Schroders

Schroder Income Growth Fund plc

Half Year Report and Accounts for the six months ended 28 February 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

Total returns (including dividends reinvested) for the six months ended 28 February 2019[1]

-4.2%

Net asset value (“NAV”) per share total return[2]

-6.8%

Share price total return[2]

-3.7%

FTSE All-Share Index[3]

[1] Total returns measure the combined effect of any dividends paid, together with the rise or fall in the share price or NAV per share. 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 additional shares of the Company at the time the shares were quoted ex-dividend (to calculate the share price total return) or in the assets of the Company at its NAV per share (to calculate the NAV per share total return).

[2] Source: Morningstar.

[3] Source: Thomson Reuters.

Other financial information

	28 February 2019	31 August 2018	% Change
Shareholders’ funds (£’000)	**202,770**	216,740	(6.4)
NAV per share (pence)	**295.20**	315.54	(6.4)
Share price (pence)	**273.50**	301.00	(9.1)
Share price discount to NAV per share (%)	**7.4**	4.6	
Gearing (%)[1]	**8.4**	8.3	

[1] Borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

Dividends

Dividends declared in respect of the six months ended 28 February 2019 amounted to 4.8p per share (six months ended 28 February 2018: 4.8p and year ended 31 August 2018: 11.8p).

Interim Management Report – Chairman's Statement

"We are confident that the portfolio's income will continue to grow in real terms, a key objective of your Company, and that this will result, over time, in an increase in the Company's NAV. The shares are currently yielding 4.2% per annum."

Performance

Over a challenging six-month period to 28 February 2019 the Company's net asset value ("NAV") returned a negative -4.2%, compared to the -3.7% delivered by the FTSE All-Share Index.

The share price showed a total return of -6.8%, as the discount widened from 4.6% at the start of the period to 7.4% at its close.

More detailed comment on the performance of your Company may be found in the Manager's review.

Revenue and dividends

One positive feature of the six months ended 28 February 2019 was a 26.9% rise in revenue return compared to the first half of the 2018 fiscal year. This reflects an increase of 20.3% in investment income during the period, attributable to the timing of dividend receipts and the Manager continuing to target rising income, as well as the effect of a lower management fee.

During the period, the Company paid two interim dividends for the year ending 31 August 2019 amounting to 4.80 pence per share (2018: 4.80 pence per share). The board expects to continue to pay three interim dividends at the same level during the year, with the fourth dividend reflecting any increases in the level of dividends received by the Company during the year.

Gearing

During the period under review, the Company had a £20 million revolving credit facility. At 28 February 2019, the facility was fully drawn, with average gearing of 8.4% during the period under review. Subsequently, the size of the facility was increased to £35 million and drawn down to take advantage of market opportunities. This should have the secondary impact of increasing investment income in the short term. The gearing is currently 13.8%1.

Board composition

At the last Annual General Meeting, a number of votes were cast against the resolutions to re-elect Mr David Causer 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, Mr Causer and I received votes against our re-appointment to the board. We have previously communicated to the market that the board has considered Mr Causer's and my independence in the last 12 months and has determined that we both remain independent.

The board has a strong track record of refreshing its composition in an orderly fashion, with a number of director retirements and, where appropriate, appointments during the last three years. In this context, I am very pleased to welcome Victoria Muir to the board of directors, following an independently facilitated search and selection process. Miss Muir has over 25 years' experience in financial services and she will bring, in particular, additional marketing experience to the board. Her appointment will be effective 23 July 2019. As previously indicated, I will be standing down at the Company's next annual general meeting due to be held in December 2019 and a new chairman will be identified in advance of this date.

Change of auditor

Following a competitive tender process which excluded the incumbent, Deloitte LLP, on the grounds of length of service, the board approved the appointment of Ernst & Young LLP as the Company's auditor for the financial year ending 31 August 2019. The appointment of Ernst & Young LLP as auditor for the financial year ending 31 August 2020 will be subject to approval by shareholders at the Company's next Annual General Meeting, to be held in December 2019. The board would like to thank Deloitte LLP, which formally ceased to hold office as the Company's auditor on 17 May 2019, for its professional service to the Company during its tenure in office. In accordance with legislative requirements, a copy of Deloitte LLP's resignation letter, including a statement of its reasons for ceasing to hold office, is being circulated to all shareholders.

Outlook

While the newspaper headlines remain understandably dominated by Brexit, or more precisely the lack of it, our primary goal is growth of income, together with the opportunity for capital growth. We are aware of the uncertainty facing companies in the portfolio as they try and anticipate the future trading environment, but so far we take comfort from the dividend increases they are providing. Importantly we also note the Manager's optimism about opportunities for the portfolio.

The Brexit negotiations and the uncertainty surrounding global growth remain challenges. We are confident that the portfolio's income will continue to grow in real terms, a key objective of your Company, and that this will result, over time, in an increase in the Company's NAV. The shares are currently yielding 4.2% per annum[1].

Ian Barby
Chairman

29 May 2019

[1]As at 23 May 2019

Interim Management Report – Manager's Review

“Investment income increased by 20.3%...”

The Company's net asset value total return in the 6 months to 28 February 2019 was -4.2%. This compares to -3.7% from the FTSE All-Share Index and a -5.0% median return from the peer group (source Morningstar, excluding Zero Dividend Preference shares).

Investment income increased by 20.3% due to two factors, broadly of equal weight. British American Tobacco changed its dividend schedule to four quarterly payments from two biannual ones and there was a contribution from a new holding, BHP. This more than offset a negative timing impact at Aviva. These will even out over the course of the year. Secondly, there was dividend growth from holdings such as property companies Assura and Unite Group, Hollywood Bowl, financial services company Intermediate Capital, Portuguese oil company Galp and software and IT company Micro Focus. Exchange rate movements were less of a feature than they have been in recent years.

Market background

The FTSE All-Share index fell 3.7% during the six months against the backdrop of tightening global monetary conditions, US-China trade tensions and European political uncertainty. 2018 closed with a sharp retreat, in line with global equities as fears over the outlook for the world economy came to a head. Many UK domestic-focused shares performed poorly as worries of a “no deal” exit from the EU intensified.

UK and global equities, however, rallied in the first two months of 2019. Equity markets reacted well to dovish commentary from central banks, with the US Federal Reserve and European Central Bank tempering expectations for tighter monetary policy. Sentiment was further supported by fresh Chinese monetary and fiscal stimulus measures and by progress with US-China trade talks. In the UK market, a number of lowly-valued domestically-focused areas bounced back strongly following the delay to Brexit beyond March. This fuelled hopes that a disorderly exit from the EU could be avoided.

Portfolio performance

The Company's underperformance of the FTSE All-Share Index was primarily due to the gearing in a falling market, as stock selection and sector allocation had a positive contribution to relative performance.

Six months to 28 February 2019	Impact (%)
FTSE All-Share Index	**–3.7**
Stock selection	+0.2
Sector allocation	+0.3
Costs	–0.5
Gearing	–0.4
Residual	–0.1
NAV total return	**–4.2**

Source: Schroders

Defence firm **BAE Systems** was the top stock detractor. Industrials performed particularly poorly amid uncertainty over the extent of the slowdown in global activity. Worries over BAE Systems' defence contracts with Saudi Arabia in the wake of the death of journalist Jamal Khashoggi in Saudi Arabia's Istanbul consulate in October added to negative sentiment.

Shares in **British American Tobacco** performed poorly amid uncertainty about whether the US Food and Drug Administration would ban menthol cigarettes, which represent 26% of profit, whilst cracking down on the sale of flavoured e-cigarettes in order to address its concern of youth access to smoking. We believe the company can deal with tighter regulation and has a range of reduced-harm products (such as heated tobacco and e-cigarettes) which have good growth potential.

Bookmaker **William Hill** was another detractor as it revised down expectations for full-year profits following the UK government crackdown on the gambling sector and on the back of increased investment in its US business. We believe the company has the potential for material long-term growth as the US sports betting market de-regulates. This more than outweighs the nearer-term headwinds facing its UK operations and diversifies the business geographically as well as increasing exposure to the more attractive online sports betting market.

On the positive side, shares in **Micro Focus** recovered after a profit disappointment in the first quarter of 2018. The company has subsequently increased its dividend, extended its share buy backs and reported increased cash profits.

Stock selection in financial services was positive. Infrastructure developer **John Laing** performed strongly based on robust operating performance. This demonstrates the attractions of exposure to infrastructure investment at a time of economic uncertainty. In addition, the related John Laing Infrastructure Fund received a bid from a consortium of private equity investors showing that investors have a strong appetite for UK infrastructure assets.

Stock selection in the mining sector (**BHP** and **Rio Tinto**) was also positive. These companies have strong balance sheets and exposure to sustainable, low cost production that should continue to underpin share price growth.

Interim Management Report – Manager's Review

"We have continued to increase our UK domestic exposure..."

Some lowly valued UK domestic companies, such as retailer **Pets at Home**, also featured amongst the best performers as the market took the view that a no-deal Brexit was increasingly unlikely.

Five top/bottom relative stock performers

Security	Portfolio weight (%)[1]	Weight relative to index (%)[1]	Relative performance (%)[2]	Impact (%)[3]
Micro Focus	1.9	1.7	+50.5	+0.7
John Laing	2.9	2.9	+26.2	+0.7
Pets at Home	1.2	1.1	+36.4	+0.4
BHP	3.3	1.8	+18.6	+0.3
Lloyds Banking Group	4.7	2.8	+10.8	+0.3

Security	Portfolio weight (%)[1]	Weight relative to index (%)[1]	Relative performance (%)[2]	Impact (%)[3]
BAe Systems	2.7	1.9	–18.2	–0.4
British American Tobacco	4.7	1.7	–19.7	–0.4
William Hill	1.4	1.3	–22.0	–0.4
Diageo	0.1	-2.9	+12.7	–0.4
Smurfit Kappa	1.2	1.0	–27.4	–0.3

Source: Factset, 31 August 2018 to 28 February 2019.
[1] Weights are averages over the period.
[2] Performance relative to the FTSE All-Share Index total return over the period.
[3] Impact is the contribution to performance relative to the FTSE All-Share Index.

Portfolio activity

We have continued to increase our UK domestic exposure, adding to selected companies on share price weakness and where valuations are attractive, such as **Tesco** and **Lloyds Banking Group**.

We initiated a new holding in **Whitbread**, the UK's largest operator of hotels, restaurants and coffee shops. The sale of Costa Coffee for a significant premium to expectations gives financial flexibility to invest in its remaining business whilst maintaining a strong balance sheet. We expect to see continued expansion of UK hotels and an accelerated development in Germany, a relatively new opportunity, a bolstering of the pension fund and the potential for some enhanced shareholder returns. We believe that 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 more positive and longer-term view given the strength of the balance sheet and the business model.

We also established a position in **Crest Nicholson**, the UK house builder. Weak trading in their end markets resulted in a period of relatively poor share price 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. In the present climate these characteristics are being muddied by short-term trading concerns, in some part related to Brexit. We are granted additional comfort by the strength of the balance sheet and the senior management team also stepping in to buy shares on the weakness.

We reduced a number of financials positions, many of which had performed well and were trading on full valuations.

Outlook

The global nature of the UK equity market has led to international developments setting the tone for the market. We expect the events that dominated recent months – US monetary policy, US-China trade tensions and risks to global economic activity – to continue to drive sentiment. While we still expect liquidity to be withdrawn from the global financial system over 2019, economic data is increasingly pointing to deteriorating fundamentals. This has caused central banks to temper expectations of tightening policy. While this provided support to markets in the early stages of 2019, we expect to see further bouts of volatility, in an environment that increasingly appears to exhibit late cycle characteristics. Ultimately it is not good news for share prices if central banks do not feel confident enough in future prospects to continue normalising policy from the extraordinary measures taken during the global financial crisis.

Many forward-looking indicators, particularly in manufacturing, are pointing towards a slowdown. Data was particularly weak in Europe, where it was reported that Germany only narrowly avoided recession during the final quarter of 2018. Initially, indications appeared that there were one-off or country-specific factors that were causing the weakness, such as low water levels on the Rhine, but the slowdown is increasingly looking widespread. Industrial production in China is also slowing and US activity has been disrupted by the government shutdown. This uncertainty is being reflected in many corporate outlook statements across the globe, particularly those in more cyclical, industrial sectors.

While global trends will remain crucial to the performance of UK assets, Brexit also looms large. This is creating considerable uncertainty for the UK economy and political environment, as there is still no clarity on the preferred path that the government and MPs wish to take.

Interim Management Report – Manager's Review

"At the end of the period gearing was 8.4%, and we have significantly increased this to 13.8%."

The uncertainty continues to affect sentiment towards the stock market, with many international investors remaining nervous about investing in UK companies. We believe this is presenting a buying opportunity, with the UK market trading at a c.30% valuation discount to global peers, close to a 30-year low. Whereas this valuation gap is likely to persist until there is some form of clarity over the terms of any Brexit deal, it provides an attractive entry point for investors with a long-term time horizon. Indeed though the UK market has been widely ignored by the investment community, corporate activity has continued. Most recent companies subject to bid approaches include Inmarsat, Provident Financial, Dairy Crest and RPC. This gives us confidence that there are considerable opportunities in the market and while cheap financing is readily available we would expect this trend to continue. At the end of the period gearing was 8.4%, and we have significantly increased this to 13.8%[1].

Dividend outlook

Last year saw the yield on UK shares hit its highest level since 2009, in the midst of the global financial crisis, as share prices have fallen and dividends have grown. Rising profits, slightly better than expected special dividends, and the slump in the pound in the second half of 2018 contributed to the dividend record of £99.8 billion. The average yield over 30 years has been 3.5%, so the current 4.5% is exceptionally high. With the potential for a deteriorating global economy and Brexit risk, dividend growth is expected to slow.

The Company's income will remain sensitive to exchange rate movements – boosted by sterling weakness or reduced by sterling strength against the US dollar and to a lesser extent the Euro. The majority of the Company's income is usually received in the second half of the financial year.

As we have discussed before, the short-term outlook for underlying dividend growth, excluding special dividends and exchange rate movements, has improved due to the strengthened pay-out ratios resulting from rising commodity and oil profits. However, medium and longer-term dividend growth remains somewhat more uncertain as the economic impact of Brexit is unlikely to be felt until 2020 or later and the global economic outlook looks increasingly cloudy.

Lastly, given the Company's aim to provide real growth of income it is important to consider UK inflation. The Consumer Price Index rose 1.9% in the year to end February. We expect inflation and monetary policy to reflect the impact of Brexit negotiations and sterling. Given the intensification of Brexit uncertainties and slowing global economy, the Bank of England has stated its intention to keep interest rates on hold, and has indicated that monetary policy in response to developments could be in either direction. In the event of no deal we would expect sterling to weaken. The effect of this would be to increase inflation but also boost the Company's income given the extent of dividends declared in dollars and Euros. Conversely, if a Brexit deal is agreed, leading to sterling strength, the inflation rate would likely remain stable, interest rates would rise steadily whilst the Company's dividend income could be restrained somewhat by exchange rate movements.

Investment policy

We remain disciplined investors using a long-term fundamental approach and the team's significant investment experience. Our investment process focuses on building a diversified portfolio within a risk-controlled framework, aiming to deliver attractive levels of income growth in real terms.

Five largest overweight stocks

Security	Portfolio weight (%)	Index weight (%)[1]	Difference (%)
Lloyds Banking Group	5.5	2.0	+3.5
John Laing	3.4	0.9	+2.5
Pearson	3.0	0.3	+2.7
Burberry	2.7	0.4	+2.3
G4S	2.4	0.2	+2.2

Source: Schroders, as at 28 February 2019.

We continue to actively monitor the holdings and the investment universe to identify mispriced opportunities. As an active manager, we utilise our in-house analysts, who provide proprietary fundamental research, to help identify attractive investment candidates and to monitor the validity of the investment case for existing holdings. We prioritise stocks with balance sheet strength, pricing power, and sustainable and robust business models, particularly where these factors do not appear fully reflected in the share price.

Schroder Investment Management
29 May 2019

The securities shown above are for illustrative purposes only and are not to be considered recommendations to buy or sell.

[1]As at 23 May 2019

Interim Management Report

Investment Portfolio at 28 February 2019

Companies in bold represent the 20 largest investments, which by value account for 71.2% (28 February 2018: 68.0% and 31 August 2018: 67.9%) of total investments.

All companies are headquartered in the UK unless otherwise stated. All investments are equities.

	£'000	%
Financials		
Lloyds Banking Group	**12,104**	**5.5**
John Laing	**7,350**	**3.4**
HSBC	**6,162**	**2.8**
Legal & General	**6,159**	**2.8**
Aviva	**5,854**	**2.7**
Assura	4,668	2.1
Intermediate Capital	3,234	1.5
Deutsche Wohnen (Germany)	3,081	1.4
TP ICAP	1,773	0.8
Prudential	1,536	0.7
Total Financials	**51,921**	**23.7**
Consumer Services		
Pearson	**6,465**	**3.0**
Tesco	**5,417**	**2.5**
RELX	**5,385**	**2.5**
Whitbread	**5,247**	**2.4**
ITV	4,139	1.9
Hollywood Bowl	3,179	1.4
Pets At Home	3,166	1.4
William Hill	2,906	1.3
Daily Mail and General Trust	2,244	1.0
Halfords	1,705	0.8
Total Consumer Services	**39,853**	**18.2**
Oil and Gas		
Royal Dutch Shell 'B'	**16,251**	**7.4**
BP	**12,701**	**5.8**
Galp Energia (Portugal)	3,161	1.4
Royal Dutch Shell "A" (Netherlands)	917	0.4
Total Oil and Gas	**33,030**	**15.0**
Consumer Goods		
British American Tobacco	**9,660**	**4.4**
Burberry	**5,816**	**2.7**
Unilever	4,843	2.2
Crest Nicholson	3,229	1.5
Taylor Wimpey	1,959	0.9
Total Consumer Goods	**25,507**	**11.7**

	£'000	%
Basic Materials		
BHP	**7,720**	**3.5**
Rio Tinto	**7,589**	**3.5**
Johnson Matthey	5,021	2.3
Total Basic Materials	**20,330**	**9.3**
Healthcare		
GlaxoSmithKline	**11,879**	**5.4**
AstraZeneca	**7,800**	**3.6**
Total Healthcare	**19,679**	**9.0**
Industrials		
BAE Systems	**5,344**	**2.4**
G4S	**5,186**	**2.4**
Melrose	2,617	1.2
Smurfit Kappa (Ireland)	2,424	1.1
Total Industrials	**15,571**	**7.1**
Telecommunications		
BT	4,185	1.9
Vodafone	1,751	0.8
Total Telecommunications	**5,936**	**2.7**
Technology		
Micro Focus	**5,525**	**2.5**
Total Technology	**5,525**	**2.5**
Utilities		
Centrica	1,793	0.8
Total Utilities	**1,793**	**0.8**
Total investments	**219,145**	**100.0**

Interim Management Report

Principal risks and uncertainties

The principal risks and uncertainties with the Company's business fall into the following risk categories: strategy and competitiveness; investment management; financial and currency; accounting, legal and regulatory; custodian and depositary; and service providers. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 13 and 14 of the Company's published annual report and accounts for the year ended 31 August 2018. These risks and uncertainties have not materially changed during the six months ended 28 February 2019.

Going concern

Having assessed the principal risks and uncertainties, and the other matters discussed in connection with the viability statement as set out on page 15 of the published annual report and accounts for the year ended 31 August 2018, the directors consider it appropriate to adopt the going concern basis in preparing the accounts.

Related party transactions

There have been no transactions with related parties that have materially affected the financial position or the performance of the Company during the six months ended 28 February 2019.

Directors' responsibility statement

The directors confirm that, to the best of their knowledge, this set of condensed financial statements has been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and with the Statement of Recommended Practice, "Financial Statements of Investment Companies and Venture Capital Trusts" issued in November 2014 and updated in February 2018 and that this Interim Management Report includes a fair review of the information required by 4.2.7R and 4.2.8R of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Income Statement

For the six months ended 28 February 2019 (unaudited)

	(Unaudited) For the six months ended 28 February 2019			(Unaudited) For the six months ended 28 February 2018			(Audited) For the year ended 31 August 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	**–**	**(12,285)**	**(12,285)**	–	(5,834)	(5,834)	–	752	752
Net foreign currency gains/(losses)	**–**	**11**	**11**	–	(25)	(25)	–	(24)	(24)
Income from investments	**3,763**	**352**	**4,115**	3,128	–	3,128	10,102	–	10,102
Other interest receivable and similar income	**2**	**–**	**2**	6	–	6	11	–	11
Gross return/(loss)	**3,765**	**(11,922)**	**(8,157)**	3,134	(5,859)	(2,725)	10,113	728	10,841
Investment management fee	**(343)**	**(343)**	**(686)**	(410)	(410)	(820)	(853)	(853)	(1,706)
Administrative expenses	**(160)**	**–**	**(160)**	(166)	–	(166)	(318)	–	(318)
Net return/(loss) before finance costs and taxation	**3,262**	**(12,265)**	**(9,003)**	2,558	(6,269)	(3,711)	8,942	(125)	8,817
Finance costs	**(70)**	**(70)**	**(140)**	(41)	(41)	(82)	(101)	(101)	(202)
Net return/(loss) on ordinary activities before taxation	**3,192**	**(12,335)**	**(9,143)**	2,517	(6,310)	(3,793)	8,841	(226)	8,615
Taxation on ordinary activities (note 3)	**(18)**	**–**	**(18)**	(16)	–	(16)	(74)	–	(74)
Net return/(loss) on ordinary activities after taxation	**3,174**	**(12,335)**	**(9,161)**	2,501	(6,310)	(3,809)	8,767	(226)	8,541
Return/(loss) per share (note 4)	**4.62p**	**(17.96)p**	**(13.34)p**	3.64p	(9.19)p	(5.55)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 period.

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

Statement of Changes in Equity

For the six months ended 28 February 2019 (unaudited)

	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 2018	6,869	7,404	2,011	1,596	34,936	153,401	10,523	216,740
Net (loss)/return on ordinary activities	–	–	–	–	–	(12,335)	3,174	(9,161)
Dividends paid in the period (note 5)	–	–	–	–	–	–	(4,809)	(4,809)
At 28 February 2019	**6,869**	**7,404**	**2,011**	**1,596**	**34,936**	**141,066**	**8,888**	**202,770**

For the six months ended 28 February 2018 (unaudited)

	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	–	–	–	–	–	(6,310)	2,501	(3,809)
Dividends paid in the period (note 5)	–	–	–	–	–	–	(5,221)	(5,221)
At 28 February 2018	**6,869**	**7,404**	**2,011**	**1,596**	**34,936**	**147,317**	**7,555**	**207,688**

For the year ended 31 August 2018 (audited)

	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 (note 5)	–	–	–	–	–	–	(8,519)	(8,519)
At 31 August 2018	**6,869**	**7,404**	**2,011**	**1,596**	**34,936**	**153,401**	**10,523**	**216,740**

Statement of Financial Position at 28 February 2019 (unaudited)

	(Unaudited) 28 February 2019 £'000	(Unaudited) 28 February 2018 £'000	(Audited) 31 August 2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	**219,145**	221,876	233,741
Current assets			
Debtors	**1,208**	1,147	1,900
Cash at bank and in hand	**2,872**	5,729	1,978
	4,080	6,876	3,878
Current liabilities			
Creditors: amounts falling due within one year	**(20,455)**	(21,064)	(20,879)
Net current liabilities	**(16,375)**	(14,188)	(17,001)
Total assets less current liabilities	**202,770**	207,688	216,740
Net assets	**202,770**	207,688	216,740
Capital and reserves			
Called-up share capital (note 6)	**6,869**	6,869	6,869
Share premium	**7,404**	7,404	7,404
Capital redemption reserve	**2,011**	2,011	2,011
Warrant exercise reserve	**1,596**	1,596	1,596
Share purchase reserve	**34,936**	34,936	34,936
Capital reserves	**141,066**	147,317	153,401
Revenue reserve	**8,888**	7,555	10,523
Total equity shareholders' funds	**202,770**	207,688	216,740
Net asset value per share (note 7)	**295.20p**	302.36p	315.54p

Registered in England and Wales

Company registration number: 03008494

Notes to the Accounts

1. Financial Statements

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

The figures and financial information for the year ended 31 August 2018 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditor which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

Basis of accounting

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommend Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" 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 accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 31 August 2018.

3. Taxation on ordinary activities

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. Taxation on ordinary activities comprises irrecoverable overseas withholding tax.

4. Return/(loss) per share

	(Unaudited) Six months ended 28 February 2019 £'000	(Unaudited) Six months ended 28 February 2018 £'000	(Audited) Year ended 31 August 2018 £'000
Revenue return	**3,174**	2,501	8,767
Capital loss	**(12,335)**	(6,310)	(226)
Total (loss)/return	**(9,161)**	(3,809)	8,541
Weighted average number of shares in issue during the period	**68,688,343**	68,688,343	68,688,343
Revenue return per share	**4.62p**	3.64p	12.76p
Capital loss per share	**(17.96)p**	(9.19)p	
(0.33)p			
Total (loss)/return per share	**(13.34)p**	(5.55)p	12.43p

Notes to the Accounts continued

5. Dividends paid

	(Unaudited) Six months ended 28 February 2019 £'000	(Unaudited) Six months ended 28 February 2018 £'000	(Audited) Year ended 31 August 2018 £'000
2018 fourth interim dividend of 4.6p (2017: 5.2p)	**3,160**	3,572	3,572
First interim dividend of 2.4p (2018: 2.4p)	**1,649**	1,649	1,649
Second interim dividend of 2.4p	**–**	–	1,649
Third interim dividend of 2.4p	**–**	–	1,649
	4,809	5,221	8,519

A second interim dividend of 2.4p (2018: 2.4p) per share, amounting to £1,649,000 (2018: £1,649,000) has been declared payable in respect of the six months ended 28 February 2019.

6. Called-up share capital

	(Unaudited) Six months ended 28 February 2019 £'000	(Unaudited) Six months ended 28 February 2018 £'000	(Audited) Year ended 31 August 2018 £'000
Ordinary shares allotted, called up and fully paid: 68,688,343 (28 February 2018 and 31 August 2018: same) shares of 10p each	**6,869**	6,869	6,869

7. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 28 February 2019 of 68,688,343 (28 February 2018 and 31 August 2018: same).

8. Financial instruments measured at fair value

The Company's financial instruments that are held at fair value comprise its investment portfolio. At 28 February 2019, all investments in the Company's portfolio were categorised as Level 1 in accordance with the criteria set out in paragraph 34.22 (amended) of FRS 102. That is, they are all valued using unadjusted quoted prices in active markets for identical assets (28 February 2018 and 31 August 2018: same).

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

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

Notes

Notes

www.schroders.co.uk/incomegrowth

Directors

Ian Barby (Chairman)
Ewen Cameron Watt
David Causer
Bridget Guerin

Advisers

Alternative Investment Fund Manager ("Manager")

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Investment manager and company secretary

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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 Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Independent auditor

Ernst & Young LLP
144 Morrison Street
Edinburgh EH3 8EX

AIFM Directive disclosures

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found on its webpages.

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

Dealing codes

ISIN Number:	GB0007915860
SEDOL Number:	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 webpage.

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