Shires Income PLC

Looking for high-quality investments for a high, regular income

Performance Data and Analytics to 31 January 2024

Combination with abrdn Smaller Companies Income Trust plc

On 26th July 2023, the Board was pleased to announce that it had agreed terms with the board of abrdn Smaller Companies Income Trust (ASCI) for a combination of the assets of ASCI and Shires. The transaction to combine the two companies was completed on 1 December 2023.

Investment objective

The Company's investment objective is to provide shareholders with a high level of income, together with the potential for growth of both income and capital from a diversified portfolio substantially invested in UK equities but also in preference shares, convertibles and other fixed income securities.

Benchmark

FTSE All-Share Index total return.

Cumulative performance (%)

	as at 31/01/24	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	218.5p	(1.9)	0.7	(2.1)	(9.3)	9.7	13.4
NAV[A]	244.7p	(1.6)	6.6	(1.3)	(2.1)	13.7	27.7
FTSE All-Share		(1.3)	6.2	1.1	1.9	27.5	30.4

Discrete performance (%)

	31/01/24	31/01/23	31/01/22	31/01/21	31/01/20
Share Price	(9.3)	0.6	20.3	(11.4)	16.7
NAV[A]	(2.1)	0.0	16.2	(5.5)	19.0
FTSE All-Share	1.9	5.2	18.9	(7.5)	10.7

Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis.
Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at fair value.
Source: abrdn Investments Limited, Lipper and Morningstar.
Past performance is not a guide to future results.

[A] Including current year revenue.

Morningstar Rating™

★

[B] Morningstar Rating™ for Funds
Morningstar rates funds from one to five stars based on how well they've performed (after adjusting for risk and accounting for all sales charges) in comparison to similar funds.

Morningstar Sustainability Rating™

Ten largest equity holdings (%)

AstraZeneca	4.4
Shell	3.6
Morgan Sindall	2.9
HSBC	2.7
BP	2.5
Rio Tinto	2.4
Energean	2.4
Intermediate Capital	2.3
Hollywood Bowl	2.1
4imprint	2.0
Total	**27.3**

Fixed income holdings (%)

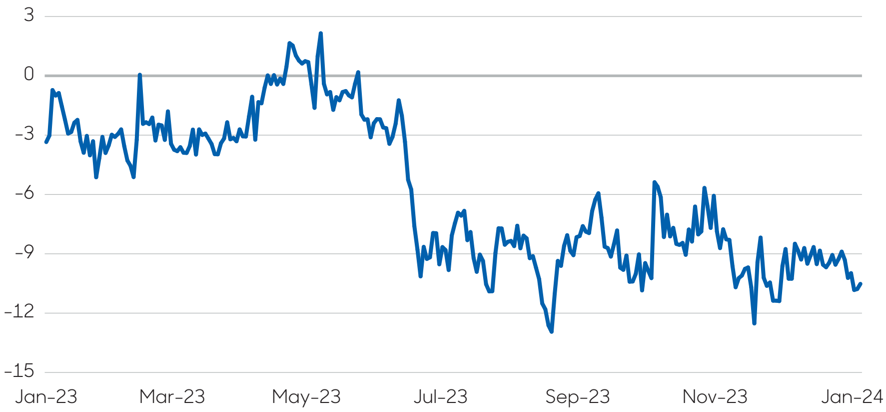
Ecclesiastical Insurance 8.875%	4.9
Royal & Sun Alliance 7.375%	4.2
Santander 10.375%	3.5
General Accident 7.875%	3.4
Standard Chartered 8.25%	2.6
Lloyds Bank 11.75%	0.8
Rea Holdings 9%	0.7
Standard Chartered 7.375%	0.2
Total	**20.3**

Total number of investments 67

All sources (unless indicated): abrdn: 31 January 2024.

Shires Income PLC

1 Year Premium/Discount Chart (%)



Fund managers' report

Market commentary

Central banks' dovish statements led to weaker bond markets in January. While major central banks kept rates unchanged, investors sold government debt, although investment-grade corporate bonds performed slightly better. The European Central Bank held rates unchanged at its January meeting, leaving its main refinancing operations rate at a record high of 4.5%. President Lagarde suggested that rate cuts may take longer to come, as she flagged geopolitical issues in the Suez Canal as a risk. According to a preliminary estimate, annual consumer price inflation came in at 2.8% in January, down from 2.9% in December. Annual core inflation eased from 3.4% to 3.3% but was higher than expected. At the end of the month, the Fed also chose to keep rates unchanged, but Chair Jerome Powell pushed back on speculation from investors that rates might be cut in March. The annual Personal Consumption Expenditures Price Index remained at 2.6% in December, as expected, with the core measure declining to a lower-than-expected 2.9% from 3.2% in November. Meanwhile, the International Monetary Fund upgraded its economic outlook for the US and China.

Commodities rose in aggregate in January. Oil traded higher with Brent crude finishing above $80 per barrel, supported by a sharp decline in US crude inventories and ongoing Middle East tensions. However, natural gas prices fell due to ample supplies. Gold also declined slightly in the month, as investors foresaw interest rates staying higher for longer.

Most equity markets rose in January, but investors were nervous as central banks suggested rate cuts may come later than expected and continuing disruption in the Suez Canal threatened global trade. Nevertheless, the MSCI World Index returned 1.22% in January (total return in US dollars). In the US, the S&P 500 Index hit a fresh all-time high during the month and the more technology-oriented NASDAQ Composite Index rose over the month but weakened towards the end of it as technology and communication shares fell back due to disappointing results from some of the largest companies including Alphabet and Microsoft. Japan was one of the strongest markets, as optimism over artificial intelligence helped to boost companies in the semiconductor sector. Market positivity was also felt in Europe, albeit alongside a weaker euro. Most European indices rose, including France, Italy, Germany and Switzerland, although Spain was roughly flat. On the downside, UK indices fell, with the mid-cap FTSE 250 Index lagging the blue-chip FTSE 100 Index, partially reversing trends seen at the end of 2023. Emerging markets also fell as economic concerns markedly weighed on Chinese stocks. Latin America and the Asia Pacific ex Japan region fell, although India rose.

Fund managers' report continues overleaf

[C] Expressed as a percentage of average daily net assets for the year ended 31 March 2023. The Ongoing Charges Figure (OCF) is the overall cost shown as a percentage of the value of the assets of the Company. It is made up of the Annual Management Fee and other charges. It does not include any costs associated with buying shares in the Company or the cost of buying and selling stocks within the Company. The OCF can help you compare the annual operating expenses of different Companies.
[D] Calculated using the Company's historic net dividends and month end share price.
[E] The 'Active Share' percentage is a measure used to describe what proportion of the Company's holdings differ from the benchmark index holdings.
[F] Expressed as a percentage of total equities held divided by shareholders' funds.
[G] Net gearing is defined as a percentage, with net debt (total debt less cash/cash equivalents) divided by shareholders' funds.

Sector allocation (%)

Financials	37.6
Energy	14.2
Industrials	9.0
Health Care	7.7
Utilities	6.8
Consumer Discretionary	6.3
Consumer Staples	4.4
Basic Materials	4.4
Telecommunications	3.7
Technology	3.3
Real Estate	2.6
Total	**100.0**

Key information Calendar

Year end	31 March
Accounts published	June
Annual General Meeting	July
Dividend paid	January, April, July, October
Established	1929
Fund manager	Iain Pyle
Ongoing charges[C]	1.17%
Annual management fee	0.45% up to £100m and 0.4% over £100m on net assets and long term borrowings
Premium/(Discount)	(10.7)%
Yield[D]	6.5%
Active share[E]	67.4%

Gearing (%)

Equities[F]	5.8
Total net[G]	17.7

AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

Shires Income PLC

Fund managers' report - continued

Performance

In January the portfolio fell by 1.1%, outperforming the FTSE All-Share that fell by 1.3%. While allocation detracted 30bp, this was more than made up by positive stock selection in the month, adding 0.5%. Gearing and costs meant the overall NAV of the trust declined by 1.6% in the month.

On an individual stock basis, we continued to see strong performance from some recently acquired UK mid-cap names. 4Imprint (+20%), Hunting (+11%) and Bytes (+7%) delivered reassuring updates and saw their shares respond positively despite a trend for weaker mid-cap performance in the month. Preference shares also generally held up well despite a moderation in expectations for the pace of interest rate cuts in 2024. Most notably, REA announced an asset disposal program which helps to secure the balance sheet and reassure on payment of preference share dividends. The preference shares increased by 19% in the month in response.

Weaker performance in the month was concentrated in two stocks, Diversified Energy (-18%) and Close Brothers (-31%). These detracted 0.75% from performance. Diversified suffered from concerns around the company's cashflow situation and speculation they could cut the dividend. We see concerns as overdone, although a much lower than anticipated US gas price has harmed cash generation despite the company's extensive commodity price hedging program. In our view a dividend cut is well priced in, and the company has options to create shareholder value, so we continue to hold the position. Close Brothers suffered from the announcement of an FCA probe into historical motor finance loans in the UK. With a September expected date for any update from the FCA there is now an overhang on the stock and a not inconsiderable likelihood that any censure could result in a weaker capital position for the bank and a dividend cut. We have reduced our position accordingly, although shares have reacted very quickly to reflect a negative outcome.

Trading

The main aim of trading this month has been to gently enhance the income generation of the portfolio following the ASCIT merger. With that in mind we trimmed some lower yielding positions that had performed well, including Greggs. We sold out of two positions in the month. Firstly, Howden Joinery which had done very well in the second half of 2023 and looked more fully valued – it remains a great company and one we would happily revisit. Secondly, we exited Direct Line, which has recovered but has limited visibility on income.

We made some small top ups to large cap names with income in Astra Zeneca and HSBC and added to Hunting following a positive meeting with the management team and to Enel given the high yield. We started one new position in Lloyds 11.75% preference shares. These help to secure the differentiated exposure to preference shares and provide long term, reliable, income with the yield on purchase price at around 7.5% very attractive.

Outlook

One standout from the 2023 earnings season so far has been the encouraging performance of a number of UK mid-cap names that have been recent additions to the portfolio. At the end of last year we added Bytes, 4Imprint, Hunting, Greggs and Hollywood Bowl, bulking up our exposure to UK mid-cap names given the lowly valuation of that index and the growth potential on offer. All names offered good quality and track records of strong growth, with the exception of Hunting which has been much more cyclical due to its exposure to energy end markets.

The results season really highlighted the strength of these smaller companies, with each beating expectations and demonstrating an ability to deliver market share gains and earnings growth in a way that is hard to find at the larger cap end of the market. Quality is something that is almost always reflected in stock prices, but the lack of coverage and investor engagement in the UK at the moment means we can find companies here where there is still a gap to exploit and where improvements are not yet reflected in valuation.

Hunting is a great example of this. Over the last decade the share price has been driven by activity levels in the US onshore oil & gas market, for both good and ill. The company has prioritised diversifying its business, both into international energy markets but also into adjacent sectors, with exposure to healthcare and clean energy growing in the portfolio. The current strong outlook for international energy projects means visibility on growth is now much better for the company, allowing for longer term targets and expected margin expansion. The shares have started this year strongly, but we see more to come and continue to look for more mid-cap companies that can deliver capital and income growth.

The risk outlined overleaf relating to gearing is particularly relevant to this trust, but should be read in conjunction with all warnings and comments given. Important information overleaf

Assets/Debt

	£'000	%
Equities (inc. Cnv's)	95,229	94.2
Fixed Income	24,381	24.1
Total investments	119,610	118.3
Cash & cash equivalents	1,015	0.9
Other net assets	(532)	(0.5)
Debt	(18,961)	(18.7)
Net Assets	**101,132**	**100.0**

Capital structure

Ordinary shares	41,487,506
3.5% Cumulative Preference shares	50,000

Allocation of management fees and finance costs

Capital	50%
Revenue	50%

Trading details

Reuters/Epic/ Bloomberg code	SHRS
ISIN code	GB0008052507
Sedol code	0805250
Stockbrokers	J.P. Morgan Cazenove
Market makers	CFEP, JPMS,NITE, WINS, INV

Factsheet

Receive the factsheet by email as soon as it is available by registering at www.abrdn.com/trustupdates www.shiresincome.co.uk

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Important information

Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Certain trusts may seek to invest in higher yielding securities such as bonds, which are subject to credit risk, market price risk and interest rate risk. Unlike income from a single bond, the level of income from an investment trust is not fixed and may fluctuate.
- With funds investing in bonds there is a risk that interest rate fluctuations could affect the capital value of investments. Where long term interest rates rise, the capital value of shares is likely to fall, and vice versa. In addition to the interest rate risk, bond investments are also exposed to credit risk reflecting the ability of the borrower (i.e. bond issuer) to meet its obligations (i.e. pay the interest on a bond and return the capital on the redemption date). The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on funds that invest in such bonds.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

Other important information:

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