

Schroder

Income Growth Fund plc

Half-Year Report for the six months ended 28 February 2014



Schroders

Investment Objective

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.

Directors

Ian Barby (Chairman)
David Causer
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Keith Niven
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Advisers

Investment Manager and Company Secretary

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Financial Highlights

Total returns (including dividends reinvested)

Six months ended
28 February 2014

Net asset value ("NAV") per share ¹	12.8%
Share price ¹	10.6%
FTSE All-Share Index ²	8.8%

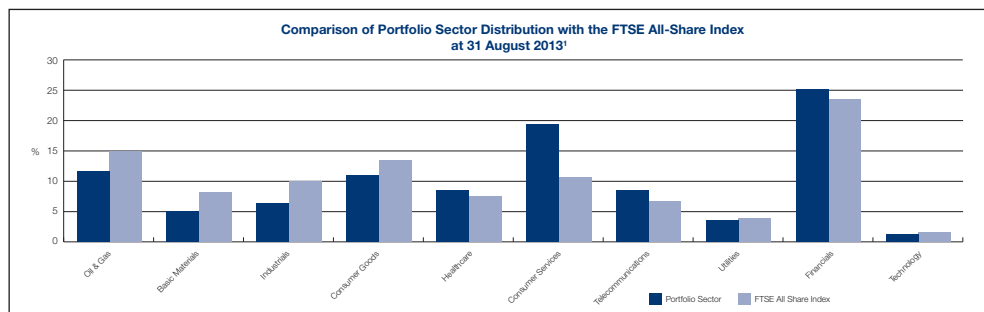
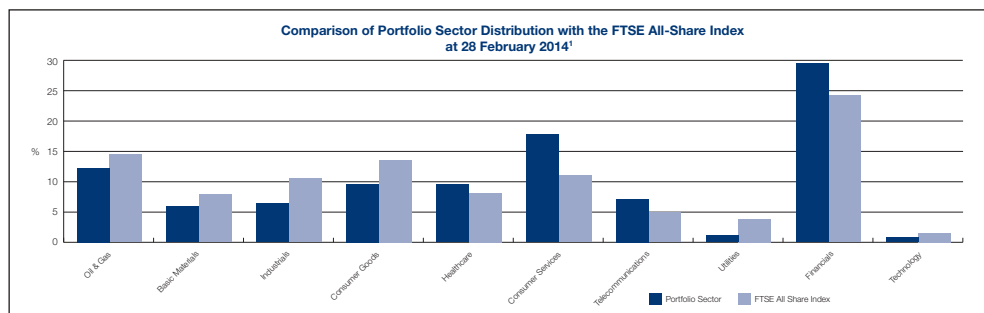
Dividends declared in respect of the six months ended 28 February 2014 amounted to 4.00p per share (six months ended 28 February 2013: 4.00p).

	28 February 2014	31 August 2013	% Change
Shareholders' funds (£'000)	189,241	171,616	+10.3
NAV per share	275.51p	249.85p	+10.3
Share price	271.50p	251.25p	+8.1
Share price (discount)/premium to NAV per share	(1.5%)	0.6%	

¹Source: Morningstar.

²Source: Thomson Financial Datastream.

Portfolio Sector Distribution



¹Source: Thomson Financial Datastream.

Interim Management Report

Chairman's Statement

Investment Performance

Shareholders may wish to focus on a number of specific measures in evaluating their Company's performance. These include the amount of income generated and the extent to which this has been distributed to shareholders as well as the movement in the share price, change in net asset value and the volatility and absolute levels of discount at which their Company's shares have traded over the period under review.

In this context, while the Company's revenue return per share of 2.82 pence during the six months ended 28 February 2014 represented a 9.3% decrease on the equivalent figure for 2013, the total return in the Company's net asset value was a positive 12.8%¹ during the period under review, outperforming the 8.8%² total return of the FTSE All-Share Index.

This reduction in revenue return compared with the first six months of last year was largely attributable to changes made to the composition of the portfolio, which had the effect of repositioning a proportion of dividends receivable from portfolio companies into the second half of the financial year. In addition, due to unfavourable market conditions, there was an absence of any option premium income.

The reasons for the net asset value outperformance are more fully described in the Investment Manager's Review.

At the same time, the Company's share price produced a total return of 10.6%¹ during the six months under review and its shares generally continued to trade in a narrow discount/premium range during the period, standing at a discount to net asset value of 1.5% at 28 February 2014, as compared with a premium of 0.6% at the beginning of the period.

Dividends

The Company paid a first interim dividend for the year ending 31 August 2014 of 2.00 pence per share (2013: 2.00 pence per share) on 31 January 2014. The Board has since declared the payment of a second interim dividend for the current financial year of 2.00 pence per share (2013: 2.00 pence per share), which will be paid on 30 April 2014 to shareholders who were on the register at the close of business on 4 April 2014.

Gearing

The Company maintains a credit facility of £15 million, which was fully drawn at the end of the period. As a result, gearing³ of 3.3% at the beginning of the period under review had increased to 6.1% as at 28 February 2014. The ability to deploy gearing is one of the key differentiating factors that investment trusts have over other investment products. The Board has established parameters with the Investment Manager governing its level and use, which it continues to review, including consideration of the employment of longer term debt.

Premium/Discount Management

The Board continued to monitor the share price relative to net asset value during the period under review, during which the Company's shares continued to trade within a narrow range close to parity to net asset value. As a result, while it has not been practicable to issue to new shares during the period, no shares were purchased for cancellation or holding in Treasury.

Outlook

Pleasing as it is to report another double-digit rise in the net asset value per share, there is a sense that the potential for income growth might be at a turning point. Dividends from the UK corporate sector – and the Company's income – have now fully recovered from the last recession, but we wait to see whether dividends will continue to rise faster than inflation in a world that remains economically challenging.

The Investment Manager's Review is relatively reassuring on this point for the next 12 months, while noting a need for corporate profits to improve if this is to continue into 2015 and beyond.

Ian Barby

Chairman

30 April 2014

¹Source: Morningstar.

²Source: Thomson Financial Datastream.

³Gearing represents borrowings used for investment purposes less cash, expressed as a percentage of net assets.

Interim Management Report (continued)

Investment Manager's Review

In the six months to the end of February 2014, the Company's net asset value produced a total return of 12.8%¹. This compares to a total return of 8.8%² from the FTSE All-Share Index.

Market Background

The UK stock market has been moving steadily upwards since last summer, as investors responded more to good news (a recovering UK and US economy, and interest rates staying low) than bad (concern about emerging markets, and occasionally disappointing profit announcements from individual companies).

The Company's outperformance came from a number of the holdings that benefited from the gentle cyclical upturn in the domestic economy such as ITV, Daily Mail, Halfords, Carillion and insurance company holdings. The disappointments were stock specific: Pearson (where a business repositioning has been taking longer than expected), Tate & Lyle (Chinese competition impacting its sucrose business), and SSE (a power company impacted by political risks).

The outperformance led us to take profits in some holdings. Many of the other portfolio transactions related to the receipt of cash and stock from Vodafone's disposal of its stake in Verizon Wireless towards the end of the period. This funded a number of additions to existing holdings, notably Vodafone itself, Pearson and attractively-yielding stocks such as BAe, BAT, HSBC, GlaxoSmithKline, Rio Tinto and Royal Dutch Shell. The gearing was also increased and used to invest in three new holdings: Intercontinental Hotels; Sage, which supplies accounting software; and Wood Group, where management have committed to an enhanced dividend pay-out. We sold Tesco on evidence of further pressure in the food retail sector and the remainder of SSE.

Outlook

Growth expectations for developed economies remain robust, with a gradual acceleration in global growth anticipated in 2015. Central banks are likely to remain accommodative for the foreseeable future. In contrast, many emerging economies are expected to continue to struggle with their transition to stable-growth economies with the added challenge of rising US real interest rates.

In the UK, economic and profit releases continue to improve, and employment has been rising. For this to be sustainable, UK productivity growth needs to catch up with output growth, otherwise inflation could rise sooner than commentators currently expect. Companies with significant overseas sales are likely to see profits tempered by foreign exchange moves. We expect profits growth to be a more important driver of stock performance this year. The recent reporting season offered evidence of this as the market rewarded companies announcing profit upgrades and punished those with downgrades. M&A activity and companies' focus on investment remain positive drivers.

The outlook for dividend growth this year is likely to be similar to last year – higher than inflation but at a single-digit rate. Whilst corporate cash flows and balance sheets have been strong, profitability has disappointed, in part because of the strength of sterling, and this has been reflected in a small downgrading in market expectations for dividends. The test over the next 12-18 months – for both the overall market and for the Company's income – is whether corporate profits grow from current levels. In aggregate we continue to believe that equities are well placed for modestly positive returns, and have topped up positions that are out of favour. Valuations support the current market level but are no longer cheap. Our ongoing attention is to identify companies capable of generating the dividend growth needed to meet the Company's investment objective.

Schroder Investment Management Limited

30 April 2014

¹Source: Morningstar.

²Source: Thomson Financial Datastream.

Interim Management Report (continued)

Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business fall into the following categories: financial risk; strategic risk; and accounting, legal and regulatory risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 10 and 11 of the Company's published Annual Report and Accounts for the year ended 31 August 2013. These risks and uncertainties have not materially changed during the six months ended 28 February 2014.

Going Concern

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

Related Party Transactions

Details of related party transactions can be found on page 34 of the Company's published Annual Report and Accounts for the year ended 31 August 2013. There have been no material transactions with the Company's related parties during the six months ended 28 February 2014.

Directors' Responsibility Statement

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

Ten Largest Investments

At 28 February 2014

Company and Activity	Market value of holding £'000	% of shareholders' funds
GlaxoSmithKline Global pharmaceutical company	9,983	5.3
Legal & General UK financial services group	9,610	5.1
HSBC Banking and financial services group	9,085	4.8
AstraZeneca Global pharmaceutical company	9,084	4.8
Royal Dutch Shell 'B' Integrated oil company	8,864	4.7
British American Tobacco International cigarette company	7,872	4.1
Vodafone Global mobile telephone provider	7,464	3.9
BP Integrated oil company	7,308	3.9
Swedbank (Sweden) Banking and financial services group	6,967	3.7
BT Group UK fixed-line telecommunications provider	6,848	3.6
Total	83,085	43.9

At 31 August 2013, the ten largest investments represented 43.2% of shareholders' funds.

Income Statement

	(Unaudited) For the six months ended 28 February 2014			(Unaudited) For the six months ended 28 February 2013			(Audited) For the year ended 31 August 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	-	20,059	20,059	-	18,737	18,737	-	28,834	28,834
Losses on derivative contracts	-	-	-	-	-	-	-	(380)	(380)
Net foreign currency gains/(losses)	-	6	6	-	(3)	(3)	-	(3)	(3)
Income from investments	2,470	77	2,547	2,597	-	2,597	7,955	432	8,387
Other interest receivable and similar income	3	-	3	53	-	53	108	-	108
Gross return	2,473	20,142	22,615	2,650	18,734	21,384	8,063	28,883	36,946
Investment management fee	(342)	(342)	(684)	(304)	(304)	(608)	(644)	(644)	(1,288)
Performance fee	-	(85)	(85)	-	(142)	(142)	-	(148)	(148)
Administrative expenses	(148)	-	(148)	(171)	-	(171)	(324)	-	(324)
Net return before finance costs and taxation	1,983	19,715	21,698	2,175	18,288	20,463	7,095	28,091	35,186
Finance costs	(40)	(40)	(80)	(27)	(27)	(54)	(52)	(52)	(104)
Net return on ordinary activities before taxation	1,943	19,675	21,618	2,148	18,261	20,409	7,043	28,039	35,082
Taxation (note 4)	(9)	-	(9)	(9)	-	(9)	(40)	-	(40)
Net return on ordinary activities after taxation	1,934	19,675	21,609	2,139	18,261	20,400	7,003	28,039	35,042
Return per share (note 5)	2.82p	28.64p	31.46p	3.11p	26.59p	29.70p	10.20p	40.82p	51.02p

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 recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

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

Reconciliation of Movements in Shareholders' Funds

For the six months ended 28 February 2014 (Unaudited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2013	6,869	7,404	2,011	34,936	1,596	113,092	5,708	171,616
Net return on ordinary activities	–	–	–	–	–	19,675	1,934	21,609
Dividends paid in the period	–	–	–	–	–	–	(3,984)	(3,984)
At 28 February 2014	6,869	7,404	2,011	34,936	1,596	132,767	3,658	189,241

For the six months ended 28 February 2013 (Unaudited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2012	6,869	7,404	2,011	34,936	1,596	85,053	5,231	143,100
Net return on ordinary activities	–	–	–	–	–	18,261	2,139	20,400
Dividends paid in the period	–	–	–	–	–	–	(3,778)	(3,778)
At 28 February 2013	6,869	7,404	2,011	34,936	1,596	103,314	3,592	159,722

For the year ended 31 August 2013 (Audited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2012	6,869	7,404	2,011	34,936	1,596	85,053	5,231	143,100
Net return on ordinary activities	–	–	–	–	–	28,039	7,003	35,042
Dividends paid in the year	–	–	–	–	–	–	(6,526)	(6,526)
At 31 August 2013	6,869	7,404	2,011	34,936	1,596	113,092	5,708	171,616

Balance Sheet

	(Unaudited) 28 February 2014 £'000	(Unaudited) 28 February 2013 £'000	(Audited) 31 August 2013 £'000
Fixed assets			
Investments held at fair value through profit or loss	200,474	165,698	176,421
Current assets			
Debtors	2,328	1,669	1,329
Cash at bank and in hand	3,503	419	1,073
	5,831	2,088	2,402
Current liabilities			
Creditors: amounts falling due within one year	(17,064)	(8,064)	(7,207)
Net current liabilities	(11,233)	(5,976)	(4,805)
Net assets	189,241	159,722	171,616
Capital and reserves			
Called-up share capital	6,869	6,869	6,869
Share premium	7,404	7,404	7,404
Capital redemption reserve	2,011	2,011	2,011
Share purchase reserve	34,936	34,936	34,936
Warrant exercise reserve	1,596	1,596	1,596
Capital reserves	132,767	103,314	113,092
Revenue reserve	3,658	3,592	5,708
Total equity shareholders' funds	189,241	159,722	171,616
Net asset value per share (note 6)	275.51p	232.53p	249.85p

Cash Flow Statement

	(Unaudited) For the six months ended 28 February 2014 £'000	(Unaudited) For the six months ended 28 February 2013 £'000	(Audited) For the year ended 31 August 2013 £'000
Net cash inflow from operating activities (note 7)	1,933	2,047	6,130
Net cash outflow from servicing of finance	(88)	(53)	(110)
Taxation paid	(6)	(4)	(52)
Net cash (outflow)/inflow from investment activities	(3,731)	894	318
Dividends paid	(3,984)	(3,778)	(6,526)
Net cash inflow from financing	8,300	–	–
Net cash inflow/(outflow) in the period	2,424	(894)	(240)
Reconciliation of net cash flow to movement in net debt			
Net cash inflow/(outflow) in the period	2,424	(894)	(240)
Exchange movements	6	(3)	(3)
Loan drawn down	(8,300)	–	–
Changes in net debt arising from cash flows	(5,870)	(897)	(243)
Net debt at the beginning of the period	(5,627)	(5,384)	(5,384)
Net debt at the end of the period	(11,497)	(6,281)	(5,627)
Represented by:			
Cash at bank and in hand	3,503	419	1,073
Bank loan	(15,000)	(6,700)	(6,700)
Net debt	(11,497)	(6,281)	(5,627)

Notes to the Accounts

1. Financial statements

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

The figures and financial information for the year ended 31 August 2013 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommend Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009.

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

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 31 August 2013.

3. Dividends

	(Unaudited) For the six months ended 28 February 2014 £'000	(Unaudited) For the six months ended 28 February 2013 £'000	(Audited) For the year ended 31 August 2013 £'000
2013 fourth interim dividend of 3.8p (2012: 3.5p)	2,610	2,404	2,404
First interim dividend of 2.0p (2013: 2.0p)	1,374	1,374	1,374
Second interim dividend of 2.0p	–	–	1,374
Third interim dividend of 2.0p	–	–	1,374
	3,984	3,778	6,526

A second interim dividend of 2.0p (2013: 2.0p) per share, amounting to £1,374,000 (2013: £1,374,000) has been declared payable in respect of the six months ended 28 February 2014.

4. Taxation

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. The tax charge comprises irrecoverable overseas withholding tax deducted from dividends receivable.

5. Return per share

	(Unaudited) For the six months ended 28 February 2014 £'000	(Unaudited) For the six months ended 28 February 2013 £'000	(Audited) For the year ended 31 August 2013 £'000
Revenue return	1,934	2,139	7,003
Capital return	19,675	18,261	28,039
Total return	21,609	20,400	35,042
Weighted average number of Ordinary shares in issue during the period	68,688,343	68,688,343	68,688,343
Revenue return per share	2.82p	3.11p	10.20p
Capital return per share	28.64p	26.59p	40.82p
Total return per share	31.46p	29.70p	51.02p

6. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 28 February 2014 of 68,688,343 (28 February 2013 and 31 August 2013: same).

Notes to the Accounts

7. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	(Unaudited) For the six months ended 28 February 2014 £'000	(Unaudited) For the six months ended 28 February 2013 £'000	(Audited) For the year ended 31 August 2013 £'000
Total return on ordinary activities before finance costs and taxation	21,698	20,463	35,186
Less capital return on ordinary activities before finance costs and taxation	(19,715)	(18,288)	(28,091)
Decrease/(increase) in accrued dividends and interest receivable	427	321	(159)
Decrease/(increase) in other debtors	2	(1)	(1)
Management fee and performance fee allocated to capital	(427)	(446)	(792)
Scrip dividends received as income	(19)	-	(35)
(Decrease)/increase in accrued expenses	(33)	(2)	22
Net cash inflow from operating activities	1,933	2,047	6,130

Company Summary

The Company

Schroder Income Growth Fund plc was established in March 1995 and is an independent investment trust whose Ordinary shares are listed on the London Stock Exchange. As at 30 April 2014, the Company had 68,688,343 Ordinary shares of 10p each in issue. The Company is administered by Schroders, which also manages its assets.

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 of the Company contain provisions requiring the Directors to put forward a proposal for the continuation of the Company to shareholders at five yearly intervals. The next proposal will be put forward at the Annual General Meeting in 2015.

Website and Share Price Information

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

The Company releases its net asset value on both a cum and ex income basis to the market daily.

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

Registrar Services

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The helpline telephone number of Equiniti Registrars is 0800 032 0641. Calls to this number are free of charge from UK landlines. Other telephone providers' costs may vary.

Equiniti maintains a web-based enquiry service for shareholders. Currently the "Shareview" site (address below) contains information available on public registers. Shareholders will be invited to enter their name, shareholder reference (account number) and postcode and will be able to view information on their own holding. Visit www.shareview.co.uk for more details.

Association of Investment Companies

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

www.schroderincomegrowthfund.com