Shires Income PLC

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

Performance Data and Analytics to 31 March 2024

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 31/03/24	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	222.0p	4.7	(0.4)	(2.6)	(5.6)	5.6	9.2
NAV[A]	256.5p	5.0	3.2	3.4	4.8	14.7	26.0
FTSE All-Share		4.8	3.6	6.9	8.4	26.1	30.3

Discrete performance (%)

	31/03/24	31/03/23	31/03/22	31/03/21	31/03/20
Share Price	(5.6)	(5.5)	18.4	31.2	(21.2)
NAV[A]	4.8	(1.7)	11.4	34.0	(18.0)
FTSE All-Share	8.4	2.9	13.0	26.7	(18.5)

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.

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	3.8
Morgan Sindall	2.9
Energean	2.7
BP	2.7
Intermediate Capital	2.6
HSBC	2.6
Inchcape	2.4
Rio Tinto	2.1
4imprint	2.1
Total	**28.3**

Fixed income holdings (%)

Ecclesiastical Insurance 8.875%	4.7
Royal & Sun Alliance 7.375%	4.0
Santander 10.375%	3.4
General Accident 7.875%	3.3
Standard Chartered 8.25%	2.6
Lloyds Bank 11.75%	0.8
Rea Holdings 9%	0.6
Standard Chartered 7.375%	0.2
Total	**19.6**

Total number of investments 64

[A] Including current year revenue.
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All sources (unless indicated): abrdn: 31 March 2024.

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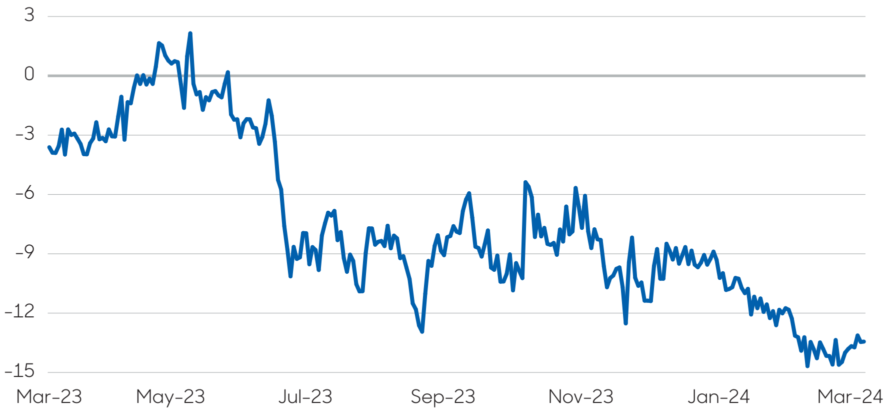
1 Year Premium/Discount Chart (%)



Sector allocation (%)

Financials	38.4
Energy	14.7
Industrials	9.7
Health Care	8.4
Utilities	6.7
Consumer Discretionary	6.1
Basic Materials	4.1
Telecommunications	3.9
Real Estate	2.8
Technology	2.8
Consumer Staples	2.4
Total	**100.0**

Fund managers' report

Market Commentary

The most notable macro event in March was the decision by the Bank of Japan to raise interest rates, its first hike in 17 years. Declaring its goal of 2% inflation as 'within sight', the bank raised its policy rate from -0.1% to between 0% and 0.1%. The central bank also ended its yield-curve control policy, which had sought to control long-term bond yields. Elsewhere, central banks mostly held rates. Early in the month, the European Central Bank kept its main policy rates unchanged. The bank's inflation report projected prices rising by 2.3% in 2024, down from 2.7%, and economic growth coming in slightly lower than previously forecast. The US Federal Reserve (Fed) kept the target range for the fed funds rate unchanged in March. Consumer Price Inflation (CPI) came in at an annual rate of 3.2% in February, slightly above January's reading of 3.1%, with core inflation also slightly above analysts' forecasts. While Fed Chair Jerome Powell's rhetoric was cautious, the latest 'dot plot' data showed that most of the Fed's policymakers still believe three rate cuts of 0.25% are appropriate in 2024. Labour market projections were also optimistic, suggesting a lower unemployment rate than previously forecast. Overall, though, the path of rate cuts is shifting further right given continued strong US economic data. The Bank of England kept rates unchanged, as February's CPI release recorded an annual rate of 3.4%, down from 4.0% in January. Government and corporate bond prices largely rose in the month, with riskier credit outperforming higher-rated issues.

Commodities rose in aggregate in March. Gold and other precious metals gained in the month – the commodities seem to be appealing for a number of reasons: valuations would benefit from lower rates, yet they also act as a hedge if inflation remains more persistent and as a store of value in an uncertain economic outlook. Gold hit a fresh all-time high, closing the month above $2,200 per troy ounce. Ongoing instability in the Middle East led to higher oil prices, although natural gas prices fell due to weaker demand, particularly from the US.

March was a strong month for stocks, with good returns from most major global markets and several indices hit fresh all-time highs. Regionally, Europe was one of the strongest markets in March. Mediterranean markets, including Spain and Italy, performed well, with good consumer and business sentiment data. Germany, France and Switzerland also rose but to a lesser degree. The UK was strong, as the blue-chip FTSE 100 Index narrowly outperformed the mid-cap FTSE 250 Index. Higher commodity prices and good economic news from China helped London-listed miners. In the US, March was the fifth consecutive month of share-price rises, with a fresh all-time high for the S&P 500 Index. While investors continued to buy chipmakers and companies involved in artificial intelligence, the broad index outperformed the technology-orientated NASDAQ

Fund managers' report continues overleaf

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)	(13.5)%
Yield[D]	6.4%
Active share[E]	72.0%

Gearing (%)

Equities[F]	(7.4)
Net cash/(gearing)[G]	(16.5)

AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

[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.

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Fund managers' report - continued

Composite Index as equity returns broadened. Pacific markets rose, particularly in Japan. In emerging markets, Asian stocks performed well, underpinned by strong retail sales and industrial production data from China. India and Latin American stocks rose, although Brazil was one of the few markets to fall in March.

Performance

The Trust delivered a strong return in March, with NAV growing by 5%, ahead of the FTSE All-Share benchmark which returned 4.8%. Given the more defensive nature of the Trust, keeping up with such strongly rising markets should be seen positively. After a period of widening, the discount of share price to NAV was more stable, with share price rising 4.7%, although the discount remains at a very high level compared to history.

A positive reporting season for banks combined with a reduced expectation for rate cuts in 2024 helped the sector perform well. In the portfolio, NatWest (+16%), ING (+20%) and Close Brothers (+20%) all delivered positive returns. Energy companies also performed well as improving demand and increased geopolitical tension pushed oil prices up after a soft start to the year, with Energean (+10%), TOTAL (+9%), Shell (+7%) beneficiaries. Mined commodities also responded to the higher inflation outlook, with prices of iron ore, copper and other minerals rising. Anglo American (+17%) continued to recover after a disappointing end to 2023. The portfolio also benefitted from an underweight position in consumer staples, a sector we see as fully valued and relatively unattractive form an income perspective.

In a positive month there were relatively few sources of underperformance, Marshalls issued relatively cautious guidance for 2024, with shares falling 12%, and although we see this as a long term play on recovery of UK housing and construction activity we sold the position given there is limited visibility on recovery in the near term and the yield is low compared to other positions. Bytes Technology was also weak (-8%) following the departure of a well-regarded CEO. The long-term demand outlook for the company's software services remains attractive and we continue to see it as well positioned, with an experienced internal candidate stepping up to run the business.

Trading

In response to the wide discount on the trust's shares we entered a further buyback program. This was funded by the sale of Marshalls, as mentioned above, and by a small trim of our holding in Novo Nordisk, which continues to perform well. We also made a modest top up of Inchcape given a dip post results. That move seemed overdone in our view, so we chose to maintain the weight. With a 5.5% yield, the company is attractive for income, and it remains very cash generative with ability to do accretive bolt-ons. The pending sale of the UK retail business allows the company to focus on the higher quality distribution business and allows for a buyback in 2H 2024 which adds to the distribution from dividends.

Outlook

As I look out to the rest of 2024, one thing that strikes me is that time horizon matters more than usual now. The market remains driven by the path for economic data, inflation and, in particular, interest rates. While consensus at the start of the year (or even in March) was that we would see a rapid rate cutting cycle in the second half of the year as inflation moderates, that has been challenged in the last month. A rise in commodity prices and continued strong economic data in the US means that the path to cuts is less clear and we see fewer and later cuts this year.

How should we position the portfolio for this change? The response is driven by two things – time horizon and how benchmark aware you are as an investor. For Shires, we have a long time horizon given we are trying to deliver long term capital growth, with a focus on income in the short term. We still think rate cuts will come, so owning assets like utilities or real estate, for example, which pay an elevated level of income today and will likely perform well on lower interest rates, makes perfect sense as long as you're not too worried about beating the benchmark in the next quarter. Given we really do not care what the benchmark does but what our portfolio delivers for shareholders, we try to think in terms of absolute value and return. In any case, trying to predict the path of macro data is even harder than trying to forecast individual company performance, so we prefer to focus on the fundamentals and maintain a diversified portfolio to protect from substantial changes in the economic outlook.

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)	97,974	92.6
Fixed Income	24,195	22.9
Total investments	122,169	115.5
Cash & cash equivalents	1,526	1.4
Other net assets	1,044	1.0
Debt	(18,963)	(17.9)
Net Assets	**105,776**	**100.0**

Capital structure

Ordinary shares	41,369,542
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	INV. JPMS, MREX, PEEL, SCAP, WINS

Factsheet

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

Contact

Private investors
trusts@abrdn.com

Institutional Investors
InvestmentTrustInvestorRelations-UK@abrdn.com

Ben Heatley
Head of Closed End Fund Sales
Ben.Heatley@abrdn.com

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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