

Questor: this trust's unusual hybrid structure can work to the benefit of income investors



Law Debenture's stock portfolio is run by James Henderson of Janus Henderson Investors. credit: JASON ALDEN



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By Richard Evans

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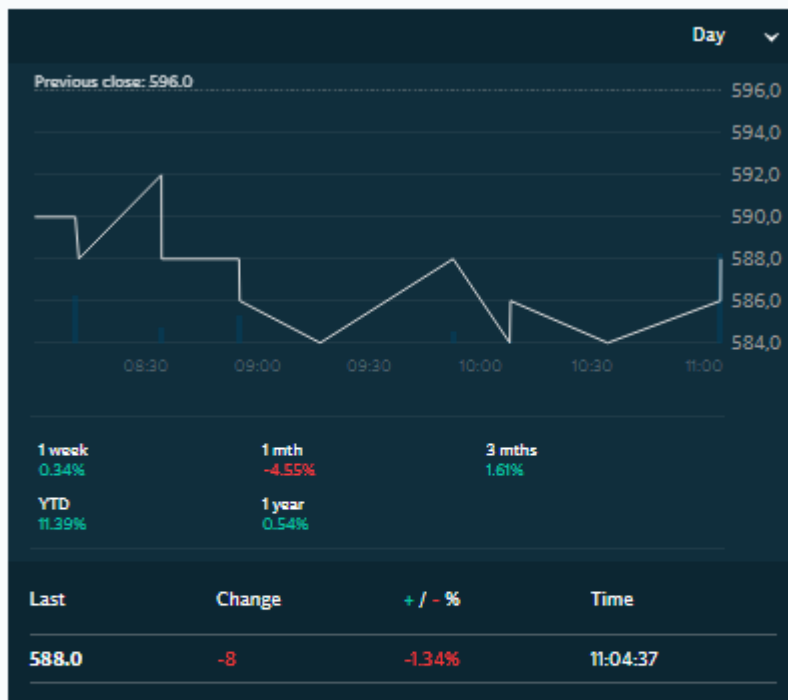
Questor investment trust bargain: the income that Law Debenture makes from its services arm allows its stock portfolio to be run more flexibly

Law Debenture is an intriguing beast. The trust, first covered here in [July 2017](#), is partly a conventional basket of stocks and partly a professional services firm. And these unlikely bedfellows can complement each other to the benefit of income investors.

So one professional holder of Law Debenture shares, Peter Hewitt, who runs the BMO Managed Portfolio Trust, told Questor this week.

"The services arm, which provides pension administration and trusteeship among other things, generates about 40pc of the trust's income. This takes the pressure off the portfolio of stocks when it comes to delivering a good yield [currently 3.2pc] and gives it more flexibility to invest in growth-focused companies, some of them overseas," said Hewitt.

Law Debenture Corp (The)



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The stock portfolio is run by James Henderson of Janus Henderson Investors, who adopts very much the same approach as with his Lowland investment trust, a favourite of this column. Lowland's record of strong dividend growth stretches back several decades.

“Thanks to the income from the services arm the stock portfolio probably needs to generate a yield of only 2pc to 2.5pc, well below the market’s 4.5pc, so Henderson has more scope to pursue growth,” Hewitt said.

He added that the professional services arm was also well placed to grow, partly because of a recent injection of new blood.

“Katie Thorpe, who was elected to the board last month, is formerly of RIT Capital Partners and I rate her highly,” he said. “The services arm is now on much more of a growth footing. It’s like a collection of small businesses. It has lots of potential and doesn’t compete much with the heavyweights of the sector.

“Any growth here will feed through to the trust’s net asset value and help it to offer a good total return in addition to the yield and dividend growth, which I expect to be in the high single digits.”

Questor says: hold

Ticker: LWDB

Share price at close: 584p

Law Debenture key facts

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| <input type="checkbox"/> Market value: £691m |
| <input type="checkbox"/> Year of listing: 1889 |
| <input type="checkbox"/> Discount: 8.3pc |
| <input type="checkbox"/> Ave discount over past year: 10pc |
| <input type="checkbox"/> Yield: 3.2pc |
| <input type="checkbox"/> Most recent year’s dividend (Dec 2018): 18.9p |
| <input type="checkbox"/> Gearing: 3pc |
| <input type="checkbox"/> Annual charge (Dec 2018): 0.45pc |

Update: Woodford Patient Capital Trust

Hewitt has owned a stake in Neil Woodford’s quoted fund for unlisted technology and healthcare stocks since its flotation four years ago and remains optimistic about its prospects even though his holding has lost value in that time.

“We could see big increases in the value of a number of the trust’s holdings in the next couple of years,” he said. “A lot of them are now past the stage where there was a danger of their technology not working.

“I met Neil Woodford recently and he told me he had communicated to some of these companies that they now needed to take action to demonstrate their value.”

Hewitt highlighted a couple of ways in which this could happen.

“I think Oxford Nanopore, which makes portable DNA sequencing kits, will float in the next year or two,” he said. “It recently signed a contract with a Chinese firm and there has been a lot of interest from potential customers.

“Atom Bank now has a £2bn loan book, which I think could increase fivefold and create a lot of value. It is 40pc owned by BBVA, the Spanish bank, which may acquire the rest at a premium.” He said he expected Proton Partners, a cancer treatment firm, to seek a full listing soon.

Hewitt said he had also been reassured to hear that recent sales by Woodford of stakes held in both the trust and his beleaguered open-ended fund had not been at a discount to book value, which would put pressure on the listed portfolio's valuation.

“No one likes the trust now as the Woodford name is toxic but it has some really interesting businesses that are going to come through,” he said. “I maintain that it's a great investment and topped up my holding after the meeting.”

Questor says: hold

Ticker: WPCT

Share price at close: 77.5p

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Update: Worldwide Healthcare and Mid Wynd

In the past we have also tipped these two trusts on the basis of Hewitt's holdings. He said he remained an investor in both and the investment case for each was intact.

Questor says: hold

Tickers: WWH, MWY

Share prices at close: £25.65, 527p

Investment trust news

British Empire, first tipped here in October 2016, has been renamed AVI Global Trust after its management company. The ticker is now AGT.

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