

# Shires Income PLC

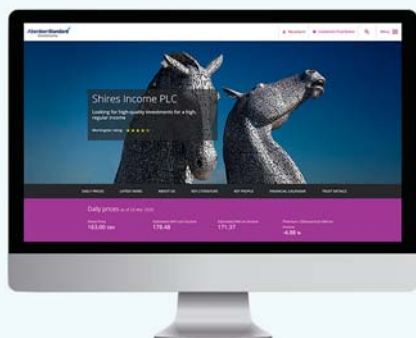
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If you have sold or otherwise transferred all your Ordinary shares in Shires Income PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



#### Visit our Website

To find out more about Shires Income PLC, please visit: [shiresincome.co.uk](http://shiresincome.co.uk)

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"This Annual Report is written against a backdrop of significant market falls towards the end of the Company's financial year caused by the global spread of the COVID-19 virus, and significant volatility in markets that has continued since the end of the year."

**Robert Talbut, Chairman**



"For most of the 12 months to 31 March 2020 it seemed as though the major discussion points impacting the UK equity market would be Brexit, UK politics and the state of US-China trade relations, but in reality it was the last six weeks of the period and the impact of the COVID-19 virus that has framed the year under review."

**Iain Pyle and Charles Luke,  
Aberdeen Asset Managers Limited**

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# Highlights and Financial Calendar

## Net asset total return<sup>A</sup>

–18.0%

2019

+4.0%

## Share price total return<sup>A</sup>

–21.2%

2019

+8.0%

## Benchmark index total return

–18.5%

2019

+6.4%

## Earnings per share (revenue)

12.98p

2019

13.06p

## Dividends per Ordinary share

13.20p

2019

13.20p

## Dividend yield<sup>A</sup>

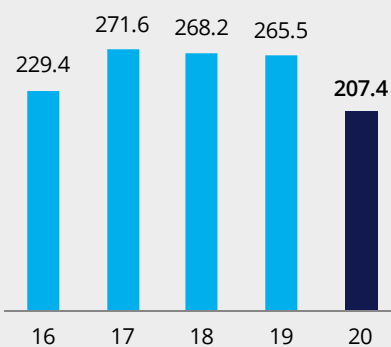
6.6%

2019

4.9%

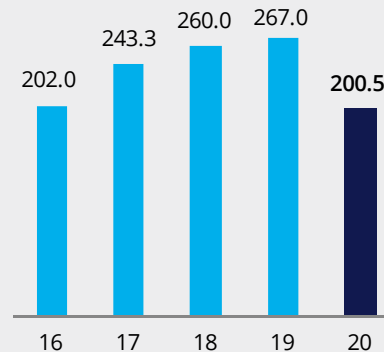
<sup>A</sup> Alternative Performance Measure (see pages 99 and 100).

## Net asset value per Ordinary share



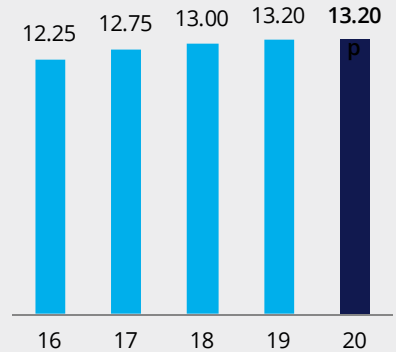
At 31 March – pence

## Ordinary share price



At 31 March – pence

## Dividends per Ordinary share



Year ended 31 March – pence

## Financial Calendar

Annual General Meeting (Edinburgh) <sup>A</sup>	14 July 2020
Expected payment dates of quarterly dividends	24 July 2020 23 October 2020 29 January 2021 30 April 2021
Half year end	30 September 2020
Expected announcement of results for the six months ending 30 September 2020	November 2020
Financial year end	31 March 2021
Expected announcement of results for year ending 31 March 2021	May 2021

<sup>A</sup> Refer to Chairman's Statement for information on arrangements for the Annual General Meeting



Angel of the North, Gateshead, Tyne and Wear

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# Strategic Report

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.

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# Chairman's Statement

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This Annual Report is written against a backdrop of significant market falls towards the end of the Company's financial year caused by the global spread of the COVID-19 virus, and considerable volatility in markets that has continued since the end of the year.

As a consequence of these events, in the year to 31 March 2020 the Company's net asset value ("NAV") per share decreased by 18.0% on a total return basis, compared to a total return decrease of 18.5% from our benchmark, the FTSE All Share Index. The share price fell by 21.2% on a total return basis during the year.

To put some perspective on the impact the COVID-19 pandemic has had on returns, when looking back at the Company's performance for the nine month period to 31 December 2019, the NAV total return was 13.9%, outperforming the benchmark by approximately 5%. The FTSE All Share Index then fell by more than 25% during the final quarter of the year, almost entirely during the final six weeks of the period, as the implications of the virus became clearer.

For most of the year under review, the global economic outlook was dominated by the US-China trade dispute and concerns generally over slowing economic growth. In the UK, the main focus for investors was the process of our exit from the EU. The large majority secured by the Conservative Party in the General Election in December provided an end of year boost to investor sentiment with domestically exposed companies leading the equity market higher. This concluded months of economic and political uncertainty, with a withdrawal agreement put in place which saw the UK exit the EU on 31 January 2020.

However, the spread of the COVID-19 virus during February and March of this year had a significant impact on markets due to the likely disruption to the domestic and global economies as governments around the world started to enforce lockdown measures to protect their countries' health services and slow the spread of the virus. As yet, there has been no significant progress made on containment, far less resolution, of the health crisis for the longer term. The resulting uncertainty over the extent of the economic recession, the speed and degree of the recovery and the long-term public health effects is significant and likely to persist for an extended period of time. Not surprisingly, world markets for all traded securities are trying to price this uncertainty and are very volatile. This is despite an unprecedented degree of monetary and fiscal policy support provided by central banks and governments.

More detail on markets and the Company's performance for the year are covered in the Investment Manager's Review on pages 26 to 29.

## Earnings

The Company's revenue return for the year was 12.98p per share, compared to 13.06p per share for the previous year. The fall in earnings per share reflects the share issuance which took place in the year as a slightly higher level of income generated from investments during the year has been spread over a greater number of shares.

Towards the end of the financial year, in light of the deteriorating economic developments with the resulting uncertainties over corporate earnings prospects, a number of companies announced cuts or suspension of their dividends. In the case of the UK banking sector, the Bank of England mandated a zero dividend policy. The global oil sector suffered from record low oil prices due to the combination of plummeting demand and a disagreement between Russia and Saudi Arabia on restricting supply. However, as companies seek to address the full impact of the disruption caused by the virus, we expect there to be a more significant impact upon how corporate cash is deployed in the current year. Furthermore, it is likely that the overall level of dividend income generated by UK equities in 2019 will not be returned to for a number of years. This is addressed in greater detail in the Investment Manager's Review.

## Dividend

The Board is proposing a final dividend of 4.20p per Ordinary share (2019 – 4.20p), which will be paid on 24 July 2020 to shareholders on the register on 3 July 2020. This final dividend brings total Ordinary share dividends for the year to 13.20p per share, unchanged from the previous year. The dividend is uncovered by current year earnings, however, the Company has a healthy level of revenue reserves which, following the payment of the final dividend, will represent 1.1 times the current annual Ordinary share dividend cost.

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**The final dividend of 4.20p per Ordinary share brings total dividends for the year to 13.20p per share, unchanged from the previous year.**

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The Board takes the view that Shires Income, despite the uncertainties over the economic and corporate outlook, with its diversified sources of income and a good level of reserves, reasonable liquidity in its portfolio and manageable and flexible debt level, is in a relatively good position. Therefore, subject to unforeseen circumstances, it is proposed to continue during this financial year to pay three quarterly interim dividends of 3.00p each per Ordinary share and, as in previous years, the Board will decide on next year's final dividend having reviewed the full year results and taking into account the general outlook for the portfolio's investment income at that time.

#### Discount/Premium

At the end of the year the Company's Ordinary shares were trading at a discount of 3.3% to the NAV per share (including income) compared to a premium of 0.6% at the end of the previous year. During the course of the year, with the shares trading at a premium to the NAV and in response to investor demand, the Company was able to issue a total of 615,000 new Ordinary shares on a non-dilutive basis (2.0% of the opening Ordinary share capital).

The Board and Manager monitor the discount/premium of the Company's shares on an ongoing basis and the Board will seek to renew the appropriate share issuance and share buy back authorities at the Annual General Meeting.

**The impact of the COVID-19 virus has had a significant impact on global markets and it seems clear that the economic road to recovery will be a long one.**

#### Gearing

The Company's gearing level (net of cash) was 23.7% as at 31 March 2020 compared to 19.6% at the end of the previous year.

The Board continually monitors the level of gearing and, although the absolute level may look high relative to some other investment trusts, strategically we take the view that it is deployed notionally into fixed interest securities which bring diversification to the Company's total revenue stream and have lower volatility than would be expected from a portfolio invested exclusively in equities. The Board takes the view that the enhanced balance of assets arising from a combination of fixed income securities and equities allows for an appropriate level of risk within the portfolio in order to achieve the overall investment objective.

The Company has a £20 million loan facility, of which £19 million was drawn down at the year end. £9 million of this amount is drawn down on a short-term basis through a revolving credit facility and can be repaid without incurring any financial penalties giving the Company considerable flexibility if it were to be required. The facility matures in September 2022. Further details are set out in note 13 to the financial statements.

#### Board Composition

As previously announced, Jane Pearce was appointed as an independent non-executive Director on 1 January 2020. Jane, who is a Chartered Accountant, had an executive career as an Equity Analyst at leading investment banks and latterly was an Equity Strategist at Lehman Brothers and Nomura International. Her full biographical details are contained on page 42. Jane will stand for appointment at the AGM.

We have also previously announced that Andrew Robson will retire from the Board at the AGM. Andrew was appointed as a Director in 2008 and served as Chairman of the Audit Committee until July 2019. I would like to thank Andrew for his significant contribution to the Company during his time on the Board. As in the previous year and in accordance with the new AIC Code of Corporate Governance, all of the other Directors are standing for re-appointment this year.

#### Annual General Meeting

The Annual General Meeting ("AGM") will be held at 12 noon on Tuesday 14 July 2020 at 1 George Street, Edinburgh EH2 2LL.

The Board has been considering how best to deal with the potential impact of the COVID-19 pandemic on arrangements for the Company's AGM, taking account of developing Government guidance, and including evolving rules on staying at home, social distancing and avoiding public gatherings ("COVID-19 Measures"). Given the possibility that some level of restriction on public gatherings and maintaining social distancing will remain in place in July, the Board has also resolved to amend the format of the AGM for this year. Therefore, whilst the formal business of the AGM (as set out in the Notice of AGM on pages 103 to 107 of this document) will be considered, the meeting will be functional only, and will follow the minimum legal requirements for an AGM. There will be no presentation from the portfolio managers, Iain Pyle and Charles Luke, and no refreshments will be offered. If COVID-19 Measures remain in place in July, shareholders are strongly discouraged from attending the meeting and indeed, pursuant to the Company's Articles of Association, entry may be refused if the law and/or Government guidance so requires.

## Chairman's Statement Continued

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In circumstances, arrangements will be made by the Company to ensure that the minimum number of shareholders required to form a quorum will attend the meeting in order that the meeting may proceed and the business concluded.

The Board considers these revised arrangements to be in the best interests of shareholders in the current circumstances. In light of the outbreak and evolving Government guidance, the Company will continue to keep arrangements for the AGM under review and it is possible the arrangements will need to change. We will keep shareholders updated of any changes through the Company's website ([shiresincome.co.uk](http://shiresincome.co.uk)) and announcements to the London Stock Exchange. We trust that shareholders will be understanding of this approach and we hope that 'normal service' can be resumed next year.

A presentation from the Investment Manager, along with the AGM results, will be made available to shareholders on the Company's website shortly after the AGM.

In light of the developing situation and the revised format of this year's meeting, shareholders are encouraged to raise any questions in advance of the AGM with the Company Secretary at [shires.income@aberdeenstandard.com](mailto:shires.income@aberdeenstandard.com) (please include 'SHIRES AGM' in the subject heading). Questions must be received by 5.00pm on 10 July 2020. Any questions received will be replied to by either the Manager or Board via the Company Secretary either before or after the AGM.

In taking these steps, the Board is trying to balance the requirement under company law to hold an AGM so that the matters that it needs to seek shareholder approval for can be considered, whilst operating in a rapidly changing environment where public gatherings are restricted. The Board strongly encourages all shareholders to exercise their votes in respect of the meeting in advance by completing the enclosed form of proxy, or letter of direction for those who hold shares through the Aberdeen Standard Investments savings plans. This should ensure that your votes are registered in the event that physical attendance at the AGM is not possible or restricted.

### Amendments to the Articles of Association

The Board will propose changes to the Articles of Association at the AGM to permit the Company to pay dividends out of realised capital profits and to make other minor changes. The new Articles of Association as proposed to be adopted will take effect from the conclusion of the AGM. Given the size of the Company's revenue reserves, the Board does not have any current intention to pay dividends out of realised capital profits. However, this change, which has been adopted by many other investment trusts, will provide flexibility to do so in the future. Further details are contained in the Directors' Report on page 50. As at 31 March 2020, the Company's realised capital reserve was £27.0 million.

### Outlook

The impact of the COVID-19 virus has had a significant impact on global markets and it seems clear that the economic road to recovery will be a long one. Our Investment Manager's current view is that a return to the level of company profitability prevalent at the end of 2019 may not occur until at least the end of 2022. In addition, resolving the public health issues needed to allow a full return to normal everyday life are an interconnected uncertainty. These issues will affect all investors whether they are focused upon capital growth, income or, like Shires, a combination of both.

In such an environment, the Company is also faced with the impact of the large number of dividend cuts made by companies since February and uncertainty over both the extent and pace of future increases and the wider question over the future sustainable level of dividend payouts from equities in general. Within the UK, there is also likely to be an increase in uncertainty as the Brexit negotiations reach their climax in the second half of this year.

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**The Board remains confident in your Manager's investment process and that over the medium and longer term, and notwithstanding the current uncertainties, they can uncover attractive investment opportunities, and that therefore the Company remains well placed to meet its income and growth objective.**

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In this highly uncertain environment, your Investment Manager has been focusing on ensuring that your Company's portfolio remains well positioned to weather the impact of the pandemic. As the Investment Manager points out, there remain within the financial markets many good sources of relatively reliable income with which to generate returns for our shareholders. The Board is encouraged by the quality of the portfolio, where most of the companies have healthy balance sheets and either good current dividend yields or the prospect for returning to dividend payments where cuts have been made.

Overall, there are many challenges ahead from the perspectives of public health, economic recovery and corporate profitability. However, despite the current extreme difficulties being faced we should expect that businesses will adapt and will ultimately recover and that new ways of working and new businesses will be found that will reward patient investors. The Board remains confident in your Manager's investment process and that over the medium and longer term, and notwithstanding the current uncertainties, they can uncover attractive investment opportunities, and that therefore the Company remains well placed to meet its income and growth objective.

**Robert Talbut,**  
**Chairman**  
3 June 2020

# Overview of Strategy

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## Business Model

The business of the Company is that of an investment company which qualifies as an investment trust for tax purposes. The Directors do not envisage any change in this activity in the foreseeable future.

## 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.

## Investment Policy

In pursuit of its objective, the Company's policy is to invest principally in the ordinary shares of UK quoted companies, and in preference shares, convertibles and other fixed income securities with above average yields.

The Company generates income primarily from ordinary shares, preference shares, convertibles and other fixed income securities. It also achieves income by writing call and put options on shares owned, or shares the Company would like to own. By doing so, the Company generates premium income.

## Risk Diversification

In order to ensure adequate diversification, the Board sets absolute limits on maximum holdings and exposures in the portfolio from time to time. These limits do not form part of the investment policy and can be changed or over-ridden with Board approval. The current limits are disclosed under the heading "Board Investment Limits" below.

## Gearing

The Directors are responsible for determining the gearing strategy of the Company. Gearing is used with the intention of enhancing long-term returns. Gearing is subject to a maximum equity gearing level of 35% of net assets at the time of draw down. Any borrowing, except for short-term liquidity purposes, is used for investment purposes.

## Delivering the Investment Policy

The Directors are responsible for determining the investment objective and investment policy of the Company, although any significant changes are required to be approved by shareholders at a general meeting. Day-to-day management of the Company's assets has been delegated, via the Alternative Investment Fund Manager (the "AIFM"), to the Investment Manager.

## Board Investment Limits

In order to ensure adequate diversification, the Board has set absolute limits on maximum holdings and exposures in the portfolio at the time of acquisition. These can only be over-ridden with Board approval. The current limits include the following:

- Maximum 10% of total assets invested in the equity securities of overseas companies;
- Maximum 7.5% of total assets invested in the securities of one company (excluding Aberdeen Smaller Companies Income Trust PLC);
- Maximum 5% of quoted investee company's ordinary shares (excluding Aberdeen Smaller Companies Income Trust PLC); and
- Maximum 10% of total assets invested directly in AIM holdings.

The Board assesses on a regular basis with the Manager the applicability of these investment limits, the use of gearing and risk diversification, whilst aiming to meet the overall investment objectives of the Company.

## Preference Shares

The Company also invests in preference shares, primarily to enhance the income generation of the Company. The majority of these investments are in large financial institutions. Issue sizes are normally relatively small and the underlying securities are relatively illiquid by comparison with the equity component of the portfolio. A maximum of 7.5% of total assets may be invested in the preference shares of any one company. In addition, the Company cannot hold more than 10% of any investee company's preference shares.

## Traded Options Contracts

The Company enters into traded option contracts, also primarily to enhance the income generation of the Company. The risks associated with these option contracts are managed through the principal guidelines below, which operated in the year under review:

- Call options written to 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.

#### Investment Process

The investment process and risk controls employed by the Investment Manager are described on pages 92 and 93.

#### Benchmark

In assessing its performance, the Company compares its returns with the returns of the FTSE All-Share Index (total return).

#### Promoting the Success of the Company

The Board's statement on pages 19 to 21 describes how the Directors have discharged their duties and responsibilities over the course of the financial year under section 172 (1) of the Companies Act 2006 and how they have promoted the success of the Company. That statement forms part of the Strategic Report.

#### Key Performance Indicators ("KPIs")

The Board uses a number of financial performance measures to assess the Company's success in achieving its objective and determining the progress of the Company in pursuing its investment policy. The main KPIs identified by the Board in relation to the Company, which are considered at each Board meeting, are shown in the table below:

KPI	Description
<b>Performance of NAV</b>	The Board considers the Company's NAV total return figures to be the best indicator of performance over time and this is therefore the main indicator of performance used by the Board. The figures for each of the past ten years are set out on page 25.
<b>Revenue return per Ordinary share</b>	The Board monitors the Company's net revenue return (earnings per share). The revenue returns per Ordinary share for each of the past ten years are set out on page 25.
<b>Dividend per share</b>	The Board monitors the Company's annual dividends per Ordinary share and the extent to which dividends are covered by current net revenue and revenue reserves. The dividends per share for each of the past ten years are set out on page 25.
<b>Performance against benchmark index</b>	The Board measures performance over the medium to long-term, on a total return basis against the benchmark index – the FTSE All-Share Index (total return). Cumulative performance figures for the past ten years are set out on page 25. The figures for this year and the past three and five years are set out on page 23 and a graph showing performance against the benchmark index over the past five years is shown on page 24.
<b>Share price performance</b>	The Board monitors the performance of the Company's share price on a total return basis. Cumulative performance figures for the past ten years are set out on page 25. The returns for this year and for the past three and five years are set out on page 23 and a graph showing the share price total return performance against the benchmark index over the past five years is included on page 24.
<b>Discount/premium to NAV</b>	The discount/premium relative to the NAV per share represented by the share price is closely monitored by the Board. A graph showing the history of the discount/premium for the past five years is included on page 24. The Board also monitors trading activity in the Company's shares on a regular basis.
<b>Ongoing charges</b>	The Board monitors the Company's operating costs carefully. Ongoing charges for the year and the previous year are disclosed on page 22. Some of the operating costs are fixed whilst the most significant cost, being the investment management fee, is variable depending on the net asset value of the Company.

## Overview of Strategy Continued

### Principal and Emerging Risks and Uncertainties

The Board carries out a regular review of the risk environment in which the Company operates, changes to that environment and to individual risks. The Board also identifies emerging risks which might impact on the Company. During the year, the most important emerging risk was the effect of the COVID-19 virus which developed into a principal risk towards the end of the financial year. The COVID-19 pandemic has not only impacted dramatically on public health across the world, but it has also delivered a severe shock to the global economy and had a significant adverse impact on global stock markets and the future economic outlook, the effect of which, by its nature, is likely to be uncertain for some time.

There are a number of other risks which, if realised, could have a material adverse effect on the Company and its financial condition, performance and prospects. The Board has carried out a robust assessment of the Company's principal and emerging risks, which include those that would threaten its business model, future performance, solvency, liquidity or reputation and has endeavoured to find means of mitigating those risks, wherever practical.

The principal risks and uncertainties faced by the Company are reviewed by the Audit Committee in the form of a risk matrix and the Committee also gives consideration to the emerging risks facing the Company. The assessment of risks and their mitigation continues to be an area of significant focus for the Audit Committee.

The principal risks and uncertainties facing the Company at the current time, together with a description of the mitigating actions the Board has taken, are set out in the table below. The Board has included the exogenous risks, which include the COVID-19 pandemic, over which the Company has little control.

The principal risks associated with an investment in the Company's shares are published monthly in the Company's factsheet and they can be found in the pre-investment disclosure document ("PIDD") published by the Manager, both of which are available on the Company's website.

Description	Mitigating Action
<b>Strategic objectives and investment policy</b> – a lack of demand for the Company's shares due to its objectives becoming unattractive to investors, or a negative perception of investment trusts, could result in a widening of the discount of the share price to its underlying NAV and a fall in the value of its shares.	<p>The Board formally reviews the Company's objectives and strategies for achieving them on an annual basis, or more regularly if appropriate.</p> <p>The Board is cognisant of the importance of regular communication with shareholders. Directors attend meetings with the Company's largest shareholders and meet other shareholders at the Annual General Meeting. The Board reviews shareholder correspondence and reports provided by the Manager's investor relations team and also receives feedback from the Company's broker.</p> <p>The Board and Manager keep the level of discount under constant review, as well as changes to the Company's shareholder register.</p>
<b>Investment performance</b> – performance of the portfolio when measured against the benchmark.	<p>The Board meets the Manager on a regular basis and keeps investment performance under close review. This includes performance attribution by sector and stock, and liquidity analysis, as well as the degree of diversification in the portfolio and income sustainability.</p> <p>Representatives of the Investment Manager attend all Board meetings and a detailed formal appraisal of the Standard Life Aberdeen Group is carried out annually by the Management Engagement Committee.</p> <p>The Board sets, and monitors, the investment restrictions and guidelines, and receives regular reports which include performance reporting on the implementation of the investment policy, the investment process, risk management and application of the guidelines.</p>

Description	Mitigating Action
	<p>Investment risk within the portfolio is managed in three ways:</p> <ul style="list-style-type: none"> <li>· Adherence by the Investment Manager to the investment process in order to minimise investments in poor quality companies and/or overpaying for investments.</li> <li>· Diversification of investment - seeking to invest in a wide variety of companies with strong balance sheets and the earnings power to pay increasing dividends. In addition, investments are diversified by sector in order to reduce the risk of a single large exposure. The Company invests mainly in equities, preference shares and convertibles.</li> <li>· Adherence by the Investment Manager to the investment limits set by the Board (see page 10).</li> </ul> <p><b>Investment in UK smaller companies</b></p> <p>Rather than holding a number of smaller companies' shares, the Company invests indirectly into this part of the equity market through one holding in Aberdeen Smaller Companies Income Trust PLC, which is also managed by the Manager. Given its size (representing 8.5% of the Company's portfolio) the Directors regularly review this holding, including its liquidity. All of the directors of Aberdeen Smaller Companies Income Trust PLC are independent of Shires Income PLC. The Manager does not charge any management fee in respect of the amount of the Company's assets attributable to this holding.</p> <p><b>Investment in preference shares</b></p> <p>The Company has longstanding holdings in a number of preference shares with no fixed redemption dates, as detailed on page 10 (representing 26.1% of the Company's portfolio). The Directors regularly review these investments, which are held primarily to enhance the income generation of the Company. By their nature, their price movements will be subject to a number of factors and, in normal market conditions, will tend to respond less to pricing movements in equity markets. Issue sizes of these preference shares are normally relatively small and with associated low secondary market liquidity by comparison with the equity component of the portfolio. The Board also considers the long-term nature of these investments and the impact of any potential changes on duration on the portfolio and its returns, as well as the sustainability of the dividends paid.</p>
<p><b>Failure to maintain and grow the dividend over the longer term</b> – the level of the Company's dividends and future dividend growth will depend on the performance of the underlying portfolio.</p>	<p>The Directors review detailed income forecasts at each Board meeting. The Company has revenue reserves which it can draw upon should there be a shortfall in revenue returns in a year.</p> <p>As explained in the Chairman's Statement on page 8, the Board will propose a change to the Articles of Association at the Annual General Meeting to permit the Company to pay dividends out of realised capital profits. The Board does not have any current intention to pay dividends out of realised capital profits but this change will provide flexibility to do so in the future.</p>



## Overview of Strategy Continued

Description	Mitigating Action
<p><b>Widening of discount</b> – a number of factors including the setting of an unattractive strategic investment proposition, changing investor sentiment and investment underperformance may lead to a decrease in demand for the Company's shares and a widening of the difference between the share price and the net asset value per share.</p>	<p>The Board monitors the Company's Ordinary share price relative to the net asset value per share and keeps the level of discount or premium at which the Company's shares trade under review. The Board also keeps the investment objective and policy under review and holds an annual strategy meeting where it reviews investor relations reports and updates from the Manager and the Company's Broker.</p> <p>The Directors are updated at each Board meeting on the composition of, and any movements in, the shareholder register, which is retail investor dominated. The Board annually agrees a marketing programme and budget with the Manager, and receives updates regularly on both marketing and investor relations.</p>
<p><b>Gearing</b> – a fall in the value of the Company's investment portfolio could be exacerbated by the impact of gearing. It could also result in a breach of loan covenants and the forced sale of investments.</p>	<p>The Board sets the gearing limits within which the Investment Manager can operate. Gearing levels and compliance with loan covenants are monitored on an ongoing basis by the Manager and at regular Board meetings, or between scheduled Board meetings if required. In the event of a possible impending covenant breach, appropriate action would be taken to reduce borrowing levels. The financial covenants attached to the Company's borrowings currently provide for significant headroom. The maximum equity gearing level is 35% of net assets at the time of draw down, which constrains the amount of gearing that can be invested in equities which are more volatile than the fixed interest part of the portfolio. The use of gearing has been an important facilitator of the income returns from the portfolio, particularly in financing the high yield preference share proportion of the portfolio which has historically provided significant dividend income for the Company.</p> <p>The Company's gearing includes a revolving credit facility can be reduced without any significant financial penalties for early repayment and at relatively short notice.</p> <p>The Board and the Investment Manager keep under review options available to protect a portion of the portfolio from a sudden decline in markets.</p>
<p><b>Regulatory obligations</b> – failure to comply with relevant laws and regulations could result in fines, loss of reputation and potentially loss of an advantageous tax regime.</p>	<p>The Board and Manager monitor changes in government policy and legislation which may have an impact on the Company and the Audit Committee monitors compliance with regulations by reviewing internal control reports from the Manager.</p> <p>The Board is kept aware of proposed changes to laws and regulations, considers the changes and applies them as appropriate, if they are not already being met. This includes recent government changes made to laws and regulations which are designed to offset some of the severe negative consequences during the COVID-19 pandemic (for example, in relation to deadlines for the production of annual financial statements and arrangements for annual general meetings).</p> <p>From time to time the Board employs external advisers to advise on specific matters.</p>

Description	Mitigating Action
<p><b>Operational</b> – the Company is dependent on third parties for the provision of all systems and services (in particular, those of the Standard Life Aberdeen Group) and any control failures and gaps in their systems and services, including in relation to cyber security, could result in a loss or damage to the Company.</p>	<p>The Board receives reports from the Manager on its internal controls and risk management processes and receives assurances from all its other significant service providers on at least an annual basis, including on matters relating to cyber security. Written agreements are in place with all third party service providers.</p> <p>The Manager monitors closely the control environments and quality of services provided by third parties, including those of the Depositary and Custodian, through service level agreements, regular meetings and key performance indicators.</p> <p>The operational requirements of the Company, including its service providers, have been subject to rigorous testing during the COVID-19 pandemic, including increased use of online communication and out of office working and reporting, which to date have proven robust.</p> <p>The Board reviews management accounts and forecast revenue and expense statements at each Board meeting and is closely involved in the financial reporting of the Company. Financial records are subject to an annual audit, including examination of record keeping and adequacy of controls. The Board receives reports from the Manager on internal controls and is advised of any control breaches or reporting errors.</p> <p>Further details of the internal controls which are in place are set out in the Audit Committee's Report on page 55.</p>
<p><b>Exogenous risks such as health, social, financial, economic and geo-political</b> – the financial impact of such risks, associated with the portfolio or the Company itself, could result in losses to the Company.</p>	<p>At any given time, the Company has sufficient cash resources to meet its operating requirements. In common with most commercial operations, exogenous risks over which the Company has no control are always a risk. The Company does what it can to address these risks where possible, not least operationally, and to try and meet the Company's investment objectives.</p> <p>Political and economic risks includes the response to the COVID-19 pandemic, the UK's impending exit from the European Union, any regulatory changes resulting from a different political environment, and wider geo-political issues.</p> <p>In addition, the Board is conscious of the recent impact on financial markets caused by the outbreak of the COVID-19 virus around the world. The Board considers that this is a risk that could have further and persistent implications for financial markets, economies and on the operating environment of the Company, the impact of which is difficult to predict at the current juncture.</p> <p>The financial and economic risks associated with the Company include market risk, liquidity risk and credit risk, all of which the Investment Manager seeks to mitigate. Further details of the steps taken to mitigate the financial risks associated with the portfolio are set out in note 18 to the financial statements.</p>

## Overview of Strategy Continued

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### External Agencies

In addition to the services provided to the Company by the Standard Life Aberdeen Group, the Board has contractually delegated to external agencies certain services, including: depositary services (which include the safekeeping of the Company's assets) (BNP Paribas Securities Services, London Branch) and share registration services (Equiniti Limited). Each of these services was entered into after full and proper consideration by the Board of the quality and cost of services offered. In addition, day-to-day accounting and administration services are provided, through delegation by the Manager, by BNP Paribas Securities Services.

### Promotional Activities

The Board recognises the importance of promoting the Company to prospective investors both for improving liquidity and enhancing the value and rating of the Company's shares. The Board believes an effective way to achieve this is through subscription to, and participation in, the promotional programme run by the Standard Life Aberdeen Group on behalf of a number of investment trusts under its management. The Company's financial contribution to the programme is matched by the Standard Life Aberdeen Group. The Manager's marketing and investor relations teams report to the Board giving analysis of the promotional activities as well as updates on the shareholder register and any changes in the make-up of that register. A significant proportion of the Company's Ordinary shares is owned through the Aberdeen Standard Investments savings plans.

The purpose of the promotional programme is both to communicate effectively with existing shareholders and to gain new shareholders with the aim of improving liquidity and enhancing the value and rating of the Company's shares. Communicating the long-term attractions of the Company is key and therefore the Company also supports the Manager's investor relations programme which involves regional roadshows, promotional and public relations campaigns.

### Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the right knowledge represented on the Board in order to allow it to fulfil its obligations. The Board also recognises the benefits of and is supportive of the principle of diversity in its recruitment of new Board members. The Board will not display any bias for age, gender, race, sexual orientation, religion, ethnic or national origins, or disability in considering the

appointment of its Directors. In view of its size, the Board will continue to ensure that all appointments are made on the basis of merit against the specification prepared for each appointment, with the aim of retaining a small, cohesive board with the requisite skills and experience to acquit the Board's responsibilities well.

At 31 March 2020, there were three male Directors and two female Directors.

### Environmental, Social and Human Rights Issues

The Company has no employees as the Board has delegated the day-to-day management and administrative functions to the Manager. There are therefore no disclosures to be made in respect of employees. The Company's socially responsible investment policy is set out below.

### Modern Slavery Act

Due to the nature of the Company's business, being a company that does not offer goods and services to customers, the Board considers that it is not within the scope of the Modern Slavery Act 2015 because it has no turnover. The Company is therefore not required to make a slavery and human trafficking statement. In any event, the Board considers the Company's supply chains, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

### Environmental, Social and Governance ("ESG") Investing

Whilst the management of the Company's investments is not undertaken with any specific instructions to exclude or include certain asset types or classes, the Investment Manager embeds ESG considerations into the research and analysis of each asset class as part of the investment decision-making process. Where applicable, active engagement and other stewardship activities such as voting in line with best practices, with the goal of improving the performance of assets held around the world, is also an important part of the Investment Manager's approach.

The Investment Manager aims to make the best possible investments for the Company, by understanding the whole picture of the investments - before, during and after an investment is made. That includes understanding the ESG risks and opportunities they present, and how these could affect longer-term performance. ESG considerations underpin all investment activities. With more than 1,000 investment professionals, the Investment Manager is able to take account of ESG factors in its company research, stock selection and portfolio construction, supported by more than 50 asset class specific ESG specialists around the world.

### Active Engagement

Through engagement and exercising voting rights, the Investment Manager actively works with companies to improve corporate standards, transparency and accountability. By making ESG central to its investment capabilities, the Manager looks to deliver robust outcomes as well as actively contributing to a fairer, more sustainable world.

The primary goal of the Investment Manager is to generate the best long-term outcomes for the Company in order to fulfil fiduciary responsibilities to the Company and this fits with one of the Manager's core principles as a business in how it evaluates investments. The Investment Manager sees ESG factors as being financially material and impacting corporate performance. The Investment Manager focuses on understanding the ESG risks and opportunities of investments alongside other financial metrics to make better investment decisions.

The Investment Manager aims for better risk-adjusted returns by actively undertaking informed and constructive engagement and asset management to generate better performance from its investments. This helps to enhance the value of clients' assets. Comprehensive assessment of ESG factors, combined with constructive company engagement, should lead to better client outcomes.

### Responsible Investment

The Board is aware of its duty to act in the interests of the Company. The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner and has noted the Investment Manager's policy on social responsibility. The Investment Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments as part of its investment process. In particular, the Investment Manager encourages companies in which investments are made to adhere to best practice in the areas of ESG stewardship. The Investment Manager believes that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area.

The Company's ultimate objective is to deliver long-term growth on its investments for its shareholders which the Board and Investment Manager believe will be produced on a sustainable basis by investing in companies which adhere to best practice in ESG. Accordingly, the Investment Manager will seek to favour companies which pursue best practice in the above area.

### The UK Stewardship Code and Proxy Voting

The Company supports the UK's Stewardship Code, and seeks to play its role in supporting good stewardship of the companies in which it invests. Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.

Further information on stewardship and ESG matters may be found on the Company's website.

The Board has also given discretionary powers to the Manager to exercise voting rights on resolutions proposed by the investee companies within the Company's portfolio. The Manager reports on a quarterly basis on stewardship (including voting) issues.

### Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

### Viability Statement

The Board considers the Company, with no fixed life, to be a long-term investment vehicle but, for the purposes of this viability statement, has decided that three years is an appropriate period over which to report, irrespective of the exogenous risks that the Company is facing. The Board considers that this period reflects a balance between a longer-term investment horizon and the inherent uncertainties within equity markets, exacerbated by current market circumstances which are impacted by the COVID-19 pandemic.

In assessing the viability of the Company over the review period, the Directors have focused upon the following factors:

- The principal risks and uncertainties detailed on pages 12 to 15 and the steps taken to mitigate these risks.
- The ongoing relevance of the Company's investment objective.
- The liquidity of the Company's portfolio. The majority of the portfolio is invested in readily realisable listed securities.
- The level of ongoing expenses. The Company's annual expenses, excluding the cost of the dividend, are expected to continue to be more than covered by annual investment income.

## Overview of Strategy Continued

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- The level of gearing. This is closely monitored and the financial covenants attached to the Company's borrowings provide for significant headroom. The Company has a £20 million loan facility which matures in September 2022. £9 million of this amount is drawn down on a short-term basis through a revolving credit facility and can be repaid without incurring any financial penalties.
- Regulatory or market changes.
- The robustness of the operations of the Company's third party suppliers, which have been subject to rigorous testing during the COVID-19 pandemic.
- Exogenous risks such as those currently impacting global economies and stock markets.

In making its assessment, the Board has considered that there are other matters that could have an impact on the Company's prospects or viability in the future, including the unknown economic impact of the COVID-19 pandemic, economic shocks, significant stock market volatility, and changes in regulation or investor sentiment, including on income propensities.

Taking into account the Company's current position and the potential impact of its principal risks and uncertainties and emerging risks, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of approval of this Report.

### Outlook

The Board's view on the general outlook for the Company can be found in the Chairman's Statement on pages 6 to 9, whilst the Investment Manager's views on the outlook for the portfolio are included on pages 26 to 29.

On behalf of the Board

**Robert Talbut**

**Chairman**

3 June 2020

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# Promoting the Success of the Company

## How the Board Meets its Obligations Under Section 172 of the Companies Act

The Board is required to describe to the Company's shareholders how the Directors have discharged their duties and responsibilities over the course of the financial year under section 172 (1) of the Companies Act 2006 (the "Section 172 Statement"). The Board provides below an explanation of how the Directors have promoted the success of the Company for the benefit of its members as a whole, taking into account, amongst other things, the likely long-term consequences of decisions, the need to foster business relationships with all stakeholders and the impact of the Company's operations on the environment.

## The Purpose of the Company and Role of the Board

The purpose of the Company is to act as an investment vehicle to provide, over time, financial returns (both income and capital) to its shareholders. Investment trusts, such as the Company, are long-term investment vehicles and are typically externally managed, have no employees, and are overseen by an independent non-executive board of directors.

The Board, which, at the year end, comprised five independent non-executive Directors with a broad range of skills and experience across all major functions that affect the Company, retains responsibility for taking all decisions relating to the Company's investment objective and policy, gearing, corporate governance and strategy, and for monitoring the performance of the Company's service providers.

The Board's philosophy is that the Company should operate in a transparent culture where all parties are treated with respect and provided with the opportunity to offer practical challenge and participate in positive debate which is focused on the aim of achieving the expectations of shareholders and other stakeholders alike. The Board reviews the culture and manner in which the Manager operates at its regular meetings and receives regular reporting and feedback from the other key service providers. The Board is very conscious of the ways it promotes the Company's culture and ensures as part of its regular oversight that the integrity of the Company's affairs is foremost in the way that the activities are managed and promoted. The Board works very closely with the Manager in reviewing how stakeholder issues are handled, ensuring good governance and responsibility in managing the Company's affairs, as well as visibility and openness in how the affairs are conducted.

The Company's main stakeholders have been identified as its shareholders, the Manager/Investment Manager, service providers, investee companies, debt providers and, more broadly, the community at large and the environment.

## How the Board Engages with Stakeholders

The Board considers its stakeholders at Board meetings and receives feedback on the Manager's interactions with them.

Stakeholder	How We Engage
Shareholders	<p>Shareholders are key stakeholders and the Board places great importance on communication with them. The Board welcomes all shareholders' views and aims to act fairly between all shareholders. The Company's shareholder register is retail dominated and the Manager and Company's broker regularly meet with current and prospective shareholders to discuss performance. Shareholder feedback is discussed by the Directors at each Board meeting.</p> <p>Regular updates are provided to shareholders through the Annual Report, Half Yearly Report, monthly factsheets, company announcements, including daily net asset value announcements, and through the Company's website.</p> <p>The Company's Annual General Meeting provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager. The Board encourages as many shareholders as possible to attend the Company's Annual General Meeting and to provide feedback on the Company (see comments in Chairman's Statement on pages 7 and 8 regarding arrangements for the Annual General Meeting this year).</p>

# Promoting the Success of the Company Continued

Stakeholder	How We Engage
<b>Manager/ Investment Manager</b>	<p>The Investment Manager's Review on pages 26 to 29 details the key investment decisions taken during the year. The Investment Manager has continued to manage the Company's assets in accordance with the mandate provided by shareholders, with the oversight of the Board.</p> <p>The Board regularly reviews the Company's performance against its investment objective and the Board undertakes an annual strategy review meeting to ensure that the Company is positioned well for the future delivery of its objective for its shareholders.</p> <p>The Board receives presentations from the Investment Manager at every Board meeting to help it to exercise effective oversight of the Investment Manager and the Company's strategy.</p> <p>The Board, through the Management Engagement Committee, formally reviews the performance of the Manager at least annually. More details are provided on page 48.</p>
<b>Service Providers</b>	<p>The Board seeks to maintain constructive relationships with the Company's suppliers either directly or through the Manager with regular communications and meetings.</p> <p>The Management Engagement Committee conducts an annual review of the performance, terms and conditions of the Company's main service providers to ensure they are performing in line with Board expectations, performing their responsibilities and providing value for money.</p>
<b>Investee Companies</b>	<p>Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.</p> <p>The Board has also given discretionary powers to the Manager to exercise voting rights on resolutions proposed by the investee companies within the Company's portfolio. The Manager reports on a quarterly basis on stewardship (including voting) issues.</p> <p>Through engagement and exercising voting rights, the Investment Manager actively works with companies to improve corporate standards, transparency and accountability. Further details are provided on pages 92 to 93.</p> <p>The Board monitors investments made and divested and questions the rationale for investment and voting decisions made.</p>
<b>Debt Providers</b>	<p>On behalf of the Board, the Manager maintains a positive working relationship with Scotiabank, the provider of the Company's loan facility, and provides regular updates on business activity and compliance with its loan covenants.</p>
<b>Environment and Community</b>	<p>The Board and Manager are committed to investing in a responsible manner and the Investment Manager embeds Environmental, Social and Governance ("ESG") considerations into its research and analysis as part of the investment decision-making process. Further details are provided on pages 16 and 17.</p>



### Specific Examples of Stakeholder Consideration During the Year

The Board is fully engaged in both oversight and the general strategic direction of the Company. During the year, the Board's main strategic discussions focussed around income management, with a portfolio consisting of various parts, including equities, fixed interest securities, options and exposure to UK smaller companies through Aberdeen Smaller Companies Income Trust PLC, a closed-ended investment company. Time was also spent in ensuring the Board met corporate governance requirements which continue to evolve, including the introduction of the new AIC Code of Corporate Governance.

Factored into this have been the implications of the COVID-19 virus since it first emerged earlier in the year as a significant medical, social, economic and financial threat, and where protection of stakeholders' interests has been prominent in the Board trying to fulfil obligations to them.

While the importance of giving due consideration to the Company's stakeholders is not a new requirement, and is considered during every Board decision, the Directors were particularly mindful of stakeholder considerations during the following decisions undertaken during the year ended 31 March 2020.

#### Management of the Portfolio

The Investment Manager's Review on pages 26 to 29 details the key investment decisions taken during the year. The overall shape and structure of the investment portfolio is an important factor in delivering the Company's stated investment objective. As explained in more detail on page 48, during the year, the Management Engagement Committee decided that the continuing appointment of the Manager was in the best interests of shareholders.

In recent months, the focus has been in trying to ensure that the Company operates as best as it could in testing conditions where the portfolio value has been subject to significant fluctuations and there has been a threat to the income level that the Company might receive in the future.

#### Dividend

Following the payment of the final dividend for the year, of 4.2p per Ordinary share, total dividends for the year will amount to 13.2p per Ordinary share, representing a dividend yield of 6.6% based on the share price of 200.5p at the end of the financial year. This is in accordance with the Company's objective to provide shareholders with a high level of income.

In deciding on the level of dividend for the year, the Board took into account the revenue earnings per Ordinary share for the year, forecast revenues for subsequent years and the level of revenue reserves.

#### Share Issuance

During the year the Company issued 615,000 Ordinary shares for an aggregate consideration of £1.7 million. The shares were issued to satisfy investor demand and were issued at a premium to the NAV thereby providing a small accretion to the NAV per share for shareholders.

#### Amendments to the Articles of Association

The Board will propose changes to the Articles of Association at the Annual General Meeting to permit the Company to pay dividends out of realised capital profits. Given the size of the Company's revenue reserves, the Board does not have any current intention to pay dividends out of realised capital profits. However, this change, which has been adopted by many other investment trusts, will provide flexibility to do so in the future.

#### Directorate

The Board has continued to progress its succession plans during the year resulting in the decision to appoint Jane Pearce as an independent non-executive Director on 1 January 2020. Further details are provided in the Chairman's Statement. Shareholders' interests are best served by ensuring a smooth and orderly succession for the Board which serves to provide continuity and maintain the Board's open and collegiate style.

# Results

## Financial Highlights

	31 March 2020	31 March 2019	% change
Total assets (as defined on page 98)	£82,862,000	£99,055,000	-16.3
Shareholders' funds	£63,864,000	£80,057,000	-20.2
Market capitalisation <sup>A</sup>	£61,694,000	£80,513,000	-23.4
Net asset value per share (as defined on page 98 <sup>B</sup> )	207.39p	265.49p	-21.9
Share price	200.50p	267.00p	-24.9
(Discount)/premium to NAV (cum-income) <sup>C</sup>	(3.3%)	0.6%	
Net gearing <sup>C</sup>	23.7%	19.6%	
<b>Dividend and earnings</b>			
Revenue return per share <sup>D</sup>	12.98p	13.06p	-0.6
Dividend per share <sup>E</sup>	13.20p	13.20p	-
Dividend cover <sup>C</sup>	0.98	0.99	
Revenue reserves <sup>F</sup>	£6,770,000	£6,819,000	
<b>Operating costs</b>			
Ongoing charges ratio <sup>C</sup>	0.96%	0.98%	

<sup>A</sup> Represents the number of Ordinary shares in issue in the Company multiplied by the Company's share price.

<sup>B</sup> Net asset value per share is calculated after the repayment of the capital paid up on Cumulative Preference shares (see note 16 on page 82).

<sup>C</sup> Considered to be an Alternative Performance Measure, as defined on pages 99 and 100.

<sup>D</sup> Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).

<sup>E</sup> The figures for dividend per share reflect the years in which they were earned (see note 9 on page 78).

<sup>F</sup> The revenue reserve figure does not take account of payment of the third interim or final dividend amounting to £2,215,000 (2019 – £2,184,000) combined.

## Dividends

	Rate per share	XD date	Record date	Payment date
First interim dividend	3.00p	3 October 2019	4 October 2019	25 October 2019
Second interim dividend	3.00p	2 January 2020	3 January 2020	24 January 2020
Third interim dividend	3.00p	2 April 2020	3 April 2020	24 April 2020
Proposed final dividend	4.20p	2 July 2020	3 July 2020	24 July 2020
<b>2019/20</b>	<b>13.20p</b>			
First interim dividend	3.00p	4 October 2018	5 October 2018	26 October 2018
Second interim dividend	3.00p	3 January 2019	4 January 2019	25 January 2019
Third interim dividend	3.00p	4 April 2019	5 April 2019	26 April 2019
Proposed final dividend	4.20p	4 July 2019	5 July 2019	26 July 2019
<b>2018/19</b>	<b>13.20p</b>			

## Performance (Total Return)

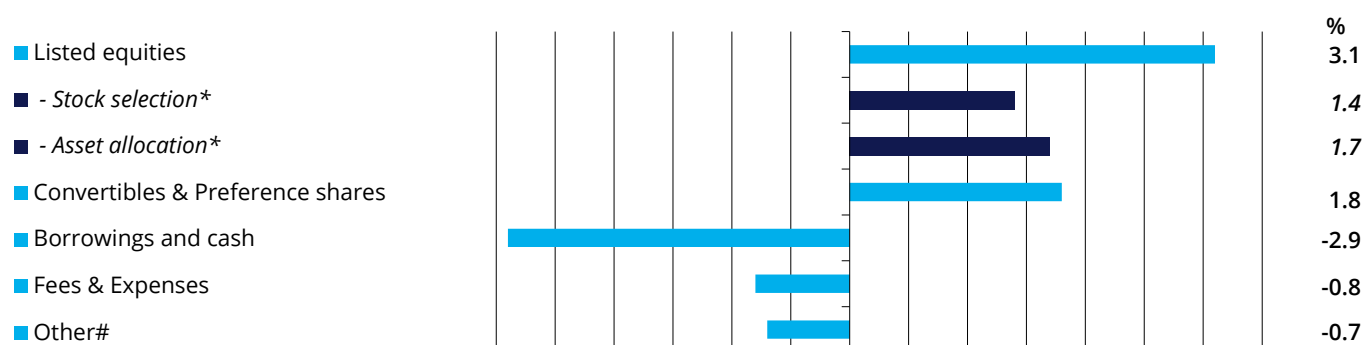
	1 year % return	3 year % return	5 year % return
Net asset value <sup>A</sup>	-18.0	-11.9	+2.0
Share price <sup>A</sup> (based on mid-market)	-21.2	-4.5	+2.9
FTSE All-Share Index	-18.5	-12.2	+2.9

<sup>A</sup> Considered to be an Alternative Performance Measure. See page 99 for further information.  
All figures are for total return and assume re-investment of net dividends excluding transaction costs.  
Source: Aberdeen Standard Fund Managers, Morningstar & Factset

## Analysis of Total Return Performance

	%
Gross assets total return	-12.6
Total NAV return per share	-18.0
Total return on FTSE All Share	-18.5
Relative performance	0.5

## Analysis of Performance for the year relative to the FTSE All Share Index



The above table shows the composition of the relative performance of the NAV total return compared to the benchmark index. In particular, it shows the contribution from the Listed Equities Portfolio and from the Convertibles and Preference Shares. Within the Listed Equities Portfolio, the contributions to relative performance come from exposure to individual stocks (Stock Selection) and sectors (Asset Allocation).

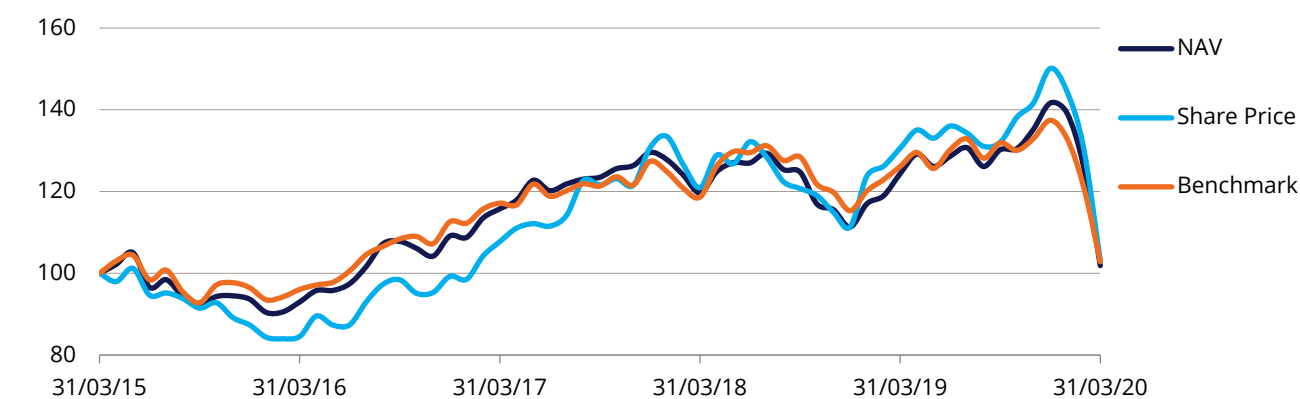
\* Further analysis of performance attributable to listed equities.

# Other includes an adjustment for the difference of pricing the Company's investments on a bid price basis compared to the FTSE All Share Index being based on mid-market prices, in addition to certain minor technical differences.

# Performance

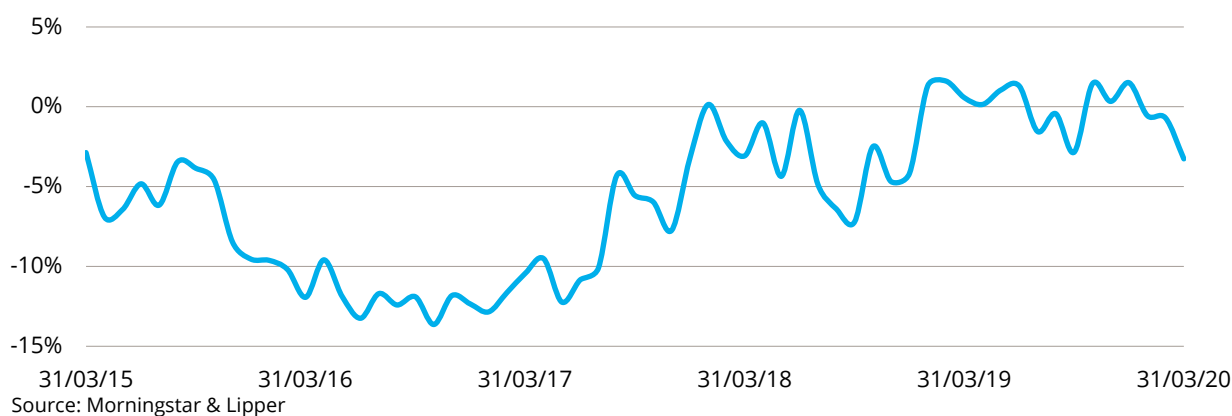
## Total Return of NAV and Ordinary Share Price vs FTSE All-Share Index

Five years to 31 March 2020. Figures are total return and have been rebased to 100 at 31 March 2015



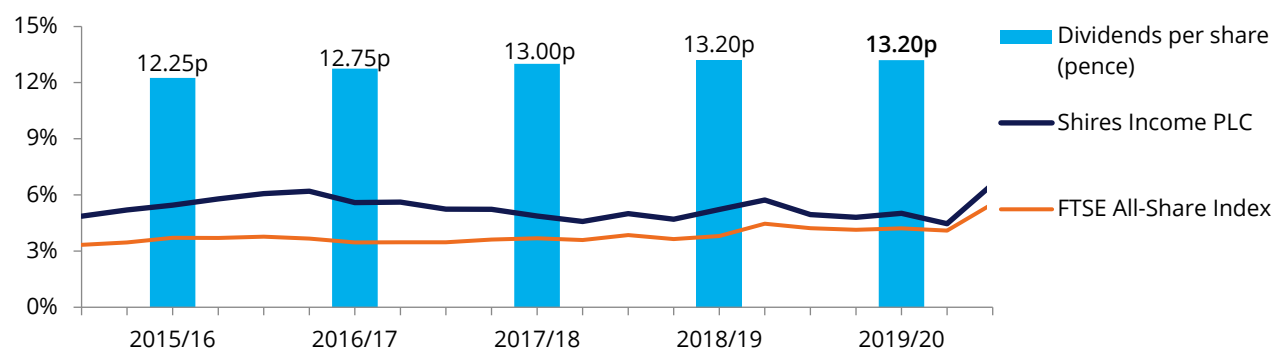
## Ordinary Share Price Premium/(Discount) to NAV (cum-income)

Five years to 31 March 2020



## Net Dividend Yield

Five years to 31 March 2020



## Ten Year Financial Record

Year to 31 March	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Revenue available for ordinary dividends (£'000)	3,292	3,615	3,556	3,789	3,877	3,617	3,925	4,106	3,920	3,961
<b>Per share (p)</b>										
Net revenue earnings	11.1	12.2	11.9	12.6	12.9	12.1	13.1	13.7	13.1	13.0
Net dividends paid/proposed	12.00	12.00	12.00	12.00	12.25	12.25	12.75	13.00	13.20	13.20
Net total earnings	22.6	7.4	53.5	26.0	23.1	(17.8)	54.5	9.4	10.3	(45.4)
Net asset value	197.5	192.9	234.4	248.4	259.5	229.4	271.6	268.2	265.5	207.4
Share price (mid-market)	190.0	194.5	233.0	252.3	252.0	202.0	243.3	260.0	267.0	200.5
<b>Shareholders' funds (£m)</b>	<b>58.6</b>	<b>57.3</b>	<b>70.3</b>	<b>78.7</b>	<b>77.8</b>	<b>68.8</b>	<b>81.5</b>	<b>80.5</b>	<b>80.1</b>	<b>63.9</b>

\* Net asset value per share is calculated after the repayment of the capital paid up on Cumulative Preference shares (see note 16 on page 82).

## Cumulative Performance

Rebased to 100 at 31 March 2010

As at 31 March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net asset value	100.0	105.7	103.3	125.5	132.9	138.9	122.8	145.4	143.6	142.1	111.0
Net asset value total return <sup>A</sup>	100.0	112.7	117.4	151.5	169.0	185.3	172.4	214.6	221.8	230.6	189.0
Share price performance	100.0	103.3	105.7	126.6	137.1	137.0	109.8	132.2	141.3	145.1	109.0
Share price total return <sup>A</sup>	100.0	110.1	120.4	153.1	174.5	183.0	154.8	197.3	221.4	239.1	188.4
Benchmark performance	100.0	105.4	103.2	116.2	122.2	125.9	116.7	137.1	133.8	136.7	106.8
Benchmark total return <sup>A</sup>	100.0	108.7	110.2	128.7	140.1	149.3	143.4	174.9	177.1	188.3	153.6

NAV figures are based on Company only values following the dissolution of the subsidiaries in May 2011.

<sup>A</sup> Total return figures are based on reinvestment of net income.

# Investment Manager's Review

Iain Pyle and Charles Luke,  
Aberdeen Asset  
Managers Limited



## Highlights

- NAV total return of -18.0% compared to the benchmark total return of -18.5%
- Equity portfolio and the preference share portfolio both outperformed the benchmark
- Revenue return per share fell by 0.6% to 12.98p per Ordinary share

## Portfolio Strategy

We take a long-term approach to investing, believing that whilst there may be volatility in the short and even medium term, share prices will ultimately reflect the fundamental value of a company. Consequently, there has been no change to our approach to the construction of the portfolio during the year under review. The Company's investment portfolio is invested in equities, preference shares and convertible preference shares. At the year end 73.3% of the portfolio was invested in equities, 26.1% was invested in preference shares and 0.6% was invested in convertible preference shares.

## Equity Market Review

For most of the 12 months to 31 March 2020 it seemed as though the major discussion points impacting the UK equity market would be Brexit, UK politics and the state of US-China trade relations, but in reality it was the last six weeks of the period and the impact of the COVID-19 virus that framed the year under review. In these six weeks the market took significant fright at the potential for the COVID-19 virus to deliver an unprecedented threat to global growth through a combination of a supply and demand shock, leading to elevated credit and liquidity concerns. This manifested itself in a collapse in share prices representing one of the fastest bear markets in history and precipitated a similarly sharp fall in oil prices.

The first ten months of the period saw stock markets move gently higher with the domestic and global economies performing anaemically despite a backdrop of very modest levels of unemployment and low interest rates with the latter boosting investor sentiment. The ongoing trade dispute between the US

and China provided the main area of international focus with signs of progress and delay impacting sentiment. Concerns over the impact on the global economy, and in particular manufacturing, led the US Federal Reserve and the European Central Bank to reduce interest rates. Towards the end of the calendar year, a sense that a lasting trade agreement would be possible buoyed markets.

In the UK, in the first half of the financial year, concerns regarding Brexit and the potential market-unfriendly nature of a Labour government were important factors in prompting Sterling to weaken and consequently helped to buoy those companies with overseas earnings. The failure of Parliament to agree on a withdrawal agreement resulted in the resignation of Theresa May as Prime Minister. Her successor, Boris Johnson, was more successful and with the prospect of a no-deal Brexit removed, domestic assets responded positively. The Conservative Party majority in the General Election provided a further fillip to domestically exposed UK companies. Although we entered 2020 with valuations at high levels, investors took comfort from the prospect of easier fiscal and monetary policy, an improving trade backdrop and an environment in the UK seemingly set fair for domestically-focused companies to benefit.

**The net asset value ("NAV") total return for the year was -18.0%, which compared to the return of -18.5% from the FTSE All-Share Index.**

Nobody could have predicted the COVID-19 virus and its impact on the global economy. The slow realisation of the potential impact on health and economies caused some weakness in markets during the first six weeks of 2020, but as the virus spread outside China to South Korea, Iran and to Italy in particular, the dawning of the consequences resulted in a collapse in share prices in the last week of February and first three weeks of March. Volatility soared together with safe-haven assets such as US Treasury bonds and gold, while shares and the price of oil plummeted, the latter compounded by the initial inability of Saudi Arabia and Russia to reach an agreement to cut production. There is an apophthegm that "markets stop panicking when governments start panicking" and we have seen a very significant fiscal and monetary response from governments and central banks around the world. This, together with an acknowledgement that social distancing halts the spread of the virus, has brought some calm to markets but the longer-term effect of the virus on the global economy is as yet unknown.

## Investment Performance

The net asset value ("NAV") total return for the year was -18.0% which compared to the FTSE All-Share Index benchmark return of -18.5%.

The Company's preference share holdings, which are an important differentiator in the portfolio, performed relatively well, significantly outperforming the FTSE All-Share Index and continuing to offer a premium yield.

The equity portfolio delivered a return of -15.4% for the year, outperforming the benchmark by 3.1%. By sector, the greatest positive relative contributions came from Utilities and Banks, reflecting the overweight position in the former and the underweight position in the latter. Conversely, the holdings in the General Retail sector provided the largest negative relative contribution.

A number of large index constituents that were not held in the portfolio helped performance. In particular, avoiding Lloyds Bank, Glencore and Barclays stood out as material positive contributors. Similarly, the underweight positions in **HSBC** and **Royal Dutch Shell** also helped relative performance given the weakness in these companies' share prices over the year. The holding in **Assura** performed strongly as the market revalued the company's asset-backing and quasi-governmental secure income stream for its GP properties. The market responded positively to **London Stock Exchange's** strong earnings growth as well as the potential acquisition of Refinitiv leading to a strong share price performance.

The largest negative contributor was the holding in **Aberdeen Smaller Companies Income Trust**. Despite a robust performance from the company's portfolio for most of the year under review, its discount widened considerably at the end of the period in the wake of concerns around the COVID-19 virus. The impact of the COVID-19 virus also impacted **Cineworld**, with concerns that cinemas would remain closed for a protracted period weighing on the shares. Finally, the holding in **Saga** performed poorly given its profit warning during the period.

## Gearing and Preference Share Portfolio

Gearing increased during the year from 19.6% to 23.7%. The gearing is notionally invested in the preference share portfolio. At the year end these securities had a value of £20.9 million, in excess of net indebtedness which stood at £15.2 million. This part of the portfolio provides a core level of high income and has

been more resilient than equities as the market has fallen, but has still generated a negative return. The preference share portfolio declined by 7.3% in total return terms over the 12 month period. The issuers of preference shares have come predominantly from the financial sector and the Company's holdings reflect this. Amongst the preference shares held, **Royal & Sun Alliance**, **Standard Chartered**, **Santander**, **Aviva** and **Ecclesiastical Insurance** are all in the banking or insurance sector and these areas of the market performed poorly, particularly in the final quarter of the period.

**The Company aims to invest in companies with the ability to grow their dividends over time and many companies delivered dividend growth during the period. However, the impact of the COVID-19 virus led to a number of companies cancelling their dividends towards the end of the financial year.**

## Revenue Account

The Company's revenue earnings per share for the period were 12.98p, which compares to 13.06p for the prior year. The fall in earnings per share reflects a slightly higher level of income generated from investments during the year but which has been spread over a greater number of shares reflecting the share issuance which took place in the year.

The Company aims to invest in companies with the ability to grow their dividends over time and many companies delivered dividend growth during the period. However, the impact of the COVID-19 virus led to a number of companies cutting or cancelling their dividends towards the end of the financial year. In some cases, although there was an ability to pay dividends, intervention by authorities or a very prudent view on the outlook led to dividend reductions or cancellations.

Income from the Company's preference share holdings has been stable, with the exception of the position in **R.E.A. Holdings**. After a period of low palm oil prices, the company was forced to suspend payment of dividends on its preference shares. The other preference shares held in the portfolio have continued to pay a high level of income and their dividends appear secure, unaffected by cuts in some cases to ordinary dividends.



## Investment Manager's Review Continued

The following table details the Company's main 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
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total income (£'000s)</b>	<b>4,807</b>	<b>4,712</b>	<b>4,916</b>	<b>4,695</b>	<b>4,361</b>

### Portfolio Activity

Reflecting the outperformance of growth stocks in the market, the trend has been to take profits on those companies that have performed well and where valuations looked stretched. Reinvestment has been into names with either more attractive valuations, higher yields or more defensive characteristics given the ongoing economic uncertainty.

In total there were thirteen new holdings added to the portfolio during the year. **Rentokil** was purchased for the portfolio given its exposure to the pest control market which should provide significant growth opportunities over the long-term. **Energean Oil & Gas**, a gas producer focused on the Eastern Mediterranean, has limited commodity price risk and a number of interesting development opportunities. **SSE** was purchased given its attractive dividend yield and under appreciated growth potential, particularly from its wind farm assets. **Fortum** is a European power generator which should deliver decent earnings growth together with an attractive dividend yield. **Sirius Real Estate** is a property company focused on flexible workspace for the German real estate market with a strong track record of purchasing underinvested assets and improving them. **AXA**, the French insurance company, was purchased for the portfolio given its attractive dividend yield and valuation, with its disposal process improving the overall quality of the company.

**Telenor**, the international telecoms operator with its home market in Norway, offers a resilient dividend yield and attractive growth prospects in emerging markets. A position in share administrator **Equiniti** was also purchased as the company has an attractive valuation and scope for growth in the US market that is not reflected in the share price. **Wood Group** was purchased given the reduction in its debt and diversified exposure to a number of structurally growing markets. A holding in paper producer **Mondi** was bought as the company has an attractive dividend yield and a strong competitive advantage in its assets at the low end of the cost curve. **Avast**, which provides internet protection software was also added to the portfolio. The company provides attractive exposure in a sector where it is difficult to find companies with an appealing dividend yield. Towards the end of the period, we purchased a small holding in **WH Smith** which had seen its share price severely impacted by the COVID-19 pandemic but in the long-term has attractive exposure to growing travel markets. Finally, a holding in **Cineworld** was purchased as we believed that the company had significant opportunities to improve profitability of its relatively recently acquired US cinema estate.

Reflecting the outperformance of growth stocks in the market, the trend has been to take profits on those companies that have performed well and where valuations looked stretched.

Conversely, nine holdings were sold over the period. The holding in **Saga** was sold following a profit warning that demonstrated that the company was unable to overcome the highly competitive nature of the UK car and home insurance sector. **Nordea Bank** was exited given a more challenging environment for the bank due to low interest rates and money laundering concerns. The holding in **Weir Group** was sold given the deteriorating environment for the company's pressure pumping business in North America. **Unibail-Rodamco** was sold given an uncertain outlook for shopping malls and as we expected significant pressure on the company's dividend. There was a small holding remaining in the portfolio at the end of the year that has since been sold. Following a strong share price performance, the holding in **Rentokil** was sold as it had priced in the long-term growth potential in short shrift. The holding in **Signature Aviation** was exited given concerns around the company's cyclical exposure. Finally, **Inmarsat** was sold following a bid for the company.

## Stewardship

We believe that, as long-term owners of the businesses in which we are invested, it is not sufficient merely to seek out assets that we think are undervalued, it is also incumbent upon us to take a proactive approach to our stewardship of these companies. Therefore, we engage extensively with investee companies. We have attended a range of meetings with chairmen, directors and other stakeholders. Topics covered have included the composition of the board, environmental and social issues, and remuneration. Risk is a very broad subject that is interpreted in varying manners by different companies. However, by engaging on this subject we secure a deeper understanding of how the boards of our investee companies perceive and seek to manage these issues. Such interactions also enable us to push for improved disclosure and better management practices and on occasion different decisions where appropriate. Such activity is by its nature time consuming but we regard it as an integral aspect of our role as long-term investors.

## Outlook

There is no denying that we face a challenging period for income investing. A significant proportion of companies within the FTSE 350 Index have cut or suspended dividends in response to the impact of the COVID-19 virus. That breadth of income reduction is unprecedented and it has happened in a relatively short period since the first effects of the virus were felt. For example, the collapse of the oil price has resulted in **Royal Dutch Shell**, a company that has been viewed as a touchstone for dividend security, significantly reducing its pay-out to shareholders. Nor have the cuts been focused on those industries directly impacted. While we would expect companies in the travel, leisure and retail sectors to be feeling the full force of the UK's lockdown, the impact is felt much more widely. As well as those companies that have had to cut dividend payments, we have seen as many who could continue to pay, but have chosen to conserve cash ahead of a period of great uncertainty.

In this environment, it is certainly hard to find reliable sources of income, but they do exist. In the UK market the miners, pharmaceuticals, telecoms and tobacco stocks continue to offer healthy yields. As managers of the portfolio we need to strike a balance between owning these stocks and protecting income, versus crowding into sectors. We also need to be careful not to sell stocks that have good long-term prospects and will likely return to paying dividends in the not too distant future. For the majority of positions held in the portfolio, balance sheets are in good shape and earnings are expected to cover dividends from 2021 onwards. How quickly dividends return will depend on the duration of the current measures and the need for companies to rebuild balance sheets once the worst is over, together with greater clarity around the UK's post-Brexit trade deals.

In the meantime, the Company remains relatively well positioned. The preference shares continue to offer a stable source of income and the Company has healthy revenue reserves, currently equivalent to more than one year's dividend. The current market offers opportunities for capital gains, with many high quality companies at historically low valuations. Uncertainty is high, but with a long-term view there are still reasons for optimism.

**Iain Pyle and Charles Luke**  
**Aberdeen Asset Managers Limited**  
 3 June 2020

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**The current market offers opportunities for capital gains, with many high quality companies at historically low valuations. Uncertainty is high, but with a long-term view there are reasons for optimism.**

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## Investment Case Studies



### John Laing

John Laing invests in, and manages through the construction phase, Public Private Partnership (“PPP”) infrastructure projects such as transportation and renewables. It has a long history of good returns and is diversified by geography and project. The Investment Manager believes it has a competitive advantage in its vertical integration and human capital that are hard to replicate and are attractive to potential consortium partners. Growth should be driven by looser fiscal policy while the need for projects is driven by urbanisation, population growth and climate change. The operations of the group are largely unaffected by the COVID-19 virus. The value of the group is reflected in its net asset value that evolves as assets are developed and sold. These assets are attractive to secondary buyers as their quality can be relied on. The shares provide diversification benefits for the portfolio as they are only loosely correlated with other assets. The company has a strong ESG narrative as it delivers necessary infrastructure and renewable energy projects and helps employ significant numbers of people. The Investment Manager thinks the current valuation underestimates the strong growth that the company can deliver over the long-term.

### SSE

Following the recent sale of SSE’s retail supply business, the company is mainly focused on developing, operating and owning assets in regulated networks and renewables (particularly onshore and offshore wind farms). It is also in the process of selling its oil and gas production business and has ended coal generation which will substantially help to improve the company’s environmental credentials and help to support its drive towards the decarbonisation of the economy and electrification of transport. The positive changes in the business had been clouded by concerns around Brexit and political risk, but with more clarity on the former and with now limited threat of nationalisation, the company’s attractive characteristics are becoming more widely recognised. SSE has an experienced management team and generates an attractive dividend yield with the network assets providing low risk and stable earnings, while renewables provide a variety of interesting growth opportunities given the company’s expertise and pipeline in this area. Although the COVID-19 virus may impact the company’s B2B supply operations through elevated bad debts, the Investment Manager believes this impact is manageable.



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# Portfolio

We take a long-term approach to investing, believing that whilst there may be volatility in the short and even medium term, share prices will ultimately reflect the fundamental value of a company.





St Paul's Cathedral, near Standard Life Aberdeen's London office

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# Ten Largest Investments

As at 31 March 2020



## Aberdeen Smaller Companies Income Trust

Aberdeen Smaller Companies Income Trust has the objective to provide a high and growing dividend and capital growth from a portfolio invested principally in smaller UK companies and UK fixed income securities. The holding provides the company exposure to a portfolio of good quality smaller companies.



## Royal Dutch Shell 'B'

Royal Dutch Shell is engaged in all phases of the petroleum industry, from exploration to processing and distribution. It is a leading deepwater operator including the high margin assets in Brazil that it purchased with British Gas. The company offers the prospect of an attractive total return.



## AstraZeneca

AstraZeneca researches, develops, produces and markets pharmaceutical products. The company has a significant focus on oncology which offers significant growth potential over the medium term.



## GlaxoSmithKline

GlaxoSmithKline is a research-based pharmaceutical group that also develops, manufactures and markets vaccines, prescription and over the counter medicines, as well as health-related consumer products. The company appears undervalued and provides a generous dividend yield.



## BP

BP is a fully integrated energy company involved in exploration, production, refining, transportation and marketing of oil and natural gas. The company provides an attractive dividend yield.



## Prudential

Prudential is an insurance company with substantial operations in the USA and across Asia. Early mover advantage in Asia has provided the company with a number of market-leading positions giving the opportunity to capitalise on a fast growing market.



## British American Tobacco

British American Tobacco is the holding company for a group of companies that manufacture, market and sell cigarettes and next generation products. The company offers an attractive dividend yield with scope for good growth.



## Chesnara

Chesnara is a consolidator of life assurance assets in the UK, Netherlands and Sweden. The company offers a resilient and attractive dividend yield.



## National Grid

National Grid is an investor-owned utility company which owns and operates the electricity and gas transmission networks in Great Britain and electricity transmission networks in North-Eastern United States. The company offers resilient earnings and an attractive dividend yield.



## John Laing

John Laing invests in, and manages through the construction phase, public private partnership infrastructure projects such as transportation and renewables. The company offers attractive potential for growth over the long-term.

# Investment Portfolio - Equities

As at 31 March 2020

Company	FTSE All-Share Index Sector	Valuation 2020 £'000	Total portfolio %	Valuation 2019 £'000
Aberdeen Smaller Companies Income Trust	Equity Investment Instruments	6,647	8.5	8,301
Royal Dutch Shell 'B'	Oil & Gas Producers	2,595	3.3	3,229
AstraZeneca	Pharmaceuticals & Biotechnology	2,431	3.1	2,216
GlaxoSmithKline	Pharmaceuticals & Biotechnology	2,209	2.8	1,755
BP	Oil & Gas Producers	2,141	2.7	3,481
Prudential	Life Insurance	2,093	2.7	2,695
British American Tobacco	Tobacco	1,913	2.4	2,444
Chesnara	Life Insurance	1,866	2.4	2,066
National Grid	Gas Water & Multiutilities	1,791	2.3	1,520
John Laing	Financial Services	1,761	2.2	1,663
<b>Ten largest investments</b>		<b>25,447</b>	<b>32.4</b>	
SSE	Electricity	1,702	2.2	–
Unilever	Personal Goods	1,506	1.9	1,604
Vodafone	Mobile Telecommunications	1,500	1.9	1,983
Assura	Real Estate Investment Trusts	1,500	1.9	1,091
Novo-Nordisk	Pharmaceuticals & Biotechnology	1,407	1.8	1,170
Rio Tinto	Mining	1,315	1.7	–
Telecom Plus	Fixed Line Telecommunications	1,301	1.7	1,087
GVC Holdings	Travel & Leisure	1,276	1.6	1,533
Diversified Gas & Oil	Oil & Gas Producers	1,162	1.5	1,218
Countryside Properties	Household Goods & Home Construction	1,137	1.5	989
<b>Twenty largest investments</b>		<b>39,253</b>	<b>50.1</b>	
Close Brothers	Banks	1,134	1.4	1,315
BHP Billiton	Mining	1,093	1.4	1,459
Imperial Brands	Tobacco	1,084	1.4	1,902
HSBC Holdings	Banks	986	1.3	1,789
Standard Chartered	Banks	980	1.2	1,300
Diageo	Beverages	946	1.2	1,682
Associated British Foods	Food Producers	869	1.1	1,170
Bodycote	Industrial Engineering	740	0.9	1,080
Inchcape	General Retailers	686	0.9	904
Mondi	Forestry & Paper	666	0.9	–
<b>Thirty largest investments</b>		<b>48,437</b>	<b>61.8</b>	

Purchases and/or sales of portfolio holdings effected during the year result in 2020 and 2019 values not being directly comparable.



As at 31 March 2020

Company	FTSE All-Share Index Sector	Valuation 2020 £'000	Total portfolio %	Valuation 2019 £'000
Howden Joinery	Support Services	660	0.8	627
Sirius Real Estate	Real Estate Investment Services	653	0.8	-
London Stock Exchange	Financial Services	635	0.8	1,584
Energean Oil & Gas	Oil & Gas Producers	589	0.8	-
Abcam	Pharmaceuticals & Biotechnology	551	0.7	547
Experian	Support Services	535	0.7	1,087
Equiniti	Support Services	529	0.7	-
St. James Place	Life Insurance	506	0.6	1,865
Avast	Software & Computer Services	454	0.6	-
M&G	Life Insurance	425	0.5	-
<b>Forty largest investments</b>		<b>53,974</b>	<b>68.8</b>	
Telenor	Mobile Telecommunications	418	0.5	-
AXA	Nonlife Insurance	392	0.5	-
Ashmore	Financial Services	382	0.5	458
IWG	Support Services	377	0.5	-
Coca-Cola	Beverages	375	0.5	-
Fortum	Electricity	355	0.5	-
Euromoney Institutional Investor	Media	283	0.4	440
WH Smith	General Retailers	278	0.3	-
Wood Group	Oil Equipment Services & Distribution	248	0.3	-
Cineworld	Travel & Leisure	236	0.3	-
<b>Fifty largest investments</b>		<b>57,318</b>	<b>73.1</b>	
Unibail-Rodamco	Real Estate Investment Trusts	181	0.2	1,545
<b>Total equity investments</b>		<b>57,499</b>	<b>73.3</b>	

Purchases and/or sales of portfolio holdings effected during the year result in 2020 and 2019 values not being directly comparable.

## Investment Portfolio - Other Investments

As at 31 March 2020

Company	Valuation 2020 £'000	Total portfolio %	Valuation 2019 £'000
<b>Convertibles</b>			
Balfour Beatty Cum Conv 10.75p 01/07/2020	490	0.6	530
<b>Total Convertibles</b>	<b>490</b>	<b>0.6</b>	
<b>Preference shares<sup>A</sup></b>			
Ecclesiastical Insurance Office 8 5/8%	5,342	6.8	6,106
Royal & Sun Alliance 7 3/8%	4,481	5.7	5,220
General Accident 7.875%	3,619	4.6	4,329
Santander 10.375%	3,505	4.5	4,209
Standard Chartered 8.25%	2,936	3.8	3,348
R.E.A. Holdings 9%	529	0.7	829
<b>Total Preference shares</b>	<b>20,412</b>	<b>26.1</b>	
<b>Total Other Investments</b>	<b>20,902</b>	<b>26.7</b>	
<b>Total Investments</b>	<b>78,401</b>	<b>100.0</b>	

<sup>A</sup> None of the preference shares listed above have a fixed redemption date.

Purchases and/or sales of portfolio holdings effected during the year result in 2020 and 2019 values not being directly comparable.

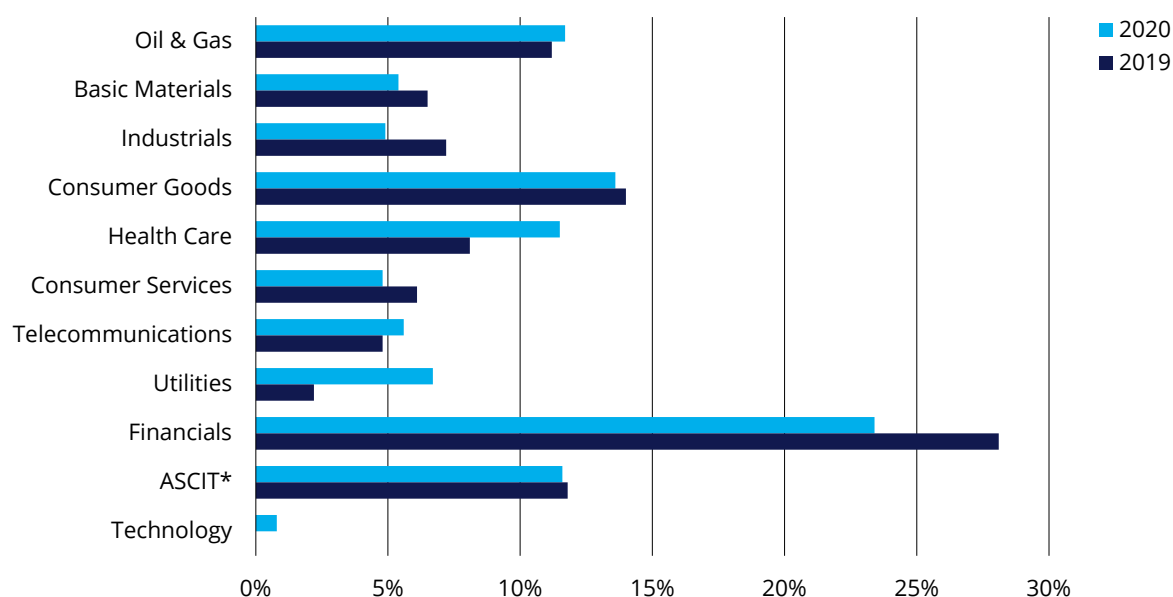
# Distribution of Assets and Liabilities

As at 31 March 2020

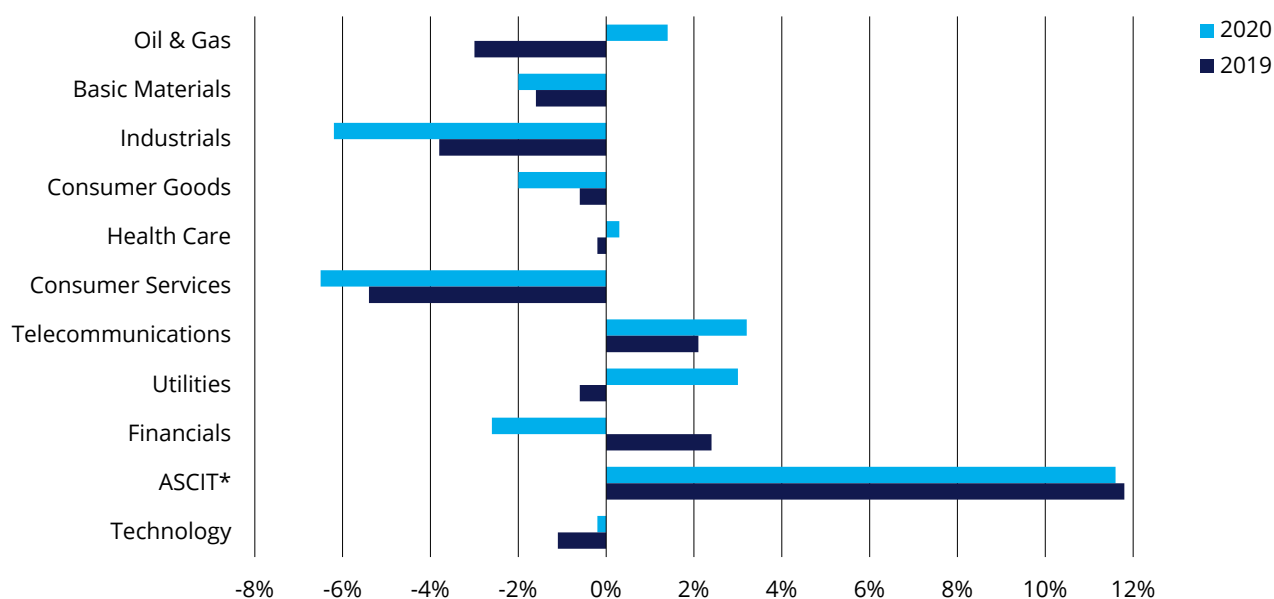
	Movement during the year						
	Valuation at 31 March 2019		Purchases	Sales	Gains/ (losses)	Valuation at 31 March 2020	
	£'000	%	£'000	£'000	£'000	£'000	%
Listed investments							
Equities	70,400	87.9	16,989	(16,111)	(13,779)	57,499	90.0
Convertibles	530	0.7	–	–	(40)	490	0.8
Preference shares	24,041	30.0	–	–	(3,629)	20,412	32.0
Total investments	94,971	118.6	16,989	(16,111)	(17,448)	78,401	122.8
Current assets	4,323	5.4				4,744	7.4
Current liabilities	(9,239)	(11.5)				(9,283)	(14.5)
Non current liabilities	(9,998)	(12.5)				(9,998)	(15.7)
Net assets	80,057	100.0				63,864	100.0
Net asset value per Ordinary share	265.3p					207.4p	

# Sector Analysis

## Analysis of Listed Equity Portfolio



## Shires Income PLC relative to the FTSE All-Share Index



\* While the Company's investment in Aberdeen Smaller Companies Income Trust PLC ("ASCIT") is classified under "Financials" for FTSE classification purposes, it is shown separately in the above table given its materiality to the Company.



Paternoster Square, City of London

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# Governance

The Company is committed to high standards of corporate governance and applies the principles identified in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship with the Manager.

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# Board of Directors

## Robert Talbut

### Status:

**Independent non-executive Chairman and Chairman of the Management Engagement Committee**



### Experience:

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 a member of the M&G With Profits Committee and a non-executive director of Pacific Assets Trust plc, Schroder UK Mid Cap Fund plc and JPMorgan American Investment Trust PLC.

### Length of service:

5 years, appointed a Director in April 2015 and Chairman in July 2017

### Last re-appointed to the Board:

4 July 2019

### Committee member:

Audit Committee, Management Engagement Committee (Chairman), Remuneration Committee

### Contribution:

The Board has reviewed the contribution of Robert Talbut in light of his proposed re-appointment at the AGM in July 2020 and has concluded that he has continued to chair the Company expertly, fostering a collaborative spirit between the Board and Manager whilst ensuring that meetings remain focused on the key areas of stakeholder relevance. In addition, with his investment management knowledge and experience of other current roles, he has continued to provide significant investment insight to the Board and knowledge of the investment management sector.

## Robin Archibald

### Status:

**Independent non-executive Director and Chairman of the Audit Committee**



### Experience:

Robin Archibald has a wide range of experience in advising and managing transactions in the UK closed-ended funds sector over his 35 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, and serves as audit chair on three of these other investment companies. He is a Chartered Accountant.

### Length of service:

3 years, appointed a Director in May 2017

### Last re-appointed to the Board:

4 July 2019

### Committee member:

Audit Committee (Chairman), Management Engagement Committee, Remuneration Committee

### Contribution:

The Board has reviewed the contribution of Robin Archibald in light of his proposed re-appointment at the AGM in July 2020 and has concluded that he has chaired the Audit Committee expertly since his appointment to that position in July 2019 and continues to provide significant corporate insight to the Board. In addition, his advisory experience and the benefits of his other roles have contributed to his specific knowledge of investment companies to the benefit of the Company.



## Board of Directors Continued

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### Marian Glen

#### Status:

**Independent non-executive Director and Chairman of the Remuneration Committee**



#### Experience:

Marian Glen 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+ Wedderburn. She was also a non-executive director of Murray Income Trust PLC, as well as Friends Life Group Limited and certain other companies in the Friends Life group of companies. She is currently a non-executive director of Martin Currie Global Portfolio Trust PLC and The Medical and Dental Defence Union of Scotland.

#### Length of service:

7 years, appointed a Director in January 2013

#### Last re-appointed to the Board:

4 July 2019

#### Committee member:

Audit Committee, Management Engagement Committee, Remuneration Committee (Chairman)

#### Contribution:

The Board has reviewed the contribution of Marian Glen in light of her proposed re-appointment at the AGM in July 2020 and has concluded that she has continued to chair the Remuneration Committee expertly through the year and continues to provide significant legal insight to the Board and knowledge of the investment trust sector.

### Jane Pearce

#### Status:

**Independent non-executive Director**



#### Experience:

Jane Pearce is a Co-opted External Member of the Audit and Risk Committee of the University of St Andrews. She had an executive career as an Equity Analyst at leading investment banks and latterly was an Equity Strategist at Lehman Brothers and Nomura International. She is a Chartered Accountant and was a Member of the Governing Council of the Institute of Chartered Accountants of Scotland from 1999-2000.

#### Length of service:

Appointed a Director on 1 January 2020

#### Last re-appointed to the Board:

n/a

#### Committee member:

Audit Committee, Management Engagement Committee, Remuneration Committee

#### Contribution:

Jane Pearce was appointed as an independent non-executive Director on 1 January 2020 and will stand for appointment at the AGM in July 2020. She provides significant financial and investment insight to the Board.

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## Andrew Robson

### Status:

**Senior Independent non-executive Director**



### Experience:

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 and Witan Pacific Investment Trust PLC.

### Length of service:

12 years, appointed a Director in May 2008

### Last re-appointed to the Board:

4 July 2019

### Committee member:

Audit Committee, Management Engagement Committee, Remuneration Committee

### Contribution:

Andrew Robson chaired the Audit Committee until July 2019 and has continued to provide significant financial insight to the Board and knowledge of the investment trust sector. As explained in more detail in the Chairman's Statement, Andrew Robson will retire at the Annual General Meeting and will not seek re-appointment.

# Directors' Report

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The Directors present their report and audited financial statements for the year ended 31 March 2020.

## Results and Dividends

The financial statements for the year ended 31 March 2020 are contained on pages 68 to 90. Dividends paid and proposed for the year amounted to 13.2p per Ordinary share.

First, second and third interim dividends for the year, each of 3.0p per Ordinary share, were paid on 25 October 2019, 24 January 2020 and 24 April 2020 respectively. The Directors recommend a final dividend of 4.2p per Ordinary share, payable on 24 July 2020 to shareholders on the register on 3 July 2020. The ex-dividend date is 2 July 2020. Under International Financial Reporting Standards ("IFRS") the third interim and final dividends will be accounted for in the financial year ended 31 March 2021. A resolution in respect of the final dividend will be proposed at the forthcoming Annual General Meeting.

## Investment Trust Status

The Company is registered as a public limited company (registered in England and Wales No. 00386561) and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company has been approved by HM Revenue & Customs as an investment trust subject to it continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 April 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 March 2020 so as to enable it to comply with the ongoing requirements for investment trust status.

## Individual Savings Accounts

The Company satisfies the requirements as a qualifying security for Individual Savings Accounts. The Directors intend that the Company will continue to conduct its affairs in this manner.

## Capital Structure

During the year the Company issued 615,000 Ordinary shares of 50p each under its non pre-emptive allotment authority, raising £1.7 million in aggregate on a non-dilutive basis. The issued Ordinary share capital at 31 March 2020 consisted of 30,769,580 Ordinary shares of 50p each and 50,000 3.5% Cumulative Preference Shares of £1 each.

## Voting Rights

Each Ordinary and Cumulative Preference share carries one vote at general meetings of the Company. The Cumulative Preference shares carry a right to receive a fixed rate of dividend and, on a winding up of the Company, to the payment of such fixed cumulative preferential dividends to the date of such winding up and to the repayment of the capital paid up on such shares in priority to any payment to the holders of the Ordinary shares.

The Ordinary shares, excluding any treasury shares, carry a right to receive dividends and, on a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings.

There are no restrictions on the transfer of Ordinary or Cumulative Preference shares in the Company other than certain restrictions which may from time to time be imposed by law.

## Management Agreement

The Company has appointed Aberdeen Standard Fund Managers Limited ("ASFML"), a wholly owned subsidiary of Standard Life Aberdeen plc, as its alternative investment fund manager. ASFML has been appointed to provide investment management, risk management, administration and company secretarial services and promotional activities to the Company. The Company's portfolio is managed by Aberdeen Asset Managers Limited ("AAML") by way of a group delegation agreement in place between ASFML and AAML. In addition, ASFML has sub-delegated administrative and secretarial services to Aberdeen Asset Management PLC and promotional activities to AAML. Details of the management fee and fees payable for promotional activities are shown in notes 4 and 5 to the financial statements.

The management agreement is terminable on not less than six months' notice. In the event of termination by the Company on less than the agreed notice period, compensation is payable to the Manager in lieu of the unexpired notice period.

### Substantial Interests

As at 31 March 2020, the following interests in the issued Ordinary share capital of the Company had been disclosed in accordance with the requirements of the FCA's Disclosure Guidance and Transparency Rules:

Shareholder	Number of Ordinary shares held	% of Ordinary shares held
Aberdeen Asset Managers Limited Retail Plans <sup>A</sup>	5,662,936,	18.4

<sup>A</sup> Non-beneficial interest

There have been no changes notified to the Company between the year end and the date of approval of this Report.

### Directors

At the end of the year the Board comprised five non-executive Directors, each of whom is considered by the Board to be independent of the Company and the Manager.

Ms Pearce was appointed as an independent non-executive Director on 1 January 2020. For the appointment of Ms Pearce as a Director, the Board used the services of an independent external search consultant, Fletcher Jones Limited. Fletcher Jones Limited does not have any other connections with the Company or individual Directors. Ms Pearce's biography is included on page 42 and she will stand for appointment at the Annual General Meeting.

Mr Robson is a non-executive director of Witan Pacific Investment Trust PLC ("WPC"). WPC operates a multi-manager structure and Aberdeen Standard Investments (Asia) Limited, part of the Standard Life Aberdeen Group, manages a part of WPC's assets. Notwithstanding this relationship and the fact that Mr Robson has served as a Director of the Company for 12 years, the remainder of the Board is unanimous in its opinion that Mr Robson remains independent in his role as a Director of the Company.

The Directors attended scheduled Board and Committee meetings during the year ended 31 March 2020 as follows (relevant meetings in brackets):

Director	Board	Audit Committee	Management Engagement Committee	Remuneration Committee
Robert Talbut	5 (5)	2 (2)	1 (1)	1 (1)
Robin Archibald	5 (5)	2 (2)	1 (1)	1 (1)
Marian Glen	5 (5)	2 (2)	1 (1)	1 (1)
Jane Pearce	1 (1)	- (-)	1 (1)	1 (1)
Andrew Robson	5 (5)	2 (2)	1 (1)	1 (1)

The Board meets more frequently when business needs require and has regular dialogue between formal board meetings, including with the Manager. Since the outbreak of the COVID-19 pandemic the Board has held additional meetings and been in close contact with the Manager to receive updates on performance and the operation of its business and those of external suppliers.

Under the terms of the Company's Articles of Association, Directors must retire and be subject to appointment at the first Annual General Meeting after their appointment by the Board, and be subject to re-appointment every three years thereafter. Directors with more than nine years' service are subject to annual re-appointment. However, the Board has decided that all Directors will seek annual re-appointment. Accordingly, Messrs Archibald and Talbut and Ms Glen will seek re-appointment at the Annual General Meeting. As explained in more detail in the Chairman's Statement, Mr Robson will retire at the Annual General Meeting and will not seek re-appointment.

The Board believes that all the Directors seeking re-appointment remain independent of the Manager and free from any relationship which could materially interfere with the exercise of their judgement on issues of strategy, performance, resources and standards of conduct. The biographies of each of the Directors are shown on pages 41 to 43, setting out their range of skills and experience as well as length of service and contribution to the Board during the year. The Board believes that each Director has the requisite high level and range of business, investment and financial experience which enables the Board to provide clear and effective leadership and proper governance of the Company.

## Directors' Report continued

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Following formal performance evaluations, the performance of each of the Directors seeking re-appointment continues to be effective. Each Director has demonstrated commitment to the role and the Board is satisfied that their individual performances contribute to the long-term sustainable success of the Company. All of the Directors have demonstrated that they have sufficient time and commitment to fulfil their directorial roles with the Company. The Board therefore recommends the re-appointment of each of the Directors at the Annual General Meeting.

### Board's Policy on Tenure

In normal circumstances, it is the Board's expectation that Directors will not serve beyond the Annual General Meeting following the ninth anniversary of their appointment. However, the Board takes the view that independence of individual Directors is not necessarily compromised by length of tenure on the Board and that continuity and experience can add significantly to the Board's strength. The Board believes that recommendation for re-election should be on an individual basis following a rigorous review which assesses the contribution made by the Director concerned, but also taking into account the need for regular refreshment and diversity.

It is the Board's policy that the Chairman of the Board will not normally serve as a Director beyond the Annual General Meeting following the ninth anniversary of his appointment to the Board. However, this may be extended in certain circumstances including the facilitation of effective succession planning and the development of a diverse Board. In such a situation the reasons for the extension will be fully explained to shareholders and a timetable for the departure of the Chairman clearly set out.

### The Role of the Chairman and Senior Independent Director

The Chairman is responsible for providing effective leadership to the Board, by setting the tone of the Company, demonstrating objective judgement and promoting a culture of openness and debate. The Chairman facilitates the effective contribution and encourages active engagement by each Director. In conjunction with the Company Secretary, the Chairman ensures that Directors receive accurate, timely and clear information to assist them with effective decision-making. The Chairman acts upon the results of the Board evaluation process by recognising strengths and addressing any weaknesses and also ensures that the Board engages with major shareholders and that all Directors understand shareholder views.

The Senior Independent Director acts as a sounding board for the Chairman and acts as an intermediary for other directors, when necessary. Working closely with the other Directors, the Senior Independent Director takes responsibility for an orderly succession process for the Chairman, and leads the annual appraisal of the Chairman's performance. The Senior Independent Director is also available to shareholders to discuss any concerns they may have.

### Directors' and Officers' Liability Insurance

The Company maintains insurance in respect of Directors' and Officers' liabilities in relation to their acts on behalf of the Company. In addition, the Company has entered into a separate deed of indemnity with each of the Directors reflecting the scope of the indemnity in the Articles of Association. Under the Articles of Association, each Director is entitled to be indemnified out of the assets of the Company to the extent permitted by law against any loss or liability incurred by him or her in the execution of his or her duties in relation to the affairs of the Company.

### Management of Conflicts of Interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest. As part of this process, each Director prepares a list of other positions held and all other conflict situations that may need to be authorised either in relation to the Director concerned or his or her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential, or actual, conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed at each Board meeting.

No Director has a service contract with the Company although all Directors are issued with letters of appointment, which may be amended from time to time to reflect regulatory and other changes. Other than the deeds of indemnity referred to above and the Directors' letters of appointment, there were no contracts during, or at the end of the year, in which any Director was interested.

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The Company has a policy of conducting its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and has procedures in place that are proportionate to the Company's circumstances to prevent them. The Manager also adopts a group-wide zero-tolerance approach and has its own detailed policy and procedures in place to prevent bribery and corruption. Copies of the Manager's anti-bribery and corruption policies are available on its website.

In relation to the corporate offence of failing to prevent tax evasion, it is the Company's policy to conduct all business in an honest and ethical manner. The Company takes a zero-tolerance approach to facilitation of tax evasion whether under UK law or under the law of any foreign country and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships.

### Corporate Governance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company has applied the principles identified in the UK Corporate Governance Code as published in July 2018 (the "UK Code"), which is available on the Financial Reporting Council's (the "FRC") website: [frc.org.uk](http://frc.org.uk).

The Board has also considered the principles and provisions of the AIC Code of Corporate Governance as published in February 2019 (the "AIC Code"). The AIC Code addresses the principles and provisions set out in the UK Code, as well as setting out additional provisions on issues that are of specific relevance to the Company. The AIC Code is available on the AIC's website: [theaic.co.uk](http://theaic.co.uk).

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the FRC, provides more relevant information to shareholders.

The Board confirms that, during the year, the Company complied with the principles and provisions of the AIC Code. The Company has also complied with the relevant provisions of the UK Code, except as follows:

The UK Code includes provisions relating to:

- interaction with the workforce (provisions 2, 5 and 6);
- the role and responsibility of the chief executive (provisions 9 and 14);
- the need for the Company to have its own internal audit function (provision 25);
- previous experience of the chairman of a remuneration committee (provision 32); and
- executive directors' remuneration (provisions 33 and 36 to 40).

The Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The full text of the Company's Corporate Governance Statement can be found on its website.

### The Board and its Committees

Mr Talbut is the Chairman of the Board and Mr Robson is the Senior Independent Director, with Ms Glen to become the Senior Independent Director following Mr Robson's retirement as a Director at the Annual General Meeting.

The Board has appointed committees with specific responsibilities as set out below. Copies of the terms of reference of each committee are available on the Company's website, or upon request from the Company.

Given the size of the Board and because all of the Directors are non-executive, the Board does not consider it appropriate for the Company to have a nominations committee. The business of nominations and succession planning, and Board evaluations, is covered by the full Board.

### Audit Committee

The Audit Committee comprises all Directors of the Company and is chaired by Mr Archibald.

The Audit Committee's Report is contained on pages 54 to 56.

## Directors' Report continued

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### Management Engagement Committee

The Management Engagement Committee comprises all Directors of the Company and is chaired by Mr Talbut. The purpose of the Committee is to review the terms of the agreements with the Manager including, but not limited to, the management fee, and also to review the performance of the Manager in relation to the achievement of the Company's objectives. These reviews were conducted during the year and the outcomes are noted below. In addition, the Committee conducts an annual review of the performance, terms and conditions of the Company's other main third party suppliers.

The key terms of the management agreement and fees payable to the Manager are set out on page 44 and in notes 4 and 5 to the financial statements. The Board believes the fee arrangements are competitive with reference to other investment trusts with a similar investment mandate and are priced appropriately given the level of service provided by the Standard Life Aberdeen Group. As stated above, the Committee reviews the performance of the Manager annually. The Board is satisfied with the Company's performance since the appointment of the Standard Life Aberdeen Group as Manager in 2008 and believes that the Investment Manager has positioned the portfolio well in order to seek to achieve good medium-term and long-term performance in line with the Company's investment objective. It therefore considers the continuing appointment of the Manager on the terms agreed to be in the best interests of shareholders.

### Remuneration Committee

The Remuneration Committee comprises all Directors and is chaired by Ms Glen who has relevant experience and understanding of the Company. The Committee's duties include reviewing the Company's remuneration policy and determining Directors' remuneration, including for the Chairman. The Committee also considers the need to appoint an external remuneration consultant.

### Going Concern

The Company's assets consist mainly of equity shares in companies listed on the London Stock Exchange and in most circumstances, including in the current market environment, are considered to be realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants, including the headroom available. The Company has a £20 million loan facility which matures in September 2022. £9 million of this amount is drawn down on a short-term basis through a revolving credit facility and can be repaid without incurring any financial penalties.

Having taken these factors into account, as well as the impact on the Company of the spread of the COVID-19 virus, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of this Report. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements.

### Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the financial statements appear on page 59, and pages 60 to 67.

Each Director confirms that, so far as he or she is aware, there is no relevant audit information of which the Company's Auditor is unaware, and they have taken all the steps that they could reasonably be expected to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

### Independent Auditor

The Company's Auditor, Ernst & Young LLP, has indicated its willingness to remain in office. The Board will place resolutions before the Annual General Meeting to re-appoint Ernst & Young LLP as Auditor for the ensuing year and to authorise the Directors to determine its remuneration.

### Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. Shareholders and investors may obtain up to date information on the Company through its website and the Manager's Customer Services Department.

All shareholders have the opportunity to put questions to the Board at the Annual General Meeting and a presentation from the Investment Manager covers the investment performance and strategy during the financial year and the outlook for the year ahead.

Representatives from the Board make themselves available to meet with institutional shareholders in order to gauge their views. The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (including the Company Secretary or the Manager) in situations where direct communication is required. In addition, the Company Secretary only acts on behalf of the Board, not the Manager, and there is no filtering of communication. At each Board meeting the Board



receives full details of any communication from shareholders to which the Chairman responds personally as appropriate.

It is the Company's aim to give at least 20 working days' notice to shareholders of the Annual General Meeting, where practicable. As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings.

### Annual General Meeting

The Annual General Meeting will be held at the offices of Standard Life Aberdeen plc, 1 George Street, Edinburgh EH2 2LL on Tuesday 14 July 2020 at 12 noon. The Notice of Annual General Meeting is included on pages 103 to 107.

Given the risks posed by the spread of the COVID-19 virus and in accordance with the provisions of the Articles of Association and Government guidance, physical attendance at the Annual General Meeting may not be possible. If the law or Government guidance so requires at the time of the meeting, the Chairman will limit, in his sole discretion, the number of individuals in attendance at the meeting. Should Government measures be relaxed by the time of the meeting, the Company may still, pursuant to its Articles of Association, impose entry restrictions on certain persons wishing to attend the Annual General Meeting in order to ensure the safety of those attending the meeting.

There are 15 resolutions to consider, including four resolutions put as special resolutions which require the approval of 75% of the votes cast. The ordinary resolutions include adopting the accounts and Auditor's report, adopting the remuneration report, approving the remuneration policy, approving the final dividend, the appointment and re-appointment of Directors, the re-appointment and determining the remuneration of the Auditor, and a general share allotment authority which is described more fully below together with details of the special resolutions.

### Allotment of Shares

Resolution 11, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to 10% of the issued Ordinary share capital of the Company as at the date of the passing of the resolution (up to a maximum aggregate nominal amount of £1,538,479 based on the number of Ordinary shares in issue as at the date of this Report), such authority to expire on 30 September 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

### Disapplication of Pre-emption Provisions

Resolution 12, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro-rata to existing shareholders, up to a maximum aggregate nominal amount representing 10% of the Company's issued Ordinary share capital as at the date of the passing of the resolution (up to an aggregate nominal amount of £1,538,479 based on the number of Ordinary shares in issue as at the date of this Report). Ordinary shares would only be issued for cash at a premium to the net asset value per share. This authority will expire on 30 September 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this Report.

During the year the Company issued 615,000 Ordinary shares of 50p each under its non pre-emptive allotment authority, raising £1.7 million in aggregate on a non-dilutive basis.

### Purchase of the Company's own Ordinary Shares

Resolution 13, which is a special resolution, will, if approved, renew the Company's authority to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority is 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (approximately 4.6 million Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) is 50p. The maximum price which may be paid (exclusive of expenses) is an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if shares are purchased for cash at a price below the prevailing net asset value per share and is in the best interests of shareholders generally. Shares so repurchased may be held in treasury or cancelled. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 September 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

## Directors' Report continued

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The Company did not purchase any of its own shares during the year.

### Notice Period for General Meetings

The Company's Articles of Association enable the Company to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. In order for this to be effective, the shareholders must also annually approve the calling of meetings on 14 days' notice by separate resolution. Resolution 14, which is a special resolution, seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Companies Act 2006 (as amended by the Shareholders' Rights Regulations) before it can call a general meeting on 14 days' notice. It is the Board's intention to only use this authority where it is merited by the purpose of the meeting.

### Amendments to the Articles of Association

The Company's Articles of Association were last amended in 2011. Resolution 15 proposes to adopt a new set of Articles of Association to permit the Company to pay dividends out of capital profits and in order to make other minor improvements. The new Articles of Association as proposed to be adopted will take effect from the conclusion of the AGM. The principal differences between the new and the existing Articles of Association are summarised in the Appendix to the Notice of AGM.

The full terms of the proposed amendments would have been made available for inspection as required under LR 13.8.10R (2) but for the COVID-19 restrictions. A copy of the Company's existing Articles of Association, and a copy marked to show the differences between those and the new Articles of Association as proposed to be adopted pursuant to this resolution, will instead be available in soft copy for inspection from the date of this Report and up to the time of the AGM at the website of the Company at [www.shiresincome.co.uk](http://www.shiresincome.co.uk). Hard copies will be made available at the relevant place should the current restrictions be lifted before the close of the AGM.

### Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders and recommend that shareholders vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings totalling 58,136 Ordinary shares, representing 0.19% of the issued share capital.

By order of the Board  
**Aberdeen Asset Management PLC**  
**Company Secretary**  
1 George Street  
Edinburgh EH2 2LL  
3 June 2020

# Directors' Remuneration Report

This Directors' Remuneration Report comprises three parts:

1. a Remuneration Policy which is subject to a binding shareholder vote every three years (or sooner if varied during this interval) – most recently voted on at the Annual General Meeting on 11 July 2017, and to be proposed to shareholders at the Annual General Meeting on 14 July 2020;
2. an Implementation Report which is subject to an advisory vote on the level of remuneration paid during the year; and
3. an Annual Statement.

The law requires the Company's Auditor to audit certain of the disclosures provided in the Directors' Remuneration Report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included on pages 60 to 67.

The Director's Remuneration Policy and level of Directors' remuneration are determined by the Remuneration Committee, which is chaired by Ms Glen and comprises all of the Directors.

## Remuneration Policy

The Directors' Remuneration Policy takes into consideration the principles of the UK Corporate Governance Code and the AIC's recommendations regarding the application of those principles to investment companies.

No shareholder views have been sought in setting the remuneration policy although any comments received from shareholders are considered.

Directors' fees are set within the limits of the Company's Articles of Association which limit the aggregate fees payable to the Board of Directors per annum. The current limit is £140,000 per annum and may only be increased by shareholder resolution. The Board's policy is that the remuneration of non-executive Directors should be sufficient to attract Directors of the quality required to run the Company successfully. The remuneration should also reflect the nature of the Directors' duties, responsibilities, the value of their time spent and be fair and comparable to that of other investment trusts that are similar in size, and have similar capital structures and investment objectives.

The levels of fees are set out in the table below.

	31 March 2020 £	31 March 2019 £
Chairman	35,500	34,000
Chairman of Audit Committee	29,000	28,000
Director	25,000	24,000

## Appointment

- All the Directors are non-executive and are appointed under the terms of letters of appointment which were revised during the year for updated regulatory provisions.
- Under the terms of the Company's Articles of Association, Directors must retire and be subject to appointment at the first Annual General Meeting after their appointment by the Board, and be subject to re-appointment every three years thereafter. However, the Board has decided that all Directors will seek annual re-appointment.
- Any Director newly appointed to the Board will receive the fee applicable to each of the other Directors at the time of appointment together with any other fee then currently payable in respect of a specific role which the new Director is to undertake for the Company.
- Additional fees may be payable where a Director is required to perform services (i) outside the scope of the ordinary duties of a Director; or (ii) outside the ordinary course of Company business, and in each case where this is exceptional in terms of time commitment.
- No incentive or introductory fees will be paid to encourage a person to become a Director.
- Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.
- Directors are entitled to re-imbursement of out-of-pocket expenses incurred in connection with the performance of their duties, including travel and accommodation expenses as necessary.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties as a Director of the Company.

# Directors' Remuneration Report continued

## Performance, Service Contracts, Compensation and Loss of Office

- The Directors' remuneration is not subject to any performance related fee.
- No Director has a service contract.
- Other than the deeds of indemnity referred to above and the Directors' letters of appointment, no Director was interested in contracts with the Company during the period or subsequently.
- The terms of appointment provide that a Director may be removed without notice.
- Compensation will not be due upon leaving office.
- No Director is entitled to any other monetary payment or any assets of the Company.

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The Remuneration Policy is reviewed by the Remuneration Committee on an annual basis and it is the Committee's intention that this Remuneration Policy will apply for the three year period ended 31 March 2023.

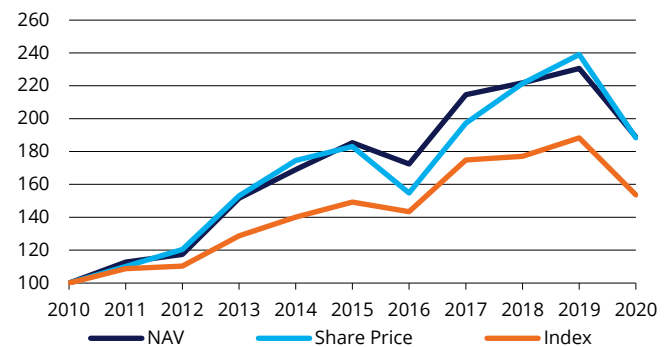
### Implementation Report

#### Review of Directors' Fees

The Remuneration Committee carried out a review of the level of Directors' fees during the year and, given the increasing responsibilities and time commitment required of Directors, the original intention had been to have a modest increase in fees to reflect this. However, as the implications of the COVID-19 pandemic became known, the Committee took the view that any rise at this time was no longer appropriate.

## Company Performance

The graph below shows the share price and NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the FTSE All-Share Index for the ten year period to 31 March 2020 (rebased to 100 at 31 March 2010). This Index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



## Statement of Voting at General Meeting

At the Company's last Annual General Meeting, held on 4 July 2019, shareholders approved the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 March 2019. 84.9% of proxy votes were in favour of the resolution, 9.6% were against and 5.5% abstained.

At the Annual General Meeting held on 11 July 2017, shareholders approved the Directors' Remuneration Policy. 87.6% of proxy votes were in favour of the resolution, 5.6% were against and 6.8% abstained.

Resolutions in respect of the following will be proposed at the Annual General Meeting on 14 July 2020:

- To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 March 2020.
- To approve the Directors' Remuneration Policy.

### Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to Directors are shown below.

### Fees Payable (Audited)

The Directors who served during the year received the following fees, which exclude employers' National Insurance contributions:

Director	2020 £	2019 £
Robert Talbut	35,500	34,000
Robin Archibald	27,968	24,000
Marian Glen	25,000	24,000
Jane Pearce <sup>A</sup>	6,250	-
Andrew Robson	26,032	28,000
<b>Total</b>	<b>120,750</b>	<b>110,000</b>

<sup>A</sup> Appointed 1 January 2020

Fees are pro-rated where a change takes place during a financial year. There were no payments to third parties included in the fees referred to in the table above.

### Directors' Interests in the Company (Audited)

The Directors are not required to have a shareholding in the Company. The Directors (including their connected persons) at 31 March 2020 and 31 March 2019 had no interest in the share capital of the Company other than those interests, all of which are beneficial, shown in the table below.

	31 March 2020 Ordinary shares	31 March 2019 Ordinary shares
Robert Talbut	14,969	14,969
Robin Archibald	18,140	7,640
Marian Glen	3,000	3,000
Jane Pearce	3,000	-
Andrew Robson	15,500	15,500

No Director had an interest in the 3.5% Cumulative Preference shares at any time during the year.

Since the end of the year, Mr Talbut has purchased an additional 3,527 Ordinary shares. There have been no other changes to the Directors' interests in the share capital of the Company since the end of the year.

### Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, it is confirmed that the above Remuneration Report summarises, as applicable, for the year to 31 March 2020:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which the changes occurred and decisions have been taken.

**Marian Glen,**  
Chairman of the Remuneration Committee  
3 June 2020

# Audit Committee's Report

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The Audit Committee presents its Report for the year ended 31 March 2020.

## Committee Composition

The Audit Committee comprises all of the Directors of the Company with Mr Archibald acting as Chairman with effect from 4 July 2019. Mr Archibald is a Chartered Accountant and the Board is satisfied that he has recent and relevant financial experience and knowledge of the investment company sector, and that the Committee as a whole has competence relevant to the sector.

Notwithstanding the provisions of the UK Corporate Governance Code, the Board considers that, given its size and the nature of the Company's activities, it is appropriate for the Chairman of the Board to be a member of the Committee.

## Functions of the Audit Committee

The principal role of the Audit Committee is to assist the Board in relation to the reporting of financial information, the review of financial controls and the management of risk. The Committee has defined terms of reference which are reviewed and re-assessed for their adequacy on at least an annual basis. Copies of the terms of reference are published on the Company's website and are available from the Company on request.

The Committee's main functions are listed below:

- to review and monitor the internal control systems and risk management systems (including review of non-financial risks) on which the Company is reliant (the Directors' statement on the Company's internal controls and risk management is set out below);
- to consider whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half-yearly and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager;
- to review, and report to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's annual and half-yearly financial statements, announcements and related formal statements;
- to review the content of the Annual Report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;

- to review the proposed audit programme with the Auditor;
- to meet with the Auditor to review the audit results report;
- to develop and implement policy on the engagement of the Auditor to supply non-audit services. Fees paid to the Auditor during the year for non-audit services amounted to £nil (2019: £2,000, relating to the provision of iXBRL tagging services). All non-audit services must be approved in advance by the Audit Committee and will be reviewed in the light of statutory requirements and the need to maintain the Auditor's independence;
- to review a statement from the Standard Life Aberdeen Group detailing the arrangements in place within the group whereby staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- to make recommendations in relation to the re-appointment of the Auditor or the appointment of a new Auditor and to approve the remuneration and terms of engagement of the Auditor; and
- to monitor and review the Auditor's independence, objectivity, effectiveness, resources and qualification.

## Activities During the Year

The Audit Committee met twice during the year when, amongst other things, it considered the Annual Report and the Half-Yearly Financial Report. Representatives of the Standard Life Aberdeen Group's internal audit, risk and compliance departments reported to the Committee at these meetings on matters such as internal control systems, risk and the conduct of the business in the context of its regulatory environment. The Audit Committee also meets privately with the Auditor to discuss issues arising from the audit.

Mr Archibald was assisted in his transition to audit chair by Mr Robson who had fulfilled that role for the Company for a number of years. As part of this transition, Mr Archibald also had informal meetings with the Manager to discuss the financial reporting and audit functions and how the Company would ensure compliance with any changes to accounting, financial reporting or governance regulations.

From the onset of the COVID-19 pandemic in the first quarter of 2020, the Audit Committee has liaised closely with the Manager to seek assurances as to the resilience of the reporting and control systems in place both for the management of the portfolio and for the Company's other operations. To date, the



Company has continued to operate efficiently despite the significant challenges of many key functions not being conducted from the normal offices of the agents of the Company.

### Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks, that it has been in place for the year ended 31 March 2020 and up to the date of approval of the Annual Report, that it is regularly reviewed by the Board and accords with the FRC's guidance on internal controls.

The Board has overall responsibility for ensuring that there is a system of internal controls in place and a process for reviewing its effectiveness. Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The design, implementation and maintenance of controls and procedures to safeguard the assets of the Company and to manage its affairs properly extends to operational and compliance controls and risk management. The Board has prepared its own risk register which identifies potential risks and it considers the potential cause and possible impact of these risks as well as reviewing the controls in place to mitigate them. A risk is rated by having a likelihood and an impact rating and is plotted on a "heat map".

Clear lines of accountability have been established between the Board and the Manager. The Board receives regular reports covering key performance and risk indicators and considers control and compliance issues brought to its attention. In carrying out its review, the Board has had regard to the activities of the Standard Life Aberdeen Group, its internal audit and compliance functions and the Auditor.

The Board has reviewed the effectiveness of the Standard Life Aberdeen Group's system of internal control including its annual internal controls report prepared in accordance with the International Auditing and Assurance Standards Board's International Standard on Assurance Engagements ("ISAE") 3402, "Assurance Reports on Controls at a Service Organization". The Board has also reviewed the Standard Life Aberdeen Group's process for identifying and evaluating the significant risks faced by the Company and the policies and procedures by which these risks are managed.

The Depositary, BNP Paribas Securities Services, London Branch, reports annually to the Board. Its services are monitored on an ongoing basis on behalf of the Company by the Manager, and the

Manager meets with the Depositary on a regular basis and reviews internal control reports produced by the Depositary.

Risks are identified and documented through a risk management framework by each function within the Standard Life Aberdeen Group's activities. Risk is considered in the context of the FRC's guidance on internal controls and includes financial, regulatory, market, operational and reputational risk. This helps the internal audit risk assessment model identify those functions for review. Any weaknesses identified are reported to the Board and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Board.

The key components designed to provide effective internal control are outlined below:

- the Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers;
- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance; the emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception;
- as a matter of course the Standard Life Aberdeen Group's compliance department continually reviews its operations; and
- at its meeting in May 2020, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 March 2020 by considering documentation from the Standard Life Aberdeen Group including the internal audit and compliance functions and taking account of events since 31 March 2020.

The Board has considered the need for an internal audit function but, given that the Audit Committee receives reports from the Company's key service providers on their internal controls and, because of the compliance and internal control systems in place within the Standard Life Aberdeen Group, has decided to place reliance on those systems and internal audit procedures and concluded that it is not necessary for the Company to have its own internal audit function.



# Audit Committee's Report Continued

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## Financial Statements and Significant Issues

During its review of the Company's financial statements for the year ended 31 March 2020, the Audit Committee considered the following significant issues, in particular those communicated by the Auditor during its planning and reporting of the year end audit:

### Valuation and Existence of Investments

*How the issue was addressed* - The Company's investments have been valued in accordance with the accounting policies as disclosed in note 1(b) to the financial statements. All investments are in quoted securities in active markets, are considered to be liquid and have been categorised as Level 1 within the IFRS 13 fair value hierarchy. The portfolio holdings and their pricing is reviewed and verified by the Manager on a regular basis and management accounts, including a full portfolio listing, are prepared for each Board meeting. The Company uses the services of an independent depository (BNP Paribas Securities Services, London Branch) to hold the assets of the Company. The Depository checks the consistency of its records with those of the Manager on a monthly basis and reports to the Board on an annual basis.

### Recognition of Investment Income

*How the issue was addressed* - The recognition of investment income is undertaken in accordance with the stated accounting policies. In addition, the Directors review the Company's income, including income received, revenue forecasts and dividend comparisons at each Board meeting.

### Maintenance of Investment Trust Status

*How the issue was addressed* - Approval of the Company as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 for financial years commencing on or after 1 April 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis by the Manager and reported at each Board meeting.

### COVID-19 Pandemic

*How the issue was addressed* - In light of the emergence of the COVID-19 pandemic towards the end of the financial year, in addition to the matters described above, the Board and Audit Committee paid particular attention to a number of other matters, including going concern and viability and the robustness of the operations of the Manager and other service providers due to the impact of the pandemic on working practices.

## Review of Auditor

The Audit Committee has reviewed the effectiveness of the Auditor, Ernst & Young LLP ("E&Y"), including:

- Independence - the Auditor discusses with the Audit Committee, at least annually, the steps it takes to ensure its independence and objectivity and makes the Committee aware of any potential issues, explaining all relevant safeguards.
- Quality of audit work - including the ability to resolve issues in a timely manner, its communications and presentation of outputs, and its working relationship with management.
- Quality of people and service - including continuity and succession plans.
- Fees – including current and proposed fees for future years.

## Tenure of the Auditor

E&Y was appointed as Auditor at the Annual General Meeting on 6 July 2016. In accordance with present professional guidelines the audit partner is rotated after no more than five years and the year ended 31 March 2020 is the fourth year for which the present partner, Caroline Mercer, has served.

The Audit Committee is satisfied that E&Y is independent and therefore supports the recommendation to the Board that the re-appointment of E&Y be put to shareholders for approval at the Annual General Meeting.

**Robin Archibald,**  
**Chairman of the Audit Committee**  
 3 June 2020

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# Financial Statements

In the year to 31 March 2020 the Company's net asset value ("NAV") per share decreased by 18.0% on a total return basis, compared to a total return decrease of 18.5% from our benchmark, the FTSE All Share Index.

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Forth Bridge, six miles west of Edinburgh's city centre

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# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, and under that law they have chosen to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU subject to any material departures disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, but not for the content of any information included on the website that has been prepared or issued by third parties. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- in the opinion of the Directors, the Annual Report taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's position and performance, business model and strategy; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

On behalf of the Board  
**Robert Talbut,**  
**Chairman**  
 3 June 2020

# Independent Auditor's Report to the Members of Shires Income PLC

## Opinion

We have audited the financial statements of Shires Income PLC (the "Company") for the year ended 31 March 2020 which comprise of the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions Relating to Principal Risks, Going Concern and Viability Statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 12 to 15 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 12 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 48 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 17 and 18 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of Our Audit Approach

KPI	Description
Key audit matters	<ul style="list-style-type: none"> <li>· Risk of incomplete and/or inaccurate revenue recognition, including incorrect classification of special dividends and option premiums as revenue or capital items in the Statement of Comprehensive Income</li> <li>· Risk of inappropriate valuation and/or defective title to the investment portfolio</li> <li>· Impact of COVID-19</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>· Overall materiality of £0.64 million which represents 1% of shareholders' funds</li> </ul>



### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Incomplete and/or inaccurate revenue recognition, including classification of special dividends and option premiums as revenue or capital items in the Statement of Comprehensive Income</b> (as described on page 56 in the Audit Committee's Report and as per the accounting policy set out on page 73).</p> <p>The total revenue for the year to 31 March 2020 was £4.77 million (2019: £4.71 million), consisting primarily of dividend income from listed investments and traded option premiums.</p> <p>The total amount of special dividends received by the Company was £0.26 million (2019: £0.27 million), £0.10 million (2019: £nil) was classified as revenue and £0.16 million (2019: £0.27 million) was classified as capital.</p> <p>The income receivable by the Company during the year directly affects the Company's revenue return. There is a risk of incomplete and/or inaccurate recognition of revenue through the failure to recognise proper income entitlements or applying appropriate accounting treatment.</p> <p>In addition to the above, the Directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.</p>	<p><b>We have performed the following procedures:</b></p> <p>We obtained an understanding of the Manager and Administrator's processes and controls surrounding revenue recognition and the recognition and classification of special dividends and option premiums by reviewing their audited controls reports and by performing walkthrough procedures to, in the case of special dividends, evaluate the design and implementation of controls.</p> <p>We agreed 100% of dividends received from the income report to an independent data vendor. We recalculated the dividend income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend per share as agreed to an external source. We agreed a sample to bank statements, where applicable, we also agreed the exchange rates to an external source.</p> <p>To test completeness of recorded income, we tested that all expected dividends for each investee company had been recorded as income with reference to investee company announcements obtained from an independent data vendor.</p> <p>For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the obligation arose prior to 31 March 2020. We agreed the dividend rate to corresponding announcements made by the investee company. We recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post period end bank statements.</p> <p>Recognising that a number of companies have responded to the COVID-19 pandemic by cancelling their dividend payments, we traced 100% of the cash receipts of the accrued dividend income to post year end bank statements to ensure that the accrued dividends had subsequently been received.</p> <p>We performed a review of the income and the acquisition and disposal reports to identify all dividends received and accrued during the period that were above our testing threshold.</p>	<p><b>The results of our procedures are:</b></p> <p>Based on our testing we are satisfied that income is complete and, in the case of special dividends, appropriately recognised as revenue or capital.</p>



# Independent Auditor's Report to the Members of Shires Income PLC *Continued*

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<p>We identified which of the dividends above our testing threshold were special dividends with reference to an external source. There was one special dividend above our testing threshold with a value of £0.12 million.</p> <p>We recalculated and assessed the appropriateness of management's classification of the special dividend which was above our testing threshold and agreed with its allocation to capital.</p> <p>We agreed a sample of option premiums to source documentation and assessed that the option premiums have been correctly calculated and allocated to revenue in accordance with the underlying rationale for writing the option, and in accordance with the Company's accounting policy.</p>	
<p><b>Inappropriate valuation and/or defective title of the investment portfolio</b> (as described on page 56 in the Audit Committee's Report and as per the accounting policy set out on page 73).</p> <p>The valuation of the portfolio at 31 March 2020 was £78.40 million (2019: £94.97 million) consisting of listed investments.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return.</p> <p>Inappropriate investment pricing, or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at close of business on the reporting date.</p>	<p><b>We performed the following procedures:</b></p> <p>We obtained an understanding of the Administrator's processes surrounding investment pricing of listed and quoted securities by reviewing their audited internal controls report and by performing walkthrough procedures.</p> <p>For all investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor and recalculated the investment valuations as at the year-end.</p> <p>We assessed the liquidity of the investment portfolio through analysing the monthly average trading volume of the investments. We also reviewed the year end price exception and stale pricing reports to identify any prices that have not changed since the previous day and tested whether the listed price is a valid fair value.</p> <p>We agreed the Company's investments to the independent confirmation received from the Company's Custodian at 31 March 2020.</p>	<p><b>The results of our procedures are:</b></p> <p>Based on our testing we are satisfied that the investment portfolio has been appropriately valued and that the existence has been confirmed.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Impact of COVID-19</b> (as described on pages 12 and 15, and pages 17 and 18 in the Strategic Report, page 56 in the Audit Committee's Report and as per the accounting policy set out on page 72).</p> <p>The COVID-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in global equity and debt markets, but as of the date of our audit report, the precise extent of that impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of the financial statements.</p> <p>The COVID-19 pandemic and resultant uncertainties had the most significant impact on our audit of the financial statements in the following areas:</p> <p><b>Going concern and the viability statement:</b> There is increased risk due to the degree of uncertainty in the assumptions underlying management's assessment of future prospects, including the impact of COVID-19 on the Company continuing to meet its stated objective.</p> <p><b>Revenue recognition:</b> There is a risk that revenue could be incorrectly stated due to dividends accrued at the year end on underlying investments being subsequently cancelled or adjusted.</p> <p><b>Financial statement disclosures:</b> There is a risk that the impact of COVID-19 is not adequately disclosed in the financial statements.</p>	<p><b>We performed the following procedures:</b></p> <p><b>Going concern and the viability statement:</b> We obtained and reviewed the assessment of going concern and viability which includes consideration of the impact of COVID-19.</p> <p>We reviewed the revenue forecast which takes account of the impact COVID-19 may have on the Company and which supports the Directors' assessment of going concern and challenged the assumptions made by the Manager in the preparation of the forecast.</p> <p>We assessed the liquidity of the portfolio as set out in our response to the risk on inappropriate valuation and/or defective title of the investment portfolio above. We also assessed the concentration risk within the investment portfolio.</p> <p>We reviewed the Board's assessment of the risk of breaching the debt covenants as a result of a reduction in its asset base. We recalculated the debt covenants which are set out in the loan agreement and which do not involve any subjectivity. We also assessed the reasonableness of the data inputs used in the Board's assessment in relation to the risk of breaching the covenants.</p> <p>We confirmed through discussion with the Manager and the Directors that they are in close contact with key service providers and that Business Continuity Plans are in place with no significant deterioration of service being experienced.</p> <p><b>Revenue recognition:</b> In response to a number of companies cancelling or adjusting their dividend payments due to COVID-19, we have performed our audit procedures on the recoverability of accrued dividend income up to the date of the approval of the Annual Report and Financial Statements, as set out in our response to the risk on incomplete and/or inaccurate revenue recognition.</p> <p><b>Financial statements disclosures:</b> We reviewed the disclosures contained within the Annual Report and Financial Statements, including the going concern and viability disclosures and the commentary in the Chairman's Statement and the Investment Manager's review, to ensure that the impact of COVID-19 has been included as appropriate.</p>	<p><b>The results of our procedures are:</b></p> <p>Based on the procedures performed, we are satisfied that the Directors have appropriately considered the impact of COVID-19 on the going concern assessment, the viability statement and revenue recognition and that adequate disclosures have been presented in the financial statements.</p>

# Independent Auditor's Report to the Members of Shires Income PLC *Continued*

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We re-assessed the risks determined at the planning stage of the audit and, due to the uncertainty in global markets caused by the COVID-19 pandemic, we revised our risk assessment to include the Key Audit Matter 'Impact of COVID-19'.

## **An Overview of the Scope of Our Audit**

### **Tailoring the Scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

### **Our Application of Materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### **Materiality**

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £0.64 million (2019: £0.80 million), which is 1% (2019: 1%) of shareholders' funds. We believe that shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

### **Performance Materiality**

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £0.48 million (2019: £0.60 million).

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income of £0.20 million (2019: £0.20 million) being 5% (2019: 5%) of profit before tax.

### **Reporting Threshold**

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.03 million (2019: £0.04 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### **Other Information**

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

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We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair balanced and understandable - set out on page 59 - the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting - set out on page 54 - the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code - set out on page 47 - the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

#### Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

#### Matters on Which We Are Required to Report by Exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 59, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# Independent Auditor's Report to the Members of Shires Income PLC *Continued*

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## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to What Extent the Audit Was Considered Capable of Detecting Irregularities, Including Fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are IFRSs, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete and/or inaccurate revenue recognition through incorrect classification of special dividends and option premiums as revenue or capital in the Statement of Comprehensive Income. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [frc.org.uk/auditorsresponsibilities](https://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Other Matters we are Required to Address

- We were appointed by the Company on 6 July 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods.
  - Our total uninterrupted period of engagement is four years, covering the period from our appointment through to the period ending 31 March 2020.
  - The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
  - The audit opinion is consistent with the additional report to the Audit Committee.
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### Use of Our Report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Caroline Mercer (Senior Statutory Auditor)**

**For and on behalf of Ernst & Young LLP, Statutory Auditor**

Edinburgh

3 June 2020



# Statement of Comprehensive Income

	Notes	Year ended 31 March 2020			Year ended 31 March 2019		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments at fair value	11	-	(17,449)	(17,449)	-	(466)	(466)
Currency gains		-	9	9	-	14	14
<b>Income</b>	3						
Dividend income		4,428	-	4,428	4,536	-	4,536
Interest income		15	-	15	5	-	5
Stock dividends		206	-	206	74	-	74
Traded option premiums		158	-	158	94	-	94
Money market interest		-	-	-	3	-	3
		4,807	(17,440)	(12,633)	4,712	(452)	4,260
<b>Expenses</b>							
Management fee	4	(206)	(206)	(412)	(203)	(203)	(406)
Administrative expenses	5	(420)	-	(420)	(372)	-	(372)
Finance costs	7	(185)	(185)	(370)	(173)	(173)	(346)
		(811)	(391)	(1,202)	(748)	(376)	(1,124)
<b>Profit/(loss) before taxation</b>		3,996	(17,831)	(13,835)	3,964	(828)	3,136
Taxation	8	(35)	-	(35)	(44)	-	(44)
<b>Profit/(loss) attributable to equity holders of the Company</b>		3,961	(17,831)	(13,870)	3,920	(828)	3,092
<b>Earnings per Ordinary share (pence)</b>	10	12.98	(58.42)	(45.44)	13.06	(2.76)	10.30

The Company does not have any income or expense that is not included in profit for the year, and therefore the "Profit for the year" is also the "Total comprehensive income for the year", as defined in IAS 1 (revised).

The total column of this statement represents the Statement of Comprehensive Income of the Company, prepared in accordance with IFRS. The revenue and capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of these financial statements.

# Balance Sheet

	Notes	As at 31 March 2020 £'000	As at 31 March 2019 £'000
<b>Non-current assets</b>			
Ordinary shares		57,499	70,400
Convertibles		490	530
Preference shares		20,412	24,041
<b>Securities at fair value</b>	11	78,401	94,971
<b>Current assets</b>			
Other receivables	12	953	1,410
Cash at bank		3,791	2,913
		4,744	4,323
<b>Creditors: amounts falling due within one year</b>			
Other payables		(283)	(239)
Short-term borrowings		(9,000)	(9,000)
	13	(9,283)	(9,239)
<b>Net current liabilities</b>		(4,539)	(4,916)
Total assets less current liabilities		73,862	90,055
<b>Non-current liabilities</b>			
Long-term borrowings	13	(9,998)	(9,998)
<b>Net assets</b>		63,864	80,057
<b>Share capital and reserves</b>			
Called-up share capital	14	15,435	15,127
Share premium account		21,005	19,626
Capital reserve	15	20,654	38,485
Revenue reserve		6,770	6,819
<b>Equity shareholders' funds</b>		63,864	80,057
<b>Net asset value per Ordinary share (pence)</b>	16	207.39	265.49

The financial statements were approved by the Board of Directors and authorised for issue on 3 June 2020 and were signed on its behalf by:

**Robert Talbut**  
Chairman

The accompanying notes are an integral part of these financial statements.

# Statement of Changes in Equity

## Year ended 31 March 2020

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 March 2019	15,127	19,626	38,485	6,819	80,057
Issue of Ordinary shares	308	1,379	–	–	1,687
(Loss)/profit for the year	–	–	(17,831)	3,961	(13,870)
Equity dividends (see note 9)	–	–	–	(4,010)	(4,010)
<b>As at 31 March 2020</b>	<b>15,435</b>	<b>21,005</b>	<b>20,654</b>	<b>6,770</b>	<b>63,864</b>

## Year ended 31 March 2019

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 March 2018	15,049	19,308	39,313	6,795	80,465
Issue of Ordinary shares	78	318	–	–	396
(Loss)/profit for the year	–	–	(828)	3,920	3,092
Equity dividends (see note 9)	–	–	–	(3,896)	(3,896)
<b>As at 31 March 2019</b>	<b>15,127</b>	<b>19,626</b>	<b>38,485</b>	<b>6,819</b>	<b>80,057</b>

The Company has aggregate realised and distributable reserves of £33,805,000 as at 31 March 2020 (2019 – £31,875,000), comprising capital reserve – realised of £27,035,000 (2019 – £25,056,000) and a revenue reserve of £6,770,000 (2019 – £6,819,000). The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

The accompanying notes are an integral part of these financial statements.

# Cash Flow Statement

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
<b>Net cash inflow from operating activities</b>		
Dividend income received <sup>A</sup>	4,643	4,440
Interest income received	16	5
Options premium received	162	67
Money market interest received	-	3
Management fee paid	(413)	(413)
Other cash expenses	(400)	(363)
<b>Cash generated from operations</b>	<b>4,008</b>	<b>3,739</b>
Interest paid	(367)	(342)
Loan breakage costs paid	(32)	-
Overseas tax paid	(59)	(45)
<b>Net cash inflows from operating activities</b>	<b>3,550</b>	<b>3,352</b>
<b>Cash flows from investing activities</b>		
Purchases of investments <sup>A</sup>	(16,722)	(22,672)
Sales of investments	16,370	23,457
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(352)</b>	<b>785</b>
<b>Cash flows from financing activities</b>		
Equity dividends paid	(4,010)	(3,896)
Issue of Ordinary shares	1,687	396
Loan arrangement fees	(6)	-
<b>Net cash outflow from financing activities</b>	<b>(2,329)</b>	<b>(3,500)</b>
<b>Increase in cash and cash equivalents</b>	<b>869</b>	<b>637</b>
<b>Reconciliation of net cash flow to movements in cash and cash equivalents</b>		
Increase in cash and cash equivalents as above	869	637
Net cash and cash equivalents at start of year	2,913	2,262
Effect of foreign exchange rate changes	9	14
<b>Net cash and cash equivalents at end of year</b>	<b>3,791</b>	<b>2,913</b>

<sup>A</sup> Non-cash dividends during the year comprised stock dividends of £219,000 (2019 – £74,000).

# Notes to the Financial Statements

## For the year ended 31 March 2020

1. **Principal activity.** The Company is a closed-end investment company, registered in England and Wales No. 00386561, with its Ordinary shares listed on the London Stock Exchange.

2. **Accounting policies**

(a) **Basis of accounting.** The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and International Financial Reporting Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, and to the extent that they have been adopted by the European Union.

The Company's assets consist mainly of equity shares in companies listed on the London Stock Exchange and in most circumstances, including in the current market environment, are considered to be realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants, including the headroom available. The Company has a £20 million loan facility which matures in September 2022. £9 million of this amount is drawn down on a short-term basis through a revolving credit facility and can be repaid without incurring any financial penalties. Having taken these factors into account, as well as the impact on the Company of the spread of the COVID-19 virus, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of this Report. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements.

The Company's financial statements are presented in sterling, which is also the functional currency as it is the currency in which shares are issued and expenses are generally paid. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Where presentational guidance set out in the Statement of Recommended Practice ("SORP"): 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies ("AIC"), is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP issued in October 2019.

**Significant accounting judgements, estimates and assumptions.** The preparation of financial statements requires the use of certain significant accounting judgements, estimates and assumptions which requires management to exercise its judgement in the process of applying the accounting policies and are continually evaluated. The area requiring most significant judgement and assumption in the financial statements is the determination of the fair value hierarchy classification of traded options which have been assessed as being Level 2 due to them not being considered to trade in active markets. The Directors do not consider there to be any significant estimates within the financial statements. Special dividends are assessed and credited to capital or revenue according to their circumstances.

**New and amended accounting standards and interpretations.** At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2019:

- IAS 12 Amendment – Income tax consequences of payments on financial instruments classifies as equity
- IAS 19 Amendment Plan amendment, curtailment or settlement
- IAS 23 Amendment Borrowing costs eligible for capitalisation
- IFRS 9 Amendment Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments

**Future amendments to standards and interpretations.** At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2020:

- IAS 1 Amendments Classification of Liabilities as current or non-current
- IAS 1 and IAS 8 Amendments Definition of Material
- IAS 1, 8, 34, 37, 38 and IFRS 2, 3, 6, 14 Amendment to references to the conceptual framework
- IFRS 3 Amendment Definition of a Business
- IFRS 9, IAS 39 and IFRS 7 Amendments Interest Rate Benchmark Reform
- IFRIC 12, 19, 20, 22 and SIC 32 Amendment to references to the conceptual framework

The Company intends to adopt the Standards and Interpretations in the reporting period when they become effective and the Board does not anticipate that the adoption of these Standards and Interpretations in future periods will materially impact the Company's financial results in the period of initial application although there may be revised presentations to the Financial Statements and additional disclosures.

- (b) **Investments.** The Company classifies its investments based on their contractual cash flow characteristics and the Company's business model for managing the assets. The business model, which is the determining feature for debt instruments, is such that the portfolio of investments is managed, and performance is evaluated, on a fair value basis. The Manager is also compensated based on the fair value of the Company's assets. Equity instruments are classified as FVTPL ("Fair Value Through Profit or Loss") because cash flows resulting from such instruments do not represent payments of principal and interest on the principal outstanding, and therefore they fail the contractual cash flows test. Consequently, all investments are measured at FVTPL.

Investments are recognised and de-recognised at the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are measured at fair value. For listed investments, this is deemed to be bid market prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange.

Gains and losses arising from the changes in fair value are included in net profit or loss for the period as a capital item. Transaction costs are treated as a capital cost.

- (c) **Income.** Dividend income from equity investments, which have a discretionary dividend, is recognised when the shareholders' rights to receive payment have been established, normally the ex-dividend date. If a scrip dividend is taken in lieu of a cash dividend, the net amount of the cash dividend declared is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

Interest from deposits is dealt with on an accruals basis.

- (d) **Expenses.** All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly, the management fee and finance costs have been allocated 50% to revenue and 50% to capital, in order to reflect the Directors' expected long-term view of the nature of the future investment returns of the Company.
- (e) **Borrowings.** Short-term borrowings, which comprise interest bearing bank loans are initially recognised at cost, being the fair value of the consideration received, net of any issue expenses. The finance costs, being the difference between the net proceeds of borrowings and the total amount of payments that require to be made in respect of those borrowings, are amortised over the life of the borrowings.

Long-term borrowings are measured initially at the fair value of the consideration received, net of any issue expenses, and subsequently at amortised cost using the effective interest method.



## Notes to the Financial Statements continued

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- (f) **Taxation.** The tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company has no liability for current tax.

Deferred tax is recognised in respect of all temporary differences at the Balance Sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the Balance Sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise, using tax rates that are expected to apply at the date the deferred tax position is unwound.

- (g) **Foreign currencies.** Monetary assets and liabilities, comprising current assets, current liabilities and non-current liabilities and non-monetary assets comprising non-current assets held at fair value which are denominated in foreign currencies are converted into sterling at the rate of exchange ruling at the reporting date. Transactions during the year in foreign currencies are converted at the rate of exchange ruling at the transaction date. Gains or losses on monetary assets and liabilities arising from a change in exchange rates subsequent to the date of a transaction are included as a currency gain or loss in revenue or capital column of the Statement of Comprehensive Income, depending on whether the gain or loss is of a revenue or capital nature. Gains or losses on non-monetary assets arising from a change in exchange rates subsequent to the date of a transaction are included as a gain or loss on investments in the capital column of the Statement of Comprehensive Income.
- (h) **Derivatives.** The Company may enter into certain derivatives (e.g. traded options). Traded option contracts are restricted to writing out-of-the-money options with a view to generating income. Premiums received on traded option contracts are recognised as income evenly over the period from the date they are written to the date when they expire or are exercised or assigned. Losses on any movement in the fair value of open contracts at the year end and on the exercise of the contracts are recorded in the capital column of the Statement of Comprehensive Income as they arise.
- (i) **Cash and cash equivalents.** Cash and cash equivalents comprise cash in hand and at banks and short-term deposits.
- (j) **Other receivables.** Financial assets classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. As such they are measured at amortised cost. Other receivables do not carry any interest, they have assessed for any expected credit losses over their lifetime due to their short-term nature.
- (k) **Other payables.** Payables are non-interest bearing and are stated at their undiscounted cash flows.
- (l) **Dividends payable.** Final dividends are recognised from the date on which they are approved by shareholders. Interim dividends are recognised when paid.

(m) **Nature and purpose of reserves**

**Share premium account.** The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising ordinary shares of 50p per share.

**Capital reserve.** This reserve reflects any realised gains or losses in the period together with any unrealised increases and decreases that have been recognised in the Statement of Comprehensive Income. These include gains and losses from foreign currency exchange differences.

Additionally, expenses, including finance costs, are charged to this reserve in accordance with (d) above.

**Revenue reserve.** This reserve reflects all income and costs which are recognised in the revenue column of the Statement of Comprehensive Income. The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

- (n) **Segmental reporting.** The Directors are of the opinion that the Company is engaged in a single segment of business activity, being investment business. Consequently, no business segmental analysis is provided.
-

## 3. Income

	2020 £'000	2019 £'000
<b>Income from listed investments</b>		
UK dividend income	4,115	4,176
Overseas dividend income	313	360
Money market interest	–	3
Stock dividends	206	74
	4,634	4,613
<b>Other income from investment activity</b>		
Deposit interest	15	5
Traded option premiums	158	94
	173	99
<b>Total income</b>	<b>4,807</b>	<b>4,712</b>

## 4. Management fees

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fees	206	206	412	203	203	406

The management fee is based on 0.45% per annum up to £100 million and 0.40% over £100 million, by reference to the net assets of the Company and including any borrowings up to a maximum of £30 million, and excluding commonly managed funds, calculated monthly and paid quarterly. The fee is allocated 50% to revenue and 50% to capital. The management agreement is terminable on not less than six months' notice. The total of the fees paid and payable during the year to 31 March 2020 was £412,000 (2019 – £406,000) and the balance due to Aberdeen Standard Fund Managers Limited ("ASFML") at the year end was £97,000 (2019 – £99,000). The Company held an interest in a commonly managed investment trust, Aberdeen Smaller Companies Income Trust PLC, in the portfolio during the year to 31 March 2020 (2019 – same). The value attributable to this holding is excluded from the calculation of the management fee payable by the Company.

# Notes to the Financial Statements continued

## 5. Administrative expenses

	2020 £'000	2019 £'000
Directors' remuneration	121	110
Auditor's remuneration:		
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	31	21
Non-audit services		
– fees payable to the Company's Auditor for iXBRL tagging services	–	2
Promotional activities	49	58
Professional fees	42	3
Directors' & Officers' liability insurance	8	11
Trade subscriptions	43	39
Share plan costs	19	22
Registrar's fees	36	40
Printing, postage and stationery	28	26
Other administrative expenses	43	40
	<b>420</b>	<b>372</b>

The management agreement with ASFML also provides for the provision of promotional activities, which ASFML has delegated to Aberdeen Asset Managers Limited. The total fees paid and payable under the management agreement in relation to promotional activities were £49,000 (2019 – £58,000) inclusive of VAT. The Company's management agreement with ASFML also provides for the provision of company secretarial and administration services to the Company; no separate fee is charged to the Company in respect of these services, which have been delegated to Aberdeen Asset Management PLC.

With the exception of Directors' remuneration and Auditor's remuneration for the statutory audit, all of the expenses above, including fees for non-audit services, include irrecoverable VAT where applicable.

6. **Directors' remuneration.** The Company had no employees during the year (2019 – nil). No pension contributions were paid for Directors (2019 – £nil). Further details on Directors' Remuneration can be found in the Directors' Remuneration Report on page 53.

## 7. Finance costs

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
On bank loans	185	185	370	173	173	346

## 8. Taxation

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(a) Analysis of the charge for the year						
Overseas tax	35	–	35	44	–	44
Total tax charge	35	–	35	44	–	44

- (b) Factors affecting the tax charge for the year. The tax assessed for the year is lower than the effective rate of corporation tax in the UK. The differences are explained in the reconciliation below:

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit before taxation	3,996	(17,831)	(13,835)	3,964	(828)	3,136
Corporation tax at an effective rate of 19% (2019 – 19%)	759	(3,388)	(2,629)	753	(157)	596
<i>Effects of:</i>						
Non-taxable UK dividend income	(809)	–	(809)	(776)	–	(776)
Excess management expenses not utilised	112	74	186	91	72	163
Overseas withholding tax	35	–	35	44	–	44
Non-taxable overseas dividends	(62)	–	(62)	(68)	–	(68)
Losses on investments not taxable	–	3,315	3,315	–	88	88
Gains on currency movements	–	(1)	(1)	–	(3)	(3)
Total tax charge	35	–	35	44	–	44

At 31 March 2020 the Company had surplus management expenses and loan relationship debits with a tax value of £5,140,000 (2019 – £4,432,000) in respect of which a deferred tax asset has not been recognised. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

## Notes to the Financial Statements continued

### 9. Dividends

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the period:		
Third interim dividend for 2019 of 3.00p (2018 – 3.00p) per share	905	900
Final dividend for 2019 of 4.20p (2018 – 4.00p) per share	1,279	1,200
First two interim dividends for 2020 totalling 6.00p (2019 – 6.00p) per share	1,836	1,800
Refund of unclaimed dividends from previous periods	(12)	(6)
	4,008	3,894
3.5% Cumulative Preference shares	2	2
<b>Total</b>	<b>4,010</b>	<b>3,896</b>

The third interim dividend of 3.00p for the year to 31 March 2020, which was paid on 24 April 2020, and the proposed final dividend of 4.20p for the year to 31 March 2020, payable on 24 July 2020, have not been included as liabilities in these financial statements.

Set out below are the total ordinary dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered:

	2020 £'000	2019 £'000
Three interim dividends for 2020 totalling 9.00p (2019 – 9.00p) per share	2,759	2,705
Proposed final dividend for 2020 of 4.20p (2019 – 4.20p) per share	1,292	1,279
	4,051	3,984

The amount reflected above for the cost of the proposed final dividend for 2020 is based on 30,769,580 Ordinary shares, being the number of Ordinary shares in issue at the date of this Report.

### 10. Returns per share

	2020 £'000	2019 £'000
Returns per Ordinary share are based on the following figures:		
Revenue return	3,961	3,920
Capital return	(17,831)	(828)
<b>Total return</b>	<b>(13,870)</b>	<b>3,092</b>
 Weighted average number of Ordinary shares	 30,521,561	 30,021,438

## 11. Non-current assets – Securities at fair value

	2020 Listed investments £'000	2019 Listed investments £'000
Opening book cost	81,542	76,033
Opening investment holdings gains	13,429	20,508
Opening valuation	94,971	96,541
Purchases	16,989	22,743
Sales – proceeds	(16,111)	(23,842)
Losses on investments	(17,448)	(471)
<b>Total investments held at fair value through profit or loss</b>	<b>78,401</b>	<b>94,971</b>
	2020 Listed investments £'000	2019 Listed investments £'000
Closing book cost	84,782	81,542
Closing investment holdings (losses)/gains	(6,381)	13,429
<b>Total investments held at fair value through profit or loss</b>	<b>78,401</b>	<b>94,971</b>
	2020 £'000	2019 £'000
<b>(Losses)/gains on investments</b>		
Net realised gains on sales of investments <sup>A</sup>	2,531	6,615
Cost of call options exercised	(169)	(7)
Net realised gains on sales	2,362	6,608
Movement in fair value of investments	(19,751)	(7,003)
Cost of put options assigned	(59)	(76)
Movement in appreciation of traded options held	(1)	5
	<b>(17,449)</b>	<b>(466)</b>

<sup>A</sup> Includes losses realised on the exercise of traded options of £228,000 (2019 – £83,000) which are reflected in the capital column of the Statement of Comprehensive Income.

The cost of the exercising of call options and the assigning of put options is the difference between the market price of the underlying shares and the strike price of the options. The premiums earned on options expired, exercised or assigned of £158,000 (2019 – £94,000) have been dealt with in the revenue account.

The movement in the fair value of traded option contracts has been calculated in accordance with the accounting policy stated in note 2(h) and has been charged to the capital reserve.

The Company received £16,111,000 (31 March 2019: £23,842,000) from investments sold in the period. The book cost of these investments when they were purchased was £13,749,000 (31 March 2019: £17,234,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.



## Notes to the Financial Statements continued

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within losses on investments in the Statement of Comprehensive Income. The total costs on purchases of investments in the year was £70,000 (2019 – £97,000). The total costs on sales of investments in the year was £6,000 (2019 – £9,000). The above transaction costs are calculated in line with the AIC SORP. The transaction costs in the Company's Key Information Document are calculated on a different basis and in line with the PRIIPs regulations.

At 31 March 2020 the Company held the following investments comprising more than 3% of the class of share capital held:

Company	Country of Incorporation	Number of shares held	Class of shares held	Class held %
Aberdeen Smaller Companies Income Trust PLC	Scotland	3,120,476	Ordinary	14.1
Ecclesiastical Insurance Office	England	4,240,000	8 5/8% Cum Pref	4.0
Royal & Sun Alliance	England	4,350,000	7 3/8% Cum Pref	3.5
General Accident	Scotland	3,548,000	7.875% Cum Pref	3.2

### 12. Other receivables

	2020 £'000	2019 £'000
Amount due from brokers	136	395
Accrued income and prepayments	813	1,015
Option contract premium	4	–
	<b>953</b>	<b>1,410</b>

None of the above amounts are overdue.

### 13. Current liabilities

	2020 £'000	2019 £'000
Short-term bank loans	9,000	9,000
Amount due to brokers	55	7
Option contracts	10	–
Other creditors	218	232
	<b>9,283</b>	<b>9,239</b>

Included above are the following amounts owed to ASFML for management and saving scheme services and for the promotion of the Company.

	2020 £'000	2019 £'000
Other creditors	134	122
<b>Non-current liabilities</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Long-term bank loan	10,000	10,000
Loan arrangement fees	(2)	(2)
	<b>9,998</b>	<b>9,998</b>

The Company has an agreement with Scotiabank Europe PLC to provide a loan facility to 20 September 2022 for up to £20,000,000. A £10,000,000 fixed rate loan was drawn down on 20 September 2019 at a rate of 1.706%. This rate is fixed until maturity on 20 September 2022. On entering this agreement the Company incurred breakage costs of £32,000 from terminating the existing agreement early. In addition, at the year end £9,000,000 had been drawn down at an all-in interest rate of 1.13688%, maturing on 20 April 2020. At the date of signing this Report the amount drawn down was unchanged at £9,000,000 with an all-in interest rate of 1.032%, maturing on 19 June 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 £37 million. The Company met these covenants during the year and until the date of this Report.

The arrangement expenses incurred on the draw down of the loan are being amortised over the three year term of the loan resulting in a reduction to the carrying value of the loan drawn down being reduced by £2,000 (2019 – £2,000).

#### 14. Called up share capital

	2020		2019	
	Number	£'000	Number	£'000
<b>Authorised</b>				
Ordinary shares of 50 pence each	39,800,000	19,900	39,800,000	19,900
3.5% Cumulative Preference shares of £1 each	100,000	100	100,000	100
		<b>20,000</b>		<b>20,000</b>
<b>Allotted, called up and fully paid Ordinary shares of 50 pence each:</b>				
Balance brought forward	30,154,580	15,077	29,997,580	14,999
Ordinary shares issued	615,000	308	157,000	78
Balance carried forward	30,769,580	15,385	30,154,580	15,077
<b>Allotted, called up and fully paid 3.5% Cumulative Preference shares of £1 each:</b>				
Balance brought forward and carried forward	50,000	50	50,000	50
		<b>15,435</b>		<b>15,127</b>

During the year the Company issued 615,000 (2019 – 157,000) Ordinary shares of 50p each for proceeds of £1,687,000 (2019 – £396,000).

## Notes to the Financial Statements continued

Each Ordinary and Cumulative Preference share carries one vote at general meetings of the Company. The Cumulative Preference shares carry a right to receive a fixed rate of dividend and, on a winding up of the Company, to the payment of such fixed cumulative preferential dividends to the date of such winding up and to the repayment of the capital paid up on such shares in priority to any payment to the holders of the Ordinary shares.

The Ordinary shares, excluding any treasury shares, carry a right to receive dividends and, on a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings.

There are no restrictions on the transfer of Ordinary or Cumulative Preference shares in the Company other than certain restrictions which may from time to time be imposed by law.

### 15. Capital reserve

	2020 £'000	2019 £'000
At 31 March 2019	38,485	39,313
Net gains on sales of investments during year	2,362	6,608
Movement in fair value decreases of investments	(19,810)	(7,079)
Management fees	(206)	(203)
Interest on bank loans	(185)	(173)
Currency gains	9	14
Capital (loss)/gains on traded options	(1)	5
<b>At 31 March 2020</b>	<b>20,654</b>	<b>38,485</b>

The capital reserve includes losses of £6,381,000 (31 March 2019 – gains of £13,429,000), which relate to the revaluation of investments held at the reporting date.

### 16. Net asset value per Ordinary share. The net asset value per share and the net assets attributable to the Ordinary shareholders at the year end were as follows:

	2020	2019
Net assets per balance sheet	£63,864,000	£80,057,000
3.5% Cumulative Preference shares of £1 each	£50,000	–
Attributable net assets	£63,814,000	£80,057,000
Number of Ordinary shares in issue	30,769,580	30,154,580
<b>Net asset value per share</b>	<b>207.39p</b>	<b>265.49p</b>

During the period the Company has adopted a policy of calculating the net asset value per Ordinary based on net assets less an amount due to holders of 3.5% Cumulative Preference shares of £1 each equating to £1 per share (£50,000), divided by the number of Ordinary shares in issue. This does not give rise to any material change in the net asset value per share figures.

## 17. Analysis of changes in financial liabilities during the year

	At 31 March 2019 £'000	Currency differences £'000	Cash flows £'000	Other movements <sup>A</sup> £'000	At 31 March 2020 £'000
<b>Financing activities</b>					
Amounts relating issue of Ordinary shares	-	-	(1,687)	1,687	-
Debt due within one year	(9,000)	-	-	-	(9,000)
Debt due after more than one year	(9,998)	-	3	(3)	(9,998)
	(18,998)	-	(1,684)	1,684	(18,998)

	At 31 March 2018 £'000	Currency differences £'000	Cash flows £'000	Other movements <sup>A</sup> £'000	At 31 March 2019 £'000
<b>Financing activities</b>					
Amounts relating to issue of Ordinary shares	-	-	(396)	396	-
Debt due within one year	(9,000)	-	-	-	(9,000)
Debt due after more than one year	(9,997)	-	-	(1)	(9,998)
	(18,997)	-	(396)	395	(18,998)

<sup>A</sup> The other movements column represents the proceeds from the issue of ordinary shares and the amortisation of the loan arrangement fees.

## 18. Financial instruments

**Risk management.** The Company's investment activities expose it to various types of financial risk associated with the financial instruments and markets in which it invests. The Company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company may from time to time use FTSE options for protection of the loss of value to the portfolio.

Subject to Board approval, the Company also has the ability to enter into derivative transactions, in the form of traded options, for the purpose of enhancing income returns and portfolio management. During the year, the Company entered into certain derivative contracts. As disclosed in note 3, the premium received and fair value changes in respect of options written in the year were £158,000 (2019 – £94,000). Positions closed during the year realised a loss of £228,000 (2019 – £83,000). The largest position in derivative contracts held during the year at any given time was £108,000 (2019 – £44,000). The Company had open positions in derivative contracts at 31 March 2020 valued at a liability of £10,000 (2019 – no open positions) as disclosed in note 13.

The Board has delegated the risk management function in relation to financial instruments to Aberdeen Standard Fund Managers Limited ("ASFML") under the terms of its management agreement with ASFML (further details of which are included under note 4). The Board regularly reviews and agrees policies for managing each of the key financial risks identified with the Manager. The types of risk and the Manager's approach to the management of each type of risk, are summarised below. Such approach has been applied throughout the year and has not changed since the previous accounting period. The numerical disclosures exclude short-term debtors and creditors given their relatively low value.

**Risk management framework.** The directors of ASFML collectively assume responsibility for ASFML's obligations under the AIFMD including reviewing investment performance and monitoring the Company's risk profile during the year.

## Notes to the Financial Statements continued

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ASFML is a fully integrated member of the Standard Life Aberdeen Group (the “Group”), which provides a variety of services and support to ASFML in the conduct of its business activities, including in the oversight of the risk management framework for the Company. The AIFM has delegated the day to day administration of the investment policy to Aberdeen Asset Managers Limited, which is responsible for ensuring that the Company is managed within the terms of its investment guidelines and the limits set out in its pre-investment disclosures to investors (details of which can be found on the Company’s website). The AIFM has retained responsibility for monitoring and oversight of investment performance, product risk and regulatory and operational risk for the Company.

The Group’s Internal Audit Department is independent of the Risk Division and reports directly to the Group’s CFO and to the Audit Committee of the Group’s Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the Group’s control environment.

The Manager conducts its risk oversight function through the operation of the Group’s risk management processes and systems which are embedded within the Group’s operations. The Group’s Risk Division supports management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Compliance, Business Risk, Market Risk, Risk Management and Legal. The team is headed up by the Group’s Head of Risk, who reports to the Group’s CEO. The Risk Division achieves its objective through embedding the Risk Management Framework throughout the organisation using the Group’s operational risk management system (“SHIELD”).

The Group’s corporate governance structure is supported by several committees to assist the board of directors of Standard Life Aberdeen plc, its subsidiaries and the Company to fulfil their roles and responsibilities. The Group’s Risk Division is represented on all committees, with the exception of those committees that deal with investment recommendations. The specific goals and guidelines on the functioning of those committees are described on the committees’ terms of reference.

**Risk management.** The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk, currency risk and price risk), (ii) liquidity risk and (iii) credit risk.

- (i) **Market risk.** The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – interest rate risk, currency risk and other price risk.

**Interest rate risk.** Interest rate movements may affect:

- the fair value of the investments in convertibles and preference shares;
- the level of income receivable on cash deposits; and
- interest payable on the Company’s variable rate borrowings.

**Management of the risk.** The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis. Borrowings comprise fixed rate, revolving, and uncommitted facilities. The fixed rate facilities are used to finance opportunities at low rates and, the revolving and uncommitted facilities to provide flexibility in the short-term. Current bank covenant guidelines state that the gross borrowings will not exceed one-third of adjusted net assets.

The Board reviews on a regular basis the value of investments in convertibles and preference shares.

**Interest rate profile.** The interest rate risk profile of the portfolio of financial assets and liabilities (excluding ordinary shares and convertibles) at the Balance Sheet date was as follows:

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
<b>As at 31 March 2020</b>				
<b>Assets</b>				
UK preference shares	–	8.47	20,412	–
Cash and cash equivalents	–	0.53	–	3,791
<b>Total assets</b>			<b>20,412</b>	<b>3,791</b>
<b>Liabilities</b>				
Short-term bank loans	0.05	1.14	(9,000)	–
Long-term bank loans	2.47	1.71	(9,998)	–
<b>Total liabilities</b>			<b>(18,998)</b>	<b>–</b>

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
<b>As at 31 March 2019</b>				
<b>Assets</b>				
UK preference shares	–	8.49	24,041	–
Cash and cash equivalents	–	0.50	–	2,913
<b>Total assets</b>			<b>24,041</b>	<b>2,913</b>
<b>Liabilities</b>				
Short-term bank loans	0.01	1.69	(9,000)	–
Long-term bank loans	1.59	1.96	(9,998)	–
<b>Total liabilities</b>			<b>(18,998)</b>	<b>–</b>

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loans is based on the interest rate payable, weighted by the total value of the loans.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

The UK preference shares assets have no maturity date.

Short-term debtors and creditors (with the exception of bank loans) have been excluded from the above tables.

**Interest rate sensitivity.** The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the Balance Sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

## Notes to the Financial Statements continued

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If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's:

- profit before tax for the year ended 31 March 2020 would increase/decrease by £38,000 (2019 – £29,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances. These figures have been calculated based on cash positions at each year end.
- profit before tax for the year ended 31 March 2020 would increase/decrease by £1,113,000 (2019 – increase/decrease by £1,015,000). This is mainly attributable to the Company's exposure to interest rates on its investments in convertibles and preference shares.

**Currency risk.** A small proportion of the Company's investment portfolio is invested in overseas securities whose values are subject to fluctuation due to changes in exchange rates.

**Management of the risk.** The revenue account is subject to currency fluctuations arising on dividends received in foreign currencies and, indirectly, due to the impact of foreign exchange rates upon the profits of investee companies. The Company does not hedge this currency risk. The Company does not have any exposure to foreign currency liabilities. No currency sensitivity analysis has been prepared as the Company considers any impact to be immaterial to the financial statements.

**Price risk.** Price risks (ie changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

**Management of the risk.** It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets to specific sectors and the stock selection process both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are listed on recognised stock exchanges.

**Price sensitivity.** If market prices at the Balance Sheet date had been 20% higher or lower while all other variables remained constant, the profit before tax attributable to Ordinary shareholders for the year ended 31 March 2020 would have increased/decreased by £11,500,000 (2019 – increase/decrease of £14,080,000). This is based on the Company's equity portfolio held at each year end.

- (ii) **Liquidity risk.** This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

**Management of the risk.** Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary.

Short-term flexibility is achieved through the use of loan facilities, details of which can be found in note 13. Under the terms of the loan facility, the Manager provides the lender with loan covenant reports on a monthly basis, to provide the lender with assurance that the terms of the facility are not being breached. The Manager will also review the credit rating of a lender on a regular basis.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis. Borrowings comprise a revolving loan facility and a fixed term loan facility. The Board has imposed a maximum equity gearing of 35% which constrains the amount of gearing that can be invested in equities which, in normal market conditions, are more volatile than the convertibles and preference shares within the portfolio. Details of borrowings at 31 March 2020 are shown in note 13.

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**Maturity profile.** The maturity profile of the Company's financial liabilities at the Balance Sheet date was as follows:

	Within 1 year £'000	Within 1-5 years £'000	More than 5 years £'000
<b>At 31 March 2020</b>			
Trade and other payables	(265)	–	–
Short-term bank loans	(9,009)	–	–
Long-term bank loans	(172)	(10,255)	–
	<b>(9,446)</b>	<b>(10,255)</b>	<b>–</b>
	Within 1 year £'000	Within 1-5 years £'000	More than 5 years £'000
<b>At 31 March 2019</b>			
Trade and other payables	(197)	–	–
Short-term bank loans	(9,013)	–	–
Long-term bank loans	(196)	(10,113)	–
	<b>(9,406)</b>	<b>(10,113)</b>	<b>–</b>

- (iii) **Credit risk.** This is the risk of failure of the counterparty to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

**Management of the risk.** The risk is managed as follows:

- where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the Custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Standard Life Aberdeen Group's Compliance department carries out periodic reviews of the Custodian's operations and reports its findings to the Standard Life Aberdeen Group's Risk Management Committee and to the Board of the Company. This review will also include checks on the maintenance and security of investments held;
- transactions involving derivatives, structured notes and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest are subject to rigorous assessment by the Investment Manager of the credit worthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board; and
- cash is held only with reputable banks with high quality external credit enhancements.

It is the Investment Manager's policy to trade only with A- and above (Long Term rated) and A-1/P-1 (Short Term rated) counterparties.

None of the Company's financial assets is secured by collateral or other credit enhancements.

## Notes to the Financial Statements continued

**Credit risk exposure.** In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 March 2019 was as follows:

	2020		2019	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Quoted convertibles and preference shares at fair value through profit or loss	20,902	20,902	24,571	24,571
Current assets				
Trade and other receivables	140	140	395	395
Accrued income	799	799	1,003	1,003
Cash and cash equivalents	3,791	3,791	2,913	2,913
	<b>25,632</b>	<b>25,632</b>	<b>28,882</b>	<b>28,882</b>

None of the Company's financial assets is past its due date.

**Fair value of financial assets and liabilities.** The fair value of the long-term loan has been calculated at £10,003,000 as at 31 March 2020 (2019 – £10,034,000) compared to an accounts value in the financial statements of £9,998,000 (2019 – £9,998,000) (note 13). The fair value of each loan is determined by aggregating the expected future cash flows for that loan discounted at a rate comprising the borrower's margin plus an average of market rates applicable to loans of a similar period of time and currency. The loan is considered to be classed as a Level 2 liability under IFRS 13. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices. Traded options contracts are valued at fair value which have been determined with reference to quoted market values of the contracts. The contracts are tradeable on a recognised exchange. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

19. **Fair value hierarchy.** IFRS 13 'Financial Value Measurement' requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 March 2020 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value through profit or loss</b>					
Quoted investments	a)	78,401	-	-	78,401
<b>Financial liabilities at fair value through profit or loss</b>					
Derivatives	b)	-	(10)	-	(10)
<b>Net fair value</b>		<b>78,401</b>	<b>(10)</b>	<b>-</b>	<b>78,391</b>

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>As at 31 March 2019</b>					
<b>Financial assets at fair value through profit or loss</b>					
Quoted investments	a)	94,971	-	-	94,971
<b>Financial liabilities at fair value through profit or loss</b>					
Derivatives	b)	-	-	-	-
<b>Net fair value</b>		<b>94,971</b>	<b>-</b>	<b>-</b>	<b>94,971</b>

- a) **Quoted investments.** The fair value of the Company's quoted investments has been determined by reference to their quoted bid prices at the reporting date. Quoted investments included in Fair Value Level 1 are actively traded on recognised stock exchanges.
- b) **Derivatives.** The fair value of the Company's investments in Exchange Traded Options has been determined using observable market inputs on an exchange traded basis although not actively traded and therefore has been classed as Level 2.

The fair value of the Company's investments in Over the Counter Options has been determined using observable market inputs other than quoted prices and included within Level 2.

## 20. Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the return to its equity shareholders through an appropriate balance of equity capital and debt.

The capital of the Company consists of equity, comprising issued capital, reserves and retained earnings.

The Board monitors and reviews the broad structure of the Company's capital. This review includes the nature and planned level of gearing, which takes account of the Investment Manager's views on the market and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company is not subject to any externally imposed capital requirements.

## Notes to the Financial Statements continued

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### **21. Related party transactions**

Directors' fees and interests. Fees payable during the year to the Directors and their interests in shares of the Company are disclosed within the Directors' Remuneration Report on page 53.

Transactions with the Manager. The Company has an agreement with Aberdeen Standard Fund Managers Limited for the provision of management, secretarial, accounting and administration services and for the carrying out of promotional activities in relation to the Company. Details of transactions during the year and balances outstanding at the year end are disclosed in notes 4 and 5.

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# Corporate Information

The Company's Investment Manager is a subsidiary of Standard Life Aberdeen plc. The group's assets under management were £544.6 billion as at 31 December 2019.

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# Information about the Investment Manager

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## Aberdeen Asset Managers Limited

The Company's Investment Manager is Aberdeen Asset Managers Limited which is a wholly-owned subsidiary of Standard Life Aberdeen plc. The group's assets under management were £544.6 billion as at 31 December 2019, managed for a range of clients including 24 UK-listed closed end investment companies.

## The Investment Team Senior Managers

### Iain Pyle

Investment Director



Iain is an Investment Director on the UK equities team, having joined Standard Life Investments in 2015. Prior to joining, he was an analyst on the top-ranked Oil & 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.

### Charles Luke

Investment Director



Charles has a BA in Economics and Japanese Studies from Leeds University and an MSc in Business and Economic History from the London School of Economics. He joined Aberdeen Asset Management's Pan European equities team in 2000 and previously worked at Framlington Investment Management.

## The Investment Process

### Investment Philosophy and Style

The Investment Manager believes that company fundamentals ultimately drive stock prices but are often priced inefficiently. We believe that in-depth company research delivers insights that can be used to exploit these market inefficiencies. We focus on investing in high quality companies, with the market often systematically underestimating the sustainability of their returns. Quality companies tend to produce more resilient earnings streams with fewer tail risks, allowing them to better navigate challenging market conditions whilst also capitalising on opportunities to create value. This makes our approach well suited to identifying companies with sustainable and growing income generation. Investment insights are generated by the extensive equity research platform at Aberdeen Standard Investments. Ideas are generated through frequent direct company contact, deep fundamental analysis and integrated ESG analysis with rigorous team debate strengthening analytical conclusions. We have a long-term approach, aiming to buy and hold companies for a multi-year time horizon although we have the ability to react quickly if necessary. We are willing to take sizeable deviations to the benchmark based on the companies where we find the highest quality and most attractive valuations.

### Investment Process

The investment process has three stages:

1. **Idea Generation and Research.** Comprehensive coverage of the UK equity market with a team of analysts generating investment ideas from company meetings, combined with corroborating evidence from competitors, suppliers and customers. External secondary research is also generated to gain insight on the consensus view and supplement proprietary research.
  2. **Stock Selection.** Buy ideas are peer reviewed by the whole UK equity team, evaluating our level of conviction and the materiality, corroboration and correlation of those investment opportunities. For the Company specifically, the Investment Manager aims to select high quality stocks. Quality is defined by reference to management, business focus, balance sheet and corporate governance.
  3. **Portfolio Construction and Risk Management.** Portfolio construction is undertaken in a disciplined way, prioritising the taking of company specific risk with a rigorous sell discipline. Non-proprietary and proprietary quantitative tools are used to identify and control risk factor exposures, including sector and geographic weights.
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The Investment Manager believes that good investment decision making requires clarity of responsibility for those decisions. Every stock has a named analyst responsible for its coverage, and every portfolio has a named fund manager responsible for its management. They make those decisions supported and challenged by the team, but accountability for the final decision is clear.

ESG integration means identifying and including all our ESG analysis in each investment decision and the Investment Manager is regarded as a leader in this area. A central ESG team supports investment teams across different asset classes with its thematic work on areas such as remuneration and climate change, as well as taking responsibility for voting policies.

The investment process also leverages a wealth of knowledge, insight and expertise across asset classes and regions within Aberdeen Standard Investments. This allows the Investment Manager to take advantage of equity colleagues across the globe who are meeting companies and conducting research and sharing their insights using one common global research platform. This is invaluable when investing in the UK equity market, which is one of the most global markets in the world. Corporate level insights are shared with the credit team which enriches the equity view through an understanding of the full capital structure of the businesses we invest in. Members of the Investment Manager's multi-asset and economics teams regularly attend the equity team's daily meeting to share macro level insights.

Given the importance of the Preference Share portfolio to the Company, there is an additional process in place to monitor these holdings. Regular meetings are held, comprising analysts from the fixed income and equities teams responsible for coverage of issuing companies, along with the portfolio managers. The process ensures that the holdings are monitored closely and that there is timely visibility on any changes at issuing companies which could potentially impact their ability or intention to pay the dividends associated with the preference shares.

### Risk Management

The Investment Manager utilises a number of quantitative risk tools to ensure it is fully aware of and understand all the risks prevalent in portfolios it manages. These risk management systems monitor and analyse active risk, the composition of portfolio positions, as well as contribution to risk and marginal contribution to risk of the portfolio's holdings. The systems break down the risk within the portfolio by industry and country factors, and highlight the stocks with the highest marginal contribution to risk and the largest diversification benefit. Sector, thematic and geographical positions are a residual of stock selection decisions, but are monitored to ensure excessive risk is not taken in any one area. The Investment Manager also makes use of pre-trade analytics to assess the impact of any trades on the portfolio risk metrics.

### The Investment Process – Harnessing Fundamental Research Insights to Exploit Market Inefficiencies





# Investor Information

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## Alternative Investment Fund Managers Directive ("AIFMD") and Pre-Investment Disclosure Document ("PIDD")

The Company has appointed Aberdeen Standard Fund Managers Limited as its alternative investment fund manager and BNP Paribas Securities Services, London Branch as its depositary under the AIFMD.

The AIFMD requires Aberdeen Standard Fund Managers Limited, as the Company's AIFM, to make available to investors certain information prior to such investors' investment in the Company. Details of the leverage and risk policies which the Company is required to have in place under the AIFMD are published in the Company's PIDD which can be found on its website:

[shiresincome.co.uk](http://shiresincome.co.uk). The periodic disclosures required to be made by the AIFM under the AIFMD are set out on page 101.

## Investor Warning: Be alert to share fraud and boiler room scams

Aberdeen Standard Investments has been contacted by investors informing us that they have received telephone calls and emails from people who have offered to buy their investment company shares, purporting to work for Aberdeen Standard Investments or for third party firms. Aberdeen Standard Investments has also been notified of emails claiming that certain investment companies under our management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from you is required to release the supposed payment for your shares. These callers/senders do not work for Aberdeen Standard Investments and any third party making such offers/claims has no link with Aberdeen Standard Investments.

Aberdeen Standard Investments does not 'cold-call' investors in this way. If you have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact our Customer Services Department.

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams at:

[fca.org.uk/consumers/scams](http://fca.org.uk/consumers/scams).

## Shareholder Enquiries

For queries regarding shareholdings, lost certificates, dividend payments, registered details and related matters, shareholders holding their shares directly in the Company are advised to contact the Registrars (see Contact Addresses). Changes of address must be notified to the Registrars in writing.

If you have any general questions about your Company, the Manager or performance, please telephone the Aberdeen Standard Investments Customer Services Department, send an email to [inv.trusts@aberdeenstandard.com](mailto:inv.trusts@aberdeenstandard.com) or write to:

Aberdeen Standard Investment Trusts  
PO Box 11020  
Chelmsford  
Essex CM99 2DB

## Dividend Tax Allowance

The annual tax-free personal allowance for dividend income for UK investors is £2,000 for the 2020/21 tax year. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered shareholders with a confirmation of dividends paid and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

## How to Invest

Investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, for retail clients, shares can be bought directly through the Aberdeen Standard Investments Children's Plan, Investment Trust Share Plan or Investment Trust Individual Savings Account ("ISA") or through the many broker platforms which offer the opportunity to acquire shares in investment companies, including Shires Income PLC.

## Aberdeen Standard Investments Children's Plan

Aberdeen Standard Investments operates an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management, including the Company. Anyone can invest in the Children's Plan (subject to the eligibility criteria as stated within the terms and conditions), including parents, grandparents and family friends. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors only pay Government Stamp Duty (currently 0.5%) on entry where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing Aberdeen Standard Investments in writing at any time.

### Aberdeen Standard Investments Share Plan

Aberdeen Standard Investments operates an Investment Trust Share Plan (the "Plan") through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors only pay Government Stamp Duty (currently 0.5%) on entry where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing Aberdeen Standard Investments in writing at any time.

### Aberdeen Standard Investments ISA

Aberdeen Standard Investments operates an Investment Trust ISA ("ISA") through which an investment may be made of up to £20,000 in the 2020/21 tax year.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases where applicable. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the ISA prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the ISA, from the sale of investments held in the ISA. Under current legislation, investments in ISAs can grow free of capital gains tax.

### ISA Transfer

Investors can choose to transfer previous tax year investments to Aberdeen Standard Investments, which can be invested in the Company while retaining their ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

### Nominee Accounts and Voting Rights

All investments in the Aberdeen Standard Investments Children's Plan, Investment Trust Share Plan and Investment Trust ISA are held in nominee accounts and investors are provided with the equivalent of full voting and other rights of share ownership.

### Keeping You Informed

Further information about the Company may be found on its dedicated website: [shiresincome.co.uk](http://shiresincome.co.uk). This provides access to information on the Company's share price performance, capital structure, London Stock Exchange announcements, current and historic Annual and Half-Yearly Reports, and the latest monthly factsheet on the Company issued by the Manager.

Alternatively, please call **0808 500 0040** (Freephone), email [inv.trusts@aberdeenstandard.com](mailto:inv.trusts@aberdeenstandard.com) or write to the address for Aberdeen Standard Investment Trusts stated above.

Details are also available at: [invtrusts.co.uk](http://invtrusts.co.uk)

### Key Information Document ("KID")

The KID relating to the Company and published by the Manager can be found on the Company's website.

### Literature Request Service

For literature and application forms for Aberdeen Standard Investment's investment trust products, please contact us through: [invtrusts.co.uk](http://invtrusts.co.uk).

Or telephone: **0808 500 4000**

Or write to:

Aberdeen Standard Investment Trusts  
PO Box 11020  
Chelmsford  
Essex CM99 2DB

### Terms and Conditions

Terms and conditions for Aberdeen Standard Investments managed savings products can also be found on our website at: [invtrusts.co.uk](http://invtrusts.co.uk).

### Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking 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, and who understand and are willing to accept the risks of exposure to equities.

Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs so that the securities issued by the Company can be recommended by a financial adviser to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream pooled investments ("NMPIs") and intends to continue to do so for the foreseeable future. The Company's securities are excluded from the Financial Conduct Authority's restrictions which apply to NMPIs because they are securities issued by an investment trust.

## Investor Information Continued

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### Online Dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms.

### Discretionary Private Client Stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit The Personal Investment Management and Financial Advice Association at: [pimfa.co.uk](http://pimfa.co.uk).

### Financial Advisers

To find an adviser who recommends on investment trusts, visit: [unbiased.co.uk](http://unbiased.co.uk).

### Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:

Tel: 0800 111 6768 or at  
[fca.org.uk/firms/financial-services-register](http://fca.org.uk/firms/financial-services-register)

Email: [consumer.queries@fca.org.uk](mailto:consumer.queries@fca.org.uk)

### Voting at General Meetings

If you hold your shares in the Company via a share plan or a platform and would like to attend and/or vote at the Annual General Meeting, then you will need to make arrangements with the administrator of your share plan or platform (see comments in Chairman's Statement on pages 7 and 8 regarding arrangements for the Annual General Meeting this year).

For this purpose, investors who hold their shares in the Company via the Aberdeen Standard Investment Plan for Children, the Aberdeen Standard Investment Trust Share Plan and/or the Aberdeen Standard Investment Trust ISA will find a Letter of Direction enclosed with the Annual Report. Shareholders are encouraged to complete and return the Letter of Direction in accordance with the instructions printed thereon.

### Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

*The information on pages 94 to 96 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

# Glossary of Terms and Conditions

## Aberdeen Standard Investments

Aberdeen Standard Investments is the brand of Standard Life Aberdeen plc.

## AIC

The Association of Investment Companies.

## AIFMD

The Alternative Investment Fund Managers Directive. The AIFMD is European legislation which created a European-wide framework for regulating managers of 'alternative investment funds' ("AIFs"). It is designed to regulate any fund which is not a UCITS fund and which is managed and/or marketed in the EU. The Company has been designated as an AIF and the Manager acts as the AIFM.

## Alternative Performance Measure or APM

A financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

## Benchmark

This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is the FTSE All-Share Index. The index averages the performance of a defined selection of listed companies over specific time periods.

## Call Option

An option contract which gives the buyer the right, but not the obligation, to purchase a specified amount of an asset at an agreed price by a future specified date.

## Closed-End Fund

A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.

## Convertibles

Fixed income securities, which can be converted into equity shares at a future date.

## COVID-19

This is an infectious disease caused by a newly discovered coronavirus, which has had a significant impact on public health and economies around the world.

## Discount

The amount by which the market price per share of an Investment Trust is lower than the Net Asset Value per share. The discount is normally expressed as a percentage of the Net Asset Value per share.

## Dividend Cover

Earnings per share divided by dividends per share expressed as a ratio.

## Dividend Yield

The annual dividend expressed as a percentage of the share price.

## ESG

Environmental, Social and Governance.

## FCA

Financial Conduct Authority.

## Gearing and Equity Gearing

Net gearing is calculated by dividing total borrowings less cash or cash equivalents, by shareholders' funds expressed as a percentage. Equity gearing is the sum of the investments in ordinary shares, both listed and unlisted, and convertibles, expressed as a proportion of shareholders' funds.

## Investment Manager or AAML

Aberdeen Asset Managers Limited is a wholly owned subsidiary of Standard Life Aberdeen plc and acts as the Company's investment manager. It is authorised and regulated by the FCA.

## Investment Trust

A type of Closed-End Fund which invests in other securities, allowing shareholders to share the risks, and returns, of collective investment.

## Key Information Document or KID

The Packaged Retail and Insurance-based Investment Products ("PRIIPS") Regulation requires the Manager, as the Company's PRIIP 'manufacturer', to prepare a Key Information Document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available via the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

# Glossary of Terms and Conditions Continued

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## Leverage

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its Net Asset Value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

## Manager, AIFM or ASFML

Aberdeen Standard Fund Managers Limited is a wholly owned subsidiary of Standard Life Aberdeen plc and acts as the Alternative Investment Fund Manager for the Company. It is authorised and regulated by the FCA.

## Net Asset Value or NAV

The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The Net Asset Value divided by the number of shares in issue produces the Net Asset Value per share.

## Ongoing Charges

Ratio of expenses of an Investment Trust expressed as a percentage of average daily shareholders' funds calculated annually per the AIC's industry standard method. More specifically, it is the annual percentage reduction in shareholder returns as a result of recurring operational expenses, assuming markets remain static and the portfolio is not traded. Although the Ongoing Charges figure is based on historical information, it provides shareholders with an indication of the likely level of costs that will be incurred in managing the Company in the future. The Board uses the Ongoing Charges Ratio as a Key Performance Indicator for the Company.

## Preference Shares

These entitle the holder to a fixed rate of dividend out of the profits of a company, to be paid in priority to other classes of shareholder.

## Pre-Investment Disclosure Document ("PIDD")

The AIFM and the Company are required to make certain disclosures available to investors in accordance with the AIFMD. Those disclosures that are required to be made pre-investment are included within a PIDD, which can be found on the Company's website.

## Premium

The amount by which the market price per share of an Investment Trust exceeds the Net Asset Value per share. The premium is normally expressed as a percentage of the Net Asset Value per share.

## Price/Earnings Ratio

This is calculated by dividing the market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.

## Prior Charges

The name given to all borrowings including debentures, loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.

## Put Option

An option contract which gives the buyer the right, but not the obligation, to sell a specified amount of an asset at an agreed price by a future specified date.

## Standard Life Aberdeen Group

The Standard Life Aberdeen plc group of companies.

## Total Assets

Total Assets as per the balance sheet less current liabilities (before deducting Prior Charges as defined above).

## Total Return

Total Return involves reinvesting the net dividend in the month that the share price goes ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the date to which that dividend was earned.

# Alternative Performance Measures

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes IFRS and the AIC SORP. The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies.

**Total Return.** Total return is considered to be an alternative performance measure. NAV and share price total returns show how the NAV and share price has performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. NAV total return involves a calculation that invests the net dividend in the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return involves a calculation that invests the net dividend in the share price of the Company on the date on which that dividend goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company on the dividend reinvestment dates during the year ended 31 March 2020 and 31 March 2019 and assumes reinvestment of net dividends excluding transaction costs (the "Adjustment factor").

	Dividend rate	NAV	Share price
<b>31 March 2020</b>			
31 March 2019 (a)		265.49p	267.00p
4 April 2019	3.00p	264.94p	268.50p
4 July 2019	4.20p	273.51p	278.00p
3 October 2019	3.00p	260.40p	254.00p
2 January 2020	3.00p	290.26p	294.50p
31 March 2020 (b)		207.39p	200.50p
Adjustment factor (c)		1.049466	1.049090
31 March 2020 adjusted (d)=(b*c)		217.65p	210.34p
<b>Total return (d/a)</b>		<b>-18.0%</b>	<b>-21.2%</b>

	Dividend rate	NAV	Share price
<b>31 March 2019</b>			
31 March 2018 (a)		268.24p	260.00p
5 April 2018	3.00p	267.78p	268.50p
5 July 2018	4.00p	276.85p	275.00p
4 October 2018	3.00p	265.61p	250.50p
3 January 2019	3.00p	238.46p	233.00p
31 March 2019 (b)		265.49p	267.00p
Adjustment factor (c)		1.050469	1.051491
31 March 2019 adjusted (d)=(b*c)		278.89p	280.75p
<b>Total return (d/a)</b>		<b>+4.0%</b>	<b>+8.0%</b>

**Premium/(Discount) to net asset value per Ordinary share.** The premium/(discount) is the amount by which the share price of 200.50p (2019 – 267.00p) is higher/(lower) than the net asset value per share of 207.26p (2019 – 265.49p), expressed as a percentage of the net asset value.

## Alternative Performance Measures continued

**Dividend Cover.** Revenue return per share of 12.98p (2019 – 13.06p) divided by dividends declared for the year per share of 13.20p (2019 – 13.20p) expressed as a ratio.

**Dividend Yield.** The annual dividend of 13.20p per Ordinary share (31 March 2019 – 13.20p) divided by the share price of 200.50p (31 March 2019 – 267.00p), expressed as a percentage.

**Net Gearing.** Net gearing measures the total borrowings of £18,998,000 (31 March 2019 – £18,998,000) less cash and cash equivalents of £3,872,000 (31 March 2019 – £3,301,000) divided by shareholders' funds of £63,822,000 (31 March 2019 – £80,057,000), expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes net amounts due from brokers at the year end of £81,000 (2019 – £388,000) as well as cash at bank of £3,791,000 (2019 – £2,913,000).

**Ongoing Charges.** The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and administrative expenses and expressed as a percentage of the average net asset values throughout the year.

	2020	2019
Investment management fees (£'000)	412	406
Administrative expenses (£'000)	420	372
Less: non-recurring charges <sup>A</sup> (£'000)	(42)	(3)
<b>Ongoing charges (£'000)</b>	<b>790</b>	<b>775</b>
<b>Average net assets (£'000)</b>	<b>81,866</b>	<b>79,445</b>
<b>Ongoing charges ratio</b>	<b>0.96%</b>	<b>0.98%</b>

<sup>A</sup> Comprises professional fees not expected to recur.

The ongoing charges ratio provided in the Company's Key Information Document is calculated in line with the PRIIPs regulations which amongst other things, includes the cost of borrowings and transaction costs.



# AIFMD Disclosures (Unaudited)

Aberdeen Standard Fund Managers Limited and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a pre-investment disclosure document ("PIDD") which can be found on the Company's website.

There have been no material changes to the disclosures contained within the PIDD since its most recent update in May 2019.

The periodic disclosures as required under the AIFMD to investors are made below:

- information on the investment strategy and sector investment focus and principal stock exposures is included in the Strategic Report;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report, note 18 to the financial statements and the PIDD together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by ASFML; and
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from the Company Secretary, Aberdeen Asset Management PLC, on request and the remuneration disclosures in respect of the AIFM's reporting period for the year ended 31 December 2019 will be available on the Company's website.

## Leverage

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	Gross Method	Commitment Method
Maximum level of leverage	2.50:1	2.00:1
Actual level at 31 March 2020	1.53:1	1.58:1

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There have been no changes to the circumstances in which the Company may be required to post assets as collateral and no guarantees granted under the leveraging arrangement. Changes to the information contained either within this Annual Report or the PIDD in relation to any special arrangements in place, the maximum level of leverage which ASFML may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

*The information on this page has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Standard Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

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# General

The Annual General Meeting will be held at  
1 George Street, Edinburgh EH2 2LL on  
Tuesday 14 July 2020 at 12 noon.

Given the risks posed by the spread of the COVID-19 virus and in accordance with the provisions of the Articles of Association and Government guidance, physical attendance at the Annual General Meeting may not be possible. If the law or Government guidance so requires at the time of the meeting, the Chairman will limit, in his/her sole discretion, the number of individuals in attendance at the meeting. Should Government measures be relaxed by the time of the meeting, the Company may still impose entry restrictions, pursuant to its Articles of Association, on certain persons wishing to attend the Annual General Meeting in order to ensure the safety of those attending the meeting.

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# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the ninety second Annual General Meeting of Shires Income PLC (the “Company”) will be held at the offices of Standard Life Aberdeen plc, 1 George Street, Edinburgh EH2 2LL on Tuesday 14 July 2020 at 12 noon to transact the following business:

**To consider and, if thought fit, pass the following as Ordinary Resolutions:**

1. To receive and adopt the Directors’ Report and audited financial statements of the Company for the year ended 31 March 2020 together with the Auditor’s Report thereon.
2. To receive and adopt the Directors’ Remuneration Report (excluding the Directors’ Remuneration Policy) for the year ended 31 March 2020.
3. To approve the Directors’ Remuneration Policy.
4. To approve a final dividend of 4.2p per Ordinary share in respect of the year ended 31 March 2020.
5. To appoint Ms Jane Pearce as a Director of the Company.
6. To re-appoint Ms Marian Glen as a Director of the Company.
7. To re-appoint Mr Robin Archibald as a Director of the Company.
8. To re-appoint Mr Robert Talbut as a Director of the Company.
9. To re-appoint Ernst & Young LLP as Auditor of the Company.
10. To authorise the Directors to determine the remuneration of the Auditor for the year to 31 March 2021.
11. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company (“relevant securities”) up to an aggregate nominal amount of £1,538,479 or, if less, the number representing 10% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution provided that such authorisation expires on 30 September 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

**To consider and, if thought fit, pass the following as Special Resolutions:**

12. That, subject to the passing of Resolution 11 in the notice convening the meeting at which this resolution is to be proposed (the “Notice of Meeting”) and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the “Act”) to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by Resolution 11 in the Notice of Meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power:
  - (i) expires on 30 September 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and
  - (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,538,479 or, if less, the number representing 10% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution.
  - (iii) This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words “subject to the passing of Resolution 11 in the notice convening the meeting at which this resolution is to be proposed (the “Notice of Meeting”) and” and “pursuant to the authority under Section 551 of the Act conferred by Resolution 11 in the Notice of Meeting” were omitted.
13. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with Section 701 of the Companies Act 2006 (the “Act”), to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Ordinary shares of 50p each in the capital of the Company (“shares”), and to cancel or hold in treasury such shares, provided that:

## Notice of Annual General Meeting Continued

- (i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £2,306,180 or, if less, the number representing 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
  - (ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses);
  - (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of:
    - a) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; or
    - b) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out; and
  - (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 September 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.
14. That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 clear days' notice provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution.
15. That the articles of association in the form produced to the meeting and initialled by the Chairman for the purposes of identification be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association of the Company.

By order of the Board  
 Aberdeen Asset Management PLC  
 Company Secretary  
 1 George Street  
 Edinburgh EH2 2LL  
 3 June 2020

Registered Office  
 Bow Bells House  
 1 Bread Street  
 London EC4M 9HH

### NOTES:

- (i) A member is entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote on their behalf (subject to note (xviii)). A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. If a member wishes to appoint more than one proxy, they should contact the Company's Registrars, Equiniti Limited, on 0371 384 2508 (charges for calling this number are determined by the caller's service provider. Lines open 9.00 a.m. to 5.00 p.m., Monday to Friday excluding bank holidays in England and Wales). The Equiniti overseas helpline number is +44 (0)121 415 7047.
- (ii) A form of proxy for use by members is enclosed with the Annual Report. Completion and return of the form of proxy will not prevent any member from attending the meeting and voting in person (subject to note (xviii)). To be valid, the form of proxy should be lodged, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, at the address stated thereon, so as to be received not less than 48 hours (excluding non-working days) before the time of the meeting.
- (iii) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend (subject to note (xviii)) and vote at the meeting a member must first have his or her name entered in the Company's register of members at 6.30 p.m. on 10 July 2020 (or, in the event that the meeting is adjourned, at 6.30 p.m. on the day which is two business days before the time of the adjourned meeting). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.

- (iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website: euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (v) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) not less than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- (vi) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- (vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (viii) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies Act 2006 ("Nominated Persons"). Nominated Persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in notes (i) and (ii) above does not apply to Nominated Persons. The rights described in these notes can only be exercised by members of the Company.
- (ix) No Director has a service contract with the Company but copies of Directors' letters of appointment will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice and for at least 15 minutes prior to the meeting and during the meeting.
- (x) As at close of business on 3 June 2020 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 30,769,580 Ordinary shares of 50p each and 50,000 Cumulative Preference shares of £1 each. Accordingly, the total number of voting rights in the Company as at 3 June 2020 is 30,819,580.
- (xi) Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.
- (xii) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
- (xiii) The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditor's Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address, and be sent to: the Company Secretary, Shires Income PLC, 1 George Street, Edinburgh EH2 2LL.

## Notice of Annual General Meeting Continued

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- (xiv) Information regarding the meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's website: [shiresincome.co.uk](http://shiresincome.co.uk).
- (xv) Under Section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:
  - (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - (b) the answer has already been given on a website in the form of an answer to a question; or
  - (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- (xvi) Shareholders are advised that, unless otherwise stated, any telephone number, website or e-mail address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.
- (xvii) There are special arrangements for holders of shares through the Aberdeen Standard Investment Plan for Children, Aberdeen Standard Investment Trust Share Plan and Aberdeen Standard Investment Trust ISA. These are explained in the 'Letter of Direction' which such holders will have received with this report.
- (xviii) **Given the risks posed by the spread of the COVID-19 virus and in accordance with the provisions of the Articles of Association and Government guidance, physical attendance at the Annual General Meeting may not be possible. If the law or Government guidance so requires at the time of the meeting, the Chairman will limit, in his/her sole discretion, the number of individuals in attendance at the meeting. Should Government measures be relaxed by the time of the meeting, the Company may still impose entry restrictions, pursuant to its Articles of Association, on certain persons wishing to attend the Annual General Meeting in order to ensure the safety of those attending the meeting.**

## Appendix to the Notice of Annual General Meeting

### Adoption of new Articles of Association

Set out below is a summary of the principal changes to the Company's Articles of Association, noting Article references are to the Current Articles.

#### Removal of restriction on dividends out of capital reserves (Articles 110 and 111)

Under the Current Articles, there is a prohibition on distributing dividends out of the Company's realised capital reserve. The provision is no longer necessary due to a change in the law which removed the prohibition on investment companies distributing realised capital profits. The New Articles have been updated to provide the Company with more flexibility to make distributions out of realised capital profits.

#### Changes in light of COVID-19

In light of recent circumstances, the New Articles have been updated to give greater flexibility for meetings to be held where events like COVID-19 occur and related actions are taken by the UK government to restrict physical social gatherings. The proposed amendments will: (1) reduce the quorum for general meetings from three persons to two; (2) clarify that the Company may refuse entry to individuals to ensure the general health and safety of attendees of general meetings; and (3) permit the postponement of general meetings.

#### Minor updates

Various minor updates have been made in the New Articles none of which are material but which the Board has taken this opportunity to make.





# Corporate Information

## Directors

Robert Talbut (Chairman)  
Robin Archibald  
Marian Glen  
Jane Pearce  
Andrew Robson

## Registered Office

Bow Bells House  
1 Bread Street  
London EC4M 9HH

## Company Secretary

Aberdeen Asset Management PLC  
1 George Street  
Edinburgh EH2 2LL

## Alternative Investment Fund Manager

Aberdeen Standard Fund Managers Limited  
Bow Bells House  
1 Bread Street  
London EC4M 9HH

## Investment Manager

Aberdeen Asset Managers Limited  
1 George Street  
Edinburgh EH2 2LL

## Aberdeen Standard Customer Services Department, Children's Plan, Share Plan and ISA Enquiries

Aberdeen Standard Investment Trusts  
PO Box 11020  
Chelmsford  
Essex CM99 2DB

Freephone: **0808 500 0040**

(open Monday to Friday, 9.00 a.m. to 5.00 p.m. excluding public holidays in England and Wales)

Email: [inv.trusts@aberdeenstandard.com](mailto:inv.trusts@aberdeenstandard.com)

## Company Registration Number

00386561 (England & Wales)

## Website

[shiresincome.co.uk](http://shiresincome.co.uk)

## Registrar

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Shareholder Helpline: **0371 384 2508\***

(\*Lines open 9.00 a.m. to 5.00 p.m., Monday to Friday excluding public holidays in England and Wales. Charges for calling telephone numbers starting with '03' are determined by the caller's service provider.)

Overseas helpline number: **+44 (0)121 415 7047**

## Depository

BNP Paribas Securities Services, London Branch  
10 Harewood Avenue  
London NW1 6AA

## Stockbroker

JPMorgan Cazenove  
25 Bank Street  
London E14 5JP

## Auditor

Ernst & Young LLP  
Atria One  
144 Morrison Street  
Edinburgh EH3 8EX

## Solicitors

Dentons UK and Middle East LLP  
One Fleet Place  
London EC4M 7WS

## Legal Entity Identifier ("LEI")

549300HVCIHQNZNZAYA89

