# Shires Income PLC

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

Performance Data and Analytics to 31 August 2022

## 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 31/08/22 | 1 month | 3 months | 6 months | 1 year | 3 years | 5 years |
|---|---|---|---|---|---|---|---|
| Share Price | 259.5p | (1.5) | (6.6) | 4.9 | (1.5) | 16.7 | 24.6 |
| NAV[A] | 260.3p | (0.2) | (3.8) | (0.9) | (4.8) | 16.0 | 18.9 |
| FTSE All-Share | | (1.7) | (3.6) | (1.3) | 1.0 | 12.0 | 17.8 |

## Discrete performance (%)

| | 31/08/22 | 31/08/21 | 31/08/20 | 31/08/19 | 31/08/18 |
|---|---|---|---|---|---|
| Share Price | (1.5) | 37.3 | (13.8) | 7.1 | (0.3) |
| NAV[A] | (4.8) | 30.7 | (6.7) | 0.6 | 1.9 |
| FTSE All-Share | 1.0 | 26.9 | (12.6) | 0.4 | 4.7 |

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: Aberdeen Asset Managers Limited, Lipper and Morningstar.
**Past performance is not a guide to future results.**

### 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 (%)

| | |
|---|---|
| abrdn Smaller Companies Income | 7.9 |
| AstraZeneca | 4.5 |
| Shell | 3.9 |
| Diversified Energy | 3.2 |
| BP | 2.8 |
| Diageo | 2.7 |
| British American Tobacco | 2.6 |
| SSE | 2.4 |
| TotalEnergies | 2.3 |
| Standard Chartered | 2.3 |
| **Total** | **34.6** |

### Fixed income holdings (%)

| | |
|---|---|
| Ecclesiastical Insurance 8.875% | 5.6 |
| Royal & Sun Alliance 7.375% | 4.9 |
| General Accident 7.875% | 4.1 |
| Santander 10.375% | 4.1 |
| Standard Chartered 8.25% | 3.3 |
| Rea Holdings 9% | 0.9 |
| **Total** | **22.9** |

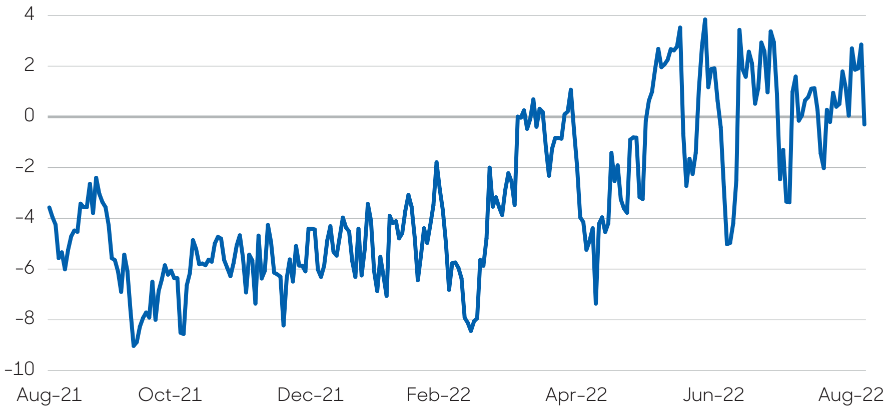
### Total number of investments 63

[A] Including current year revenue.
[B]  The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to: http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf The Morningstar Analyst Rating for Funds is a forward-looking analysis of a fund. Morningstar has identified five key areas crucial to predicting the future success of a fund: People, Parent, Process, Performance, and Price. The pillars are used in determining the Morningstar Analyst Rating for a fund. Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken over the long term. Neutral represents funds in which our analysts don't have a strong positive or negative conviction over the long term and Negative represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance over the long term. Long term is defined as a full market cycle or at least five years. Past performance of a security may or may not be sustained in future and is no indication of future performance. For detailed information about the Morningstar Analyst Rating for Funds, please visit http://global.morningstar.com/ managerdisclosures.

All sources (unless indicated): abrdn: 31 August 2022.

# Shires Income PLC

## 1 Year Premium/Discount Chart (%)




## Fund managers' report

### Market commentary

August's economic backdrop was dominated by rising bond yields as central bank messaging turned more hawkish again. The Bank of England (BoE) was the only major central bank to meet in August and a 0.5% rate hike was the largest in 27 years, bringing the base rate to 1.75%. The UK's consumer price index rose 10.1% year on year in July, slightly above economists' estimates, driven by rising food prices. The BoE estimates rising fuel prices could push annual inflation above 13% in October, triggering a recession which in their view could last until the end of 2023. US Federal Reserve chairman Jay Powell increased bond investors' fears at his well watched address at Jackson Hole. Despite a lower than expected US CPI print earlier in the month, the Fed chair was markedly hawkish, committing to control inflation even if the labour market weakens, while acknowledging that rate hikes could bring pain for households and businesses. The US employment picture has been mixed, with weekly initial jobless claims rising then falling during the month. In Europe, sovereign bond yields moved sharply higher in anticipation of rate hikes – perhaps as much as 0.75% – from the European Central Bank in September. High energy and food costs pushed Eurozone annual inflation to a record 9.1% in August, according to a flash estimate. While corporate bonds and emerging market sovereign bonds also fell over the period, riskier bonds generally outperformed. Commodity prices dropped back over the period. Precious and industrial metals weakened slightly, while agricultural commodities rose. However, energy prices showed some of the biggest moves. Oil fell sharply, with West Texas Intermediate dropping more than 10% to close the month below US$90 per barrel. European natural gas prices rose sharply, with Russia again halting supplies through the Nord Stream 1 pipeline at the end of the month. Energy and utilities stocks notably struggled. The UK announced its domestic energy price cap would rise by 80% in October.

Equities initially rose, then dropped back, in August, during a continued volatile period for stock markets. Selling was again motivated by high inflation figures

**Fund managers' report continues overleaf**

[C] Expressed as a percentage of average daily net assets for the year ended 31 March 2022. 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 | 39.5 |
| Energy | 13.9 |
| Consumer Staples | 9.7 |
| Industrials | 7.6 |
| Consumer Discretionary | 7.1 |
| Health Care | 5.8 |
| Utilities | 4.4 |
| Telecommunications | 4.1 |
| Basic Materials | 3.6 |
| Real Estate | 3.3 |
| Technology | 1.0 |
| **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] | 1.14% |
| Annual management fee | 0.45% up to £100m and 0.4% over £100m on net assets and long term borrowings |
| Premium/(Discount) | (0.3)% |
| Yield[D] | 5.3% |
| Active share[E] | 86.8% |

### Gearing (%)

| | |
|---|---|
| Equities[F] | (6.2) |
| Total net[G] | 22.3 |

### AIFMD Leverage Limits

| | |
|---|---|
| Gross Notional | 2.5x |
| Commitment | 2x |

# Shires Income PLC

## Fund managers' report – continued

and fears over central banks' intentions. There were falls in European, US and UK shares; however, emerging market stocks and Japanese indices rose. The MSCI World Index returned -4.14% in August (total return in US dollars). European stocks underperformed the global average, given growing fears about a potential recession. Southern European markets, including Spain and Italy, held up better than Germany, France and Switzerland. The UK market also dropped, with the blue-chip FTSE 100 Index faring better than the mid and small-cap FTSE 250 Index.

### Performance

The net asset value of Shires Income fell by 0.2% in August, outperforming the benchmark FTSE All-share index which declined by 1.7%. The portfolio benefitted from strong performance from its energy and financials positions and the preference shares were also a positive relative contributor.

On an individual stock basis, the largest positive contributor was our position in Diversified Energy, which increased in value by 7% after the company announced positive results. Other energy holdings also performed well including TOTAL (+5%). Energean (+12%) performed particularly well after reporting positive progress on its main gas project and revising up its expected gas sales price due to inflation linkage embedded in the contracts. Another notable performer was Balfour Beatty which reported very strong results, with positive sales from its investment division and continued growth in order book.

### Trading

There was no trading in the portfolio during August. The period ahead of company reporting and meeting management teams in September means there were limited catalysts for trading and we continue to believe in the strength of portfolio positions to deliver income.

### Outlook

After a brief rally in July, August brought a rude awakening for those expecting central banks to pivot on their policy of rising rates to combat inflation. This has never been our view – higher rates are clearly needed to control inflationary pressures and to address imbalances in the market. That is not to say that rate expectations are not now reasonable, but spot rates still have a way to go to get to a level that would be effective. Until we do see rates reach that equilibrium level and inflation sustainably lower it is likely that equities remain under pressure, especially as valuations are still at a premium to historic levels, even before estimates reflect potential downgrades.

While that may sound like a bearish outlook, we are starting to see buying opportunities in the market for those with a more long term view. The UK market overall is at a material discount to other developed markets, and delivers a yield premium, so looks attractive. More cyclical sectors, especially those that are predominantly domestic, have sold off sharply as Sterling has fallen, and many quality international companies listed in the UK are much more attractively valued than 6 months ago. In our view it is time to look closely at companies and find those that will be resilient in the short term and come out of any recession stronger. In many cases, valuations now imply a negative outcome for companies so the balance of risk and reward is just starting to be skewed to the upside.

**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) | 75,645 | 93.8 |
| Fixed Income | 22,825 | 28.3 |
| Total investments | 98,470 | 122.1 |
| Cash & cash equivalents | 989 | 1.2 |
| Other net assets | 135 | 0.2 |
| Debt | (18,944) | (23.5) |
| **Net Assets** | **80,650** | **100.0** |

### Capital structure

| | |
|---|---|
| Ordinary shares | 30,964,580 |
| 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.invtrusts.co.uk/#signup
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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