019

Strategic Report: Chairman's Statement

Performance

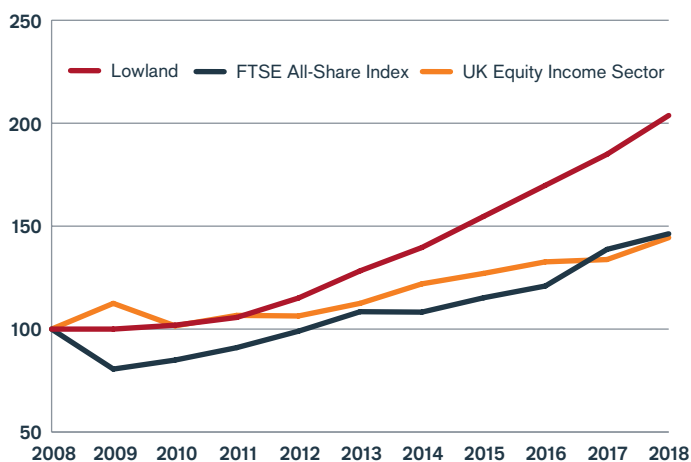
The year saw a combination of modest capital growth and strong revenue growth. Our total NAV return was a positive 2.7%. This is disappointing measured against our long-term target – the FTSE All-Share index – which returned 5.9%.

This NAV performance can be assessed in the light of two major factors. Firstly, the UK market dramatically underperformed the rest of the developed world, reflecting uncertainties about Brexit and the stability of the UK government. Secondly, Lowland's investment style, weighted in favour of stocks perceived to be undervalued, has fared less well than portfolios with a bias towards growth stocks. While the Portfolio Managers have positioned the portfolio a little more defensively than usual, the intention is to refocus on smaller companies and cyclical companies when the management team spot sufficiently attractive opportunities. Our strategy has rewarded shareholders well over the long term. The Board sees no reason to waver.

Dividends

The fundamental health of our portfolio is demonstrated by the growing income it has generated. Earnings per share grew by 19.3% to 58.6p including special dividends, and by 18.6% to 55.4p excluding them. We have comfortably maintained our most recent practice of a quarterly progressive dividend. Since we started paying four dividends a year in 2013, each of the quarterly dividends has been equal to or greater than the previous quarter and each has been at least 1p above the corresponding dividend in the previous year. We have paid two interim dividends of 13p and a third of 14p. If shareholders agree the Board's recommended 14p final dividend, the total for the year will be 54p, 10.2% above last year. This will extend to six years the period in which our dividends have grown at a compound rate of 10%. The chart below clearly demonstrates the degree to which Lowland's dividend growth has outstripped the benchmark and the peer group over the last ten years.

Dividend Growth (rebased to 100)



Source: Janus Henderson as at 30/09/18. Rebased to 100 as at 2008. Assumes a dividend of 54p is paid in FY18

We aspire to maintain the quarterly progressive policy described above. In this regard we will have greater flexibility as a result of the previously announced decision to allocate 50% of expenses to the Capital Account and 50% to the Revenue Account. This policy, which reflects the anticipated derivation of total return, is in line with our competitors. The new policy was adopted with effect from 1 October 2018. We believe it will provide flexibility, not only for dividends, but also for investment policy. It has long been our belief that growing our capital will enable us to grow the income which derives from it; it is important that our Fund Managers have the freedom to invest for capital growth and are not pushed into 'chasing income' from stocks which may prove to be 'value traps'.

Investment Review and Gearing

We increased gearing during the year from around 6% to circa 12% in the second half. With the Board's support, the Fund Managers increased the borrowing to take advantage of a number of opportunities they perceived to be keenly valued. In doing so they have not greatly increased the risk profile, as they have mainly invested in higher-yielding large-cap companies. For instance, they increased the positions in Royal Dutch Shell, GlaxoSmithKline and National Grid. They established new positions in Severn Trent and Land Securities. At the year-end, FTSE-100 companies comprised 39% of the portfolio compared with 36% at the end of last year.

In order to increase gearing, the Board issued £30m twenty year senior unsecured loan notes in January 2017 at a coupon of 3.15%. Long-term bond rates have not moved decisively since then, but we feel comfortable having an element of structural gearing locked in at what is an historically low rate.

Ongoing Charge

The Ongoing Charge Ratio ("OCR") was 0.57% compared with the previous year's 0.58% excluding performance fees. Including performance fees, the OCR was 0.68% last year. No performance fee was paid in respect of the year ended 30 September 2018.

Last year the Board negotiated lower fee arrangements. These were in place throughout the year. The management fee is paid at 0.5% of Net Chargeable Assets up to £375m and 0.4% in excess thereof. We believe this to be a competitive rate, and that it is satisfactory to have a performance fee arrangement (capped at 0.25%) that rewards the Investment Manager in periods of outperformance. Net Chargeable Assets amounted to £431.3m at the year-end.

Discount

During the year the discount fluctuated between 1.5% and 9.6%. It ended at 6.8% and stood at 7.6% as at 12 December 2018. The Board has regularly considered whether specific actions should be taken to address the discount. This year we decided to define our policy in this regard more clearly.

Strategic Report: Chairman's Statement (continued)

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 trust, 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 continue 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 charges 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.

Corporate Governance

There are two recent developments, under the Corporate Governance heading, on which my colleagues and I feel compelled to comment. The Lowland Board takes the duty of governing the company very seriously. As such, while having regard to pronouncements on Corporate Governance, it must have one overriding priority: the Company's shareholders' interests. The FRC and the voting agencies are focusing on two issues in a manner which ignores the circumstances of an investment trust; these are 'overboarding' and Chairman's tenure. Their actions are likely, if pursued, to be detrimental to the interests of shareholders of investment trusts.

Taking these in turn, 'overboarding' is a term used to describe the practice of serving on too many boards. The question of how many directorships is too many is subjective, but its determination has to take account of the nature of the companies involved. In exercising their judgement on the matter most voting agencies regard the directorship of an investment trust as involving the same time commitment as a major operating company, which is patently wrong. It is likely that, if this attitude results in significant votes against directors of investment trusts, the number of high quality individuals prepared to stand will reduce.

Secondly, the FRC's latest guidance maintains that an individual serving as Chairman of an investment trust should not serve on the board, in whichever capacity, for more than nine years. This ruling was taken without consulting the AIC, which has since expressed a dissenting view. Application of the ruling would clearly be detrimental to investment trusts. While it is sometimes necessary to make an external appointment, the most generally successful practice is to

appoint as Chairman a director who has served on the board long enough to be well known and trusted by colleagues and other stakeholders; and to have a full understanding of the Company. The accumulated knowledge which comes with tenure will inure to the Company's benefit in terms of getting the best from the relationship with the individual fund manager and the management house, as will the experience of getting through difficult times in the past. Limiting tenure to a total of nine years will tend to preclude the appointment of the optimal Chairman, who has had time to get to know the company, and still has adequate time to provide the benefit of that knowledge as Chairman. I would add that experience suggests that nine years on an investment trust board is unlikely to compromise a Chairman's independence.

Lowland has long subscribed to a combination of continuity and renewal, which it believes to be in the best interests of shareholders.

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 the Company Secretary's email address on page 22 of the Annual Report.

Annual General Meeting

The AGM of the Company will be held at the offices of Janus Henderson on Monday 28 January 2019 at 12.30 pm. Full details of the business to be conducted at the meeting are set out in the Notice of Meeting, which has been sent to shareholders with this report.

As usual, our Fund Managers will be making a presentation. This is an important opportunity for shareholders to meet the Board and Fund Managers and to ask them questions. We would encourage as many shareholders as possible to attend; we welcome your questions and observations. The Meeting will be broadcast live on the internet, so if you are unable to attend the AGM in person, you will be able to log on to watch the Meeting as it happens by visiting www.janushenderson.com/trustslive.

Board

Kevin Carter has indicated his desire to retire from the Board during the next year. Kevin has been a first class director since his appointment in 2009. My colleagues and I would like to thank him wholeheartedly for his considerable contribution. An announcement will be made with regard to his successor in due course.

Outlook

A year ago we felt that valuations of UK stocks were not excessive. The passage of the year has not altered that view. There are always uncertainties in markets, and this year there is certainly no shortage of well-recognised risks. However, Lowland retains a portfolio which is well placed to weather most storms and, we believe, represents sound value, both to existing and new investors.

Robert Robertson
Chairman
14 December 2018

Strategic Report: Fund Managers' Report

Investment Approach

The notable features of the Company's investment approach are:

1. The portfolio is always a blend of large, medium and small companies. The medium and small companies have often produced better investment returns given their greater capacity for sales and earnings growth. Small- and medium-sized companies also have the advantage of being covered by fewer analysts and therefore offer greater potential to find opportunities that have been overlooked or misunderstood by the market. The large companies reduce the volatility and aid consistency of performance.
2. The Company is invested 'predominantly' in UK equities. Given the focus on the UK, the Company aims to invest in areas where the UK has globally competitive, world-leading companies. These companies will tend to have high barriers to entry as their products tend to be specialist and so have been fine-tuned over many years. This allows them to generate reasonable operating margins, meaning they are well placed to generate cash that can be returned to shareholders over time.
3. A focus on recovery situations, but only where a clear path can be seen to returning to sales and earnings growth. In practice this often means investing at the point of capitulation where companies look internally at what they can change, whether this is a period of sustained cost-cutting, changing the management team and/or cutting the dividend. While this is a mildly contrarian approach, the Company seeks to invest in companies that do not have long-term structural problems, in order to avoid value traps. In our experience value traps often arise where a company may appear cheap on valuation multiples, but operates in an industry with low barriers to entry and/or is in structural decline.
4. We prefer capital and income growth rather than absolute dividend yield. This has resulted in a high historic level of dividend growth. In the Company's view it is crucial for long-term performance to focus on companies with the capacity to grow sales and earnings, and therefore dividends, rather than companies paying a high absolute yield (with a high pay-out ratio) but with little potential for earnings growth. Companies rarely 'stand still' and a company that is forecast to stay static in terms of sales and earnings will often decline faster than analysts are anticipating. In order to avoid 'value traps' the focus should be on the potential for earnings growth which should ultimately drive capital and income growth for shareholders.
5. A long list of holdings, historically 80-120. Position sizes start small, new holdings tend to be initiated at approximately 30bps and increased as confidence is gained in the management team and the potential for earnings growth. The reason for the long list is two-fold. Firstly it provides diversification so that the Company is not overly exposed to any one cycle. For example the overweight position in industrials which follow the economic cycle is offset by the overweight position in insurers which follow the underwriting cycle. Secondly the Company invests in recovery situations where the potential returns are high but so are the risks. Therefore it is sensible to invest in a spread of different situations. The Company also sells slowly when shares approach fair value, which naturally lends itself to a relatively long list of holdings.
6. The Company has a low turnover rate and long holding period (typically 20% turnover rate p.a. resulting in an approximately 5 year holding period). Historically the best returns have often derived from recovery situations that have taken a number of years to reach fruition (for example it may take time for a company to reduce gearing in a situation of balance sheet stress). Therefore, given the Company's investment style, a long holding period is necessary for the merits of a company's investment case to become fully appreciated by the market.

Strategic Report: Fund Managers' Report (continued)

Investment Background

It has been a disappointing year for us in terms of capital growth but it was the tenth consecutive year of positive absolute returns due to good dividend returns. The context for capital growth was challenging.

Whilst this has now been a nine-year bull market in equities, there has been little enthusiasm for UK equities from investors. This is demonstrated in the chart below, showing UK equities versus global and European equities.

The UK equity market has underperformed in recent years

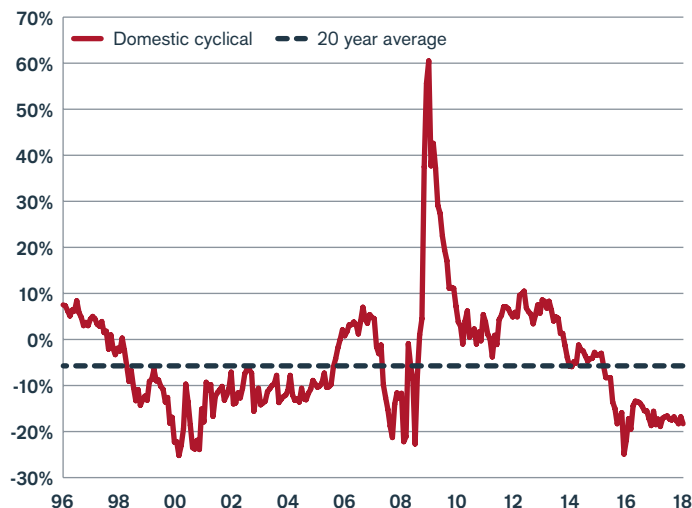


Source: Datastream. Total return, GBP, rebased to 100 as at 1/1/2016

Within the UK market, those companies relying largely on the domestic economy for profits have been particularly out of favour. After an initial bounce after the financial crash ten years ago, these companies' shares have been de-rated.

The chart below compares the relative valuation of the more domestic companies in the UK versus the wider market. Currently domestic companies are trading at an approximately 20% valuation discount to the broader market.

Domestic cyclical +12 months P/E premium (vs. FTSE 350)



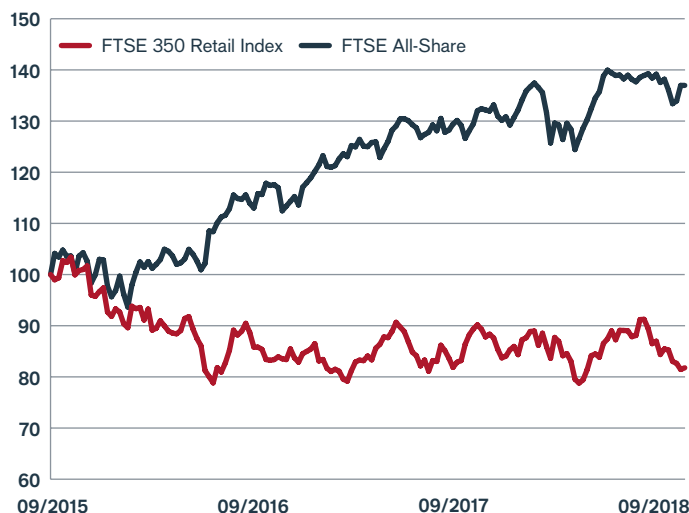
P/E = price/earnings ratio. A line below 0% indicates that domestic, cyclical stocks are trading at a discount to the FTSE 350 Index

Source: Liberum as at 1/10/18

Some of this de-rating reflects the absence of a large tech exposure in the UK market; more recently, the decline has reflected uncertainties about Brexit and the impact of a possible change in government.

This is exciting to contrarian investors like us, and we are looking for opportunities in the general gloom. It is important in this search to realise that the weakness in many of the older-established businesses in the UK is not just the changing relationship with Europe, but also a response to real structural changes in the UK economy. For instance, the move to retailing online has meant many of the older 'brick and mortar' retail formats are under severe pressure. This is an area in which Lowland has little exposure.

Retailers have significantly underperformed the market in recent years

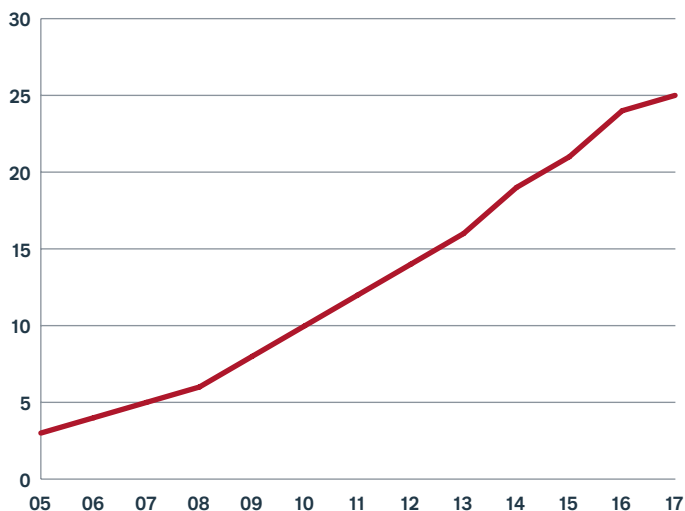


Source: Bloomberg as at 30/09/18. Total Return, GBP, Rebased to 100 as at 01/10/2015

Strategic Report: Fund Managers' Report (continued)

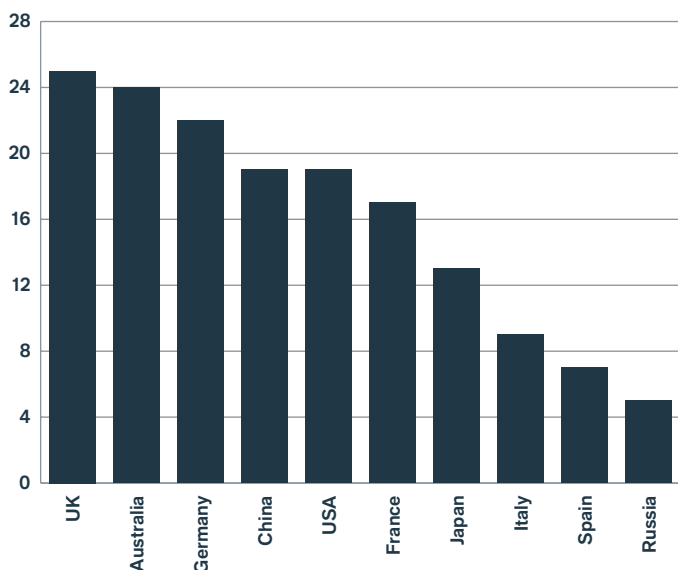
Online shopping has grown more rapidly in the UK than in other developed countries and the growth is dramatic.

UK online apparel penetration (% total apparel sales)



Source: Redburn. Data is for 2017

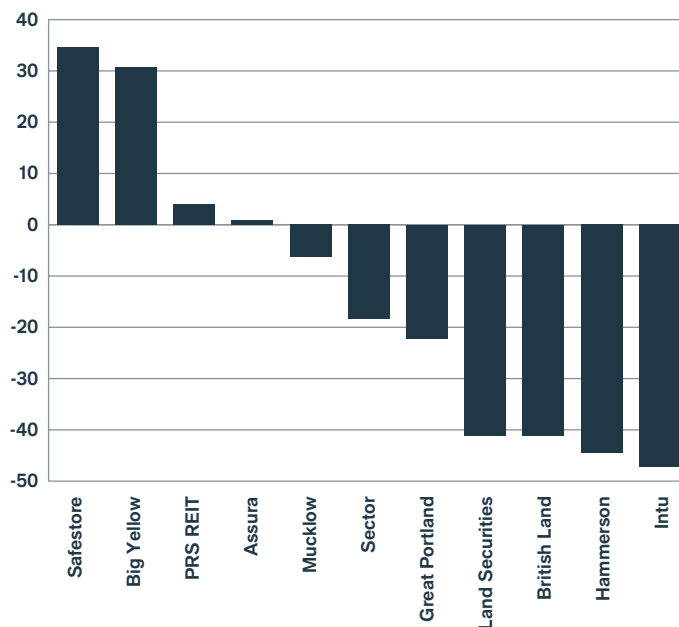
Online apparel penetration by country (% total apparel sales)



Source: Redburn. Data is for 2017

These trends are not just dramatically shifting the business model of retailers: the growth of online retail is also behind the large discounts in the property sector.

Discount/Premium to NAV in UK REIT sector (%)



Source: Datastream as at 15/10/18

Notwithstanding the perceived background problems, Lowland has benefitted from robust real dividend growth, and as a result Lowland's earnings per share rose 19% (including special dividends). This is because overall cash generation in portfolio companies is strong, and on average they continue to trade satisfactorily.

Lowland's approach has always been to hold a diverse, relatively long list of stocks that offer good value. This diversity should help to protect the capital if there is a difficult period for the economy.

Performance Attribution

In a continuation of a trend we have seen in recent years, high-quality companies with strong management teams and solid earnings growth continued to perform well and valuations rose; yet 'value' investing – focusing on cheap valuations rather than growth – did not work as a discipline.

This market bifurcation is reflected in the top five performers listed below, all of which are excellent quality companies with strong management teams; but we struggle to describe them as good value. Therefore, while we describe our investment style as 'mildly contrarian', we need to recognise that at the moment, recovery and value investing are (broadly) not working, while quality is performing well. In this context, where we are reducing holdings, we are doing so in small size and we are being cautious with recovery purchases.

The top five active contributors to performance (relative to the benchmark) that we own were:

1. **Hiscox** (non-life insurance)
2. **K3 Capital** (corporate broker for small and medium-sized companies)

Strategic Report: Fund Managers' Report (continued)

3. **Randall & Quilter** (insurance services)
4. **Croda** (speciality chemicals)
5. **GKN** (engineering)

The only common theme among the top performers is that they are all specialists, targeting niche areas of the market with real expertise. **Hiscox** is a good example of this. Its relatively small size in the Lloyd's of London market allows it to be nimble and exit lines of business where it does not expect to generate good returns. Another specialist in its area, **Randall & Quilter**, buys books of business that are in run-off in non-life insurance (often workers' compensation books). As they build up a history of successfully integrating legacy books, they are increasingly approached by other companies that wish to transfer their liabilities off balance sheet. This then becomes a virtuous circle and allows the business to grow as it attracts more willing sellers.

Randall & Quilter Share Price (pence)



Source: Bloomberg as at 30/09/18. Price since first purchase on 28th March 2017

Another of the top performers was **K3 Capital**, a specialist corporate brokerage business targeting small and medium-sized companies that are looking for a buyer (which could be a trade buyer or private equity). By focusing its efforts on smaller companies that have not traditionally been well served by incumbents, it has rapidly built up its market share.

The top five detractors from performance (relative to the benchmark) were:

1. **Conviviality** (alcohol distribution and retailing)
2. **Low & Bonar** (building materials)
3. **Centrica** (UK and US energy supplier)
4. **Carclo** (plastic moulding and lighting for supercars)
5. **Velocys** (early-stage gas to liquids technology)

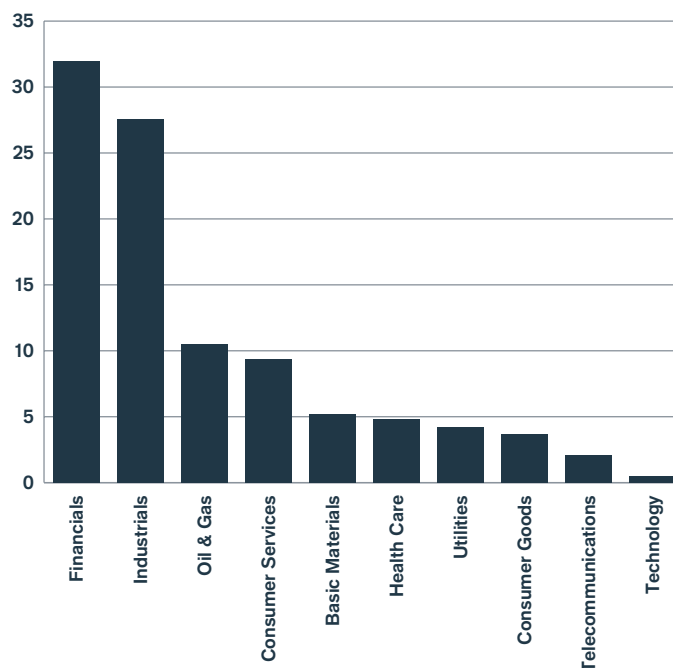
The largest detractor during the year was **Conviviality**, an alcohol distributor and owner of the 'Bargain Booze' retail franchise. A combination of poor trading and weak internal controls resulted in the company going into liquidation, and it was written down to

zero. We discussed this in more detail in our half-year results: it was a sharp reminder that distributors should not be highly valued businesses, given their low margins.

Of the top five detractors, **Low & Bonar** and **Carclo** both suffered cost increases which put pressure on margins. In the case of Low & Bonar, which makes specialist building materials such as truck tarpaulins, it was raw material price rises which dented margins, while in Carclo's case it was labour shortages that led to wage rises. Both companies struggled to pass on cost pressures to the end consumer, demonstrating the commoditised nature of some of the products. However, both companies also have better-quality parts of the business where they produce something unique. For example, in the case of Carclo, their Wipac division makes lighting for "supercars", where they are the market leader. In both cases we have maintained the positions as we see value in these better-quality parts of the business that is not, in our view, reflected in the current share price.

Portfolio Positioning

Sector Breakdown



Source: Janus Henderson as at 30 September 2018

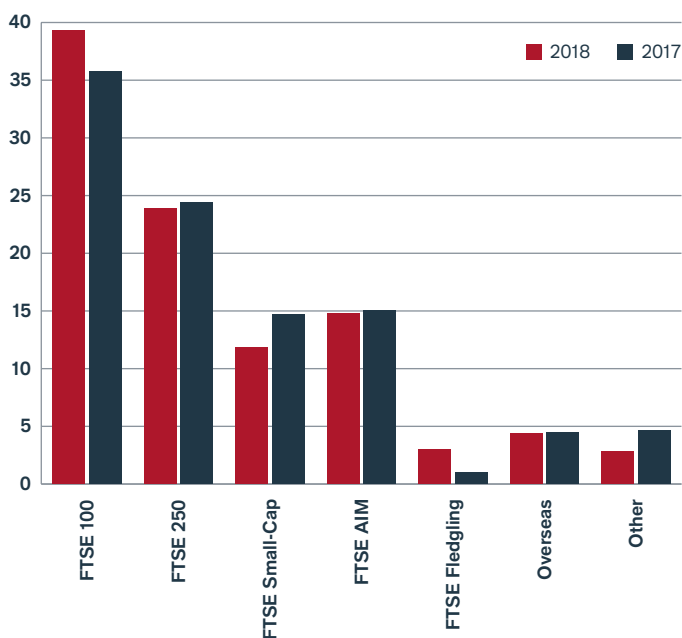
The two largest sectors in the portfolio remain financials and industrials. It is worth noting that financials is somewhat of a 'catch all' sector, including other investment trusts (such as Herald) and property companies (such as Land Securities). Within financials the largest sector is insurance (15% of the portfolio), while banks have remained a small position (5% in total).

Within the insurance sector we continue to favour specialist underwriters – for example, this year a new position was added in **Sabre**, a motor insurer that targets a small 'non-standard' area of the UK motor market. They target individuals who cannot easily acquire motor insurance (for example students or those with particularly high-value cars). This focused approach has allowed Sabre to generate strong historic returns in what is traditionally a difficult market.

Strategic Report: Fund Managers' Report (continued)

Within the industrials sector we aim to hold good-quality engineers, with the two largest holdings in the sector being engine designer and manufacturer **Rolls-Royce** and autos and aerospace components manufacturer **Senior**. These companies have genuine barriers to entry. In the case of Rolls-Royce, it has cost billions of pounds and considerable technological capacity to develop the Trent engine over 20 years. These barriers to entry should allow good margins to be generated over time as the next generation of engines enter high margin service agreements. The inherent value in this type of engineer was demonstrated this year with the takeover of one of the portfolio's top ten holdings, **GKN**, at a material premium.

Investment Activity



Source: Janus Henderson as at 30 September 2018

Over the long term, the approximate average position would be to have a third of the portfolio in small companies, a third in medium-sized companies and a third in large companies. Currently we have 39% in the FTSE 100, which is above the long-term average, as we have added to the holdings here over the year. This is reflected in the biggest buys below, the majority of which are in the FTSE 100.

The biggest buys over the year were:

1. **Severn Trent** (water utility, new position)
2. **Land Securities** (London offices and shopping centre real estate company, new position)
3. **Greene King** (UK pubs, new position)

Other large purchases included adding to the positions in **Royal Dutch Shell**, **GlaxoSmithKline** and **National Grid**, and a new holding in **Anexo** (which provides legal services and replacement vehicles for those involved in motor accidents).

There are a few reasons why we have been gently rotating the portfolio towards larger companies. Broadly, these reasons are better liquidity, a shift towards more defensive companies and the attractive dividend yields on offer. In many cases we are also adding to what we see as good quality companies at an attractive valuation versus history. For example Land Securities, which is trading at an approximately 40% discount to its estimated net asset value, has a good quality portfolio of shopping centres and offices and this valuation looks to be an anomaly (likely driven by Brexit) relative to other global property companies.

The biggest sales over the year were:

1. **GKN** (autos and aerospace components engineer, sold following Melrose takeover approach)
2. **Phoenix Group** (closed book life insurer, reduced position for portfolio balance reasons)
3. **Croda** (speciality chemicals, reduced position)

Unless we had structural concerns or there was a takeover approach, sells were broadly driven by valuation levels. For example, the holdings in **Hiscox**, **Croda** and **Marshall's** were reduced. All are good-quality businesses that are generating excellent returns but have re-rated substantially and we think it is prudent to take profits. We will hopefully be able to recycle these profits in better value opportunities on weakness.

Outlook

The outlook for the UK economy over the next year is difficult to predict. The economists who put forward estimates of GDP growth have a wide range of outcomes in their respective forecasts. Some predict reasonable growth, while others expect a recession. The result of Brexit negotiations and their implications are unclear, as is the damage a trade war between the US and China will create. However, the most likely outlook is for the global economy to keep on growing, albeit at a slow rate, as some of the issues are resolved. There is a possibility that the changes to trading arrangements brought about by Brexit for the domestic economy, and Trump more generally, may lead to a recession next year. As this is less likely than the first scenario, we remain fully committed to equities, but gearing is lower than its historic average. We have also reduced the smaller company and cyclical elements in the portfolio to provide some protection in the event of a recession.

We will keep paying full attention to smaller companies and cyclical and on real weakness the exposure will be rebuilt. It is in this area that very good returns will be made when coming out of a slowdown. The core of the portfolio is in sound, growing companies that should increase their dividends. This should help underpin Lowland's earnings progression. It is dividend growth that makes equity investment worthwhile over the longer term. The portfolio is not a proxy for the economy but rather a balanced collection of companies that we believe are very well managed and will therefore come through any economic turbulence.

James Henderson and Laura Foll
Fund Managers
14 December 2018

Strategic Report: Portfolio Analysis

Sector		United Kingdom %	Overseas %	Total 30 September 2018 %	FTSE All-Share Index 2018 %	Total 30 September 2017 %
Oil & Gas	Oil & Gas Producers	9.6	0.6	10.2		8.3
	Alternative Energy	0.3	–	0.3		0.4
		9.9	0.6	10.5		8.7
Basic Materials	Chemicals	3.1	–	3.1		4.1
	Forestry & Paper	1.1	–	1.1		1.1
	Mining	1.0	–	1.0		0.9
		5.2	–	5.2		6.1
Industrials	Aerospace & Defence	7.1	–	7.1		6.7
	Construction & Materials	3.6	1.0	4.6		6.3
	Electronic & Electrical Equipment	2.1	–	2.1		1.7
	General Industrials	1.1	–	1.1		1.4
	Industrial Engineering	4.1	–	4.1		5.2
	Industrial Transportation	3.5	–	3.5		3.6
	Support Services	5.1	–	5.1		3.8
		26.6	1.0	27.6		28.7
Consumer Goods	Automobiles & Parts	–	–	–		1.9
	Food Producers	0.3	0.7	1.0		0.9
	Household Goods & Home Construction	2.1	–	2.1		2.3
	Leisure Goods	0.1	–	0.1		0.1
	Personal Goods	0.5	–	0.5		0.3
		3.0	0.7	3.7		5.5
Health Care	Health Care Equipment & Services	1.0	–	1.0		0.9
	Pharmaceuticals & Biotechnology	3.8	–	3.8		3.3
		4.8	–	4.8		4.2
Consumer Services	Food & Drug Retailers	0.2	–	0.2		2.1
	General Retailers	1.6	–	1.6		1.8
	Media	2.2	–	2.2		2.9
	Travel & Leisure	3.6	1.8	5.4		4.3
		7.6	1.8	9.4		11.1
Telecommunications	Fixed Line Telecommunications	0.3	–	0.3		0.3
	Mobile Telecommunications	1.8	–	1.8		1.5
		2.1	–	2.1		1.8
Utilities	Gas Water & Multiutilities	4.2	–	4.2		1.6
		4.2	–	4.2		1.6
Financials	Banks	4.6	–	4.6		5.8
	Equity Investment Instruments	2.4	–	2.4		1.9
	Financial Services	5.9	–	5.9		5.8
	Life Insurance	7.9	–	7.9		9.9
	Non-Life Insurance	6.3	1.1	7.4		6.4
	Real Estate	3.8	–	3.8		2.4
		30.9	1.1	32.0		32.2
Technology	Software & Computer Services	–	–	–		0.1
	Technology	0.5	–	0.5		–
		0.5	–	0.5		0.1
	Investments	94.8	5.2	100.0		100.0
	Total at 30 September 2018	94.8	5.2	100.0		–
	Total at 30 September 2017	94.7	5.3	–		100.0

Strategic Report: Twenty Largest Holdings

Twenty Largest Holdings at 30 September 2018

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

Rank 2018 (2017)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2017 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2018 £'000
1 (1)	Royal Dutch Shell The company explores, produces and refines oil; it produces fuels, chemicals and lubricants as well as operating filling stations worldwide. The company has attacked their cost base and has very high class assets which positions them well for the future.	7.2	£200bn	25,583	4,634	–	5,045	35,262
2 (5)	Senior The company manufactures specialist engineering products for the automotive and aerospace sectors. Having come under margin pressure in recent years, the company is well positioned to grow margins as end markets recover and new aerospace programs ramp up production.	3.2	£1.1bn	13,795	–	–	1,815	15,610
3 (4)	Hiscox The international insurance company manages underwriting syndicates and underwrites a range of personal and commercial insurance. The company is very disciplined and has over the long term achieved a high return on capital.	3.0	£4.6bn	13,970	–	(2,501)	3,605	15,074
4 (2)	HSBC 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.	2.6	£130bn	15,884	–	(1,753)	(1,372)	12,759
5 (6)	Prudential 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.	2.3	£42bn	11,612	–	–	(175)	11,437
6 (3)	Phoenix The company operates primarily in the UK and specialises in taking over and managing closed life and pension funds.	2.3	£4.4bn	14,341	2,592	(5,313)	(315)	11,305
7 (*)	GlaxoSmithKline 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 R&D track record.	1.9	£78bn	5,582	3,778	–	245	9,605
8 (7)	Irish Continental¹ The group markets holiday packages and provides passenger transport, roll-on and roll-off freight transport and container services between Ireland, the United Kingdom and Continental Europe. It is a very cash generative well-run company.	1.8	£800mn	10,011	–	(641)	(694)	8,676

* Not in the top 20 largest investments last year

¹ Overseas listed stocks (Ireland)

² AIM stocks

Strategic Report: Twenty Largest Holdings (continued)

Rank 2018 (2017)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2017 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2018 £'000
9 (17)	BP A producer and refiner of oil. Following the fall in the oil price they have successfully focused on cost reduction.	1.7	£103bn	6,921	–	–	1,624	8,545
10 (15)	Rolls-Royce The company designs and manufactures engines as well as providing aftermarket services for use across aerospace and industry. The company has successfully won market share across many of the large new civil aerospace programmes and under a new management team has a renewed focus on removing duplicate costs.	1.7	£15bn	7,318	–	–	828	8,146
11 (8)	Standard Chartered The international banking group operates principally in Asia, Africa and the Middle East. The new management team has focused the bank back to areas of relative strength in its growing markets.	1.6	£19bn	9,113	–	–	(1,293)	7,820
12 (10)	Aviva This company provides a wide range of insurance and financial services. The management team has done a good job of simplifying the business, exiting peripheral and low return areas. The company pays an attractive yield that has good scope to grow.	1.5	£17bn	7,975	–	–	(388)	7,587
13 (14)	Relx The company publishes information for the scientific, medical, legal and business sectors serving customers worldwide. The company is a consistent, high quality growth business.	1.5	£31bn	7,366	–	–	(94)	7,272
14 (19)	International Personal Finance The company provides unsecured cash loans in markets such as Mexico and Poland. Potential changes to regulation in Poland (one of their largest markets) has meant the shares have been weak. While regulation is uncertain, the geographies they operate in should mean there is good potential for growth and it is a high returning business.	1.5	£440mn	6,644	–	–	475	7,119
15 (*)	Randall & Quilter² A company that specialises in buying and running down books that are in run-off in non-life insurance. The company is building up a good track record of integrating legacy books and this should enable good cash generation and an attractive dividend for shareholders.	1.4	£230mn	5,168	–	(163)	1,993	6,998

* Not in the top 20 largest investments last year

1 Overseas listed stocks (Ireland)

2 AIM stocks

Strategic Report: Twenty Largest Holdings (continued)

Rank 2018 (2017)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2017 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2018 £'000
16 (*)	Severn Trent A UK water utility. Due to concerns regarding possible renationalisation under Labour and an upcoming regulatory review shares have performed poorly and are trading at a lower discount to regulated asset base than in recent years. There is also a good dividend yield with scope to grow.	1.4	£4.6bn	–	7,153	–	(219)	6,934
17 (13)	Johnson Service² A textile rental company that provides linens for use across workwear, hotels and restaurants. In recent years the management team has successfully de-gearred the balance sheet and grown operating margins.	1.4	£470mn	7,440	–	–	(631)	6,809
18 (*)	Vodafone A global telecoms company. The company has invested in their network quality and are now better placed to grow revenue per customer as people use more mobile data.	1.4	£42bn	4,318	4,452	–	(2,078)	6,692
19 (16)	Direct Line A UK provider of car and home insurance. The company has well-known brands which will allow them to grow policies well, while maintaining underwriting discipline. A strong balance sheet allows them to pay an attractive dividend yield to shareholders.	1.3	£4.5bn	7,272	183	–	(815)	6,640
20 (*)	Henderson Opportunities Trust A capital growth Trust focused on the UK with a heavy weighting (-60%) in AIM stocks. Stock was bought at a material discount to net asset value.	1.3	£80mn	4,786	1,132	–	622	6,540
				185,099	23,924	(10,371)	8,178	206,830

At 30 September 2018 these investments totalled £206,830,000 or 42.0% of portfolio.

* Not in the top 20 largest investments last year

1 Overseas listed stocks (Ireland)

2 AIM stocks

Strategic Report: Investment Portfolio

30 September 2018 Position	Investments	Sector	Market Value £'000	% of Portfolio
1	Royal Dutch Shell	Oil & Gas Producers	35,262	7.2
2	Senior	Aerospace & Defence	15,610	3.2
3	Hiscox	Non-Life Insurance	15,074	3.0
4	HSBC	Banks	12,759	2.6
5	Prudential	Life Insurance	11,437	2.3
6	Phoenix	Life Insurance	11,305	2.3
7	GlaxoSmithKline	Pharmaceuticals & Biotechnology	9,605	1.9
8	Irish Continental	Travel & Leisure (Ireland)	8,676	1.8
9	BP	Oil & Gas Producers	8,545	1.7
10	Rolls-Royce	Aerospace & Defence	8,146	1.7
10 largest			136,419	27.7
11	Standard Chartered	Banks	7,820	1.6
12	Aviva	Life Insurance	7,587	1.5
13	Relx	Media	7,272	1.5
14	International Personal Finance	Financial Services	7,119	1.5
15	Randall & Quilter ¹	Non-Life Insurance	6,998	1.4
16	Severn Trent	Gas Water & Multiutilities	6,934	1.4
17	Johnson Service ¹	Support Services	6,809	1.4
18	Vodafone	Mobile Telecommunications	6,692	1.4
19	Direct Line	Non-Life Insurance	6,640	1.3
20	Henderson Opportunities Trust	Equity Investment Instruments	6,540	1.3
20 largest			206,830	42.0
21	National Grid	Gas Water & Multiutilities	6,463	1.3
22	Royal Mail	Industrial Transportation	6,441	1.3
23	Avon Rubber	Aerospace & Defence	5,805	1.2
24	Ten Entertainment	Travel & Leisure	5,728	1.1
25	Stobart	Industrial Transportation	5,591	1.1
26	Standard Life Aberdeen	Life Insurance	5,562	1.1
27	FBD	Non-Life Insurance (Ireland)	5,398	1.1
28	Headlam	Household Goods & Home Construction	5,344	1.1
29	DS Smith	General Industrials	5,327	1.1
30	Mondi	Forestry & Paper	5,260	1.1
30 largest			263,749	53.5
31	Elementis	Chemicals	5,238	1.1
32	Croda	Chemicals	5,202	1.1
33	Churchill China ¹	Household Goods & Home Construction	5,075	1.0
34	BAE Systems	Aerospace & Defence	5,038	1.0
35	Clarkson	Industrial Transportation	5,031	1.0
36	CRH	Construction & Materials (Ireland)	5,024	1.0
37	Rio Tinto	Mining	4,850	1.0
38	Morgan Advanced Materials	Electronic & Electrical Equipment	4,817	1.0
39	Consort Medical	Health Care Equipment & Services	4,648	1.0
40	International Consolidated Airline	Travel & Leisure	4,621	0.9
40 largest			313,293	63.6

¹ AIM stocks

Strategic Report: Investment Portfolio (continued)

30 September 2018 Position	Investments	Sector	Market Value £'000	% of Portfolio
41	St Modwen Properties	Real Estate	4,527	0.9
42	Land Securities	Real Estate	4,417	0.9
43	Greene King	Travel & Leisure	4,412	0.9
44	Babcock	Support Services	4,338	0.9
45	K3 Capital ¹	Support Services	4,309	0.9
46	Castings	Industrial Engineering	4,149	0.9
47	Redde ¹	Financial Services	4,087	0.8
48	Marshalls	Construction & Materials	4,065	0.8
49	Renold	Industrial Engineering	3,957	0.8
50	Numis ¹	Financial Services	3,936	0.8
50 largest			355,490	72.2
51	Low & Bonar	Construction & Materials	3,912	0.8
52	TT Electronics	Electronic & Electrical Equipment	3,900	0.8
53	Balfour Beatty	Construction & Materials	3,857	0.8
54	Park ¹	Financial Services	3,838	0.8
55	AstraZeneca	Pharmaceuticals & Biotechnology	3,816	0.8
56	Somero Enterprises ¹	Industrial Engineering	3,800	0.8
57	Findel	General Retailers	3,773	0.7
58	Anexo ¹	Support Services	3,660	0.7
59	Shoe Zone ¹	General Retailers	3,645	0.7
60	H&T Group ¹	Financial Services	3,629	0.7
60 largest			393,320	79.8
61	IMI	Industrial Engineering	3,604	0.7
62	Pennon	Gas Water & Multiutilities	3,566	0.7
63	Epwin ¹	Construction & Materials	3,551	0.7
64	Provident Financial	Financial Services	3,530	0.7
65	Greencore	Food Producers (Ireland)	3,513	0.7
66	Centrica	Gas Water & Multiutilities	3,485	0.7
67	Chesnara	Life Insurance	3,398	0.7
68	Palace Capital	Real Estate	3,356	0.7
69	Daily Mail & General Trust	Media	3,336	0.7
70	Carclo	Chemicals	3,302	0.7
70 largest			427,961	86.8
71	Hill & Smith	Industrial Engineering	3,219	0.7
72	HICL Infrastructure	Equity Investment Instruments	3,066	0.6
73	IP Group	Financial Services	3,038	0.6
74	Mucklow	Real Estate	3,009	0.6
75	Gibson Energy	Oil & Gas Producers (Canada)	2,948	0.6
76	4D Pharma ¹	Pharmaceuticals & Biotechnology	2,891	0.6
77	Sabre Insurance	Non-Life Insurance	2,844	0.6
78	Gordon Dadds ¹	Support Services	2,774	0.6
79	Marstons	Travel & Leisure	2,720	0.6
80	Herald Investment Trust	Equity Investment Instruments	2,630	0.5
80 largest			457,100	92.8

¹ AIM stocks

Strategic Report: Investment Portfolio (continued)

30 September 2018 Position	Investments	Sector	Market Value £'000	% of Portfolio
81	Elecosoft ¹	Technology	2,523	0.5
82	Ibstock	Construction & Materials	2,422	0.5
83	Airea ¹	Personal Goods	2,228	0.5
84	Virgin Money Holding 8.75%	Banks	2,140	0.4
85	Renewi	Support Services	2,138	0.4
86	Inmarsat	Mobile Telecommunications	2,000	0.4
87	PRS	Real Estate	1,787	0.4
88	Premier Oil	Oil & Gas Producers	1,731	0.4
89	Carr's Group	Food Producers	1,612	0.3
90	Hammerson	Real Estate	1,598	0.3
90 largest			477,279	96.9
91	Manx Telecom ¹	Fixed Line Telecommunications	1,519	0.3
92	Oxford Sciences Innovation ²	Pharmaceuticals & Biotechnology	1,455	0.3
93	Strix ¹	Electronic & Electrical Equipment	1,229	0.3
94	Indus Gas ¹	Oil & Gas Producers	1,218	0.2
95	McColl's Retail	Food & Drug Retailers	1,092	0.2
96	Horizon Discovery ¹	Pharmaceuticals & Biotechnology	1,016	0.2
97	Moss Bros	General Retailers	979	0.2
98	Atlantis Resources ¹	Alternative Energy	861	0.2
99	Wadworth – Ordinary shares ²	Travel & Leisure	675	0.1
100	Modern Water ¹	Gas Water & Multiutilities	672	0.1
100 largest			487,995	99.0
101	Ilika ¹	Alternative Energy	627	0.1
102	Providence Resources ¹	Oil & Gas Producers	559	0.1
103	Interserve	Support Services	556	0.1
104	Chamberlin & Hill ¹	Industrial Engineering	554	0.1
105	Velocys ¹	Chemicals	485	0.1
106	Severfield	Industrial Engineering	357	0.1
107	Augean ¹	Support Services	346	0.1
108	Mercantile Ports & Logistics ¹	Industrial Transportation	288	0.1
109	Hornby ¹	Leisure Goods	236	0.1
110	Itaconix ¹	Chemicals	152	0.1
110 largest			492,155	100.0
111	Wadworth – Preference shares ²	Travel & Leisure	126	–
112	Infrastructure India ¹	Equity Investment Instruments	112	–
113	Faron Pharmaceuticals ¹	Pharmaceuticals & Biotechnology	100	–
114	ACH ¹	Non-Life Insurance	84	–
115	Endeavour Mining	Mining (Canada)	82	–
116	Encor Power ³	Electricity Generation and Distribution	–	–
117	Acertec ³	Industrial Metals & Mining	–	–
118	Carillion ³	Support Services	–	–
119	Circle Oil ³	Oil & Gas Producers	–	–
120	Conviviality Retail ³	Food & Drug Retailers	–	–
120 largest			492,659	100.0
121	Xcite Energy ³	Oil & Gas Producers	–	–
Total Investments			492,659	100.0

¹ AIM stocks

² Unlisted investments

³ In administration

Strategic Report: Business Model

Background

Lowland is a Company listed on the London Stock Exchange. It was created in 1960 and began trading on the London Stock Exchange in 1963. Since inception it has been managed by a representative of Janus Henderson. The Board is independent of the appointed Manager and is responsible for reviewing the ongoing management of the Company.

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.

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. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA'). References to Janus Henderson 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 in place since 1990 and Laura has been in place 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. Jonathan McGuire ACIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

Management and Performance Fee Arrangements

The management fee is 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.

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.

The performance fee is 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. Until 3 September 2018 management and performance fees were charged to the revenue account, however, from that date such fees are charged 50% to revenue and 50% to capital. There is a cap on the performance fee at its existing level of 0.25% per annum of average net chargeable assets in any one year.

No performance fee will be payable if the net asset value per share on the last day of the relevant calculation period is lower than the net asset value per share on the first day of that calculation period.

Strategic Report: Biographies



From left to right Kevin Carter, Gaynor Coley, James Henderson, Robert Robertson, Karl Sternberg, Laura Foll and Duncan Budge.

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 BlackRock Smaller Companies Trust Plc and a number of private companies. He was previously chairman of West China Cement Limited, a director of 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 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 Lazard World Trust Fund, Menhaden Capital 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.

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

Strategic Report: Biographies (continued)

Kevin Carter

Position: Director

Date of appointment: 1 October 2009

Kevin is Chairman of Murray International Trust plc and JPMorgan American Investment Trust plc. He is a trustee Director and Investment Committee chairman at the Universities Superannuation Scheme Limited and the BBC Pension Scheme, and a director of Aspect Capital Limited. He was formerly the Head of the European Investment Practice of Watson Wyatt Limited and Chief Executive Officer of Old Mutual Asset Managers. He brings a wide international experience of investment management to the Board, both as a fund manager and manager of investment businesses. Experience also includes management of large scale pension funds involving ongoing assessment and monitoring of investment manager policies and processes.

(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 of SQN Secured Investment Fund plc and a number of private companies. She was previously the Director of Public Programmes at the Royal Botanic Gardens Kew, Managing Director of the Eden Project, and Director of Finance at Plymouth University. A qualified chartered accountant she has over 30 years of experience in private and public sector finance. She is also a non-executive director on the Board of Ignite Investment Fund for Social Enterprise which is part of Centrica PLC and is Chairman of The Wave Group Ltd.

Karl Sternberg

Position: Director

Date of appointment: 1 January 2009

Karl is a Director of Jupiter Fund Management PLC, JPMorgan Elect plc, Monks Investment Trust PLC, Herald Investment Trust plc, Alliance Trust plc and Railpen. He is also a Fellow of St Catherine's College, 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.

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 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 35 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 9 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
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Stockbrokers

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Telephone: 0370 707 1057

Independent Auditor

Ernst & Young LLP
25 Churchill Place
London E14 5EY

Financial Calendar

Annual results	announced December 2018
Ex dividend date	3 January 2019
Dividend record date	4 January 2019
Annual General Meeting ¹	28 January 2019
Final dividend payable on	31 January 2019
Half year results	announced June 2019

¹ At the Company's registered office at 12.30 p.m.

Information Sources

For more information about Lowland Investment Company plc, visit the website at www.lowlandinvestment.com.

HGi

HGi is a content platform provided by Janus Henderson that offers online personalisation where you can 'follow' investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Janus Henderson's investment expertise.

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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. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 225525, email customercare.HSDL@halifax.co.uk or visit their website www.halifax.co.uk/sharedealing.

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.

Investors in Halifax Share Dealing receive all shareholder communications. A voting instruction form is provided to facilitate voting at General Meetings of the Company.

Strategic Report: Corporate Information (continued)

Status

The Company is registered as a public limited company and is an investment trust as defined under section 833 of the Companies Act 2006 (the 'Act'). It has been approved as an investment company under sections 1158/1159 of the Corporation Tax Act 2010 ('Section 1158'), as amended, and is a member of the Association of Investment Companies ('AIC').

The Directors are of the opinion that the Company continues to conduct its affairs as an Approved Investment Trust under the Investment Trust (Approved Company) (Tax) Regulations 2011. The Company maintains a primary listing on the London Stock Exchange and is subject to the Listing, Prospectus and Disclosure Guidance and Transparency Rules published by the UKLA. The Company is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution.

Principal Risks and Uncertainties

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal risks, and uncertainties, facing the Company that would threaten its business model, future performance, solvency and liquidity. A matrix of these risks has been drawn up and steps taken to mitigate these. The principal risks and mitigating actions are as follows:

Investment Activity and Strategy Risk

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.

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.

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.

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.

Portfolio and Market Price Risk

Market risk arises from uncertainty about the future prices of the Company's investments. 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.

The Fund Managers seek to maintain a diversified portfolio to mitigate against this risk. The Board regularly reviews the portfolio, activities and performance. An analysis of the Company's portfolio is shown on pages 16 to 18, see note 14.1.1 on pages 53 and 54 also.

Financial Risk

The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk, currency risk and credit and counterparty risk.

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 companies mitigates the Company's exposure to liquidity risk. Currency risk is mitigated by the low exposure to overseas stocks.

Gearing Risk

At the point of drawing down debt gearing will never exceed 29.99% of the portfolio valuation. 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.

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.

Operational Risk

Disruption to, or the failure of, Janus Henderson's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting or monitoring of the Company's financial position.

Janus Henderson contracts some of the operational functions (principally those relating to trade processing, investment administration and accounting), to BNP Paribas Securities Services.

Details of how the Board monitors the services provided by Janus Henderson and its other suppliers, including cyber risk, and the key elements designed to provide effective internal control, are explained further in the Internal Controls section of the Corporate Governance Statement.

Accounting, Legal and Regulatory Risk

In order to qualify as an investment trust, the Company must comply with Section 1158. A breach of Section 1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to Corporation Tax.

Compliance with the requirements of Section 1158 is monitored by Janus Henderson and the results are reported at each Board meeting. The Company must comply with the provisions of the

Strategic Report: Corporate Information (continued)

Companies Act 2006 and, since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Guidance and Transparency Rules and the Prospectus Rules ('UKLA Rules').

A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. A breach of the Listing Rules could result in the suspension of the Company's shares; which in turn would breach Section 1158.

The Board relies on its Company Secretary and its professional advisers to ensure compliance with the Companies Act 2006 and Listing Rules.

The Board receives internal control reports produced by Janus Henderson on a quarterly basis, which confirm regulatory compliance.

The Board considers these risks to have remained unchanged throughout the year under review.

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 risks and uncertainties as documented above in this Strategic Report.

The assessment has considered the impact of the likelihood of the principal 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, materialising 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 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. 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.

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 in that it may force the Company to make purchases of its own shares at a time when it may not have spare cash; when it may be inopportune to realise investments; and when there may be good buying opportunities in the market. Furthermore it would shrink the size of the trust, reducing the audience of potential investors, increase the ongoing charges ratio, and tend to 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 continue 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 charges 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, current at the time of issuance.

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 since 1 June 2008 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.

Strategic Report: Corporate Information (continued)

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 3 and 4 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 has a committed loan facility with Scotiabank of up to £40m, which allows it to borrow as and when appropriate. The facility expires on 27 October 2020. The Company also has a conditional option to increase the facility by £20m.

The maximum amount drawn down in the year under review was £39.5m (2017: £50.9m), with borrowing costs for the year totalling £389,000 (2017: £299,000). £26.5m (2017: £10.0m) of the facility was in use at the year end.

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 2018 was 12.2% (2017: 6.3%) 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.

Corporate Responsibility

Responsible Investment, Voting and the UK Stewardship Code

The Board delegates the Company's investment management activities, including corporate governance and corporate responsibility in respect of investee companies, to Janus Henderson.

The Board retains oversight as to how duties in this area are discharged by reviewing the Responsible Investment Policy and receiving regular reporting on how the policy has been applied in respect of the shares in its portfolio.

The policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients. This includes environmental, social and ethical issues, its approach to proxy voting and the application of the UK Stewardship Code.

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. Voting recommendations are guided by the best interests of the investee companies' shareholders and, depending on the nature of the resolution, the Fund Managers may give specific instructions on voting non-routine and unusual or controversial resolutions.

The Responsible Investment Policy can be found on the Manager's website at www.janushenderson.com.

Employees, Social, Community, Human Rights and Environmental Matters

As an investment trust company, 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.

The Company has no employees. The Directors are satisfied that, to the best of their knowledge, the Company's principal suppliers, listed on page 22, 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.

Since the year end, the Board considered the recent changes made by the Criminal Finances Act 2017 which introduced a new corporate criminal offence of failing to take reasonable steps to prevent the facilitation of tax evasion. The Company maintains a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

Board Diversity and Experience

The Company's affairs are overseen by a Board comprising 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 Company has no employees and therefore has no further disclosures to make in respect of gender representation within the Company.

For and on behalf of the Board

Robert Robertson
Chairman
14 December 2018

Report of the Directors

The Directors present their report and the audited financial statements of the Company for the year ended 30 September 2018.

The Strategic Report, Corporate Governance Statement, Report of the Audit Committee, the Investment Portfolio on pages 16 to 18 and the Corporate Information on pages 22 to 25 form part of the Report of the Directors.

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 2018, 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.

The Company will seek authority from its shareholders at the 2019 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. At the AGM held in January 2018 the Directors were granted authority to buy-back 4,050,082 shares. At 30 September 2018 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 2019 AGM.

Holdings in the Company's Shares

There were no declarations of interests in the voting rights of the Company as at 30 September 2018 in accordance with the Disclosure, Guidance and Transparency Rules.

No changes have been notified in the period 1 October 2018 to 14 December 2018.

At 30 September 2018, 0.00% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products. The participants in this scheme are given the opportunity to instruct the nominee company to exercise the voting rights appertaining to their shares in respect of all General Meetings of the Company.

Fund Managers' Interests

James Henderson, Fund Manager, has a beneficial interest in 92,490 (2017: 92,490) and a non-beneficial interest in 577,565 (2017: 577,565) ordinary shares of the Company. Laura Foll, Fund Manager, has a beneficial interest in 811 ordinary shares of the Company (2017: 811).

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 29. 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 19 on page 59.

Annual General Meeting ('AGM')

The AGM will be held on Monday 28 January 2019 at 12:30p.m. at the Company's registered office. 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 broadcast live on the internet. If you are unable to attend the AGM in person you will be able to log on to watch the Meeting as it happens, by visiting www.janushenderson.com/trustslive.

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.

Requirement of the Listing Rules

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.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
14 December 2018

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.

Each of the Directors, who are listed on pages 20 and 21, 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 profit 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.

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.

For and on behalf of the Board

Robert Robertson
Chairman
14 December 2018

The financial statements are published on **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 24 January 2017 and will be put to them again at the AGM in 2020.

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.

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.

Report on Implementation

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 Monday 28 January 2019.

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 £37,500 for the Chairman, £29,000 for the Chairman of the Audit Committee and £24,000 for the remaining Directors.

The last fee increase took effect from 1 October 2016. During 2018, the Board carried out a review of Directors' remuneration which included a comparative peer assessment of Directors' fees together with external data such as that provided by Trust Associates. The Board reviewed the assessment and proposed increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new Directors. As a result, Directors fees were increased with effect from 1 October 2018 to £25,000.

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 2018	1 October 2017
Beneficial:		
Robert Robertson	49,225	44,225
Duncan Budge	5,000	5,000
Kevin Carter	8,000	8,000
Gaynor Coley	500	n/a
Karl Sternberg	9,048	8,010
Non Beneficial:		
Robert Robertson	12,000	12,000

There have been no changes to any of the Directors' holdings in the period from 1 October 2018 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.

	2018 £	2017 £	Change £
Total remuneration paid to Directors	138,500	145,037	(6,537)
Ordinary dividend paid during the year	13,779,468	12,698,726	1,080,742

Directors' Remuneration Report (continued)

Directors' Fees and Expenses (audited)

The remuneration paid to the Directors who served during the years ended 30 September 2018 and 30 September 2017 was as follows:

	Year ended 30 September 2018 Total salary and fees £	Year ended 30 September 2017 Total salary and fees £	Year ended 30 September 2018 Taxable benefits £	Year ended 30 September 2017 Taxable benefits £	Year ended 30 September 2018 Total £	Year ended 30 September 2017 Total £
Robert Robertson ¹	37,500	34,808	–	527	37,500	35,335
Gaynor Coley ²	29,000	25,395	–	432	29,000	25,827
Karl Sternberg	24,000	24,000	–	–	24,000	24,000
Kevin Carter	24,000	24,000	–	–	24,000	24,000
Duncan Budge	24,000	24,000	–	–	24,000	24,000
Peter Troughton ³	–	11,875	–	–	–	11,875
Total	138,500	144,078	–	959	138,500	145,037

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 with effect from 24 January 2017 and highest-paid Director

2 Chairman of the Audit Committee with effect from 24 January 2017

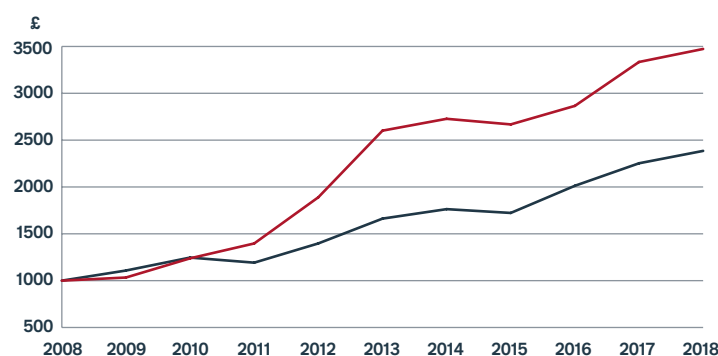
3 Retired from the Board on 24 January 2017

The fees paid to the Directors during the year were: Chairman £37,500, Audit Committee Chairman £29,000 and Directors £24,000. With effect from 1 October 2018 the fees were increased to: Chairman £38,500, Audit Committee Chairman £30,000, Director £25,000.

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 2018 with the return from the FTSE All-Share Index Total Return over the same period.



Source: Datastream

— Lowland Investment Company plc share price total return, assuming the investment of £100 on 30 September 2008 and the reinvestment of all dividends (excluding dealing expenses)

— FTSE All-Share Index Total Return, assuming the notional investment of £100 on 30 September 2008 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 24 January 2017. The votes cast by proxy were as follows:

	% of votes cast
For	98.2
Against	1.2
At the Chairman's discretion	0.6
Votes withheld	28,038

A non-binding ordinary resolution adopting the Directors' Remuneration Report for the year ended 30 September 2017 was approved by shareholders at the AGM held on 29 January 2018. The votes cast by proxy were as follows:

	% of votes cast
For	98.8
Against	0.6
Discretionary	0.6
Votes withheld	31,734

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

For and on behalf of the Board

Robert Robertson
Chairman
14 December 2018

Corporate Governance Statement

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 April 2016 is applicable, along with the related Code of Corporate Governance issued by the AIC (the 'AIC Code') in July 2016 (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, and associated AIC Guide, 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, the AIC Guide and the UK Code can be found on the respective organisations' websites: www.theaic.co.uk and www.frc.org.uk.

The Board has noted that the FRC has issued a revised code which the Company will be required to report against for the financial year ending 30 September 2020.

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.

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 set out in the AIC Guide, and as explained in the AIC Code, the Board considers these provisions are not relevant to the position of 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.

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 20 and 21.

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 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.

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. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company.

Corporate Governance Statement (continued)

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 reporting to the Board 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 Operational 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 Board noted the service auditors' qualification in respect of the assurance reports of Janus Henderson during the reporting period. As reported last year, The Audit Committee sought additional clarification in respect of the exceptions which resulted in the qualifications and was satisfied that the matter has been considered in sufficient detail. In particular remedial action has been undertaken by Janus Henderson to address the exceptions identified within the assurance reports.

The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 September 2018. 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.

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 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 AIC Code recommends that all Directors with a tenure exceeding nine years should stand for election by shareholders at each AGM. The views of the Board regarding the 2018 UK Code are outlined in the Chairman's Statement on page 6.

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.

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 2018, the Committee concluded that all Directors continued to be independent in character and judgement.

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.

Corporate Governance Statement (continued)

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. The Company has granted an indemnity to each Director to the extent permitted by law in respect of the liabilities that may attach to them in their capacity as Directors of the Company.

Directors' Conflicts of Interest

The Articles 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. The Directors may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate.

Any situational conflicts which are considered, and authorised, are recorded in the minutes. These are reviewed by the Nominations Committee at least annually.

Meeting Attendance

The meeting attendance of each Director is set out in the table below:

	Board	AC	MEC	NC
Robert Robertson	5	2	1	1
Duncan Budge	5	2	1	1
Kevin Carter	5	2	1	1
Gaynor Coley	5	2	1	1
Karl Sternberg	5	2	1	1

A Committee of the Board met during the year to approve various items of business including the Company's half-year results.

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.

Mr Sternberg 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 Board has three principal committees: the Audit Committee, the Management Engagement Committee and the Nominations Committee. The terms of reference for these committees are available on the website 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 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 34 and 35.

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:

- 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;

Corporate Governance Statement (continued)

- 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 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 2019 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 Mr Robertson, who is retiring by rotation in accordance with the Company's Articles of Association, and Dr Carter and Mr Sternberg who are subject to annual re-appointment in accordance with the UK Code. Resolutions regarding these Directors re-election will be put to shareholders at the 2019 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 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.

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 and through its HGi content platform.

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.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
14 December 2018

Report of the Audit Committee

Role and Responsibilities

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.

All of the independent non-executive Directors are members of the Committee with the exception of the Chairman of the Board. The Chairman of the Board attends the Committee meetings in the ordinary course of business.

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

- Change in allocation, with effect from 1 October 2018, all management fees and finance costs are allocated 50/50 between the revenue and capital accounts as appropriate;
- 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 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 2018;
- 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 revised 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.

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.

Significant Issues

In relation to the Annual Report for the year ended 30 September 2018 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	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 are 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 46.
Recognition of income	Income received is accounted for in line with the Company's accounting policies (as set out in note 1(e)) on page 47 and is reviewed by the Committee at each meeting. The Committee also considers the income received from special dividends and the revenue forecast at each meeting.
Compliance with Section 1158 of the Corporation Tax Act 2010	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.
Performance fee	The calculation of the performance fee, when payable, to Janus Henderson is reviewed by the Audit Committee before being approved by the Board. No performance fee is payable for the year ended 30 September 2018.
Maintaining internal controls	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. The Audit Committee sought additional clarification in respect of the assurance report and 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.

Report of the Audit Committee (continued)

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.

Auditor's Appointment

As a Public Interest Entity listed on the London Stock Exchange, the Company is subject to the mandatory auditor rotation requirements of the European Union.

The Statutory Auditors and Third Country Auditors Regulations which came into force on 17 June 2016, require the Company to rotate its audit firm after a period of 10 years, which may be extended where audit tenders are carried out or where more than one audit firm is appointed to carry out the audit. Ernst & Young LLP ('EY') were appointed by the Board following a formal tender process which concluded in 2016.

This is the second 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 second year EY has audited the Company's Annual Report.

During the year, the Committee met with EY and reviewed their assessment of independence and audit plan for the year ended 30 September 2018.

EY attended the half year-end 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 is expected to serve until the 2022 AGM.

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 £22,500 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 49.

For and on behalf of the Board

Gaynor Coley
Audit Committee Chairman
14 December 2018

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

Opinion

We have audited the financial statements of Lowland Investment Company plc for the year ended 30 September 2018 which comprise the Income Statement, the Statement of Changes in Equity, the Statement of Financial Position, 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 United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2018 and of its profit 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.

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 page 23 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 27 in the annual report that they have carried out a robust assessment of the 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 46 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 24 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.

Overview of our audit approach

Key audit matters	<p>Incomplete or inaccurate revenue recognition, including classification as revenue or capital items in the income statement.</p> <p>Incorrect valuation and existence of the investment portfolio.</p> <p>Incorrect calculation of the performance fee.</p>
Materiality	Overall materiality of £4.4m (2017: £4.4m) which represents 1% of Net Asset Value of the Company.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 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>Incomplete or inaccurate revenue recognition, including classification as revenue or capital items in the income statement.</p> <p>Refer to the Report of the Audit Committee (page 34); Accounting policies (page 47); and Note 3 of the Financial Statements (page 48).</p> <p>The Company has reported the income from investments of £19.76m (2017: £16.87m).</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 that income recognised incorrectly through failure to recognise proper dividend income entitlements.</p> <p>We identified the classification of special dividends as revenue or capital to be a fraud risk due to the level of judgment involved in this classification.</p>	<p>We performed a walkthrough of the BNP Paribas Securities Services (the 'Administrator') and Henderson Investment Funds Limited (the Manager) processes and controls for the recording of investment income;</p> <p>We agreed a sample of dividends received from the Company's income report to an independent source and to bank statement;</p> <p>We agreed a sample of dividends paid on investments held during the year from an independent pricing source to the income report;</p> <p>We agreed a sample of accrued dividends to an independent pricing source, recalculating the amount receivable and agreeing to post year end bank statements;</p> <p>We performed a review of special dividends received and assessed the appropriateness of the accounting treatment;</p> <p>We tested the completeness of special dividends identified through comparing, for a sample of investments, the dividends declared during the year to the list of special dividends.</p>	<p>We concurred that the £0.87m Special Dividends should be recognised as revenue.</p> <p>Based on the work performed, we have no matters to report to the Audit Committee.</p>
<p>Special dividends represent dividends paid by investee companies that are additional to the normal or expected dividend cycle for that company. In accordance with the AIC SORP, special dividends can be included within either the revenue or capital columns of the Income Statement, depending on the commercial circumstances behind the payments.</p> <p>The Directors are required to exercise judgment 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 judgmental element in allocating special dividends between revenue and capital. This year the number of special dividends received was 7 (2017: 7) in a total of £0.87m (2017: £0.97m), all of them were classified as income for the year ended 30 September 2018.</p>	<p>We performed an analytical review over income vs. the benchmark index and foreign exchange market movements for the year;</p> <p>We reviewed the journal entry listing and corroborated that a sample of entries agree with the income report.</p>	

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

<p>Incorrect valuation and existence of the investment portfolio.</p> <p>Refer to the Report of the Audit Committee (page 34); Accounting policies (page 47); and Note 11 of the Financial Statements (page 48).</p> <p>The Company holds a significant portfolio of quoted investments throughout UK. Quoted investments are valued at bid value or last trade price at the close of business on the Statement of Financial Position (SOF) date on the exchange on which the investments are listed. The value of investments held on 30 September 2018 was £492.7m (2017: £467.5m) with unquoted investments valued at £2.2m (2017: £2.2m).</p> <p>There is a risk of incorrect valuation of the investment portfolio, including incorrect application of exchange rate movements and assessment of stock liquidity which could result in the SOFP and Income Statement being materially misstated.</p>	<p>We performed a walkthrough of procedures, understanding the Administrator's and the Manager's processes for investment portfolio valuation;</p> <p>We agreed the prices of 100% of the quoted investment portfolio to an independent pricing vendor;</p> <p>We reviewed the pricing exception reports to assess the liquidity of investments held;</p> <p>We recalculated the value of quoted investments in foreign currencies to verify the accuracy of the corresponding Sterling balances based upon exchange rates verified to an external source;</p> <p>We recalculated the fair value movement through performing a book cost reconciliation and agreeing the unrealised gain through to the Income Statement;</p> <p>We agreed the Company's holdings to independently obtained Custodian and Depositary reports;</p> <p>We reviewed the reconciliation between the Administrator and Custodian records;</p> <p>We reviewed the valuation methodology for the two unquoted investments and considered the work performed by the pricing committee to confirm that the approach was in accordance with UK GAAP fair valuation principles;</p> <p>We reviewed the controls report issued by HSBC for exceptions that would impact the accuracy of the Custodian records.</p>	<p>We identified no valuation or existence exceptions during the course of our testing.</p> <p>Based on the work performed, we have no matters to report to the Audit Committee.</p>
<p>Incorrect calculation of the performance fee.</p> <p>Refer to the Report of the Audit Committee (page 34); Accounting policies (page 47); and Note 5 of the Financial Statements (page 48).</p> <p>During the year, the Company paid £Nil (2017: £0.4m) performance fees.</p> <p>The performance fee is calculated using the methodology set out in the Investment Management Agreement between the Company and the Manager. The calculation involves a number of inputs and considerations and is performed manually by the Administrator. There is a risk that performance fee is incorrectly calculated.</p>	<p>We performed a recalculation of the performance fee based on the calculation methodology set out in the IMA;</p> <p>We considered the management fee alongside the performance fee to determine whether the total fee charged cap of 0.25% of average net chargeable assets has been met;</p> <p>We agreed the benchmark index returns used in the calculation to third party data.</p>	<p>We have concluded there are correctly no performance fee paid for the year ended 30 September 2018.</p> <p>Based on the work performed, we have no matters to report to the Audit Committee.</p>

There were no changes in key audit matters in comparison with the prior year.

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

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 controls and changes in the business environment when assessing the level of work to be performed.

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 £4.4m (2017: £4.4m), which is 1% (2017: 1%) of Net Assets Value of the Company as at 30 September 2018. We believe that Net Assets Value provides the most important financial metric on which shareholders judge the performance of the Company and it is a generally accepted auditing practice for investment trust audits.

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 judgment was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £3.3 (2017: £3.3m). We have set performance materiality at this percentage due to an assessed reduced risk of financial misstatement during planning procedures.

Given the importance of the distinction between revenue and capital for the Company we have also applied a separate testing threshold of £0.8m (2017: £0.7m) for the revenue column of the Income Statement, being 5% (2017: 5%) of the Net return on ordinary activities 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 £0.2m (2017: £0.2m), 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 included in the annual report set out on pages 1 to 64, 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:

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

- **Fair, balanced and understandable set out on page 27** – 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 pages 34 to 35** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on pages 30 to 33** – 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 Statement of directors' responsibilities set out on page 27, 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.

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

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 of the Corporation Tax Act 2010.
- We understood how Lowland Investment Company plc is complying with those frameworks through discussions with the Audit Committee and the 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 revenue journals. We noted no issues in agreeing a sample of revenue journal entries back to the audited income report or through to the corresponding announcements prepared by the Company.
- 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 ending 30 September 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 2017 to 2018.

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
14 December 2018

Notes:

1. The maintenance and integrity of the **Lowland Investment Company plc** web site is the responsibility of the directors; 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 web site
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Income Statement

Notes		Year ended 30 September 2018			Year ended 30 September 2017		
		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
2	(Losses)/gains on investments held at fair value through profit or loss	–	(3,032)	(3,032)	–	52,847	52,847
3	Income from investments	19,757	–	19,757	16,871	–	16,871
4	Other interest receivable and similar income	190	–	190	50	–	50
	Gross revenue and capital gains	19,947	(3,032)	16,915	16,921	52,847	69,768
5	Management fee	(2,048)	–	(2,048)	(1,920)	–	(1,920)
5	Performance fee	–	–	–	–	(416)	(416)
6	Administrative expenses	(520)	–	(520)	(553)	–	(553)
	Net return/(loss) before finance costs and taxation	17,379	(3,032)	14,347	14,448	52,431	66,879
7	Finance costs	(1,347)	–	(1,347)	(1,009)	–	(1,009)
	Net return/(loss) before taxation	16,032	(3,032)	13,000	13,439	52,431	65,870
8	Taxation on net return	(183)	–	(183)	(186)	–	(186)
	Net return/(loss) after taxation	15,849	(3,032)	12,817	13,253	52,431	65,684
9	Return/(loss) per ordinary share – basic and diluted	58.6p	(11.2p)	47.4p	49.1p	194.1p	243.2p

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 other than those disclosed in the Income Statement. 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 2018	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 October 2017	6,755	61,619	1,007	357,030	13,485	439,896
	Net (loss)/return after taxation	–	–	–	(3,032)	15,849	12,817
10	Third interim dividend (12.0p) for the year ended 30 September 2017 paid 31 October 2017	–	–	–	–	(3,242)	(3,242)
10	Final dividend (13.0p) for the year ended 30 September 2017 paid 31 January 2018	–	–	–	–	(3,512)	(3,512)
10	First interim dividend (13.0p) for the year ended 30 September 2018 paid 30 April 2018	–	–	–	–	(3,512)	(3,512)
10	Second interim dividend (13.0p) for the year ended 30 September 2018 paid 31 July 2018	–	–	–	–	(3,513)	(3,513)
	At 30 September 2018	6,755	61,619	1,007	353,998	15,555	438,934

Notes	Year ended 30 September 2017	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 2016	6,755	61,619	1,007	304,599	12,930	386,910
	Net return after taxation	–	–	–	52,431	13,253	65,684
10	Third interim dividend (11.0p) for the year ended 30 September 2016 paid 31 October 2016	–	–	–	–	(2,972)	(2,972)
10	Final dividend (12.0p) for the year ended 30 September 2016 paid 31 January 2017	–	–	–	–	(3,242)	(3,242)
10	First interim dividend (12.0p) for the year ended 30 September 2017 paid 28 April 2017	–	–	–	–	(3,242)	(3,242)
10	Second interim dividend (12.0p) for the year ended 30 September 2017 paid 28 July 2017	–	–	–	–	(3,242)	(3,242)
	At 30 September 2017	6,755	61,619	1,007	357,030	13,485	439,896

Statement of Financial Position

Notes		As at 30 September 2018 £'000	As at 30 September 2017 £'000
	Fixed assets		
11	Investments held at fair value through profit or loss		
	Listed at market value in the United Kingdom	390,951	365,646
	Listed at market value on AIM	73,811	74,881
	Listed at market value overseas	25,641	24,743
	Unlisted	2,256	2,218
		492,659	467,488
	Current assets		
12	Debtors	2,018	2,061
	Cash at bank	1,445	11,362
		3,463	13,423
13	Creditors: amounts falling due within one year	(27,421)	(11,260)
	Net current (liabilities)/assets	(23,958)	2,163
	Total assets less current liabilities	468,701	469,651
13	Creditors: amounts falling due after one year	(29,767)	(29,755)
	Net assets	438,934	439,896
	Capital and reserves		
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	353,998	357,030
	Revenue reserve	15,555	13,485
	Total shareholders' funds	438,934	439,896
17	Net asset value per ordinary share – basic and diluted	1,624.6p	1,628.1p

The financial statements on pages 42 to 59 were approved and authorised for issue by the Board of Directors on 14 December 2018 and signed on their behalf by:

Robert Robertson
Chairman

Statement of Cash Flows

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Cash flows from operating activities		
Net return before taxation	13,000	65,870
Add back: finance costs	1,347	1,009
Add: losses/(gains) on investments held at fair value through profit or loss	3,032	(52,847)
Withholding tax on dividends deducted at source	(228)	(211)
Decrease in other debtors	89	93
(Decrease)/increase in other creditors	(371)	423
Net cash inflow from operating activities	16,869	14,337
Cash flows from investing activities		
Purchase of investments	(76,383)	(72,559)
Sale of investments	48,182	68,038
Net cash outflow from investing activities	(28,201)	(4,521)
Cash flows from financing activities		
Equity dividends paid (net of refund of unclaimed distributions and reclaimed distributions)	(13,779)	(12,698)
Net loans drawn down/(repaid)	16,507	(16,897)
Senior unsecured notes issued	–	29,755
Interest paid	(1,310)	(789)
Net cash inflow/(outflow) from financing activities	1,418	(629)
Net (decrease)/increase in cash and cash equivalents	(9,914)	9,187
Cash and cash equivalents at start of year	11,362	2,178
Effect of foreign exchange rates	(3)	(3)
Cash and cash equivalents at end of year	1,445	11,362
Comprising:		
Cash at bank	1,445	11,362
	1,445	11,362

Cash inflow from dividends net of taxation was £19,665,000 (2017: £16,755,000).

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 22.

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 November 2014 and updated in February 2018 with consequential amendments.

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 FRS 102, 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.

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. 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 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 designated 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. Where fair value cannot reliably be measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

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 presentation 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)/gains 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 recognised using the effective interest rate method in accordance with the SORP.

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.

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, including the management fee and interest payable, are charged 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 effective 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 remeasured 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 remeasured 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
- performance fees charged to capital.

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)/gains on investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Gains on the sale of investments based on historical cost	18,056	27,440
Less: revaluation gains recognised in previous years	(16,524)	(14,713)
Gains on investments sold in the year based on carrying value at previous Statement of Financial Position date	1,532	12,727
Revaluation (losses)/gains on investments held at 30 September	(4,561)	40,123
Exchange losses	(3)	(3)
	(3,032)	52,847

3 Income from Investments

	2018 £'000	2017 £'000
UK dividends:		
Listed investments	15,205	13,025
Unlisted	50	49
Property income dividends	391	148
	15,646	13,222
Non UK dividends:		
Overseas dividend income	4,111	3,649
	4,111	3,649
	19,757	16,871

Notes to the Financial Statements (continued)

4 Other Interest Receivable and Similar Income

	2018 £'000	2017 £'000
Stock lending commission	112	16
Income from underwriting	76	34
Bank interest	2	–
	190	50

At 30 September 2018 the total value of securities on loan by the Company for stock lending purposes was £50,426,000 (2017: £1,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2018 was £53,415,000 (2017: £20,418,000). The Company's agent holds collateral comprising FTSE 100 stocks, Gilts, overseas equities and overseas Government bonds with a collateral value of £54,285,000 (2017: £1,000) amounting to a minimum of 105% (2017: minimum 105%) of the market value of any securities on loan. Stock lending commission has been shown net of brokerage fees of £28,000 (2017: £4,000).

5 Management and Performance Fees

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	2,048	–	2,048	1,920	–	1,920
Performance fee	–	–	–	–	416	416
Total fee	2,048	–	2,048	1,920	416	2,336

A description of the basis for calculating the management fee and performance fees is given in the Strategic Report on page 19. For the year ended 30 September 2018, a performance fee of £nil is payable (2017: £416,000). This is based on the Company's 3 year average NAV total return to 30 September 2018 of 11.7% compared to the FTSE All-Share Index Total Return (plus a 10% hurdle rate) of 14.1%.

6 Administrative Expenses

	2018 £'000	2017 £'000
Directors' fees and expenses (see Directors' Remuneration Report on page 29) ¹	139	145
Auditor's remuneration – for audit services	23	22
AIC subscriptions	20	20
Directors' and Officers' liability insurance	8	10
Listing fees (Stock Exchange, newspapers and internet)	33	33
Safe custody and bank charges	24	23
Loan facility fees	59	53
Printing and postage	22	20
Registrar's fees	18	18
General expenses and marketing expenses payable to Janus Henderson	58	91
Depositary fees	39	38
Other expenses	36	37
Irrecoverable VAT	41	43
	520	553

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

7 Finance Costs

	2018 £'000	2017 £'000
On bank loans and overdrafts repayable within one year	389	299
On senior unsecured loan notes	958	710
	1,347	1,009

Notes to the Financial Statements (continued)

8 Taxation on Net Return

Analysis of Tax Charge for the Year

	2018			2017		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas tax suffered	232	–	232	223	–	223
Overseas tax reclaimable	(49)	–	(49)	(37)	–	(37)
Total taxation for the year	183	–	183	186	–	186

Factors Affecting the Tax Charge for the Year

	2018			2017		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net return/(loss) before taxation	16,032	(3,032)	13,000	13,439	52,431	65,870
Corporation tax at standard rate of 19% (2017: effective rate of 19.5%)*	3,046	(576)	2,470	2,621	10,224	12,845
Effects of:						
Non-taxable dividends	(2,847)	–	(2,847)	(2,526)	–	(2,526)
Other non-taxable income	(781)	–	(781)	(711)	–	(711)
Overseas tax suffered	183	–	183	186	–	186
Excess expenses/non-trading deficits for the year	582	–	582	616	81	697
Non-taxable capital gains	–	576	576	–	(10,306)	(10,306)
Total tax charge	183	–	183	186	–	186

* The Company's profit for the accounting year is taxed at the standard rate of 19% (2017: effective rate of 19.5%). 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 £9,210,000 (2017: £8,690,000) based on a prospective corporation tax rate of 17% (2017: 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 investments 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 return per ordinary share is based on the net return attributable to the ordinary shares of £12,817,000 (2017: £65,684,000) and on 27,018,565 ordinary shares (2017: 27,018,565) being the weighted average number of ordinary shares in issue during the year. The return per ordinary share can be further analysed between revenue and capital, as below.

	2018 £'000	2017 £'000
Net revenue return	15,849	13,253
Net capital (loss)/return	(3,032)	52,431
Net total return	12,817	65,684
Weighted average number of ordinary shares in issue during the year	27,018,565	27,018,565

	2018 Pence	2017 Pence
Revenue return per ordinary share	58.6	49.1
Capital (loss)/return per ordinary share	(11.2)	194.1
Total return per ordinary share	47.4	243.2

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	2018 £'000	2017 £'000
Third interim dividend (11.0p) for the year ended 30 September 2016	7 October 2016	31 October 2016	–	2,972
Final dividend (12.0p) for the year ended 30 September 2016	6 January 2017	31 January 2017	–	3,242
First interim dividend (12.0p) for the year ended 30 September 2017	7 April 2017	28 April 2017	–	3,242
Second interim dividend (12.0p) for the year ended 30 September 2017	30 June 2017	28 July 2017	–	3,242
Third interim dividend (12.0p) for the year ended 30 September 2017	6 October 2017	31 October 2017	3,242	–
Final dividend (13.0p) for the year ended 30 September 2017	5 January 2018	31 January 2018	3,512	–
First interim dividend (13.0p) for the year ended 30 September 2018	6 April 2018	30 April 2018	3,512	–
Second interim dividend (13.0p) for the year ended 30 September 2018	6 July 2018	31 July 2018	3,513	–
			13,779	12,698

The third interim dividend and the final dividend for the year ended 30 September 2018 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.

	2018 £'000
Revenue available for distribution by way of dividends for the year	15,849
First interim dividend (13.0p) for the year ended 30 September 2018	(3,512)
Second interim dividend (13.0p) for the year ended 30 September 2018	(3,513)
Third interim dividend (14.0p) for the year ended 30 September 2018	(3,783)
Final dividend (14.0p) for the year ended 30 September 2018 (based on 27,018,565 ordinary shares in issue at •• December 2018)	(3,783)
Revenue surplus	1,258

For Section 1158 purposes the Company's undistributed revenue represents ••% of the income from investments.

Notes to the Financial Statements (continued)

11 Investments held at Fair Value through Profit or Loss

	2018 £'000	2017 £'000
Valuation at start of year	467,488	411,017
Investment holding gains at start of year	(117,138)	(91,728)
Cost at start of year	350,350	319,289
Additions at cost	76,383	71,659
Disposals at cost	(30,126)	(40,598)
Cost at end of year	396,607	350,350
Investment holding gains at end of year	96,052	117,138
Valuation at end of year	492,659	467,488

Included in the total investments are unlisted investments shown at the Directors fair value of £2,256,000 (2017: £2,218,000).

Purchase transaction costs for the year ended 30 September 2018 were £328,000 (2017: £213,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2018 were £23,000 (2017: £45,000).

The Company has interest of 3% or more of any class of capital in 20 (2017: 25) investee companies. At 30 September 2018, of the 20 investee companies, the following represented more than 1% of investments.

	2018 Valuation £'000	2018 % of voting rights	2017 Valuation £'000	2017 % of voting rights
Churchill China	5,075	4.2	–	–
Henderson Opportunities Trust	6,540	7.5	4,786	6.3
Ten Entertainment	5,728	3.6	–	–

12 Debtors

	2018 £'000	2017 £'000
Prepayments and accrued income	1,922	2,011
Taxation recoverable	96	50
	2,018	2,061

13 Creditors

Amounts falling due within one year

	2018 £'000	2017 £'000
Unsecured sterling bank loans	26,507	10,000
Performance fee	–	416
Other creditors	914	844
	27,421	11,260

The Company has a 3 year loan facility of up to £40m with Scotiabank (Ireland) Designated Activity Company Limited. As at 30 September 2018 £26.5m (2017: £10m) of the facility was drawn down.

Amounts falling due after more than one year

	2018 £'000	2017 £'000
3.15% senior unsecured loan notes 2037	29,767	29,755
	29,767	29,755

On 5 January 2017 the Company issued £30m (nominal) 3.15% senior unsecured loan 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 loan notes are redeemable at par on 5 January 2037.

Notes to the Financial Statements (continued)

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 19. 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 (compromising 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.
- 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, FinAnalytica and Barra Aegis 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.

14.1.1 Market Price Risk

Market price risk (ie, 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 2018 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 44.

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 16 to 18. 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 40% 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.

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

14.1.1 Market Price Risk (continued)

Sensitivity analysis – Market prices if prices change by 20% (2017: 40%)

	2018		2017	
	If prices go up £'000	If prices go down £'000	If prices go up £'000	If prices go down £'000
Investments at year end	492,659	492,659	467,488	467,488
Impact on income statement:				
Revenue return	(394)	394	(748)	748
Capital return	98,352	(98,352)	186,995	(186,995)
Impact on net assets and total return (excluding gearing)	98,138	(98,138)	186,247	(186,247)

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 £17,104,000 (2017: £16,326,000) representing 3.5% (2017: 3.5%) 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.

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 (2017: 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 1.7% as at 30 September 2018 (2017: 1.2%).

The Company had fixed interest rate asset exposure at 30 September 2018 on the holdings in Wadworth at £126,000 (2017: £126,000) and Virgin Money Holding at £2,140,000 (2017: £2,105,000). The Company also had fixed interest rate liability exposure through the senior unsecured loan notes.

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

14.1.3 Interest Rate Risk (continued)

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 £25,062,000 (2017: net cash of £1,362,000) 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 £501,000 (2017: £27,000).

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 (2017: £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:

	2018		2017	
	Due within 3 months £'000	Due between 3 months and one year £'000	Due within 3 months £'000	Due between 3 months and one year £'000
Bank loans and interest	26,777	–	10,247	–
Other creditors	644	–	1,013	–
	27,421	–	11,260	–

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.

	2018 £'000	2017 £'000
Fixed interest securities	2,266	2,231
Cash	1,445	11,362
Debtors:		
– prepayments and accrued income	1,922	2,011
– taxation recoverable	96	50
	5,729	15,654

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

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 2018, the fair value of the senior unsecured loan notes was estimated to be £31,056,000 (2017 - £31,013,000). 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 loan 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.

Financial assets at fair value through profit or loss at 30 September 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	490,403	–	2,256	492,659
Total	490,403	–	2,256	492,659

Financial assets at fair value through profit or loss at 30 September 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	465,270	–	2,218	467,488
Total	465,270	–	2,218	467,488

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

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

	2018 £'000	2017 £'000
Opening balance	2,218	2,101
Total gain included in the Income Statement		
– on investments held	38	117
Closing balance	2,256	2,218

The Company's holdings in Oxford Sciences and Wadworth were revalued upward during the year to take account of the increase in their net asset value per share and share price respectively. The Level 3 revaluation in the prior year related to Oxford Sciences.

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

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 2018 comprises its equity share capital, reserves and loans that are shown in the Statement of Financial Position at a total of £495,208,000 (2017: £479,651,000).

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

- the planned level of gearing, which takes into account the Manager's view on the market;
- the need to buy-back equity shares, either for cancellation or to hold in Treasury, which takes account of the difference between the net asset value per share and the share price (ie the level of share price discount or premium) as well as the discount of the peer group and the level of the equity market;
- the need for new issues of equity shares, including sales from Treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to several externally imposed capital requirements:

- borrowings under the bank facility are to exceed 30% of the adjusted net asset value;
- adjusted net asset value not less than £105,000,000;
- net asset value not 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.

15 Called Up Share Capital

	Number of shares entitled to dividend	Total number of shares	Nominal value of shares £'000
At 30 September 2017	27,018,565	27,018,565	6,755
At 30 September 2018	27,018,565	27,018,565	6,755

During the year, the Company issued no ordinary shares (2017: nil).

Notes to the Financial Statements (continued)

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 2017	117,138	239,892	357,030
Transfer on disposal of investments	(16,524)	16,524	–
Net gains on investments	(4,561)	1,532	(3,029)
Exchange differences	–	(3)	(3)
At 30 September 2018	96,053	257,945	353,998

The capital reserve arising on revaluation of investments held at 30 September 2018 includes a gain of £871,000 (2017: £834,000) 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 2016	91,728	212,871	304,599
Transfer on disposal of investments	(14,713)	14,713	–
Net gains on investments	40,123	12,727	52,850
Performance fee	–	(416)	(416)
Exchange differences	–	(3)	(3)
At 30 September 2017	117,138	239,892	357,030

17 Net Asset Value per Ordinary Share

The net asset value per ordinary share of 1,624.6p (2017: 1,628.1p) is based on the net assets attributable to the ordinary shares of £438,934,000 (2017: £439,896,000) and on 27,018,565 (2017: 27,018,565) shares in issue on 30 September 2018.

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

	2018 £'000	2017 £'000
Total net assets at 1 October	439,896	386,910
Total net return after taxation	12,817	65,684
Net dividends paid in the year:		
Ordinary shares	(13,779)	(12,698)
Net assets attributable to the ordinary shares at 30 September	438,934	439,896

18 Capital Commitments and Contingent Liabilities

Capital Commitments

There were no capital commitments as at 30 September 2018 (2017: £nil).

Contingent Liabilities

There were no contingent liabilities in respect of underwriting participations as at 30 September 2018 (2017: £nil).

Notes to the Financial Statements (continued)

19 Transactions with the Manager

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 19. The total of the management fees paid or payable to Janus Henderson under this agreement in respect of the year ended 30 September 2018 was £2,048,000 (2017: £1,920,000). The amount outstanding at 30 September 2018 was £520,000 (2017: £498,000). The total of the performance fee paid or payable to Janus Henderson under this agreement in respect of the year ended 30 September 2018 was £nil (2017: £416,000). The amount outstanding at 30 September 2018 was £nil (2017: £416,000).

In addition to the above services, Janus Henderson has provided the Company with sales and marketing services. The total fees paid or payable for these services for the year ended 30 September 2018 was £58,000 (2017: £91,000), of which £23,000 was outstanding at 30 September 2018 (2017: £22,000).

20 Subsequent events

With effect from 1 October 2018 the management fee and finance costs will be allocated 50% to revenue and 50% to capital. All other administrative expenses will continue to be allocated 100% to revenue.

Securities Financing Transactions

The fund engages in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015-2365, 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 2018 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:

Stock lending 2018		
Market value of securities on loan £'000	% of lendable assets	% of assets under management
50,426	10.24	11.49

Concentration Data

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

Issuer	2018 Market value of collateral received £'000
UK Treasury – Grouped	11,714
BAE Systems	2,328
Amazon	1,995
CRH	1,969
Manulife	1,947
Capital One	1,929
Waste Connect	1,676
CGI Group	1,406
Centrica	1,317
Government of Germany – Grouped	1,187
	27,468

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

Counterparty	2018 Market value of securities on loan £'000
Bank of Nova Scotia	21,959
HSBC	9,342
Citigroup	7,886
Societe Generale	7,113
UBS	2,352
BNP Paribas	1,557
Barclays	217
	50,426

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 2018							
Counterparty	Counterparty country of origin	Type	Quality	Collateral currency	Settlement basis	Custodian	Market value of collateral received £'000
Bank of Nova Scotia	Canada	Equity	Main Market Listing	GBP	Triparty	HSBC	23,257
HSBC	Hong Kong	Equity	Main Market Listing	GBP	Bilateral	HSBC	9,810
Citigroup	United States	Equity	Main Market Listing	GBP	Triparty	HSBC	8,992
Societe Generale	France	Equity	Main Market Listing	GBP	Triparty	HSBC	7,534
UBS	Switzerland	Equity	Main Market Listing	GBP	Triparty	HSBC	2,494
BNP Paribas	France	Equity	Main Market Listing	GBP	Triparty	HSBC	1,646
Barclays Capital	United Kingdom	Equity	Main Market Listing	GBP	Bilateral	HSBC	552
							54,285

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
140,000	28,000	20%	112,000	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 22) 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 new 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')

GDPR came into force on 25 May 2018. A privacy statement can be found on the website 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.

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. The Company's NAV is published daily.

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.

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.

Net Chargeable Assets

The net value of those assets which are subject to capital gains tax upon disposal.

Retail Price Index

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

Alternative Performance Measures

Dividend Yield

The annual dividend expressed as a percentage of the share price (see page 3).

Gearing

Gearing means borrowing money to buy assets with the expectation that the return on investments bought will exceed the interest cost of the borrowings. The gearing percentage reflects the amount of borrowings (e.g. bank loans or overdrafts) the Company has used to invest in the market and is calculated by taking the difference between total investments (see note 11) and equity shareholders' funds (see Statement of Financial Position), dividing this by equity shareholders' funds and multiplying by 100.

Net Asset Value ('NAV') per Ordinary Share

The value of the Company's assets (e.g. investments (see note 11) and cash held (see Statement of Financial Position)) less any liabilities (e.g. bank borrowings and debt securities (see note 13)) for which the Company is responsible, divided by the number of shares in issue (see note 15). The aggregate NAV is also referred to as shareholders' funds on the Statement of Financial Position. The NAV per ordinary share is published daily.

Ongoing Charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, finance costs and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year (see notes 5 and 6) as being the best estimate of future costs, excluding and including any performance fees, in accordance with methodology prescribed by the AIC and is the annualised ongoing charge divided by the average net asset value in the period.

Premium/Discount

The amount by which the market price per share (see page 3) of an investment company is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

Revenue Return per Ordinary Share

The revenue return per share is the revenue return profit for the year (see the Income Statement) divided by the weighted average number of ordinary shares in issue during the year.

Total Return Performance

This is the return on the share price (see page 3) or NAV (see 'NAV per Ordinary Share') taking into account both the rise and fall of share prices and the dividends and interest 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.

See page 24 for details of the Company's key performance indicators and how the Directors assess some of these Alternative Performance Measures.

References to notes and page numbers are in the annual report.

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 66.

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