

Shires Income PLC

Corporate Governance Statement for the year ended 31 March 2019

28 May 2019

Shires Income PLC (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 (published in April 2016) (the "UK Code") for the year ended 31 March 2019. The UK Code is available on the Financial Reporting Council's website: www.frc.org.uk

The Board has also considered the principles and recommendations of the AIC Code of Corporate Governance as published in July 2016 (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues which are of specific relevance to investment trusts. Both the AIC Code and the AIC Guide are available on the AIC's website: www.theaic.co.uk

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

The Board confirms that, during the year, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive (A.1.2);
- executive directors' remuneration (D.1.1 and D.1.2); and
- the need for an internal audit function (C.3.6).

For the reasons set out in the AIC Guide, and as explained in the UK Code, 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 Board notes the content of the new UK Code of Corporate Governance published by the FRC in July 2018 (the "2018 UK Code"), which is applicable for accounting periods beginning on or after 1 January 2019, and the new AIC Code of Corporate Governance published in February 2019 (the "2019 AIC Code"). The Board expects the Company to be compliant with the relevant provisions of the new codes for the year ending 31 March 2020 and will report its compliance in next year's Annual Report.

	AIC Code Principle	How the Principles are Applied
THE BOARD		
1	The Chairman should be independent	<p>Mr R Talbut has served as a Director since April 2015 and Chairman since 11 July 2017.</p> <p>The Board formally reviews the performance of the Chairman each year. The Board is satisfied that Mr Talbut remains independent of the Manager and free of any relationship which could materially interfere with the exercise of his judgement on issues of strategy, performance, resources and standards of conduct and confirms that, following a formal performance evaluation, Mr Talbut's performance continues to be effective and demonstrates commitment to the role.</p> <p>Mr A Robson is the Senior Independent Director.</p>
2	A majority of the Board should be independent of the Manager	<p>All Directors are considered by the Board to be independent of the Manager and free of any material relationship which could interfere with the exercise of their independent judgement on issues of strategy, performance, resources and standards of conduct.</p> <p>Mr A 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 11 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.</p> <p>There is a procedure for Directors to take independent professional advice, if necessary, at the Company's expense.</p>
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance	<p>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, in light of the publication of the UK Code of Corporate Governance in July 2018 which stipulates that all directors of a Company with a premium listing should seek annual re-election, the Board has decided that all Directors will retire annually with effect from the Annual General Meeting in 2019.</p> <p>Recommendation for re-appointment is based on the continuing effectiveness of each Director established through an annual performance evaluation.</p>
4	The Board should have a policy on tenure, which is disclosed in the Annual Report	<p>There is no pre-set criterion for retirement based on length of service as the Board takes the view that independence of individual Directors is not of itself compromised by length of tenure and that experience can add significantly to the Board's strength. The Board believes that recommendation for re-appointment should be on an individual basis following a rigorous review which assesses the contribution made by the Director concerned.</p>

5	There should be full disclosure of information about the Board	<p>The names and biographies of each of the Directors are shown on pages • to • of the Annual Report and this demonstrates the wide range of skills and experience and professional experience of the Directors as well as length of service.</p> <p>Details of the Audit, Management Engagement and Remuneration Committees are set out on pages • and • of the Annual Report.</p> <p>The terms of reference of the Board Committees, which clearly define the responsibilities and duties of each committee, are available on the Company's website, and upon request from the Company. The terms of reference are reviewed and re-assessed for their adequacy on at least an annual basis.</p>
6	The Board should aim to have a balance of skills, experience, length of service and knowledge of the Company	<p>The Directors consider that there is a balance of skills and experience within the Board and that all Directors contribute effectively. Each Director has the requisite high level and range of business and financial experience which enables the Board to provide clear and effective leadership and proper stewardship of the Company.</p> <p>In considering future appointments, the Board takes into account the need to have a balance of skills, experience, independence, diversity, including gender, and knowledge of the Company within the Board. However the Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. The Board has therefore not set any measurable objectives in relation to its diversity.</p>
7	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors	<p>During the year, the Board conducted an evaluation process, involving the completion of questionnaires, evaluating the performance of the Board, its committees and individual Directors, including the Chairman. This included the assessment of training requirements. The salient points were discussed at the following Board meeting.</p> <p>The evaluation of the performance of the Chairman was led by the Chairman of the Audit Committee and the feedback from this process was discussed by the other Directors in the absence of the Chairman.</p> <p>This process ensures that the Directors have devoted sufficient time and contributed adequately to the work of the Board and committees, and also considers each Director's independence. It also forms the basis of the decision on whether or not Directors are nominated for re-appointment.</p> <p>Following this process, the Board believes that it continues to operate in an efficient and effective manner with each Director making a significant contribution to the Board.</p>
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent	<p>Directors' remuneration is determined by the Remuneration Committee on an annual basis.</p> <p>Detailed information on the remuneration arrangements for the Directors, including the Remuneration Policy, can be found in the</p>

		Directors' Remuneration Report on pages • to • of the Annual Report.
9	The independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the Annual Report	The Board is responsible for succession planning and considers the criteria for future Board appointments and the methods of recruitment, selection and appointment, including whether to engage the services of an external recruitment provider.
10	Directors should be offered relevant training and induction	Newly appointed Directors are provided with a full induction programme by the Manager. This includes the provision of information on the Company's investment strategy together with policies and practices. On an ongoing basis, Directors are given key information on the Company's regulatory and statutory requirements as they arise, and all Directors are encouraged to participate in training courses where appropriate.
11	The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage	This principle does not apply to the Company as it is a long established investment company.
BOARD MEETINGS AND RELATIONSHIP WITH THE MANAGER		
12	Boards and Managers should operate in a supportive, co-operative and open environment	<p>The Directors meet formally at least five times a year, when representatives of the Manager and the Investment Manager formally report to the Board. Representatives of the Manager and the Company Secretary attend each Board meeting as well as certain committee meetings. The Board meets more frequently when business needs require and maintains regular contact with the Company Secretary and Manager between meetings. The Chairman encourages open and constructive debate to enable the Board and Manager to operate in a supportive and co-operative environment.</p> <p>There is a clear division of responsibility between the Chairman, the Directors, the Manager and the Company's other third party service providers. No one individual has unfettered powers of decision.</p>
13	The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues	<p>The Chairman is responsible for leading the Board, ensuring its effectiveness on all aspects of its role and is responsible for ensuring that all Directors receive accurate, timely and clear information.</p> <p>The Board sets the investment parameters within which the Investment Manager operates. Investment performance and associated matters, such as gearing, asset allocation, investor relations, peer group information and industry issues are agenda items at each Board meeting. The Investment Manager ensures that the Board receives all relevant management and financial information in a timely manner. Representatives of the Investment Manager attend Board meetings where performance against the Company's investment objectives, portfolio risk and attribution analysis is reviewed.</p>

		Directors are provided with a comprehensive set of papers giving detailed information on the Company's transactions and financial position prior to each meeting and all Directors have timely access to all relevant management, financial and regulatory information.
14	Boards should give sufficient attention to overall strategy	The Board regularly reviews the objectives and strategy for the Company, including the management and investment objectives together with the promotional and shareholder communication strategies implemented by the Manager.
15	The Board should regularly review both the performance of, and contractual arrangements with, the Manager.	<p>The Management Engagement Committee reviews on at least an annual basis the terms and conditions of the Manager's appointment, including an evaluation of performance and fees. The Committee also keeps the resources of the Manager under review, together with the commitment of the Manager to the Company and its investment trust business.</p> <p>The Management Agreement was entered into after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation in so far as they relate to the affairs of the Company.</p>
16	The Board should agree policies with the Manager covering key operational issues	<p>The Board has formally adopted a schedule of matters reserved to it for decision including strategy, Company structure, risk, borrowings, treasury, dividends, and corporate governance policy. Full and timely information is provided to the Board to enable it to function effectively and to allow the Directors to discharge their responsibilities. The Board also reviews the financial statements, performance and revenue budgets.</p> <p>The Management Agreement includes investment guidelines and sets policies to cover key operational issues. The Board discusses operational matters regularly with the Manager, including corporate governance and voting in respect of portfolio holdings, and performance reporting terminology. The Board has delegated discretion to the Manager to exercise voting powers on its behalf but reviews the Manager's policy in this respect.</p>
17	Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it	The share price and Net Asset Value per share are reported to the market on a daily basis and monitored on the Board's behalf. The Board considers the discount to Net Asset Value of the Company's share price at every Board meeting and more frequently if circumstances demand. The Board may use share repurchases to help address imbalances in the demand for the Company's shares.
18	The Board should monitor and evaluate other service providers	<p>The Management Engagement Committee conducts an annual review of the performance of the Company's main third party suppliers, including the level and structure of fees payable and the length of notice periods, to ensure that they remain competitive and in the best interests of shareholders. In addition, the Manager reports regularly to the Board on its evaluation and monitoring of third party service providers.</p> <p>The Audit Committee monitors and reviews the auditor's independence, objectivity, effectiveness, resources and qualification.</p>

SHAREHOLDER COMMUNICATIONS		
19	The Board should regularly monitor the shareholder profile of the Company and put in place a system for canvassing shareholder views and for communicating the Board's view to shareholders	<p>The Board places a great deal of importance on communication with shareholders.</p> <p>Regular reports are submitted to the Board by the Manager and the Company's broker. A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers. The Chairman and other members of the Board are available to meet with major shareholders to discuss governance and strategy and to understand any issues and concerns which are then discussed at Board meetings. The Board, together with the Manager's investor relations team, seeks to meet with the Company's major shareholders at least annually as part of a road show initiative.</p> <p>Shareholders and investors may obtain up to date information on the Company through its website and the Manager's information service. The Annual Report and Half-Yearly Report are widely distributed to other parties who have an interest in the Company's performance.</p> <p>All shareholders are encouraged to attend the Annual General Meeting where they receive a presentation from the Investment Manager and have the opportunity to put questions to the Board and Manager.</p>
20	The Board should normally take responsibility for, and have direct involvement in, the content of communications regarding major corporate issues even if the Manager is asked to act as spokesman	<p>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 and representatives from the Board meet with major shareholders on an annual basis in order to gauge their views.</p> <p>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.</p>
21	The Board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares	<p>The Company's investment objective and investment policy are published in the Annual Report and on its website and the Board aims to provide shareholders with a full understanding of the Company's activities and performance by means of informative Annual and Half-Yearly Reports. This is supplemented by the daily publication, through the London Stock Exchange, of the Net Asset Value of the Company's shares.</p> <p>The Company's website, www.shiresincome.co.uk, offers easy access to up-to-date information on the Company. It is regularly updated with monthly factsheets and enables investors to view the Company's Financial Reports and Announcements and useful information on portfolio assets and performance.</p>

		Further details on the Company's principal risks and uncertainties are set out in the Strategic Report on pages • to • of the Annual Report. The full portfolio listing is provided on pages • to • of the Annual Report and is also published in the Company's Half-Yearly Report.
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Disclosure Guidance & Transparency Rules ("DTRs")

The following further information is disclosed in this statement in accordance with the Companies Act and DTR 7.2.6:

- The Company's capital structure and voting rights are summarised on page • of the Annual Report;
- Details of the substantial shareholders in the Company are listed on page • of the Annual Report;
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are summarised above;
- Amendment of the Company's Articles of Association and powers to issue or buy back the Company's shares require a special resolution to be passed by shareholders;
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that might affect its control following a takeover bid; and,
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

By order of the Board

Robert Talbut

Chairman

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28 May 2019