

Investment objective

The Company's investment objective is to provide shareholders with a high level of income, together with the potential for growth of both income and capital from a diversified portfolio substantially invested in UK equities but also in preference shares, convertibles and other fixed income securities.

Benchmark

FTSE All-Share Index total return.

Cumulative performance (%)

	as at 31/08/24	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	241.5p	(1.8)	0.6	17.9	12.8	3.4	22.5
NAV ^a	271.0p	(0.7)	0.9	14.3	14.8	11.0	35.3
FTSE All-Share		0.5	2.4	12.6	17.0	24.4	37.9

Discrete performance (%)

	31/08/24	31/08/23	31/08/22	31/08/21	31/08/20
Share Price	12.8	(6.9)	(1.5)	37.3	(13.8)
NAV ^a	14.8	1.6	(4.8)	30.7	(6.7)
FTSE All-Share	17.0	5.2	1.0	26.9	(12.6)

Total return; NAV cum income, with net income reinvested, GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at fair value. Source: abrdrn Investments Limited, Lipper and Morningstar. **Past performance is not a guide to future results.**

^a Including current year revenue.

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Morningstar Rating™



^b Morningstar Rating™ for Funds

Morningstar rates funds from one to five stars based on how well they've performed (after adjusting for risk and accounting for all sales charges) in comparison to similar funds.

Morningstar Sustainability Rating™



Ten largest equity holdings (%)

AstraZeneca	5.4
Shell	3.7
Morgan Sindall	3.3
HSBC	2.9
BP	2.8
National Grid	2.6
SSE	2.6
Inchcape	2.4
Energiean	2.3
BHP	2.3
Total	30.4

Fixed income holdings (%)

Ecclesiastical Insurance	4.7
Santander 10.375%	3.7
Nationwide Building Society 10.25%	3.7
General Accident 7.875%	3.5
Standard Chartered 8.25%	2.7
Lloyds Bank 11.75%	0.7
Rea Holdings 9%	0.6
Standard Chartered 7.375%	0.2
Total	19.9

Total number of investments 59

All sources (unless indicated): abrdrn: 31 August 2024.



1 Year Premium/Discount Chart (%)



Fund managers' report

Market commentary

August was a volatile month for markets, with a sharp selloff followed by a recovery into the month end. Indices rose in the US, Europe, the UK and most emerging markets, although Japanese stocks fell. The MSCI World Index returned 2.68% in August (total return in US dollars).

An unexpected hike in interest rates by the Bank of Japan followed by weaker payrolls had a meaningful impact on markets for all assets. Eventually, though, better economic data led to a return of calm and equities finished the month up. Bonds rallied sharply as investors sought safer assets initially but moderated later in the month, even though markets have kept a very dovish view and continue to price in four rate cuts by the US Federal Reserve for the year. So, equities managed to deliver marginally better than bonds in August, but Gold was the best performer as real yields dropped sharply. Despite the bounceback in most assets in the second half of the month, USD and Japanese equities finished the month in red. Commodities also lagged despite geopolitical tensions rising in the Middle East as demand concerns continued to weigh.

The recovery in equities was largely driven by defensive parts of the market, with low beta factors like low volatility and quality outperforming. Momentum suffered a pullback after the strong performance year-to-date and small caps had a poor month as concerns about growth overtook positive tailwinds from lower rates. The sectors that did well were those that benefit from lower rates and defensive skew, with Utilities, Healthcare, Staples and Real estate outperforming notably. Conversely, consumer discretionary was weakest, reflecting concerns around the US consumer while Commodities underperformed sharply with the supply / demand backdrop looking soft.

At the beginning of the month the Bank of England reduced the UK's base rate by 0.25% to 5.00%, its first cut since March 2020. The move came after a close vote, as four of the nine members of the Monetary Policy Committee preferred to maintain interest rates. We expect to see further rate cuts into the year end, although expect the pace of cuts in the UK to lag that of the US and Europe.

Performance

The Trust's NAV dipped by 0.7% in the month, lagging the FTSE All-Share benchmark which grew by 0.5%. The under performance primarily reflected weakness in the energy sector as commodity prices fell on an outlook for lower demand. We are happy to accept some cyclical exposure in the portfolio given our long-term investment view and our energy holdings have strong income characteristics, even with the oil price back below \$70/barrel. That is roughly in line with the long-term average in real terms and supports a good level of cashflow and distributions to shareholders. The underperformance versus benchmark was concentrated in two energy names: Diversified Energy, which fell 28% and Wood Group, which fell 35%.

While Diversified's fall was primarily a response to weaker US gas prices, the move in Wood Group was driven by the breakdown of a potential takeover. While this was disappointing for short term returns we shouldn't be too concerned about the outlook for the company. The deal ended largely due to unfortunate timing, with the buyer turning risk-averse about a very large transaction relative to their own size during a period of market and geopolitical turbulence. We continue to see a favourable outlook for Wood, which is making good progress on improving cash conversion and increasing operating margins - with shares trading at a 50% discount to closest peers it remains undervalued.

Fund managers' report continues overleaf

^c Expressed as a percentage of average daily net assets for the year ended 31 March 2024. The Ongoing Charges Figure (OCF) is the overall cost shown as a percentage of the value of the assets of the Company. It is made up of the Annual Management Fee and other charges. It does not include any costs associated with buying shares in the Company or the cost of buying and selling stocks within the Company. The OCF can help you compare the annual operating expenses of different Companies.

^d Calculated using the Company's historic net dividends and month end share price.

^e The 'Active Share' percentage is a measure used to describe what proportion of the Company's holdings differ from the benchmark index holdings.

^f Expressed as a percentage of total equities held divided by shareholders' funds.

^g Net gearing is defined as a percentage, with net debt (total debt less cash/cash equivalents) divided by shareholders' funds.

Sector allocation (%)

Financials	35.9
Energy	13.8
Industrials	12.3
Health Care	8.9
Utilities	7.7
Basic Materials	4.2
Real Estate	4.2
Consumer Discretionary	4.0
Consumer Staples	3.9
Telecommunications	2.9
Technology	2.2
Total	100.0

Key information

Calendar

Year end	31 March
Accounts published	June
Annual General Meeting	July
Dividend paid	January, April, July, October
Established	1929
Fund manager	Iain Pyle
Ongoing charges ^c	1.10%
Annual management fee	0.45% up to £100m and 0.4% over £100m on net assets and long term borrowings
Premium/(Discount)	(10.9)%
Yield ^d	6.0%
Active share ^e	74.3%

Gearing (%)

Equities ^f	(7.8)
Net cash/(gearing) ^g	(15.6)

AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

Fund managers' report - continued

The positive contributors this month were mainly our more defensive holdings. In healthcare, GSK (+11%) and AstraZeneca (+8%) performed well, as did Reckitt Benckiser (+7%) and the preference shares were notably strong following the first rate cut, rising 4-6%.

Trading

August was an unusually active month for the portfolio. Market volatility, increased output from our analyst team and lots of company meetings created opportunities and more triggers to trade than usual month - it may have been the end of the summer but we were not on the beach!

Much of the trading this month reflected fairly unexciting portfolio adjustments in order to enhance revenue through the year. Different companies in the portfolio pay dividends to shareholders at different points throughout the year, therefore in instances where we see equally matched investment cases we may trade between names to capture income. Many stocks pay out dividends in the early part of our financial year, so as we approach the halfway point it is natural to make some small adjustments. We sold out of our position in Lloyds, a stock we still like, as there is no income remaining this financial year, instead maintaining a position in NatWest. Similarly, we switched our Rio Tinto into BHP, a company with very similar drivers but more near term income. We also topped up our position in Assura, a high yielder which will benefit from lower interest rates we expect to see over the next 6 months.

A more meaningful trade was to start a position in Dutch technology company ASML. When adding overseas companies we generally look for something we can't find in the UK market, and ASML is a prime example of this. The company designs and manufactures the lithography machines essential in the production of today's cutting edge semiconductors. It is a company with extremely high technical barriers to entry, making products that are essential for one of the highest growth parts of the market. While it screens as relatively expensive, a recent pullback means it has de-rated in the last few months and we expect growth to make it look much more reasonably priced a few years from now. It is the top rated stock globally by our technology analysts. We funded the purchase by selling our position in French utility Engie. This has been an excellent performer since introduction into the Trust, but was recently downgraded by our analyst and has no more income this year - time to take profit. We also trimmed recent outperformers Inchcape and Hollywood Bowl to control position sizes. At the other end of the market cap spectrum we started a new position in ME Group. This UK mid-cap name operates automated photo booths and laundromats. A somewhat niche market, but one with high returns on capital and plenty of room for growth as they roll out the laundry model into Eastern Europe and Asia. It's a stock our small-cap team like and a great example of working together to find interesting and differentiated income opportunities.

Earlier in the month we started a new position in UK property REIT LondonMetric. This is a liquid property name with a high quality management team and solid performance through the economic cycle. It has an excellent track record of delivering dividend growth and the recent 19% year-on-year increase in dividend takes it to a very attractive 5.9% yield. We funded the purchase by selling our holding in Dutch bank ING. Since purchase in April 2023, the stock has delivered a total return of 65%, outperforming the benchmark by 50%. However, with no income in the next six months we choose to prioritise other names. Another overseas exit this month was Mercedes. Again, the driver was a lack of income in the near term, but also combined with some difficult trends in auto markets which make us less optimistic for now.

Outlook

The start of September has marked the "back to school" period of the year. There is no good reason why UK markets should be particularly seasonal in behaviour, bar the concentration of half year and full year earnings releases from companies. Yet there is always a summer lull, with reduced corporate activity and market liquidity, followed by a refocusing and increased engagement in September. With many other market participants, companies, analysts and investors, incentivised on annual performance metrics this is the time people come back and feel the need to make things happen before it's too late for another year. "Sell in May and go away" is a market adage made true over time, but you should add "until September".

As activity returns, there are a number of points of consensus on the near term outlook. Economic growth is slow but likely to remain positive, geopolitical risks are elevated and interest rates are definitely coming down more. The only debate on rates is the pace of cuts, not the direction, as central banks, especially the Federal Reserve, try and act at the right time, balancing the falling risk of sustained inflation with the increasing risk of economic slowdown. Of course, the Fed also has politics to worry about in the next two months, although in theory that shouldn't influence their decisions! That view on falling rates has helped markets recover somewhat in the last month after a volatile July. It feels, with inflation declining, that the "Fed Put" is back on the table, and any bad economic indicators will be met by rate cuts, bailing out the bulls for now.

From a portfolio point of view, the slowing of economic growth has been most notably reflected in weaker commodity prices and lower valuations for energy stocks (but not lower dividends!). That is probably a fair reflection of where we are - demand is lacklustre and supply relatively robust. However, I would note that energy prices respond well to one thing above all else: A weaker US dollar, which aids emerging market demand growth and tightens the market. That is exactly what we will get if the Fed cuts faster than other markets as many expect. So a bear market for energy is not assured - particularly when we still have an "OPEC put" as well as a "Fed put".

The risk outlined overleaf relating to gearing is particularly relevant to this trust, but should be read in conjunction with all warnings and comments given.
Important information overleaf

Assets/Debt

	£'000	%
Equities (inc. Cnv's)	103,014	92.2
Fixed Income	25,620	22.9
Total investments	128,634	115.1
Cash & cash equivalents	1,529	1.3
Other net assets	594	0.5
Debt	(18,968)	(17.0)
Net Assets	111,789	100.0

Capital structure

Ordinary shares	41,369,542
3.5% Cumulative Preference shares	50,000

Allocation of management fees and finance costs

Capital	50%
Revenue	50%

Trading details

Reuters/Epic/Bloomberg code	SHRS
ISIN code	GB0008052507
Sedol code	0805250
Stockbrokers	J.P. Morgan Cazenove
Market makers	INV. JPMS, MREX, PEEL, SCAP, WINS



Factsheet

Receive the factsheet by email as soon as it is available by registering at www.abrdn.com/trustupdates or www.abrdn.com/SHRS



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Important information

Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Certain trusts may seek to invest in higher yielding securities such as bonds, which are subject to credit risk, market price risk and interest rate risk. Unlike income from a single bond, the level of income from an investment trust is not fixed and may fluctuate.
- With funds investing in bonds there is a risk that interest rate fluctuations could affect the capital value of investments. Where long term interest rates rise, the capital value of shares is likely to fall, and vice versa. In addition to the interest rate risk, bond investments are also exposed to credit risk reflecting the ability of the borrower (i.e. bond issuer) to meet its obligations (i.e. pay the interest on a bond and return the capital on the redemption date). The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on funds that invest in such bonds.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

Other important information:

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