Schroders

Schroder Income Growth Fund plc

Report and Accounts

For the year ended
31 August 2018

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 Alternative Performance Measures as defined by the European Securities and Markets Authority, and are indicated with*. Definitions of these performance measures, and other terms used in this report, are given on page 52.

Total returns* for the year ended 31 August 2018

+4.0%

2017: 14.3%

Net asset value ("NAV") per share total return[1]

+7.0%

2017: 18.8%

Share price total return[1]

Dividend growth for the year

+5.4%

2018: 11.8p
2017: 11.2p

Annual dividends have risen for 23 consecutive years

[1]Source: Morningstar.

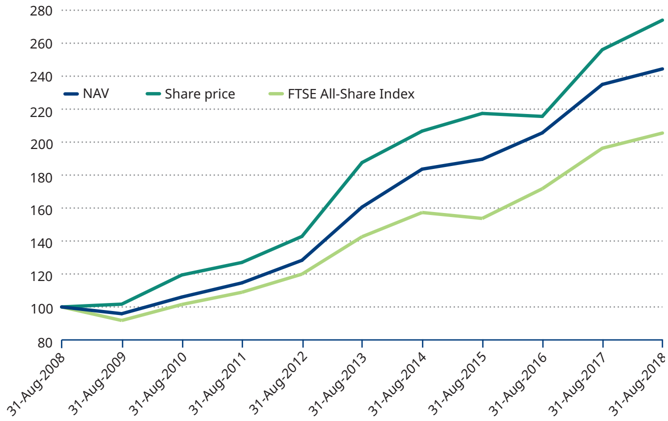
Other financial information

	31 August 2018	31 August 2017	% Change
Shareholders' funds (£'000)	216,740	216,718	+0.0
NAV per share (pence)	315.54	315.51	+0.0
Share price (pence)	301.00	293.63	+2.5
Share price discount* (%)	4.6	6.9	
Gearing* (%)	8.3	5.8	

	Year ended 31 August 2018	Year ended 31 August 2017	% Change
Net revenue return after taxation (£'000)	8,767	9,107	(3.7)
Revenue return per share (pence)	12.76	13.26	(3.8)
Consumer Prices Index ("CPI")[1]	106.6	103.8	+2.7
Ongoing charges* (%)	0.93	0.95	

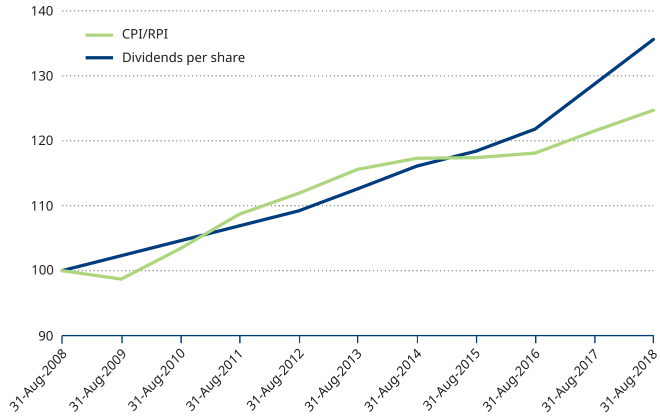
[1]Source: Office for National Statistics.

NAV/share price/FTSE All-Share Index total returns for the 10 years ended 31 August 2018



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 August 2008.

Dividends per share versus the rate of inflation for the 10 years ended 31 August 2018



Source: Morningstar/Office for National Statistics. Rebased to 100 at 31 August 2008.
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 2018..."

Revenue, dividends and performance

Your Company's record of declaring a rising dividend each year since launch remained unbroken in the year ended 31 August 2018, with a total distribution of 11.80 pence per share, representing a rise of 5.4% over the previous year. This increase is twice that of the 2.7% achieved by the Consumer Prices 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.

Over the 10 years to 31 August 2018, the annual dividend has increased by 36%, versus a 25% rise in inflation, and the revenue reserve available to supplement future dividends, if needed, has increased from £4.1 million to £7.4 million.

The revenue return per share fell by 3.8% this year, partly reflecting receipt of fewer special dividends than last year, but also from a large proportion of dollar-denominated dividends having been received during the first half of the year while the dollar was weak. The board had anticipated the likelihood of this when setting last year's dividend, and with your Company's revenue reserves remaining strong, the increase in dividend remains well covered by this year's income.

The Company's net asset value ("NAV") rose by 4.0% in total return terms, marginally behind the FTSE All-Share Index. The reasons behind this are discussed in the Manager's Review, which includes detailed commentary on the portfolio and its performance during the year.

"...your Company's share price rose 3.0% more than the underlying NAV in total return terms..."

Share price discount and buy backs

At the same time, your Company's share price rose 3.0% more than the underlying NAV in total return terms, reflecting a narrowing in the share price discount to NAV, from 6.9% to 4.6%, a level close to today's. Although the average discount over the whole year was a higher 8.0%, and greater than the board would prefer, it is encouraging to see that an improving trend set in during the latter part of the year, arising from increased investor interest in the Company's shares.

The board continues to closely monitor the level of the discount relative to its peer group and to consider whether it would be appropriate to buy back shares, while taking into account prevailing market conditions. In the event, no shares were bought back (or issued) during the year. However, 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 relative to NAV. It will therefore be seeking to renew the existing authority through the resolutions set out in the Notice of Annual General Meeting.

Gearing

Your Manager continues to utilise the gearing facility and, following a review of the structure of the Company's borrowings, the board agreed to extend the £20 million revolving credit facility with Scotiabank Europe plc for a further year, to August 2019. At the start of the year, gearing stood at 5.8%, increasing to 8.3% as at 31 August 2018.

Management fee

I am pleased to report that the board has negotiated a reduction in the Company's management fee from a flat 0.75% per annum on the value 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"), to a reduced, tiered fee. The new fee will be charged at the rate of 0.65% per annum on the first £200 million and 0.55% per annum on subsequent amounts, taking effect from 1 September 2018. Based on the Company's NAV as at 31 August 2018, this new arrangement would reduce the annual fee from £1,733,000 to £1,471,000. This represents a material reduction in costs of £262,000 per annum had the new fee arrangements been applied to the Company's year-end chargeable assets, which will increase the income available for distribution to shareholders and/or will be allocated to reserves to increase the dividend cover.

Board composition and succession planning

Your board recognises the increasing governance focus on succession planning and board diversity, with heightened investor interest and emphasis on these matters. Having reviewed the board's composition, balance and diversity, I confirm that the board is prioritising its succession planning to ensure progressive refreshment and the appropriate blend of skills in the best interests of shareholders. Notwithstanding the length of service of Mr Causer and myself, the board considers each director remains independent in character and judgement.

Chairman's Statement

Annual general meeting

The Company's annual general meeting will be held on Tuesday, 18 December 2018 at 12:00 noon. I would highlight that it will be held at a different location this year, being the Company's new registered office address at 1 London Wall Place, London EC2Y 5AU. 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

Surveys suggest that the UK stock market has rarely been so unpopular with international investors as it is now. It is easy to see why – it is equally rare for the political backdrop to be as unclear – nevertheless the market has continued to provide opportunities to meet our long-term goal. This has been another year when the NAV total return was above UK inflation, and another year – its 23rd – of the Company increasing its dividend.

“...any share like yours with a rising dividend and a yield higher than the rate of inflation remains relevant to investors...”

Can this continue? While the Manager's Review highlights the short-term challenges to the continuing growth of the Company's income, any share like yours with a rising dividend and a yield higher than the rate of inflation remains relevant to investors in today's low interest rate environment. The ongoing, successful identification of portfolio investments that can provide this gives us cause to remain optimistic for the Company's prospects.

Ian Barby
Chairman

8 November 2018

Manager's Review

"...the share price total return was 7.0%..."

The Company's net asset value ("NAV") total return in the 12 months to 31 August 2018 was 4.0%. This compares to 4.7% from the FTSE All-Share Index and 3.8% from the peer group median fund. Meanwhile, the share price total return was 7.0% (source: Morningstar).

Income from investments fell 4.3% from last year's level. There were two factors, of broadly equal weight, behind the reduction. Firstly, the contribution from special dividends fell sharply to around half the level received in the prior year, and one third of the peak level of dividends in the year to end August 2016. This reduction was not unexpected as we have cautioned for some time that the level of special dividends within the market and the portfolio had been at unsustainable levels and was likely to fall back. The special dividends received by the Company over the year came from Taylor Wimpey, John Laing and Hollywood Bowl. Secondly, exchange rate movements over the course of the year were detrimental to income, in contrast to the prior year when they were favourable. The US dollar weakened against sterling from the start of the period through to the spring of 2018 before strengthening over the course of the summer months. This impacted the sterling receipts of income from companies that declare their income in dollars (AstraZeneca, BP, HSBC and Royal Dutch Shell) as most of this dividend income for the year was translated at less favourable exchange rates. These factors more than outweighed strong dividend growth from miner Rio Tinto, UK house builders Bellway and Taylor Wimpey, property companies Assura and Unite and insurance company Aviva.

Market background

The FTSE All-Share Index rose by 4.7% against a backdrop of ongoing growth in the world economy, although tightening global monetary conditions intermittently dampened risk appetite and the demand for equities. The "Goldilocks" scenario of low and stable growth and inflation was put to the test amid fears around the pace of policy tightening by the Federal Reserve, which increased base rates by 75 basis points over the 12 months under review, taking its target rate to 1.75-2.00%. At end of the period these fears expressed themselves as worries around the negative impact a resurgent dollar might have on the growth prospects of emerging markets. In addition, deteriorating US-China trade relations raised questions around the longer-term growth outlook of both countries.

The Bank of England increased interest rates by a total of 0.5% over the period, to 0.75% (raising base borrowing costs for the first time since November 2007), having judged the slowdown in the UK economy in the first quarter of 2018 to have been temporary and related to the very cold weather at the beginning of the year. This subsequently transpired to be the case, with preliminary GDP data from the Office for National Statistics revealing growth had bounced back in Q2, albeit, in part, helped by the very warm summer and World Cup. Higher-frequency indicators suggest that the positive momentum has continued into Q3. Sterling was volatile over the period amid political noise related to the Brexit negotiations.

Portfolio performance

The Company's outperformance against the Index reflected the twin benefits of positive sector allocation and the use of gearing in a rising market, offset to some degree by negative stock selection.

Performance attribution

	Impact (%)
FTSE All-Share Index	**+4.7**
Stock selection	–0.3
Sector allocation	+0.2
Costs	–1.0
Gearing	+0.4
NAV total return	**+4.0%**

Source: Schroders, 31 August 2018.
Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Scandinavian bank Nordea was the top stock detractor. Share price weakness was in part a consequence of overruns in both time and costs of achieving efficiency savings relating to the company's digital upgrade and move of headquarters from Stockholm to Helsinki. The resulting low valuation led to an opportunity for the holding to be increased.

Software and IT company Micro Focus also weighed on relative returns with profit disappointment in the first quarter of 2018 resulting from integration issues following the significant acquisition of HP's software business in mid-2017.

Part of the portfolio's holding had been sold in November last year, but after the price fall, the shares were bought again in July.

Stock selection in financial services (NEX Group) was positive despite exposure to underperforming TP ICAP, which struggled to achieve its integration synergies. Both these companies were created after the demerger of long-term holding ICAP in late 2017, with NEX Group receiving a bid at a substantial premium from CME, the US exchange group, in the spring of 2018.

The Company benefited from a recovery in educational publisher Pearson's share price from its lows of autumn 2017, as well as robust share price performances from luxury retailer Burberry (appointment of new creative director) and developer and infrastructure group John Laing (strong operating performance). Lastly, Smurfit Kappa rebuffed a bid approach from International Paper in part due to the strength of its operating performance.

Manager's Review

Five top/bottom relative stock performers

Security	Portfolio weight (%)	Weight relative to Index (%)	Relative performance (%)[1]	Impact (%)[2]
NEX Group	1.2	1.1	56.1	+0.8
Pearson	1.9	1.7	49.9	+0.6
Burberry	2.4	2.1	22.2	+0.5
Smurfit Kappa	1.8	1.5	31.5	+0.5
John Laing	2.2	2.2	14.7	+0.3

Security	Portfolio weight (%)[1]	Weight relative to Index (%)[1]	Relative performance (%)[2]	Impact (%)[3]
Nordea	2.1	2.1	–18.8	–0.5
TP ICAP	1.1	1.0	–44.9	–0.5
Micro Focus	1.7	1.4	–44.5	–0.4
Pets At Home	0.6	0.6	–37.3	–0.4
British American Tobacco	5.7	1.5	–25.1	–0.4

Source: Factset, 31 August 2017 to 31 August 2018.

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

[1]Weights are averages over the period.
[2]Performance relative to the FTSE All-Share Index total return over the period. Illustrates the performance of the stock in the Index relative to the Index return, apart from stocks not in the Index (e.g. Nordea).
[3]Impact is the contribution to performance relative to the FTSE All-Share Index.

Portfolio activity

Over the period a number of financials positions were reduced, many of which had performed well and were trading at full valuations, such as London Stock Exchange and HSBC. Our substantial holding in financial markets services provider NEX Group was sold following a bid for the company by CME, the US based exchange. Holdings in life assurance providers Prudential and Aviva were also reduced. Part of these proceeds were used to establish a new holding in Deutsche Wohnen, a German residential property company with a significant position in the attractive Berlin market.

> **“We also added a number of domestic stocks where valuations are attractive”**

A number of domestic stocks where valuations are attractive were added to the portfolio. Tesco was purchased in late 2017 as we have confidence that the company's turnaround is being effectively executed leading to a profile of recovering earnings, balance sheet deleveraging and increasing cash flow, which we expect to restore the dividend to attractive levels. Pets At Home, the UK's number one pet retailer, was also added, offering an attractive dividend and whose share price seems not to reflect the long-term value of the company's in-store vet practices and grooming parlours. Additionally a position was initiated in Hollywood Bowl, the UK's leading ten pin bowling operator – a cash generative business that pays an attractive dividend supplemented with special dividend payments, and which should have the scope to pay further special dividends in the future. Bookmaker William Hill was bought. Despite facing regulatory headwinds in the UK, it has an attractive opportunity in the US with the liberalisation of the sports betting market.

Within industrials the holdings in IMI and Laird were sold, reinvesting proceeds in new holdings G4S, Johnson Matthey, Melrose and Weir. A holding in chemicals company Johnson Matthey was added as fears over prospects for its auto catalysts business had led to an opportunity to buy at an attractive valuation. The firm should benefit from a tightening of global emissions regulations, whilst it also has some exciting potential in new battery technology for electric vehicles. Shares in G4S, the outsourcing company, trade at a low valuation despite growing sales and earnings. Weir Group, an engineer supplying the oil, gas and mining sectors, was considered attractive given its operational leverage to increased capex spend from resource companies, which is currently below maintenance spend levels. Melrose is a corporate turnaround specialist which was purchased after a setback in the shares provided an attractive entry opportunity.

Elsewhere the preferences in pharmaceuticals were switched, selling out of Roche and reinvesting proceeds into GlaxoSmithKline (added on share price weakness over fears it may bid for Pfizer's consumer healthcare assets), and in tobacco, selling out of Imperial Brands whilst bolstering the position in British American Tobacco. In mining, the exposure was diversified by reducing the position in Rio Tinto and adding a position in BHP Billiton. Rio Tinto has performed strongly over the past 5 years and the emergence of an activist investor at BHP Billiton provides an opportunity for increased urgency in crystallising shareholder value. The position in Vodafone was substantially reduced because of a concern over the company's desire to enter into a large deal at what appears to be an unattractive price. The balance sheet also has risk which could affect the sustainability of the dividend.

Outlook

The global economy remains relatively robust. However, more recently there has been a slight tempering in growth expectations. This largely reflects concerns over an escalation of the trade war between the US and China. The US Federal Reserve has hiked rates another 0.25% based on strong US economic data boosted by the government's loose fiscal policy. Similarly, the Bank of England has raised rates against the backdrop of a relatively strong summer of growth and inflation data, driven by a pick-up in household spending. In Europe, quantitative easing should be over by the end of 2018, and it is expected that the European Central Bank will raise rates twice in 2019. Therefore, on aggregate, whilst the world economy remains in expansion mode, leading indicators have weakened and a more difficult period of slowing growth and rising inflation may lie ahead.

Manager's Review

Turning to focus on the domestic economy, the UK has recovered from the slowdown seen in the first quarter of 2018, with GDP growth in the second quarter rising to 0.4% quarter-on-quarter. This pick-up came from a combination of household spending and investment. Real incomes in the UK have been positive since January 2018, in marked contrast to last year. The UK also saw an increase in employment in the first half. This has led the Bank of England to increase interest rates to 0.75%, its highest level since March 2009. It restated its intention for slow and limited interest rate rises, with three rate hikes in three years broadly expected. These market expectations are contingent on a Brexit deal being agreed. However, headline improvement has masked concerns over weak domestic demand and poor external performance, in addition to uncertainty over Brexit negotiations.

"The UK remains one of the most out-of-favour asset classes"

The most obvious impact of this uncertainty on UK assets will be on sterling, which may continue to be volatile as news flow swings back and forth. Sterling has been an effective mechanism for either expressing confidence or fear in Brexit and the fate of the UK economy. This is well-illustrated by a poll conducted by our economists of a mixture of investment banks and economic consultancies, asking where they thought sterling would trade against the US dollar when it became apparent which scenario the UK was heading for: no deal Brexit or a withdrawal agreement. The majority of those surveyed expect significant downside in a no deal scenario, the average estimate being around $1.10 to the pound – equating to downside of approximately 15%. In the event of a withdrawal agreement, the average estimate is for the pound to appreciate to approximately $1.40, equalling to upside of approximately 8% from current levels of around $1.30.

The uncertainty clearly also affects sentiment towards the UK stock market, with many international investors remaining nervous about investing in UK companies. Accordingly, the UK remains one of the most out-of-favour asset classes. However, therein lies the opportunity. Despite the UK equity market being widely ignored by the investment community, corporate activity has been strong. This suggests that there are considerable opportunities in the UK equity market at present.

"The short-term outlook for underlying dividend growth, excluding both special dividends and exchange rate movements, has improved..."

Dividend outlook

Income from investments for the year was down 4.3% year-on-year, while dividend income, excluding special dividends, fell at a lower rate of 2%, reflecting the impact of US dollar weakness in the first 7 months of the period. The contribution to total income from special dividends fell for a second consecutive year to 2.6% (from 4.9% last year and 8.6% in the year to August 2016) – a level which is likely to be reasonably sustained in future years. The Company's income will remain sensitive to the timing of exchange rate movements in either direction – boosted by sterling weakness or reduced by sterling strength against the US dollar and to a lesser extent the euro.

The short-term outlook for underlying dividend growth, excluding both special dividends and exchange rate movements, has improved due to the strengthened payout ratios resulting from rising commodity and oil producer profits. However, medium and longer-term dividend growth remains somewhat more uncertain as the economic impact of Brexit is unlikely to be felt until 2019 or later and the impact of trade wars on global activity remains to be seen.

Lastly, given the Company's aim to provide real growth of income, it is important to consider UK inflation. The Consumer Prices Index rose by 2.7% in the year to end August 2018. Inflation and monetary policy are expected to reflect the impact of Brexit negotiations and of sterling. The Bank of England has restated its intention for slow and limited interest rate rises but these market expectations are contingent on a Brexit deal being agreed. In the event of no deal it is expected that sterling will weaken. The effect of this would be to increase the inflation rate but also provide a boost to the Company's income given the extent of dividends which are declared in US 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.

"We remain disciplined investors using a long-term fundamental approach..."

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 in real terms.

Five largest overweight stocks

Security	Portfolio weight (%)	Index weight (%)	Difference (%)
John Laing	2.8	0.1	+2.7
Burberry	2.9	0.4	+2.5
Pearson	2.5	0.3	+2.2
Lloyds Banking	4.0	1.8	+2.2
Johnson Matthey	2.4	0.3	+2.1

Source: Schroders, as at 31 August 2018.

Manager's Review

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
8 November 2018

Investment Portfolio as at 31 August 2018

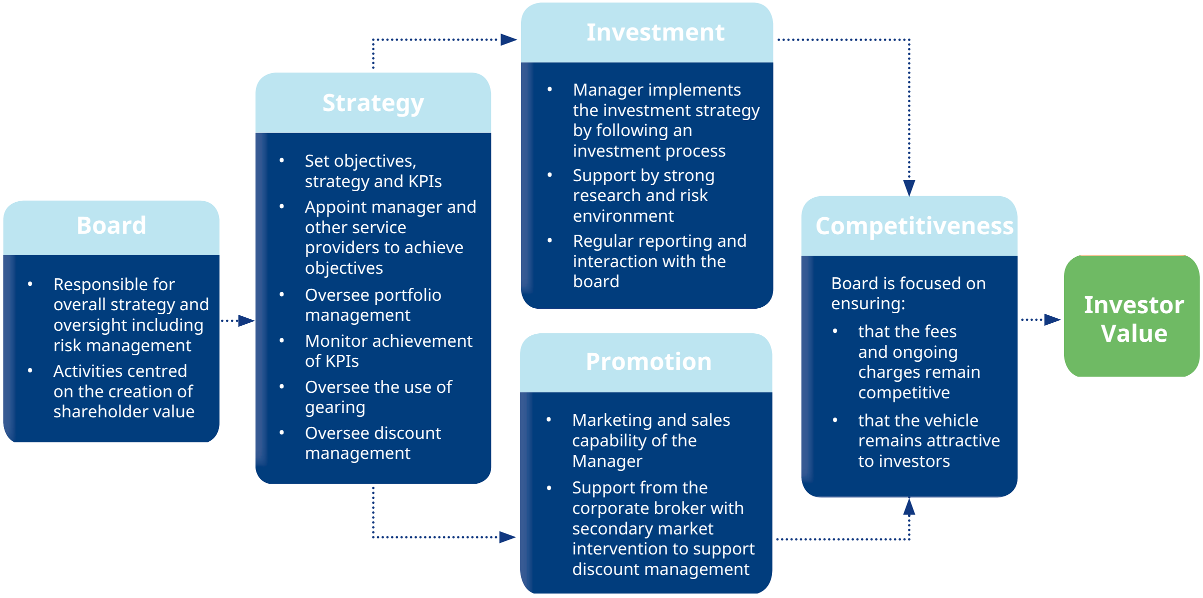
Companies in bold represent the 20 largest investments, which by value account for 67.9% (2017: 71.9%) of total investments. All companies are headquartered in the UK unless otherwise stated. All investments are equities.

	£'000	%
Financials		
Lloyds	**9,374**	**4.0**
HSBC	**8,512**	**3.6**
Aviva	**6,709**	**2.9**
John Laing	**6,709**	**2.9**
Legal & General	**5,579**	**2.4**
Nordea (Sweden)	**4,822**	**2.1**
Assura	4,434	1.9
Intermediate Capital	3,812	1.6
Unite	3,060	1.3
Deutsche Wohnen (Germany)	2,812	1.2
Prudential	2,305	1.0
TP ICAP	1,592	0.7
Total Financials	**59,720**	**25.6**
Oil and Gas		
Royal Dutch Shell 'B'	**17,460**	**7.5**
BP	**13,008**	**5.6**
Galp Energia (Portugal)	3,987	1.7
Royal Dutch Shell 'A' (Netherlands)	976	0.4
Total Oil and Gas	**35,431**	**15.2**
Consumer Services		
Pearson	**6,019**	**2.6**
ITV	**5,074**	**2.2**
Tesco	4,632	2.0
RELX	4,013	1.7
William Hill	3,983	1.7
Hollywood Bowl	3,588	1.5
Daily Mail and General Trust	2,643	1.1
Pets At Home	2,440	1.0
Halfords	2,368	1.0
Total Consumer Services	**34,760**	**14.8**

	£'000	%
Consumer Goods		
British American Tobacco	**13,033**	**5.6**
Burberry	**6,885**	**2.9**
Unilever	**5,307**	**2.3**
Diageo	2,529	1.1
Taylor Wimpey	2,402	1.0
Bellway	2,386	1.0
Total Consumer Goods	**32,542**	**13.9**
Industrials		
BAE Systems	**5,812**	**2.5**
G4S	**4,648**	**2.0**
Smurfit Kappa (Ireland)	3,546	1.5
Melrose	3,354	1.4
Weir	2,538	1.1
Total Industrials	**19,898**	**8.5**
Healthcare		
GlaxoSmithKline	**12,379**	**5.3**
AstraZeneca	**7,364**	**3.2**
Total Healthcare	**19,743**	**8.5**
Basic Materials		
BHP Billiton	**7,267**	**3.1**
Rio Tinto	**6,404**	**2.8**
Johnson Matthey	**5,675**	**2.4**
Total Basic Materials	**19,346**	**8.3**
Telecommunications		
BT	4,236	1.8
Vodafone	2,145	0.9
Total Telecommunications	**6,381**	**2.7**
Technology		
Micro Focus	3,856	1.6
Total Technology	**3,856**	**1.6**
Utilities		
Centrica	2,064	0.9
Total Utilities	**2,064**	**0.9**
Total investments	**233,741**	**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 objective and policy

Details of the Company's investment objective 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 £20 million one-year revolving credit facility with Scotiabank Europe plc, which, under an "accordion" arrangement, may be increased to £35 million, subject to credit approval by the lender. The facility was fully drawn during the year under review. As at 31 August 2018, gearing stood at 8.3% (2017: 5.8%). 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.

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 trust 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 2018, the Manager invested in 40 UK and 5 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 the largest channel by a significant margin.
- Execution-only investors. The Company promotes its shares via engaging with platforms and through its webpages. Volume is smaller but 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 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 Explanation of Special Business at the AGM on page 49.

Key performance indicators

The board measures the development and success of the Company's business through achievement of its investment objectives, which is considered to be the most significant key performance indicator 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 2018, the board comprised three men and one woman. 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, how it is integrated into the investment process, and the outcomes of the 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")

A KID for the Company was published by the AIFM on 1 January 2018, in accordance with the Packaged Retail and Insurance-Based Products Regulations. The calculation of figures and performance scenarios contained in the KID have neither been set nor endorsed by the board.

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. Both the principal risks and the monitoring system are also subject to robust review at least annually. The last review took place in October 2018.

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. Cyber risk relating to all of the Company's key service providers is considered an ongoing threat in light of the rising propensity and impact of cyber attacks on businesses and institutions. To address the risk, the board receives reporting on cyber risk mitigation and management from its key service providers to ensure that it is managed and mitigated appropriately.

Actions taken by the board and, where appropriate, its committees, to manage and mitigate these risks and uncertainties, are set out below.

Risk	Mitigation and management
Strategic 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.	Appropriateness of the Company's investment remit periodically reviewed and success of the Company in meeting its stated objectives monitored. Share price relative to NAV per share monitored and use of buy back authorities considered on a regular basis. Marketing and distribution activity actively reviewed.
The Company's cost base could become uncompetitive, particularly in light of open-ended alternatives.	Ongoing competitiveness of all service provider fees subject to periodic benchmarking against competitors. Annual consideration of management fee levels.
Investment management 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.	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. Annual review of the ongoing suitability of the Manager.
Market 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.	Risk profile of the portfolio considered and appropriate strategies to mitigate any negative impact of substantial changes in markets discussed with the Manager.
Custody Safe custody of the Company's assets may be compromised through control failures by the depositary, including cyber hacking.	Depositary reports on safe custody of the Company's assets, including cash and portfolio holdings, independently reconciled with the Manager's records. Review of audited internal controls reports covering custodial arrangements. Annual report from the depositary on its activities, including matters arising from custody operations.

Strategic Review

Risk	Mitigation and management
Gearing and leverage The Company utilises a credit facility. These arrangements increase 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.	Gearing monitored and strict restrictions on borrowings imposed: gearing continues to operate within pre-agreed limits so as not to exceed 25% of shareholders' funds.
Accounting, legal and regulatory 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. 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.	Confirmation of compliance with relevant laws and regulations by key service providers. Shareholder documents and announcements, including the Company's published annual report, subject to stringent review processes. Procedures established to safeguard against disclosure of inside information.
Service provider 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.	Service providers appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations. Regular reporting by key service providers and monitoring of the quality of services provided. Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements.

Risk assessment and internal controls

Risk assessment includes consideration of the scope and quality of the systems of internal control 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 44 to 47.

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 2018 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 objective, 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 2023.

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

8 November 2018

Board of Directors

Ian Barby

Status: independent non-executive chairman

Length of service: 13 years – appointed a director in October 2005 and chairman in August 2013
Experience: Mr 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 currently chairman of Invesco Perpetual UK Smaller Companies PLC and 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: Invesco Perpetual UK Smaller Companies PLC (Mrs Guerin)

Ewen Cameron Watt

Status: independent non-executive director

Length of service: 10 months – appointed a director in December 2017
Experience: Mr 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, Mr Cameron Watt 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. Mr Cameron Watt is also an independent advisor 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: 9 years – appointed a director in December 2008
Experience: Mr 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. He is currently a director and audit and risk committee chairman of Fidelity China Special Situations plc.
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: 6 years – appointed a director in June 2012
Experience: Mrs 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 the London-listed 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. Mrs 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: Invesco Perpetual UK Smaller Companies Investment Trust plc (Mr Barby)

Directors' Report

The directors submit their report and the audited financial statements of the Company for the year ended 31 August 2018.

Revenue and earnings

The net revenue return for the year was £8,767,000 (2017: £9,107,000), equivalent to net revenue of 12.76 (2017: 13.26) 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 2018, the directors have declared four interim dividends, totalling 11.80 (2017: 11.20) 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 Ewen Cameron Watt, who was appointed at the last AGM on 18 December 2017 and Keith Niven, who retired on the same date. Details of directors' share interests in the Company are set out in the Directors' Remuneration Report on page 26.

Notwithstanding the provisions of the Company's articles of association and the UK Corporate Governance Code in respect of the periodic re-election of directors, the board considers that shareholders should be given the opportunity to vote on the re-election of all of its members on an annual basis. Accordingly, Mr Barby, Mr Causer, Mr Cameron Watt and Mrs Guerin will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

Re-appointment as a director is not automatic and follows a formal process of evaluation of each director's performance. Directors who have served for more than six years are subject to particularly rigorous assessment of their independence and contribution.

The board does not believe that length of service, by itself, necessarily affects a director's independence of character or judgement. Directors who have served on the board for more than nine years may therefore continue to offer themselves for re-election at the AGM. The board has assessed the independence of the directors, all of whom are considered to be independent in character and judgement.

The board, having taken all relevant matters into account, considers that all directors continue to demonstrate commitment to their roles, provide a valuable contribution to board deliberations, and remain free from conflicts. It therefore recommends that shareholders vote in favour of their re-elections.

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 43.

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 2018	% of total voting rights
Charles Stanley & Co. Limited[1]	3,446,355	5.02

[1]Following the year end and at the date of this report, Charles Stanley & Co. Limited reduced its holding to 3,422,693 shares in the Company, representing 4.98% of total voting rights.

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 £439.1 billion (as at 30 September 2018) 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 2018 and 31 August 2017, the Manager was entitled to a management fee at a rate of 0.75% per annum on the value 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"). This is payable quarterly in arrears. With effect from 1 September 2018, the management fee is calculated on the same basis but tiered, so that it is charged at a reduced rate of 0.65% on the first £200 million of chargeable assets and 0.55% per annum on subsequent amounts.

The management fee payable in respect of the year ended 31 August 2018 amounted to £1,706,000 (2017: £1,668,000).

Details of all amounts payable to the Manager are set out in note 16 on page 43.

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.

Depositary

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 depositary specified in the AIFM Directive including, in relation to the Company, as follows:

- 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.

Compliance statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the UKCG Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities on page 24 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 Code is 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,

Directors' Report

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.

Board evaluation

In order to review the effectiveness of the board, the committees and the individual directors, a thorough evaluation process is in place. This is implemented by way of a questionnaire and discussions with the chairman. In respect of the chairman himself, discussions are held between the directors and the Audit and Risk Committee chairman. The process is considered by the board to be constructive in terms of identifying areas for improving the functioning and performance of the board and its committees, the contribution of individual directors and building and developing individual and collective strengths. The last evaluation took place in July 2018.

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 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 promotion 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	1/1	1/1	2/2
David Causer	4/4	1/1	1/1	2/2
Bridget Guerin	4/4	1/1	1/1	2/2
Ewen Cameron Watt[1]	3/3	1/1	1/1	2/2
Keith Niven[2]	0/1	0/0	0/1	0/1

[1]Ewen Cameron Watt was appointed as a director on 18 December 2017.
[2]Keith Niven retired as a director on 18 December 2017.

The board also holds an annual strategy meeting. The last meeting, held in February 2018, 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 committees of the board have defined terms of reference which are available on the webpages at www.schroders.co.uk/incomegrowth. Membership of the committees is set out on pages 16 and 17.

Directors' Report

Nomination and Remuneration Committee

During the year under review, Mrs Guerin was appointed the chairman of the Committee. Following a review of its purpose, the Committee was renamed and its terms of reference updated to include responsibility for reviewing and making recommendations to the board in respect of the level of remuneration paid to directors.

As well as the above-mentioned responsibilities, the Nomination and Remuneration Committee is responsible for succession planning, bearing in mind the balance of skills, knowledge, experience and diversity existing on the board and will recommend to the board when the further recruitment of directors is required. The Nomination and Remuneration Committee aims to maintain a balance of relevant skills, experience and length of service of the directors serving on the board, taking gender and other diversity factors into account.

Before the appointment of a new director, the Committee prepares a description of the role and capabilities required for a particular appointment. While the Committee is dedicated to selecting the best person for the role, the board also recognises the importance of diversity. The board agrees that its members should overall possess a range of experience, knowledge, professional skills and personal qualities as well as the independence necessary to provide effective oversight of the affairs of the Company. These qualities are taken into account in considering the appointment of a new director. The board does not consider it appropriate or in the interests of shareholders as a whole to establish prescriptive diversity targets.

Candidates are drawn from suggestions put forward either by recommendation from within the Company or by the use of an external agency. Candidates are then interviewed by members of the Committee, which makes a recommendation to the board. The approach to the appointment of Mr Cameron Watt is outlined in the Company's 2017 annual report.

To discharge its duties, the Committee met once during the year under review and considered its terms of reference, the appointment of a new director, being Mr Cameron Watt, the balance and skills, independence and experience of the board, and succession planning.

Management Engagement Committee

The role of the Management Engagement Committee is to ensure that the Manager remains suitable to manage the portfolio, that the management contract is competitive and reasonable for the shareholders, and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other service providers. All directors are members of the Committee which is chaired by the chairman of the board. The board considers each member of the Committee to be independent.

The Committee met once during the year under review and considered its terms of reference, the performance and ongoing suitability of the Manager, the terms and conditions of the AIFM agreement, including a reduction in the management fee, the performance and suitability of other service providers, and fees paid to directors (carried out prior to reviewing the remit of Nomination Committee).

Audit and Risk Committee

The role and activities of the Audit and Risk Committee are set out in the Report of the Audit and Risk Committee on pages 22 and 23.

Disclosure of information

Certain matters have been covered in this Directors' Report, in accordance with section 414C of the Companies Act 2006, that would otherwise be required to be disclosed in the Strategic Report.

By order of the board

Schroder Investment Management Limited
Company secretary

8 November 2018

Report of the Audit and Risk Committee

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.

The Audit and Risk Committee met twice during the year ended 31 August 2018. The Committee discharged its responsibilities by:

– considering its terms of reference;
– reviewing the operational controls maintained by the Manager and depositary;
– reviewing the half year and annual report and accounts and related audit plan and engagement letter;
– reviewing the need for an internal audit function;
– 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.

As a result of the work performed, the Committee has concluded that the annual report for the year ended 31 August 2018, 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 24.

Annual report and financial statements

During its review of the Company's financial statements for the year ended 31 August 2018, 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 portfolio holdings 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	– Consideration of methodology used to calculate the fees, matched 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.
– Compliance with the investment trust qualifying rules in section 1158 of the Corporation Tax Act 2010	– Consideration of the Manager's Report confirming compliance.

Report of the Audit and Risk Committee

Effectiveness of the independent audit process

The Audit and Risk Committee evaluated the effectiveness of the independent audit firm and audit process prior to making a recommendation on its re-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 auditor's year end report, which details compliance with regulatory requirements on safeguards, and on the Manager's 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.

The auditor is required to rotate the senior statutory auditor every five years. This is the second year that the current senior statutory auditor has conducted the audit of the Company's financial statements.

Deloitte LLP has provided audit services to the Company from its incorporation in 1995 to date in line with the provisions of the Statutory Auditors and Third Country Regulations 2016 relating to the mandatory rotation of the auditor. Deloitte LLP will be replaced as the Company's auditor before commencement of the audit in 2023 and the Committee has agreed to put the audit contract out to tender with a view to engaging a new audit firm to undertake the Company's audit for the year ended 31 August 2019. The tender process will be overseen by the Committee, which will invite a number of audit firms to participate before making a recommendation to the board for approval. Deloitte LLP is not eligible to be invited to take part in the process due to length of tenure.

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

Independent auditor

Deloitte LLP has indicated its willingness to continue in office. Accordingly, resolutions to re-appoint Deloitte LLP as auditor to the Company, and to authorise the directors to determine Deloitte 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 he or she ought to have taken as a director in order to make himself or herself 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 Audit and Risk 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 appointed auditor. The 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 (2017: 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 Audit and Risk 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

8 November 2018

Statement of Directors' Responsibilities

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

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;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 Remuneration Report comply with the Companies Act 2006. They 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 directors are 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.

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

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the Strategic Report contained in the Annual Report and Accounts 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; and
- 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.

By order of the board

Ian Barby
Chairman

8 November 2018

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 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 remuneration policy were in favour while 0.95% were against. 30,969 votes were withheld.

At the AGM held on 18 December 2017, 99.17% 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 2017 were in favour, while 0.83% were against. 24,901 votes were withheld.

Directors' remuneration policy

The determination of the directors' fees, having previously been a matter dealt with by the Management Engagement Committee, is now 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.

Governance

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 2018 and the previous financial year:

	Fees		Taxable benefits[1]		Total	
	2018	2017	2018	2017	2018	2017
Director	£	£	£	£	£	£
Ian Barby (Chairman)	34,000	28,000	–	113	34,000	28,113
Ewen Cameron Watt[2]	18,921	–	310	–	19,231	–
David Causer	29,000	25,000	–	–	29,000	25,000
Bridget Guerin	24,000	22,000	559	163	24,559	22,163
Keith Niven[3]	7,184	22,000	–	–	7,184	22,000
Peter Readman[4]	–	6,710	–	884	–	7,594
Total	113,105	103,710	869	1,160	113,974	104,870

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

[2]Appointed as a director on 18 December 2017.

[3]Retired as a director on 18 December 2017.

[4]Retired as a director on 20 December 2016.

The information in the above table has been audited.

Directors' Remuneration Report

Directors' annual report on remuneration

This report sets out how the remuneration policy was implemented during the year ended 31 August 2018.

Consideration of matters relating to directors' remuneration

Directors' remuneration was last reviewed by the Nomination and Remuneration Committee in October 2018. 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.

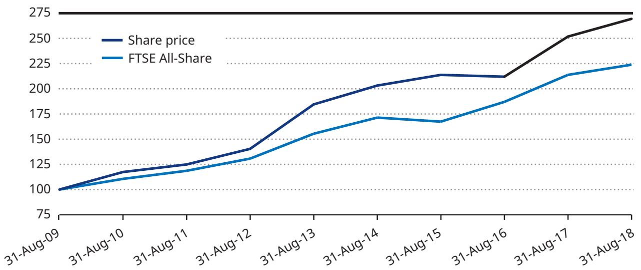
Expenditure by the Company on remuneration and distributions to shareholders

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 2018 £'000	Year ended 31 August 2017 £'000	% change
Remuneration payable to directors	**114**	105	8.6
Distributions paid to shareholders – dividends	**8,519**	7,282	17.0

Performance graph

A graph showing the Company's share price total return compared with the FTSE All-Share Index total return, over the last nine 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 2018	At 1 September 2017
Ian Barby	**100,000**	100,000
Ewen Cameron Watt[1]	**10,000**	Nil
David Causer	**23,750**	23,750
Bridget Guerin	**18,862**	18,862

[1]Appointed as a director on 18 December 2017.

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

Ian Barby
Chairman

8 November 2018

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Schroder Income Growth Fund plc (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 August 2018 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice issued by the Association of Investment Companies in November 2014 "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law, 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) and the Statement of Recommended Practice issued by the Association of Investment Companies ("SORP") in November 2014 and updated in February 2018 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

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.

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 Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

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

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Valuation and ownership of investments; and
- Completeness and accuracy of investment income.

The key audit matters identified in this report are the same as the prior year.

Materiality

The materiality that we used in the current year was £2,167,000 which was determined as 1% of net assets.

Scoping

We scope our audit work by assessing the risks of material misstatement through using both quantitative and qualitative factors relating to the account balances, classes of transactions and disclosures.

Significant changes in our approach

There is no significant change to our approach in the current year.

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

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 1(a) to 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 Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 13 and 14 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 13 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 15 as to how they have assessed the prospects of the Company, 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 Company 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.

We are also required to report whether the directors' statement relating to the prospects of the Company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and ownership of investments

Key audit matter description

The quoted investments held by the Company, amounting to £233.7m (2017: £228.3m), are key to its performance and account for 98% (2017: 96%) of the total assets at 31 August 2018. Please see note 1(b) and note 10.

There is a risk that the investments disclosed in the accounts may not represent the property of the Company. As they are a key driver of the Company's performance and due to their significance to the net asset value there is a risk that these investments might not be correctly valued.

This key audit matter is also included in the Report of the Audit and Risk Committee within the annual report as a significant issue.

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

How the scope of our audit responded to the key audit matter

We have performed the following procedures to test the ownership and valuation of the investment portfolio at 31 August 2018:

- reviewed the service auditor reports on HSBC in order to ascertain whether the design and implementation of controls over the ownership and valuation of investments are appropriate;
- agreed 100% of the Company's investment portfolio at the year end to confirmations received directly from the custodian and the depositary, HSBC;
- independently agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an external pricing source;
- confirmed the liquidity for 100% of the holdings at year end by comparing the holding size to the shares traded after the year end to determine if the valuation is reflective of quoted prices in an active market. Reviewed the completeness and appropriateness of disclosures in relation to fair value measurements and liquidity risk; and
- made enquiries of the Manager and directors regarding their assessment of the portfolio pricing and liquidity.

In addition to the above, we also tested a sample of purchase and sales of investments during the year, which supports our work performed on this key audit matter.

Key observations

Based on the work performed we concluded that the valuation and ownership of investments is appropriate.

Completeness and accuracy of investment income

Key audit matter description

Dividends from equity shares totalled £10.1m (2017: £10.6m) for the year ended 31 August 2018 and are accounted for on the ex-dividend date as revenue, except where, in the opinion of the Manager and the board, the dividend is capital in nature, in which case it is treated as a return of capital. See the accounting policy in note 1(d) and note 3 of the financial statements.

Given the nature of revenue, being a key performance indicator and an area of focus to users of the financial statements, we also determined that there was a potential for fraud through possible manipulation of this balance.

There is a risk that dividend income is not completely recorded. Additionally, there is a risk that dividend income is incorrectly allocated between revenue and capital accounts.

This key audit matter is also included in the Report of the Audit and Risk Committee within the annual report as a significant issue.

How the scope of our audit responded to the key audit matter

We have performed the following procedures on the completeness and accuracy of investment income:

- reviewed the service auditor reports on HSBC in order to confirm the design and implementation of controls over income recognition are appropriate;
- for 100% of special dividends and corporate actions, confirmed the allocation between revenue and capital was appropriate by reviewing management's rationale for the allocation and performing an independent validation;
- reviewed the accounting policies for revenue recognition against the requirements of FRS 102 and the SORP and performed focused testing to confirm their application during the year; and
- for 100% of investments held, we have agreed the ex-dividend dates and rates for dividends declared and confirmed they were correctly recorded.

Key observations

Based on the work performed we concluded that the completeness and accuracy of investment income is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

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

Materiality

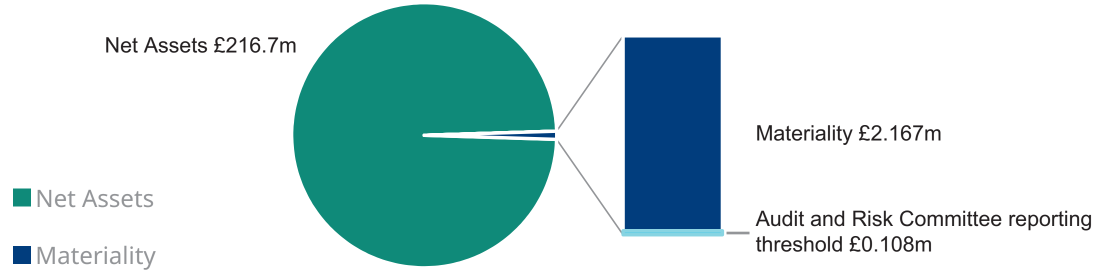
£2,167,000 (2017: £2,167,000)

Basis for determining materiality

1% (2017: 1%) of net assets

Rationale for the benchmark applied

Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is a key driver of shareholder value.



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £108,000 (2017: £43,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We have increased our reporting threshold to 5% of materiality (2017: 2%) to bring it in line with the industry standard. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control and assessing the risks of material misstatement through quantitative and qualitative factors relating to each account balance, class of transactions and disclosure. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Certain of the Company's accounting, administrative and custodial functions have been outsourced to HSBC, and the management function has been outsourced to Schroders. As part of our audit we evaluated the design and implementation of relevant controls in place at HSBC and Schroders, by completing a review of the latest ISAE 3402 controls reports for HSBC and Schroders.

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

– *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements 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, is materially inconsistent with our knowledge obtained in the audit; or

We have nothing to report in respect of these matters.

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

- *Audit and Risk Committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to that Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – 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.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the Audit and Risk Committee, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: completeness and accuracy of investment income given the nature of revenue, being a key performance indicator and an area of focus to users of the financial statements; and
- obtaining an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations we considered in this context included financial reporting, including Companies Act 2006 and UK Listing Rules, as well as the Company's qualification as an Investment Trust under UK tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the completeness and accuracy of investment income as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, and the Audit and Risk Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the FCA; and
- in addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

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 the Directors' Report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company's financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the board of directors on 14 November 1995 to audit the financial statements for the period ending 31 August 1995 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 24 years, covering the years ending 31 August 1995 to 31 August 2018.

Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

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

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.

Chris Hunter CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

8 November 2018

Financial

Income Statement for the year ended 31 August 2018

	Note	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Gains on investments held at fair value through profit or loss	2	–	752	752	–	19,489	19,489
Net foreign currency losses		–	(24)	(24)	–	(9)	(9)
Income from investments	3	10,102	–	10,102	10,553	–	10,553
Other interest receivable and similar income	3	11	–	11	–	–	–
Gross return		10,113	728	10,841	10,553	19,480	30,033
Investment management fee	4	(853)	(853)	(1,706)	(834)	(834)	(1,668)
Administrative expenses	5	(318)	–	(318)	(302)	–	(302)
Net return/(loss) before finance costs and taxation		8,942	(125)	8,817	9,417	18,646	28,063
Finance costs	6	(101)	(101)	(202)	(243)	(243)	(486)
Net return/(loss) on ordinary activities before taxation		8,841	(226)	8,615	9,174	18,403	27,577
Taxation on ordinary activities	7	(74)	–	(74)	(67)	–	(67)
Net return /(loss) on ordinary activities after taxation		8,767	(226)	8,541	9,107	18,403	27,510
Return/(loss) per share	9	12.76p	(0.33)p	12.43p	13.26p	26.79p	40.05p

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 37 to 48 form an integral part of these accounts.

Statement of Changes in Equity for the year ended 31 August 2018

	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 2016		6,869	7,404	2,011	1,596	34,936	135,224	8,450	196,490
Net return on ordinary activities		–	–	–	–	–	18,403	9,107	27,510
Dividends paid in the year	8	–	–	–	–	–	–	(7,282)	(7,282)
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**

The notes on pages 37 to 48 form an integral part of these accounts.

Financial

Statement of Financial Position at 31 August 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	**233,741**	228,315
Current assets			
Debtors	11	**1,900**	1,982
Cash at bank and in hand		**1,978**	7,349
		3,878	9,331
Current liabilities			
Creditors: amounts falling due within one year	12	**(20,879)**	(20,928)
Net current liabilities		**(17,001)**	(11,597)
Total assets less current liabilities		**216,740**	216,718
Net assets		**216,740**	216,718
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	**153,401**	153,627
Revenue reserve	14	**10,523**	10,275
Total equity shareholders' funds		**216,740**	216,718
Net asset value per share	15	**315.54p**	315.51p

These accounts were approved and authorised for issue by the board of directors on 8 November 2018 and signed on its behalf by:

Ian Barby
Chairman

The notes on pages 37 to 48 form an integral part of these accounts.

Company registration number: 03008494

Public company limited by shares registered in England

Notes to the accounts for the year ended 31 August 2018

1. Accounting Policies

(a) Basis of accounting

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 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 2017.

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

(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".

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to the share repurchase reserve.

(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.

(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 42.

(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 classified as loans and receivables and 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. Gains on investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Gains on sales of investments based on historic cost	**18,687**	10,609
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	**(16,227)**	(11,703)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	**2,460**	(1,094)
Net movement in investment holding gains and losses	**(1,708)**	20,583
Gains on investments held at fair value through profit or loss	**752**	19,489

3. Income

	2018 £'000	2017 £'000
Income from investments:		
UK dividends	**9,245**	9,258
Overseas dividends	**751**	836
Scrip dividends	**106**	459
	10,102	10,553
Other interest receivable and similar income:		
Deposit interest	**4**	–
Underwriting commission	**7**	–
	11	–
Total income	**10,113**	10,553

4. Investment management fee

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Management fee	**853**	**853**	**1,706**	834	834	1,668

The basis for calculating the management fee is set out in the Directors' Report on pages 18 and 19.

5. Administrative expenses

	2018 £'000	2017 £'000
Administration expenses	**178**	171
Directors' fees	**113**	104
Auditor's remuneration for audit services[1]	**27**	27
	318	302

[1]Includes £4,000 (2016: £4,000) irrecoverable VAT.

Financial

Notes to the accounts

6. Finance costs

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Interest on bank loans and overdrafts	**101**	**101**	**202**	243	243	486

7. Taxation on ordinary activities

	2018 £'000	2017 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	**74**	67
Tax charge for the year	**74**	67

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2017: lower) than the Company's applicable rate of corporation tax for the year of 19.00% (2017: 19.58%)

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

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Net return on ordinary activities before taxation	**8,841**	**(226)**	**8,615**	9,174	18,403	27,577
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 19.00% (2017: 19.58%)	**1,680**	**(43)**	**1,637**	1,796	3,603	5,399
Effects of:						
Capital return on investments	**–**	**(138)**	**(138)**	–	(3,814)	(3,814)
Tax relief on overseas tax suffered	**(4)**	**–**	**(4)**	–	–	–
Income not chargeable to corporation tax	**(1,896)**	**–**	**(1,896)**	(2,050)	–	(2,050)
Unrelieved expenses	**220**	**181**	**401**	254	211	465
Irrecoverable overseas tax	**74**	**–**	**74**	67	–	67
Tax charge for the year	**74**	**–**	**74**	67	–	67

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £4,791,000 (2017: £4,432,000) based on a prospective corporation tax rate of 17% (2017: 17%). 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

(a) Dividends paid and declared

	2018 £'000	2017 £'000
2017 fourth interim dividend of 5.2p (2017: 4.6p)	**3,572**	3,160
First interim dividend of 2.4p (2017: 2.0p)	**1,649**	1,374
Second interim dividend of 2.4p (2017: 2.0p)	**1,649**	1,374
Third interim dividend of 2.4p (2017: 2.0p)	**1,649**	1,374
Total dividends paid in the year	**8,519**	7,282

	2018 £'000	2017 £'000
Fourth interim dividend declared of 4.6p (2017: 5.2p)	**3,160**	3,572

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 £8,767,000 (2017: £9,107,000).

	2018 £'000	2017 £'000
First interim dividend of 2.4p (2017: 2.0p)	**1,649**	1,374
Second interim dividend of 2.4p (2017: 2.0p)	**1,649**	1,374
Third interim dividend of 2.4p (2017: 2.0p)	**1,649**	1,374
Fourth interim dividend of 4.6p (2017: 5.2p)	**3,160**	3,572
Total dividends of 11.8p (2017: 11.2p) per share	**8,107**	7,694

9. Return/(loss) per share

	2018 £'000	2017 £'000
Revenue return	**8,767**	9,107
Capital (loss)/return	**(226)**	18,403
Total return	**8,541**	27,510
Weighted average number of ordinary shares in issue during the year	**68,688,343**	68,688,343
Revenue return per share	**12.76p**	13.26p
Capital (loss)/return per share	**(0.33)p**	26.79p
Total return per share	**12.43p**	40.05p

Notes to the accounts

10. Investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Opening book cost	170,937	163,232
Opening investment holding gains	57,378	48,498
Opening valuation	228,315	211,730
Purchases at cost	61,944	38,560
Sales proceeds	(57,270)	(41,464)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	2,460	(1,094)
Net movement in investment holding gains and losses	(1,708)	20,583
Closing valuation	233,741	228,315
Closing book cost	194,298	170,937
Closing investment holding gains	39,443	57,378
Total investments held at fair value through profit or loss	233,741	228,315

All investments are listed on a recognised stock exchange.

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

	2018 £'000	2017 £'000
On acquisitions	305	185
On disposals	27	23
	332	208

11. Debtors

	2018 £'000	2017 £'000
Dividends and interest receivable	1,827	1,863
Taxation recoverable	59	106
Other debtors	14	13
	1,900	1,982

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

12. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loan	20,000	20,000
Securities purchased awaiting settlement	387	–
Other creditors and accruals	492	928
	20,879	20,928

The bank loan comprises £20 million (2017: £20 million) drawn down on the Company's £20 million, 364-day revolving credit 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

	2018 £'000	2017 £'000
Ordinary shares allotted, called-up and fully paid:		
68,688,343 (2017: 68,688,343) shares of 10p each	6,869	6,869

14. Reserves

	Share 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	Capital reserves: Investment holding gains and losses[3] £'000	Revenue reserve[4] £'000
Opening balance	7,404	2,011	1,596	34,936	96,249	57,378	10,275
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	2,460	–	–
Net movement in investment holding gains and losses	–	–	–	–	–	(1,708)	–
Transfer on disposal of investments	–	–	–	–	16,227	(16,227)	–
Realised exchange losses on currency balances	–	–	–	–	(24)	–	–
Management fee and finance costs allocated to capital	–	–	–	–	(954)	–	–
Dividends paid	–	–	–	–	–	–	(8,519)
Retained revenue for the year	–	–	–	–	–	–	8,767
Closing balance	7,404	2,011	1,596	34,936	113,958	39,443	10,523

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

[1]These reserves are not distributable.

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

[3]This 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.

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

15. Net asset value per share

	2018	2017
Net assets attributable to the ordinary shareholders (£'000)	216,740	216,718
Shares in issue at the year end	68,688,343	68,688,343
Net asset value per share	315.54p	315.51p

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 pages 18 and 19. 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 2018 amounted to £1,706,000 (2017: £1,668,000) of which £437,000 (2017: £865,000) 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.

17. Related party transactions

Details of the remuneration payable to directors are given in the Directors' Remuneration Report on page 25 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 (2017: 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 37.

At 31 August 2018, all investments in the Company's portfolio are categorised as Level 1 (2017: 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
– a loan drawn on a facility with Scotiabank Europe plc, the purpose of which is 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:

	2018 £'000	2017 £'000
Exposure to floating interest rates:		
Cash at bank and in hand	**1,978**	7,349
Creditors falling due within one year: bank loan	**(20,000)**	(20,000)
Total exposure	**(18,022)**	(12,651)

Interest receivable on cash balances is at a margin below LIBOR (2017: same).

During the year, the Company extended its £20 million revolving credit facility with Scotiabank Europe plc to 26 August 2019. The limit may be increased to £35 million, subject to credit approval by the lender. 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 costs of complying with certain regulatory requirements of the Bank of England. At 31 August 2018, the Company had drawn down £20 million for a one month period at an interest rate of 1.40% per annum.

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:

	2018 £'000	2017 £'000
Minimum debit/maximum credit interest rate exposure during the year – net (debt)/cash balances	**(8,376)**	5,825
Maximum debit interest rate exposure during the year – net debt	**(18,555)**	(15,182)

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2017: 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.

	2018		2017	
	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	**(40)**	**40**	(13)	13
Capital return	**(50)**	**50**	(50)	50
Total return after taxation	**(90)**	**90**	(63)	63
Net assets	**(90)**	**90**	(63)	63

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:

	2018 £'000	2017 £'000
Investments held at fair value through profit or loss	**233,741**	228,315

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% (2017: 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.

	2018		2017	
	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	**(64)**	**64**	(86)	86
Capital return	**23,310**	**(23,310)**	22,746	(22,746)
Total return after taxation and net assets	**23,246**	**(23,246)**	22,660	(22,660)
Change in net asset value	**10.7%**	**(10.7%)**	10.5%	(10.5%)

(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:

	2018		2017	
	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	**387**	**387**	–	–
Other creditors and accruals	**486**	**486**	914	914
Bank loan – including interest	**20,024**	**20,024**	20,024	20,024
	20,897	**20,897**	20,938	20,938

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 would rank as a general creditor to the custodian in respect of cash balances.

Credit risk exposure

The following amounts shown in the Balance Sheet, represent the maximum exposure to credit risk at the current and comparative year end.

	2018		2017	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets				
Investments held at fair value through profit or loss	**233,741**	**–**	228,315	–
Current assets				
Debtors – dividends and interest receivable and other debtors	**1,900**	**1,900**	1,982	1,982
Cash at bank and in hand	**1,978**	**1,978**	7,349	7,349
	237,619	**3,878**	237,646	9,331

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:

	2018 £'000	2017 £'000
Debt		
Bank loan	**20,000**	20,000
Equity		
Called-up share capital	**6,869**	6,869
Reserves	**209,871**	209,849
	216,740	216,718
Total debt and equity	**236,740**	236,718

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.

	2018 £'000	2017 £'000
Borrowings used for investment purposes, less cash	**18,022**	12,651
Net assets	**216,740**	216,718
Gearing	**8.3%**	5.8%

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 ("AGM") – Explanation of Special Business

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.

The AGM of the Company will be held on Tuesday, 18 December 2018 at 12.00 noon. The formal Notice of Meeting is set out on page 50.

Resolutions relating to the following items of special business will be proposed at the AGM:

Resolution 9 – authority to allot shares (ordinary resolution) and resolution 10 – power to disapply pre-emption rights (special resolution)

At the AGM held on 18 December 2017, the directors were granted authority to allot a limited number of new ordinary shares or reissue shares held in treasury for cash. No shares have been allotted under this authority, which will expire at the forthcoming AGM. At the 2017 AGM, power was also given to the directors to allot a limited number of new shares and/or reissue shares held in treasury, other than pro rata to existing shareholders. This power will also expire at the forthcoming AGM and resolutions to renew both authorities will be proposed at the forthcoming AGM, the details of which are set out in full in the Notice of AGM on page 50.

An ordinary resolution (resolution 9) will be proposed to authorise the directors to allot shares for cash 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 AGM). A special resolution (resolution 10) will also be proposed to give the directors power 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 (excluding any shares held in treasury) as at the date of the Notice of AGM. Pre-emption rights under the Companies Act 2006 apply to the reissue of treasury shares for cash as well as the allotment of new shares. Resolution 10 therefore relates to both issues of new shares and the reissue of treasury shares.

The directors intend to use the authorities to issue new ordinary shares or reissue shares from treasury whenever they believe it is advantageous both to new investors and to the Company's existing shareholders to do so. The authority will only be used to issue ordinary shares at a premium to net asset value per share prevailing at the time of issue.

If renewed, both authorities will expire at the conclusion of the AGM in 2019 unless renewed or revoked earlier.

Resolution 11 – authority to make market purchases of the Company's ordinary shares (special resolution)

At the AGM held on 18 December 2017, the Company was granted authority to make market purchases of up to 10,296,382 ordinary shares for cancellation or to be held in treasury. 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 net asset value. 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 at the date of the Notice of AGM. The directors will exercise this authority only if they 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 or held in treasury for potential reissue. If renewed, the authority will expire at the conclusion of the AGM in 2019, unless renewed or revoked earlier.

The maximum purchase price that may be paid for an ordinary share will be no more than the greater of 5% 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 the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 10p, being the nominal value per ordinary share.

The resolution to be put to shareholders will also authorise the Company to hold up to 10% of the issued share capital bought back into treasury for potential reissue in line with the conditions outlined above. Shares held in treasury may be reissued or cancelled at a future date rather than simply cancelled at the time of acquisition.

Recommendation

The board considers that all the resolutions to be proposed at the AGM are in the best interests of the Company and shareholders as a whole. Accordingly, the board unanimously recommends to shareholders that they vote in favour of the 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, 18 December 2018 at 12.00 noon at 1 London Wall Place, London EC2Y 5AU, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions:

1. To receive the directors' report and the audited accounts for the year ended 31 August 2018.
2. To approve the directors' remuneration report for the year ended 31 August 2018.
3. To re-elect Mr Ian Barby as a director of the Company.
4. To re-elect Mr Ewen Cameron Watt as a director of the Company.
5. To re-elect Mr David Causer as a director of the Company.
6. To re-elect Mrs Bridget Guerin as a director of the Company.
7. To re-appoint Deloitte LLP as auditor of the Company.
8. To authorise the directors to determine the remuneration of Deloitte LLP as auditor of the Company.
9. To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

   "That the directors be and are hereby generally and unconditionally authorised, in substitution for all subsisting authorities in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £686,883 (representing 10% of the share capital in issue at the date of this Notice), provided that this authority shall expire at the conclusion of the next annual general meeting of the Company but so that this authority shall enable the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry."
10. To consider and, if thought fit, to pass, the following resolution as a special resolution:

    "That, subject to the passing of resolution 9 set out above, the directors be and are hereby empowered, pursuant to section 571 of the Act, to allot equity securities (including any shares held in treasury) (as defined in section 560 of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said resolution 9 above 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 on 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."
11. 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 693 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10p each in the capital of the Company ("Shares"), at whatever discount the prevailing market price represents to the prevailing net asset value per share provided that:

    (a) the maximum number of Shares hereby authorised to be purchased shall be 10,296,382, representing 14.99% of the issued share capital on the date of this Notice;

    (b) the minimum price which may be paid for a Share is 10p;

    (c) the maximum price which may be paid for a Share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased; and (ii) the higher of the price of the last independent trade in the Shares of that class and the highest then current independent bid for the Shares of that class on the London Stock Exchange;

    (d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to net asset value;

    (e) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company unless such authority is renewed or revoked prior to such time; and

    (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority 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."

By order of the board
Schroder Investment Management Limited
Company secretary

Registered office:
1 London Wall Place
London EC2Y 5AU

8 November 2018
Registered Number: 03008494

Explanatory Notes to the Notice of Meeting

1. Ordinary shareholders are entitled to attend and vote at the AGM 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 AGM.

   A proxy form is enclosed. 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 registrar, Equiniti Limited, on 0800 032 0641 (or +44(0) 121 415 0207 for overseas callers), or you may photocopy the enclosed 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 AGM 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 registrar, 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 ID 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 and clicking on the link to vote. 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 48 hours before the time for the meeting. 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 AGM. Please contact the registrar if you need any further guidance on this.

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 AGM. 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 16 December 2018, 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 16 December 2018 shall be disregarded in determining the right of any person to attend and vote at the AGM.

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 AGM by any attendee, for at least 15 minutes prior to, and during, the meeting. None of the directors has a contract of service with the Company.

6. The biographies of the directors are set out on pages 16 and 17 of the Company's annual report and accounts for the year ended 31 August 2018.

7. As at 8 November 2018, 68,688,343 ordinary shares of 10 pence each were in issue (no shares were held in treasury). Accordingly, the total number of voting rights of the Company as at 8 November 2018 is 68,688,343.

8. A copy of this Notice of Annual General 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 to download from the Company's webpages at www.schroders.co.uk/incomegrowth.

9. Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with 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 Alternative Performance Measures as defined by the European Securities and Markets Authority, and numerical calculations are given for those.

Consumer Prices Index ("CPI")

The Consumer Price 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 48.

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 £216,520,000 (2017: £207,223,000).

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 2018 is calculated as follows:

Opening NAV at 31/8/17	315.51p
Closing NAV at 31/8/18	315.54p

Dividends received	XD date	NAV on XD date	Factor	Cumulative factor
5.2p	05/10/2017	315.26p	1.016	1.016
2.4p	28/12/2017	318.24p	1.008	1.024
2.4p	05/04/2018	302.72p	1.008	1.032
2.4p	05/07/2018	319.99p	1.008	1.040

NAV total return, being the closing NAV, multiplied by the cumulative factor, expressed as a percentage increase in the opening NAV:	4.0%

The share price total return for the year ended 31 August 2018 is calculated as follows:

Opening share price at 31/8/17	293.63p
Closing share price at 31/8/18	301.00p

Dividends received	XD date	Share price on XD date	Factor	Cumulative factor
5.2p	05/10/2017	288.75p	1.018	1.018
2.4p	28/12/2017	294.50p	1.008	1.026
2.4p	05/04/2018	279.00p	1.009	1.035
2.4p	05/07/2018	293.00p	1.008	1.044

Share price total return, being the closing share price, multiplied by the cumulative factor, expressed as a percentage increase in the opening share price:	7.0%

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 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 Schroders' webpages at www.schroders.co.uk/its.

A glossary of terms used in this annual report may be found on the Company's webpages at www.schroders.co.uk/incomegrowth.

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
Annual general meeting	December
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

Alternative Investment Fund Managers Directive ("AIFMD") disclosures

The AIFMD, as transposed into the FCA Handbook in the UK, requires that certain pre-investment information be made available to investors in Alternative Investment Funds (such as the Company) and also that certain regular and periodic disclosures are made. This information and these disclosures may be found either below, elsewhere in this annual report, or in the Company's AIFMD information disclosure document published on the webpage www.schroders.co.uk/its.

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 webpage www.schroders.co.uk/its. The Company is also required to periodically publish its actual leverage exposures. As at 31 August 2018 these were:

Leverage exposure	Maximum ratio	Actual ratio
Gross method	2.0	1.1
Commitment method	2.0	1.1

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 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.

www.schroders.co.uk/incomegrowth

www.schroders.co.uk/its

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

Scotiabank Europe Plc
201 Bishopsgate
London EC2M 3NS

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.

Corporate broker

Stifel Nicolaus Europe Limited
150 Cheapside
London EC2V 6ET

Independent auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

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.

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Schroders