

Schroders

# Schroder UK Growth Fund plc

Half Year Report and Accounts  
for the six months ended  
31 October 2017



## Investment objective

The Company's principal investment objective is to achieve capital growth predominantly from investment in UK equities, with the aim of providing a total return in excess of the FTSE All-Share Index.

## Investment policy

The Company invests in a relatively concentrated portfolio of between 35 and 65 stocks principally selected for their potential to provide shareholders with attractive returns relative to the FTSE All-Share Index. The portfolio is invested primarily in listed UK equities. It may, if appropriate, include convertible securities, and equity-related derivatives may be used for efficient portfolio management purposes. The yield on the Company's investment portfolio is of secondary importance.

The stocks are predominantly constituents of the FTSE 350 Index.

The size of individual stock holdings depends on the Manager's degree of conviction, not the stock's weight in any index.





# Contents

Financial Highlights	2
Interim Management Report	3
Income Statement	8
Statement of Changes in Equity	9
Statement of Financial Position	10
Notes to the Accounts	11

# Financial Highlights

Total returns (including dividends reinvested) <sup>1</sup>	For the six months ended 31 October 2017
Net asset value ("NAV") per share <sup>2</sup>	3.6%
Share price <sup>2</sup>	6.1%
Benchmark <sup>3</sup>	5.9%

<sup>1</sup>Total return calculations assume that any dividends paid out during the period were reinvested at the time the shares were quoted ex-dividend, in either the assets of the Company at its NAV per share (for calculating the NAV per share total return), or in additional shares of the Company (for calculating the share price total return).

<sup>2</sup>Source: Morningstar.

<sup>3</sup>Source: Thomson Reuters. The Company's benchmark is the FTSE All-Share Index total return.

## Other financial information

	31 October 2017	30 April 2017	% Change
Shareholders' funds (£'000)	<b>307,433</b>	304,372	+1.0
Shares in issue	<b>153,853,684</b>	155,589,184	(1.1)
NAV per share (pence)	<b>199.82</b>	195.63	+2.1
Share price (pence)	<b>176.00</b>	168.50	+4.5
Share price discount to NAV per share (%)	<b>11.9</b>	13.9	

# Interim Management Report – Chairman’s Statement

## Performance

The first half of the financial year saw a continuation of a key theme drawn out in my last annual statement, with domestic political developments producing ongoing challenges.

In the six months to 31 October 2017, the Company’s net asset value (“NAV”) total return was 3.6% while the benchmark, the FTSE All-Share Index, produced a total return of 5.9%. The share price fared better over the period, producing a total return of 6.1%, assisted by the buy back of over 1.7 million shares.

The relative underperformance reflects ongoing negative market sentiment towards portfolio stocks with direct exposure to the UK economy. This is frustrating where the investee companies have a strong combination of value and quality, which are integral to the Manager’s investment process.

Further comment on performance and investment policy and strategy can be found in the Manager’s Review.

## Earnings and dividends

The Board, having been encouraged by the dividend announcements of the companies held in the portfolio and their dividend prospects, has declared a first interim dividend of 3.00 pence (2017: 2.70 pence) per share, an increase of 11.1%, for the year ending 30 April 2018. The first interim dividend will be payable on 31 January 2018 to shareholders on the register on 5 January 2018.

## Gearing

The Company has access to gearing through a combination of a revolving credit facility and an overdraft. The credit facility remained undrawn throughout the period and at the end of the period the net cash position was 0.6%. The Manager will utilise the Company’s borrowing facility when suitable opportunities arise. The Board sets internal guidelines for the Manager’s use of gearing which are reviewed periodically but are subject to net effective gearing not representing more than 20% of shareholders’ funds at the time of borrowing.

## Share buy backs

The share buy back policy seeks to operate in the best interests of shareholders by taking into account the relative level of the Company’s share price discount when compared with peer group trusts, the absolute level of discount, volatility in the level of discount and the impact from share buy back activity on the long-term liquidity of the Company’s issued shares.

The share price discount to NAV narrowed from 13.9% to 11.9% during the period, with a total of 1,735,500 shares having been bought back for holding in treasury. A further 1,423,000 shares have been bought back since the end of the period.

## Board succession

As discussed in my annual statement, Stella Pirie retired as a Director at the Annual General Meeting in August, with Andrew Westenberger having succeeded her as Audit Committee Chairman. The Board continues to review its composition and to consider its succession and refreshment policies.

## Outlook

There have been times in the last 18 months when it has felt that little can keep the UK stock market down. There may be uncertainty about the UK’s future out of the EU; the Conservative government may be less secure; and interest rates may be rising for the first time this cycle, but the market is still a sixth higher than in the middle of last year.

One cause has been the bounce in corporate profitability after sterling’s fall and the increase in commodity prices, but one wonders how much longer both will continue to drive the market. As importantly for your Company, the rise has been concentrated in a relatively small number of sectors. Your portfolio has increasingly been concentrated in some of the out-of-favour shares left behind. It has impaired short term performance, but buying good value often does initially. Market interest will broaden, and when it does we want the portfolio invested in high-quality companies with the opportunity for significant positive share price re-rating.

**Carolyn Dobson**  
Chairman

21 December 2017

# Interim Management Report – Manager’s Review

## Market background

The UK stock market rose 5.9% over the period (FTSE All-Share Index total return, source: Thomson Reuters) against the backdrop of a sustained and synchronised recovery in the global economy.

The International Monetary Fund upgraded its global growth forecast for 2017 to 3.6% from 3.2% in real terms reflecting improving economic data whilst inflationary pressures have remained benign. This supportive environment allowed investors to overlook a comparatively turbulent geopolitical backdrop, and more cyclical areas of the market outperformed. Long-term government bond yields rose reflecting more hawkish rhetoric from central banks, including the Bank of England. There was a resulting rotation towards sectors correlated with rising bond yields towards the end of the period. Industrial commodity prices rallied against a generally favourable outlook for global demand, which supported both the mining and oil sectors. In contrast, mixed domestic economic data, the prospect of rising interest rates, the UK general election and uncertainty over the outcome of Brexit negotiations put more domestically-exposed sectors under pressure.

## Performance

The Company’s NAV rose 3.6%, lagging the 5.9% return for the benchmark.

6 months to end October 2017	Impact (%)
FTSE All-Share Index	+5.9
Stock selection	-2.3
Sector allocation	+0.2
Costs	-0.3
Residual/rounding	+0.1
<b>NAV total return</b>	<b>+3.6</b>

Source: Schroders/Thomson Reuters

Post the Brexit vote and the general election, a significant valuation divergence is apparent within the market with those stocks exposed to the domestic economy increasingly discounting the risks of a disorderly Brexit outcome or change in government. A number of the stocks in the portfolio exposed to these factors have performed poorly notwithstanding decent operational updates over the period or signs that prior problems have stabilised.

FirstGroup, the bus and rail operator, retraced the gains of the first half of the year on the back of marginally weaker results from its Transit and Greyhound divisions and fears over bus and rail renationalisation. Significant progress, however, has been made in stabilising underperforming divisions whilst cash generation is set to improve as capital expenditure normalises and expensive debt matures.

Balfour Beatty performed relatively poorly notwithstanding evidence of operational improvement being delivered. Management has delivered on cost savings targets and cash delivery whilst the investment case has strengthened as legacy problem contracts have reached financial close. The company is well-supported by the Private Finance Initiative (PFI) assets on its balance sheet and is set to see a significant improvement in margins as historic contracts roll off. A profit warning from a competitor and fears over the outlook for PFI contracts under a Labour government have seen the shares fall. However, the former should prove positive for margins and the contractual position and international diversity of the PFI portfolio provide comfort.

The relative performance of Standard Chartered versus HSBC was a drag on performance. Standard Chartered’s investment case is based on our view that it is well-capitalised, the balance sheet is well-provisioned and its exposure to higher growth economies should drive an improvement in returns in the coming years. Real evidence of accelerating revenue growth in its transaction banking, lending management and retail divisions has been masked by the more volatile financial markets and corporate finance divisions.

On a more positive note, Computacenter has performed strongly on the back of stronger than expected half-year results underpinned by strong growth in its supply chain business in Germany. News that the company intends to make an additional cash return to shareholders of c.£100m was well-received.

Specialist annuity provider, Just Retirement Group, performed strongly on news that first half new business margins were expected to exceed expectations. This improvement in margin should bring forward the time when the group achieves capital self sufficiency.

Finally, our overweight exposure to the Oil & Gas sector was a positive contributor following strong third-quarter results. Higher oil prices coupled with cost and capital discipline saw BP and Shell deliver results well ahead of expectations. Scepticism over the sustainability of dividends has been replaced by optimism over the date at which scrip dividends will be turned off.

## Top 5 positive and negative contributors

Top 5 positive	Portfolio weight (%)	Active weight (%)	Total return (%)	Impact (%)
Just Retirement Group	3.1	3.1	26.4	+0.6
South32	2.0	2.0	29.7	+0.6
Shire	0.0	-1.6	-17.9	+0.4
Imperial Brands	0.0	-1.4	-17.6	+0.4
Computacenter	2.1	2.1	24.6	+0.4
<b>Total</b>				<b>+2.4</b>

# Interim Management Report – Manager’s Review

Top 5 negative	Portfolio weight (%)	Active weight (%)	Total return (%)	Impact (%)
FirstGroup	2.3	2.2	-19.4	-0.6
HSBC	1.6	-4.5	19.0	-0.5
Balfour Beatty	3.6	3.5	-5.6	-0.4
Centrica	2.6	2.1	-8.8	-0.3
Aviva	4.5	3.6	-2.1	-0.3
<b>Total</b>				<b>-2.1</b>

Source: Schroders, 6 months to 31 October 2017. Weights are averages over the period. Active weight is the average stock weight relative to the FTSE All-Share Index. Impact is the contribution to performance relative to the FTSE All-Share Index. Total return refers to the return of the stock whilst in the portfolio over the period; when not held it refers to the return of the stock in the index over the period.

## Portfolio activity

We took advantage of a pull back in the mining sector to add both South32 and Glencore to the portfolio. We initiated a position in Australian-headquartered South32 as we were attracted by its strong cash generation, exposure to aluminium/alumina where pollution-related supply-side reforms are supportive, a rapidly building net cash position and a management team willing to return it to shareholders. Similarly, we added Glencore to the portfolio. Financial gearing has fallen significantly over the past two years on the back of self-help measures and a recovery in free cashflow as commodity prices have risen. The company’s marketing business has been tested through the cycle and the shares offer a high free cash flow yield on long-term commodity prices.

On the domestic front, we initiated a position in Capita. Following a poor period of contract execution and value-destructive acquisitions, Capita was left with a geared balance sheet and a low valuation. Historically considered a high quality, defensive stock, we believe the recent strengthening of the balance sheet leaves the group well-capitalised and the valuation implies limited success for the incoming CEO in restoring the business to previous levels of profitability. We also added Ten Entertainment, an operator of bowling alleys and On the Beach, an online tour operator, to the portfolio.

We exited a number of positions where the investment case or value opportunity had played out or we saw better relative value within the sector. As such, we exited holdings in BAE Systems, NEX Group, Morrison’s, Sainsbury’s, Mitchells & Butlers and ITV.

## Investment outlook

We focus on cyclically cheap companies and companies that have the potential to deliver high levels of free cash flow. We believe that valuation is a key determinant of future returns and at present we are seeing attractive

valuation opportunities in some of the more domestic cyclical areas of the market, where companies’ earnings move in line with the UK’s economic cycle (e.g. Balfour Beatty, Tesco, Lloyds, Marks & Spencer, Capita and Ladbrokes). Whilst uncertainty around the UK’s exit from the European Union is set to continue with upcoming trade negotiations, we believe this risk has been more than discounted in current valuations.

We are also finding opportunities where there is an earnings recovery element to the investment case. Examples include Standard Chartered, Tesco and Balfour Beatty, which we believe should perform independent of the economic cycle. Tangible evidence that management action to improve performance is gaining traction does not yet appear to have been fully recognised. We therefore remain confident the portfolio is well-positioned to benefit from an improvement in market sentiment towards domestic stocks and as further evidence of improving operational delivery materialises.

The outlook for the global economy appears buoyant, but we remain mindful that valuations for the market remain high in aggregate whilst market volatility remains low despite heightened uncertainty following the general election and as the Brexit negotiations start. These factors make us reluctant to use the borrowing facility at the moment.

## 10 largest overweight positions

	Portfolio weight (%)	Index weight (%)	Difference (%)
Standard Chartered	5.3	0.8	4.5
Balfour Beatty	4.2	0.1	4.1
Tesco	4.5	0.6	3.9
Aviva	4.4	0.8	3.6
Just Retirement Group	3.5	0.0	3.5
Pearson	3.3	0.2	3.1
South32	2.8	0.0	2.8
Lloyds Banking Group	4.4	2.0	2.4
Marks & Spencer	2.3	0.2	2.1
Centrica	2.4	0.4	2.0

Source: Schroders, as at 31 October 2017

## Schroder Investment Management Limited 21 December 2017

Securities shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Interim Management Report

## Investment Portfolio at 31 October 2017

Stocks in bold are the 20 largest investments, which by value account for 72.0% (30 April 2017: 69.7% and 31 October 2016: 68.4%) of total investments.

	£'000	%
<b>Financials</b>		
<b>Standard Chartered</b>	<b>16,315</b>	<b>5.3</b>
<b>Lloyds Banking Group</b>	<b>13,440</b>	<b>4.4</b>
<b>Aviva</b>	<b>13,330</b>	<b>4.4</b>
<b>Just Retirement Group</b>	<b>10,746</b>	<b>3.5</b>
<b>The Royal Bank of Scotland</b>	<b>7,151</b>	<b>2.3</b>
<b>Legal &amp; General</b>	<b>5,905</b>	<b>1.9</b>
HSBC	4,793	1.6
ICAP	3,041	1.0
Ashmore	2,053	0.7
<b>Total Financials</b>	<b>76,774</b>	<b>25.1</b>
<b>Consumer Services</b>		
<b>Tesco</b>	<b>13,710</b>	<b>4.5</b>
<b>Pearson</b>	<b>10,027</b>	<b>3.3</b>
<b>Marks &amp; Spencer</b>	<b>6,865</b>	<b>2.3</b>
<b>FirstGroup</b>	<b>6,205</b>	<b>2.0</b>
<b>Ladbrokes</b>	<b>6,198</b>	<b>2.0</b>
Go-Ahead	3,878	1.3
Ten Entertainment	3,473	1.1
Daily Mail & General Trust	3,382	1.1
Trinity Mirror	2,955	1.0
On the Beach	2,370	0.8
Halfords	2,236	0.7
Mothercare	1,430	0.5
GAME Digital	583	0.2
<b>Total Consumer Services</b>	<b>63,312</b>	<b>20.8</b>
<b>Oil &amp; Gas</b>		
<b>Royal Dutch Shell 'B'</b>	<b>28,011</b>	<b>9.2</b>
<b>BP</b>	<b>17,951</b>	<b>5.9</b>
Royal Dutch Shell 'A'	881	0.3
<b>Total Oil &amp; Gas</b>	<b>46,843</b>	<b>15.4</b>
<b>Industrials</b>		
<b>Balfour Beatty</b>	<b>12,962</b>	<b>4.2</b>
Qinetiq	5,141	1.7
Chemring	4,534	1.5
Capita	4,523	1.5
Mears	3,633	1.2
Smiths Group	3,360	1.1
Cobham	2,770	0.9
<b>Total Industrials</b>	<b>36,923</b>	<b>12.1</b>

	£'000	%
<b>Healthcare</b>		
<b>GlaxoSmithKline</b>	<b>10,261</b>	<b>3.4</b>
<b>AstraZeneca</b>	<b>6,916</b>	<b>2.3</b>
Indivior	3,633	1.2
<b>Total Healthcare</b>	<b>20,810</b>	<b>6.9</b>
<b>Technology</b>		
<b>Computacenter</b>	<b>5,449</b>	<b>1.8</b>
Redcentric	2,826	0.9
Fidessa	2,284	0.8
Iomart	1,451	0.5
SDL	1,285	0.4
IDOX	323	0.1
<b>Total Technology</b>	<b>13,618</b>	<b>4.5</b>
<b>Consumer Goods</b>		
<b>British American Tobacco</b>	<b>12,579</b>	<b>4.1</b>
<b>Total Consumer Goods</b>	<b>12,579</b>	<b>4.1</b>
<b>Basic Materials</b>		
<b>South32</b>	<b>8,501</b>	<b>2.8</b>
Glencore	3,177	1.0
<b>Basic Materials</b>	<b>11,678</b>	<b>3.8</b>
<b>Utilities</b>		
<b>Centrica</b>	<b>7,289</b>	<b>2.4</b>
Drax Group	2,528	0.8
<b>Total Utilities</b>	<b>9,817</b>	<b>3.2</b>
<b>Telecommunications</b>		
BT	5,189	1.7
Vodafone	4,359	1.4
<b>Total Telecommunications</b>	<b>9,548</b>	<b>3.1</b>
<b>Other</b>		
Sherbone Investors	3,150	1.0
<b>Total Other</b>	<b>3,150</b>	<b>1.0</b>
<b>Total investments</b>	<b>305,052</b>	<b>100.0</b>



# Interim Management Report

## Principal risks and uncertainties

The principal risks and uncertainties with the Company's business fall into the following categories: strategy and competitiveness risk; investment management risk; financial risks; accounting, legal and regulatory risk; custodian and depositary risk; and service provider risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 11 and 12 of the Company's published Annual Report and Accounts for the year ended 30 April 2017. These risks and uncertainties have not materially changed during the six months ended 31 October 2017.

## Going concern

Having assessed the principal risks and uncertainties, and the other matters discussed in connection with the viability statement as set out on page 13 of the published Annual Report and Accounts for the year ended 30 April 2017, the Directors consider it appropriate to adopt the going concern basis in preparing the accounts.

## Related party transactions

There have been no transactions with related parties that have materially affected the financial position or the performance of the Company during the six months ended 31 October 2017.

## 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" issued in November 2014 and updated in January 2017 and that this Interim Management Report includes a fair review of the information required by 4.2.7R and 4.2.8R of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

# Income Statement

## For the six months ended 31 October 2017 (unaudited)

Note	(Unaudited) For the six months ended 31 October 2017			(Unaudited) For the six months ended 31 October 2016			(Audited) For the year ended 30 April 2017			
	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	-	5,579	5,579	-	23,095	23,095	-	37,665	37,665	
Income from investments	5,710	-	5,710	4,734	-	4,734	10,068	-	10,068	
Other interest receivable and similar income	-	-	-	1	-	1	1	-	1	
<b>Gross return</b>	<b>5,710</b>	<b>5,579</b>	<b>11,289</b>	<b>4,735</b>	<b>23,095</b>	<b>27,830</b>	<b>10,069</b>	<b>37,665</b>	<b>47,734</b>	
Investment management fee	(231)	(539)	(770)	(219)	(512)	(731)	(443)	(1,033)	(1,476)	
Administrative expenses	(233)	-	(233)	(185)	-	(185)	(375)	-	(375)	
<b>Net return on ordinary activities before taxation</b>	<b>5,246</b>	<b>5,040</b>	<b>10,286</b>	<b>4,331</b>	<b>22,583</b>	<b>26,914</b>	<b>9,251</b>	<b>36,632</b>	<b>45,883</b>	
Taxation on ordinary activities	3	(2)	(2)	-	-	-	(3)	-	(3)	
<b>Net return on ordinary activities after taxation</b>	<b>5,244</b>	<b>5,040</b>	<b>10,284</b>	<b>4,331</b>	<b>22,583</b>	<b>26,914</b>	<b>9,248</b>	<b>36,632</b>	<b>45,880</b>	
<b>Return per share</b>	4	<b>3.39p</b>	<b>3.26p</b>	<b>6.65p</b>	2.72p	14.18p	16.90p	5.83p	23.09p	28.92p

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 Company has no other items of other comprehensive income, and therefore the net return on ordinary activities after taxation is also the total comprehensive income for the period.

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

# Statement of Changes in Equity

## For the six months ended 31 October 2017 (unaudited)

	Note	Called-up share capital £'000	Share redemption premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2017		40,229	9,875	19,759	417	69,236	156,103	8,753	304,372
Net return on ordinary activities after taxation		-	-	-	-	-	5,040	5,244	10,284
Repurchase of the Company's own shares into treasury		-	-	-	-	(3,025)	-	-	(3,025)
Dividends paid in the period	5	-	-	-	-	-	-	(4,198)	(4,198)
<b>At 31 October 2017</b>		<b>40,229</b>	<b>9,875</b>	<b>19,759</b>	<b>417</b>	<b>66,211</b>	<b>161,143</b>	<b>9,799</b>	<b>307,433</b>

## For the six months ended 31 October 2016 (unaudited)

	Note	Called-up share capital £'000	Share redemption premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2016		40,229	9,875	19,759	417	77,191	119,471	7,938	274,880
Net return on ordinary activities after taxation		-	-	-	-	-	22,583	4,331	26,914
Repurchase of the Company's own shares into treasury		-	-	-	-	(2,617)	-	-	(2,617)
Dividends paid in the period	5	-	-	-	-	-	-	(4,166)	(4,166)
<b>At 31 October 2016</b>		<b>40,229</b>	<b>9,875</b>	<b>19,759</b>	<b>417</b>	<b>74,574</b>	<b>142,054</b>	<b>8,103</b>	<b>295,011</b>

## For the year ended 30 April 2017 (audited)

	Note	Called-up share capital £'000	Share redemption premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2016		40,229	9,875	19,759	417	77,191	119,471	7,938	274,880
Net return on ordinary activities after taxation		-	-	-	-	-	36,632	9,248	45,880
Repurchase of the Company's own shares into treasury		-	-	-	-	(7,955)	-	-	(7,955)
Dividends paid in the year	5	-	-	-	-	-	-	(8,433)	(8,433)
<b>At 30 April 2017</b>		<b>40,229</b>	<b>9,875</b>	<b>19,759</b>	<b>417</b>	<b>69,236</b>	<b>156,103</b>	<b>8,753</b>	<b>304,372</b>

# Statement of Financial Position at 31 October 2017 (unaudited)

	Note	(Unaudited) 31 October 2017 £'000	(Unaudited) 31 October 2016 £'000	(Audited) 30 April 2017 £'000
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		305,052	289,427	300,204
<b>Current assets</b>				
Debtors		908	640	4,357
Cash at bank and in hand		1,980	5,597	1,712
		2,888	6,237	6,069
<b>Current liabilities</b>				
Creditors: amounts falling due within one year		(507)	(653)	(1,901)
<b>Net current assets</b>		<b>2,381</b>	5,584	4,168
<b>Total assets less current liabilities</b>		<b>307,433</b>	295,011	304,372
<b>Net assets</b>		<b>307,433</b>	295,011	304,372
<b>Capital and reserves</b>				
Called-up share capital	6	40,229	40,229	40,229
Share premium		9,875	9,875	9,875
Capital redemption reserve		19,759	19,759	19,759
Warrant exercise reserve		417	417	417
Share purchase reserve		66,211	74,574	69,236
Capital reserves		161,143	142,054	156,103
Revenue reserve		9,799	8,103	8,753
<b>Total equity shareholders' funds</b>		<b>307,433</b>	295,011	304,372
<b>Net asset value per share</b>	7	<b>199.82p</b>	185.85p	195.63p

Registered in England and Wales

Company registration number: 2894077

# Notes to the Accounts

## 1. Financial Statements

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

The figures and financial information for the year ended 30 April 2017 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

### 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 by the Association of Investment Companies in November 2014 and updated in January 2017.

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

The accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 30 April 2017.

## 3. Taxation on ordinary activities

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. Taxation on ordinary activities comprises overseas tax deducted at source, net of any rebates.

## 4. Return per share

	(Unaudited) Six months ended 31 October 2017	(Unaudited) Six months ended 31 October 2016	(Audited) Year ended 30 April 2017
Revenue return (£'000)	5,244	4,331	9,248
Capital return (£'000)	5,040	22,583	36,632
<b>Total return (£'000)</b>	<b>10,284</b>	<b>26,914</b>	<b>45,880</b>
Weighted average number of shares in issue during the period	154,525,984	159,278,376	158,643,285
Revenue return per share	3.39p	2.72p	5.83p
Capital return per share	3.26p	14.18p	23.09p
<b>Total return per share</b>	<b>6.65p</b>	<b>16.90p</b>	<b>28.92p</b>

# Notes to the Accounts continued

## 5. Dividends paid

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
Second interim dividend of 2.70p (2016: 2.60p)	4,198	4,166	4,166
First interim dividend of 2.70p	–	–	4,267
	<b>4,198</b>	4,166	8,433

A first interim dividend of 3.00p (2016: 2.70p) per share, amounting to £4,616,000 (2016: £4,267,000) has been declared payable in respect of the year ending 30 April 2018.

## 6. Called-up share capital

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
<b>Changes in issued shares are as follows:</b>			
Opening balance of 155,589,184 (30 April 2016: 160,375,184) shares of 25p each	38,897	40,094	40,094
Repurchase of 1,735,500 (six months ended 31 October 2016: 1,637,000 and year ended 30 April 2017: 4,786,000) shares into treasury	(434)	(410)	(1,197)
Subtotal of 153,853,684 (31 October 2016: 158,738,184 and 30 April 2017: 155,589,184) shares	38,463	39,684	38,897
7,063,500 (31 October 2016: 2,179,000 and 30 April 2017: 5,328,000) shares held in treasury	1,766	545	1,332
<b>Closing balance of 160,917,184 (31 October 2016 and 30 April 2017: same) shares of 25p each, including shares held in treasury.</b>	<b>40,229</b>	40,229	40,229

## 7. Net asset value per share

Net asset value per share is calculated by dividing total equity shareholders' funds by the number of shares in issue, excluding shares held in treasury, at 31 October 2017 of 153,853,684 (31 October 2016: 158,738,184 and 30 April 2017: 155,589,184).

## 8. Financial instruments measured at fair value

The Company's financial instruments that are held at fair value comprise its investment portfolio. At 31 October 2017, all investments in the Company's portfolio were categorised as Level 1 in accordance with the criteria set out in paragraph 34.22 (amended) of FRS 102. That is, they are all valued using unadjusted quoted prices in active markets for identical assets (31 October 2016 and 30 April 2017: same).

## 9. Events after the interim period that have not been reflected in the financial statements for the interim period

The Directors have evaluated the period since the interim date and have not noted any significant events which have not been reflected in the financial statements.



## Directors

Carolan Dobson (Chairman)  
Bob Cowdell  
Andrew Hutton  
Andrew Westenberger

## Advisers

### Alternative Investment Fund Manager ("Manager")

Schroder Unit Trusts Limited  
31 Gresham Street  
London EC2V 7QA

### Investment Manager and Company Secretary

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA  
Telephone: 020 7658 4430

### Registered Office

31 Gresham Street  
London EC2V 7QA

### Depositary and Custodian

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### Lending Bank

Scotiabank Europe PLC  
201 Bishopsgate  
6th Floor  
London EC2M 3NS

### Corporate Broker

Winterflood Investment Trusts  
The Atrium Building  
Canon Bridge House  
Dowgate Hill  
London EC4R 2GA

## Independent Auditors

PricewaterhouseCoopers LLP  
7 More London Riverside  
London SE1 2RT

## Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Shareholder Helpline: 0800 032 0641\*  
Website: [www.shareview.co.uk](http://www.shareview.co.uk)  
\*Calls to this number are free of charge from UK  
landlines

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 the address above

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found on the website [www.schroders.co.uk/its](http://www.schroders.co.uk/its)

The Company's leverage policy and details of limits on leverage required under the AIFM Directive are published on the website [www.schroders.co.uk/its](http://www.schroders.co.uk/its)

## Dealing Codes

ISIN: GB0007913485  
SEDOL: 0791348  
Ticker: SDU

## Global Intermediary Identification Number (GIIN)

A60BYK.99999.SL.826

## Legal Entity Identifier (LEI)

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