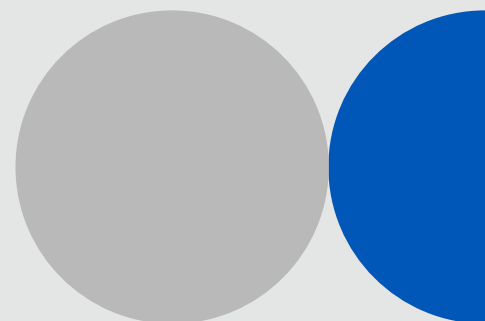




Shires Income PLC

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

Performance Data and Analytics to 29 February 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 total return.

Cumulative performance (%)

	as at 29/02/24	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	212.0p	(3.0)	(4.0)	(4.4)	(14.2)	7.6	7.9
NAV ^A	244.3p	(0.2)	1.9	0.4	(4.9)	12.4	25.4
FTSE All-Share		0.2	3.3	3.9	0.6	25.2	27.7

Discrete performance (%)

	29/02/24	28/02/23	28/02/22	28/02/21	29/02/20
Share Price	(14.2)	8.8	15.2	(3.1)	3.5
NAV ^A	(4.9)	6.3	11.2	5.4	5.9
FTSE All-Share	0.6	7.3	16.0	3.5	(1.4)

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 (%)

AstraZeneca	4.2
Shell	3.7
Morgan Sindall	3.1
HSBC	2.7
Energear	2.6
BP	2.5
Intermediate Capital	2.5
Hollywood Bowl	2.3
Rio Tinto	2.2
NatWest	2.1
Total	27.9

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 65

All sources (unless indicated): abrdn: 29 February 2024.

abrdn.com/trusts



1 Year Premium/Discount Chart (%)



Fund managers' report

Market commentary

Government bond yields were back on the rise again in February, meaning bond prices fell, as analysts' hopes of imminent rate cuts begun to look overly optimistic. The Bank of England was the only major central bank to meet in February and held rates unchanged. Growth data for the final quarter of 2023 showed the UK fell into recession, with GDP contracting by 0.3%, although BoE officials said data has shown an improvement in 2024 and the recession is likely to be very slight and temporary. The Consumer Price Index inflation reading for January showed prices rising by 4.0% year on year, while annual core inflation was recorded at 5.1%; both figures were below analysts' estimates. Market prices suggest the first BoE rate cut might come in June, although I continue to believe that markets expect too many cuts this year.

The European Central Bank is expected to keep rates unchanged in its March meeting. According to a preliminary estimate, annual consumer price inflation came in at 2.6% in February, below January's 2.8% but slightly above analysts' estimates. Eurozone GDP growth, according to a second estimate, was flat in the fourth quarter, narrowly avoiding a technical recession. Germany's economy contracted in the quarter, and recent labour market data has shown softer readings, with rising unemployment. Rates are also expected to remain steady in the US in March. January's annual Personal Consumption Expenditures Price Index dropped to 2.4% as expected, from 2.6% in December. The core reading fell slightly from 2.9% in December to 2.8% in January, also as expected. Employment has been strong, as the US economy added 353,000 jobs in January, almost double analysts' forecasts.

Commodities rose in aggregate in February. Oil increased in the month due to continued Middle East tensions and as the OPEC+ group of oil-producing nations was rumoured to be considering a production cut in the second quarter of 2024. Gas prices fell, however, as demand was weaker due to a warmer February. Precious metals also fell in the month.

Equity markets continued their ascent in February, with several major indices reaching all-time highs in the month. In the US, investors took comfort from upbeat economic data and good corporate results. In particular, the earnings season has been positive for the technology sector. Both the technology-oriented NASDAQ Composite Index and the broad S&P 500 Index hit record highs in February. The dollar also strengthened over the month.

European stocks rose, on the whole, although the continent's macroeconomic backdrop was weaker. Corporate results have been disappointing, with around half of those companies which announced results missing analysts' figures, a higher proportion than normal. Most countries' indices rose, including Italy, Germany, France and Switzerland, although Spain fell in the month. UK shares eked out a gain in aggregate over the month, with economic data showing signs of improvement. The mid-cap FTSE 250 Index lagged the blue-chip FTSE 100 Index. Japan rose as the Nikkei 225 Index hit an all-time high, surpassing its previous 1989 peak. Emerging-market stocks ended higher in aggregate. In particular, China performed strongly, which was believed to be due to state-run institutions buying

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	38.3
Energy	14.5
Industrials	9.2
Health Care	8.2
Utilities	6.6
Consumer Discretionary	6.5
Basic Materials	4.0
Telecommunications	3.6
Consumer Staples	3.5
Technology	2.9
Real Estate	2.7
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)	(13.2)%
Yield ^d	6.7%
Active share ^e	67.9%

Gearing (%)

Equities ^f	(6.5)
Net cash/(gearing) ^g	(17.8)

AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

Fund managers' report – continued

equities. This buoyed wider emerging Asian indices. However, indices in Latin America were mixed over the month.

Performance

The portfolio's NAV fell by 0.2% in the month, which compared with a return of +0.2% from the benchmark and to a loss of 0.4% from the FTSE 350 High Yield index. With many companies reporting in February, performance was driven in many cases by fundamental performance – a relief after an extended period where share prices seemed to be driven more by the macro outlook than by how companies were actually performing.

On the positive side, we saw very encouraging results from banking stocks generally. The UK banks are dealing well with the peak in interest rates and the market seems to be finally understanding that hedge books protect income growth into 2025/26. NatWest was up 6% in the month and Standard Chartered, which set out higher returns targets, was up 11.5%.

UK midcap names also continued to perform well on reassuring results, with Hollywood Bowl up 13%, Morgan Sindall up a further 4% and Hiscox up 9%. Energy stocks also rallied after a very weak January: Diversified Energy was up 8% and Energean 8% after announcing an additional long term gas sales agreement.

Negative performance was concentrated in three stocks in the month. Close Brothers fell by 36% due to concerns around the potential cost of the FCA investigation into historical motor finance provision. The uncertainty has resulted in the company cutting the final dividend and we will need to wait until September to get more clarity on the outcome. We had initially chosen to reduce our position in the stock, but after the price fall and extensive work on the likely outcomes have grown comfortable that the shares are pricing in close to a worst case scenario.

Bytes Technology was also weak, with shares falling 15% following the news that the well regarded CEO had resigned after trading in the shares of his own company outside of regulated channels. This was a highly unexpected (and indeed inexplicable) event, but with the company confirming at the same time that trading was in line with expectations we see the reaction as somewhat overdone. Bytes has a good succession plan and a well regarded divisional head is stepping up to the CEO role.

Thirdly, Genus was weak on lacklustre results and potential modest delays to the launch of its PRRS resistant pig genetics. Much of the weakness is driven by cyclical lows in the Chinese market. Historically, these cycles take time to turn but they inevitably do and we see Genus as well priced for its long term potential.

Trading

During the month we exited positions in UK housebuilders Vistry and Redrow. The sector's valuation has recovered strongly in 2024 and Vistry's shift to a partnership model and focus on buybacks over dividends makes it a less appropriate holding, while Redrow's shares have bounced on a proposed acquisition by larger peer Barratt. We want to maintain some exposure to the sector so have switched some of the position into Berkeley Group, which we see as slightly higher quality, with a differentiated exposure to London property and with a higher dividend yield.

We also switched some Diageo into GSK, reflecting a lack of conviction on Diageo in the near term. GSK also has a higher dividend yield, more defensive exposure, lower valuation and more scope for positive surprise in the next 12 months given very low market expectations for its pipeline.

To raise cash we also trimmed positions in Greggs, 4Imprint, Novo Nordisk and Softcat, all of which have performed well recently. We topped up Assura following an upgrade from the covering analyst.

Outlook

The full year earnings season, which generally runs through February, is always an interesting time to be an equity investor. Companies tell you what happened in the prior year, which tends to be somewhat backwards looking, but also give update expectations for the year ahead. Combined with opportunities to meet the management teams of most companies we own it makes it a great time to gain insights on the portfolio. In our view most management teams are in confident mood. Consumer companies are in better health than you might think from reading the news, with the consumer in decent health, and industrials are seeing demand starting to turn after a destocking cycle. Banks are looking forward to better returns as their hedge books being to earn more interest, supporting growth in returns for the next few years, and energy companies continue to deliver improving efficiency into a supportive commodity environment. While utilities have generally been weak at the start of the year due to lower power prices, companies are getting more clarity on the outlook for capital growth as governments invest behind, and incentivise, electrification.

Overall, it was a reassuring earnings season and issues tended to be company specific – as was the case with Close Brothers and Bytes. These kind of adverse events will happen and we need to react accordingly. For Close Brothers, the difficulty of assessing the impact of the FCA probe into motor finance and the dividend cut meant we initially sold some of our position, but with value falling below a reasonable bear case level we reversed and shares have since posted some recovery. Bytes was somewhat easier, with the loss of the CEO painful in the short term but not an event that changes the underlying growth outlook or quality of the company.

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)	94,329	93.5
Fixed Income	24,366	24.1
Total investments	118,695	117.6
Cash & cash equivalents	1,046	1.1
Other net assets	128	0.1
Debt	(18,962)	(18.8)
Net Assets	100,907	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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