

Schroders

Schroder Income Growth
Fund plc

Annual Report and Accounts

For the year ended
31 August 2019

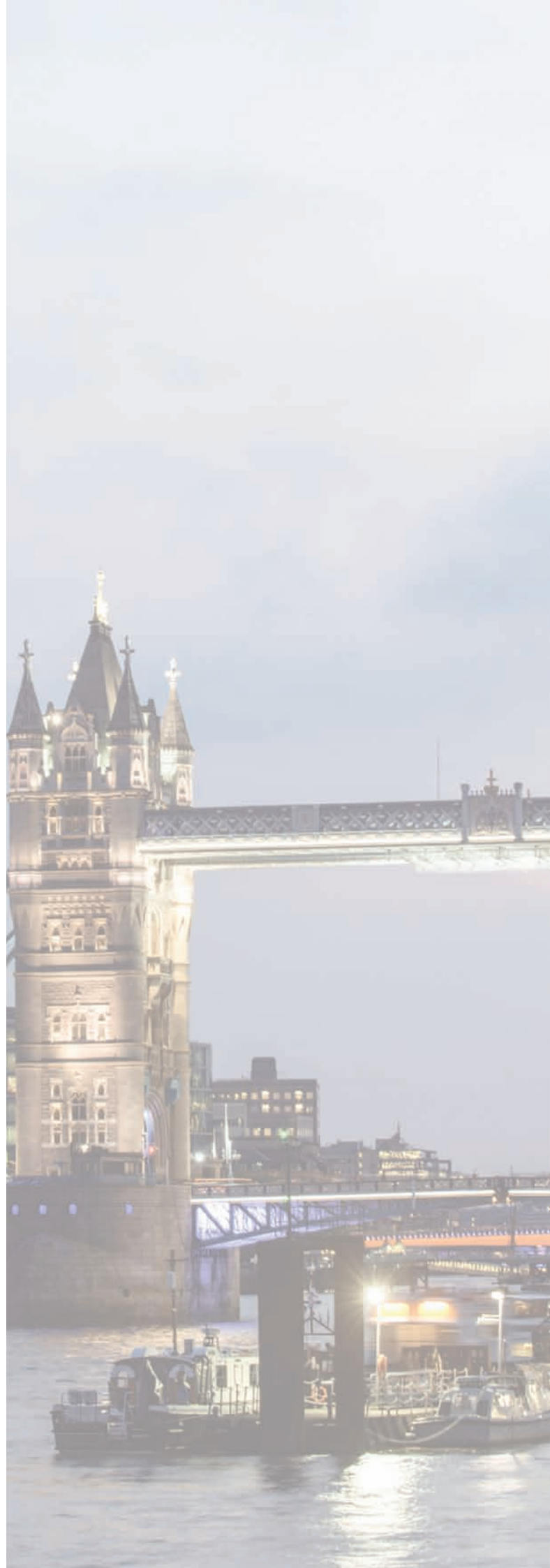


Investment objectives

The Company's principal investment objectives are to provide real growth of income, being growth of income in excess of the rate of inflation, and capital growth as a consequence of the rising income.

Investment policy

The investment policy of the Company is to invest primarily in above-average yielding UK equities but up to 20% of the portfolio may be invested in equities listed on recognised stock exchanges outside the UK. If considered appropriate, the Company may use equity related instruments such as convertible securities and up to 10% of the portfolio may be invested in bonds. In addition, up to 20% of total income may be generated by short-dated call options written on holdings in the portfolio. Put options comprising short-term exchange-traded instruments on major stock market indices of an amount up to the value of the Company's borrowings may also be utilised.



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Financial Highlights

Some of the financial measures below are classified as Alternative Performance Measures, as defined by the European Securities and Markets Authority and are indicated with an asterisk (*). Definitions of these performance measures, and other terms used in this report, are given on page 53 together with supporting calculations where appropriate.

Total returns* for the year ended 31 August 2019



Net asset value (“NAV”) per share total return



Share price total return

Dividend growth for the year



Annual dividends have risen for 24 consecutive years

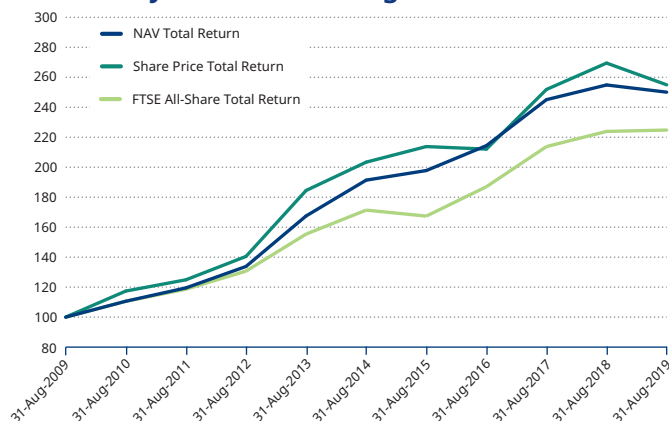
Other financial information

	31 August 2019	31 August 2018	% Change
Shareholders' funds (£'000)	204,458	216,740	(5.7)
NAV per share* (pence)	297.66	315.54	(5.7)
Share price (pence)	273.00	301.00	(9.3)
Share price discount to NAV per share* (%)	8.3	4.6	
Gearing* (%)	15.5	8.3	

	Year ended 31 August 2019	Year ended 31 August 2018	% Change
Net revenue return after taxation (£'000)	9,744	8,767	+11.1
Revenue return per share (pence)	14.19	12.76	+11.2
Consumer Prices Index (“CPI”) ¹	108.4	106.6	+1.7
Ongoing Charges* (%)	0.87	0.93	

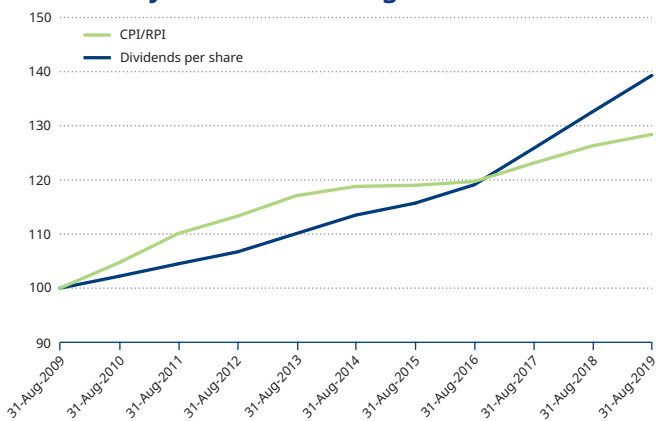
¹Source: Office for National Statistics.

NAV/share price/FTSE All-Share Index total returns for the 10 years ended 31 August 2019



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 August 2009.

Dividends per share versus the rate of inflation for the 10 years ended 31 August 2019



Source: Morningstar/Office for National Statistics. Rebased to 100 at 31 August 2009.

The Retail Prices Index (“RPI”) was used as the measure of inflation up to 31 August 2013 and the CPI thereafter.

Chairman's Statement



“Your Company's record of declaring a rising dividend each year since launch remained unbroken in the year ended 31 August 2019...”

Performance

Your Company's record of declaring a rising dividend each year since launch remained unbroken in the year ended 31 August 2019, with a total distribution of 12.4 pence per share representing a rise of 5.1% over the previous year. This increase also compares favourably to the rise of 1.7% in the Consumer Price Index over the same period, and has helped the Company to continue meeting one of its primary objectives: to provide real growth of income, being growth of income in excess of the rate of inflation.

Revenue and dividend

Over the same period the revenue return per share rose by 11.2%, partly reflecting continued dividend growth from the holdings and also the impact of a somewhat weaker pound on foreign-currency denominated dividends. The increase in dividend is well covered by this year's income.

Your Company's net asset value (“NAV”) fell by 1.9% in total return terms, behind the FTSE All-Share Index, which grew by 0.4%. The reasons for this are discussed in the Manager's Review, which includes detailed commentary on the portfolio and its performance during the year.

Share price discount and buybacks

Your Company's share price fell by 5.4% in total return terms over the year, fully reflecting a widening in the share price discount to NAV – which increased from 4.6% to 8.3%, with an average discount over the year of 6.5%.

This level of discount remains a concern to the board, which continues to closely monitor it relative to the Company's peer group and to consider whether it would be appropriate to buy back shares, while taking into account prevailing market conditions. While, in the event, no shares were bought back (or issued) during the year, your board continues to believe that retaining the ability to do so is a valuable potential tool in reducing the volatility of the share price discount to NAV and will therefore be seeking to renew the existing authority through the resolutions set out in the notice of annual general meeting.

Gearing

During the year, gearing was increased from 8.3% at 1 September 2018 to 15.5% as at 31 August 2019 consistent with the Manager's conviction in its chosen investment strategy and the Company's investment policy. The original £20 million facility with Scotiabank Europe plc expired on 22 August 2019 and was replaced by a £35 million facility with Sumitomo Mitsui Banking Corporation Europe plc, which will mature on 23 August 2020.

Board composition and succession planning

I wrote last year that the board was prioritising its succession planning to ensure both progressive refreshment and the retention of an appropriate blend of skills. The Nomination and Remuneration Committee, chaired by Bridget Guerin, reviewed the board's composition, balance and diversity over the year and as a result, Victoria Muir was appointed as a non-executive director on 23 July 2019. Fraser McIntyre is also proposed for election by shareholders at the AGM, as an additional non-executive director. Fraser has extensive experience as a chief operating officer and a chief financial officer in the investment management sector and is a qualified accountant. The board has already benefited from Victoria's extensive marketing and distribution skills and I am confident that Fraser's relevant and recent financial and operations experience will bolster the board further.

I am also pleased to announce that Bridget Guerin, an existing, very experienced non-executive director, will succeed me as chair of the Company after the AGM on 17 December 2019. Leadership of your Company will therefore be in good hands.

I should also add that notwithstanding the length of service of David Causer, who chairs your Audit Committee, the board considers that he remains independent both in character and judgement. David intends to retire at the Company's 2020 AGM.

As I described in the 2019 half year report, at the last AGM, a number of votes were cast against the resolutions to re-elect David and myself, totalling around 2% of the Company's shares in issue, and approximately 26% of the votes cast in respect of such resolutions.

We have liaised with the shareholder responsible for the majority of these votes and we have been advised that it voted in line with its policy that key board committees should be comprised of directors with a tenure of less than nine years due to potential concerns regarding independence. As a result, David and I received votes against our re-appointment to the board.

The two planned director resignations described above, agreed by the board prior to the votes against our reappointments, and the new appointments to the board, will mitigate the concerns of this shareholder, whilst allowing for orderly succession.

Chairman's Statement

Amendment to investment policy

After careful consideration and consultation with your investment manager, your board has decided to ask shareholders to approve at the forthcoming AGM (details of which are set out below) the removal of the words 'above average yielding' (preceding 'UK Equities') from the Company's investment policy. We believe that the current wording restricts your Manager's discretion and its removal will allow investment in more stocks having a high likelihood of growing their dividends materially over time, alongside the traditional, higher-yielding stocks in the portfolio. This change supports the Company's objective of increasing the Company's dividend over time. The full amended text is set out on page 50.

Annual general meeting

The Company's AGM will be held on Tuesday, 17 December 2019 at 12:00 noon. As in previous years, the meeting will include a presentation by the manager on the Company's investment strategy and market prospects, and shareholders are encouraged to attend.

Outlook

As this is my last Chairman's Statement I am encouraged to look back over the 14 years that I have been privileged to be a member of your board, and in particular to record my pleasure in the Company's success. Our objective has always been clear: to provide real growth of income, and capital growth as a consequence. In this context, the dividend has risen 86% since 2005, more than double the 34% increase in UK consumer prices, while £1,000 invested in the shares then – would be worth £2,670 today.

Will my successor, Bridget, have it so good? I suspect that the extent of the gains may be harder to duplicate, not so much because of factors like the Brexit turmoil and the possible cyclical downturn in global growth, but rather because we may have moved into an era where returns on many assets will be lower than in the past. The corollary of a lower-return world, however, is that income growth – the Company's *raison d'être* – has a demonstrable role in many portfolios. In summary, the shares yield 4.3% at the time of writing, 2.6% above the rise in consumer prices; your board prides itself on the history of increasing the dividend every year since launch; there is a good income reserve; and the Manager's Review speaks of the opportunities to be found in the quality, soundly-financed domestic companies in the portfolio. On this basis I believe that our shareholders should look forward to the future with confidence.

Ian Barby
Chairman

13 November 2019

Manager's Review

“...Income from investments grew 9.1%...”

The NAV total return in the 12 months to 31 August 2019 was -1.9%. This compares to +0.4% from the FTSE All-Share Index and -2.2% from the median of the peer group (the AIC UK Equity Income Sector, excluding funds that joined the sector this year). The share price total return was -5.4% (source: Morningstar/Schroders).

Income from investments grew 9.1%, driven by four factors. Firstly, and most significantly, income benefited from six months of additional gearing (of around 6% of assets) which was deployed in March. Secondly, the Company benefited from a broadly based increase in dividend payments from many parts of the portfolio. In particular, we were pleased to see strong distributions from student property provider Unite Group, speciality finance and alternatives asset manager Intermediate Capital, leisure company Hollywood Bowl, software business Micro Focus and Portuguese energy company Galp Energia.

Thirdly, there was a 29% increase in special dividends, which compares to a decline of almost half in the year ended 31 August 2018. Income from special dividends is by definition unpredictable and we have cautioned for some time that the level of special dividends could be at unsustainable levels. Those received this year were from the same holdings as in 2018, namely Taylor Wimpey, John Laing and Hollywood Bowl, as well as a new payment from miner Rio Tinto which related to strong financial results (as distinct from the distribution taken to capital from the company's sale of a stake in a mine). Special dividends in 2019 are around two thirds of those in 2017. We received an additional income payment from the holding in British American Tobacco compared with the prior year due to the timing of payments around the Company's year end. Furthermore, the Company had exited positions in stocks earlier in the year which subsequently cut their dividends (Centrica, Nordea, Vodafone).

Lastly, sterling weakness provided a tailwind to income as the exchange rate was beneficial both to translated dividends declared in overseas currencies and to the boost to profits from many companies with overseas operations.

Market background

The FTSE All-Share rose by 0.4% in what was a mixed period for global stock markets. The final calendar quarter of 2018 was one of the worst quarters for global equities in many years as fears over the outlook for the world economy came to a head against the backdrop of tightening global monetary conditions at the time, US-China trade tensions and European political uncertainty. Equities globally bounced back sharply in Q1 in response to dovish commentary from central banks, with the US Federal Reserve (Fed) and European Central Bank (ECB) tempering expectations for tighter monetary policy. Expectations for monetary policy then shifted over Q2, notably so in the US where the market began to speculate that the Fed could cut interest rates.

The Fed subsequently cut base rates in July, the first reduction since 2008. This also had the effect of spurring other central banks to loosen monetary policy. Latest GDP data confirms that growth in the world's major economies has decelerated in 2019, with both the UK and German economies contracting in Q2. Meanwhile, forward-looking indicators pointed to a further softening in the economic and inflation outlook, with the prognosis for manufacturing particularly weak. Brexit and domestic political uncertainty remained elevated as Boris Johnson took over as the UK's new prime minister on a “do or die” pledge to depart the EU by the revised exit date of 31 October.

Portfolio performance

The Company's NAV total return underperformed the FTSE All-Share Index, as stock selection detracted from relative performance.

	Impact (%)
FTSE All-Share Index	+0.4%
Stock selection	-1.5
Sector allocation	0.0
Costs	-0.9
Gearing	0.0
Residual	+0.1
NAV total return	-1.9%

Source: Schroders, 31 August 2019.

The Company's lack of exposure for the majority of the period to beverage firm Diageo, which has been sought after by investors for its significant defensive growth characteristics, has been the greatest single stock detractor of relative performance. We do not invest in the company for valuation reasons; believing the stock's attractive characteristics are more than reflected in current valuations.

Stock selection in industrials also detracted from performance. The holding in security services company G4S has struggled but we have increased the position recently, encouraged by solid trading in the security business and the potential for strategic value creation from the sale of their customer cash management division. Meanwhile, not owning certain highly valued perceived growth stocks, such as credit and marketing services business Experian, also detracted.

The Company's holding in broadcasting services company ITV weighed on relative returns as investor concerns over both structural (Free-to-air model versus subscription service models) and cyclical (Brexit related advertising) issues depressed the share price.

Bookmaking company William Hill has been negatively impacted by profit headwinds brought on by tighter regulation in the UK and investor concerns about the scale of investment required for its US expansion. However, we remain positive as management change and an exciting US

Manager's Review

outlook have led to some recovery in the stock's performance more recently.

Our holding in overseas company Galp Energia suffered as a result of the decline in oil prices. We maintain our conviction in the company because of its rapidly growing Exploration & Production division, driven principally by offshore Brazil operations, as well as the potential for attractive dividend growth compared to other oil companies.

On the positive side, performance benefited from stock selection in mid-sized companies. Shares in Pets At Home have done well on the back of better-than-expected results and growing market confidence in the company's veterinary business strategy. Shares in designer, builder and investor in GP and primary care buildings Assura have benefited from the reduction in bond yields. Intermediate Capital Group shares were re-rated in recognition of its strong franchise within alternatives investment management. Lastly, shares in John Laing, one of the top contributors last year, re-rated on increased optimism about the prospects of growth in the US infrastructure market.

Five top/bottom relative performers

Security	Portfolio weight (%) ¹	Weight relative to Index (%) ¹	Relative performance (%) ²	Impact (%) ³
Pets At Home Group	1.6	1.6	108.1	1.3
Assura	2.1	2.0	32.1	0.6
Intermediate Capital Group	1.8	1.7	31.6	0.5
John Laing Group	3.0	2.9	14.7	0.4
BHP Group	3.4	1.8	19.1	0.3

Security	Portfolio weight (%) ¹	Weight relative to Index (%) ¹	Relative performance (%) ²	Impact (%) ³
Diageo	0.1	-3.1	32.4	-0.9
G4S	2.3	2.2	-27.7	-0.7
ITV	1.7	1.5	-24.0	-0.5
William Hill	1.2	1.2	-26.4	-0.4
Galp Energia	1.4	1.4	-21.8	-0.4

Source: Factset, 31 August 2018 to 31 August 2019.

¹Weights are averages over the period.

²Performance relative to the FTSE All-Share Index. Illustrates the performance of the stock in the index relative to the FTSE All-Share Index return, apart from stocks not in the index (i.e. Galp Energia).

³Impact is the contribution to performance relative to the FTSE All-Share.

Portfolio activity

We have continued to increase the Company's UK domestic exposure, adding to selected companies on share price weakness and where valuations are attractive, such as Lloyds Banking, Tesco and new holdings in Whitbread and Crest Nicholson.

Whitbread is the UK's largest operator of hotels, restaurants and coffee shops. We believe the sale of Costa Coffee at a significant premium to expectations gives financial flexibility to invest in its remaining business whilst maintaining a strong balance sheet. The proceeds enable continued expansion of UK hotels and accelerated development in Germany, a bolstering of the pension fund and the potential for enhanced shareholder returns. The market underappreciates the quality of the brand and the growth potential of the franchise due to fears over the prospects for UK consumer businesses in the face of Brexit. We have been prepared to take a longer-term view given the strength of the balance sheet and the business model.

Weak trading in house builder Crest Nicholson's end markets resulted in a period of relatively poor share performance. With the shares trading at around tangible book value, we saw this as offering compelling value in a sector which generates attractive returns and has favourable long-term supply/demand dynamics. These characteristics are being muddled by short-term trading concerns, in some part related to Brexit. We are granted additional comfort by the strength of the balance sheet and management team buying shares. The shares yielded over 10% on purchase and we considered the dividend to be sustainable given it was twice covered by earnings. The purchase was in part funded by switching out of the longstanding holding in Bellway.

Later in the Company's financial year, we added Empiric Student Property REIT, an owner and operator of student accommodation in university towns. The stock had de-rated from a premium to net assets to a discount during 2017 as management failed to control administration costs as it moved to a more fully integrated operational business. This also led to a rebasing of the dividend and a change in management. We believe the shares offer an attractive opportunity given cost control has tightened and the dividend (c.5% yield) appears sustainable.

Other additions have included G4S as noted above, and BAE Systems on weakness. We believe investors are giving too little credit to the strength of its order book. We also increased exposure to Pearson, the publishing and education firm, where we were more confident in the group's medium-term prospects than what was in our view a pessimistic market consensus. Unfortunately, in news after the Company's year end, the company has warned that this year's profits would be at the low end of consensus.

The additions have in part been funded by sales in Centrica, Halfords and Vodafone, where we believed weak operating performance threatened the sustainability of the dividends. We have also reduced the exposure to industrials given the deterioration in global growth. We sold out of paper manufacturer Smurfit Kappa, autos and aerospace components manufacturer Melrose and mining and oil &

Manager's Review

gas services company Weir. Part of the proceeds were used to augment the holding in specialty chemicals company Johnson Matthey, where we believe the valuation is unduly low.

Regarding the Company's overseas exposure, we took the decision to sell out of the long-standing position in Nordea following another quarter of poor results. Revenues declined further with little prospect of the inflection point we had been looking for. Cost control was insufficient to prevent further slippage in earnings forecasts, leaving dividends in both the current and next year exposed with cover reducing to 91% and 101% respectively. Our confidence in the path of future revenues eroded such that we believed a dividend cut was a strong possibility and post period end has become a reality. The position in German property company Deutsche Wohnen was also sold due to the fact that politicians in Berlin were proposing to cap rental increases, thereby negating our investment thesis. Proceeds were subsequently redeployed in Empiric Student Property REIT, mentioned above.

We have reduced the positions in Aviva and HSBC in favour of Legal & General and Lloyds Banking. We believe L&G has brighter prospects for growth, while we believe HSBC is fully-valued and Lloyds attractively priced.

Outlook

The global nature of UK equities has resulted in international developments setting the tone for the market. Recent global economic data increasingly points to deteriorating fundamentals. This has caused central banks to again loosen monetary policy in order to try and keep economies stable.

One particular market distortion resulting from the loose monetary policy of the last decade has been the outperformance of growth companies versus value stocks. Growth has become an increasingly sought after commodity and these companies have been valued off the back of very low bond yields (which have declined further over the course of the period), a dangerous yardstick to use.

As bottom-up stock pickers, our job is to calculate the fundamental value of a business in order to identify mispriced opportunities and dividend opportunities that will help the portfolio deliver attractive levels of income that grow in real terms. However, given the valuation distortions, while we admire many of the aspects of the business models of some highly-valued 'quality growth' stocks, in many instances we cannot justify buying the shares at the current extended valuations. Accordingly the portfolio has a slight bias towards more lowly-valued stocks, where we can find companies that are not priced for perfection. We continue to seek out companies able to grow their profits and dividends, but where valuations are reasonable, such as BAE Systems, Johnson Matthey, Intermediate Capital and Rio Tinto, as well as certain turnaround situations where we have confidence in management's ability to effect change or to release value to the benefit of shareholders, such as GlaxoSmithKline, G4S and Burberry.

In addition to the global trends influencing UK equities, Brexit continues to dominate sentiment, creating

considerable uncertainty for the UK economy and political environment. As a result, we are presented with a compelling valuation opportunity in some good quality, soundly-financed domestic companies taking a long-term perspective. This is reflected in holdings such as Crest Nicholson, Hollywood Bowl, Legal & General, Lloyds Bank, Pets At Home, Tesco and Whitbread. We continue to be very selective in the types of business model and financial characteristics we choose to invest in. We are wary of companies whose business models are particularly susceptible to disruption, such as areas of general retail. In addition, we place a large emphasis on balance sheets and accounting, as a weak balance sheet can hamper the ability of a company to invest in its operations or respond to changing market conditions.

Dividend outlook

The Company's future income is likely to be subject to foreign exchange moves in either direction given the current political situation in the UK. Approximately 30% of income is receivable in foreign currency. While in absolute terms a strengthening of sterling would provide a headwind to the Company's income, it would be less than that experienced by the market as a whole given that the Company is overweight the domestic areas of the market.

Looking at UK market dividends more generally, there has been a moderation in underlying dividend growth. Headline rates have remained buoyant but this reflects both the exchange rate tailwind of sterling weakness, which may change depending on how Brexit plays out, and from a substantial special dividend contribution, which may be a consequence of corporate uncertainty over the economic environment and a lack of confidence to invest for longer-term projects.

Investment policy

We remain disciplined investors using a long-term fundamental approach and the team's significant investment experience. We are acutely conscious of the need to balance the risks relative to the potential reward from opportunities that can be thrown up in such unpredictable markets. Our investment process focuses on building a diversified portfolio within a risk-controlled framework, aiming to deliver attractive levels of income growth ahead of inflation over time, as well as capital growth. This is reflected in some of the Company's highest conviction positions, such as BAE Systems, GlaxoSmithKline and John Laing Group.

Manager's Review

Five largest overweight stocks

Security	Portfolio weight (%)	Index weight (%)	Difference (%)
BAE Systems	3.9	0.8	3.1
Pearson	3.2	0.3	2.9
GlaxoSmithKline	6.6	3.7	2.9
John Laing Group	2.9	0.1	2.8
Pets At Home	2.8	0.1	2.7

Source: Schroders, as at 31 August 2019.

We continue to actively monitor the holdings and the investment universe to identify mispriced opportunities. We are working closely with our in-house analysts who provide proprietary research to help to identify attractive investment candidates and to assess the validity of the investment case for current holdings. We continue to prioritise balance sheet strength and sustainable dividend yields, and have kept faith in stocks with short-term issues provided we have conviction in the long-term investment case.

Schroder Investment Management Limited

13 November 2019

Investment Portfolio as at 31 August 2019

Companies in bold represent the 20 largest investments, which by value account for 74.0% (2018: 67.9%) of total investments. All companies are headquartered in the UK unless otherwise stated.

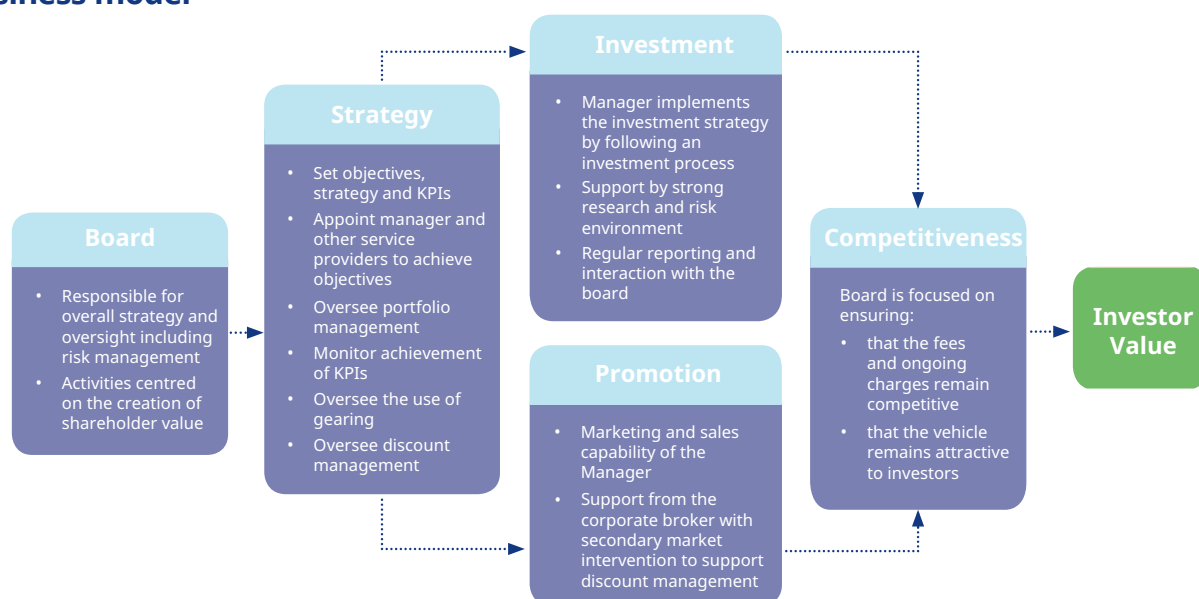
All investments are equities, listed on a recognised stock exchange.

	£'000	%
Financials		
Lloyds Bank	9,496	4.0
Legal & General	7,244	3.1
John Laing	6,772	2.9
HSBC	5,946	2.5
Intermediate Capital	5,639	2.4
Assura	5,607	2.4
Unite	4,607	2.0
TP ICAP	3,775	1.6
Aviva	2,716	1.2
Empiric Student Property	2,388	1.0
Prudential	2,318	1.0
Total Financials	56,508	24.1
Consumer Services		
Tesco	7,886	3.4
RELX	7,746	3.3
Pearson	7,598	3.2
Pets At Home	6,603	2.8
Whitbread	6,389	2.7
Hollywood Bowl	4,414	1.9
William Hill	3,409	1.5
ITV	3,332	1.4
Daily Mail and General Trust	1,526	0.6
Euromoney Institutional Investor	953	0.4
Total Consumer Services	49,856	21.2
Oil and Gas		
Royal Dutch Shell "B"	15,567	6.6
BP	12,767	5.4
Galp Energia (Portugal)	3,013	1.3
Royal Dutch Shell "A" (Netherlands)	888	0.4
Total Oil and Gas	32,235	13.7

	£'000	%
Consumer Goods		
British American Tobacco	10,086	4.3
Unilever	7,538	3.2
Burberry	6,657	2.8
Crest Nicholson	3,901	1.7
Taylor Wimpey	1,575	0.7
Total Consumer Goods	29,757	12.7
Healthcare		
GlaxoSmithKline	15,576	6.6
AstraZeneca	9,299	4.0
Total Healthcare	24,875	10.6
Basic Materials		
BHP Billiton	8,448	3.6
Rio Tinto	7,263	3.1
Johnson Matthey	6,061	2.6
Total Basic Materials	21,772	9.3
Industrials		
BAE Systems	9,130	3.9
G4S	5,368	2.2
Total Industrials	14,498	6.1
Telecommunications		
BT	3,229	1.4
Total Telecommunications	3,229	1.4
Technology		
Micro Focus	2,132	0.9
Total Technology	2,132	0.9
Total Investments	234,862	100.0

Strategic Review

Business model



The Company carries on business as an investment trust. It has been approved by HM Revenue & Customs as an investment trust in accordance with section 1158 of the Corporation Tax Act 2010 by way of a one-off application and it is intended that the Company will continue to conduct its affairs in a manner which will enable it to retain this status.

The Company is a public company limited by shares. It is domiciled in the UK and is an investment company within the meaning of section 833 of the Companies Act 2006. The Company is not a "close company" for taxation purposes.

It is not intended that the Company should have a limited life but the directors consider it desirable that shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the articles of association contain provisions requiring the directors to put a proposal for the continuation of the Company to shareholders at the AGM every five years. The next continuation vote will be proposed at the 2020 AGM.

The Company's business model may be demonstrated by the diagram above.

Investment objectives and policy

Details of the Company's investment objectives and policy may be found on the inside front cover.

The board has appointed the Manager, Schroder Unit Trusts Limited, to implement the investment strategy and to manage the Company's assets in line with the appropriate restrictions placed on it by the board, including limits on the type and relative size of holdings which may be held in the portfolio and on the use of gearing, cash, derivatives and other financial instruments as appropriate.

Gearing

The Company's policy is to permit gearing up to 25% of shareholders' funds. It is intended that the Manager should have the flexibility to utilise this power in order to maximise potential returns when, and to the extent that, this is considered appropriate by the directors.

The Company has in place a £35 million 364 day revolving credit facility with Sumitomo Mitsui Banking Corporation Europe Limited. As at 31 August 2019, gearing stood at 15.5% (2018: 8.3%). The directors keep the Company's gearing strategy under review and impose strict restrictions on borrowings to mitigate gearing risk.

Investment philosophy

The investment approach is based on Schroders' belief that stock markets are inefficient. The Manager believes it can exploit such inefficiencies by conducting its own research, through disciplined portfolio construction, and taking a long-term view.

Strategic Review

Investment process

The Company's lead portfolio manager, Sue Noffke, has been a member of Schroders' UK Equity team for over 20 years and has been managing the Company's portfolio since 2010. She is a key member of the team, which employs a rigorous and disciplined investment process aiming to deliver consistent outperformance with low volatility against set objectives.

1. Research

The portfolio manager and the rest of Schroders' UK Equity team work closely with Schroders' specialist industry analysts who conduct independent fundamental research. As one of the largest UK investors, Schroders has substantial access to companies' management teams. The research focuses on factors that influence a company's ability to create value for shareholders over the long term and looks beyond short-term profits to a company's profits potential and to the quality of those profits. The focus is not exclusively on growth, value, or earnings momentum factors but on each company's individual ability to create value for shareholders.

2. Portfolio construction/monitoring

The decision to buy or sell a security lies with the portfolio manager, and bottom-up (that is based on analysis of individual companies rather than general market or sector trends) stock selection is therefore the primary influence on portfolio performance. When assessing stocks for inclusion in the portfolio and in managing existing investments, the Manager places a greater emphasis on the sustainability and the potential growth of a company's dividend rather than a high initial yield. The size of each holding is determined on the basis of investment conviction and an assessment of the risks and volatility associated with it, rather than its market value. Portfolio construction is supported by a robust system of risk controls. Proprietary risk tools help the portfolio manager and the board to understand the factors contributing to risk and to avoid unintended risk.

The Manager may invest up to 20% of assets in overseas stocks and this is utilised in three main ways: for added diversification where overseas equities are cheaper than their equivalents in the UK; when attractive dividends are available; and for exposure to sectors that are not well represented in the UK equity market.

3. Review/sell discipline

The management of a relatively concentrated portfolio requires a rigorous sell discipline enforced by competition for capital. The Manager will sell a holding if its share price reaches a level where there appear to be better opportunities elsewhere or if a material change in a company's circumstances makes the original investment case no longer valid. Given the long-term approach, portfolio turnover tends to be low.

Investment restrictions and spread of investment risk

Risk in relation to the Company's investments is spread as a result of the Manager investing the Company's portfolio with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objectives. The key restrictions imposed on the Manager include: (i) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one single company; (ii) no more than 10% of the value of the Company's gross assets may be invested in other listed investment companies unless such companies have a stated investment policy not to invest more than 15% of their gross assets in other investment companies or investment trusts which are listed on the Official List of the London Stock Exchange; (iii) no more than 15% of the Company's gross assets may be invested in other investment companies or investment trusts which are listed on the Official List of the London Stock Exchange; (iv) no more than 15% of the Company's total net assets may be invested in open-ended funds; and (v) no more than 25% of the Company's total net assets may be invested in the aggregate in unlisted investments and holdings representing 20% or more of the equity capital of any company.

The investment portfolio on page 9 demonstrates that, as at 31 August 2019, the Manager invested in 37 UK and 2 overseas equity investments spread across a range of industry sectors. The board believes that the diversity of the stocks, along with the above-mentioned restrictions imposed on the Manager, achieve the objective of spreading investment risk.

Promotion

The Company promotes its shares to a broad range of investors who have the potential to be long-term supporters of the investment strategy. The Company seeks to achieve this through its Manager and corporate broker, which promote the shares of the Company through regular contact with both current and potential shareholders.

Promotion is focused via three channels:

- Discretionary fund managers. The Manager promotes the Company via both London and regional sales teams. This market is currently a significant channel.
- Execution-only investors. The Company promotes its shares via engaging with platforms and through its webpages. Platforms have experienced strong growth in recent times and are an important focus for the Manager.
- Institutional investors.

These activities consist of investor lunches, one-on-one meetings, regional road shows and attendance at conferences for professional investors. In addition, the Company's shares are supported by the Manager's wider marketing of investment companies targeted at all types of investors; this includes maintaining close relationships with advisers and execution-only platforms, advertising in the trade press, maintaining relationships with financial journalists and the provision of digital information on Schroders' website. The board also seeks active engagement with investors, and

Strategic Review

meetings with the Chairman are offered to professional investors where appropriate.

Details of the board's approach to discount management and share issuance may be found in the Chairman's Statement on page 3 and in the Annual General Meeting Recommendations on page 50.

Key performance indicators

The board measures the development and success of the Company's business through achievement of its investment objectives, which are considered to be the most significant key performance indicators for the Company.

The board continues to review the Company's ongoing charges to ensure that the total costs incurred by shareholders in the running of the Company remain competitive when measured against peer group funds. An analysis of the Company's costs, including management fees, directors' fees and general expenses, is submitted to each board meeting. The management fee is reviewed at least annually.

Corporate and social responsibility

Board gender diversity

As at 31 August 2019, the board comprised three men and two women. The board's approach to diversity is that candidates for board vacancies are selected based on their skills and experience, which are matched against the balance of those of the overall board, taking into account the specific criteria for the role being offered. Candidates are not specifically selected on the grounds of their gender but this is taken into account when the board examines its overall balance, skill set and experience.

Responsible investment policy

The Company delegates to its Manager the responsibility for taking environmental, social and governance ("ESG") issues into account when assessing the selection, retention and realisation of investments. The board expects the Manager to engage with investee companies on these issues and to promote best practice. The board expects the Manager to exercise the Company's voting rights in consideration of these issues.

A description of the Manager's policy on these matters can be found on the Schroders website at www.schroders.com/ri. The board notes that Schroders believes that companies with good ESG management often perform better and deliver superior returns over time. Engaging with companies to understand how they approach ESG management is an integral part of the investment process. Schroders is compliant with the UK Stewardship Code and its compliance with the principles therein is reported on its website.

The board monitors the implementation of this policy through regular reporting by the Manager on its engagement activity.

Corporate responsibility

The Company is committed to carrying out its business in a responsible manner and has appropriate policies in place relating to the key areas of corporate responsibility, including in respect of anti-bribery and corruption and the prevention of the facilitation of tax evasion.

Greenhouse gas emissions

As the Company outsources its operations to third parties, it has no greenhouse gas emissions to report.

Key information document ("KID")

An updated KID for the Company was published by the Manager on 5 March 2019, in accordance with the Packaged Retail and Insurance-Based Investment Products Regulations. The calculation of figures and performance scenarios contained in the KID have neither been set nor endorsed by the board.

Strategic Review

Principal risks and uncertainties

The board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The board has adopted a detailed matrix of principal risks affecting the Company's business as an investment trust and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the audit and risk committee on an ongoing basis. This system assists the board in determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives. The principal risks, emerging risks and the monitoring system are also subject to robust assessment at least annually. The last assessment took place in October 2019.

Although the board believes that it has a robust framework of internal control in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

The principal risks and uncertainties faced by the Company have remained unchanged throughout the year under review, save for the addition of currency and cyber risk.

Actions taken by the board and, where appropriate, its committees, to manage and mitigate the Company's principal risks and uncertainties are set out in the table below.

Emerging risks and uncertainties

During the year, the board also discussed and monitored risks that could potentially impact the Company's ability to meet its strategic objectives. These were political risk and climate change risk. The board has determined that they are not currently material for the Company.

Political risk includes Brexit. The board continues to monitor developments for the UK's departure from the European Union and to assess the potential consequences for the Company's future activities, but believes that the Company's investments' geographically diversified exposures, positions the Company to be suitably insulated from Brexit related risks. The board is also mindful that changes to public policy in the UK, or in other regions in which the Company invests, could impact the Company in the future.

Climate change risk includes how climate change could affect the Company's investments, and potentially shareholder returns.

Risk	Mitigation and management
<p>Strategic</p> <p>The Company's investment objectives may become out of line with the requirements of investors, resulting in a wide discount of the share price to underlying NAV per share.</p>	<p>The appropriateness of the Company's investment remit is periodically reviewed and success of the Company in meeting its stated objectives is monitored.</p> <p>Share price relative to NAV per share is monitored and the use of buy back authorities is considered on a regular basis.</p> <p>Marketing and distribution activity is actively reviewed.</p> <p>Proactive engagement with investors.</p>
<p>The Company's cost base could become uncompetitive, particularly in light of open-ended alternatives.</p>	<p>The ongoing competitiveness of all service provider fees is subject to periodic benchmarking against its competitors.</p> <p>Annual consideration of management fee levels is undertaken.</p>
<p>Investment management</p> <p>The Manager's investment strategy, if inappropriate, may result in the Company underperforming the market and/or peer group companies, leading to the Company and its objectives becoming unattractive to investors.</p>	<p>Review of: the Manager's compliance with the agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and appropriate strategies employed to mitigate any negative impact of substantial changes in markets.</p> <p>Annual review of the ongoing suitability of the Manager, including resources and key personnel risk.</p>
<p>Market</p> <p>The Company is exposed to the effect of market fluctuations due to the nature of its business. A significant fall in equity markets could have an adverse impact on the market value of the Company's underlying investments.</p>	<p>The risk profile of the portfolio is considered and appropriate strategies to mitigate any negative impact of substantial changes in markets are discussed with the Manager.</p>

Strategic Review

Risk	Mitigation and management
<p>Currency</p> <p>Currency risk is the risk that changes in foreign currency exchange rates impact negatively the value or level of dividend of the Company's investments.</p>	<p>The Manager monitors the impact of foreign currency movements on the portfolio and is able to rebalance the portfolio towards stocks which are less impacted by changes in foreign currency exchange rates if required.</p>
<p>Custody</p> <p>Safe custody of the Company's assets may be compromised through control failures by the depositary, including cyber hacking.</p>	<p>The depositary reports on the safe custody of the Company's assets, including cash and portfolio holdings, which are independently reconciled with the Manager's records.</p> <p>Review of audited internal controls reports covering custodial arrangements is undertaken.</p> <p>An annual report from the depositary on its activities, including matters arising from custody operations is reviewed.</p>
<p>Gearing and leverage</p> <p>The Company utilises a credit facility. This arrangement increases the funds available for investment through borrowing. While this has the potential to enhance investment returns in rising markets, in falling markets the impact could be detrimental to performance.</p>	<p>Gearing is monitored and strict restrictions on borrowings are imposed: gearing continues to operate within pre-agreed limits so as not to exceed 25% of shareholders' funds.</p>
<p>Accounting, legal and regulatory</p> <p>In order to continue to qualify as an investment trust, the Company must comply with the requirements of section 1158 of the Corporation Tax Act 2010.</p> <p>Breaches of the UK Listing Rules, the Companies Act or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes.</p>	<p>Confirmation of compliance with relevant laws and regulations by key service providers.</p> <p>Shareholder documents and announcements, including the Company's published annual report are subject to stringent review processes.</p> <p>Procedures have been established to safeguard against disclosure of inside information.</p>
<p>Service provider</p> <p>The Company has no employees and has delegated certain functions to a number of service providers, principally the Manager, depositary and registrar. Failure of controls, including as a result of cyber hacking, and poor performance of any service provider could lead to disruption, reputational damage or loss.</p>	<p>Service providers are appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations.</p> <p>Regular reports are provided by key service providers and the quality of services provided are monitored.</p> <p>Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements.</p>
<p>Cyber</p> <p>The Company's service providers are all exposed to the risk of cyber attacks. Cyber attacks could lead to loss of personal or confidential information or disrupt operations.</p>	<p>Service providers report on cyber risk mitigation and management at least annually, which includes confirmation of business continuity capability in the event of a cyber attack.</p>

Risk assessment and internal controls

Risk assessment includes consideration of the scope and quality of the system of internal controls operating within key service providers, and ensures regular communication of the results of monitoring by such providers to the audit and risk committee, including the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition. No significant control failings or weaknesses were identified from the audit and risk committee's ongoing risk assessment which has been in place throughout the financial year and up to the date of this report.

A full analysis of the financial risks facing the Company is set out in note 19 on pages 45 to 48.

Strategic Review

Viability statement

The directors have assessed the viability of the Company over a five year period, taking into account the Company's position at 31 August 2019 and the potential impact of the principal risks and uncertainties it faces for the review period.

A period of five years has been chosen as the board believes that this reflects a suitable time horizon for strategic planning, taking into account the investment policy, liquidity of investments, potential impact of economic cycles, nature of operating costs and dividends.

In their assessment the directors have considered each of the Company's principal risks and uncertainties detailed on pages 13 and 14 and in particular the impact of a significant fall in the UK equity market on the value of the Company's investment portfolio. The directors have also considered the Company's income and expenditure projections and the fact that the Company's investments comprise readily realisable securities which can be sold to meet funding requirements if necessary.

Based on the Company's processes for monitoring operating costs, the share price discount, the Manager's compliance with the investment objectives, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to 31 August 2024.

In reaching this decision, the board has taken into account the Company's next continuation vote, to be put forward at the AGM in 2020. The directors have no reason to believe that such a resolution will not be passed by shareholders.

Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement set out above, and the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" published by the Financial Reporting Council ("FRC") in 2014, the directors consider it appropriate to adopt the going concern basis in preparing the accounts.

By order of the board

Schroder Investment Management Limited
Company Secretary

13 November 2019

Board of Directors



Ian Barby

Status: independent non-executive chairman

Length of service: 14 years – appointed a director in October 2005 and chairman in August 2013

Experience: Ian Barby practised as a barrister before joining Warburg Investment Management Ltd in 1985, subsequently becoming a vice chairman of Mercury Asset Management plc and until 2003, a managing director of Merrill Lynch Investment Managers. He has wide experience of the investment management industry and of the investment trust sector and is a director of Pantheon International Participations plc.

Committee membership: Audit and Risk, Management Engagement and Nomination and Remuneration Committees (chairman of the Management Engagement Committee)

Current remuneration: £34,000 per annum

Connections with the Manager: None

Material interests in any contract which is significant to the Company's business: None

Shared directorships with any other directors of the Company: None



Ewen Cameron Watt

Status: independent non-executive director

Length of service: 1 year – appointed a director in December 2017

Experience: Ewen Cameron Watt was a managing director at Blackrock, where he spent the majority of his career (including predecessor companies). From 2011 to 2016, he was chief investment strategist at Blackrock Investment Institute. Prior to joining Blackrock, he held senior investment roles in the UK and Hong Kong, including as portfolio manager from 1995 to 2010 and head of Asian research for SG Warburg from 1990 to 1995. Ewen is also an independent adviser to a number of endowments and pension funds. He began his career as an analyst at EB Savory Miln in 1978.

Committee membership: Audit and Risk, Management Engagement and Nomination and Remuneration Committees

Current remuneration: £24,000 per annum

Connections with the Manager: None

Material interests in any contract which is significant to the Company's business: None

Shared directorships with any other directors of the Company: None



David Causer

Status: independent non-executive director

Length of service: 10 years – appointed a director in December 2008

Experience: David Causer is a chartered accountant and a member of The Securities Institute. He has held a number of senior positions within financial organisations including Finance Director of Mercury Asset Management Group plc and a managing director of Merrill Lynch Investment Managers until 2001. He was finance director of The British Red Cross Society until December 2007.

Committee membership: Audit and Risk, Management Engagement and Nomination and Remuneration Committees (chairman of the Audit and Risk Committee)

Current remuneration: £29,000 per annum

Connections with the Manager: None

Material interests in any contract which is significant to the Company's business: None

Shared directorships with any other directors of the Company: None

Board of Directors



Bridget Guerin

Status: independent non-executive director

Length of service: 7 years – appointed a director in June 2012

Experience: Bridget Guerin was the managing director of Matrix Money Management Limited, an asset management and distribution firm, from its launch in 1999 until March 2011. She is an independent non-executive director of Charles Stanley Group PLC, of Mobeus Income & Growth VCT plc and of Invesco Perpetual UK Smaller Companies Investment Trust plc. She is also a non-executive director of the CCP Quantitative Fund, a Cayman Islands CTA Fund managed by Cantab Capital, and of other funds and companies managed by, or associated with, Cantab Capital. From 2000 until 2009 she was a director of Matrix Group Limited and also sat on the board of several funds of hedge funds and UCITS fund boards. Bridget Guerin was a director of Schroder Unit Trusts Limited between 1993 and 1999.

Committee membership: Audit and Risk, Management Engagement and Nomination and Remuneration Committees (chair of the Nomination and Remuneration Committee)

Current remuneration: £24,000 per annum

Connections with the Manager: None

Material interests in any contract which is significant to the Company's business: None

Shared directorships with any other directors of the Company: None



Victoria Muir

Status: independent non-executive director

Length of service: 4 months – appointed a director on 23 July 2019

Experience: Victoria Muir is a Chartered Director, a Fellow of the Institute of Directors and is an FCA Approved Person. She has held a variety of executive positions within the financial services sector, most notably with Royal London Asset Management Ltd and some of its sister companies, before pursuing a career as a non-executive director. She is also a director of Invesco Perpetual Select Trust plc, Premier Global Infrastructure Trust plc and its subsidiary, PGIT Securities 2020 plc, and Christie Group plc. Victoria has over 25 years of experience in financial services, including asset management and inter-dealer broking. Her experience covers a broad range of products and services including investment trusts, segregated accounts, pension funds, insurance products, VCTs and hedge funds and a wide breadth of asset classes across both traditional and alternative investments.

Committee membership: Audit and Risk, Management Engagement and Nomination and Remuneration Committees

Current remuneration: £24,000 per annum

Connections with the Manager: None

Material interests in any contract which is significant to the Company's business: None

Shared directorships with any other directors of the Company: None

Directors' Report

The directors submit their report and the audited financial statements of the Company for the year ended 31 August 2019.

Revenue and earnings

The net revenue return for the year was £9,744,000 (2018: £8,767,000), equivalent to net revenue of 14.19 (2018: 12.76) pence per ordinary share.

Dividend policy

The directors of the Company intend to continue to pay dividends at the end of January, April, July and October in each year. Although it is intended to distribute substantially all net income after expenses and taxation, the Company may retain up to a maximum of 15% of the Company's gross income in each year as a revenue reserve to provide consistency in dividend policy.

For the year ended 31 August 2019, the directors have declared four interim dividends, totalling 12.40 (2018: 11.80) pence per ordinary share.

Directors and their interests

The directors of the Company and their biographical details can be found on pages 16 and 17. All directors held office throughout the year under review and up to the date of this report, with the exception of Victoria Muir, who was appointed on 23 July 2019. Details of directors' share interests in the Company are set out in the Directors' Remuneration Report on page 26.

Share capital

As at the date of this report, the Company had 68,688,343 ordinary shares of 10 pence each in issue. No shares are held in treasury. Accordingly, the total number of voting rights in the Company at the date of this report is 68,688,343. Full details of the Company's share capital are set out in note 13 on page 44.

Substantial share interests

The Company has received notifications in accordance with the Financial Conduct Authority's ("FCA") Disclosure Guidance and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital.

	Number of ordinary shares as at 31 August 2019	% of total voting rights
Charles Stanley & Co. Limited	3,446,355	4.98

There have been no notified changes to the above holdings since the year end.

Key service providers

The board has adopted an outsourced business model and has appointed the following key service providers:

Manager

The Company is an alternative investment fund as defined by the AIFM Directive and has appointed Schroder Unit Trusts Limited ("SUTL") as the Manager in accordance with the terms of an alternative investment fund manager ("AIFM") agreement. The AIFM agreement, which is governed by the laws of England and Wales, can be terminated by either party on 12 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party. As at the date of this report no such notice had been given by either party.

SUTL is authorised and regulated by the FCA and provides portfolio management, risk management, accounting and company secretarial services to the Company under the AIFM agreement. The Manager also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the chairman, other board members or the corporate broker as appropriate. The Manager has delegated investment management, accounting and company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Manager has appropriate professional indemnity insurance cover in place.

The Schroders Group manages £450.8 billion (as at 30 September 2019) on behalf of institutional and retail investors, financial institutions and high net-worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

For the financial year ended 31 August 2019, the Manager was entitled to a management fee at a rate of 0.65% per annum on the first £200 million of the Company's assets under management, net of current liabilities other than short-term borrowings, less any cash up to the level of borrowings ("chargeable assets") and a management fee of 0.55% on subsequent amounts. This is payable quarterly in arrears.

The management fee payable in respect of the year ended 31 August 2019 amounted to £1,426,000 (2018: £1,706,000).

Details of all amounts payable to the Manager are set out in note 16 on page 44.

The board has reviewed the performance of the Manager during the year under review and continues to consider that it has the appropriate depth and quality of resource to deliver the Company's investment objectives over the longer term. Thus, the board considers that the Manager's appointment under the terms of the AIFM agreement, details of which are set out above, is in the best interests of shareholders as a whole.

Depository

HSBC Bank plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, carries out certain duties of a depository specified in the AIFM Directive including, in relation to the Company, as follows:

Directors' Report

- safekeeping of the assets of the Company which are entrusted to it;
- cash monitoring and verifying the Company's cash flows; and
- oversight of the Company and the Manager.

The Company, the Manager and the depositary may terminate the depositary agreement at any time by giving 90 days' notice in writing. HSBC Bank plc may only be removed from office when a new depositary is appointed by the Company.

Corporate governance statement

The board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment trust in order to comply with the principles of the UK Corporate Governance Code (the "UKCG Code") and the recommendations of the AIC Code of Corporate Governance (the "AIC Code"). The UKCG Code is published by the UK Financial Reporting Council and is available to download from www.frc.org.uk. The AIC Code is published by the Association of Investment Companies and is available to download from www.theaic.co.uk.

The disclosures in this statement report against the provisions of the 2016 UKCG Code and the 2016 AIC Code.

The board will start reporting against the revised 2018 UK Corporate Governance Code in July 2018 and the revised 2019 AIC Code which apply to financial years beginning on or after 1 January 2019 for the financial year beginning on 1 September 2019.

Compliance statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the UKCG Code and the AIC Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities on page 28 and the viability and going concern statements set out on page 15, indicate how the Company has complied with the UKCG Code's principles of good governance and its requirements on internal control as well as the recommendations of the AIC Code.

The board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the UKCG Code, save in respect of the appointment of a senior independent director, where departure from the UKCG and the AIC Codes are considered appropriate given the Company's position as an investment trust. The board has considered whether a senior independent director should be appointed. As the board comprises entirely non-executive directors, the appointment of a senior independent director is not considered necessary. However, the chairman of the audit and risk committee effectively acts as the senior independent director, leads the evaluation of the performance of the chairman and is available to directors and/or shareholders if they have concerns which cannot be resolved through discussion with the chairman.

Operation of the board

Chairman

The chairman is an independent non-executive director who is responsible for leadership of the board and ensuring its effectiveness in all aspects of its role. The chairman's other significant commitments are detailed on page 16.

Role and operation of the board

The board is the Company's governing body; it sets the Company's strategy and is collectively responsible to shareholders for its long-term success. The board is responsible for appointing and subsequently monitoring the activities of the Manager and other service providers to ensure that the investment objectives of the Company continue to be met. The board also ensures that the Manager adheres to the investment restrictions set by the board and acts within the parameters set by it in respect of any gearing.

A formal schedule of matters specifically reserved for decision by the board has been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The chairman ensures that all directors receive relevant management, regulatory and financial information in a timely manner and that they are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the board as required.

The board is satisfied that it is of sufficient size with an appropriate balance of diverse skills and experience, independence and knowledge of the Company, its sector and the wider investment trust industry, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making.

Training and development

On appointment, directors receive a full, formal and tailored induction. Directors are also regularly provided with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the board as they arise. Directors also regularly participate in relevant training and industry seminars.

Conflicts of interest

The board has approved a policy on directors' conflicts of interest. Under this policy, directors are required to disclose all actual and potential conflicts of interest to the board as they arise for consideration and approval. The board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

Directors' and officers' liability insurance and indemnity

Directors' and officers' liability insurance cover was in place for the directors throughout the year under review. The Company's articles of association provide, subject to the

Directors' Report

provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the court. This is a qualifying third-party indemnity and was in place throughout the year under review and to the date of this report.

Directors' attendance at meetings

Four board meetings are usually scheduled each year to deal with matters including: the setting and monitoring of investment strategy; approval of borrowings and/or cash positions; review of investment performance, the level of discount of the Company's shares to underlying NAV per share and sales, marketing and PR activities of the Company; and services provided by third parties. Additional meetings of the board are arranged as required.

The number of meetings of the board and its committees held during the financial year and the attendance of individual directors is shown below. Whenever possible all directors attend the AGM.

Director	Board	Nomination and Remuneration Committee	Management Engagement Committee	Audit and Risk Committee
Ian Barby	4/4	3/3	1/1	3/3
David Causer	4/4	3/3	1/1	3/3
Ewen Cameron-Watt	4/4	3/3	1/1	3/3
Bridget Guerin	4/4	3/3	1/1	3/3
Victoria Muir ¹	1/1	N/A	N/A	1/1

¹Victoria Muir was appointed as a director on 23 July 2019.

The board also holds an annual strategy meeting. The last meeting, held in February 2019, was attended by all serving directors.

The board is satisfied that the chairman and each of the other directors commits sufficient time to the affairs of the Company to fulfil their duties as directors.

Relations with shareholders

Shareholder relations are given high priority by both the board and the Manager. The Company communicates with shareholders through its webpages and the annual and half-year reports, which aim to provide shareholders with a clear understanding of the Company's activities and its results.

The chairmen of the board and its committees attend the AGM and are available to respond to queries and concerns from shareholders.

It is the intention of the board that the annual report and notice of the AGM be issued to shareholders so as to provide at least 20 working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the company secretary at the address given on the outside back cover.

The Company has adopted a policy which ensures that shareholder complaints and other shareholder communications addressed to the company secretary, the chairman or the board are, in each case, considered by the chairman and the board.

Committees

In order to assist the board in fulfilling its governance responsibilities, it has delegated certain functions to committees. The roles and responsibilities of these committees, together with details of work undertaken during the year under review, are outlined over the next few pages.

The reports of the audit and risk committee, nomination committee and management engagement committee are incorporated and form part of the Directors' Report.

By order of the board

Schroder Investment Management Limited

Company Secretary

13 November 2019

Audit and Risk Committee Report

This report sets out the responsibilities and work carried out by the audit and risk committee during the year under review. The duties and responsibilities of the committee may be found in its terms of reference, which are available on the Company's webpages at www.schroders.co.uk/incomegrowth. Membership of the committee is as set out on pages 16 and 17. The board has satisfied itself that at least one of the committee's members has recent and relevant financial experience and that the committee as a whole has competence.

During the year under review the committee discharged its responsibilities by:

- considering its terms of reference;
- reviewing the operational controls maintained by the Manager, depositary and registrar;

- reviewing the half year and annual report and accounts and related audit plan and engagement letter;
- reviewing the need for an internal audit function;
- holding an audit tender and selecting a new auditor;
- reviewing the independence of the auditor;
- evaluating the auditor's performance; and
- reviewing the principal risks faced by the Company and the system of internal control.

Annual report and financial statements

During its review of the Company's financial statements for the year ended 31 August 2019, the audit and risk committee considered the following significant issues, including

consideration of principal risks and uncertainties in light of the Company's activities, and issues communicated by the auditor during its reporting:

Issue considered	How the issue was addressed
- Valuation and existence of holdings	- Review of valuation of the portfolio and assurance reports on controls from the Manager and depositary.
- Recognition of investment income	- Consideration of dividends received against forecast and the allocation of special dividends to income or capital.
- Overall accuracy of the annual report and accounts	- Consideration of the draft annual report and accounts and the letter from the Manager in support of the letter of representation to the auditor.
- Calculation of the investment management fee	- Review of the calculation against the criteria set out in the AIFM agreement.
- Internal controls and risk management	- Consideration of several key aspects of internal control and risk management operating within the Manager and depositary. - Review of assurance reports provided by key service providers.
- Compliance with the investment trust qualifying rules in section 1158 of the Corporation Tax Act 2010	- Consideration of the Manager's Report confirming compliance and review of the minimum distribution calculation.

Recommendations made to, and approved by, the board:

As a result of the work performed, the committee has concluded that the annual report for the year ended 31 August 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, and has reported on these findings to the board. The board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 28.

Audit and Risk Committee Report

Effectiveness of the independent audit process

The committee evaluated the effectiveness of the independent audit firm and process for the year ended 31 August 2019 prior to making a recommendation on its appointment at the forthcoming AGM. This evaluation involved an assessment of the effectiveness of the auditor's performance against agreed criteria including: qualification; knowledge, expertise and resources; independence policies; effectiveness of audit planning; adherence to auditing standards; and overall competence. As part of the evaluation, the committee considered feedback from the Manager on the audit process and the year end report from the auditor, which details compliance with regulatory requirements, on safeguards that have been established, and on their own internal quality control procedures. The members of the committee also met the auditor without representatives of the Manager present.

Representatives of the auditor attend the audit and risk committee meeting at which the draft annual report and accounts are considered. Having reviewed the performance of the auditor as described above, the committee considered it appropriate to recommend the firm's re-appointment.

There are no contractual obligations restricting the choice of independent auditor.

Change of Auditor

As announced during the year, Ernst and Young LLP were appointed as the Company's auditor. This follows completion of a tender process carried out as a consequence of EU audit regulations, which required the Company to replace the previous auditor, Deloitte LLP as its statutory audit firm due to length of tenure.

Two firms were invited to complete requests for proposals based on key criteria set by the audit and risk committee. Both firms were invited to present to the committee members and both were recommended to the board with a preference for Ernst and Young LLP based on, amongst other factors, its depth of resource, technological competencies and experienced senior statutory auditors.

The board agreed with the audit and risk committee's recommendation.

Independent auditor

Ernst and Young LLP has indicated its willingness to continue in office. Accordingly, resolutions to re-appoint Ernst and Young LLP as auditor to the Company, and to authorise the directors to determine Ernst and Young LLP's remuneration will be proposed at the AGM.

Provision of information to the auditor

The directors at the date of approval of this report confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Provision of non-audit services

The committee has reviewed the FRC's guidance on audit and risk committees and has formulated a policy on the provision of non-audit services by the Company's auditor. The audit and risk committee has determined that the Company's auditor will not be considered for the provision of certain non-audit services, such as accounting and preparation of the financial statements, internal audit and custody. The auditor may, if required, provide other non-audit services however, and this will be judged on a case-by-case basis.

No non-audit services were provided to the Company during the year (2018: nil).

Internal audit

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. The committee will continue to monitor the system of internal control in order to provide assurance that it operates as intended and will continue to review annually whether an internal audit function is needed.

David Causer

Audit and Risk Committee Chairman

13 November 2019

Management Engagement Committee Report

The management engagement committee is responsible for (1) the monitoring and oversight of the Manager's performance and fees, and confirming the Manager's ongoing suitability, and (2) reviewing and assessing the Company's other service providers, including reviewing their fees. All directors are members of the committee. Ian Barby is the chairman of the committee. Its terms of reference are available on the Company's webpages, www.schroders.co.uk/incomegrowth.

Approach	
Oversight of the Manager	Oversight of other service providers
<p>The committee:</p> <ul style="list-style-type: none"> reviews the Manager's performance, over the short- and long-term, against the reference index, peer group and the market. considers the reporting it has received from the Manager throughout the year, and the reporting from the Manager to the shareholders. assesses management fees on an absolute and relative basis, receiving input from the Company's broker, including peer group and industry figures, as well as the structure of the fees. reviews the appropriateness of the Manager's contract, including terms such as notice period. assesses whether the Company receives appropriate administrative, accounting, company secretarial and marketing support from the Manager. 	<p>The committee reviews the performance and competitiveness of the following service providers on at least an annual basis:</p> <ul style="list-style-type: none"> Depository and custodian Corporate broker Registrars Lender Auditor <p>The committee also receives a report from the Company Secretary on ancillary service providers, and considers any recommendations.</p>



Application during the year	
<p>The committee undertook a detailed review of the Manager's performance and agreed that it has the appropriate depth and quality of resource to deliver superior returns over the longer term.</p> <p>The committee also reviewed the terms of the AIFM agreement and agreed they remained fit for purpose.</p> <p>The committee reviewed the other services provided by the Manager and agreed they were satisfactory.</p>	<p>The annual review of each of the service providers was satisfactory. A new corporate broker, Peel Hunt LLP was appointed on 13 June 2019.</p> <p>The committee noted that the audit and risk committee had undertaken a detailed evaluation of the Manager, registrar, and depository and custodian's internal controls.</p> <p>The committee noted that the previous auditor had resigned following a tender process initiated by the audit and risk committee, where the previous auditor was barred from participating due to length of service.</p>



Recommendations made to, and approved by, the board:
<ul style="list-style-type: none"> That the ongoing appointment of the Manager on the terms of the AIFM agreement was in the best interests of shareholders as a whole. That the Company's service providers' performance remained satisfactory.

Nomination and Remuneration Committee Report

The nomination committee is responsible for (1) the recruitment, selection and induction of directors, (2) their assessment during their tenure, and (3) the board's succession. All directors are members of the committee. Bridget Guerin is the chair of the committee. Its terms of reference are available on the Company's webpages, www.schroders.co.uk/incomegrowth.

Oversight of directors



Approach		
Selection and induction	Board evaluation and directors' fees	Succession
<ul style="list-style-type: none"> • Committee prepares a job specification for each role, which is shared with an independent recruitment firm. For the Chairman and the chairs of committees, the committee considers current board members too. • Job specification outlines the knowledge, professional skills, personal qualities and experience requirements. • Potential candidates are assessed against the Company's diversity policy. • Committee discusses the long list, invites a number of candidates for interview and makes a recommendation to the board. • Committee reviews the induction and training of new directors. 	<ul style="list-style-type: none"> • Committee assesses each director annually. • Evaluation focuses on whether each director continues to demonstrate commitment to their role and provides a valuable contribution to the board during the year, taking into account time commitment, independence, conflicts and training needs. • Following the evaluation, the committee provides a recommendation to shareholders with respect to the annual re-election of directors at the AGM. • All directors retire at the AGM and their re-election is subject to shareholder approval. • Committee reviews directors' fees, taking into account comparative data and reports to shareholders. • Any proposed changes to the remuneration policy for directors discussed and reported to shareholders. 	<ul style="list-style-type: none"> • The board's policy is that directors' tenure will be for no longer than nine years, with the exception of the chairman, who should not serve longer than 12 years, except in exceptional circumstances, and that each director will be subject to annual re-election at the AGM. • Committee reviews the board's current and future needs at least annually. Should any need be identified the committee will initiate the selection process. • Committee oversees the handover process for retiring directors.

Nomination and Remuneration Committee Report

Application during the year		
Selection and induction	Board evaluation and directors' fees	Succession
<ul style="list-style-type: none"> The committee discussed the need to appoint two new non-executive directors in the second half of the 2019 calendar year. A job specification was agreed for the roles. The committee met three recruitment firms and appointed Sapphire Partners to run the search process. Sapphire Partners is independent of the Company and directors. The committee interviewed candidates during the year and Victoria Muir was appointed as a director effective 23 July 2019. Fraser McIntyre has been proposed to be elected as a director of the Company at the Company's forthcoming AGM. 	<ul style="list-style-type: none"> The board evaluation was undertaken in October 2019. The committee also reviewed each director's time commitment and independence to ensure that each director remained free from conflict and had sufficient time available to discharge each of their duties effectively. All directors were considered to be independent in character and judgement. Based on its assessment, the committee provided individual recommendations for each director's re-election. The committee reviewed directors' fees, using external benchmarking, and recommended no change in directors' fees, as detailed in the remuneration report. 	<ul style="list-style-type: none"> The committee reviewed the succession policy and agreed it was still fit for purpose The committee noted that Ian Barby would be stepping down as chairman and as a director at the Company's 2019 annual general meeting and David Causer intended to retire as a director at the Company's 2020 annual general meeting. The committee identified Bridget Guerin, a current director of the Company as the most suitable candidate for the role of chair of the board, and commenced a search process to appoint an additional director to fill Bridget's previous role.



Recommendations made to, and approved by, the board:

- That all directors continue to demonstrate commitment to their roles, provide a valuable contribution to the deliberations of the board and remain free from conflicts with the Company and its directors, so should all be recommended for election or re-election (as applicable) by shareholders at the AGM. The committee notes that Ian Barby intends to retire as chairman and a director of the Company.
- That Bridget Guerin be appointed as chair of the board of directors with effect from the date of Ian Barby's retirement and that Victoria Muir and Fraser McIntyre be appointed as directors of the Company.

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with the relevant provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The following remuneration policy is currently in force and is subject to a binding vote every three years. The shareholders approved the Directors' Remuneration Policy at the 2017 AGM and the current policy provisions will apply until the policy is next considered by shareholders at the 2020 AGM. An ordinary resolution to approve the Directors' Remuneration Report will be put to shareholders at the forthcoming AGM for its annual advisory vote.

At the AGM held on 18 December 2017, 99.05% of the votes cast (including votes cast at the chairman's discretion) in respect of approval of the Directors' Remuneration Policy were in favour while 0.95% were against. 30,969 votes were withheld.

At the AGM held on 18 December 2018, 97.51% of the votes cast (including votes cast at the chairman's discretion) in respect of approval of the Directors' Remuneration Report for the year ended 31 August 2018 were in favour, while 1.44% were against. 26,588 votes were withheld.

Directors' Remuneration Policy

The determination of the directors' fees is the responsibility of the nomination and remuneration committee, which makes recommendations to the board.

It is the board's policy to determine the level of directors' remuneration having regard to amounts payable to non-executive directors in the industry generally, the role that individual directors fulfil in respect of board and committee responsibilities, and time committed to the Company's affairs, taking into account the aggregate limit of fees set out in the Company's articles of association. This aggregate level of directors' fees is currently set at £150,000 per annum and any increase in this level requires approval by the board and the Company's shareholders. The chairman of the board and the chairman of the audit and risk committee each receives fees at a higher rate than the other directors to reflect their

additional responsibilities. Directors' fees are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long-term strategic objectives.

The board and its committees exclusively comprise non-executive directors. No director past or present has an entitlement to a pension from the Company and the Company has not, and does not intend to, operate a share scheme for directors or to award any share options or long-term performance incentives to any director. No director has a service contract with the Company, however directors have a letter of appointment. Directors do not receive exit payments and are not provided with any compensation for loss of office. No other payments are made to directors other than the reimbursement of reasonable out-of-pocket expenses incurred in attending to the Company's business.

The terms of directors' letters of appointment are available for inspection at the Company's registered office address during normal business hours and during the AGM at the location of such meeting.

The board did not seek the views of shareholders in setting this remuneration policy. Any comments on the policy received from shareholders would be considered on a case-by-case basis.

As the Company does not have any employees, no employee pay and employment conditions were taken into account when setting this remuneration policy and no employees were consulted in its construction.

Directors' fees are reviewed annually and take into account research from third parties on the fee levels of directors of peer group companies, as well as industry norms and factors affecting the time commitment expected of the directors. New directors are subject to the provisions set out in this remuneration policy.

Directors' annual report on remuneration

This report sets out how the remuneration policy was implemented during the year ended 31 August 2019.

Fees paid to directors

The following amounts were paid by the Company to the directors for their services in respect of the year ended 31 August 2019 and the previous financial year:

Director	Fees		Taxable benefits ¹		Total	
	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £
Ian Barby (Chairman)	34,000	34,000	-	-	34,000	34,000
Ewen Cameron Watt ²	24,000	18,921	693	353	24,693	19,274
David Causer	29,000	29,000	-	-	29,000	29,000
Bridget Guerin	24,000	24,000	761	636	24,761	24,636
Victoria Muir ³	2,630	-	-	-	2,630	-
Keith Niven ⁴	-	7,184	-	-	-	7,184
Total	113,630	113,105	1,454	989	115,084	114,094

¹Comprise amounts reimbursed for expenses incurred in carrying out business for the Company, and which have been grossed up to include PAYE and NI contributions.

²Appointed as a director on 18 December 2017.

³Appointed as a director on 23 July 2019.

⁴Retired as a director on 18 December 2017

The information in the above table has been audited.

Directors' Remuneration Report

Consideration of matters relating to directors' remuneration

Directors' remuneration was last reviewed by the nomination and remuneration committee in October 2019. The members of the committee and board at the time that remuneration levels were considered were as set out on pages 16 and 17. Although no external advice was sought in considering the levels of directors' fees, information on fees paid to directors of other investment trusts managed by Schroders and peer group companies provided by the Manager and corporate broker was taken into consideration.

Following the annual review, the board agreed that no changes were required, the last increase having taken effect from 1 September 2017.

Expenditure by the Company on remuneration and distributions to shareholders

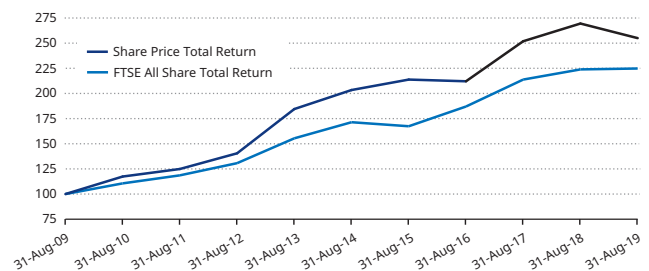
The table below compares the remuneration payable to directors to distributions paid to shareholders during the year under review and the prior financial year. In considering these figures, shareholders should take into account the Company's investment objectives.

	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000	% change
Remuneration payable to directors	115	114	0.9
Distributions paid to shareholders - dividends	8,107	8,519	-4.8

The quantum of dividends paid during the year has fallen due to an adjustment to the pattern of dividends declared in respect of the prior year. Further details are given in note 8 to the accounts on page 42.

Performance graph

A graph showing the Company's share price total return compared with the FTSE All-Share Index total return, over the last ten years, is set out below. The FTSE All-Share Index has been selected as an appropriate comparison based on the composition of the Company's investment portfolio.



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 August 2009.

Directors' share interests

The Company's articles of association do not require directors to own shares in the Company. The interests of directors, including those of connected persons, at the beginning and end of the financial year under review are set out below.

	At 31 August 2019	At 1 September 2018
Ian Barby	100,000	100,000
Ewen Cameron Watt	10,000	10,000
David Causer	23,750	23,750
Bridget Guerin	18,862	18,862
Victoria Muir	2,500	Nil

The information in the above table has been audited. There have been no changes since the year end.

Ian Barby

Chairman

13 November 2019

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the annual report, Strategic Report, the Directors' Report, the Corporate Governance Statement, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the return or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The manager is responsible for the maintenance and integrity of the Company's webpages. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 16 and 17, confirm that to the best of their knowledge:

- the Company's financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the board

Ian Barby
Chairman

13 November 2019

Independent Auditor's Report to the Members of Schroder Income Growth Fund plc

Opinion

We have audited the financial statements of Schroder Income Growth Fund plc (the 'Company') for the year ended 31 August 2019 which comprise the Income Statement, the Statement of Changes in Equity, the Statement of Financial Position, and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 August 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 13 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 13 and 14 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 15 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 15 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters

- Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement
- Incorrect valuation and defective title of the investment portfolio

Materiality

- Overall materiality of £2.04m which represents 1% of shareholders' funds

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Schroder Income Growth Fund plc

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement (as described on page 21 in the Audit and Risk Committee Report and as per accounting policy set out on page 38).</p> <p>The total revenue received for the year to 31 August 2019 was £11.03m, consisting primarily of dividend income from listed investments.</p> <p>The income receivable by the Company during the year directly affects the Company's revenue return. There is a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or applying appropriate accounting treatment.</p> <p>In addition to the above, the directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.</p>	<p>We have performed the following procedures:</p> <p>We obtained an understanding of the Schroder Investment Management Limited (the 'Manager') and HSBC Securities Services' (the 'Administrator') processes and controls around revenue recognition and classification of special dividends by reviewing their internal controls reports and performing walkthrough procedures. For the classification of special dividends, we also evaluated the design and implementation of controls.</p> <p>We agreed all dividends received as noted in the income report to the corresponding announcement made by the investee company. We recalculated the dividend income by multiplying the investment holdings at the XD date, traced from the accounting records, by the dividend per share as agreed to an external source. Where applicable, we also agreed the exchange rates to an external source.</p> <p>We agreed a sample of investee company dividend announcements from an independent data vendor to the income recorded by the Company to test completeness of the income recorded.</p> <p>For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the obligation arose prior to 31 August 2019. We agreed the dividend rate to corresponding announcements made by the investee company. We recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements, if paid post year end.</p> <p>We obtained the income report, and the acquisition and disposal report produced by the Administrator to identify special dividends received or accrued during the year. The Company received six special dividends amounting to £1.01m in total. £0.67m of special dividend income was classified as capital and £0.34m was classified as revenue. As there were only six special dividends received, we reviewed the underlying circumstances</p>	<p>The results of our procedures are:</p> <p>We have no issues to report to the Audit and Risk Committee with respect to our procedures performed over the risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement.</p>

Independent Auditor's Report to the Members of Schroder Income Growth Fund plc

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
	and motives for payment by the investee company for each of the special dividends and challenged and corroborated the classification as revenue or capital as appropriate.	
<p>Risk of incorrect valuation and defective title of the investment portfolio (as described on page 21 in the Audit and Risk Committee Report and as per the accounting policy set out on page 38).</p> <p>The valuation of the portfolio at 31 August 2019 was £234.86m consisting of listed equity investments.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at the reporting date.</p>	<p>We performed the following procedures:</p> <p>We obtained an understanding of the Administrator's process around investment pricing by reviewing their internal controls report and by performing walkthrough procedures.</p> <p>For all investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor and recalculated the investment valuations as at the year-end.</p> <p>We reviewed the stale pricing report produced by the Administrator to investigate any stale priced investments held as at the year end. We also assessed the liquidity of the investment portfolio through analysing the monthly average trading volume of the investments.</p> <p>We agreed the Company's investments to the independent confirmation received from the Company's custodian and depositary as at 31 August 2019.</p>	<p>The results of our procedures are:</p> <p>We have no issues to report to the Audit and Risk Committee with respect to our procedures performed over the risk of incorrect valuation and defective title of the investment portfolio.</p>

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.04m which is 1% of shareholders' funds. We believe that shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

Independent Auditor's Report to the Members of Schroder Income Growth Fund plc

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.02m. We set the performance materiality at 50% of our planning materiality as it is our first year as auditor of the Company.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold for the revenue column of the Income Statement of £0.49m being 5% of net return on ordinary activities before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the audit and risk committee that we would report to them all uncorrected audit differences in excess of £0.10m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 28** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and risk committee reporting set out on page 21** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 19** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the Members of Schroder Income Growth Fund plc

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are FRS 102, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit and Risk Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition through incorrect classification of special dividends as revenue or capital. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of Schroder Income Growth Fund plc

Other matters we are required to address

- Following the recommendation of the audit and risk committee we were appointed by the Company on 5 July 2019 to audit the financial statements of the Company for the year ending 31 August 2019 and subsequent financial periods. Our total uninterrupted period of engagement is 1 year, covering periods from our appointment through to the period ending 31 August 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Caroline Mercer (Senior Statutory Auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
Edinburgh

13 November 2019

Income Statement for the year ended 31 August 2019

	Note	Revenue £'000	2019 Capital £'000	Total £'000	Revenue £'000	2018 Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	2	-	(13,721)	(13,721)	-	752	752
Net foreign currency gains/(losses)		-	23	23	-	(24)	(24)
Income from investments	3	11,023	673	11,696	10,102	-	10,102
Other interest receivable and similar income	3	6	-	6	11	-	11
Gross return/(loss)		11,029	(13,025)	(1,996)	10,113	728	10,841
Investment management fee	4	(713)	(713)	(1,426)	(853)	(853)	(1,706)
Administrative expenses	5	(350)	-	(350)	(318)	-	(318)
Net return/(loss) before finance costs and taxation		9,966	(13,738)	(3,772)	8,942	(125)	8,817
Finance costs	6	(181)	(181)	(362)	(101)	(101)	(202)
Net return/(loss) on ordinary activities before taxation		9,785	(13,919)	(4,134)	8,841	(226)	8,615
Taxation on ordinary activities	7	(41)	-	(41)	(74)	-	(74)
Net return/(loss) on ordinary activities after taxation		9,744	(13,919)	(4,175)	8,767	(226)	8,541
Return/(loss) per share	9	14.19p	(20.26)p	(6.07)p	12.76p	(0.33)p	12.43p

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 year.

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

The notes on pages 38 to 49 form an integral part of these accounts.

Statement of Changes in Equity for the year ended 31 August 2019

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2017		6,869	7,404	2,011	1,596	34,936	153,627	10,275	216,718
Net (loss)/return on ordinary activities		-	-	-	-	-	(226)	8,767	8,541
Dividends paid in the year	8	-	-	-	-	-	-	(8,519)	(8,519)
At 31 August 2018		6,869	7,404	2,011	1,596	34,936	153,401	10,523	216,740
Net (loss)/return on ordinary activities		-	-	-	-	-	(13,919)	9,744	(4,175)
Dividends paid in the year	8	-	-	-	-	-	-	(8,107)	(8,107)
At 31 August 2019		6,869	7,404	2,011	1,596	34,936	139,482	12,160	204,458

The notes on pages 38 to 49 form an integral part of these accounts.

Statement of Financial Position at 31 August 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	234,862	233,741
Current assets			
Debtors	11	2,009	1,900
Cash at bank and in hand		347	1,978
		2,356	3,878
Current liabilities			
Creditors: amounts falling due within one year	12	(32,760)	(20,879)
Net current liabilities		(30,404)	(17,001)
Total assets less current liabilities		204,458	216,740
Net assets		204,458	216,740
Capital and reserves			
Called-up share capital	13	6,869	6,869
Share premium	14	7,404	7,404
Capital redemption reserve	14	2,011	2,011
Warrant exercise reserve	14	1,596	1,596
Share purchase reserve	14	34,936	34,936
Capital reserves	14	139,482	153,401
Revenue reserve	14	12,160	10,523
Total equity shareholders' funds		204,458	216,740
Net asset value per share	15	297.66p	315.54p

These accounts were approved and authorised for issue by the board of directors on 13 November 2019 and signed on its behalf by:

Ian Barby
Chairman

The notes on pages 38 to 49 form an integral part of these accounts.

Registered in England and Wales as a public company limited by shares

Company registration number: 03008494

Notes to the accounts for the year ended 31 August 2019

1. Accounting Policies

(a) Basis of accounting

Schroder Income Growth Fund plc ("the Company") is registered in England and Wales as a public company limited by shares. The Company's registered address is 1 London Wall Place, London EC2Y 5AU.

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), in particular in accordance with Financial Reporting Standard (FRS) 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (the "SORP") issued by the Association of Investment Companies in November 2014 and updated in February 2018. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments held at fair value through profit or loss.

The Company has not presented a statement of cash flows, as it is not required for an investment trust which meets certain conditions.

The accounts are presented in sterling and amounts have been rounded to the nearest thousand.

The accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 31 August 2018.

No significant judgements, estimates or assumptions have been required in the preparation of the accounts for the current or preceding financial years.

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to the Company's board of directors. Accordingly, upon initial recognition the investments are designated by the Company as "held at fair value through profit or loss". They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets.

Investments that are unlisted or not actively traded are valued using a variety of techniques to determine their fair value; all such valuations are reviewed by both the AIFM's fair value pricing committee and by the directors.

All purchases and sales are accounted for on a trade date basis.

(c) Accounting for reserves

Gains and losses on sales of investments, and the management fee or finance costs allocated to capital, are included in the Income Statement and dealt with in capital reserves within "Gains and losses on sales of investments". Increases and decreases in the valuation of investments held at the year end, are included in the Income Statement and dealt with in capital reserves within "Investment holding gains and losses".

Foreign exchange gains and losses on cash and deposit balances are included in the Income Statement and in capital reserves within "Gains and losses on sales of investments".

(d) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the board, the dividend is capital in nature, in which case it is included in capital.

Dividends from overseas companies are included gross of any withholding tax.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

Deposit interest outstanding at the year end is calculated and accrued on a time apportionment basis using market rates of interest.

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance included in revenue.

Notes to the accounts

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue with the following exceptions:

- The management fee is allocated 50% to revenue and 50% to capital in line with the board's expected long-term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 43.

(f) Finance costs

Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method in accordance with FRS 102.

Finance costs are allocated 50% to revenue and 50% to capital in line with the board's expected long-term split of revenue and capital return from the Company's investment portfolio.

(g) Financial instruments

Cash at bank and in hand may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other debtors and creditors do not carry any interest, are short-term in nature and are accordingly stated at nominal value, with debtors reduced by appropriate allowances for estimated irrecoverable amounts.

Bank loans and overdrafts are initially measured at fair value and subsequently at amortised cost. They are recorded at the proceeds received net of direct issue costs.

(h) Taxation

The tax charge for the year is based on amounts expected to be received or paid.

Deferred tax is accounted for in accordance with FRS 102.

Deferred tax is provided on all timing differences that have originated but not reversed by the accounting date.

Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to the capital column of the Income Statement on the "marginal basis". On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to the capital column.

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the accounting date and is measured on an undiscounted basis.

(i) Value added tax ("VAT")

Expenses are disclosed inclusive of the related irrecoverable VAT.

(j) Foreign currency

In accordance with FRS 102, the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The board has determined that sterling is the Company's functional currency and the presentational currency of the accounts.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Monetary assets, liabilities and investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

(k) Dividends payable

In accordance with FRS 102, dividends are included in the accounts in the year in which they are paid.

Notes to the accounts

2. (Losses)/gains on investments held at fair value through profit or loss

	2019 £'000	2018 £'000
(Losses)/gains on sales of investments based on historic cost	(12)	18,687
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	(5,483)	(16,227)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(5,495)	2,460
Net movement in investment holding gains and losses	(8,226)	(1,708)
(Losses)/gains on investments held at fair value through profit or loss	(13,721)	752

3. Income

	2019 £'000	2018 £'000
Income from investments:		
UK dividends	10,584	9,245
Overseas dividends	439	751
Scrip dividends	-	106
	11,023	10,102
Other interest receivable and similar income:		
Deposit interest	6	4
Underwriting commission	-	7
	6	11
Total income	11,029	10,113
Capital:		
Special dividends allocated to capital	673	-

4. Investment management fee

	Revenue £'000	2019 Capital £'000	Total £'000	Revenue £'000	2018 Capital £'000	Total £'000
Management fee	713	713	1,426	853	853	1,706

The basis for calculating the management fee is set out in the Directors' Report on page 18.

5. Administrative expenses

	2019 £'000	2018 £'000
Administration expenses	208	178
Directors' fees	114	113
Auditor's remuneration for the audit of the Company's financial statements ¹	28	27
	350	318

¹Includes £5,000 (2018: £4,000) irrecoverable VAT.

Notes to the accounts

6. Finance costs

	Revenue £'000	2019 Capital £'000	Total £'000	Revenue £'000	2018 Capital £'000	Total £'000
Interest on bank loans and overdrafts	181	181	362	101	101	202

7. Taxation on ordinary activities

	2019 £'000	2018 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	41	74
Tax charge for the year	41	74

(b) Factors affecting tax charge for the year

The tax assessed for the year is higher (2018: lower) than the Company's applicable rate of corporation tax for the year of 19.0% (2018: 19.0%)

The factors affecting the current tax charge for the year are as follows:

	Revenue £'000	2019 Capital £'000	Total £'000	Revenue £'000	2018 Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	9,785	(13,919)	(4,134)	8,841	(226)	8,615
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 19.0% (2018: 19.0%)	1,859	(2,645)	(786)	1,680	(43)	1,637
Effects of:						
Capital return on investments	-	2,603	2,603	-	(138)	(138)
Tax relief on overseas tax suffered	(4)	-	(4)	(4)	-	(4)
Income not chargeable to corporation tax	(2,041)	(128)	(2,169)	(1,896)	-	(1,896)
Unrelieved expenses	186	170	356	220	181	401
Irrecoverable overseas tax	41	-	41	74	-	74
Tax charge for the year	41	-	41	74	-	74

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £5,090,000 (2018: £4,791,000) based on a prospective corporation tax rate of 17.0% (2018: 17.0%). The reduction in the standard rate of corporation tax was substantively enacted in September 2016 and is effective from 1 April 2020.

The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

Given the Company's intention to continue to meet the conditions required to retain its status as an Investment Trust Company, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the accounts

8. Dividends

	2019 £'000	2018 £'000
(a) Dividends paid and declared		
2018 fourth interim dividend of 4.6p (2017: 5.2p)	3,160	3,572
First interim dividend of 2.4p (2018: 2.4p)	1,649	1,649
Second interim dividend of 2.4p (2018: 2.4p)	1,649	1,649
Third interim dividend of 2.4p (2018: 2.4p)	1,649	1,649
Total dividends paid in the year	8,107	8,519
	2019 £'000	2018 £'000
Fourth interim dividend declared of 5.2p (2018: 4.6p)	3,572	3,160

All dividends paid and declared to date have been paid, or will be paid, out of revenue profits.

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ("Section 1158")

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year as shown below. The revenue available for distribution by way of dividend for the year is £9,744,000 (2018: £8,767,000).

	2019 £'000	2018 £'000
First interim dividend of 2.4p (2018: 2.4p)	1,649	1,649
Second interim dividend of 2.4p (2018: 2.4p)	1,649	1,649
Third interim dividend of 2.4p (2018: 2.4p)	1,649	1,649
Fourth interim dividend of 5.2p (2018: 4.6p)	3,572	3,160
Total dividends of 12.4p (2018: 11.8p) per share	8,519	8,107

9. (Loss)/return per share

	2019 £'000	2018 £'000
Revenue return	9,744	8,767
Capital loss	(13,919)	(226)
Total (loss)/return	(4,175)	8,541
Weighted average number of ordinary shares in issue during the year	68,688,343	68,688,343
Revenue return per share	14.19p	12.76p
Capital loss per share	(20.26)p	(0.33)p
Total (loss)/return per share	(6.07)p	12.43p

Notes to the accounts

10. Investments held at fair value through profit or loss

	2019 £'000	2018 £'000
Opening book cost	194,298	170,937
Opening investment holding gains	39,443	57,378
Opening valuation	233,741	228,315
Purchases at cost	52,517	61,944
Sales proceeds	(37,675)	(57,270)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(5,495)	2,460
Net movement in investment holding gains and losses	(8,226)	(1,708)
Closing valuation	234,862	233,741
Closing book cost	209,128	194,298
Closing investment holding gains	25,734	39,443
Total investments held at fair value through profit or loss	234,862	233,741

All investments are listed on a recognised stock exchange.

The following transaction costs, comprising stamp duty and brokerage commission were incurred during the year:

	2019 £'000	2018 £'000
On acquisitions	277	305
On disposals	16	27
	293	332

11. Debtors

	2019 £'000	2018 £'000
Dividends and interest receivable	1,996	1,827
Taxation recoverable	5	59
Other debtors	8	14
	2,009	1,900

The directors consider that the carrying amount of debtors approximates to their fair value.

12. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loan	32,000	20,000
Securities purchased awaiting settlement	249	387
Other creditors and accruals	511	492
	32,760	20,879

The bank loan is drawn down on the Company's £35 million, 364 day revolving credit facility with Sumitomo Mitsui Banking Corporation Europe Limited ("SMBC"). The bank loan at 31 August 2018 was drawn down on the preceding facility with Scotiabank Europe plc.

The facility is unsecured but is subject to covenants and restrictions which are customary for a facility of this nature, all of which have been complied with during the year. Further details of this facility are given in Note 19(a)(i) on page 45.

The directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

Notes to the accounts

13. Called-up share capital

	2019 £'000	2018 £'000
Ordinary shares allotted, called-up and fully paid:		
68,688,343 (2018: 68,688,343) shares of 10p each	6,869	6,869

14. Reserves

	Share redemption premium ¹ £'000	Capital redemption reserve ¹ £'000	Warrant exercise reserve ¹ £'000	Share purchase reserve ² £'000	Capital reserves Gains and losses on sales of investments ² £'000	Investment holding gains and losses ³ £'000	Revenue reserve ⁴ £'000
Opening balance	7,404	2,011	1,596	34,936	113,958	39,443	10,523
Losses on sales of investments based on the carrying value at the previous balance sheet date	-	-	-	-	(5,495)	-	-
Net movement in investment holding gains and losses	-	-	-	-	-	(8,226)	-
Transfer on disposal of investments	-	-	-	-	5,483	(5,483)	-
Realised exchange gains on currency balances	-	-	-	-	23	-	-
Management fee and finance costs allocated to capital	-	-	-	-	(894)	-	-
Special dividends allocated to capital	-	-	-	-	673	-	-
Dividends paid	-	-	-	-	-	-	(8,107)
Retained revenue for the year	-	-	-	-	-	-	9,744
Closing balance	7,404	2,011	1,596	34,936	113,748	25,734	12,160

The Company's articles of association permit dividend distributions out of realised capital profits.

¹These reserves are not distributable.

²These are realised (distributable) capital reserves which may be used to repurchase the Company's own shares or distributed as dividends.

³This reserve comprises holding gains on liquid investments (which may be deemed to be realised) and other amounts which are unrealised. An analysis has not been made between those amounts that are realised (and may be distributed as dividends or used to repurchase the Company's own shares) and those that are unrealised.

⁴The revenue reserve may be distributed as dividends or used to repurchase the Company's own shares.

15. Net asset value per share

	2019	2018
Net assets attributable to the Ordinary shareholders (£'000)	204,458	216,740
Shares in issue at the year end	68,688,343	68,688,343
Net asset value per share	297.66p	315.54p

16. Transactions with the Manager

Under the terms of the AIFM Agreement, the Manager is entitled to receive a management fee. Details of the basis of the calculation are given in the Directors' Report on page 18. Any investments in funds managed or advised by the Manager or any of its associated companies are excluded from the assets used for the purpose of the calculation and therefore incur no fee.

The management fee payable in respect of the year ended 31 August 2019 amounted to £1,426,000 (2018: £1,706,000) of which £371,000 (2018: £437,000) was outstanding at the year end.

No director of the Company served as a director of any member of the Schroder Group at any time during the year.

Notes to the accounts

17. Related party transactions

Details of the remuneration payable to directors are given in the Directors' Remuneration Report on page 26 and details of directors' shareholdings are given in the Directors' Remuneration Report on page 26. Details of transactions with the Manager are given in note 16 above. There have been no other transactions with related parties during the year (2018: nil).

18. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio.

FRS 102 requires financial instruments to be categorised into a hierarchy consisting of the three levels below.

Level 1 – valued using unadjusted quoted prices in active markets for identical assets.

Level 2 – valued using observable inputs other than quoted prices included within Level 1.

Level 3 – valued using inputs that are unobservable.

Details of the valuation techniques used by the Company are given in note 1(b) on page 38.

At 31 August 2019, all investments in the Company's portfolio are categorised as Level 1 (2018: same).

19. Financial instruments' exposure to risk and risk management policies

The Company's objectives are set out on the inside front cover of this report. In pursuing these objectives, the Company is exposed to a variety of financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These financial risks include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. The directors' policy for managing these risks is set out below. The board coordinates the Company's risk management policy. The Company has no significant direct exposure to foreign exchange risk on monetary items. The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments may comprise the following:

- investments in equity shares which are held in accordance with the Company's investment objectives;
- short-term debtors, creditors and cash arising directly from its operations; and
- loans drawn on a facility, the purpose of which are to assist with financing the Company's operations.

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises two elements: interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analyses where appropriate. The board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings when interest rates are re-set.

Management of interest rate risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The board's policy is to permit gearing up to 25% where gearing is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets. Any amount drawn on the facility would normally be for a one month period, at the end of which the drawdown may be adjusted or repaid, and the interest rate is re-set. These amounts have been included in the analysis below, although the exposure to interest rate changes is not significant as any drawings can be repaid at the end of the one month period under the terms of this flexible arrangement.

Notes to the accounts

Interest rate exposure

The exposure of financial assets and financial liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below:

	2019 £'000	2018 £'000
Exposure to floating interest rates:		
Cash at bank and in hand	347	1,978
Creditors falling due within one year: bank loan	(32,000)	(20,000)
Total exposure	(31,653)	(18,022)

During the year, the Company arranged a £35 million credit facility with SMBC. Interest is payable at a rate of LIBOR as quoted in the market for the loan period plus a margin, plus Mandatory Costs, which are the lender's cost of complying with certain regulatory requirements of the Bank of England. At 31 August 2019, the Company had drawn down £32 million on this facility for a one month period at an interest rate of 1.33% per annum. This facility replaced a facility with Scotiabank, which was on similar terms but with a £20 million limit, and which expired on 23 August 2019.

The above year end amounts are not representative of the exposure to interest rates during the current or comparative year as the level of cash balances and drawings on the facility have fluctuated. The maximum and minimum exposure during the year was as follows:

	2019 £'000	2018 £'000
Minimum interest rate exposure during the year – net debt	(16,466)	(8,376)
Maximum interest rate exposure during the year – net debt	(33,134)	(18,555)

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2018: 0.5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date which are exposed to interest rate movements, with all other variables held constant.

	2019		2018	
	0.5% increase in rate £'000	0.5% decrease in rate £'000	0.5% increase in rate £'000	0.5% decrease in rate £'000
Income statement – return after taxation				
Revenue return	(78)	78	(40)	40
Capital return	(80)	80	(50)	50
Total return after taxation	(158)	158	(90)	90
Net assets	(158)	158	(90)	90

In the opinion of the directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes as the level of cash balances and drawings on the facility will fluctuate.

(ii) Other price risk

Market price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of investments.

Management of market price risk

The board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Notes to the accounts

Market price risk exposure

The Company's total exposure to changes in market prices at 31 August comprised the following:

	2019 £'000	2018 £'000
Investments held at fair value through profit or loss	234,862	233,741

The above data is broadly representative of the exposure to market price risk during the year.

Concentration of exposure to market price risk

An analysis of the Company's investments is given on page 9. The portfolio principally comprises securities of companies listed on the London Stock Exchange and accordingly there is a concentration of exposure to economic conditions in the UK. However it should be noted that many of these companies conduct much of their business overseas. Furthermore, up to 20% of the portfolio may be listed on overseas stock exchanges.

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2018: 10%) in the fair values of the Company's investments. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's exposure through equity investments and includes the impact on the management fee but assumes that all other variables are held constant.

	2019		2018	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement – return after taxation				
Revenue return	(65)	65	(64)	64
Capital return	23,422	(23,422)	23,310	(23,310)
Total return after taxation and net assets	23,357	(23,357)	23,246	(23,246)
Change in net asset value	11.4%	(11.4%)	10.7%	(10.7%)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. The facility is also available to provide liquidity at short notice. The board's policy is for the Company to remain fully invested in normal market conditions. The facility may be used to manage working capital requirements and to gear the Company as appropriate.

Liquidity risk exposure

Contractual maturities of financial liabilities, based on the earliest date on which payment can be required are as follows:

	2019		2018	
	Three months or less £'000	Total £'000	Three months or less £'000	Total £'000
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	249	249	387	387
Other creditors and accruals	501	501	486	486
Bank loan – including interest	32,036	32,036	20,024	20,024
	32,786	32,786	20,897	20,897

Notes to the accounts

(c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

Management of credit risk

This risk is not significant and is managed as follows:

Portfolio dealing

The Company invests in markets that operate a "Delivery Versus Payment" settlement process which mitigates the risk of losing the principal of a trade during settlement. The Manager continuously monitors dealing activity to ensure best execution, which involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Manager's credit committee.

Exposure to the custodian

The custodian of the Company's assets is HSBC Bank plc which has long-term Credit Ratings of AA- with Fitch and Aa3 with Moody's. The Company's investments are held in accounts which are segregated from the custodian's own trading assets. If the custodian were to become insolvent, the Company's right of ownership of its investments is clear and they are therefore protected. However the Company's cash balances are all deposited with the custodian as banker and held on the custodian's balance sheet. Accordingly, in accordance with usual banking practice, the Company will rank as a general creditor to the custodian in respect of cash balances.

Credit risk exposure

The following amounts shown in the Statement of Financial Position, represent the maximum exposure to credit risk at the current and comparative year end.

	2019		2018	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets				
Investments held at fair value through profit or loss	234,862	-	233,741	-
Current assets				
Debtors – dividends and interest receivable and other debtors	2,009	2,009	1,900	1,900
Cash at bank and in hand	347	347	1,978	1,978
	237,218	2,356	237,619	3,878

No debtors are past their due date and none have been written down or deemed to be impaired.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either carried at fair value or the amount in the Statement of Financial Position is a reasonable approximation of fair value.

Notes to the accounts

20. Capital management policies and procedures

The Company's objectives, policies and processes for managing capital are unchanged from the preceding year.

The Company's debt and capital structure comprises the following:

	2019 £'000	2018 £'000
Debt		
Bank loan	32,000	20,000
Equity		
Called-up share capital	6,869	6,869
Reserves	197,589	209,871
	204,458	216,740
Total debt and equity	236,458	236,740

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the return to its equity shareholders through an appropriate level of gearing.

The board's policy is to permit gearing up to 25% where gearing is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

	2019 £'000	2018 £'000
Borrowings used for investment purposes, less cash	31,653	18,022
Net assets	204,458	216,740
Gearing	15.5%	8.3%

The board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back the Company's own shares for cancellation or to hold in treasury, which takes into account the share price discount;
- the opportunities for issues of new shares; and
- the amount of dividend to be paid, in excess of that which is required to be distributed.

Annual General Meeting – Recommendations

The Annual General Meeting (“AGM”) of the Company will be held on Tuesday, 17 December 2019 at 12.00 p.m. The formal Notice of Meeting is set out on page 51.

The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your ordinary shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

Ordinary business

Resolutions 1 to 9 are all ordinary resolutions. Resolution 1 is a required resolution. Resolution 2 concerns the Directors’ Remuneration Report, on pages 26 and 27. Resolutions 3 and 4 invite shareholders to elect Victoria Muir and Fraser McIntyre as directors. Further details of Victoria and Fraser’s respective skillsets can be found in the Chairman’s Statement on page 3. Resolutions 5 to 7 invite shareholders to re-elect each of the directors for another year, with the exception of Ian Barby, who will retire as a director at the AGM. The elections and re-elections have been recommended by the nomination and remuneration committee on pages 24 and 25 (their biographies are set out on pages 16 and 17). Resolutions 8 and 9 concern the re-appointment and remuneration of the Company’s auditor, discussed in the Audit and Risk Committee Report on pages 21 and 22.

Special business

Resolution 10: approval of the Company’s dividend policy (ordinary resolution)

In line with corporate governance best practice the board is putting the Company’s dividend policy to shareholders for approval. No change to the Company’s dividend policy is proposed at this time.

Resolution 11: Change of investment policy (ordinary resolution)

The directors are seeking approval of a change to the Company’s investment policy to remove the phrase ‘above average yielding’ from the policy. The investment objectives to provide real growth of income, being growth of income in excess of the rate of inflation, and capital growth as a consequence of the rising income, are unchanged.

The revised investment policy, with the proposed changes in bold, is set out below.

“Investment Policy

The investment policy of the Company is to invest primarily in ~~above average yielding~~ UK equities but up to 20% of the portfolio may be invested in equities listed on recognised stock exchanges outside the UK. If considered appropriate, the Company may use equity related instruments such as convertible securities and up to 10% of the portfolio may be invested in bonds. In addition, up to 20% of total income may be generated by short-dated call options written on holdings in the portfolio. Put options comprising short term exchange-traded instruments on major stock market indices of an amount up to the value of the Company’s borrowings may be utilised.”

Resolution 12: Directors’ authority to allot shares (ordinary resolution) and Resolution 13: power to disapply pre-emption rights (special resolution)

The directors are seeking authority to allot a limited number of unissued ordinary shares for cash without first offering them to existing shareholders in accordance with statutory pre-emption procedures.

Appropriate resolutions will be proposed at the forthcoming AGM and are set out in full in the Notice of AGM. An ordinary resolution will be proposed to authorise the directors to allot shares up to a maximum aggregate nominal amount of £686,883 (being 10% of the issued share capital as at the date of the Notice of the AGM). A special resolution will also be proposed to give the directors authority to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £686,883 (being 10% of the Company’s issued share capital as at the date of the Notice of the AGM).

The directors do not intend to allot shares pursuant to these authorities other than to take advantage of opportunities in the market as they arise and only if they believe it to be advantageous to the Company’s existing shareholders to do so and when it would not result in any dilution of NAV per share.

If approved, both of these authorities will expire at the conclusion of the AGM in 2020 unless renewed, varied or revoked earlier.

Resolution 14: authority to make market purchases of the Company’s own shares (special resolution)

At the AGM held on 18 December 2018, the Company was granted authority to make market purchases of up to 10,296,382, ordinary shares of 10p each for cancellation. No shares have been bought back under this authority and the Company therefore has remaining authority to purchase up to 10,296,382, ordinary shares. This authority will expire at the forthcoming AGM.

The directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market as they keep under review the share price discount to NAV and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue as at the date of the Notice of the AGM. The directors will exercise this authority only if the directors consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled. If renewed, the authority to be given at the 2019 AGM will lapse at the conclusion of the AGM in 2020 unless renewed, varied or revoked earlier.

Recommendations

The board considers that the resolutions relating to the above items of business are in the best interests of shareholders as a whole. Accordingly, the board unanimously recommends to shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming AGM, as they intend to do in respect of their own beneficial holdings.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Schroder Income Growth Fund plc will be held on Tuesday, 17 December 2019 at 12.00 p.m. at 1 London Wall Place, London EC2Y 5AU to consider the following resolutions of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 and 14 will be proposed as special resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 August 2019.
2. To approve the Directors' Remuneration Report for the year ended 31 August 2019.
3. To approve the election of Fraser McIntyre as a director of the Company.
4. To approve the election of Victoria Muir as a director of the Company.
5. To approve the re-election of Ewen Cameron Watt as a director of the Company.
6. To approve the re-election of David Causer as a director of the Company.
7. To approve the re-election of Bridget Guerin as a director of the Company.
8. To re-appoint Ernst and Young LLP as auditors to the Company.
9. To authorise the directors to determine the remuneration of Ernst and Young LLP as auditors to the Company.
10. To approve the Company's dividend policy, as set out on page 18 of the Annual Report and Accounts for the year ended 31 August 2019.
11. To consider, and if thought fit, to pass the following resolution as an ordinary resolution: "THAT the words 'above-average yielding' be removed from the Company's Investment Policy".
12. To consider, and if thought fit, pass the following resolution as an ordinary resolution:
"THAT in substitution for all existing authorities the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 551 of the Act) up to an aggregate nominal amount of £686,883 (being 10% of the issued ordinary share capital, excluding shares held in treasury, at the date of this Notice) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company, but that the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the board may allot relevant securities in pursuance of that offer or agreement."
13. To consider and, if thought fit, to pass the following resolution as a special resolution:
"That, subject to the passing of Resolution 11 set out above, the directors be and are hereby empowered,

By order of the board
for and on behalf of
Schroder Investment Management Limited
Company Secretary

13 November 2019
Registered Number: 03008494

- pursuant to Section 571 of the Act, to allot equity securities (including any shares held in treasury) (as defined in section 560(1) of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said Resolution 11 and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £686,883 (representing 10% of the aggregate nominal amount of the share capital in issue at the date of this Notice); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry."
14. To consider and, if thought fit, to pass the following resolution as a special resolution:
"THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 10p each in the capital of the Company ("Share") at whatever discount the prevailing market price represents to the prevailing net asset value per Share provided that:
 - (a) the maximum number of Shares which may be purchased is 10,296,382, representing 14.99% of the Company's issued ordinary share capital as at the date of this Notice;
 - (b) the maximum price (exclusive of expenses) which may be paid for a Share shall not exceed the higher of;
 - i) 105% of the average of the middle market quotations for the Shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase; and
 - ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange;
 - (c) the minimum price (exclusive of expenses) which may be paid for a Share shall be 10p, being the nominal value per Share;
 - (d) this authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2020 (unless previously renewed, varied or revoked by the Company prior to such date);
 - (e) the Company may make a contract to purchase Shares under the authority hereby conferred which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and
 - (f) any Shares so purchased will be cancelled."

Registered office:
1 London Wall Place
London EC2Y 5AU

Explanatory Notes to the Notice of Annual General Meeting

1. Ordinary shareholders are entitled to attend and vote at the meeting and to appoint one or more proxies, who need not be a shareholder, as their proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting.

A proxy form is attached. If you wish to appoint a person other than the Chairman as your proxy, please insert the name of your chosen proxy holder in the space provided at the top of the form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Additional proxy forms can be obtained by contacting the Company's Registrars, Equiniti Limited, on 0800 032 0641 or +44(0) 121 415 0207 for overseas callers, or you may photocopy the attached proxy form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. Completion and return of a form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

On a vote by show of hands, every ordinary shareholder who is present in person has one vote and every duly appointed proxy who is present has one vote. On a poll vote, every ordinary shareholder who is present in person or by way of a proxy has one vote for every share of which he/she is a holder.

The "Vote Withheld" option on the proxy form is provided to enable you to abstain on any particular resolution. However it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

A proxy form must be signed and dated by the shareholder or his or her attorney duly authorised in writing. In the case of joint holdings, any one holder may sign this form. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder and for this purpose seniority will be determined by the order in which the names appear on the Register of Members in respect of the joint holding. To be valid, proxy form(s) must be completed and returned to the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 hours before the time fixed for the meeting, or an adjourned meeting. Shareholders may also appoint a proxy to vote on the resolutions being put to the meeting electronically at www.sharevote.co.uk. Shareholders who are not registered to vote electronically, will need to enter the Voting ID, Task ID and Shareholder Reference Number set out in their personalised proxy form. Alternatively, shareholders who have already registered with Equiniti's Shareview service can appoint a proxy by logging onto their portfolio at www.shareview.co.uk using their user ID and password. Once logged in, click "view" on the "My Investments" page, click on the link to vote, then follow the on-screen instructions. The on-screen instructions give details on how to complete the appointment process. Please note that to be valid, your proxy instructions must be received by Equiniti no later than 12.00 p.m. on 15 December 2019. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641 (or +44(0) 121 415 0207 for overseas callers).

If an ordinary shareholder submits more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.

Shareholders may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purposes other than expressly stated.

Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the Annual General Meeting.

2. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of ordinary shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by ordinary shareholders of the Company.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company at 6.30 p.m. on 15 December 2019, or 6.30 p.m. two days prior to the date of an adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 6.30 p.m. on 15 December 2019 shall be disregarded in determining the right of any person to attend and vote at the meeting.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. The CREST manual can be viewed at www.euroclear.com. A CREST message appointing a proxy (a "CREST proxy instruction") regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction previously given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time for receipt of proxy appointments.
5. Copies of the terms of appointment of the non-executive directors and a statement of all transactions of each director and of his family interests in the shares of the Company, will be available for inspection by any member of the Company at the registered office of the Company during normal business hours on any weekday (English public holidays excepted) and at the Annual General Meeting by any attendee, for at least 15 minutes prior to, and during, the Annual General Meeting. None of the directors has a contract of service with the Company.
6. The biographies of the directors offering themselves for election and re-election are set out on pages 16 and 17 of the Company's annual report and accounts for the year ended 31 August 2019, with the exception of Mr McIntyre, further details of his suitability being contained in the Chairman's Statement on pages 3 to 4.
7. As at 8 November 2019, 68,688,343 ordinary shares of 10 pence each were in issue (no shares were held in treasury). Therefore the total number of voting rights of the Company as at 8 November 2019 was 68,688,343.
8. A copy of this notice of meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available from the Company's webpages, www.schroders.co.uk/incomegrowth.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the Annual General Meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

Definitions of Terms and Performance Measures

The terms and performance measures below are those commonly used by investment companies to assess values, investment performance and operating costs. Some of the financial measures below are classified as Alternative Performance Measures as defined by the European Securities and Markets Authority, and some numerical calculations are given for those.

Consumer Prices Index ("CPI")

The Consumer Prices Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Discount/premium

The amount by which the share price of an investment trust is lower (discount) or higher (premium) than the NAV per share. The discount or premium is normally expressed as a percentage of the NAV per share.

Gearing

The gearing percentage is indicative of the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall. Gearing is defined as: borrowings used for investment purposes, less cash, expressed as a percentage of net assets. If the figure so calculated is negative, this is shown as a "Net cash" position. The gearing calculation is included in note 20 on page 46.

Leverage

For the purpose of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as the ratio of the Company's exposure to its net asset value and is required to be calculated both on a "Gross" and a "Commitment" method. Under the Gross method, exposure represents the sum of the absolute values of all positions, so as to give an indication of overall exposure. Under the Commitment method, exposure is calculated in a similar way, but after netting off hedges which satisfy certain strict criteria.

Net asset value ("NAV") per share

The NAV per share represents the net assets attributable to equity shareholders divided by the number of shares in issue, excluding any shares held in treasury. The NAV per share is published daily.

Ongoing Charges

Ongoing Charges represents the management fee and all other operating expenses excluding finance costs and transaction costs, expressed as a percentage of the average daily net asset values during the year of £204,843,000 (2018: £216,520,000).

Reference index

The index against which it is deemed most appropriate to measure the Company's performance. The reference index is the FTSE All-Share Index.

Total return

The combined effect of any dividends paid, together with the rise or fall in the NAV per share or share price. Total return statistics enable the investor to make performance comparisons between investment companies with different dividend policies. Any dividends received by a shareholder are assumed to have been reinvested in either the assets of the Company at its NAV per share at the time the shares were quoted ex-dividend (to calculate the NAV per share total return) or in additional shares of the Company (to calculate the share price total return).

The NAV total return for the year ended 31 August 2019 is calculated as follows:

NAV at 31/8/18 315.54p
NAV at 31/8/19 297.66p

Dividend	XD date	NAV on XD date	Factor	Cumulative factor
4.6p	04/10/2018	307.77p	1.0150	1.0150
2.4p	27/12/2018	265.26p	1.0090	1.0241
2.4p	04/04/2019	305.86p	1.0078	1.0322
2.4p	11/07/2019	311.42p	1.0077	1.0401

NAV total return, being the closing NAV, multiplied by the cumulative factor, expressed as a percentage change in the opening NAV -1.9%

The share price total return for the year ended 31 August 2019 is calculated as follows:

Share price at 31/8/18 301.00p
Share price at 31/8/19 273.00p

Dividend	XD date	Share price on XD date	Factor	Cumulative factor
4.6p	04/10/2018	288.50p	1.0159	1.0159
2.4p	27/12/2018	251.00p	1.0096	1.0257
2.4p	04/04/2019	281.00p	1.0085	1.0344
2.4p	11/07/2019	288.00p	1.0083	1.0430

Share price total return, being the closing share price, multiplied by the cumulative factor, expressed as a percentage change in the opening share price -5.4%

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Shareholder Information

Webpage and share price information

The Company has dedicated webpages, which may be found at www.schroders.co.uk/incomegrowth. The webpages have been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's ordinary share price and copies of annual reports and accounts and other documents published by the Company as well as information on the directors, terms of reference of committees and other governance arrangements. In addition, the webpages contain 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".

The Company releases its NAV per share on both a cum and ex-income basis to the market on a daily basis.

Share price information may also be found in the Financial Times and on the company's webpages.

Association of Investment Companies

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

Individual Savings Account ("ISA") status

The Company's shares are eligible for stocks and shares ISAs.

Non-Mainstream Pooled Investments status

The Company currently conducts its affairs so that its shares can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Financial calendar

First interim dividend paid	31 January
Second interim dividend paid	30 April
Half year results announced	April/May
Third interim dividend paid	31 July
Financial year end	31 August
Fourth interim dividend paid	31 October
Annual results announced	November
Annual general meeting	December

Alternative Investment Fund Managers Directive ("AIFMD") disclosures

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found either in this annual report or on the Company's webpages.

The Company's leverage policy and details of limits on leverage required under the AIFM Directive are published on the Company's webpages.

Leverage

The Company's leverage policy and details of its leverage ratio calculation and exposure limits as required by the AIFMD are published on the Company's webpages and within this report. The Company is also required to periodically publish its actual leverage exposures. As at 31 August 2019 these were:

Leverage exposure	Maximum ratio	Actual ratio
Gross method	2.0	1.2
Commitment method	2.0	1.2

Illiquid assets

As at the date of this report, none of the Company's assets are subject to special arrangements arising from their illiquid nature.

Remuneration disclosures

Quantitative remuneration disclosures to be made in this annual report in accordance with FCA Handbook rule FUND3.3.5 may also be found in the Company's AIFMD information disclosure document published on the Investor Relations section of Schroders' website www.schroders.com.

Publication of key information document ("KID") by the AIFM

Pursuant to the Packaged Retail and Insurance Based Investment Products ("PRIIPs") Regulation, the Manager, as the Company's AIFM, is required to publish a short KID on the Company. KIDs are designed to provide certain prescribed information to retail investors, including details of potential returns under different performance scenarios and a risk/reward indicator. The Company's KID is available on its webpages.

Directors

Ian Barby
Ewen Cameron Watt
David Causer
Victoria Muir

Advisers

Alternative investment fund manager (the “Manager”)

Schroder Unit Trusts Limited
1 London Wall Place
London EC2Y 5AU

Investment Manager and Company Secretary

Schroder Investment Management Limited
1 London Wall Place
London EC2Y 5AU
Telephone: 020 7658 6501

Registered office

1 London Wall Place
London EC2Y 5AU

Depositary and custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

Lending bank

Sumitomo Mitsui Banking Corporation
99 Queen Victoria Street
London EC4V 4EH

Corporate broker

Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

Independent auditor

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Shareholder Helpline: 0800 032 0641*
Website: 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 above address.

Shareholder enquiries

General enquiries about the Company should be addressed to the company secretary at the Company's registered office.

Dealing codes

ISIN: GB0007915860
SEDOL: 0791586
Ticker: SCF

Global intermediary identification number (GIIN)

T34UKV.99999.SL.826

Legal entity identifier (LEI)

549300X1RTYYP7S3YE39

The Company's privacy notice is
available on its webpages.