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Initiation | Investment companies

22 October 2018

Shires Income

Sustainable high yield

Within the universe of UK equity income investment trusts, Shires Income (SHRS) stands out from the herd. It sets out to offer investors a meaningfully higher dividend yield than UK equity markets and aims to make this sustainable by diversifying the fund's sources of income. SHRS also makes use of the flexibility afforded by its closed-end structure to increase its income by using borrowings in a pragmatic fashion (as explained on page 5).

High level of income with potential for growth

SHRS aims to provide its shareholders with a high level of income, together with the potential for growth of both income and capital from a portfolio substantially invested in large cap UK equities. The portfolio may be further diversified with exposure to smaller UK companies and overseas equities. SHRS augments its income with a portfolio of irredeemable preference shares and convertibles (and, when the manager believes appropriate, fixed income securities), financed, in part, by lower cost gearing.

Globally, investors have been unnerved by the growing threat of a trade war. In addition, Brexit-worries have meant that the UK economy and its stock market have lagged those of other developed countries. The manager sees the possibility of further volatility. This may create opportunities for him to acquire high quality stocks at attractive valuations, with the aim of building on SHRS' record of long-term outperformance of its benchmark.

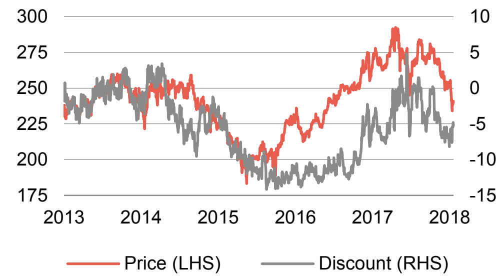
Year ended	Share price total return (%)	NAV total return (%)	MSCI UK total return (%)	MSCI World total return (%)
30/09/14	9.6	9.5	6.0	12.1
30/09/15	(2.3)	(0.4)	(5.9)	1.6
30/09/16	7.6	16.7	18.4	29.9
30/09/17	23.5	14.6	11.0	14.4
30/09/18	(0.7)	0.4	5.8	14.4

Source: Morningstar, Marten & Co

Sector	UK equity income
Ticker	SHRS LN
Base currency	GBP
Price	240.0p
NAV	253.3p
Premium/(discount)	(5.3%)
Yield	5.4%

Share price and discount

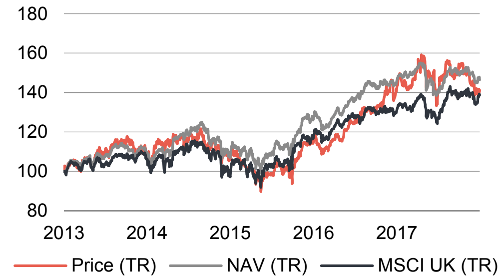
Time period 30/09/2013 to 17/10/2018



Source: Morningstar, Marten & Co

Performance over five years

Time period 30/09/2013 to 30/09/2018



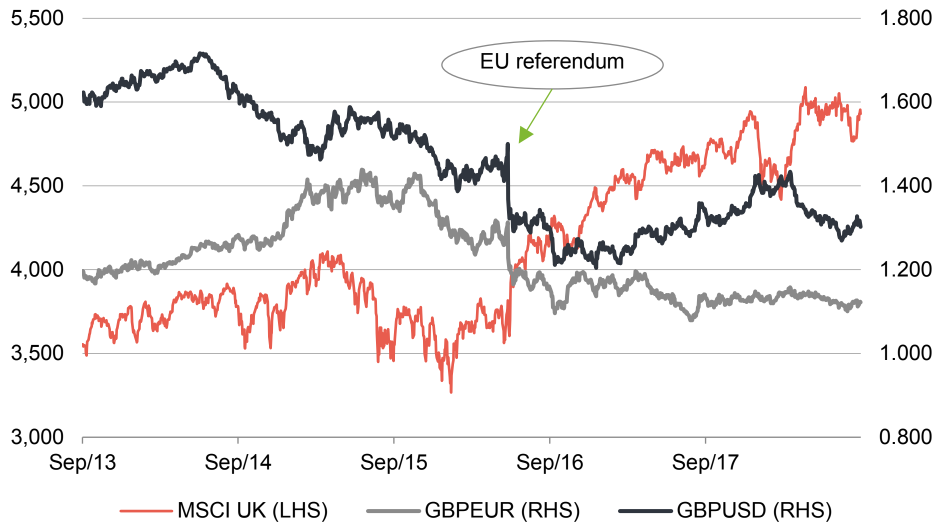
Source: Morningstar, Marten & Co

Domicile	England and Wales
Inception date	25 March 1929
Manager	Iain Pyle
Market cap	72.0m
Shares outstanding	29.998m
Daily vol. (1-yr. avg.)	42,712 shares
Net gearing	21.0%

Contents

UK market overview

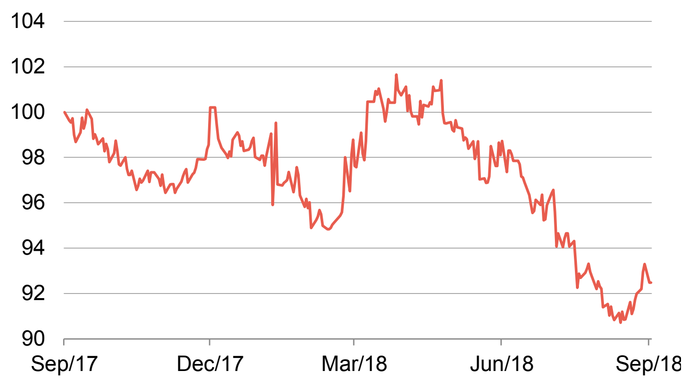
Figure 1: MSCI United Kingdom Index / pound relative to euro and dollar



Source: Morningstar, Marten & Co

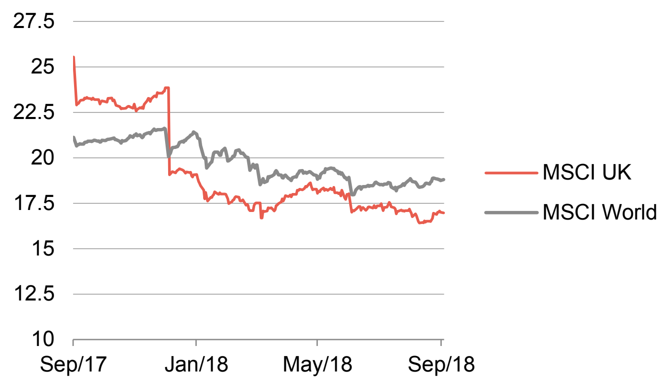
The chart in Figure 1 shows how the UK market (as represented by the MSCI United Kingdom Index) has moved over the five years ended 30 September 2018 and compares this with the change in exchange rates over that period. The UK market was then trading close to its all-time high. However, much of its gain since the UK's referendum on EU membership in June 2016 can be accounted for by the weakness of the pound, which flatters the profitability of companies with considerable overseas earnings.

Figure 2: MSCI UK relative to MSCI World



Source: Morningstar, Marten & Co

Figure 3: P/E ratios MSCI UK and MSCI World



Source: Bloomberg, Marten & Co

UK equity valuations are lower than they were and the UK market has been underperforming other developed world markets

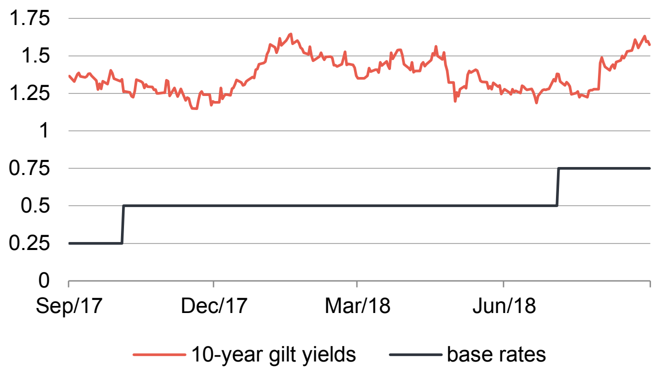
Despite its rise, the UK market has failed to keep pace with other leading markets, as is evident in Figure 2, which shows how the UK market has performed relative to world markets. Companies' earnings growth has outpaced share price rises; therefore, UK shares are trading at lower multiples of price/earnings (P/E) than they were a year ago. Domestically oriented stocks, in particular, are being held back by worries about the outcome of Brexit negotiations. These concerns have impacted on the UK economy, which has exhibited lower growth than any other G7 country (Canada, France, Germany, Italy, Japan and the US), since June 2016. However, the manager feels that the UK economy has held up better than expected.

As Figure 4, which charts the MSCI UK Value index relative to the MSCI UK Growth index shows, investors have continued their preference for 'growth' stocks over 'value' stocks.

Figure 4: UK value relative to growth

Source: Bloomberg, Marten & Co

Figure 5: UK base rates and 10-year gilt yields



Source: Bloomberg, Marten & Co

The yield curve is flattening; rising interest rates are good news for financials

UK interest rates have been edging up but this is resulting in a flattening of the yield curve (which charts how interest rates on government bonds change with their time to maturity) as 10-year gilt yields have barely changed over the past year. The manager is expecting further interest rate rises and points out that, while this may impact on the valuations of high yield stocks (which look relatively less attractive when less risky assets such as bank deposits yield more), it is good news for financials stocks such as banks which are more able to increase the margin between the interest rate they pay on deposits and the interest they charge on the amounts they lend.

The manager sees value in UK domestically orientated stocks and income stocks

SHRS' manager points out that global growth is robust and companies are seeing earnings growth, reducing the risk of dividend cuts. The trade war rhetoric emanating from the White House has unnerved markets, however, especially those in Asia and emerging markets. Faced with uncertainty, investors are favouring 'safe', stable growth stocks. The manager believes that the valuations for many of these stocks look stretched. By contrast, the manager feels that UK domestically orientated stocks and income stocks are trading at valuation discounts.

The manager thinks that we may see further volatility in the UK market over coming months and says that this could provide SHRS with opportunities to add high quality companies at attractive valuations.

Fund profile

A high level of income, together with the potential for growth of both income and capital

You can access the trust's website at: **www.shiresincome.co.uk**

SHRS aims to provide shareholders with a high level of income, together with the potential for growth of both income and capital from a portfolio substantially invested in large cap UK equities. The portfolio may be further diversified with exposure to smaller UK companies and overseas equities (up to 10% of the portfolio). SHRS augments its income with a portfolio of irredeemable preference shares and convertibles (and, when the manager believes appropriate, fixed income securities), financed, in part, by lower cost borrowings. The company is benchmarked against the FTSE All-Share Index. This has been substituted with the MSCI UK Index for the purposes of this report.

SHRS generates income primarily from its investments in ordinary shares, convertibles and a geared portfolio of preference shares. The manager may supplement this by writing call options on stocks that SHRS owns but he would not mind selling at the option exercise price and writing put options on shares he would like to buy for SHRS at the option exercise price.

The lead manager, since May 2018, is Iain Pyle

SHRS' manager is Aberdeen Fund Managers Limited which has delegated the day-to-day management of the company to Aberdeen Asset Managers Limited (Aberdeen or the manager). Both companies are wholly owned subsidiaries of Standard Life Aberdeen Plc. The manager emphasises a team approach to managing money. Since May this year, the lead manager for SHRS has been Iain Pyle. He is also lead portfolio manager for the Standard Life Investments UK Equity High Income Fund and the Bothwell UK Equity Income Fund.

Iain is an investment director on the UK equities team, having joined Standard Life Investments in 2015. Previously, he was an analyst on the top-ranked oil and gas research team at Sanford Bernstein. Iain graduated with a MEng degree in Chemical Engineering from Imperial College and an MSc (Hons) in Operational Research from Warwick Business School. He is a chartered accountant and a CFA charterholder.

UK small cap exposure through Aberdeen Smaller Companies Income Trust

The company gains exposure to smaller companies through an investment in an investment trust, Aberdeen Smaller Companies Income Trust Plc (ASCIT). The two companies have no directors in common and the manager does not charge a fee on this portion of the portfolio (see page 14).

Investment process

Iain is a member of Aberdeen Standard Investments' (ASI – the brand that Standard Life Aberdeen Plc uses for its asset management activities) 16-strong UK equity team, 11 of which are based in Edinburgh and five in London. It is complemented by the small cap team, headed up by Harry Nimmo, and can draw on the considerable resources of the wider global research team.

Individual team members have been assigned research responsibilities on a sector-by-sector basis

Each member of the team has been assigned research responsibilities on a sector-by-sector basis. Investment ideas are put forward by analysts and peer-reviewed, with the aim of building consensus. A list of 20 high conviction ideas is generated. The UK team meets daily and analysts' recommendations are presented at UK team sector reviews. Individual portfolio managers are responsible for deciding what goes into their portfolios. They may hold stocks that the analyst has recommended for sale but have to write and circulate a 'dissent note', putting the case for why the stock should remain in the portfolio.

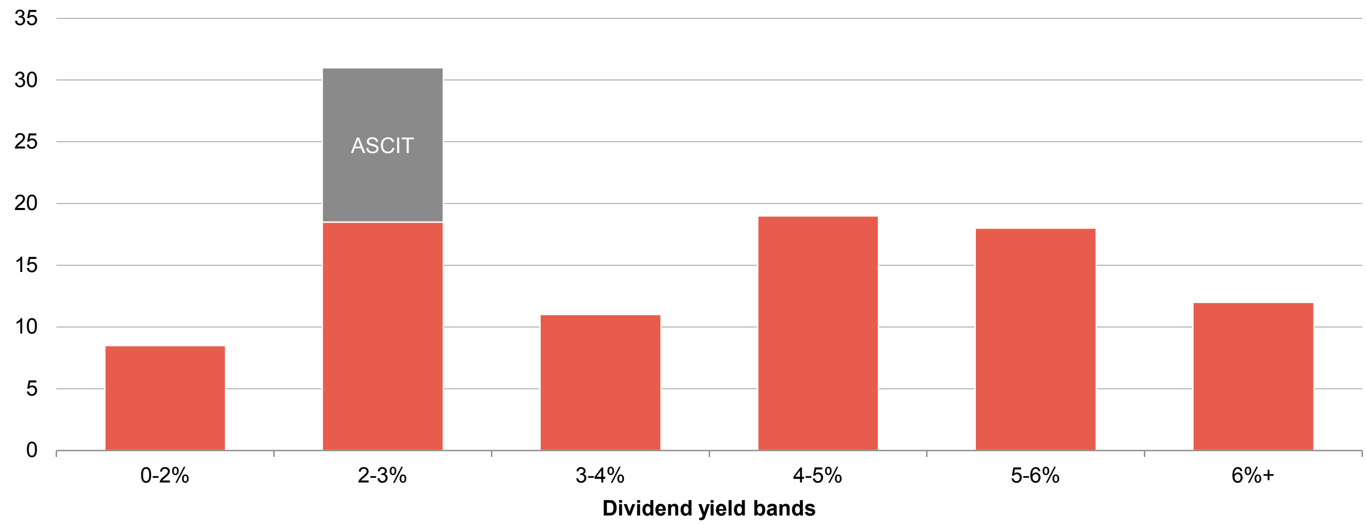
With the aim of building a portfolio that can deliver a high level of income and the prospect of capital growth, the manager incorporates high yielding preference shares, high yielding equities and growth equities into the mix. Diversified exposure to smaller companies is achieved through a holding in ASCIT. Following the merger of Aberdeen Asset Management and Standard Life, that trust is managed by Harry Nimmo's team, centred on the Edinburgh office.

Emphasis on quality

The manager believes that SHRS' objective could be achieved solely through investment in high yielding equities. However, investing only in the highest yielding equities would compromise the emphasis on quality that is a key criterion in the selection of potential investments.

SHRS' preference share portfolio is funded, in part, by lower cost debt. The income that this arrangement contributes to SHRS' returns, allows the manager to hold some lower yielding equities that offer better prospects for both dividend and capital growth. The pool of income available for distribution is augmented further by writing calls and options. In the past, when interest rates were higher, fixed interest investments and interest on cash deposits would also have made a meaningful contribution to SHRS' revenue account. This may be the case again if interest rates continue to rise.

Figure 6: Equity portfolio percentage allocation by yield at 31 July 2018

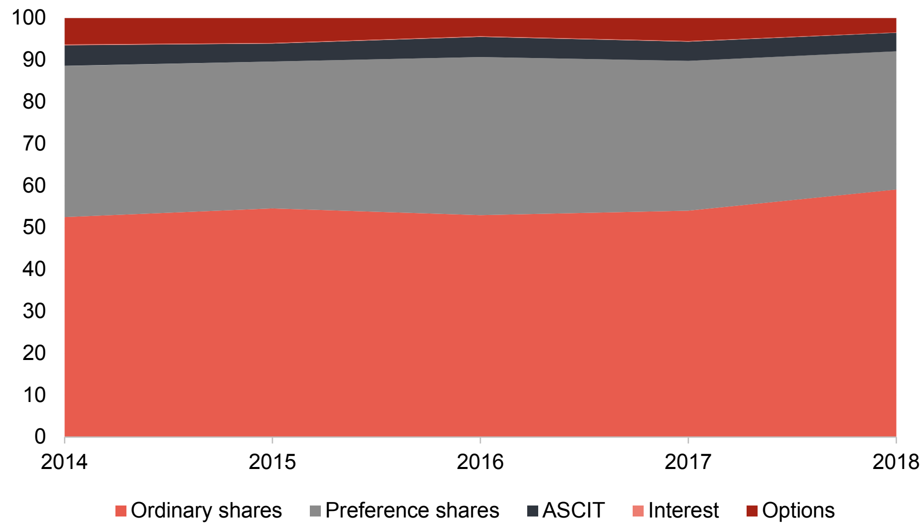


Source: ASI

SHRS' sources of income are much more diverse than would be the case for many equity income funds

The upshot is that SHRS' sources of income are much more diverse than would be the case for many equity income funds, especially given that a handful of stocks account for a significant proportion of the income available in the UK equity market. Some of these stocks also dominate indices of high yielding equities. For example, to ensure that the portfolio is adequately diversified, SHRS' portfolio will always have an underweight exposure to Shell, which is a dominant position in these indices.

Figure 7: SHRS' sources of income – accounting years ended 31 March



Source: ASI, Marten & Co

Equity investment

Particular emphasis is placed on meeting management

When selecting equities for inclusion within the portfolio, the manager adopts a buy and hold strategy. It looks for good quality companies that are trading cheaply, defined in terms of the fundamentals that in their opinion drive share prices over the long term.

Particular emphasis is placed on meeting the management of these companies, at least twice a year. The long-term approach helps limit portfolio turnover, although the manager does take advantage of gyrations in markets to top-slice and add to existing positions, where appropriate.

Portfolio construction is driven by stock selection

Portfolio construction is driven by stock selection and benchmark weights are not taken into account when determining position sizes. Care is taken to ensure that the portfolio is adequately diversified with respect to a range of metrics. At the end of August 2018, excluding ASCIT, the largest position in the portfolio was 3.3% (see page 9).

Investment restrictions

The board has set some absolute limits on maximum holdings and exposures (these apply at the time of the acquisition of the investment):

- a maximum 10% of total assets invested in the equity securities of overseas companies;
- a maximum 7.5% of total assets invested in the securities of one company (excluding ASCIT); and
- a maximum 5% of quoted investee company's ordinary shares (excluding ASCIT).

In addition, with respect to the trust's investments in options:

- call options written must be covered by stock;
- put options written to be covered by net current assets/borrowing facilities;
- call options not to be written on more than 100% of a holding of stock;
- call options not to be written on more than 30% of the equity portfolio; and
- put options not to be written on more than 30% of the equity portfolio.

The preference share portfolio

SHRS invests in a number of irredeemable preference shares and, at present, one convertible stock. These carry fairly high, fixed coupons and trade at a premium to par.

The preference shares were issued in the early 1990s and it appears that, for some time, investors thought these were truly irredeemable.

In March 2018, actions by Aviva unnerved investors in preference shares. Aviva backed-down but many issues still trade at lower prices/higher yields than they did beforehand

However, in March 2018, Aviva announced that it planned to redeem its preference shares at par (100p per preference share). This triggered sharp falls in the prices of preference shares and impacted on SHRS' NAV. Investors cried foul and Aviva withdrew its plans, saying that it would revisit the decision in 2026 (when the European regulator, ESMA, rule changes about the makeup of insurers' regulatory capital come into effect). Aviva said it would then take into account the fair market value of the preference shares in setting the redemption price, rather than the par value.

The FCA intervened in the wake of the market dislocation and asked issuers to make redemption terms clear to investors. Aviva agreed to pay compensation to investors that sold their Aviva or General Accident (part of the Aviva group) preference shares between 8 and 22 March 2018.

The events of March 2018 have, at least, clarified the situation with respect to any potential redemption. Preference share prices recovered much of their value but many issues still trade at lower prices/higher yields than they did before March. However, part of the reason for this may be a perception that interest rates are rising in the UK. The manager believes that the market reaction to Aviva's actions makes any future attempt to redeem preference shares at par less likely.

Option writing

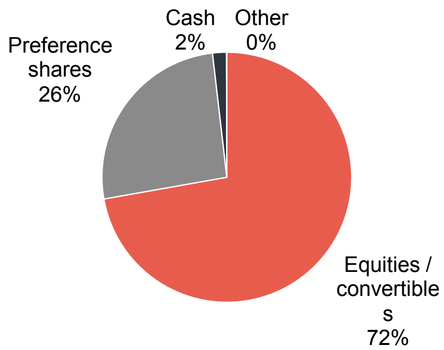
No obligation on manager to generate income from options

The decision whether to write call or put options is entirely at the discretion of the manager. The manager may write calls on stocks it wants to sell and puts on stocks it wants to buy but only where stock volatility makes that an attractive prospect in terms of the premium available. The manager does not write uncovered calls. Typically, options are short-dated (one-to-three months) and 5-10% out of the money (the share prices are under or over, as appropriate, the option exercise price).

Asset allocation

As Figure 9 demonstrates, the company's preference share portfolio is financed by a combination of debt and equity. More details of the company's debt finance are given on page 15.

Figure 8: SHRS asset allocation by type at 31 August 2018



Source: ASI, Marten & Co

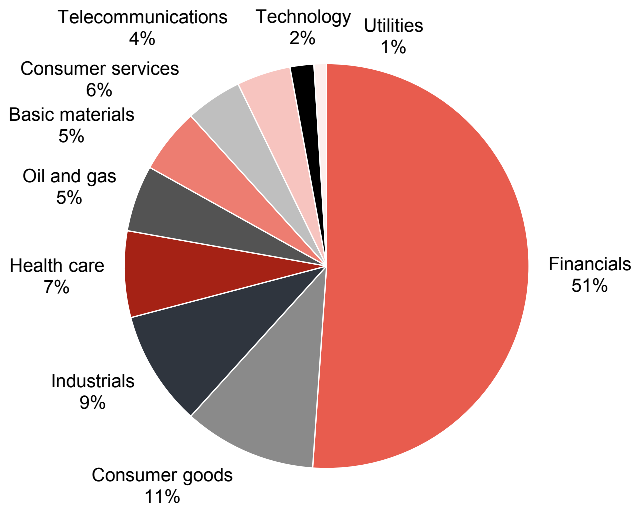
Figure 9: Shires balance sheet extract at 31 August 2018

	(£'000)	(%)
Equities/convertibles	73,137	88.9
Preference shares	26,277	32.0
Total investments	99,414	120.9
Cash	1,816	2.2
Other net assets	45	0.1
Gross assets	**101,275**	**123.2**
Debt	(19,048)	(23.2)
Net assets	**82,227**	**100.0**

Source: ASI, Marten & Co

SHRS had 54 investments at the end of August 2018. The distribution of the portfolio by sector shown in Figure 10 is distorted because both ASCIT and the company's holdings in preference shares have been classified under financials. As highlighted on page 4, the manager feels that financials will be beneficiaries of rising interest rates and this is also reflected in the exposure to this part of the market.

Figure 10: SHRS asset allocation by industry sector at 31 August 2018



Source: ASI, Marten & Co

Top 10 holdings

The company's 10 largest holdings are shown in Figure 11.

Figure 11: SHRS top 10 equity holdings at 31 August 2018

Stock	Sector	% as at 31 August 2018	% as at 31 March 2018	Change (%)
ASCIT	Investment company	8.5	9.1	(0.6)
Royal Dutch Shell 'B'	Oil and gas	3.3	3.1	0.2
Chesnara	Life insurance	2.9	3.1	(0.2)
British American Tobacco	Tobacco	2.8	3.1	(0.3)
AstraZeneca	Pharmaceuticals	2.7	3.0	(0.3)
GlaxoSmithKline	Pharmaceuticals	2.7	2.5	0.2
Prudential	Life insurance	2.6	2.7	(0.1)
BHP Billiton	Mining	2.4	2.1	0.3
BP	Oil and gas	2.4	2.2	0.2
HSBC	Bank	1.9	2.0	(0.1)
Total		32.2	32.9	(0.7)

Source: ASI, Marten & Co

Reflecting the manager's long-term buy and hold strategy, there has been very little change to the composition of SHRS' list of top 10 holdings since its accounting year end (31 March 2018). Unilever and Vodafone have dropped out and BHP Billiton and HSBC have moved up to replace them.

Figure 12: SHRS preference share holdings at 31 August 2018

Stock	% as at 31 August 2018	% as at 31 March 2018	Change (%)
Ecclesiastical Insurance 8.875%	6.3	6.4	(0.1)
Royal Sun Alliance 7.375%	5.4	5.9	(0.5)
General Accident 7.875%	4.6	5.1	(0.5)
Santander 10.375%	4.5	5.0	(0.5)
Standard Chartered 8.25%	3.6	4.0	(0.4)
Rea Holdings 9%	1.0	1.1	(0.1)
Balfour Beatty cum conv. 10.75% 01/07/20	0.5	0.6	(0.1)
Total	25.9	28.1	(2.2)

Source: ASI, Marten & Co

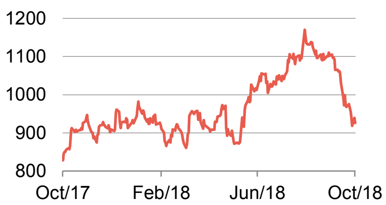
With the exception of the Balfour Beatty convertible, none of the securities listed in Figure 12 has a fixed redemption date.

New additions to the portfolio

Despite SHRS' long-term approach, a few new holdings have made it into the portfolio over the past year. These include:

GVC

Figure 13: GVC share price



Source: Bloomberg, Marten & Co

GVC is a multinational sports betting and gaming company, with a strong online presence. Its brands include bwin, Sportingbet, partypoker, partycasino and Foxy Bingo. The acquisition of Ladbrokes, in March 2018, added Ladbrokes, Coral and Gala to the group. The manager believes that the company's management has demonstrated an ability to grow the business and to position it for increased regulation. In particular, the manager thinks it should be well placed to benefit from changes to the regulations governing the US gaming industry.

Countryside

Countryside is a leading UK housebuilder which builds both premium and affordable housing on land it owns, and also through a dedicated urban regeneration division, in partnership with local authorities and housing associations. Over the year ended 30 September 2017, it completed almost 3,400 houses and generated revenue in excess of £1bn. It said in June that it was on track to complete more than 4,500 houses in the current year.

The manager says the company pays an attractive yield and has an unlevered balance sheet which could support some additional return of cash later this year.

Figure 14: Countryside share price

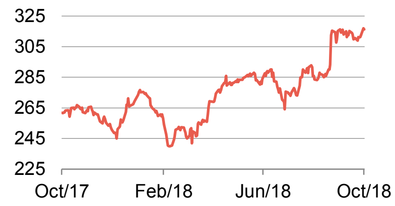
Source: Bloomberg, Marten & Co

John Laing Group

John Laing Group originates, invests in and manages large infrastructure projects on a global basis. Infrastructure, in this instance, includes transport, social and environmental projects (John Laing Group has a large renewable energy portfolio, for example). It is not a construction business; it sold its construction division in 2001 and exited property development and housebuilding in 2002.

The manager points out that John Laing Group trades at a discount to NAV. The yield is relatively low but the manager sees the potential for returns of cash following exits from investments.

Figure 15: John Laing Group share price



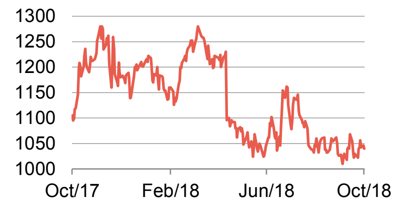
Source: Bloomberg, Marten & Co

Telecom Plus

Telecom Plus provides a range of telecommunications; electricity and gas supply; and financial services to UK customers. The most attractive deals are available only to customers who switch all their service provision to the company.

A number of smaller companies have struggled (and some have gone bust) in a very competitive market. Nevertheless, the manager notes that Telecom Plus has delivered modest revenue growth. It says that it trades on an attractive yield and has a good track record of dividend growth.

Figure 16: Telecom Plus share price



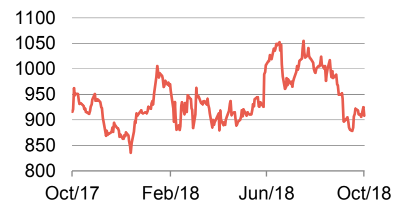
Source: Bloomberg, Marten & Co

Bodycote

Bodycote heat-treats and coats metals to improve their strength and durability. It also has the capability to join metals with processes such as electron beam welding. Customers come from a wide range of industries, including aerospace, defence, automotive, power generation, oil and gas, construction, medical and transportation.

The manager says that Bodycote's business benefits from barriers to entry and pricing power, which are derived from its specialist expertise and proprietary specialist technologies. The manager likes the strength of Bodycote's balance sheet and its consistent record of dividend growth.

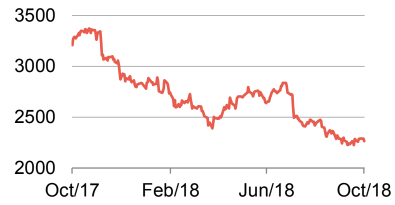
Figure 17: Bodycote share price



Source: Bloomberg, Marten & Co

Associated British Foods

Figure 18: Associated British Foods share price



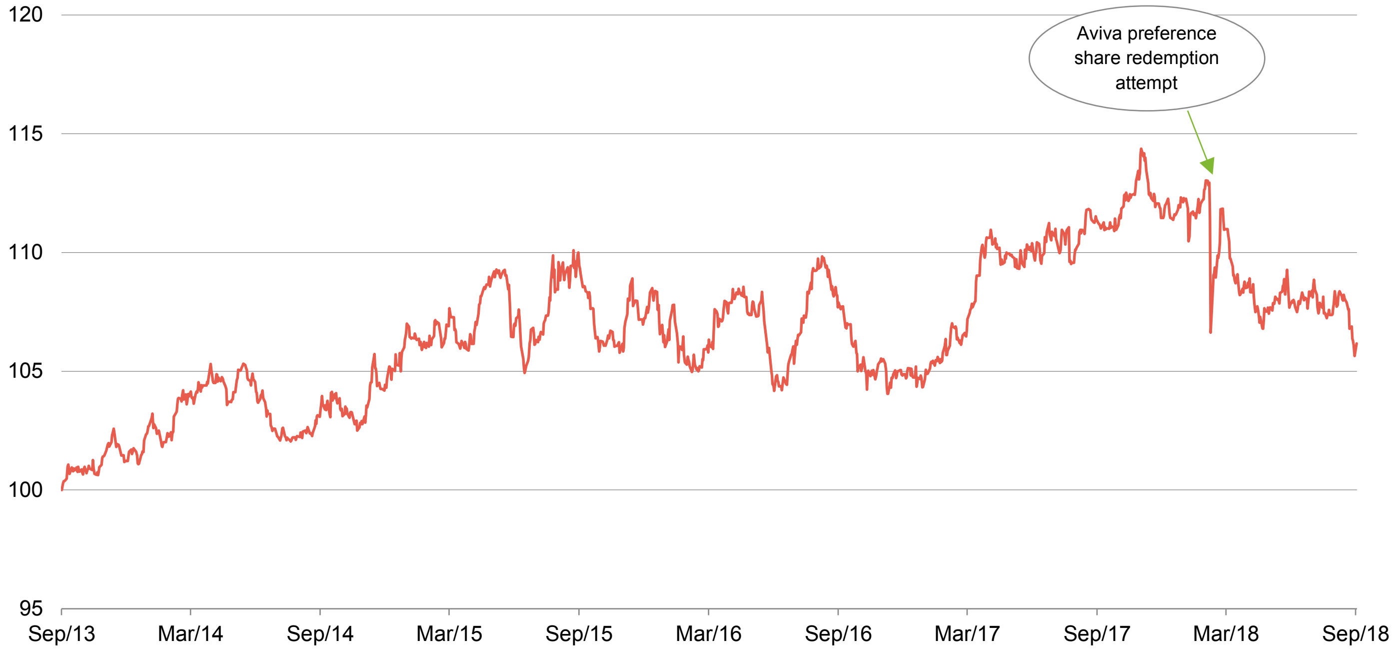
Source: Bloomberg, Marten & Co

Associated British Foods groups its businesses into five divisions: sugar (AB Sugar has the capacity to produce over 4m tonnes of sugar and 600m litres of ethanol each year); agriculture (including animal feeds); retail (Primark); grocery (a range of goods including bread, Twinings tea, cooking oil and flour); and ingredients (including yeasts, gluten-free products and industrial biotech preparations).

The manager says that weak sugar prices have contributed to a fall in Associated British Foods' share price and this has provided an opportunity to buy these shares. The manager thinks Primark is a likely beneficiary of reduced competition and cheaper rental costs and that the company will ride out the cyclical downturn in sugar prices and benefit when these recover.

Performance

Figure 19: SHRS NAV total return relative to MSCI United Kingdom total return, rebased to 100



Source: Morningstar, Marten & Co

As Figures 19 and 20 show, while SHRS has faced some performance headwinds over the course of 2018, chiefly in the form of investors' preference for growth stocks and Brexit-related nervousness in markets. Nonetheless, it has delivered total returns ahead of the MSCI UK Index over longer periods, notably the past five years.

Figure 20: Total return performance over periods ending 30 September 2018

	1 month	3 months	6 months	1 year	3 years	5 years
SHRS share price	(1.4)	(8.7)	(0.2)	(0.7)	32.0	41.2
SHRS NAV	(1.1)	(2.4)	3.7	0.4	34.3	46.5
MSCI United Kingdom	1.4	(0.4)	8.9	5.8	39.1	38.7

Source: Morningstar, Marten & Co

SHRS' short-term performance relative to the UK market has also been held back by an underweight exposure to the oil and gas sector in an environment of oil price recovery; the Aviva preference share redemption attempt in March this year, referred to on page 7; and some stock-specific moves highlighted in Figure 22, including not holding Sky when it received a bid. These were offset by some positive performance from stocks such as engineering and industrial software business, Aveva, and Rotork, which manufactures a range of flow control and gearbox products, as shown in Figure 21.

Figure 21: Largest positive contributors

Stock	Relative weight (%)	Stock return (%)
Aveva	+2.0	50.2
Rotork	+1.8	36.4
Glencore	(1.6)	(12.6)
BHP Billiton	+1.9	18.5
GVC Holdings	+2.1	28.5

Source: ASI

Figure 22: Largest negative contributors

Stock	Relative weight (%)	Stock return (%)
Sage Group	(0.3)	(20.2)
Sky	(0.6)	53.5
Royal Dutch Shell	(4.1)	8.9
Telecom Plus	2.0	(12.1)
Assura	1.4	(9.4)

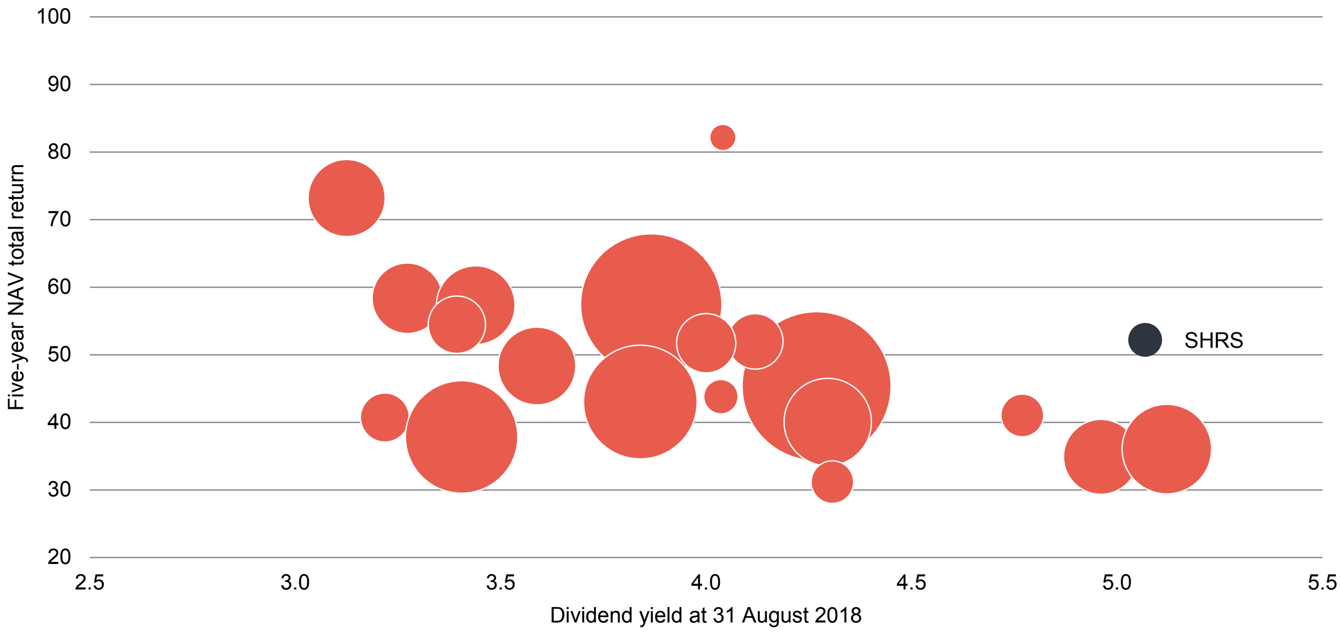
Source: ASI

Peer group

Up-to-date information on SHRS and its peer group is available at **QuotedData**

As highlighted at the outset of this note, SHRS has an approach that differentiates it from the other funds in the AIC's UK equity income sector. Its high weighting to preference shares helps boost to its income and allows it to hold some other lower yielding stocks that have higher growth prospects yet still meet its dividend obligations. The upshot, as is evident in Figure 23, is that SHRS offers shareholders one of the highest yields in its sector without compromising on NAV total returns.

Figure 23: SHRS NAV five-year total return performance and yield (at 31 August 2018) versus peers (size of bubble represents market capitalisation)



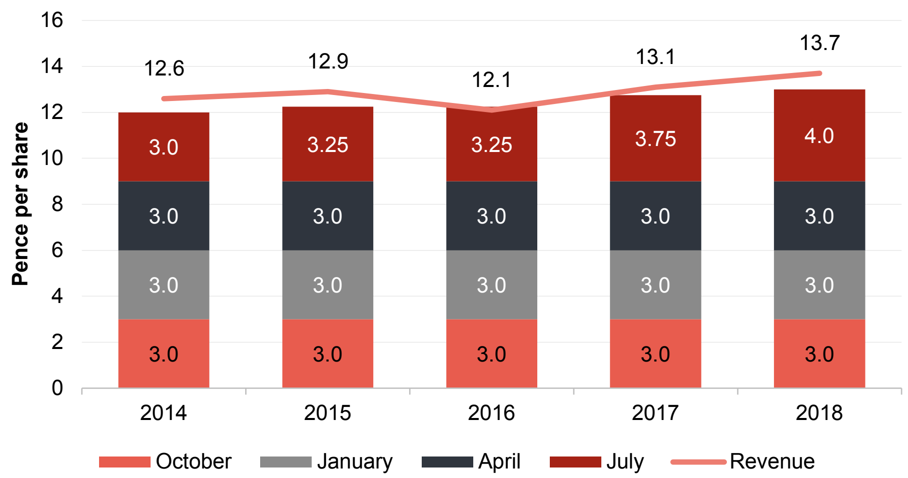
Source: Morningstar, Marten & Co

Dividend

3p per quarter interims planned

SHRS pays quarterly dividends in October, January, April and July. The board has indicated that it intends to continue to pay three quarterly interim dividends of 3p each and will decide on the level of the final dividend having reviewed the full year results.

Figure 24: SHRS dividends and revenue per share – accounting years ended 31 March

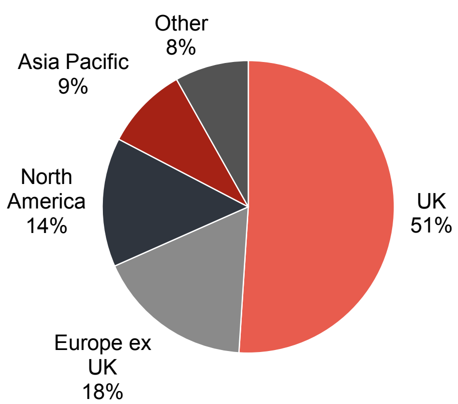


Source: ASI

As Figure 24 demonstrates, this portfolio has produced a modestly growing revenue stream and has allowed SHRS to grow its dividend while growing its revenue reserves. SHRS' revenue reserves at the end of March 2018 amounted to £6,795,000, equivalent to 22.7p per share.

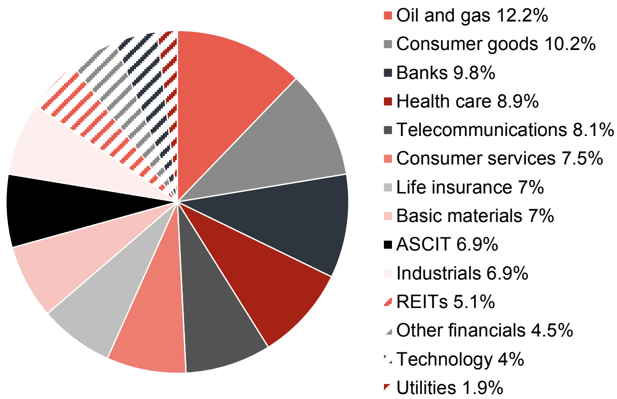
Figures 25 and 26 underscore the extent of the diversification of SHRS' revenue stream; by region (on a look-through basis to the sources of revenue for the underlying companies) and by industry sector.

Figure 25: Source of revenue by region at 30 June 2018



Source: ASI

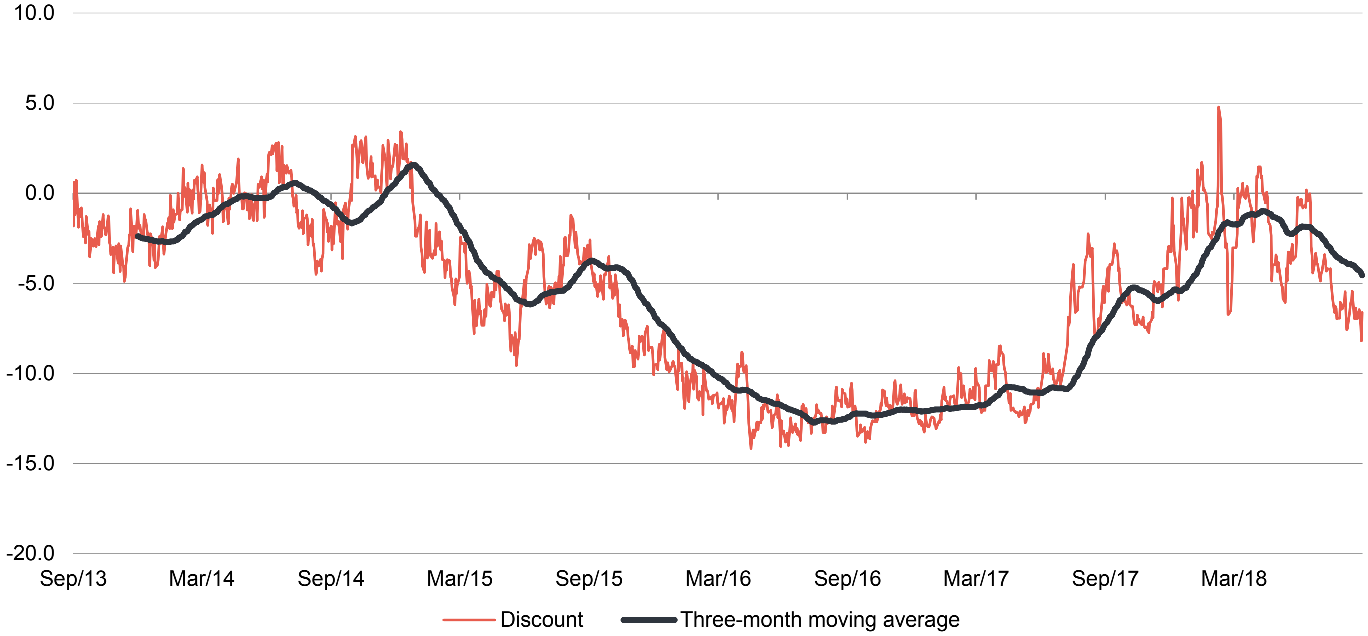
Figure 26: Source of revenue by sector year ended 31 March 2018



Source: ASI

Premium/(discount)

Figure 27: SHRS Premium/(discount) to NAV over five years ending 30 September 2018



Source: Morningstar, Marten & Co

Over the 12 months ended 30 September 2018, SHRS has traded within a range of an 8.2% discount to a 4.8% premium and an average discount of 3.5%.

The board seeks permission at each Annual General Meeting both to issue and repurchase shares and, if the company's discount or premium warranted that the board take action, it would consider using these powers as appropriate. SHRS' issued share capital has not changed for some time. Shares repurchased could be held in treasury and reissued. No shares will be issued at a price less than NAV.

Fees and costs

Management fee is 0.45% on first £100m and 0.4% on the balance

The management fee is 0.45% per annum on amounts up to £100 million and 0.40% over £100 million. It is calculated monthly and paid quarterly. The calculation of the fee is based on the company's net assets, plus any borrowings up to a maximum of £30m, less any amount that is invested in 'commonly managed funds' (ie Aberdeen Smaller Companies Income Trust Plc).

The management contract covers the cost of company secretarial and administration services, and is terminable on six months' notice by either side. The management fee is allocated 50% against the revenue of the company and 50% against its capital. The same treatment is applied to the interest on SHRS' borrowings. All other expenses are charged against revenue.

Ongoing charges ratio of 0.95%

Other expenses include an amount paid to the manager for the provision of promotional activities. This was £78,000 for the year ended 31 March 2018, down from £83,000 for the prior year (including VAT). SHRS' ongoing charges ratio for the year ended 31 March 2018 was 0.95%, down from 1.04% for the prior accounting year.

Capital structure and life

SHRS has 29,997,580 ordinary shares and 50,000 3.5% cumulative preference shares in issue. Each of the ordinary shares and cumulative preference shares has a vote at general meetings of the company. In the event of a winding up of the company, the cumulative preference shareholders are entitled to any cumulative preference share dividends, accrued but not yet paid to them, plus a return of their capital (£1 per share). Ordinary shareholders are entitled to the balance.

SHRS' accounting year end is 31 March. Its annual results are usually released in May and interims published in November. Its AGMs are held in July. It has an unlimited life and no scheduled continuation votes.

Gearing

SHRS has a £20m loan facility

The maximum level of gearing on the equity portfolio has been set at 35% of net assets (at the time the funds are drawn down). The company has an agreement with Scotiabank Europe Plc for the provision of a £20m loan facility. This facility expires on 30 October 2020. On 1 November 2017, £10m of this facility was drawn down at a fixed rate of 1.956%, maturing on 30 October 2020. The terms of the Scotiabank Europe facility contain covenants that gross borrowings may not exceed one-third of adjusted net assets and that adjusted net assets may not be less than £37m.

Major shareholders

The only substantial shareholder in the company is the holding company for the savings plans managed by Aberdeen Asset Managers Limited. It held 17.3% of SHRS' ordinary shares at the end of March 2018.

Board

SHRS has four directors, all of whom are non-executive, who do not sit together on other boards and are independent of the manager (Mr Robson is a director of Witan Pacific Investment Trust and the manager manages part of Witan Pacific's assets but the board unanimously agrees that he should be considered independent).

Directors stand for re-election on a triennial basis, except for Mr Robson who stands for re-election each year given that he has been on the board for more than nine years.

The trust's articles of association limit the total directors' fees to £140,000 per annum and this limit may only be increased by shareholder resolution.

Figure 28: The board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)	Shareholding[1]
Robert Talbut	Chairman	April 2015	3	34,000	14,969
Robin Archibald	Director	May 2017	1	24,000	7,640
Marian Glen	Chairman of the remuneration committee	January 2013	5	24,000	3,000
Andrew Robson	Chairman of the audit committee	May 2008	10	28,000	15,000

Source: ASI. Note: 1) These shareholdings are as at 31 March 2018 except for Robin Archibald who acquired 7,640 shares on 4 April 2018.

Robert Talbut was formerly chief investment officer of Royal London Asset Management and has over 30 years of financial services experience. He has represented the asset management industry through the chairmanship of both the ABI Investment Committee and the Asset Management Committee of the Investment Association. He has also been a member of the Audit & Assurance Council of the FRC and the Financial Conduct Authority's Listing Authority Advisory Panel. He is chairman of EFG Asset Management (UK) Limited and a non-executive director of Pacific Assets Trust Plc, Schroder UK Mid Cap Fund Plc and JPMorgan American Investment Trust Plc.

Robin Archibald has a wide range of experience in advising and managing transactions in the UK closed-ended funds sector over his thirty-five year career as a corporate financier, including with Samuel Montagu, S G Warburg and NatWest Markets. He retired from Winterflood Investment Trusts in May 2014, where he was formerly head of corporate finance and broking. He is currently a non-executive director of Albion Technology & General VCT Plc, Ediston Property Investment Company Plc, Capital Gearing Trust Plc and Henderson European Focus Trust Plc.

Marian Glen is a non-executive director of Martin Currie Global Portfolio Trust Plc and Financial Services Compensation Scheme Limited. She is also a non-executive director of The Medical and Dental Defence Union of Scotland. She was a non-executive director of Murray Income Trust Plc, Friends Life Group Limited and other companies in the Friends Life group of companies. She was formerly the General Counsel of AEGON UK and prior to that was a corporate partner and head of funds and financial services at Shepherd and Wedderburn.

Andrew Robson is a chartered accountant, with many years of experience in investment banking and as a finance director. He was a director of Robert Fleming & Co Limited and SG Hambros, and Finance Director of eFinancialGroup Limited and the National Gallery. He has over 15 years of experience as a director of a number of quoted investment trusts and is currently a business adviser, working with smaller UK companies. He is a non-executive director of JPMorgan Smaller Companies Investment Trust Plc, Mobeus Income & Growth 4 Plc and Witan Pacific Investment Trust Plc.

QuotedData

QuotedData is a trading name of Marten & Co which is authorised and regulated by the Financial Conduct Authority
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IMPORTANT INFORMATION