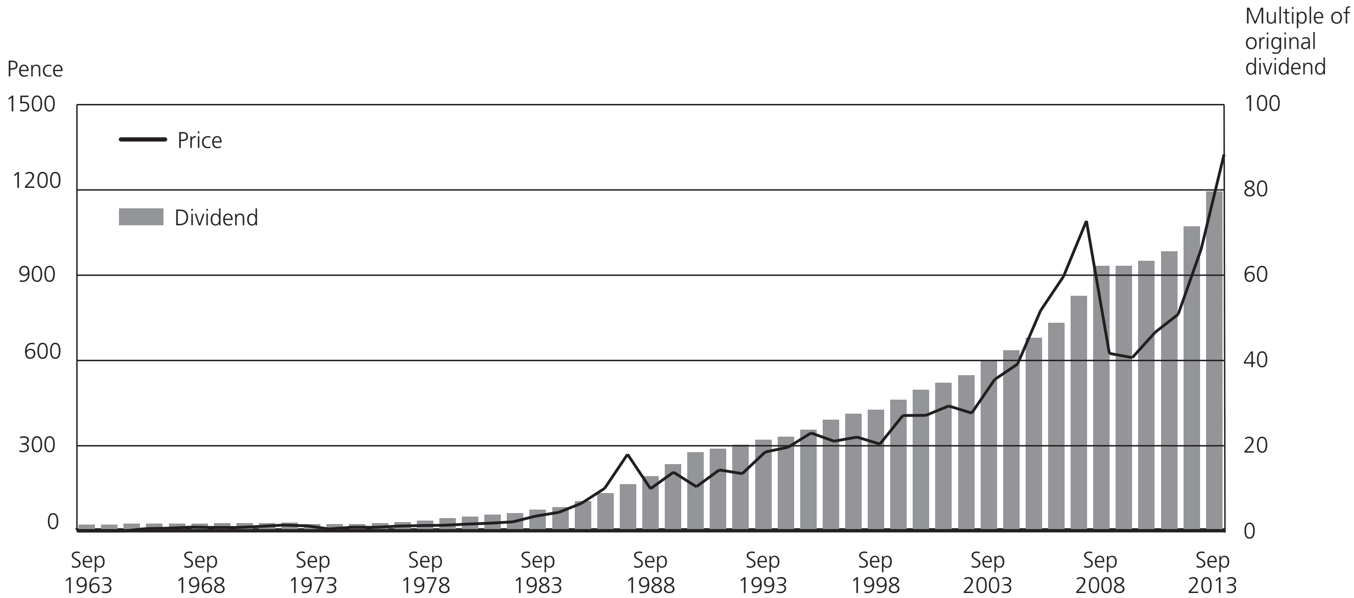
LOWLAND INVESTMENT COMPANY PLC

The first 50 years

Fifty Year Record

2013 marks the fiftieth anniversary of Lowland. It was floated as a public company in October 1963 with the aim of producing an above average and rising income for shareholders.

Share price and dividend growth over 50 years



Source: Henderson Global Investors Ltd.

The Objective

Lowland came into existence the year before Harold Wilson became Prime Minister for the first time. The stockmarket climate was uncertain, but the Chairman clearly stated the Company's objective:

> **'To obtain a higher than average income return from a diversified and actively managed portfolio of equities.'** -1964 Annual Report

This objective is the same today.

Dividends

This year a total of 34.0p per share is proposed which is 78.9 times higher than the first dividend.

In contrast, the Retail Price Index has risen by 18.4 times over the same period.

Assets

£100 invested in Lowland in 1963 would be worth £15,384 at the end of September 2013, by comparison £100 invested in the FTSE All-Share Index (or the equivalent index at the time) over the same period would only be worth £3,316. These values exclude any dividends paid over the fifty years.

The Chairmen

Lowland has had seven Chairmen and four portfolio managers over its fifty year history:

Godfrey Chandler	October 1963 to December 1975
Raymond Cazalet	December 1975 to October 1993
Sir John Kemp-Welch	October 1993 to December 1997
John Morrell	December 1997 to December 1999
Ian Trotter	December 1999 to December 2004
John Hancox	December 2004 to January 2012
Peter Troughton	January 2012 to date

The Company has been fortunate over the fifty years of its existence to have had the involvement of the late Godfrey Chandler and Sir John Kemp-Welch who were there when it started. Godfrey died this summer and his regular advice and letters which continued into this year will be missed. He was instrumental in setting the tone for how the portfolio is run. He was sceptical of the current fashion and focused on income and value. This approach has served the Company well. Sir John Kemp-Welch's insights and support of the managers with his regular attendance at AGMs long after his retirement, has also been of huge benefit.

The Managers

Raymond Cazalet	1965 – 1968
Hugh Priestley	1968 – 1980
Richard Smith	1980 – 1990
James Henderson	1990 to present

Thoughts about Lowland

The Board asked three Managers and its longest serving Board Member about Lowland.

Sir John Kemp-Welch, a former Chairman
'The value of continuity – an unusual parallel'
For a hundred years after it opened in 1898, the Connaught Hotel was one of the very best small hotels in London. Its wine cellar was legendary, its food was excellent and of wide renown. How, you may ask, is there any connection between a hotel and an investment trust! May I offer an explanation. During those hundred years, the Connaught had just four head chefs, culminating in the peerless Michel Bourdin. Lowland, now fifty years old, has had only four portfolio managers, each of them as excellent as the Maitres de Cuisine at the Connaught. In both cases, this continuity enabled valuable experience to be gained, judgement to be enhanced, imaginative thinking to flourish and, above all, nerves to be held in a crisis. In both cases the proof of the pudding has been in the eating, and for Lowland the outstanding results achieved over its fifty years speak for themselves. It is also perhaps no coincidence that our present portfolio manager, himself a fine horseman, is well in the saddle after twenty-three years! Lowland continues to flourish and its success confirms the value of continuity, when combined with ability.

Hugh Priestley, Richard Smith and James Henderson the most recent managers take up the story from there.

Hugh Priestley who managed it from 1968 to 1980:
Godfrey Chandler was Chairman for most of my years running Lowland – a hard taskmaster if you had not done your homework, but at the same time enormously encouraging and kind, both at the time and for years afterwards. I was allowed pretty much a free rein; it was the time of Slater Walker and asset-stripping, and one of our broker contacts claimed to be privy to some of their plans, so the portfolio included companies such as Esperanza Trade and Transport and the Midland and East Anglia Investment Company. Overseas holdings were also permitted; at one time we bought four companies listed in Singapore, including the delightfully named Cycle & Carriage. A defining experience was the bear market of 1972-74, when the 30 Share Index (the only one we followed then) dropped from 540 to 280; every day the market opened some 2% lower, by the evening you got used to it, and next day it was down again. Having never seen the Index lower than 280 I made sure that Lowland was fully invested at that point, after which it fell all the way to 146, Mr John James predicting – at 240, 220, 200 and 180 – that it would fall further. In the end he was wrong, and the market went up so fast in early 1975 that most funds could not get back in. Fortunately we had remained fully invested and enjoyed the ride, taking up our rights on Commercial Union (1 for 2 at 60p) and buying W H Smith at 36p on Godfrey's advice, that being the value of Smith's head office with the rest of the business in for nothing. As a result of these experiences I am frequently, if not permanently, bullish as regards the equity market!

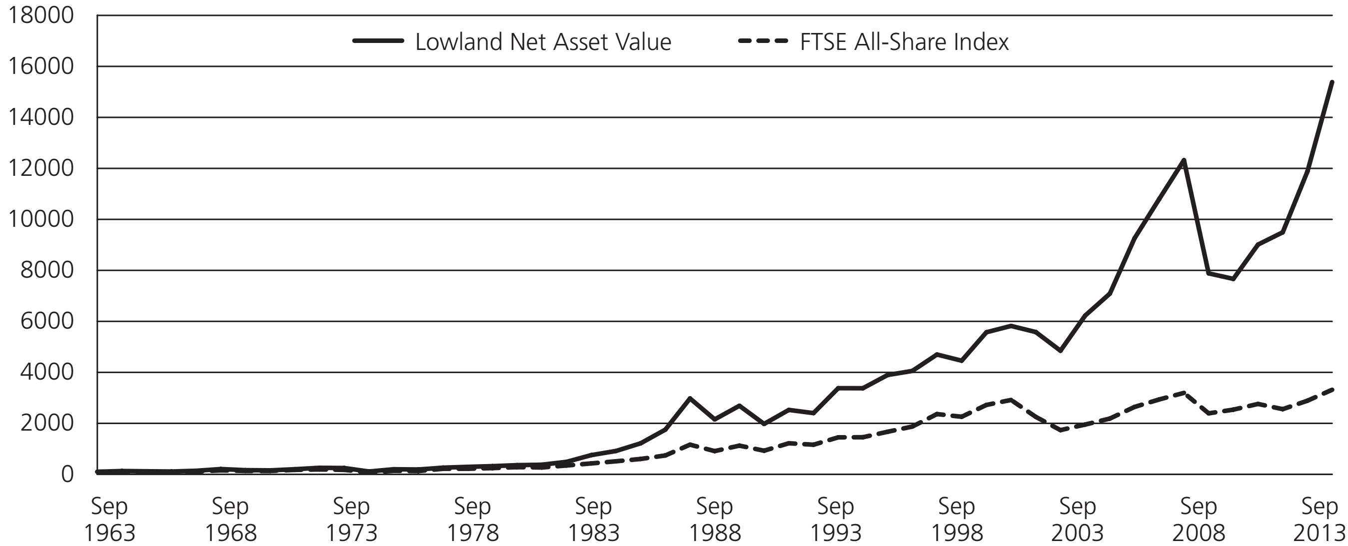
Richard Smith who managed the portfolio from 1980 to 1990:
The beginning of the eighties was a difficult time for higher yielding funds as the recession had hit profits hard and also dividends. There was one day when three companies announced cut dividends including the mighty Imperial Chemical Industries (ICI). This not only meant a lower or no dividend but also a sharp fall in the share prices of these companies. We had to move fast and look for dividends elsewhere as well as protecting shareholders' capital (Lowland did not reduce the dividend to shareholders during this period as the revenue reserve provided the cushion to do so). The recovering economy in the ensuing years meant higher yielding stocks reinstated their dividends and Lowland recovered strongly. The portfolio was also helped by the holding in Henderson Administration Ltd which rose sharply when it floated on the London Stock Exchange.

James Henderson, manager since 1990:
Towards the end of the eighties worries over the trade balance and money supply started to develop, and in 1987 the market underwent a sudden and severe correction, with the Lowland net asset value ('NAV') per share falling from £2.50 to £1.50 within the space of a few months. The following years were ones of buoyant economic activity, with reported profits and dividends from UK companies growing well ahead of inflation despite sharply rising interest rates. Lowland performed well in this environment with a heavy weighting in the capital goods sector, however left the decade worrying that:

> 'Sluggish growth in 1990 will restrain dividend increases as companies strive to conserve cash in a more difficult trading environment'. -1989 Annual Report

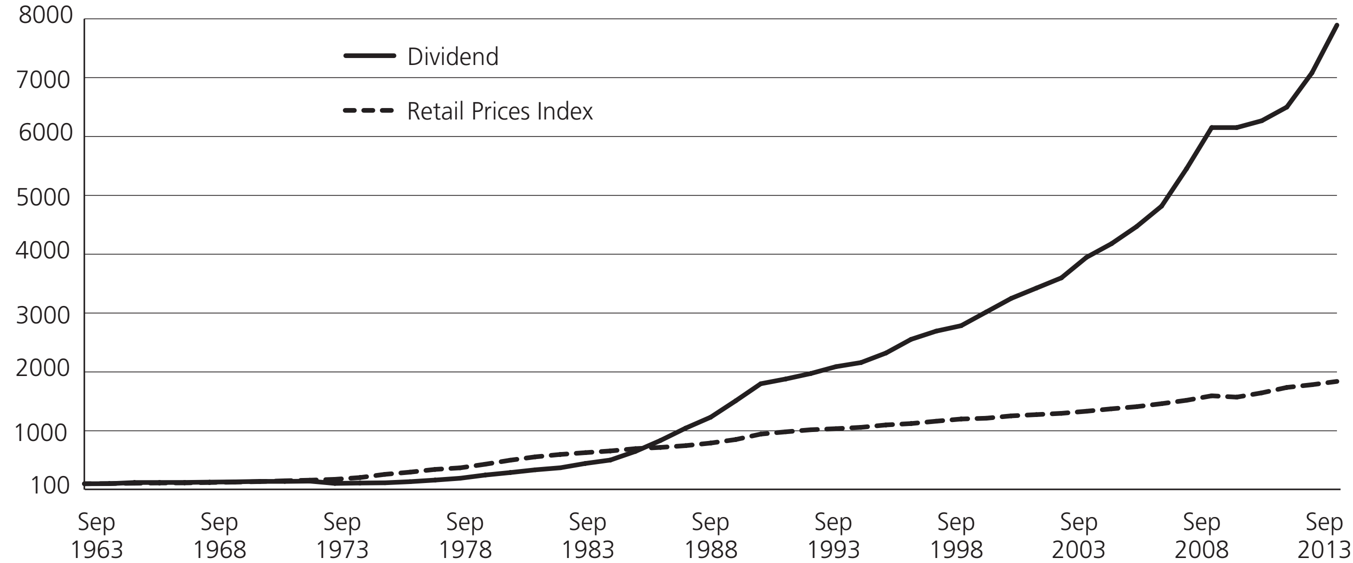
The start of the 1990's was not a good period for Lowland with interest rates moving up in an effort to keep sterling in the ERM. This pushed the UK economy into recession. Economically sensitive companies badly underperformed. Cheapness and dividend yield was no defence but on the day, in 1992, when the attempt to stay in the ERM was abandoned and Norman Lamont was singing in his bath, Lowland's fortunes rapidly improved. Interest rates were cut resulting in out of favour value stocks rapidly going up as the economy started to recover. The absolute and relative performance continued until the late 1990's when the technology bull market began to gain momentum. "Clicks not bricks" became the theme with many investors. Lowland with its income and value bias was left on the side lines severely underperforming the last years of the century. It took perseverance from the Board to stay with its disciplines but the patience was repaid when the technology bubble imploded. In the three years to 2003 the index fell 45% whilst Lowland's NAV was up 3%. The next few years were also good for Lowland as the portfolio benefitted from take-over activity financed by easy credit. However, the warning lights began to flash as borrowing levels in the wider economy rose leading Lowland to be de-geared during 2007. Unfortunately, after the stock market's initial fall in 2008 I started buying banks and building company shares in the belief that the worst was over. This proved a big mistake when Lehman's went bust in the autumn of 2008. Lowland suffered its worse quarter of underperformance in the final three months that year. The Board retained their nerve in this difficult period and further increased gearing in the first quarter of 2009, placing Lowland very well for the bull market that started in March 2009 and which continues as I write this…

Net Asset Value Performance since launch



Source: Henderson Global Investors Ltd.

Retail Prices Index and dividend growth over 50 years



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