

SMP High Income Fund PLC

Abbreviated Annual Report
for the year ended 30 September 2019



Manager:
SMP FUND SERVICES LIMITED
Clinch's House,
Lord Street,
Douglas, Isle of Man
IM99 1RZ

General Information

Directors

W J Clarke* (Chairman)

G M Easton* (appointed 11 March 2019)

R K Corkill

S W Bowden (appointed 11 March 2019)

D M Schuster* (resigned 11 March 2019)

V Campbell (resigned 28 November 2018)

* denotes Non-executive Director

Company Secretary

R K Corkill (appointed 28 November 2018)

V Campbell (resigned 28 November 2018)

Manager and Registrar

SMP Fund Services Limited

Clinch's House, Lord Street, Douglas

Isle of Man, IM99 1RZ

British Isles

Investment Manager

Aberdeen Asset Managers Limited

10 Queen's Terrace,

Aberdeen, AB10 1YG

British Isles

Fiduciary Custodian

Apex Financial Services (Corporate) Limited

12 Castle Street, St Helier

Jersey, JE2 3RT

British Isles

Auditor

PricewaterhouseCoopers LLC

Sixty Circular Road, Douglas

Isle of Man, IM1 1SA

British Isles

Manager's Report

As detailed in the previous section entitled 'General Information', SMP High Income Fund PLC (the "Fund") is managed by SMP Fund Services Limited (the "Manager") and the investment manager is Aberdeen Asset Managers Limited (the "Investment Manager"). That section also details the Directors, the Company Secretary, the Fiduciary Custodian and the Auditor.

Introduction

The Fund is an Authorised Scheme for the purposes of the Collective Investment Schemes Act 2008. The Fund is established as an open-ended investment company and is managed in the Isle of Man under the Companies Acts 1931 to 2004 and in accordance with the Authorised Collective Investment Schemes Regulations 2010 (the "Regulations"). The Fund has elected to be a type A scheme for the purpose of the Regulations. In accordance with the Regulations, the Fund complies with the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014 (the "SORP"). The Fund was originally established and authorised on 3 March 1989.

Important information

The Annual Report & Audited Financial Statements for the year ended 30 September 2019 (together with the Abbreviated Annual Report for the year ended 30 September 2019 that has been sent to all registered shareholders) may be viewed on our website - www.smppartners.com and are available for inspection at the registered office of the Fund. The website also provides daily pricing information for the Fund.

If shareholders have any questions regarding the Fund please contact our Shareholder Services Team on 01624 682224 - or by email to fund.services@smppartners.com.

Investment objective, policy and strategy

The Fund's investment objective is to provide investors with a high return, before taxation, from a managed portfolio of predominantly fixed-interest securities, denominated in sterling and other currencies, with net income distributed on a quarterly basis.

Investment Manager's overview for the year ended 30 September 2019 Market review

The 12 months under review have proven somewhat volatile in financial markets. Economic data, trade wars, Brexit and political uncertainty have all been cited as contributing factors.

Towards the end of 2018 spreads tightened modestly in both investment-grade and high-yield markets. These were supported by fundamental data and lower-than-expected levels of new issuance. Government bond yields were on a rising trend, however. This was led by US Treasuries as higher inflation and tighter monetary policy were priced in. Developed markets materially outperformed emerging markets, which were particularly affected by weakness in Turkey and Argentina. A more challenging environment for risk assets emerged in the following months as the global economic outlook deteriorated. Stocks and commodities fell sharply and credit spreads widened, resulting in some losses for corporate bond funds. Trade tensions between the US and China and the challenges of Brexit added to investors' worries.

As we moved into 2019, financial markets stabilised, as trade tensions eased and the US Federal Reserve (Fed) adopted a materially more dovish tone. By mid-January the Fed appeared to have paused its interest rate-hiking cycle, reflecting a full reversal from 2018 expectations. Headline data remained soft in many developed market economies. The technical backdrop improved, as new bond supply failed to meet expectations. Lower-quality credit, which had underperformed in late 2018, recovered in this environment. Returns from high-yield corporates and emerging debt were very strong. In investment grade, sectors such as energy and financials more than recouped the losses they had suffered in the final months of 2018.

There was further volatility in May as economic data deteriorated and the trade conflict between the US and some of its trading partners rumbled on. Once again, however, more dovish tones from both US and European central banks provided some relief. Risk-off sentiment returned in early August, and corporate bonds suffered as a consequence. Spreads in the UK market were sharply wider across the curve, although the prospect of a monetary policy response soothed markets and brought buyers back to the asset class.

Performance and activity of the Fund

Asset allocation was weak in the early part of the review period. Our holdings in financials detracted from performance – notably subordinated insurance names and banks with a UK focus. Security selection was generally more positive, with strong returns from names such as Virgin Media and Barclays. A material underweight position in index heavyweight GE was beneficial as the name underperformed following ratings agency downgrades. Towards the new year, holdings in global or ex-UK banks such as Standard Chartered and National Australia Bank delivered positive returns. In February, bonds from Clydesdale benefited from good results and the news that the integration of Virgin Money was progressing well. Virgin Media – an off-benchmark position in high yield – also performed well, tightening by around 10% in spread terms.

The Fund used the strong start to 2019 to trim some positions. These included financial holding companies such as CYGB and CNP, as we believed new issuance in the sector was likely. The Fund also sold its position in Segro ahead of a possible slowdown in the UK economy. In February, we increased exposure to Hammerson, attracted by the property group's very low loan-to-valuation. We added to an off-benchmark position in Tesco Property bonds on the expectation of a return to investment grade in 2019. We reduced Standard Chartered exposure after a strong rally in its bonds. From March onwards, performance was broadly in line with the benchmark. The contribution from security selection was mixed and in particular the higher beta subordinated financials sector was volatile; overweight positions in names such as Axa, Aviva, HSBC and Wells Fargo cost the Fund during wider market sell-offs in March and May before recovering in subsequent months. Yield curve positioning was generally positive, with the Fund maintaining a long duration position as the UK yield curve moved lower.

In terms of individual holdings, the aforementioned Tesco Property was a strong performer. Ratings agency Moody's upgraded the company at the end of June, and it was subsequently included in the index benchmark. However, UK commercial property in general was negative for performance, with the sector dragged down latterly in the review period by shopping centre operator Intu, which reported a deteriorating financial position at the end of July. An overweight risk position in financials added to performance in June, particularly two new issues from Berkshire Hathaway.

Primary issuance picked up notably in the latter stages of the review period, particularly in September, as corporates looked to take advantage of the optically low yield environment or perhaps, anticipating even greater market uncertainty, to get in ahead of Brexit. The Fund participated in 10 new issues in the final quarter with six of those – across the sector spectrum through utilities, banks, telecommunications and consumer - during the final month.

Outlook*

Financial markets are fully expecting central banks to provide support if economies slow, with rate cuts and unconventional methods being priced in. Investors continue to hunt for yield but the environment remains somewhat febrile. The sterling market and UK-domiciled issuers across all currencies are now pricing in a more significant Brexit risk premium. That being said, a hard Brexit scenario would probably drive some further underperformance. We are still expecting both slower economic data coming out of Europe and some monetary response from the European Central Bank. The market also anticipates further bond-buying programmes by the market. As a result, risks are skewed to the downside if the central bank disappoints. Investment grade leverage has picked up over recent quarters, but extremely low rates and yields mean that the asset class continues to cope. Some idiosyncratic challenges are likely to emerge if economic activity slows materially. Valuations appear fair given the current conditions.

*Investments markets and conditions can change rapidly and as such, the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

Comparative Table

Change in net asset value per share

	2019	2018	2017
	p	p	p
Opening net asset value per share	53.62	55.48	58.03
Return before operating charges*	5.63	0.29	(0.15)
Operating charges	(0.49)	(0.52)	(0.49)
Return after operating charges*	5.14	(0.23)	(0.64)
Distributions on preference shares	(1.61)	(1.63)	(1.91)
Closing net asset value per share	57.15	53.62	55.48
*after direct transaction costs of	0.004	0.004	0.004

Performance

	2019	2018	2017
Return after charges	9.59%	(0.41)%	(1.10)%

Other information

	2019	2018	2017
Closing net asset value	£33,980,283	£34,402,323	£38,723,245
Closing number of shares	59,455,542	64,154,434	69,794,140
Operating charges	0.89%	0.95%	0.86%
Direct transaction costs	0.007%	0.008%	0.006%

Additional comparative table disclosures required by the Authorised Collective Investment Schemes Regulations 2010:

Performance record for the year ended

	Highest share price	Lowest share price	Net distribution per share*
	p	p	p
30 September 2015	60.16	52.30	1.91
30 September 2016	62.81	51.70	1.91
30 September 2017	61.28	54.67	1.91
30 September 2018	56.52	53.71	1.63
30 September 2019	58.00	52.98	1.61

*Net distribution per share is based on average shares in issue during the year.

Net asset value record for the year ended

	Net asset value of participating shares £	Shares in issue	Cancellation price per share p
30 September 2017	38,723,245	69,794,140	55.48
30 September 2018	34,402,323	64,154,434	53.62
30 September 2019	33,980,283	59,455,542	57.15

Ongoing charges figure ("OCF") for the year ended

	OCF*
30 September 2017	0.86%
30 September 2018	0.95%
30 September 2019	0.89%

* The OCF is the total expenses paid by the Fund in the year expressed as a percentage of the Fund's average net asset value.

Details of investments

	% of Fund's property 30.09.2019	% of Fund's property 30.09.2018
Government bonds	1.86	2.92
Corporate bonds	96.79	94.02
Bank balance	1.35	3.06
	<u>100.00</u>	<u>100.00</u>

Due to licence restrictions, individual credit ratings have not been disclosed. However a credit rating analysis is disclosed below in accordance with the requirements of the SORP.

Credit rating analysis

	Market Value at 30.09.2019 £	Market Value at 30.09.2018 £
Investment grade	32,636,424	32,302,173
Non-investment grade	961,096	783,074
Total debt securities	<u>33,597,520</u>	<u>33,085,247</u>

Top five holdings

Asset description	% of Fund's property 30.09.2019	Asset description	% of Fund's property 30.09.2018
1. EUROPEAN INVESTMENT BANK 5.375% 07/06/2021	2.53	1. EUROPEAN INVESTMENT BANK 5.375% 07/06/2021	2.61
2. WELLTOWER INC 4.8% 20/11/2028	1.39	2. EUROPEAN INVESTMENT BANK 5% 15/04/2039	2.07
3. EQUITY RELEASE FUNDING PLC 5.05% 26/04/2033	1.35	3. EUROPEAN INVESTMENT BANK 4.25% 07/12/2021	1.60
4. SNCF RESEAU 4.83% 25/03/2060	1.35	4. UNITED KINGDOM GILT 1.75% 07/09/2022	1.48
5. EUROPEAN INVESTMENT BANK 4.25% 07/12/2021	1.23	5. HSBC HOLDINGS PLC 2.256% 13/11/2026	1.44

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