

Schroder

UK Mid Cap Fund plc

Half-Year Report to 31 March 2013



Schroders

Investment Objective

The Company's investment objective is to invest in mid cap equities, with the aim of providing a total return in excess of the FTSE Mid 250 (ex Investment Companies) Index.

Directors

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Financial Highlights

	For the six months ended 31 March 2013
Total returns (including dividends reinvested)	
Net asset value per share ¹	26.3%
Share price total return ¹	29.4%
Benchmark total return ²	20.8%

	31 March 2013	30 September 2012	% Change
Shareholders' funds (£'000)	147,603	118,942	+24.1
Shares in issue	36,143,690	36,143,690	+0.0
Net asset value per share	408.38p	329.08p	+24.1
Share price	350.50p	277.00p	+26.5
Share price discount	14.2%	15.8%	

¹Source: Morningstar.²Source: Thomson Financial Datastream. The Company's benchmark is the FTSE Mid 250 (ex-Investment Companies) Total Return Index.

Ten Largest Investments

As at 31 March 2013

Company and Activities	Market value of holding £'000	% of equity Shareholders' funds
Ashtead Provider of rental plant and equipment	5,572	3.77
Daily Mail & General Trust International media company with interests in newspapers and related digital operations, local media and radio	3,899	2.64
Berkeley House builder	3,776	2.56
Elementis Manufacturer and seller of chromium chemicals, pigments and other chemicals	3,519	2.38
TalkTalk Telecom Fixed line voice and broadband telecommunications provider	3,404	2.31
Dignity Provider of funeral related services	3,389	2.30
Dechra Pharmaceuticals Manufacturer of pharmaceutical products and equipment for the veterinary industry	3,366	2.28
SIG Leading European distributor of insulation materials	3,294	2.23
Travis Perkins Builder's merchant	3,267	2.21
Computacenter Provider of IT infrastructure services	3,240	2.20
Total	36,726	24.88

At 30 September 2012, the ten largest investments represented 24.15% of Shareholders' funds

Interim Management Report

Chairman's Statement

Performance

I am pleased to report on another very positive half-year for your Company, a period during which UK mid and small-cap equities have been one of the best performing asset classes in the world.

During the six month period ended 31 March 2013, the Company's net asset value produced a total return of 26.3%, comparing favourably to a total return of 20.8% produced by the Company's benchmark Index, the FTSE Mid 250 (ex-Investment Companies) Index.

Over the same period the share price produced a total return of 29.4%, as the discount to net asset value narrowed slightly from 15.8% to 14.2%.

Full details of investment performance, as well as portfolio activity, policy and outlook, may be found in the Investment Manager's Review.

Interim Dividend

The Board has declared the payment of an interim dividend of 2.25p per share for the year ending 30 September 2013 to be paid on 31 July 2013 to shareholders on the register on 7 June 2013.

This is the first interim dividend payment by the Company and follows a decision by the Board that henceforth the Company will pay both an interim and a final dividend. This is due to a strong period of dividend growth from the Company's investments over several years and the desire to make more regular distributions to shareholders. The interim dividend will not affect the quantum of the total dividend payable for the year.

Allocation of the Management Fees and Finance Costs to Capital

It remains the Board's determination that the Company's capital return should reflect the indirect costs of earning capital returns, and it continues to monitor the assumptions that underpin the basis of allocation of such costs to the Company's capital and revenue accounts. The Board concluded from its most recent review of the position that a lesser proportion of the Company's long-term investment returns are expected to derive from capital. Therefore, with effect from 1 October 2012, 70% of the Company's management fees and finance costs have been allocated to its capital account and the remaining 30% to its revenue account. Previously, 90% of these expenses had been allocated to the Company's capital account and 10% to its revenue account. Further details of the impact of this change are given in note 2(b) to the accounts on page 11.

Gearing Facility

The Company has a revolving £15 million unsecured credit facility of which £10 million has remained drawn during the period under review. The net effective gearing level (which also takes account of any cash held) was 3.7% at the beginning of the period and had reduced marginally to 3.4% by the end of the period as assets increased. The gearing continues to be utilised in line with the strict parameters established by the Board.

Share Purchases and Discount Management

The Board and Investment Manager continue to monitor the level at which the shares trade against the underlying net asset value both in absolute terms and relative to the peer group.

The Company did not purchase any shares for cancellation or holding in treasury during the period.

Interim Management Report

Board Refreshment

As previously reported as part of the refreshment of the Board, Mr Chris Jones retired as a Director of the Company at the Annual General Meeting held on 29 January 2013. On behalf of the Board I wish to record our thanks to Chris for his unstinting guidance and wisdom provided throughout the 19 years of his tenure since his appointment in 1994.

The Board will be seeking to appoint a further non-executive Director of the Company in due course.

Outlook

The Company has just completed its first ten years under Schroders' management. That the share price return of 507% over this period has been not only well above that of the broader stock market but also, I suspect, above our own expectations ten years ago is a tribute both to the companies in the portfolio and to our managers' ability to pick them.

The anniversary makes one wonder about the next decade. Mark Twain put it well when saying that "The art of prophecy is very difficult, especially about the future". I take comfort, however, from our managers' confidence in the opportunities open to them when investing in UK mid-cap companies. We continue to rely on the companies and our managers to replicate the success of the last decade.

Peter Timms, CBE

Chairman

31 May 2013

Interim Management Report

Investment Manager's Review

Performance

Over the six months to 31 March 2013, the Company's net asset value on a total return basis returned 26.3%. This compared with a 20.8% increase in the benchmark (FTSE Mid 250 Index (ex-Investment Companies) Total Return Index), which was adopted from 1 April 2011.*

Over the period from 1 May 2003 (when Schroders took responsibility for the management of the portfolio) to 31 March 2013, the Company's net asset value produced a total return of 466.6% compared to a total return of 302.1% for the benchmark and 507.4% for the Company's share price over the same period.

Performance in the period was stock-specific rather than sector-specific. Several of our investee companies made changes to their span of activities through acquisitions or disinvestments, and these moves were often well received. For example, Daily Mail & General Trust reduced its exposure to UK regional newspapers and coupled this with a share buy-back programme. Dignity added two crematoria and 38 funeral locations to its portfolio via the acquisition of privately-owned Yew Holdings, strengthening its no. 2 market position.

Other good performances came from Keller, exposed to the improving US housing market, and Berkeley Group benefitting from a buoyant London residential market.

The principal detractors in the period included language translation software and services group SDL, which suffered indigestion from earlier acquisitions and has appointed its Chairman as interim CEO, and royalty specialist Anglo Pacific which has suffered from falling metal and mineral prices.

Market Background

UK mid and small-cap equities have been one of the best performing asset classes in the world in the past six months. This is at least in part due to investors in low-yielding cash and bonds chasing the relatively higher yields offered by equities. Quoted companies are in general financially strong and many in our universe are returning rising levels of cash to shareholders as they remain disciplined and measured on capital spending and M&A. Equity is being withdrawn through share buy-backs, and the supply of new equity remains scarce, with only a handful of recent IPOs in this space. These factors taken together are driving valuations higher.

Portfolio Update

New purchases in the past six months have included Close Brothers (banking, share trading and wealth management), Easyjet (budget airline) and Investec (banking). Easyjet shares were subsequently sold at a significant profit upon promotion to the FTSE 100 Index, along with shares in London Stock Exchange. Other disposals included De La Rue and Filtrona at a profit.

The number of holdings has declined further to 64 at the end of March 2013.

Outlook

Entering the second quarter of 2013, the outlook for both UK government and consumer spending continues to be difficult. The government is only managing to keep the annual borrowing increase below £100 billion through cuts in 'other' expenditure, which is unlikely to be a sustainable factor. Cuts in childcare and housing benefits will progressively bite from April 2013, and this, together with core inflation running ahead of wage increases (2.8% versus 1%) will continue to put the consumer under pressure.

Interim Management Report

One brighter spot in the UK is the housing market, simply because in the recent budget the government has underwritten higher loan-to-value mortgages to enable more people to get onto the housing ladder. This will be positive for house building volumes and for land sales in the next year or so.

Uncertainties continue overseas, ranging from the likely deflationary impact on manufacturing of the recent quantitative easing in Japan, to growing balance of payments stresses in emerging markets as the US\$ strengthens and commodity prices weaken.

Many UK companies have demonstrated over the past year that they are capable of growing in a difficult economic environment. By concentrating on those companies with good market positions and strong balance sheets, we believe that the portfolio should continue to deliver positive returns.

Schroder Investment Management Limited

31 May 2013

*Source: Schroder Investment Management Limited and Morningstar.

Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business fall into the following categories: financial risk; gearing; strategic risk; and accounting, legal and regulatory risk. A detailed explanation of the principal risks and uncertainties in each of these categories can be found on page 13 of the Company's published Annual Report and Accounts for the year ended 30 September 2012. These risks and uncertainties have not materially changed during the six months ended 31 March 2013.

Going Concern

The Directors believe, having considered the Company's investment objective, risk management policies, capital management policies and procedures, expenditure projections and the fact that the Company's assets comprise mainly readily realisable securities, which can be sold to meet the funding requirements if necessary; that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Related Party Transactions

Details of related party transactions can be found on page 35 of the Company's published Annual Report and Accounts for the year ended 30 September 2012. There have been no material transactions with the Company's related parties during the six months ended 31 March 2013.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge, this set of condensed financial statements has been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and with the Statement of Recommended Practice: Financial Statements of Investment Companies and Venture Capital Trusts (SORP) issued in January 2009 and the Interim Management Report as set out above includes a fair review of the information required by 4.2.7R and 4.2.8R of the Financial Conduct Authority's Disclosure and Transparency Rules.

Income Statement

	(Unaudited) For the six months ended 31 March 2013			(Unaudited) For the six months ended 31 March 2012			(Audited) For the year ended 30 September 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	–	30,823	30,823	–	19,048	19,048	–	24,195	24,195
Income from investments	1,269	132	1,401	1,156	14	1,170	3,280	14	3,294
Other interest receivable and similar income	142	–	142	15	–	15	23	–	23
Gross return	1,411	30,955	32,366	1,171	19,062	20,233	3,303	24,209	27,512
Investment management fee	(149)	(348)	(497)	(40)	(359)	(399)	(82)	(736)	(818)
VAT recovered on management fee	106	69	175	–	–	–	–	(159)	(159)
Performance fee	–	(647)	(647)	–	–	–	–	–	–
Administrative expenses	(200)	–	(200)	(196)	–	(196)	(411)	–	(411)
Net return before finance costs and taxation	1,168	30,029	31,197	935	18,703	19,638	2,810	23,314	26,124
Finance costs	(22)	(51)	(73)	(11)	(99)	(110)	(21)	(189)	(210)
Net return on ordinary activities before taxation	1,146	29,978	31,124	924	18,604	19,528	2,789	23,125	25,914
Taxation (note 3)	2	–	2	2	–	2	–	–	–
Net return on ordinary activities after taxation	1,148	29,978	31,126	926	18,604	19,530	2,789	23,125	25,914
Return per Ordinary share (note 5)	3.18p	82.94p	86.12p	2.56p	51.47p	54.03p	7.72p	63.98p	71.70p

The "Total" column of this statement is the profit and loss account of the Company. The "Revenue" and "Capital" columns represent supplementary information prepared under guidance issued by The Association of Investment Companies. The Total column includes all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ("STRGL"). For this reason a STRGL has not been presented.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

Reconciliation of Movements in Shareholders' Funds

For the six months ended 31 March 2013 (Unaudited)

	Called-up share capital £'000	Share redemption premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 September 2012	9,036	13,971	220	2,184	15,477	73,912	4,142	118,942
Net return on ordinary activities	-	-	-	-	-	29,978	1,148	31,126
Ordinary dividend paid in the period	-	-	-	-	-	-	(2,465)	(2,465)
At 31 March 2013	9,036	13,971	220	2,184	15,477	103,890	2,825	147,603

For the six months ended 31 March 2012 (Unaudited)

	Called-up share capital £'000	Share redemption premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 September 2011	9,036	13,971	220	2,184	15,477	50,787	3,594	95,269
Net return on ordinary activities	-	-	-	-	-	18,604	926	19,530
Ordinary dividend paid in the period	-	-	-	-	-	-	(2,241)	(2,241)
At 31 March 2012	9,036	13,971	220	2,184	15,477	69,391	2,279	112,558

For the year ended 30 September 2012 (Audited)

	Called-up share capital £'000	Share redemption premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 September 2011	9,036	13,971	220	2,184	15,477	50,787	3,594	95,269
Net return on ordinary activities	-	-	-	-	-	23,125	2,789	25,914
Ordinary dividend paid in the year	-	-	-	-	-	-	(2,241)	(2,241)
At 30 September 2012	9,036	13,971	220	2,184	15,477	73,912	4,142	118,942

Balance Sheet

	(Unaudited) 31 March 2013 £'000	(Unaudited) 31 March 2012 £'000	(Audited) 30 September 2012 £'000
Fixed assets			
Investments held at fair value through profit or loss	153,272	115,573	121,885
Current assets			
Debtors	391	721	2,430
Cash and short-term deposits	5,041	6,973	5,636
	5,432	7,694	8,066
Current liabilities			
Creditors: amounts falling due within one year	(11,101)	(10,709)	(11,009)
Net current liabilities	(5,669)	(3,015)	(2,943)
Net assets	147,603	112,558	118,942
Capital and reserves			
Called-up share capital	9,036	9,036	9,036
Share premium	13,971	13,971	13,971
Capital redemption reserve	220	220	220
Merger reserve	2,184	2,184	2,184
Share purchase reserve	15,477	15,477	15,477
Capital reserves	103,890	69,391	73,912
Revenue reserve	2,825	2,279	4,142
Total equity shareholders' funds	147,603	112,558	118,942
Net asset value per Ordinary share (note 6)	408.38p	311.42p	329.08p

Cash Flow Statement

	(Unaudited) For the six months ended 31 March 2013 £'000	(Unaudited) For the six months ended 31 March 2012 £'000	(Audited) For the year ended 30 September 2012 £'000
Net cash inflow from operating activities (note 7)	924	586	1,709
Net cash outflow from servicing of finance	(80)	(106)	(217)
Net cash inflow/(outflow) from investment activities	1,026	1,393	(956)
Dividends paid	(2,465)	(2,241)	(2,241)
Net cash outflow in the period	(595)	(368)	(1,705)
Reconciliation of net cash flow to movement in net debt			
Net cash outflow in the period	(595)	(368)	(1,705)
Net debt at the beginning of the period	(4,364)	(2,659)	(2,659)
Net debt at the end of the period	(4,959)	(3,027)	(4,364)
Represented by:			
Cash and short-term deposits	5,041	6,973	5,636
Bank loan	(10,000)	(10,000)	(10,000)
Net debt	(4,959)	(3,027)	(4,364)

Notes to the Accounts

1. Accounting Policies

The information contained within the accounts in this half-year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 30 September 2012 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting Policies

(a) Basis of accounting

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009.

All of the Company's operations are of a continuing nature.

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 30 September 2012.

(b) Accounting estimates

It remains the Board's determination that the capital return should reflect the indirect costs of earning capital returns. With effect from 1 October 2012 the Company allocates 70% of the management fee and finance costs to capital and the remaining 30% to revenue. It had previously allocated 90% of the management fee and finance costs to capital and 10% to revenue. The Board monitors the assumptions that underpin the basis of allocation. It concluded from its most recent review that a lesser proportion of the Company's long term investment returns are expected to derive from capital. The effect of this change for the six months ended 31 March 2013, is to decrease the net revenue return after taxation by £114,000 and to increase the net capital return by the same amount. Total net return after taxation is unaffected by the change. The comparative figures have not been restated.

3. Taxation

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income.

4. Dividends

	(Unaudited) For the six months ended 31 March 2013 £'000	(Unaudited) For the six months ended 31 March 2012 £'000	(Audited) For the year ended 30 September 2012 £'000
Final dividend in respect of the year ended 30 September 2012 of 6.82p (2011: 6.20p)	2,465	2,241	2,241

The Board has determined that, henceforth, the Company will pay an interim dividend and that the quantum of the final dividend will reflect this. An interim dividend of 2.25p per share, amounting to £813,000 has been declared payable in respect of the six months ended 31 March 2013.

Notes to the Accounts

5. Return per Ordinary share

	(Unaudited) For the six months ended 31 March 2013	(Unaudited) For the six months ended 31 March 2012	(Audited) For the year ended 30 September 2012
	£'000	£'000	£'000
Revenue return	1,148	926	2,789
Capital return	29,978	18,604	23,125
Total return	31,126	19,530	25,914
Weighted average number of Ordinary shares in issue during the period	36,143,690	36,143,690	36,143,690
Revenue return per share	3.18p	2.56p	7.72p
Capital return per share	82.94p	51.47p	63.98p
Total return per share	86.12p	54.03p	71.70p

6. Net asset value per Ordinary share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31 March 2013 of 36,143,690 (31 March 2012 and 30 September 2012: same).

7. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	(Unaudited) For the six months ended 31 March 2013	(Unaudited) For the six months ended 31 March 2012	(Audited) For the year ended 30 September 2012
	£'000	£'000	£'000
Total return on ordinary activities before finance costs and taxation	31,197	19,638	26,124
Less capital return on ordinary activities before finance costs and taxation	(30,029)	(18,703)	(23,314)
Scrip dividends received as income	–	(103)	(103)
Decrease in accrued dividends and interest receivable	117	215	38
Decrease/(increase) in other debtors	8	(8)	(1)
Increase in accrued expenses	69	231	26
Management fee allocated to capital (net of VAT recovered)	(279)	(359)	(736)
Performance fee paid	(159)	(325)	(325)
Net cash inflow from operating activities	924	586	1,709

Company Summary

The Company

Schroder UK Mid Cap Fund plc was established in April 1983 under the name of Murray Technology Investments plc and Schroders took over management of the Company in May 2003, at which point its name was changed to Schroder UK Mid & Small Cap Fund plc and subsequently to Schroder UK Mid Cap Fund plc in January 2011. The Company is an investment trust with ordinary shares in issue that are listed on the London Stock Exchange. The Company is administered by Schroders, which also manages its assets. The Company measures its performance against the FTSE Mid 250 (ex-Investment Companies) Index on a Total Return basis.

It is not intended that the Company should have a limited life and its Articles of Association do not contain any provision for the review of the future of the Company at specified intervals.

Website and Price Information

The Company has a dedicated website, which may be found at www.schroderukmidcapfund.com. The website has been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's share price (subject to a delay of 15 minutes) and copies of Report and Accounts and other documents published by the Company as well as information on its Directors, the Terms of Reference of its Committees and other governance arrangements. In addition, the website contains links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. There is also a section entitled "How to Invest" which provides details of the Schroder ISA.

The Company releases its net asset value on both a cum and ex-income basis to the market daily.

Share price information may also be found in the Financial Times and on Schroders' website at www.schroders.co.uk/its.

Registrar Services

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The helpline telephone number of Equiniti Registrars is 0800 032 0641. Calls to this number are free of charge from UK landlines. Other telephone providers' costs may vary.

Equiniti maintains a web-based enquiry service for shareholders. Currently the "Shareview" site (address below) contains information available on public registers.

Shareholders will be invited to enter their name, shareholder reference (account number) and postcode and will be able to view information on their own holding. Please visit www.shareview.co.uk for more details.

Association of Investment Companies

The Company is a member of the Association of Investment Companies. Further information on this association can be found on its website: www.theaic.co.uk.

Dealing Codes

The dealing codes for the shares in the Company are as follows.

ISIN: GB0006108418

SEDOL: 0610841

Ticker: SCP

www.schroderukmidcapfund.com