Shires Income PLC

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

Performance Data and Analytics to 31 May 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 31/05/24	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	245.0p	7.5	17.3	12.6	5.8	9.6	20.0
NAV[A]	273.3p	3.4	13.3	15.4	15.6	15.7	34.0
FTSE All-Share		2.4	9.9	13.6	15.4	25.5	37.3

Discrete performance (%)

	31/05/24	31/05/23	31/05/22	31/05/21	31/05/20
Share Price	5.8	(7.9)	12.4	23.6	(11.4)
NAV[A]	15.6	(3.8)	4.1	25.7	(7.8)
FTSE All-Share	15.4	0.4	8.3	23.1	(11.2)

Total return; NAV cum income, with 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	4.7
Shell	3.8
BP	3.2
Morgan Sindall	3.0
HSBC	2.8
Energean	2.8
Intermediate Capital	2.6
Inchcape	2.5
Rio Tinto	2.4
Diversified Energy	2.2
Total	**30.0**

Fixed income holdings (%)

Ecclesiastical Insurance 8.875%	4.3
Royal & Sun Alliance 7.375%	3.8
Santander 10.375%	3.4
General Accident 7.875%	3.2
Standard Chartered 8.25%	2.4
Lloyds Bank 11.75%	0.7
Rea Holdings 9%	0.5
Standard Chartered 7.375%	0.2
Total	**18.5**

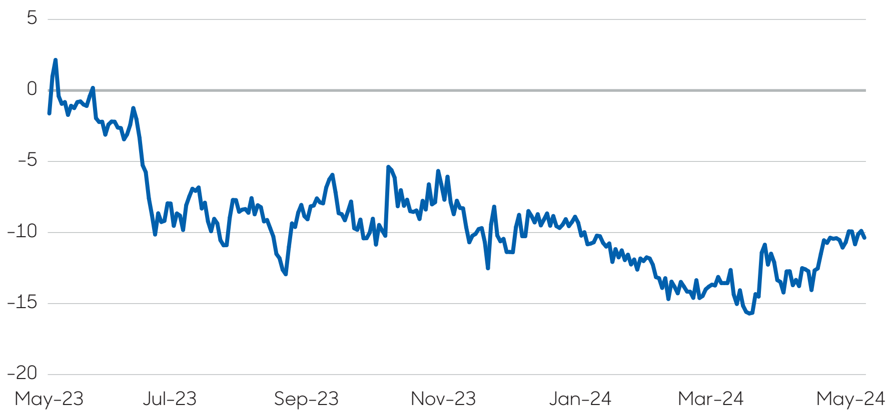
Total number of investments 66

[A] Including current year revenue.

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

Shires Income PLC

1 Year Premium/Discount Chart (%)



Fund managers' report

Market commentary

At the start of the month, the US Federal Reserve kept interest rates unchanged, stating that rates would be cut when it is more confident that annual inflation will remain close to its 2% target. The Fed's favoured measure, the core Personal Consumption Expenditures Index, showed prices rose by 2.8% in the year to April, in line with expectations. However, a revision to first-quarter GDP data showed economic activity was weaker than initially predicted, as the US grew by an annualised 1.3% in the period, down from the advance estimate of 1.6%. US Treasury prices rose as yields fell, and corporate bonds performed slightly better than government bonds.

The Bank of England also kept rates unchanged in May. The UK's Consumer Price Index showed prices rose by 2.3% year on year in April, the lowest level in almost three years. Gilt yields rose after the announcement of the general election but fell back to close the month slightly lower. Conversely, in Europe, yields rose as annual inflation increased to 2.6% in May, according to a preliminary estimate. While the European Central Bank is expected to cut rates in early June, the spike in inflation pushed the German Bund yield to a six-month high. Corporate bonds performed slightly better than sovereign issues.

The broad commodity index fell in May. Oil prices declined ahead of an OPEC+ meeting in early June, but natural gas prices rose as demand from Asia was elevated due to heatwaves in the region. Dovish central bank sentiment helped push gold and silver prices to fresh highs.

Stock markets rebounded in May, as investors again interpreted central bank statements and economic data as indications that interest rates might fall in coming months. In the US, investors took comfort in a positive results season, with 78% of companies reporting earnings above estimates. In particular, Apple's shares rose as the company's revenue figures were better than analysts' predictions, albeit lower than last year's figures. Chipmaker NVIDIA, which makes semiconductors for artificial intelligence applications, saw its earnings and revenue outstrip estimates. The major US indices rose, with the technology-orientated NASDAQ Composite Index outperforming the broad S&P 500 Index. Europe gained, with strong performance from Switzerland and Mediterranean markets, although France lagged. European stocks were buoyed by encouraging data from the manufacturing sector, as purchasing managers' index data showed sentiment rising to its highest level in over a year. UK shares finished higher in May but weakened in the second half of the month as Prime Minister Sunak announced a snap general election for July. The mid and small-cap FTSE 250 Index outperformed the blue-chip FTSE 100 Index. Japanese equities also rose, as annual inflation declined to 2.5% in April. Emerging markets rose in aggregate but were weaker than developed markets. The Chinese government outlined a plan to support the property market. Emerging Asian indices were mixed during the month. India rose slightly, but Latin America, including Brazil, declined.

Fund managers' report continues overleaf

[C] Expressed as a percentage of average daily net assets for the year ended 31 March 2024. 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	37.5
Energy	15.4
Industrials	10.6
Health Care	8.4
Utilities	6.6
Consumer Discretionary	5.6
Basic Materials	4.6
Telecommunications	4.0
Consumer Staples	3.1
Real Estate	2.6
Technology	1.6
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]	1.10%
Annual management fee	0.45% up to £100m and 0.4% over £100m on net assets and long term borrowings
Premium/(Discount)	(10.4)%
Yield[D]	5.8%
Active share[E]	69.9%

Gearing (%)

Equities[F]	(6.4)
Net cash/(gearing)[G]	(15.4)

AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

Shires Income PLC

Fund managers' report - continued

Performance

In May the trust delivered an NAV return of +3.4%, comfortably ahead of the FTSE All-Share benchmark at +2.4%. It was also encouraging to see the discount close up slightly from recent highs, with the share price increasing by 7.5%. It is also good to see the NAV performance on a trailing 1 year basis moving ahead of the benchmark, with growth of 15.6%.

Performance in the month was widespread, with our stock selection in energy being particularly positive and adding 0.7% to relative performance. Within that sector Wood Group was a strong performer, with shares +19% on an increased bid for the company and hunting (+17%) due to some impressive orders, while Energean (8%) and Diversified Energy (+6.5%) also performed well relative to the sector.

Other strong performers included Bytes Technology (+16%), Doc Martens (+15%), IP Group (+13%) and OSB Group (+13%). In general, mid-cap holdings in the fund benefited from a more risk-on environment in the month and saw valuations improve.

Relative negatives in the month were mainly things we don't own in the portfolio – not something we worry about given we tend not to focus on the benchmark. Within the portfolio Anglo American (-5%) gave back some recent gains after BHP decided against making a bid for the company. We continue to like Anglos as a long term play on self-help and on increasing demand for copper amongst other critical minerals. Anglos will now look to simplify and refocus its portfolio on a standalone basis and we believe this will create shareholder value, even if it does take somewhat longer than via an immediate acquisition of the company.

Trading

We started a new position in Reckitt Benckiser. The portfolio has generally been underweight consumer staples categories in recent years, given unattractive valuations, low yields and limited genuine growth. A recent sell-off in Reckitts offers an opportunity to gain sector exposure at a material discount to the peer group and with a yield over 4.5%. The company has struggled operationally in recent years but we see signs of a turnaround under new management and the underlying brands remain high quality. Given a relatively cautious view on market levels and the economic outlook there is also an appeal to adding more defensive exposure.

We sold out of IT distributor SoftCat (9th May). We've held the stock for a number of years and have seen it grow strongly over that time. Shares have re-rated and trade on north of 25x price to earnings, while the dividend yield has compressed to just 2%. It remains a well-run company with growth potential, but we see more value elsewhere so chose to move on.

Outlook

The path of interest rates continues to dominate the investment narrative – so much so you would think the market had never lived through an economic cycle. This may reflect the fact that many market participants haven't – since the 2008/09 global financial crisis we haven't really had a normal interest rate cycle. The obsession with when, and to what extent, central banks will cut rates is perhaps understandable, particularly when equity markets feel quite bifurcated into a bet on long term growth or on value.

In the last month we've seen the first cut, with the ECB moving rates down, although combined with more hawkish rhetoric which decreases the chance of a series of cuts following. The risk remains that the market will be disappointed by the pace and extent of rate cuts this year. The focus now returns to the US. The US has continued to deliver economic growth and labour and inflation data has remained high. This should be a positive, but it limits the ability of the Fed to cut rates early, although they are still expected to cut this year.

In our view there remains risk to market levels. One good reason for this is that there is a dominant narrative that rate cuts will come from a position of strength – i.e. inflation has been beaten and rates can return to a normalised level, allowing for continued economic growth. However, there remains a risk that rate cuts happen because economic growth is slowing and stimulus is needed, a different and less positive outcome. There is limited evidence of that happening yet, but it was interesting to note weakening US consumer sentiment in the last month. The US consumer makes up c.2/3 of US GDP, so it's worth watching, especially when everyone assumes everything is going to be ok!

The implications of rates cuts for the portfolio are fairly balanced – we don't take big bets on macro factors. In some rate-sensitive sectors such as banks we've chosen to own those banks with strong protection against lower rates in the form of hedge positions and we have meaningful exposure to UK mid-caps that will benefit from lower rates. More importantly, we think the trust will really show its value to end clients when rates are lower. With the option to earn 5%+ on cash deposits gone, a sustainable yield above this level from a diversified equity portfolio will look more attractive, hopefully leading to a reduction in high discount levels we see at the moment.

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)	105,378	93.6
Fixed Income	24,477	21.7
Total investments	129,855	115.3
Cash & cash equivalents	1,614	1.3
Other net assets	123	0.1
Debt	(18,965)	(16.8)
Net Assets	**112,627**	**99.9**

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

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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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