

**Schroder**

# **UK Mid & Small Cap Fund plc**

Half-Yearly Report to 31 March 2010

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**Schroders**

## Investment Objective

The Company's investment objective is to invest in Mid and Small Cap Equities with the aim of providing a total return in excess of the FTSE All-Share, ex-investment companies, ex-FTSE 100, Total Return Index.

## Directors

**Peter Timms (Chairman)**

**Rachel Beagles**

**Malcolm Coubrough**

**Chris Jones**

**Maxwell Packe**

## Advisers

### **Investment Manager and Company Secretary**

Schroder Investment Management Limited  
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Telephone: 020 7658 6501

### **Registered Office**

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Glasgow G2 6NL

### **Banker**

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60 London Wall  
London EC2M 5TQ

### **Custodian**

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1 Chaseside  
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Dorset BH7 7DB

### **Independent Auditors**

Ernst & Young LLP  
1 More London Place  
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### **Registrar**

Equiniti Limited  
Aspect House  
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### **Solicitors**

Tods Murray LLP  
33 Bothwell Street  
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### **Stockbrokers**

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## Financial Highlights

	31 March 2010	30 September 2009	% Change
Net asset value ("NAV") per ordinary share	<b>242.94p</b>	235.47p	+3.17
Share price	<b>198.00p</b>	192.75p	+2.72
Share price discount	<b>18.5%</b>	18.1%	
Total assets (£'000)*	<b>89,465</b>	85,109	+5.12
Total borrowings (£'000s)	<b>1,658</b>	–	
Shareholders' funds (£'000)	<b>87,807</b>	85,109	+3.17
	Six months ended 31 March 2010	Six months ended 31 March 2009	
Earnings per share	<b>2.76p</b>	1.81p	
FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Total Return Index**	<b>+10.1%</b>	(19.7)%	
Net asset value total return***	<b>+6.8%</b>	(16.0)%	

\* Total assets less current liabilities (excluding short term borrowings)

\*\* Source: Thomson Financial Datastream

\*\*\* Source: Morningstar ([www.morningstar.co.uk](http://www.morningstar.co.uk)) (with net income reinvested, based on preliminary NAVs released via the Regulatory News Service).

## Ten Largest Investments

As at 31 March 2010

Company and Activities	Market Value of Holding £'000	% of Shareholders' Funds
<b>Premier Oil</b> Oil and gas exploration development and production	2,098	2.39
<b>CSR</b> Designs and manufactures single-chip radio devices	1,832	2.09
<b>Grainger</b> Purchase, letting, management and refurbishment of tenanted properties	1,699	1.93
<b>Kier Group</b> Construction, development and service group, specialising in building and civil engineering	1,638	1.87
<b>Fidessa Group</b> Supplies computer software products to customers in the financial trading systems market	1,638	1.87
<b>Wellstream Holdings</b> Leading designer and manufacturer of flexible risers	1,638	1.87
<b>Homeserve</b> Provider of home emergency repair insurance coverage	1,611	1.83
<b>William Hill</b> Fixed odds bookmaking services and on-line casino	1,583	1.80
<b>Victrex</b> Manufacturer of speciality plastics	1,579	1.80
<b>Dechra Pharmaceuticals</b> Manufacturer of pharmaceutical products and equipment for veterinary industry	1,556	1.77
<b>Total</b>	<b>16,872</b>	<b>19.22</b>

At 30 September 2009, the ten largest investments represented 19.44% of Shareholders' funds.

## Chairman's Statement

### Performance

During the six month period ended 31 March 2010, the Company's net asset value produced a total return of 6.8%, compared to a 10.1% increase in the FTSE All-Share, ex-Investment Companies, ex-FTSE 100 Total Return Index over the same period. The share price increased by 2.7% during the period, from 192.8 pence to 198.0 pence, as the discount to net asset value widened slightly from 18.1% to 18.5% at the period end.

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

### Gearing Facility

The Company had in place a revolving credit facility of £10 million during the period under review. As at the period end, £1.66 million was drawn under the facility. Parameters for the use of gearing have been established and these are reviewed regularly by the Board. Since the period end, the remainder of the credit facility has been drawn down to utilise as and when investment opportunities arise as corporate confidence improves. Net effective gearing as at 24 May 2010 was 5.1%.

### Share Purchases

The Company did not purchase any shares for cancellation or holding in treasury during the period under review. Your Board will continue to consider whether share purchases should be made on a regular basis.

### Board Refreshment and Succession Planning

The Board continues to review its composition and following the latest assessment has refined its refreshment policy. Therefore by the next Annual General Meeting, long-serving Directors will no longer constitute a majority of the Board.

### Outlook

The list of challenges to the UK economy is both long and depressing, as the new government starts to tackle the public sector deficit and consumers have to get used to higher taxes and lower public sector spending. The opportunity for the Company is that its holdings are in companies which have come through the last 18 months well and/or those the Investment Manager believes could benefit from the next 18 months. It is particularly relevant in this context to see the pick-up in M&A activity, reflecting both the renewed confidence of companies and the value available in many shares. Your Board recognises the macro-economic risks, but thinks that the combination of low valuations and improving corporate confidence will provide attractive investment opportunities.

### Peter Timms

Chairman  
28 May 2010

## Investment Manager's Review

### Investment Philosophy

We have adopted a consistent investment process, taking a stock specific approach with an emphasis on growth companies. Sector weightings play a secondary role, resulting naturally from stock selection. Fundamental research forms the basis of each investment decision taken by us as your Manager, carrying out our own research with numerous company contacts. When analysing stocks, we look for companies with strong management teams with a proven record, good future prospects and a strong business franchise within their markets.

### Performance

Over the six months to 31 March 2010, the Company's net asset value on a total return basis rose by 6.8%. This compared to a rise of 10.1% in the FTSE All-Share, ex-Investment Companies, ex-FTSE 100 Total Return Index over the same period. Good performances came from various industrial companies such as Senior, Bodycote and Spirax-Sarco as destocking in manufacturers supply chains went into reverse, and there were additional benefits from the weakness of sterling against a basket of other currencies. Corporate activity is picking up, and in the six month period there were bid approaches for our holdings in Mouchel, Shanks, VT, Forth Ports and Rensburg Sheppards. However, the bids for Mouchel and Shanks were subsequently withdrawn, causing an adverse share price reaction. Contributing to our relative underperformance against a strong benchmark were an underweight position in the buoyant mining sector, and a profit warning from Intec Telecom (billing systems) as its telecoms customers delayed systems implementations.

### Market Background

The U.K. equity market has remained highly volatile in recent months. Concerted injections of liquidity into the financial system by governments around the world have steadied the banking sector. Low interest rates have encouraged investors to take equity market risk. Scrappage incentive schemes have artificially boosted automotive demand and manufacturing supply chains which had rapidly destocked have gone into equally sharp recovery. This has resulted in dramatic profit upgrades for industrial and mining groups. Many quoted companies have strong balance sheets. Following a period of aggressive cost-cutting, and with some stabilisation in demand, companies are now pursuing growth via acquisitions. This burst of corporate activity is taking place against a backdrop of uncertainty for consumers as the new UK coalition government prepares to address the UK budget deficit.

### Portfolio Update

In the past six months, new purchases have added exposure to outsourcing and business spending in the form of Ashtead (tool hire), Derwent London (commercial real estate), Millennium and Copthorne (hotels), Premier Farnell (component distribution), Regus (temporary office facilities) and ITV (TV advertising). One new issue, CPP (card and identity protection) was also added. Complete disposals included Investec upon promotion to the FTSE 100 Index and VT upon the bid by Babcock. Several of the more illiquid names were sold, including Bango, Chrysalis, Innovision, Intec, Latchways, Morgan Sindall, Morson and Netplay TV. The Company has modest gearing at present.

## Outlook

Uncertainty over the outcome of the forthcoming budget and Comprehensive Spending Review by the new UK coalition government may cause volatility in currency and bond markets near term, but the need for control of public spending will not go away, and will drive greater outsourcing to the private sector. Contracts will go to those with established track records. It is also likely to be (indeed is already) leading to job cuts in government departments and labour unrest generally. The UK consumer is once again facing high petrol prices, and will likely face increases in VAT and other stealth taxes soon. After a period of reduced inflationary pressures, the cost of transport and food is ticking up, and interest rate rises cannot be ruled out in the UK. It is difficult to ascertain how much of recent trading improvements reported by industrial companies have been down to simple pipeline restocking, but caution is needed because of the huge currency tailwind that many have enjoyed.

After the shock of the credit crunch the majority of UK quoted companies have emerged stronger, and many have seen competition weakened. As corporate confidence rises, we expect company spending on IT, capital equipment, marketing, travel and entertainment to recover, and more management teams to pursue growth via mergers and acquisitions. This should lend support to equity markets.

### **Schroder Investment Management Limited**

28 May 2010

## Income Statement

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 31 March 2010</b>			<b>(Unaudited)</b> <b>For the six months</b> <b>ended 31 March 2009</b>			<b>(Audited)</b> <b>For the year</b> <b>ended 30 September 2009</b>			
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	
<b>Note</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Gains/(losses) on investments held at fair value	–	<b>3,872</b>	<b>3,872</b>	–	(12,899)	(12,899)	–	12,009	12,009	
Income	<b>2</b>	<b>1,258</b>	<b>44</b>	<b>1,302</b>	870	–	870	2,344	–	2,344
Investment management fee	<b>3</b>	<b>(33)</b>	<b>(297)</b>	<b>(330)</b>	(23)	(210)	(233)	(53)	(480)	(533)
VAT recoverable		–	–	–	–	–	–	6	60	66
Administrative expenses		<b>(227)</b>	–	<b>(227)</b>	(194)	–	(194)	(415)	–	(415)
<b>Net return/(loss) before finance costs and taxation</b>		<b>998</b>	<b>3,619</b>	<b>4,617</b>	653	(13,109)	(12,456)	1,882	11,589	13,471
Interest payable and similar charges	<b>3</b>	–	<b>(3)</b>	<b>(3)</b>	–	–	–	(2)	–	(2)
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>998</b>	<b>3,616</b>	<b>4,614</b>	653	(13,109)	(12,456)	1,880	11,589	13,469
Taxation on ordinary activities		–	–	–	–	–	–	–	–	–
<b>Net return/(loss) attributable to equity shareholders</b>		<b>998</b>	<b>3,616</b>	<b>4,614</b>	653	(13,109)	(12,456)	1,880	11,589	13,469
<b>Net return/(loss) per ordinary share</b>	<b>4</b>	<b>2.76p</b>	<b>10.00p</b>	<b>12.76p</b>	1.81p	(36.27)p	(34.46)p	5.20p	32.06p	37.26p

The Total column of this statement is the profit and loss account of the Company. The Revenue and Capital columns are both provided in accordance with guidance issued by The Association of Investment Companies. The Company has no recognised gains or losses other than those disclosed in the Income Statement and the Reconciliation of Movements in Shareholders' Funds. Accordingly no Statement of Total Recognised Gains and Losses is presented.

All revenue and capital items in the above statement derive from continuing operations.

The notes on pages 10 and 11 form an integral part of these accounts.



## Reconciliation of Movements in Shareholders' Funds

## For the six months ended 31 March 2010 (Unaudited)

	Called up Share capital £'000	Capital re- demption reserve £'000	Share premium account £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
At 30 September 2009	9,036	220	13,971	2,184	15,477	41,197	3,024	85,109
Net return from ordinary activities	-	-	-	-	-	3,616	998	4,614
Ordinary dividend paid	-	-	-	-	-	-	(1,916)	(1,916)
<b>At 31 March 2010</b>	<b>9,036</b>	<b>220</b>	<b>13,971</b>	<b>2,184</b>	<b>15,477</b>	<b>44,813</b>	<b>2,106</b>	<b>87,807</b>

## For the six months ended 31 March 2009 (Unaudited)

	Called up Share capital £'000	Capital re- demption reserve £'000	Share premium account £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
At 30 September 2008	9,036	220	13,971	2,184	15,477	29,608	3,060	73,556
Net (loss)/return from ordinary activities	-	-	-	-	-	(13,109)	653	(12,456)
Ordinary dividend paid	-	-	-	-	-	-	(1,916)	(1,916)
At 31 March 2009	9,036	220	13,971	2,184	15,477	16,499	1,797	59,184

## For the year ended 30 September 2009 (Audited)

	Called up Share capital £'000	Capital re- demption reserve £'000	Share premium account £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
At 30 September 2008	9,036	220	13,971	2,184	15,477	29,608	3,060	73,556
Net return from ordinary activities	-	-	-	-	-	11,589	1,880	13,469
Ordinary dividend paid	-	-	-	-	-	-	(1,916)	(1,916)
At 30 September 2009	9,036	220	13,971	2,184	15,477	41,197	3,024	85,109

\*The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

The notes on pages 10 and 11 form an integral part of these accounts.

## Balance Sheet

		(Unaudited) At 31 March 2010 £'000	(Unaudited) At 31 March 2009 £'000	(Audited) At 30 September 2009 £'000
	<b>Note</b>			
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		<b>89,590</b>	53,146	82,532
		<b>89,590</b>	53,146	82,532
<b>Current assets</b>				
Debtors		<b>281</b>	444	823
Cash at bank and short-term deposits		–	6,414	2,174
		<b>281</b>	6,858	2,997
<b>Current liabilities</b>				
Creditors - amounts falling due within one year	<b>5</b>	<b>(2,064)</b>	(820)	(420)
<b>Net current (liabilities)/assets</b>		<b>(1,783)</b>	6,038	2,577
<b>Net assets</b>		<b>87,807</b>	59,184	85,109
<b>Capital and reserves</b>				
Called up share capital		<b>9,036</b>	9,036	9,036
Capital redemption reserve		<b>220</b>	220	220
Share premium account		<b>13,971</b>	13,971	13,971
Merger reserve		<b>2,184</b>	2,184	2,184
Share purchase reserve		<b>15,477</b>	15,477	15,477
Capital reserve		<b>44,813</b>	16,499	41,197
Revenue reserve		<b>2,106</b>	1,797	3,024
<b>Equity shareholders' funds</b>		<b>87,807</b>	59,184	85,109
<b>Net asset value per ordinary share</b>	<b>6</b>	<b>242.94p</b>	163.75p	235.47p

The notes on pages 10 and 11 form an integral part of these accounts.

## Cash Flow Statement

	(Unaudited) For the six months ended 31 March 2010	(Unaudited) For the six months ended 31 March 2009	(Audited) For the year ended 30 September 2009
Net cash inflow from operating activities	1,193	497	1,243
Net cash outflow from servicing of finance	–	–	(2)
Total tax (paid)/received	–	(3)	1
Net cash (outflow)/inflow from investment activities	(3,109)	669	(4,319)
Equity dividends paid	(1,916)	(1,916)	(1,916)
Net cash outflow before financing	(3,832)	(753)	(4,993)
Net cash inflow from financing	1,000	–	–
<b>Net cash outflow</b>	<b>(2,832)</b>	<b>(753)</b>	<b>(4,993)</b>
<b>Reconciliation of net cash flow to movement in net (debt)/funds</b>			
Net cash outflow	(2,832)	(753)	(4,993)
Movement in bank loan	(1,000)	–	–
Net funds brought forward	2,174	7,167	7,167
Net (debt)/funds at period end	(1,658)	6,414	2,174
Comprising:			
Cash at bank	–	6,414	2,174
Bank overdraft	(658)	–	–
Bank loan	(1,000)	–	–
Net (debt)/funds carried forward	(1,658)	6,414	2,174

The notes on pages 10 to 11 form an integral part of these accounts.

## Interim Management Report

The Chairman's Statement on page 3 and the Investment Manager's Review on pages 4 and 5 give details of the important events which occurred during the first six months of the financial year and their impact on the condensed financial statements for the half year ended 31 March 2010.

The principal risks and uncertainties associated with the Company's business fall into the following categories: financial risk; gearing; strategic risk; and accounting, legal and regulatory risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on page 12 of the Company's published Annual Report and Accounts for the year ended 30 September 2009.

## Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, nature of the portfolio and expenditure projections; that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

## Directors' Responsibility Statement

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

## Notes to the Accounts

### 1. Accounting Policies

The financial information for each of the six month periods ended 31 March 2010 and 31 March 2009 comprises non-statutory accounts within the meaning of Sections 434 - 436 of the Companies Act 2006. The financial information for the year ended 30 September 2009 has been extracted from published accounts that have been delivered to the Registrar of Companies and on which the report of the auditors was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Company's accounting policies have not varied from those described in the Report and Accounts for the year ended 30 September 2009.

The Half-Yearly Report has been prepared on a going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

### 2. Income

	(Unaudited) For the six months ended 31 March 2010 £'000	(Unaudited) For the six months ended 31 March 2009 £'000	(Audited) For the year ended 30 September 2009 £'000
Revenue:			
Income from investments held at fair value through profit or loss:			
Franked dividends	1,205	756	2,042
Unfranked dividends	13	15	87
Stock dividends	24	–	–
	<b>1,242</b>	771	2,129
Interest on deposits	4	93	104
Underwriting commission	12	6	6
VAT reclaim interest	–	–	105
	<b>1,258</b>	870	2,344
Capital:			
Special dividends allocated to capital	44	–	–

### 3. Management fees and interest payable

The investment management fee and any finance costs on borrowings for investment purposes are apportioned 10% to the revenue return and 90% to the capital return.

## 4. Return/(loss) per ordinary share

	(Unaudited) For the six months ended 31 March 2010	(Unaudited) For the six months ended 31 March 2009	(Audited) For the year ended 30 September 2009
Revenue (£'000)	998	653	1,880
Capital (£'000)	3,616	(13,109)	11,589
Total (£'000)	4,614	(12,456)	13,469
Weighted average number of ordinary shares in issue	36,143,690	36,143,690	36,143,690
Revenue	2.76p	1.81p	5.20p
Capital	10.00p	(36.27)p	32.06p
Total	12.76p	(34.46)p	37.26p

## 5. Creditors: Amounts falling due within one year

Included within creditors of £2.1 million is a credit facility of £1.0 million (31 March 2009 and 30 September 2009: £nil), drawn down from the Company's 364 day £10 million unsecured loan facility with ING Bank N.V. As at the date of this report, £10 million of the loan facility has been drawn down.

## 6. Net asset value per ordinary share

	(Unaudited) 31 March 2010	(Unaudited) 31 March 2009	(Audited) 30 September 2009
Net assets attributable to ordinary shareholders (£'000)	87,807	59,184	85,109
Ordinary shares in issue at end of period	36,143,690	36,143,690	36,143,690
Net asset value per ordinary share	242.94p	163.75p	235.47p

## Company Summary

### The Company

Schroder UK Mid & Small Cap Fund plc was established in April 1983 under the name of Murray Technology Investments plc and Schroders took over management of the Company in May 2003, at which point its name was changed to Schroder UK Mid & Small Cap Fund plc. The Company is an investment trust with ordinary shares in issue that are listed on the London Stock Exchange. It is one of a number of investment trusts managed and administered by Schroders.

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

### Website and Price Information

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

The Company releases its net asset value to the market daily on both an income inclusive and capital-only basis.

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

### Registrar Services

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The helpline telephone number of Equiniti Registrars is 0871 384 2713. Calls to this number are charged at 8p per minute from a BT landline; other telephone providers' costs may vary.

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

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

### Association of Investment Companies

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

### Dealing Codes

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

ISIN: GB0006108418

SEDOL: 0610841

Ticker: SCP



[www.schroderukmidandsmallcapfund.com](http://www.schroderukmidandsmallcapfund.com)