MARTEN & CO

Update | Investment companies

31 July 2020

Shires Income

Preference shares paying dividends

Shires Income (SHRS) has been weathering the dividend crisis better than many of its peers. Holding a portfolio of preference shares, which contribute over 30% to income generation – and, crucially, have not been affected by regulatory restrictions on dividends – is a major competitive advantage.

SHRS's manager, Iain Pyle, expects to take a slightly more active approach going forward, with the pandemic likely to re-shape a number of industries. SHRS has been recovering ahead of most of its peer-group, with its high yield and exposure to growth proving compelling enough for it to be in a position to issue shares over July. The dividend remains well protected with revenue reserves of 1.1x the most recent annual dividend.

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 diversified portfolio substantially invested in UK equities but also in preference shares, convertibles, and other fixed income securities.

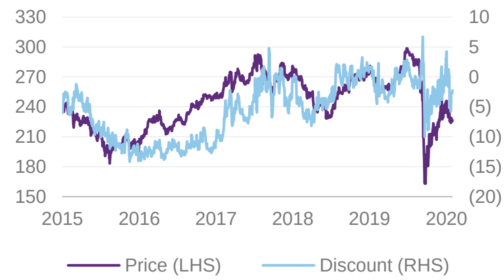
Year ended	Share price total return (%)	NAV total return (%)	MSCI UK total return (%)	MSCI World total return (%)
30/06/16	(7.7)	0.9	3.4	(3.8)
30/06/17	27.6	23.3	16.7	23.5
30/06/18	18.5	5.7	8.3	14.8
30/06/19	2.9	1.3	1.7	(5.8)
30/06/20	(7.1)	(8.0)	(15.2)	(11.3)

Source: Morningstar, Marten & Co

Sector	UK equity income
Ticker	SHRS LN
Base currency	GBP
Price	225.5p
NAV	231.8p
Premium/(discount)	(2.7%)
Yield	5.9%

Share price and premium/(discount)

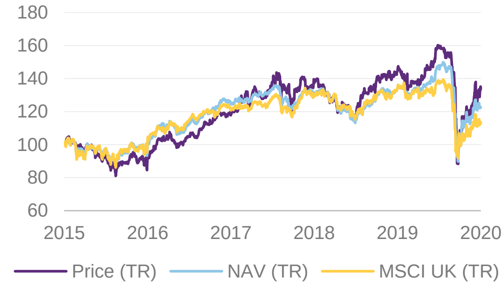
Time period 30/06/2015 to 29/07/2020



Source: Morningstar, Marten & Co

Performance over five years

Time period 30/06/2015 to 30/06/2020



Source: Morningstar, Marten & Co

Domicile	England and Wales
Inception date	25 March 1929
Manager	Iain Pyle
Market cap	69.8m
Shares outstanding	30.8m
Daily vol. (1-yr. avg.)	48,392
Net gearing	20%

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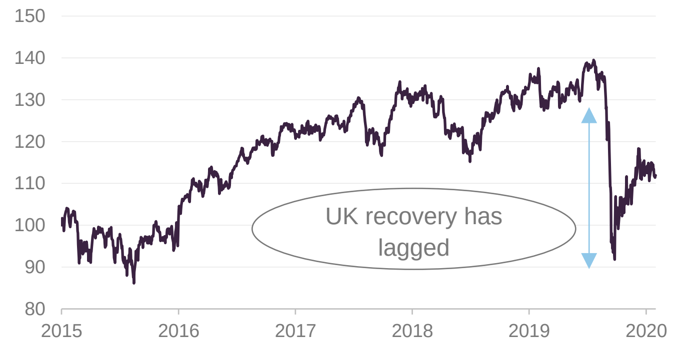
Preference shares providing timely protection

COVID-19 has acutely affected several companies that had been stalwarts of UK equity income funds for decades. Whether brought upon by regulators, as has been the case in banking, or in response to the collapse in global trade, the likes of Barclays, HSBC, Lloyds Bank, and Royal Dutch Shell have either slashed or suspended distributions.

Pharma and tobacco companies are distributing income at pre-pandemic levels

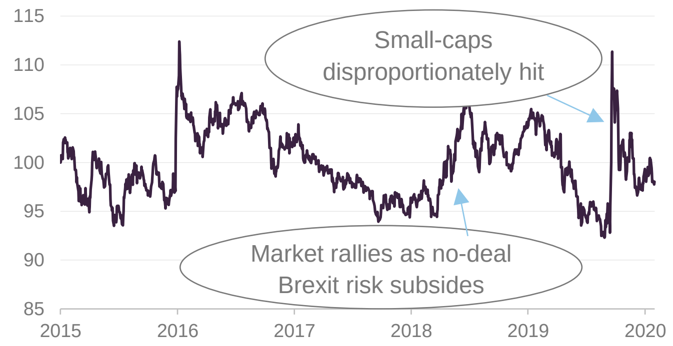
In order to deliver on their income mandates, fund managers have been looking to more defensive sectors, such as healthcare and tobacco. More broadly, UK equities, as represented by the MSCI UK indices illustrated by Figures 1 and 2, have lagged behind the recovery in global markets since April.

Figure 1: MSCI UK



Source: Morningstar, Marten & Co

Figure 2: MSCI UK relative to MSCI UK Small Cap



Source: Morningstar, Marten & Co

A successful re-opening would likely benefit SHRS's holding in Aberdeen Smaller Companies Income Trust

Iain believes we have likely moved past the worst phase of the pandemic. Provided the UK is able to escape a second-wave of infections over the coming months, there should be signs of green shoots as the economy gradually re-opens. This would particularly benefit SHRS's largest holding, Aberdeen Smaller Companies Income Trust, at about 9% of the portfolio.

Holding growth-focused exposure is made possible by the fact that over 30% of SHRS's income generation is delivered by a preference shares portfolio, which is financed by a combination of debt and equity. The income that this generates allows the manager to invest in a number of low to non-income-paying growth stocks, without compromising the trust's attractive yield. Figure 3 lists SHRS's income sources.

Figure 3: SHRS sources of income over the last five years

	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Ordinary dividends	60.0	58.5	59.1	54.0	53.0
Preference dividends	31.0	34.4	33.0	35.8	37.7
Aberdeen smaller companies	5.4	4.9	4.4	4.6	4.8
Fixed interest and bank interest	0.3	0.2	0.1	0.1	0.2
Traded option premiums	3.3	2.0	3.4	5.5	4.3
Total	**100**	**100**	**100**	**100**	**100**
Total income ('000s)	**4,807**	**4,712**	**4,916**	**4,695**	**4,361**

Source: ASI. Note: financial years to 31 March

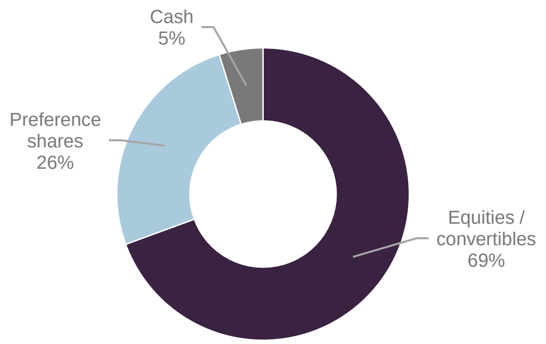
SHRS's preference share portfolio is a major competitive advantage

Despite the fact that SHRS's preference shares are predominantly in financials, where regulators have mandated suspensions to ordinary dividends, the regulators have allowed this source of income to continue. Distributions on the preference shares have not been affected by the suspension. This has contributed to SHRS's outperformance of its peer group since April. The manager also has the ability to increase option writing to supplement income.

Asset allocation

As at 31 May 2020, SHRS's portfolio consisted of 56 investments, split between seven fixed-income and 49 equity positions. As illustrated by Figure 5, at 31 May the value of the preference share portfolio was 1.6x greater than the fund's debt, net of cash.

Figure 4: SHRS asset allocation by type at 31 May 2020



Source: ASI, Marten & Co

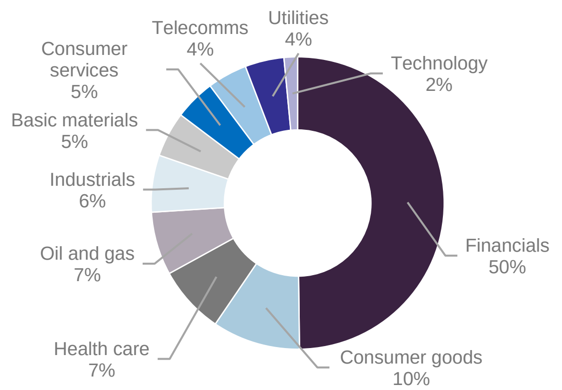
Figure 5: SHRS balance sheet extract at 31 May 2020

	(£'000)	(%)	change since 31/12/19 (%)
Equities/convertibles	62,804	87.6	(19.1)
Preference shares	23,302	32.5	(11.3)
Total investments	86,106	120.1	(17.1)
Cash	4,375	6.1	+3.5
Other net assets	300	0.4	+60.4
Gross assets	90,781	126.6	(16.2)
Debt	(19,048)	(26.6)	Nil
Net assets	71,733	100.0	(19.7)

Source: ASI, Marten & Co

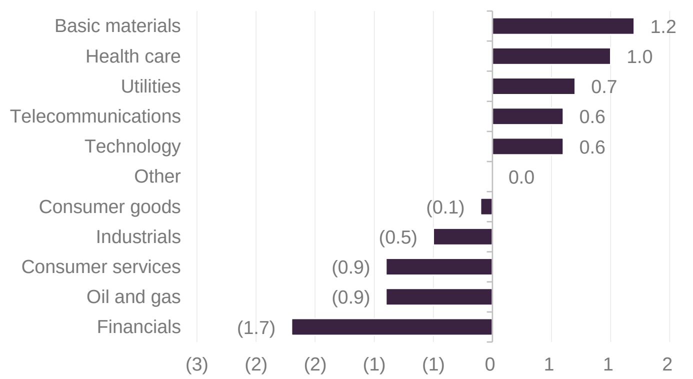
As illustrated by Figure 5, between 31 December 2019 (the balance sheet information used in our most recent annual note) and 31 May 2020 net assets declined by 19.7%, driven by COVID-19-related market moves. As might be expected, the value of the preference share portfolio has been more resilient than the equities/convertibles assets. Most of the preference share positions are in financials, where Iain notes that the withholding of ordinary dividend payments is primarily the result of regulatory intervention by the Bank of England. The banking sector was well capitalised going into the pandemic.

Figure 6: SHRS asset allocation by industry sector at 31 May 2020



Source: ASI, Marten & Co

Figure 7: Change in SHRS asset allocation by sector between 31 December 2019 and 31 May 2020



Source: ASI, Marten & Co

Top 10 holdings

Figure 8: SHRS top 10 equity holdings as a percentage of gross assets at 31 May 2020

	Sector	% as at 31 May 2020	% as at 31 Dec 2019	Change (%)
Aberdeen Smaller Companies Income	Investment company	8.9	9.9	(1.0)
AstraZeneca	Pharmaceuticals	3.4	2.4	+1.0
GlaxoSmithKline	Pharmaceuticals	2.8	2.4	+0.4
British American Tobacco	Tobacco	2.7	2.3	+0.4
Royal Dutch Shell 'B'	Oil and gas	2.6	4.0	(1.4)
BHP	Mining	2.5	1.5	+1.0
Prudential	Life insurance	2.3	2.7	(0.4)
Chesnara	Life insurance	2.2	1.8	+0.4
BP	Oil and gas	2.1	2.7	(0.6)
John Laing	Construction	2.0	1.8	+0.2
Total		**31.5**	**31.5**	**0.0**

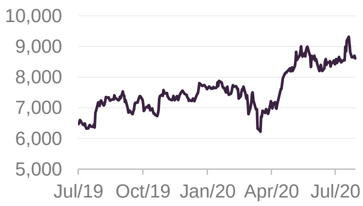
Source: ASI, Morningstar, Marten & Co

The aforementioned yield cushion provided by the preference share portfolio allows SHRS to allot 9–10% of gross assets to the relatively low-yielding Aberdeen Smaller Companies Income Trust (ASCIT). Inevitably, ASCIT suffered over the first half of 2020, reflecting the greater vulnerability of smaller companies to the strain inflicted by the pandemic. ASCIT recovered well over the quarter to 30 June 2020 as equity markets rallied sharply, delivering total NAV and share price returns of 19.0% and 37.0%. By comparison, the AIC UK Smaller Companies sector generated median returns of 16.4% and 18.0%, respectively.

Shell cut its dividend for the first time since the Second World War, while BP could still follow suit

The manager's long-term buy and hold strategy usually results in modest changes to the top 10 holdings. In these exceptional times, changes are inevitably more pronounced. Royal Dutch Shell 'B' (Shell) and BP's relative positions have slipped down, mirroring the performance of the energy sector. Iain reduced the holding in Shell by about 40%. In April, Shell slashed its dividend by two-thirds, in what was its first cut since the Second World War. BP has so far not followed Shell in cutting its dividend, though there is a good chance this will happen as the oil price remains depressed reflecting the contraction in the global economy. The company reported a 66% drop in first quarter earnings.

Figure 9: AstraZeneca



Source: Bloomberg, Marten & Co

AstraZeneca and GlaxoSmithKline have replaced the oil majors, as the second and third largest equity holdings. The pharmaceutical sector has been resilient. Purchases by Iain and market moves have increased the fund's exposure to both companies by about 5%, over the past few months. AstraZeneca has performed very well recently, boosted by the apparent success of the COVID-19 vaccine that it is developing and manufacturing in conjunction with Oxford University's vaccinology centre. Moreover, over recent years, AstraZeneca has launched a number of very successful cancer drugs.

Elsewhere, the global mining company, BHP, is a new entry in the top 10. Iain increased the trust's exposure to the company by around 61%, as part of his strategy over recent months, to increase the portfolio's international focus. The dividends of global mining companies like BHP are not thought to be under threat. The holding in British American Tobacco was also topped up. It offers a secure dividend and Iain believed it to be attractively priced. We also note that Chesnara, the life insurance company, increased its dividend in late March.

Figure 10: Largest equity holdings – valuation and returns as at 29 July 2020

	Market cap (£m)	P/E ratio current	P/E ratio forward	P/B ratio current	YTD market return (%)	Beta 3-year average
AstraZeneca	113,052	96.8	28.2	13.6	15.2	0.4
GlaxoSmithKline	77,958	11.7	12.9	5.7	(10.3)	0.5
British American Tobacco	62,024	10.9	8.1	1.0	(13.1)	1.1
Royal Dutch Shell 'B'	94,099	12.5	31.2	0.7	(45.1)	1.3
BHP	86,719	11.9	16.3	2.3	(0.7)	1.4
Prudential	30,471	20.1	6.7	2.0	(18.0)	1.3
Chesnara	430	5.5	10.1	0.9	(4.9)	0.6
BP	59,532	-	-	0.9	(34.2)	1.0
John Laing	1,476	14.8	18.7	0.9	(19.2)	0.4
Average	58,418	23.0	16.5	3.1	(14.5)	0.9

Source: Morningstar, Marten & Co

The composition of the preference share portfolio remains unchanged from when we last published. Other than the Balfour Beatty convertible, none of the securities listed in Figure 11 has a fixed redemption date.

Figure 11: SHRS preference share holdings as a percentage of gross assets at 31 May 2020

	% as at 31 May 2020	% as at 31 Dec 2019	Change (%)
Ecclesiastical Insurance 8.875%	6.7	6.1	+0.6
Royal Sun Alliance 7.375%	5.6	5.3	+0.3
General Accident 7.875%	4.7	4.5	+0.2
Santander 10.375%	4.6	4.3	+0.3
Standard Chartered 8.25%	3.5	3.5	Nil
Rea Holdings 9%	0.6	0.7	(0.1)
Balfour Beatty cum conv. 10.75% 01/07/20	0.5	0.5	Nil
Total	**26.2**	**24.9**	**1.3**

Source: ASI, Morningstar, Marten & Co. *Note: return figures to 30 June 2020

Portfolio activity

Figure 12: Sirius Real Estate

Source: Bloomberg, Marten & Co

New holdings added by the manager since our last note include Total SE, Direct Line Insurance Group, LondonMetric, and Coca-Cola HBC (these are discussed in more detail below).

Elsewhere, the manager increased the fund's exposure to Sirius Real Estate (SRE), M&G, and IWG by more than 50%.

Germany-based SRE invests and operates flexible workspaces with a portfolio of around 60 business parks. Germany appears to have managed the spread of COVID-19 and the process of re-opening its economy more effectively than the other major Western European countries.

Asset management company M&G was topped up over June, at an attractive valuation. We note that as at 20 July 2020, M&G's shares are trading at 4.4x trailing earnings. The company is making a concerted effort to make further inroads into the retail market after agreeing to acquire Ascentric, an advisory platform, for £14bn from Royal London. Ascentric's wide user base will provide a greater reach for M&G's core fund and insurance products.

IWG provides workspace real-estate solutions globally. The company is the world's largest in its space. Compared to other companies in this industry, like WeWork, IWG has expanded more cautiously. A recent equity raise provides the means to take advantage of distressed opportunities. IWG suspended its dividend and share buybacks in April. The flexible solutions it provides could prove popular with small and medium-sized businesses in particular, as economies gradually re-open.

Figure 13: Total SE

Source: Bloomberg, Marten & Co

Total SE – 1.4% portfolio weight as at 30 June 2020

Over June, Iain added the France-based integrated oil and gas company, Total SE (Total) (www.total.com), to the portfolio. Total is the world's second biggest producer of liquefied natural gas (LNG). It recently secured financing of $15bn that will be deployed in developing LNG in Mozambique. The project will be the largest foreign direct investment into Africa, to date. Total is among the major European oil and gas companies that consider green energy to be a major commercial opportunity.

Direct Line Insurance Group – 0.7% portfolio weight as at 30 June 2020

Figure 14: Direct Line Insurance Group

Source: Bloomberg, Marten & Co

UK-based Direct Line Insurance Group (Direct Line) (www.directlinegroup.co.uk) was added to the portfolio over April. The company is a personal and small business general insurer. Personal insurance operating segments include motor, home, and rescue. The commercial business provides insurance to small and medium-sized companies. Direct Line was built through a direct-to-customer telephone model. It is investing in digitalising its business, having recently completed the acquisition of Brolly, the digital insurance app.

LondonMetric 0.6% portfolio weight as at 30 June 2020

Figure 15: LondonMetric

Source: Bloomberg, Marten & Co

LondonMetric (www.londonmetric.com) managed to raise £120m in a placing of new shares at a premium to NAV over May, a remarkable figure at the height of the pandemic. The money will be invested in a pipeline of urban logistics assets. LondonMetric has performed resiliently through a pandemic that has severely affected so many commercial property funds. The logistics sector, and urban logistics in particular, is playing an important role for many businesses that are still in operation during the lockdown – e.g. parcel delivery firms. LondonMetric is taking advantage of the current turmoil in property and the majority of the acquisition pipelines it has identified are sale-and-leaseback deals with operators that want to release some capital from the real estate they own.

Coca-Cola HBC - 0.5% portfolio weight as at 30 June 2020

Figure 16: Coca-Cola HBC

Source: Bloomberg, Marten & Co

With revenues in excess of £6bn, Coca-Cola HBC (www.coca-colahellenic.com) is one of The Coca-Cola Company's leading franchise bottling companies. Coca-Cola HBC serves established markets such as Italy and Switzerland and developing markets across Central and Eastern Europe, including Russia. It also has a sizeable presence in Nigeria. In addition to the core Coca-Cola carbonated line-up, the company also manufactures bottled water, energy drinks and juices.

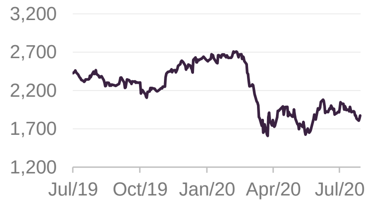
Disposals and sales

Since our last note, the manager has exited positions in HSBC, London Stock Exchange (LSE) Group, and Unibail-Rodamco-Westfield. HSBC will not pay a dividend this year and is exposed to the ongoing fallout between Hong Kong and the

Chinese mainland. Hong Kong is the hub of its strong Asia business. Iain noted that whilst the Standard Chartered holding is similarly exposed to Hong Kong, he has retained it in the portfolio on valuation grounds.

LSE was sold over April. The manager's decision was likely influenced by the holding's relatively-low yield (below 1%) and the prevailing sentiment at the time. Shares in LSE have since rebounded in line with the wider rally in the equity market.

Figure 17: Associated British Foods



Source: Bloomberg, Marten & Co

Shares in Unibail-Rodamco-Westfield, the parent company behind the Westfield shopping centres, are down by nearly 70% over the year to 30 July 2020, reflecting the general malaise in the retail property sector as lockdowns forced store closures and encouraged online shopping.

Elsewhere, the manager has reduced the holding in Associated British Foods. The company owns Primark, the discount clothes retailer. Primark does not have an online presence of its own, which potentially places it at a major disadvantage in this new era. Primark's reliance on dense footfall drove the manager's decision.

Performance

Figure 18: SHRS NAV total return relative to the MSCI United Kingdom Index total return (rebased to 100), five years to 30 June 2020

Source: Morningstar, Marten & Co

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

The past year has provided some extraordinary market moves. The period leading up to the UK's general election last December saw SHRS reach new heights against the broader UK market, represented by the MSCI UK Index. As at 30 June 2020, SHRS NAV is approaching its pre-pandemic high, against the Index, on a normalised five-year basis.

SHRS has consistently outperformed its peers over the past five years

As Figure 19 illustrates, in total return NAV and share price terms, SHRS has outperformed median returns delivered by its peer group (defined in the next section) across most cumulative time periods to 30 June 2020.

Figure 19: Total return performance over periods ending 30 June 2020

	1 month	3 months	6 months	1 year	3 years	5 years
SHRS share price	7.3	22.9	(15.8)	(7.1)	13.4	33.6
SHRS NAV	1.6	14.7	(16.8)	(8.0)	(1.1)	23.1
MSCI UK	1.5	8.2	(17.7)	(15.2)	(6.6)	12.7
Peer group[1] median share price	1.6	10.7	(20.7)	(15.6)	(8.3)	9.6
Peer group[1] median NAV	1.8	12.5	(20.4)	(14.6)	(8.1)	11.1

Source: Morningstar, Marten & Co. Note 1) peer group is defined on page 9

Significant underweights to large index constituents delivering value

Lower allocations to a number of former UK dividend stalwarts has been paying off

SHRS's most recent full-year results period to 31 March unfortunately reflected the most severe impact of the pandemic on financial markets, without factoring in the subsequent recovery. Relative to its benchmark and to many peers, SHRS benefitted from either underweight exposures or not holding a number of large constituents of its benchmark, such as Royal Dutch Shell, HSBC, Lloyds Bank, Barclays, and Glencore. Lower exposure to this group of companies has continued to deliver relative outperformance since the end of SHRS's financial year. Only Glencore has outperformed the fund's NAV over the period.

Peer group

Figure 20: AIC UK equity income sector selected funds cumulative NAV total return performance for periods ending 30 June 2020

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SHRS	1.6	14.7	(16.8)	(8.0)	(1.1)	23.1
Aberdeen Standard Equity Income	4.5	13.4	(27.0)	(23.0)	(22.8)	(14.3)
BMO Capital & Income	2.6	12.2	(24.5)	(17.0)	(7.1)	20.2
BMO UK High Income	1.7	18.0	(17.2)	(9.6)	(8.4)	11.6
City of London	1.3	10.5	(18.6)	(13.7)	(6.0)	11.3
Diverse Income	1.9	16.0	(7.9)	(0.6)	1.0	23.1
Dunedin Income Growth	1.8	13.2	(9.5)	(2.5)	9.9	33.8
Edinburgh Investment	4.2	11.4	(20.6)	(15.2)	(23.3)	(4.3)
Finsbury Growth & Income	0.0	12.1	(7.4)	(6.1)	23.8	61.4
Invesco Income Growth	1.0	8.7	(20.4)	(13.1)	(10.7)	4.8
JPMorgan Claverhouse	1.8	14.7	(21.7)	(15.9)	(7.5)	11.1
JPMorgan Elect Managed Income	0.4	10.7	(19.5)	(15.2)	(10.1)	4.7
Law Debenture	4.3	15.4	(14.4)	(9.0)	0.1	26.4
Lowland	2.5	12.6	(27.5)	(20.4)	(23.9)	(7.7)
Merchants	1.4	15.7	(24.8)	(14.6)	(8.1)	5.2
Murray Income	1.4	12.5	(13.0)	(4.9)	7.0	32.4
Perpetual Income & Growth	5.6	7.9	(28.0)	(21.2)	(29.7)	(20.1)
Schroder Income Growth	2.2	10.7	(22.4)	(15.5)	(9.3)	8.2
Temple Bar	3.1	16.6	(37.7)	(28.8)	(25.7)	(11.9)
Troy Income & Growth	0.2	8.4	(11.8)	(6.0)	3.6	26.3
Value and Income	0.8	6.2	(21.6)	(18.7)	(15.7)	(3.9)
Median	1.8	12.5	(20.4)	(14.6)	(8.1)	11.1
SHRS rank	**13/21**	**6/21**	**7/21**	**6/21**	**7/21**	**7/21**

Source: Morningstar, Marten & Co. Note: excluding funds with market capitalisations below £40m

SHRS sits within the AIC's UK equity income sector. For the purposes of this note, we have excluded investment companies with a market cap of less than £40m. A full list of the investment companies in our peer group is provided in Figure 20.

As discussed in the asset allocation section, SHRS's policy of enhancing its income through its preference share portfolio allows it to hold more growth companies than most of its peers. The combination of growth and high-income has been powerful over several years, in an environment where investors have favoured growth over value.

The outperformance of growth over value has played to SHRS's strengths

SHRS's relative performance has been remarkably consistent over the time periods shown in Figure 21, with total returns consistently well ahead of the sector median. The fund's relatively high ongoing charges ratio reflects its small size, with a market capitalisation of £69.8m, as at 29 July 2020. However, its attractive yield and the growth exposure built into its strategy have allowed it to trade close to or above asset value for most of the past 18 months. Readers interested in more detail on SHRS's fees can refer to page 15 of our most recent annual overview note.

Figure 21: AIC UK equity income sector selected funds comparison as at 29 July 2020

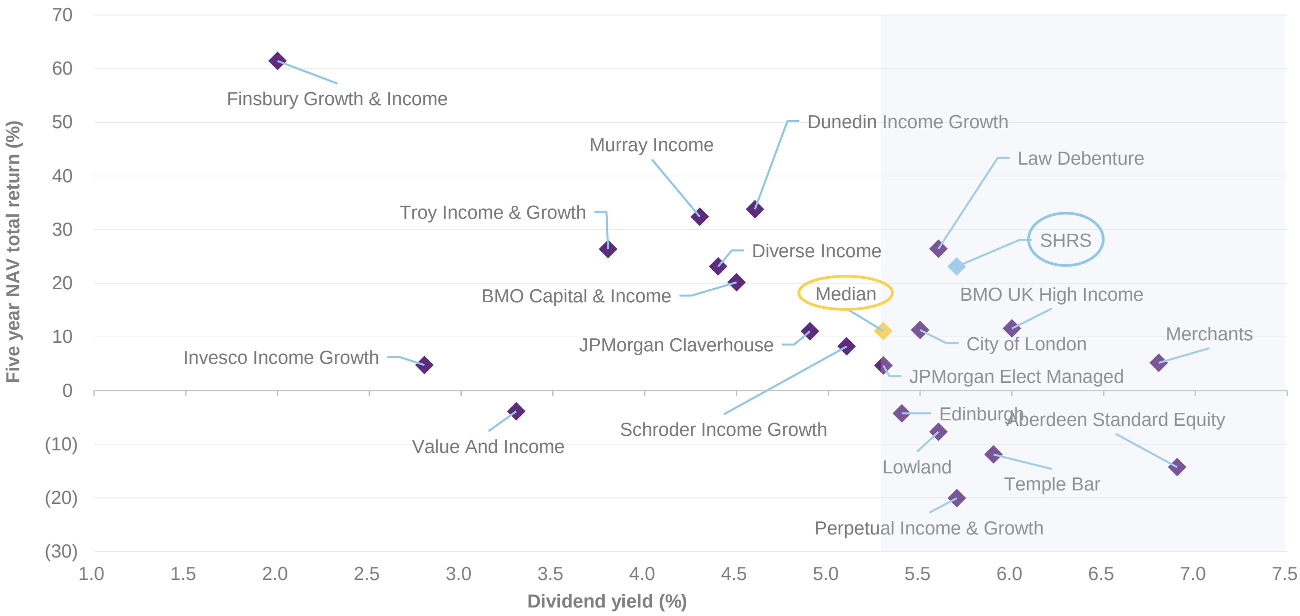
	Market cap (£m)	Premium/ (Discount) (%)	12 month dividend yield (%)*	Annual ongoing charge (%)*
SHRS	70	(2.3)	5.7	0.98
Aberdeen Standard Equity Income	132	(9.7)	6.9	0.91
BMO Capital & Income	276	1.6	4.5	0.58
BMO UK High Income	67	(10.9)	6.0	0.98
City of London	1,385	(1.0)	5.5	0.39
Diverse Income	299	(8.1)	4.4	1.16
Dunedin Income Growth	381	(7.6)	4.6	0.63
Edinburgh Investment	806	(13.0)	5.4	0.56
Finsbury Growth & Income	1,831	(0.1)	2.0	0.66
Invesco Income Growth	135	(13.2)	2.8	0.73
JPMorgan Claverhouse	325	(5.5)	4.9	0.72
JPMorgan Elect Managed Income	69	(4.9)	5.3	0.86
Law Debenture	618	(2.6)	5.6	0.48
Lowland	252	(7.7)	5.6	0.63
Merchants	410	(4.5)	6.8	0.58
Murray Income	501	(6.4)	4.3	0.65
Perpetual Income & Growth	494	(10.5)	5.7	0.72
Schroder Income Growth	162	(3.8)	5.1	0.87
Temple Bar	485	(11.3)	5.9	0.49
Troy Income & Growth	252	0.2	3.8	0.91
Value and Income	74	(34.5)	3.3	0.00
Median	299	(6.4)	5.3	0.66
SHRS rank	**19/21**	**5/21**	**5/21**	**19/21**

Source: Morningstar, Marten & Co. Note: excluding funds with market capitalisations below £40m. *Note: dividend yield and ongoing charges figures as at 30 June 2020

Amongst the more conventional equity income funds, over the past five years, SHRS delivered the best total NAV returns among funds with above average dividend yields

Figure 22 illustrates how SHRS's yield and NAV return over five years compare against the wider sector. Out of all the funds with a yield greater than the sector median of 5.3% (the shaded area in Figure 22), only Law Debenture delivered a greater five-year total NAV return. Law Debenture, formerly classified under the AIC's global sector, is a more esoteric fund with its combination of equity investments and the operation of an independent professional services business.

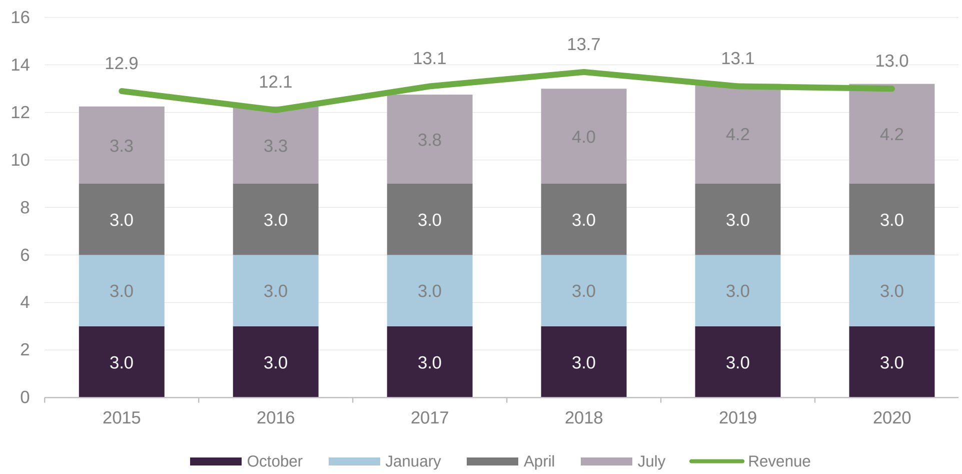
Figure 22: SHRS NAV five-year total return performance and dividend yield versus peers, as at 30 June 2020



Source: Morningstar, Marten & Co

Dividend

Figure 23: SHRS dividends and revenue pence per share – accounting years ended 31 March



Source: ASI, Marten & Co

> The preference share portfolio is helping to protect a large part of the fund's dividend revenue

SHRS pays quarterly dividends in October, January, April, and July. For the financial year ending 31 March 2020, the dividend was maintained at 13.2p. As with recent years, it comprises of three quarterly interim dividends of 3p each, with a final dividend determined following a review of the year-end results. As at 28 July 2020, SHRS's shares were yielding 5.9%.

Whilst many financial companies were forced to suspend dividend payments on their ordinary shares, this has not been the case for SHRS's preference shares, which is helping to protect a large part of its dividend revenue.

Prior to the payment of the third interim and final dividend, SHRS's revenue reserves at the end of March 2020 amounted to £6,770,000, equivalent to 22.0p per share. The 2019/2020 dividend was narrowly uncovered by current year earnings, though following the payment of a final dividend of 4.2p, in July, revenue reserves will represent 1.1x the current annual cost of the dividend.

Premium/(discount)

Figure 24: SHRS Premium/(discount) to NAV over five years ending 30 June 2020

Source: Morningstar, Marten & Co

Over the 12 months ended 30 June 2020, SHRS traded within a range of a (10.0%) discount to a 6.7% premium and an average discount of (1.4%). At 28 July 2020, the shares were trading at a discount of (2.7%).

SHRS was expanding for the first time since 2012 before the pandemic

Before the outbreak of COVID-19, SHRS had traded close to asset value for over a year. This provided an opportunity to grow the fund, with 615,000 shares issued, at a premium to NAV, over the year to 31 March 2020. We note that SHRS also issued 25,000 new shares over July 2020.

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 its 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. The company is benchmarked against the FTSE All-Share Index. We have substituted this 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. It may supplement this by writing call and put options on shares owned by the trust or shares that the manager would like to buy.

SHRS's preference share portfolio is funded, in part, by lower cost debt (effectively, the equity portfolio is ungeared). The income that this arrangement contributes to SHRS's 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's revenue account. This may be the case again if interest rates rise.

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

Iain Pyle

SHRS lead manager is Iain Pyle

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.

Previous publications

Readers interested in further information about SHRS may wish to read our previous notes, which are summarised in Figure 25 below. You can read them by clicking on the links below or by visiting our website.

Figure 25: Marten & Co. previously published notes on SHRS

Title	Note type	Date
Sustainable high yield	Initiation	19 October 2018
Growing again	Update	30 May 2019
Building on a great 2019	Annual overview	5 February 2020

Source: Marten & Co

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IMPORTANT INFORMATION