Shires Income PLC

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

Performance Data and Analytics to 31 October 2023

Proposed combination with abrdn Smaller Companies Income Trust plc

On 26th July 2023, the Board was pleased to announce that it has agreed terms with the board of abrdn Smaller Companies Income Trust (ASCI) for a combination of the assets of ASCI and Shires. Both investment trusts, which are managed by abrdn, have UK equity income as a key part of their investment objectives, including exposure to UK smaller companies.

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 31/10/23	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	220.0p	(4.8)	(2.8)	(10.6)	(2.0)	29.9	17.0
NAV[A]	232.5p	(7.5)	(7.4)	(8.5)	2.2	23.7	19.9
FTSE All-Share		(4.1)	(4.8)	(5.9)	5.9	39.4	21.1

Discrete performance (%)

	31/10/23	31/10/22	31/10/21	31/10/20	31/10/19
Share Price	(2.0)	(2.2)	35.5	(22.4)	16.1
NAV[A]	2.2	(9.5)	33.8	(13.2)	11.5
FTSE All-Share	5.9	(2.8)	35.4	(18.6)	6.8

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.
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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 Trust	7.8
Shell	5.0
AstraZeneca	4.2
BP	3.5
Diversified Energy	3.0
Diageo	2.6
Anglo American	2.4
TotalEnergies	2.3
SSE	2.3
National Grid	2.2
Total	**35.3**

Fixed income holdings (%)

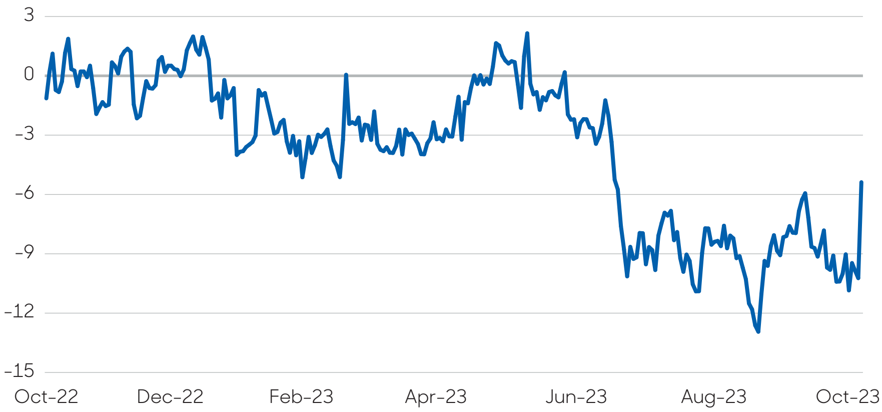
Ecclesiastical Insurance 8.875%	5.7
Royal & Sun Alliance 7.375%	5.1
General Accident 7.875%	4.3
Santander 10.375%	4.1
Standard Chartered 8.25%	3.3
Rea Holdings 9%	0.6
Total	**23.1**

Total number of investments 61

All sources (unless indicated): abrdn: 31 October 2023.

Shires Income PLC

1 Year Premium/Discount Chart (%)



Sector allocation (%)

Financials	44.7
Energy	15.5
Health Care	7.4
Industrials	7.2
Utilities	6.6
Consumer Staples	5.5
Basic Materials	4.0
Consumer Discretionary	3.8
Real Estate	2.5
Telecommunications	1.5
Technology	1.3
Total	**100.0**

Fund managers' report

Market Commentary

The last month marked a pause in the interest rate hike cycle, as first the European Central Bank kept interest rates unchanged in October, the first meeting in ten without a hike. While President Christine Lagarde noted a weak economy, inflationary pressures remain, and she indicated there may be more hikes in the coming meetings. Data from Eurostat showed the eurozone economy shrank by 0.1% in the third quarter, below expectations. GDP grew in France, Spain and Germany, and was flat in Italy, but contracted in Austria, Portugal, Ireland and the Balkan states. Annual inflation in the eurozone came in at a lower-than-expected 2.9% in October (according to a preliminary estimate), the lowest reading in over two years. The yield on 10-year German Bunds fell slightly in October, meaning prices rose, although corporate bonds sold off.

The US Federal Reserve announced at the start of November that it would keep rates unchanged. The Core Personal Consumption Expenditures Price Index rose by 3.7% in September, slightly down from the previous month but still above the bank's target. US economic data has generally been resilient, with GDP expanding by an annualised 4.9% in the third quarter. Labour costs accelerated in the same period. The Bank of England is also expected to leave rates unchanged when its Monetary Policy Committee meets in early November. The UK's Consumer Price Index remained unchanged at 6.7% in September, due to the recent rise in petrol prices. However, purchasing managers' index data indicates that the UK's manufacturing sector remains in stagnation. US Treasuries and Gilts both fell in October, with further falls in global corporate bonds.

Markets fell in October amid a gloomy economic outlook. Investors are concerned about the outlook for interest rates, Israel's war with Hamas and slowing economic conditions. The US was one of the better markets over the period, falling by less than the global average. The technology-oriented NASDAQ Composite Index underperformed the S&P 500 Index. Company earnings in the month showed a mixed picture. In the technology sector, annual revenues rose at Amazon, while Microsoft performed well. However, investors were less impressed by the outlook for Alphabet, Meta and Tesla.

European indices fell over the month; the Netherlands and Italy performed relatively well, while France, Germany, Spain and Switzerland lagged. The war in the Middle East, which could cause disruption, particularly to energy supplies, has been a concern for investors in the region. UK companies also struggled, as oil stocks drove

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.

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)	(5.4)%
Yield[D]	6.5%
Active share[E]	69.1%

Gearing (%)

Equities[F]	(3.3)
Total net[G]	25.9

AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

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Fund managers' report - continued

the index lower. Emerging-market indices also declined, with falls in China, India and Latin America. In aggregate, commodities fell back over the month, although natural gas prices rose sharply. Brent crude initially rose over $90 per barrel after Hamas militants attacked Israel. However, oil prices then fell back as traders judged that the conflict was unlikely to affect the wider region. Precious metals finished the month higher in a flight to safety.

Performance

After a few months of good performance, the portfolio fell in value by 5.4% compared to the benchmark's -4.1%. The underperformance was driven by a number of stock specific factors, not helped by underperformance of UK mid-caps with the market in risk-off mood.

The Aberdeen Smaller Companies Income Trust fell by 9.3% in the month, detracting 0.5% from performance. This is not surprising and reflects a broad widening of discounts in the UK investment trust sector. We also saw continued weakness in Diversified Energy (-17%), although we continue to see the business as very defensively set up given its hedge positions, making the 20%+ dividend yield highly attractive. Also in the energy sector, Energean was weak (-25%), reflecting the increased risk premium for companies with assets in Israel. This is a rational reaction, although we see the companies offshore gas field in Israeli waters as well protected and with fairly comprehensive insurance to protect the company in a worst-case scenario. Finally, XP Power was notably weak (-55%) following an unexpected trading update where they announced that orders from key clients were slower than expected, putting the balance sheet at risk and resulting in a cut of the dividend. This came as a surprise given a confident update from the company as recently as August. With no income we chose to move on promptly and sold out of the position.

Trading

At the start of October, we added to liquid income names, looking to add defensive, higher yield exposure. Top ups included Balfour Beatty, Enel and National Grid. To fund we trimmed some more cyclical names with lower yields such as Howden Joinery and Oxford Instruments. We also sold out of positions in XP Power following its profit warning and Marshalls, where we see cyclical pressures, although we continue to like the company long term and will keep an eye on it.

We started one new position in the month, in healthcare property owner Assura. The company has an 8% dividend yield, a strong track record of dividend growth and defensive underlying assets which are still delivering modest rental increases. As bond yields approach their highs, we see headwinds fading for the stock and expect it to be a resilient source of income growth over the long term. The purchase was funded with trims to Axa and Melrose, both of which have performed well and have no more dividend payments in our financial year.

Outlook

Recent trading for the trust has shown a clear preference for defensive exposure. This is no accident – we continue to see a recession in 2024 as the most likely scenario. It feels we have been waiting a downturn for some time, but the lagged impact of interest rate rises, nominal wage growth, a tight labour market and stored up pandemic cash savings have kept everything moving up for a while. That is not unusual – typically recessions come a year after the famed yield-curve inversion signal, and we are only just getting to that point. Some other datapoints, such as unemployment, job formation and consumer spending are already starting to decline.

Of course, things could be better than expected and recession avoided in a "goldilocks" scenario. That probably relies on interest rates being cut early, however, at the risk of unleashing a further wave of inflation which is not yet tamed. This is what makes a stock like Assura interesting right now. In a recession, its resilient cashflows from defensive healthcare exposure mean it will perform well. In a rate cut environment, it's negative correlation to bond yields (one of the strongest in the market) means it will also do well. So, unless you believe we can have economic growth and rising interest rates forever, that is an attractive setup. Combined with a high single digit yield, it shows there is still plenty of opportunities in UK equities.

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)	67,891	96.7
Fixed Income	20,541	29.3
Total investments	88,432	126.0
Cash & cash equivalents	815	1.2
Other net assets	(113)	(0.2)
Debt	(18,958)	(27.0)
Net Assets	**70,176**	**100.0**

Capital structure

Ordinary shares	30,393,157
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
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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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