Schroder UK Mid Cap Fund plc

Annual Report and Accounts

For the year ended
30 September 2019

Key messages

- Portfolio of "high conviction" stocks aiming to provide a total return in excess of the FTSE 250 (ex-Investment Companies) Index and an attractive level of yield.
- Dividend has tripled since 2007 as portfolio investments have captured the cash generative nature of investee companies, in a market where income has become an increasingly important part of our investors' anticipated returns.
- Provides exposure to dynamic mid cap companies that have the potential to grow to be included in the FTSE 100 index, which are at an interesting point in their life cycle, and/or which could ultimately prove to be attractive takeover targets.
- Proven research driven investment approach based on the Manager's investment process allied with a strong selling discipline.
- Managed by Andy Brough and Jean Roche with a combined 50 years' investment experience[1], the fund has a consistent, robust and repeatable investment process and is currently ranked first out of 11 trusts in the AIC UK All Companies sector since launch.[2]

[1]Andy Brough became Lead Manager on 1 April 2016.

[2]Ranking in Association of Investment Companies (AIC) Sector, UK All Companies, sourced from Morningstar from 2 May 2003 to 30 September 2019. Calculated using capital net asset values plus income reinvested. Past performance is not a guide to future performance and may not be repeated.

Investment objective

Schroder UK Mid Cap Fund plc's (the "Company") investment objective is to invest in mid cap equities with the aim of providing a total return in excess of the FTSE 250 (ex-Investment Companies) Index.

Investment policy

The strategy is to invest principally in the investment universe associated with the benchmark index, but with an element of leeway in investment remit to allow for a conviction-driven approach and an emphasis on specific companies and targeted themes. The Company may also invest in other collective investment vehicles where desirable, for example to provide exposure to specialist areas within the universe. The Company may hold up to 20% of its portfolio in equities and collective investment vehicles outside the benchmark index.

The Manager has adopted a unique and consistent investment process, taking a stock specific approach with an emphasis on growth companies. Sector weightings play a secondary role, resulting naturally from stock selection. Fundamental research forms the basis of each investment decision taken by the Manager. The Company will predominantly invest in companies from the FTSE 250 Index, but may hold up to 20% of its portfolio in equities and collective investment vehicles outside the benchmark index.

The Company has the ability to use gearing for investment purposes up to 25% of total assets.

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Financial Highlights

Some of the financial measures below are classified as Alternative Performance Measures as defined by the European Securities and Markets Authority and are indicated with an asterisk(*). Definitions of these performance measures, and other terms used in this report, are given on page 54 together with supporting calculations where appropriate.

Total returns for the year ended 30 September 2019

+1.8%
2018: +3.5%
1 Year Net Asset Value ("NAV") per share total return*

+4.0%
2018: +5.0%
1 year share price total return*

+0.2%
2018: +4.2%
1 year Benchmark[1] total return*

Annualised total returns for the 10 years ended 30 September 2019

+12.8%
2018: +14.6%
10 year annualised NAV per share total return*

+13.7%
2018: +15.2%
10 year annualised share price total return*

+11.2%
2018: +13.5%
10 year annualised Benchmark[1] total return*

[1]Source: Thomson Reuters.

Other financial information

	30 September 2019	30 September 2018	% Change
Shareholders' funds (£'000)	226,424	229,734	-1.4
Shares in issue	35,741,190	35,851,190	-0.3
NAV per share* (pence)	633.51	640.80	-1.1
Share price (pence)	540.00	538.00	+0.4
Share price discount to NAV per share* (%)	14.8	16.0	
Gearing/(net cash)* (%)	4.3	(3.0)	

	Year ended 30 September 2019	Year ended 30 September 2018	% Change
Net revenue return after taxation (£'000)	7,325	6,015	+21.8
Return per share (pence)	20.43	16.78	+21.8
Dividends per share (pence)	18.5	16.00	+15.6
Ongoing charges* (%)	0.90	0.90	

Ten Year Financial Record

Definitions of terms and performance measures are provided on page 54

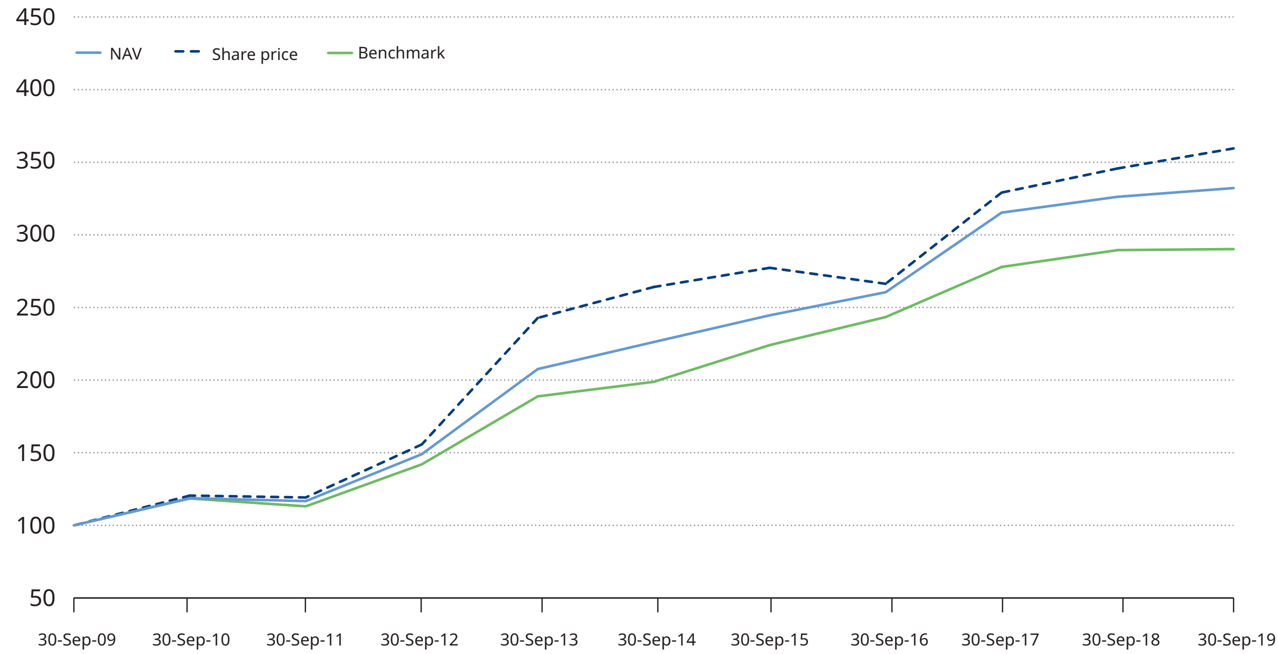
At 30 September	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Shareholders' funds (£'000)	98,750	95,269	118,942	161,739	173,327	184,260	192,718	226,577	229,734	226,424
NAV per share* (pence)	273.2	263.6	329.1	447.5	479.6	509.8	533.2	632.0	640.8	633.5
Share price (pence)	225.5	218.0	277.0	420.0	448.9	462.5	435.4	524.5	538.0	540.0
Share price discount to NAV per share* (%)	17.5	17.3	15.8	6.1	6.4	9.3	18.3	17.0	16.0	14.8
Gearing/(net cash)* (%)	3.1	2.8	3.7	2.0	(4.4)	(6.1)	1.5	(0.5)	(3.0)	4.3

For the year ended 30 September	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net revenue return after taxation (£'000)	2,156	2,437	2,789	3,096	3,506	3,549	4,455	5,031	6,015	7,325
Revenue return per share (pence)	5.96	6.74	7.72	8.57	9.70	9.82	12.33	13.96	16.78	20.43
Dividends per share (pence)	5.83	6.20	6.82	7.70	8.50	9.20	11.25	13.10	16.00	18.50
Ongoing Charges* (%)	1.21	1.12	1.11	1.01	0.94	0.93	0.95	0.92	0.90	0.90

Performance[1]	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NAV total return*	100.0	118.7	116.7	149.0	207.6	226.2	244.6	260.5	315.3	326.2	332.2
Share price total return*	100.0	120.5	119.2	155.7	242.8	264.1	277.3	266.3	329.1	345.7	359.5
Benchmark	100.0	118.5	113.1	142.0	188.8	198.8	224.1	243.4	277.9	289.5	290.2

[1]Source: Morningstar/Thomson Reuters. Rebased to 100 at 30 September 2009.

NAV per share, share price and Benchmark total returns for the 10 years ended 30 September 2019



Source: Morningstar/Thomson Reuters. Rebased to 100 at 30 September 2009.

Chairman's Statement

> "Between the year end and 18 December 2019...the NAV rose by 12.8% and the share price was up by 19.6%..."

Performance

For the year ended 30 September 2019, the Company's NAV produced a positive total return of 1.8% and its share price a total return of 4.0% against the Benchmark's total return of 0.2%. The Company's long-term performance record remains strong, with both 10 year NAV and share price annualised total returns in excess of 12%, again outperforming the Benchmark. Between the year end and 18 December 2019, the Company's portfolio of liquid, listed equities, benefiting from the UK election result, delivered a positive performance; the Company's NAV rose by 12.8% and its share price was up 19.6% to 646p, both ahead of the Benchmark, which increased by 10.3% in the period.

A more detailed comment on performance and investment policy may be found in the Manager's review.

Revenue and dividend

Revenue return per share increased by 21.8% (2018: 20.2%), largely due to strong cash flows from investee companies and highlighting one of the key tenets of the Manager's investment selection process. As a result of this and in line with the Company's policy of paying out substantially all its revenue, the directors recommend the payment of a final dividend of 14.7p per share for the year ended 30 September 2019.

The proposed final dividend, combined with the interim dividend of 3.8p per share paid during the year, brings total dividends for the year to 18.5p per share, an increase of 15.6% over dividends declared in respect of the previous financial year. At the current share price of 646p (as at 18 December 2019) this represents a yield of 2.9%.

A resolution approving the payment of the final dividend for the year ended 30 September 2019 will be proposed at the forthcoming Annual General Meeting ("AGM"). If the resolution is passed, the dividend will be paid on 3 February 2020 to shareholders on the register on 3 January 2020.

Management fees

During the year under review, the board agreed with the Manager to reduce the fees paid to the Manager to 0.65% of net assets for the first £250 million of assets, reducing to 0.6% for net assets over £250 million. The change took effect from 29 November 2018.

Gearing

During the year, the Company renewed its revolving credit facility with Scotiabank Europe Plc, taking the opportunity to increase the maximum amount the Company can borrow under the facility from £15 million to £25 million. The Manager made tactical use of the facility during the year, drawing down up to £15 million to exploit investment opportunities, thereby boosting returns for shareholders and repaid the facility upon realising investments. At the year end the gearing was 4.3%. Parameters for the use of gearing are reviewed regularly by the board.

Discount management

The Company's share price discount to NAV per share narrowed from 16.0% to 14.8% during the year. The average discount for the year was 15.3% and it ranged between 9.5% and 18.8%. At 18 December 2019, the discount was 9.6%. The board monitored the discount throughout the year and received input from the Company's broker and the Manager.

Your board believes that the best way to close the share price discount is to increase demand for the Company's shares using effective marketing, and a continuation of the Company's strong longer-term performance. In addition, the board commenced a series of share buybacks on 17 September 2019 when the share price discount to NAV was 15.7% and 490,000 shares have been repurchased since then. These buybacks have been accretive to remaining shareholders and have provided additional useful liquidity.

Following the UK general election result on 13 December 2019, the share price discount to NAV has closed materially, suggesting that the discount had been driven by sentiment about the UK mid cap sector in which the Company invests. Whilst this material closing of the discount is welcome, the board continues to actively monitor the discount levels and currently intends to continue to use the Company's buyback programme as appropriate.

At the Company's last AGM, the Company was given the authority to purchase up to 14.99% of its issued share capital. We propose that share buyback authorities be renewed at the forthcoming AGM and that any shares so purchased be cancelled or held in treasury for potential reissue at a premium to NAV.

Board succession and governance code

The board undertook its annual review of its composition. In accordance with best practice, it has determined a policy for board and Chairman succession. All members of the board, including the Chairman, will normally retire no later than the AGM following the 9th anniversary of joining the board although this can vary to take account of specific circumstances, for example, to avoid two directors retiring at the same time.

Chairman's Statement

"...the Company's shares now...yield well above official UK interest rates and inflation..."

Pursuant to this policy, Robert Rickman will retire immediately following the AGM in January having completed nine years' service on the board. Robert has made an excellent contribution at our meetings and I would like to take this opportunity to thank him for all he has done for the Company. The Nomination Committee with the support of external consultants interviewed a number of strong candidates in December 2019. We are pleased to announce that following this process, Wendy Colquhoun has agreed to join the board of directors effective 1 January 2020.

Wendy is a qualified solicitor who has extensive experience and a thorough understanding of investment trusts and the regulatory and other challenges they face. Wendy is a non-executive director of Henderson Opportunities Trust plc and is a director and chair of the risk and governance committee of Scottish Financial Enterprise.

In accordance with this policy it is my intention to retire following the 2021 AGM and arrangements will be made during 2020 to select my successor.

A new AIC Code of Corporate Governance was issued in the course of the year and will take effect from the next accounting period. The board has decided to adopt this Code which is specifically designed for investment trusts in preference to the Financial Reporting Council's Code.

Outlook

Our Company has faced two conflicting themes for at least three years. On the one hand, most of the companies in the portfolio have fully lived up to our expectations, reflected in investment income that has risen by more than half since 2016. On the other hand, uncertainty about the UK's prospects – as reflected in the debate over Brexit, sterling volatility, and who might next be in government – has left UK mid-caps bordering on being a friendless asset class. This combination led to the Company's shares being on a dividend yield well above official UK interest rates and inflation, and, over the reporting period, at a larger discount to NAV than we would like, albeit narrowing most recently for reasons discussed above and below.

"...our confidence in the future comes back to the quality of the holdings."

Investors in domestic stocks have responded very positively to the recent decisive Conservative victory in the UK general election, with this being reflected in both the share prices of companies in which the Company invests, and the Company's share price. We hope that this new found optimism about domestic stocks will continue, but our confidence in the future remains primarily in the quality of the holdings. Their ability to keep growing cannot be completely independent of the broader issues and potentially more difficult economic conditions worldwide next year, but if our manager can keep on choosing the right companies the growth in our investment income will continue to be reflected in the share price. It is welcome news that the share price is up 19.6% since the year end after the bounce in sterling and confidence in the election result. This situation is dynamic, but if our holdings keep on doing well so will we.

Annual General Meeting

The Company's AGM will be held at 12.00 noon on Tuesday, 28 January 2020 and shareholders are encouraged to attend. The meeting will include a presentation by the Manager on the prospects for the UK market and the Company's investment strategy.

Eric Sanderson
Chairman

19 December 2019

Manager's Review

> "UK households continue to increase their spend in certain areas of the market, for example on homewares and on their pets, to the benefit of Dunelm and Pets At Home respectively."

Market review

UK mid caps struggled to make progress in what was a mixed period for global stock markets. The Benchmark rose 0.2%, compared to a 3.2% gain in the FTSE 100 index (source: Morningstar).

The final quarter of 2018 was one of the worst quarters for global equities in many years as fears over the outlook for the world economy came to a head against a backdrop of tightening monetary conditions, US-China trade tensions and European political uncertainty. Global equities bounced back sharply in Q1 2019 in response to dovish commentary from central banks, with the US Federal Reserve ("Fed") and European Central Bank ("ECB") tempering expectations for tighter monetary policy. Expectations for monetary policy then shifted materially over Q2 2019, notably so in the US where the market began to speculate that the Fed could cut interest rates.

The Fed subsequently did cut rates, the first reductions since 2008. This spurred other central banks to also loosen monetary policy, including the ECB which cut rates and announced it would be re-starting quantitative easing. Data published towards the end of the period confirmed that growth in the world's major economies had decelerated in 2019. Forward-looking indicators pointed to a further softening in the economic and inflation outlook, with manufacturing particularly weak.

Brexit and domestic political uncertainty remained elevated, but the UK equity market became slightly less negative about these towards the end of the 12 month period. At 13 December 2019 the Benchmark is 9.6% up on the end of September.

Portfolio performance

The Company's NAV outperformed the Benchmark by 1.6% during the period (source: Morningstar, 30 September 2019) due to the stock selection.

The outperformance had a very domestic flavour, with three of the top five contributors (homewares retailer Dunelm, pet supplies and veterinary services company Pets At Home and multi-utility supplier Telecom Plus) deriving all of their profits from the UK. UK households continue to increase their spend in certain areas of the market, for example on homewares and on their pets, to the benefit of Dunelm and Pets At Home respectively.

Furthermore, these companies represent prime examples of the long-term growth opportunities we seek out as part of our investment process of selecting dynamic, high-quality companies; those with organic growth, pricing power and strong management teams, with disruptive tendencies. Dunelm has bucked the gloomy retail trend with strong performance driven by the company's willingness to adapt and transition to online. Pets At Home, which posted better-than-expected results, has also been a good example of a retailer giving customers what they want, coping well with the shift online and investing to improve customer experience both online and in-store. Multi-utility supplier Telecom Plus continued its very strong performance of last year into this reporting period. Telecom Plus benefited from the implementation of the energy price cap and published a strong set of results as well as a positive outlook statement.

The increasing amount of money being allocated to private equity at the expense of the stock market continued to benefit Intermediate Capital. This long-term growth opportunity stock saw steady earnings upgrades throughout the period, as investors increased their allocations to private equity.

JD Sports Fashion was another top performer, again bucking the trend in retail thanks to its success in appealing to a young, high-income demographic while diversifying its operations into the US and Europe. In line with our stated strategy, we sold the shares following its promotion to the FTSE 100. The same was true of Hikma Pharmaceuticals and Phoenix.

On the negative side, shares in branded clothing company Superdry were hit by a number of profit warnings. Management in part blamed unseasonably warm weather for poor autumn trading as it materially guided down profit forecasts. The group's founder and most significant shareholder has since returned to the company in order to effect a turnaround, with the support of Peter Williams as chairman (whose retail experience includes Boohoo, ASOS and Selfridges) and a critical mass of shareholders. The company therefore represents an opportunistic idea in the portfolio, with a strong Black Friday trading period adding comfort.

Saga rebased its earnings and dividend expectations to reinvest in the business. The new cruise ships are seeing high levels of bookings and we would expect the shares to recover.

Petrofac shares has been overshadowed by a Serious Fraud Office investigation which has now started to affect orders from markets such as Saudi Arabia. We believe that the shares are pricing in a large fine, something management does not expect to materialise, as evidenced, in our view, by significant management share purchases.

Ground engineering specialist Keller warned on profits due to weakness in its Asia Pacific business. Management has taken steps to address this, and after the period end, a solid outlook statement has helped to buoy the shares. A lower gearing target range set out by the new finance director is a welcome development. The market awaits to see whether the expected orders materialise. A trading statement post the period end confirmed that management expectations for 2019 were unchanged.

Ted Baker was another negative after a profit warning. The warning followed company-specific issues after the departure of the founder CEO and tough trading conditions facing its branded clothes retailing business. Ted Baker remains a strong brand both here in the UK and internationally.

Manager's Review

Stocks held – top 5 and bottom 5 performers

Contributor	Portfolio weight[1] %	Weight relative to Benchmark %	Relative performance[2] %	Impact[3] %
Dunelm Group	2.9	2.6	65.5	1.3
Pets At Home	1.4	1.3	33.3	0.8
Intermediate Capital	3.1	1.9	38.2	0.7
Telecom Plus	2.7	2.4	22.4	0.7
JD Sports Fashion	1.3	0.9	27.0	0.6

Detractor	Portfolio weight[1] %	Weight relative to Benchmark %	Relative performance[2] %	Impact[3] %
Superdry Plc	0.9	0.8	–47.2	–1.0
Saga Plc	1.1	0.8	–71.3	–0.7
Petrofac	1.7	1.2	–34.3	–0.6
Keller Group	1.0	0.9	–53.8	–0.6
Ted Baker	0.7	0.6	–58.2	–0.4

Source: Schroders, Factset, 12 months to 30 September 2019

[1]Weights are averages over the period
[2]Performance of the stock in the index relative to the Benchmark total return over the period.
[3]Impact is the contribution to performance relative to the Benchmark.

Stocks not held – top 5 and bottom 5

Contributor	Portfolio weight[1] %	Weight relative to Benchmark %	Relative performance[2] %	Impact[3] %
Metro Bank	–	–0.4	–90.6	1.0
CYBG	–	–0.8	–64.2	0.9
Wood Group	–	–0.6	–34.6	0.4
Hammerson	–	–0.9	–32.2	0.4
Sirius Minerals	–	–0.3	–85.9	0.4

Detractor	Portfolio weight[1] %	Weight relative to Benchmark %	Relative performance[2] %	Impact[3] %
Polymetal Intl	–	–0.8	95.7	–0.5
Greene King	–	–0.7	82.9	–0.4
GVC Holdings	–	–0.7	40.1	–0.4
Greggs	–	–0.6	105.2	–0.4
Cobham	–	–1.0	34.1	–0.3

Source: Schroders, Factset, 12 months to 30 September 2019

[1]Weights are averages over the period
[2]Performance of the stock in the index relative to the Benchmark total return over the period.
[3]Impact is the contribution to performance relative to the Benchmark.

Turning to stocks not held, the Company benefited from not owning challenger bank CYBG (now named Virgin Money UK), which revealed that the likely financial impact of PPI compensation claims would be significantly greater than previously thought. Avoiding the latter's peer, Metro Bank, was also positive for relative performance amid fears around the strength of its capital position.

The Company further benefited from not holding retail property developer Hammerson which is struggling due to its exposure to the wrong kinds of retail property. Sirius Minerals experienced a pronounced decline in its equity value related to funding for a proposed potash mine in Yorkshire.

Lastly, relative returns suffered from not holding pub retailer and brewer Greene King and aerospace and defence supplier Cobham, both bid for by private equity companies. Polymetal and other mining stocks recovered strongly. We prefer to play this sector through Anglo Pacific which provides exposure to the royalties from a commodity and a strongly growing dividend with less mining risk.

GVC fell out of the FTSE 100 and then recovered strongly. We avoided the shares due to large share sales by the board and concerns over corporate governance of the company. Meanwhile, Greggs performed strongly in the retail sector but we already have significant exposure to this sector through Dunelm and Pets At Home.

Portfolio activity

"Our investment strategy is centred around selecting dynamic, high-quality growth companies..."

Our investment strategy is centred around selecting dynamic, high-quality growth companies – what we would call long-term growth opportunities; those with organic growth, pricing power and strong management teams, with disruptive tendencies. Examples of new holdings meeting these criteria this year included defence technology business QinetiQ. Interim results show the group delivered organic revenue growth of 10% while the order book grew by 30%. Cash conversion remained strong, which helped to further bolster the net cash balance sheet. The strong balance sheet provides downside protection for investors, while the relatively new management team is doing a good job of driving growth, diversifying away from the UK and enhancing revenue visibility.

Another is miniatures manufacturer and hobby retailer Games Workshop, after the share fell over 20% from its September high. This was despite results showing that Q1 trading had been robust against tough comparatives, prompting earnings upgrades against conservatively set expectations. In addition, management declared a dividend at a similar level to the one paid last year, indicating that cashflows had remained strong. Post the period end, strong trading has led to a further upgrade.

Manager's Review

“We believe that the holdings are well placed to continue to generate superior long-term returns.”

Another long-term growth opportunity was US-focussed promotional merchandise specialist 4imprint, which is benefiting from structural growth drivers, and fast-growing media company Future. Future gained entry to the FTSE 250 after upgrading to the Premium Segment of the Main Market of the London Stock Exchange. We established a new holding in technology products and services supplier Oxford Instruments which has exposure to a number of high growth areas including 5G, quantum technologies and electric vehicles. We added property company St Modwen for its exposure to the structural growth area of industrial property. Serviced office space specialist IWG was also added to the portfolio. We believe that its franchising opportunity, demonstrated by a deal in Japan, has been undervalued by the market. Two further franchise deals have followed, underlining our conviction in the investment thesis.

More opportunistic purchases included a position in Premier Oil at a time when the company is rapidly deleveraging alongside strong production. We also initiated a new position in speciality chemicals business Synthomer following its proposed acquisition of US-based peer Omnova Solutions, which we expect should significantly enhance the company's growth profile. Following a recommended bid by private equity, we exited the position in BCA Marketplace, owner of the WeBuyAnyCar.com website.

Other sales included pharmaceuticals company Indivior as the US legal patent backdrop began to affect the investment case, and Talk Talk Telecom as evidence of a more intense price war in the sector began to emerge. We sold the remaining small position in clothing retailer NBrown because of increased and unrelenting competition. We sold out of office and studio space provider Workspace at a profit upon the departure of the CEO. We exited industrial thread manufacturer Coats at a profit, based on concerns around where growth would come from, and UK tour operator Thomas Cook given uncertainties around the balance sheet.

Outlook

Recent surveys indicate that UK consumer confidence remains stable and that UK consumers are more confident about their personal economic situation than about the country's general economic prospects. It is perhaps not that surprising therefore that Brexit uncertainty has yet to have much of an impact on household spending. In fact, household spending (three quarters of all spending in the economy) rose by an estimated £52.5 billion in 2018, following similar rises in prior years (source: Lazarus Economics). Recently released data shows that growth in household spend has continued in 2019 at a similar rate.

It would also appear that this growth is reasonably sustainable, underpinned by a strong jobs market, higher wages and tax changes. The unemployment rate is close to its lowest since the 1970s, and wages are growing at almost the fastest rate in a decade, continuing to outstrip inflation. There has historically been a close correlation between real wage growth and retail sales, and labour market data that the backdrop for wages remains supportive.

In the meantime we are starting to see an increase in corporate activity as private acquirers take advantage of cheap sterling assets. It appears that valuations are such that acquirers are no longer waiting for a resolution to Brexit negotiations. We are also continuing to see companies using the low interest rates to make acquisitions to supplement organic growth, and it seems likely that this interest rate environment can endure.

We will continue to seek companies demonstrating organic growth and pricing power where possible and to avoid companies with too much debt. Disruption continues to be a feature for a lot of companies, putting pressure on earnings for a number of sectors, and we will therefore endeavour to identify and avoid these companies.

The UK political backdrop might be expected to have a positive effect, contrary to what we have seen over the past three years and more. In any case, the evidence from the UK consumer, driven by strong labour market forces, indicates that being underweight UK equities could be wrong. We therefore preserve a focus on what companies do every day, whether their customers still need and value them, and on the nuts and bolts of cash flow and valuation in order to select both our “long-term growth opportunity” and our “opportunistic ideas” stocks. One example of a company operating in segments of structural growth with disruptive qualities is HomeServe, whose Checkatrade business is disrupting the status quo of the trades market. Another is specialty chemicals company Victrex, whose polymer is being used in aircraft, cars and even tooth implants, displacing metal. We continue to seek out the next midcap disruptor, while looking to avoid exposure to the next industry to be disrupted.

We believe that the holdings are well placed to continue to generate superior long-term returns. Many are enjoying a virtuous circle where a rising stream of earnings is underpinning progressive dividend policies and simultaneously supporting reinvestment into the business to drive future growth. Market attention has come back to these types of companies in recent months, and we look forward to this continuing.

Schroder Investment Management Limited

19 December 2019

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 amounts originally invested.

Investment Portfolio as at 30 September 2019

Stocks in bold are the 20 largest investments, which by value account for 48.2% (30 September 2018: 49.0%) of total investments. Investment are all equities.

	£'000	%
Industrials		
HomeServe	**9,014**	**3.9**
International Workplace	**6,375**	**2.8**
Spectris	**5,866**	**2.5**
Diploma	**5,727**	**2.5**
James Fisher	**5,569**	**2.4**
Renishaw	**4,761**	**2.0**
QinetiQ	**4,621**	**2.0**
Bodycote International	**4,227**	**1.8**
Grafton	3,982	1.7
Capita	3,619	1.6
Paypoint	3,367	1.4
Northgate	3,300	1.4
Royal Mail	2,723	1.2
Oxford Institution	2,237	1.0
Keller	1,947	0.8
Total Industrials	**67,335**	**29.0**
Financials		
Intermediate Capital	**8,745**	**3.8**
Safestore	**5,344**	**2.3**
Brewin Dolphin	**5,227**	**2.3**
Grainger	**4,932**	**2.1**
IG	**4,520**	**1.9**
CLS	**4,139**	**1.8**
Man Group	4,034	1.7
Londonmetric Property	4,022	1.7
Paragon	3,859	1.7
Investec	3,140	1.3
Jupiter Fund Management	2,932	1.3
St Modwen Property	1,866	0.8
Just Group	737	0.3
Total Financials	**53,497**	**23.0**

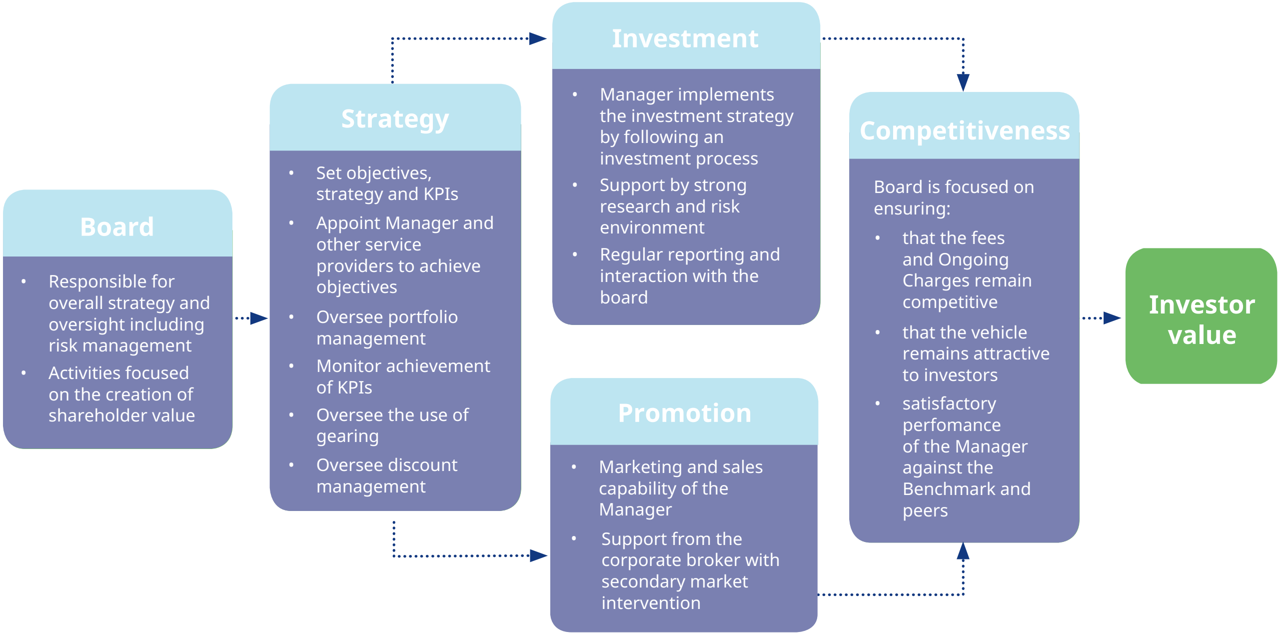
	£'000	%
Consumer Services		
Dunelm	**7,103**	**3.1**
Inchcape	**4,985**	**2.1**
Pets at Home	**4,244**	**1.8**
Wizz Air	4,020	1.7
J D Wetherspoon	3,713	1.6
Restaurant Group	3,335	1.4
Future	2,815	1.2
4Imprint	2,550	1.1
Cineworld	2,484	1.1
William Hill	2,421	1.0
Superdry	2,054	0.9
Photo-me International	1,522	0.7
Saga	1,490	0.6
Total Consumer Services	**42,736**	**18.3**
Consumer Goods		
SSP	**6,598**	**2.8**
Redrow	4,113	1.8
Games Workshop	3,776	1.6
Cranswick	3,659	1.6
Crest Nicholson	2,460	1.1
Bovis Homes	2,339	1.0
Ted Baker	1,159	0.5
Total Consumer Goods	**24,104**	**10.4**
Basic Materials		
Anglo Pacific	4,028	1.7
Victrex	3,830	1.6
Synthomer	3,560	1.5
Elementis	2,440	1.1
Total Basic Materials	**13,858**	**5.9**
Technology		
SDL	4,061	1.7
Computacenter	3,873	1.7
Playtech	3,366	1.4
Total Technology	**11,300**	**4.8**

Investment Portfolio as at 30 September 2019

	£'000	%
Oil and Gas		
Cairn Energy	**4,407**	**1.9**
Petrofac	3,162	1.4
Premier Oil	1,907	0.8
Lamprell	874	0.4
Total Oil and Gas	**10,350**	**4.5**
Telecommunications		
Telecom Plus	**5,474**	**2.4**
Total Telecommunications	**5,474**	**2.4**
Healthcare		
Dechra Pharmaceuticals	3,967	1.7
Total Healthcare	**3,967**	**1.7**
Total Investments	**232,621**	**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 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 and the articles of association do not contain any provision for the review of the future of the Company at specified intervals.

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 currently has in place a £25 million (2018: £15 million) revolving credit facility. As at 30 September 2019 it was £10 million drawn (2018: undrawn). In rising markets the gearing amplifies increases in the NAV and falling markets any reduction in NAV would be amplified by the gearing. The Company's gearing continues to be operated within pre-agreed limits so that it does not exceed 25% of total assets. The flexibility to utilise gearing remains an important tool in allowing the Manager to pursue investment opportunities when appropriate.

Investment philosophy and approach

The Manager believes that as broker coverage on small and mid cap companies is limited in scope and often in quality, (and there is some evidence to suggest that this is even more the case with the advent of MIFID II), detailed analysis of company reports and accounts; company meetings and visits, governance engagements and the use of industry experts are all a vital part of the Manager's research process. It is the application of experience to these varied inputs, coupled with an extensive global in-house small cap and mid cap analytical resource that the board believes gives the team the potential to deliver attractive revenue.

Strategic Review

As a result of the fundamental research, companies and industries are classified in the investment universe within a simple framework, as set out below.

Long-term growth Opportunities	Opportunistic ideas	Stocks to avoid
Disruptors. Growth companies.	Cyclical stocks or franchises in transition.	Typically experiencing long-term decline which can lead to cash flow and ultimately balance sheet challenges.
Operate in industries where demand for their goods or services exceeds supply, which gives them pricing power and drives organic growth, and strong cash flow.	Cyclical industries or areas where capacity is reducing.	Companies which operate in industries where supply exceeds demand, and which are being disrupted.
Sectors are typically concentrated, so that demand for shares exceeds supply. Shares therefore appreciate in value as investors ascribe a higher rating to the company and its prospects.	Balance of supply and demand for these shares shifts over time as companies reduce capacity and shrink the amount of equity on the market by buying back shares.	Supply of shares in these companies will typically exceed demand, leading to downward pressure on share prices.
Core holdings.	Trade into and out of depending on valuation.	Do not hold.

ESG

Analysis of Environmental, Social and Governance factors is critical to understanding the sustainability of corporate growth and returns.

The team

Andy Brough is head of the team, and has been working on the Company's portfolio since Schroders was made the manager in 2003. He has been with Schroders for 32 years, is a Chartered Accountant, and has been named an 'FE (Financial Express) Alpha Manager'. Jean joined him on the portfolio in 2016 as co-manager. She has 20 years of investment experience, and is a CFA.

Investment restrictions and spread of investment risk

Risk in relation to the Company's investments is spread as a result of the Manager monitoring the Company's portfolio with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objective. The key restrictions imposed on the Manager include: (a) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one single company; (b) 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 listed investment companies; (c) no more than 15% of the Company's gross assets may be invested in other listed investment companies (including listed investment trusts); (d) no more than 15% of the Company's total net assets may be invested in open-ended funds; and (e) no holding may represent 20% or more of the equity capital of any company. No breaches of these investment restrictions took place during the financial year.

The investment portfolio on page 9 demonstrates that, as at 30 September 2019, the Company held 61 investments spread over a range of industry sectors. The largest investment, HomeServe, represented 3.9% of total investments. The board therefore believes that the objective of spreading investment risk has been achieved.

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 teams. This market is the largest channel by a significant margin.
- Execution-only investors. The Company promotes its shares including to retail investors via engaging with platforms and through its website. 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 attendances 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 adviser 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 4, and in the Annual General Meeting – Recommendations on page 50.

Key performance indicators

The board measures the development and success of the Company's business through achievement of its investment objective, 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 the management fee, directors' fees and general expenses, is submitted to each board meeting. The Management fee is reviewed at least annually and was renegotiated during the year.

Corporate and social responsibility

Board gender diversity

As at 30 September 2019, the Board comprised four men and one woman. Candidates for board vacancies are selected based on their skills and experience, which are matched against the balance of skills and experience 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 in terms of 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 social, environmental and business ethics 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. In 2018 Schroders retained its A+ rating from the UN Principles for Responsible Investment (PRI) for its overall ESG approach. The Company's portfolio has a Sustainability Rating from Morningstar of 'High', its top rating on this measure.

The board monitors the implementation of its 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. Alongside regular engagement with investee companies, all of the proxy votes at the 76 shareholder meetings during the year were reviewed by the

Manager. Of the 1,197 resolutions, the Company voted against management recommendations 28 times (2.3%). These were almost all related to remuneration policies where Schroders believed that managements' incentivisation was not in the best interests of shareholders. The Manager usually also votes against the re-election of the chair of the remuneration committee in these cases.

Anti-bribery and corruption policy

The Company continues to be committed to carrying out its business fairly, honestly and openly and continues to operate an anti-bribery and corruption policy.

Greenhouse gas emissions

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

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 September 2019.

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

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

Emerging risks and uncertainties

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

Political risk includes Brexit. The board continues to monitor developments for the UK's departure from the European Union and to assess the potential consequences for the Company's future activities, but believes that the Company's portfolio of assets positions the Company to be suitably insulated from Brexit related risks. The board is also mindful that changes to public policy in the UK could impact the Company in the future.

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

Risk	Mitigation and management
Strategic The requirements of investors change or diverge in such a way as to diverge from the Company's investment objectives, resulting in a wide discount of the share price to underlying NAV per share.	The appropriateness of the Company's investment remit is periodically reviewed and the success of the Company in meeting its stated objectives is monitored. The share price relative to NAV per share is monitored and the use of buy back authorities is considered on a regular basis. Marketing and distribution activity is actively reviewed. The Company engages proactively with investors.
The Company's cost base could become uncompetitive, particularly in light of open ended alternatives.	The ongoing competitiveness of all service provider fees is subject to periodic benchmarking against their competitors. Annual consideration of management fee levels is undertaken.
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 its agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and whether appropriate strategies are employed to mitigate any negative impact of substantial changes in markets. Annual review of the ongoing suitability of the Manager, including resources and key personnel risk.

Strategic Review

Risk	Mitigation and management
Financial 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.	The risk profile of the portfolio is considered and appropriate strategies to mitigate any negative impact of substantial changes in markets are discussed with the Manager.
Custody Safe custody of the Company's assets may be compromised through control failures by the depositary, including cyber hacking.	The depositary reports on the safe custody of the Company's assets, including cash and portfolio holdings which are independently reconciled with the Manager's records. The review of SOC1/ISAE 3402 internal controls reports covering custodial arrangements is undertaken. An annual report from the depositary on its activities, including matters arising from custody operations is received.
Gearing and leverage The Company utilises credit facilities. 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 is monitored and strict restrictions on borrowings are imposed: gearing continues to operate within pre-agreed limits so as not to exceed 25% of total assets.
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.	The confirmation of compliance with relevant laws and regulations by key service providers is reviewed. Shareholder documents and announcements, including the Company's published Annual Report are subject to stringent review processes. Procedures are established to safeguard against the disclosure of inside information.
Service provider The Company has no employees and has delegated certain functions to a number of service providers. 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 are appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations. Regular reports are provided by key service providers and the quality of their services is monitored. Review of annual SOC1/ISAE 3402 internal controls reports from key service providers, including confirmation of business continuity arrangements and IT controls is undertaken.
Cyber The Company's service providers are all exposed to the risk of cyber attacks. Cyber attacks could lead to loss of personal or confidential information or disrupt operations.	Service providers report on cyber risk mitigation and management at least annually, which includes confirmation of business continuity capability in the event of a cyber attack.

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 45 to 48.

Viability statement

The directors have assessed the viability of the Company over a five year period to 30 September 2024, taking into account the Company's position at 30 September 2019 and the potential impacts of the principal risks and uncertainties it faces for the review period.

This period 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, dividends and availability of funding.

In its assessment of the viability of the Company, the directors have considered each of the Company's principal risks and uncertainties detailed on pages 14 and 15 and in particular the impact of a significant fall in UK equity markets 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 and on that basis consider that five years is an appropriate time period.

The directors have considered the Company's one-year £25 million revolving credit facility and know of no reason why this will not be renewed on expiry. If the revolving credit facility were not to be renewed it would not pose a threat to the Company's viability over the next five years.

Based on the Company's processes for monitoring operating costs, the board's view that the Manager has the appropriate depth and quality of resource to achieve superior returns in the longer term, the portfolio risk profile, limits imposed on 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 of their assessment.

Going concern

The directors believe that the Company has adequate resources to continue operating for at least 12 months from the date of approval of these accounts. In forming this opinion, the directors have taken into consideration: the controls and monitoring processes in place; the Company's low level of debt and other payables; the low level of operating expenses, comprising largely variable costs which would reduce pro rata in the event of a market downturn; and that the Company's assets comprise cash and readily realisable securities quoted in active markets.

By order of the board

Schroder Investment Management Limited
Company Secretary

19 December 2019

Board of Directors

Eric Sanderson

Status: independent non-executive Chairman

Length of service: 8 years – appointed a director in January 2011 and Chairman in June 2014
Experience: Mr Sanderson is a Chartered Accountant and a Banker and was Chief Executive of British Linen Bank from 1989 to 1997 and a member of the Management Board of Bank of Scotland in his role as Head of Group Treasury Operations from 1997 to 1999. He was also formerly Chairman of MyTravel Group PLC, MWB Group Holdings PLC and Dunedin Fund Managers Limited and has held a number of non-executive Board positions. He is Chairman of BlackRock Greater Europe Investment Trust plc.
Committee membership: Management Engagement and Nomination Committees (Chairman of the Nomination and the Management Engagement Committees)
Current remuneration: £37,000 per annum, (effective 1 October 2019)
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

Clare Dobie

Status: independent non-executive director

Length of service: 6 years – appointed a director in September 2013
Experience: Mrs Dobie is a non-executive director of Alliance Trust PLC and BMO Capital and Income Trust plc. She was a marketing consultant after holding senior positions in the asset management industry at Barclays Global Investors and GAM. She began her career as a financial journalist, working at The Times and The Independent, where she was City Editor.
Committee membership: Audit and Risk, Management Engagement and Nomination Committees
Current remuneration: £25,000 per annum, (effective, 1 October 2019)
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

Andrew Page

Status: independent non-executive director

Length of service: 5 years – appointed a director in October 2014
Experience: Mr Page was, until August 2014, the Chief Executive Officer of The Restaurant Group plc ("TRG"), a FTSE 250 company which operates 460 restaurants throughout the UK. He retired as chairman of Northgate plc and senior independent director of Carpetright plc during the year under review. He is senior independent director of JP Morgan Emerging Markets Investment Trust plc. Prior to joining TRG in 2001, Mr Page held a number of senior positions within the leisure and hospitality sector including Senior Vice President with InterContinental Hotels. Before that he spent six years working in Kleinwort Benson's Corporate Finance department. Mr Page is a Chartered Accountant.
Committee membership: Audit and Risk, Management Engagement and Nomination Committees (Chairman of the Audit and Risk Committee).
Current remuneration: £30,000 per annum, (effective 1 October 2019)
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

Robert Rickman

Status: independent non-executive director

Length of service: 8 years – appointed a director in January 2011
Experience: Mr Rickman is a founding partner of the Rockley Group, making and managing technology based investments worldwide and particularly in China. He was an independent non-executive director of Cambium Global Timberland Ltd from 2007 until October 2014 when he stepped down from the board to manage the realisation of the assets. From 2001 until 2007 he was a director and latterly chairman of the AIM-listed Highland Timber PLC. Mr Rickman was a director of telecoms and datacoms equipment manufacturer Bookham Technology PLC from 1994 to 2004, during which time the company was listed on the LSE and NASDAQ.
Committee membership: Audit and Risk, Management Engagement and Nomination Committees
Current remuneration: £25,000 per annum, (effective 1 October 2019)
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

Robert Talbut

Status: independent non-executive director

Length of service: 3 years – appointed a director in February 2016
Experience: Mr Talbut is Chairman of Shires Income plc and a director of JPMorgan American Investment Trust plc and Pacific Assets Trust plc. He is also a member of the Independent Governance Committee of Aviva PLC and an independent investment adviser to the British Airways Pension Fund Investment Committee. He was formerly the Chief Investment Officer of Royal London Asset Management and has over 30 years of financial services experience. He has represented the asset management industry through the chairmanship of both the ABI Investment Committee and the Asset Management Committee of the Investment Association. He was also a member of the Financial Conduct Authority's Listing Advisory Panel.
Committee membership: Audit and Risk, Management Engagement and Nomination Committees
Current remuneration: £25,000 per annum, (effective 1 October 2019)
Connections with the Manager: None
Material interests in any contract which is significant to the Company's business: None
Shared directorships with any other directors of the Company: None

Directors' Report

The directors submit their report and the audited financial statements of the Company for the year ended 30 September 2019.

Revenue and dividend

The net revenue return for the year, after finance costs and taxation, was £7,325,000 (2018: £6,015,000), equivalent to a revenue return per share of 20.43 pence (2018: 16.78 pence).

The directors have recommended the payment of a final dividend for the year of 14.70 pence per share (2018: 12.70 pence) payable on 3 February 2020 to shareholders on the register on 3 January 2020, subject to approval by shareholders at the Annual General Meeting on Tuesday 28 January 2020.

Directors and their interests

The directors of the Company and their biographical details can be found on pages 17 and 18. Details of directors' share interests in the Company are set out in the Directors' Remuneration Report on page 29.

Share capital

As at the date of this report, the Company had 35,361,190 ordinary shares of 25p in issue. 782,500 shares were held in treasury. Accordingly, the total number of voting rights in the Company at the date of this report is 35,361,190. 110,000 shares were bought back during the year and subsequently 380,000 shares were bought back. Further information is provided in Note 13 on page 43.

Substantial share interests

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

	At 30 September 2019	% of total voting rights
Barclays plc	2,281,470	6.31
Wells Capital Management	1,854,549	5.17
Smith & Williamson Holdings Ltd	1,821,654	5.04
Lloyds Banking Group plc	1,806,240	5.00
Charles Stanley Group plc	1,777,996	4.96
Rathbone Brothers PLC	2,252,207	6.28
Standard Life Aberdeen	1,832,991	5.11
Border to Coast Pensions Partnership Limited	1,715,000	4.78

Following the year end and at the date of this report, Standard Life Aberdeen plc reduced its holding to 339,462 shares in the Company, representing 0.95% of total voting rights. Charles Stanley Group plc increased its holding to 1,770,519 shares in the Company, representing 5.01% 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 six 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, and administrative, 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 and administrative accounting and company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Manager has in place appropriate professional indemnity cover.

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

The management fee for the first two months was 0.70% of chargeable assets, paid quarterly in arrears. Chargeable assets are defined as total assets less current liabilities other than short-term borrowings, provided that if there are any short-term borrowings, the value of cash up to the level of such borrowings is deducted from the calculation of assets. From 30 November 2018, the management fee was charged at 0.65% per annum of chargeable assets up to £250 million and 0.60% of any amounts in excess of that.

The management fee payable in respect of the year ended 30 September 2019 amounted to £1,474,000 (2018: £1,618,000).

The Manager is also entitled to receive a fee for providing administrative, accounting and company secretarial services to the Company. For these services, for the year ended 30 September 2019 it received a fee of £133,000 (2018: £128,000), including VAT. The fee continues to be subject to annual adjustment in line with changes in the Retail Prices Index.

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

The board has reviewed the performance of the Manager during the year under review and continues to consider that it has the appropriate depth and quality of resource to deliver superior returns over the longer term. Thus, the board considers that the Manager's appointment under the terms of the AIFM agreement, 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 FCA 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. The depositary may only be removed from office when a new depositary is appointed by the Company.

Registrar

Equiniti Limited is the Company's registrar. Equiniti's services to the Company include share register maintenance (including the issuance, transfer and cancellation of shares as necessary), acting as agent for the payment of any dividends, management of company meetings (including the registering of proxy votes and scrutineer services as necessary), handling shareholder queries and correspondence and processing corporate actions.

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 AIC Corporate Governance Code (the "Code"). The disclosures in this statement report against the provisions of the Code, as revised in July 2016. The Code is published by the UK Financial Reporting Council and is available to download from www.theaic.co.uk.

The board will start reporting against the revised AIC Corporate Governance Code, published in January 2019, which applies to financial years beginning on or after 1 January 2019, for the financial year beginning on 1 October 2019.

Compliance statement

The UK Listing Authority requires all companies with a listing on the premium segment of the London Stock Exchange to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities on page 30 and the viability statement and going concern statement set out on page 16, indicates how the Company has applied the Code's principles of good governance and its requirements on internal control.

The board believes that the Company has, throughout the year under review, complied with all the provisions set out in the Code, except those relating to executive directors as the Company, in line with most investment companies, has delegated management functions to third party service providers. In addition, the Company has not complied with the provision relating to the appointment of a senior independent director ("SID"), where departure from the Code is considered appropriate given the Company's position as an investment company. As the board comprises entirely non-executive directors, the appointment of a SID has not been considered necessary. The chairman of the audit and risk committee effectively acts as the SID, 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. The board is however considering whether formally creating the role of a SID on the board may be beneficial for the further development of the Company's governance structure.

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 17.

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 objective of the Company continues 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

Directors' Report

and other key advisers and ad hoc reports and information are supplied to the board as required.

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

Training and development

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

Conflicts of interest

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

Directors' and officers' liability insurance and indemnities

Directors' and officers' liability insurance cover was in place for the directors throughout the year. 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 policy and was in place throughout the year under review for each director and to the date of this report.

Directors' attendance at meetings

Five 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; promotion of the Company; and services provided by third parties. Additional meetings of the board are arranged as required.

The number of scheduled 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 Committee	Audit and Risk Committee	Management Engagement Committee
Eric Sanderson	5/5	1/1	2/2	1/1
Clare Dobie	5/5	1/1	2/2	1/1
Andrew Page	5/5	1/1	2/2	1/1
Robert Rickman	5/5	1/1	2/2	1/1
Robert Talbut	5/5	1/1	2/2	1/1

The board is satisfied that the Chairman and each of the other non-executive 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 chairs 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 on complaints and other shareholder communications which ensures that shareholder complaints and communications addressed to the Company Secretary, the Chairman or the board are, in each case, considered by the Chairman and the board.

Committees

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

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

By order of the board

Schroder Investment Management Limited
Company Secretary

19 December 2019

Audit and Risk Committee Report

The responsibilities and work carried out by the audit and risk committee during the year under review are set out in the following report. The duties and responsibilities of the committee may be found in the terms of reference which are set out on the Company's webpages, www.schroders.co.uk/ukmidcap. Membership of the committee is as set out on pages 17 and 18. The board has satisfied itself that at least one of the committee's members has recent and relevant financial experience and that, the committee as a whole has competence.

The committee discharged its responsibilities by:

- considering its terms of reference;
- reviewing the operational controls maintained by the Manager, depositary and registrar;
- reviewing the half year and annual report and accounts and related audit plan and engagement letter;
- reviewing the need for an internal audit function;
- reviewing the independence of the auditor;
- evaluating the auditor's performance; and
- reviewing the principal risks faced by the Company and the system of internal control.

Annual report and financial statements

During its review of the Company's financial statements for the year ended 30 September 2019, the committee, having deliberated on the Company's principal risks and uncertainties, 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.
– 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 fee, 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, depositary and registrar, including assurance reports on their controls.
– Compliance with the investment trust qualifying rules in S1158 of the Corporation Tax Act 2010	– Consideration of the Manager's report confirming compliance and review of minimum distribution calculation.

Recommendations made to, and approved by, the board

As a result of the work performed, the committee has concluded that the annual report and accounts for the year ended 30 September 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, and has reported on these findings to the board. The board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 30.

Audit and Risk Committee Report

Effectiveness of the independent audit process

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

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

KPMG LLP has provided audit services to the Company since it was appointed following a tender process on 30 September 2016. This is the third year that KPMG LLP will be undertaking the Company's audit.

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

Independent auditor

KPMG LLP have indicated their willingness to continue to act as auditor. Accordingly, resolutions to re-appoint KPMG LLP as auditor to the Company, and to authorise the directors to determine their remuneration will be proposed at the AGM.

Provision of information to the auditor

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

Provision of non-audit services

The committee has reviewed the FRC's Guidance on Audit Committees and has formulated a policy on the provision of non-audit services by the Company's auditor. The auditor may, if required, provide non-audit services however, and this will be judged on a case-by-case basis.

The auditor has not provided any non-audit services to the Company during the year (2018: none).

Internal audit

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

Andrew Page
Audit and Risk Committee chairman

19 December 2019

Management Engagement Committee Report

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

Approach

Oversight of the Manager

The committee:

- reviews the Manager's performance, over the short- and long-term, against the Benchmark, peer group and the market.
- considers the reporting it has received from the Manager throughout the year, and the reporting from the Manager to the shareholders.
- assesses management fees on an absolute and relative basis, receiving input from the Company's broker, including peer group and industry figures, as well as the structure of the fees.
- reviews the appropriateness of the Manager's contract, including terms such as notice period.
- assesses whether the Company receives appropriate administrative, accounting, company secretarial and marketing support from the Manager.

Oversight of other service providers

The committee reviews the performance and competitiveness of the following service providers on at least an annual basis:

- Depositary and custodian
- Corporate broker
- Registrar
- Lender
- Auditor

The committee also receives a report from the Company Secretary on ancillary service providers, and considers any recommendations.

Application during the year

The committee undertook a detailed review of the Manager's performance and agreed that it has the appropriate depth and quality of resource to deliver superior returns over the longer term.

The committee reviewed the management fee structure and agreed a change with the Manager, resulting in a reduction in overall fees.

The committee also reviewed the terms of the AIFM agreement and agreed they remained fit for purpose.

The committee reviewed the other services provided by the Manager and agreed they were satisfactory.

The annual review of each of the service providers was satisfactory.

The committee noted that the audit and risk committee had undertaken a detailed evaluation of the Manager, registrar, and depositary and custodian's internal controls.

Recommendations made to, and approved by, the board:

- That the restructured management fee, resulting in a lower overall fee, was in shareholders' best interests.
- That the ongoing appointment of the Manager on the terms of the AIFM agreement was in the best interests of shareholders as a whole.
- That the Company's service providers' performance remained satisfactory.

Nomination Committee Report

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

Oversight of directors

Selection → Induction → Annual evaluation → Annual review of succession policy → Application of succession policy

Approach		
Selection and induction	**Board evaluation and directors' fees**	**Succession**
• Committee prepares a job specification for each role, which is shared with an independent recruitment firm. For the Chairman and the chairs of committees, the committee considers current board members too. • Job specification outlines the knowledge, professional skills, personal qualities and experience requirements. • Potential candidates assessed against the Company's diversity policy. • Committee discusses the long list, invites a number of candidates for interview and makes a recommendation to the board. • Committee reviews the induction and training of new directors.	• Committee assesses each director annually. • Evaluation focuses on whether each director continues to demonstrate commitment to their role and provides a valuable contribution to the board during the year, taking into account time commitment, independence, conflicts and training needs. • Following the evaluation, the committee provides a recommendation to shareholders with respect to the annual re-election of directors at the AGM. • All directors retire at the AGM and their re-election is subject to shareholder approval. • Committee reviews directors' fees, taking into account comparative data and reports to shareholders. • Any proposed changes to the remuneration policy for directors discussed and reported to shareholders.	• The board's policy is that directors' tenure will be for no longer than nine years, except in exceptional circumstances, and that each director will be subject to annual re-election at the AGM. • Committee reviews the board's current and future needs at least annually. Should any need be identified the committee will initiate the selection process. • Committee oversees the handover process for retiring directors.

Nomination Committee Report

Application during the year

Selection and induction	Board evaluation and directors’ fees	Succession
• The committee discussed the need to appoint a new non-executive director at the start of 2020. • A job specification was agreed for the role. • The committee appointed Trust Associates to run the search process. Trust Associates is independent of the Company and directors. • The committee interviewed candidates during the last quarter of 2019 and recommended that Wendy Colquhoun be appointed as a director of the Company.	• The board and director evaluation was undertaken in September 2019. • The evaluation of the Chairman was led by the audit and risk committee chairman. • The committee also reviewed each director’s time commitment and independence by reviewing a complete list of appointments, including pro bono not for profit roles, to ensure that each director remained free from conflict and had sufficient time available to discharge each of their duties effectively. All directors were considered to be independent in character and judgement. • Based on its assessment, the committee provided individual recommendations for each director’s re-election. • The committee reviewed directors’ fees, using external benchmarking, and recommended an increase in directors’ fees, as detailed in the remuneration report.	• The committee reviewed the succession policy and agreed it was still fit for purpose. • The committee noted that Mr Rickman would be retiring at the next AGM in 2020 and Eric Sanderson would be retiring in 2021. As a result, the committee commenced its search process for a new director.

Recommendations made to, and approved by, the board:

- That Wendy Colquhoun be appointed to the board.
- That all directors continue to demonstrate commitment to their roles, provide a valuable contribution to the deliberations of the board and remain free from conflicts with the Company and its directors, so should all be recommended for re-election by shareholders at the AGM, noting that Robert Rickman planned to retire as a director of the Company at the AGM.
- That directors’ fees be increased, as detailed in the Directors’ Remuneration Report on page 27.

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 next vote will take place at the forthcoming AGM and the current policy provisions will continue to apply until that date. An ordinary resolution to approve the directors' remuneration policy will be put to shareholders at the forthcoming AGM (no changes are proposed). The below Directors' Remuneration Report is subject to an annual advisory vote. An ordinary resolution to approve this report will be put to shareholders at the forthcoming AGM.

At the AGM held on 31 January 2017, 98.22% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Directors' Remuneration Policy were in favour while 1.78% were against. 2,880 votes were withheld.

At the AGM held on 24 January 2019, 99.79% 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 30 September 2018 were in favour while 0.21% were against. 19,619 votes were withheld.

Directors' remuneration policy

The determination of the directors' fees is a matter dealt with by the management engagement committee and 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 £200,000 per annum and any increase in this level requires approval by the board and the Company's shareholders.

The Chairman and the chairman of the audit and risk committee each receives fees at a higher rate than the other directors to reflect their additional responsibilities. Directors' fees are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long-term strategic objectives.

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

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

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

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

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

Directors' annual report on remuneration

This report sets out how the directors' remuneration policy was implemented during the year ended 30 September 2019.

Consideration of matters relating to directors' remuneration

Directors' remuneration was last reviewed by the management engagement committee and the board in September 2019. The members of the board at the time that remuneration levels were considered were as set out on pages 17 and 18. 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 the fees paid to the Chairman would increase to £37,000 per annum, the fees paid to the audit and risk committee chairman would increase to £30,000 and the fees paid to other directors would increase to £25,000. These increases took effect from 1 October 2019.

Directors' Remuneration Report

Fees paid to directors

The following amounts were paid by the Company to the directors for services as non-executive directors in respect of the year ended 30 September 2019 and the previous financial year:

Director	Fees 2019 £	Fees 2018 £	Taxable benefits[1] 2019 £	Taxable benefits[1] 2018 £	Total 2019 £	Total 2018 £
Eric Sanderson	**36,000**	35,250	**5,470**	–	**41,470**	35,250
Claire Dobie	**24,000**	23,500	**273**	415	**24,273**	23,915
Andrew Page	**29,000**	28,200	**–**	–	**29,000**	28,200
Robert Rickman	**24,000**	23,500	**787**	641	**24,787**	24,141
Robert Talbut	**24,000**	23,500	**412**	340	**24,412**	23,840
	137,000	133,950	**6,942**	1,396	**143,942**	135,346

[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.

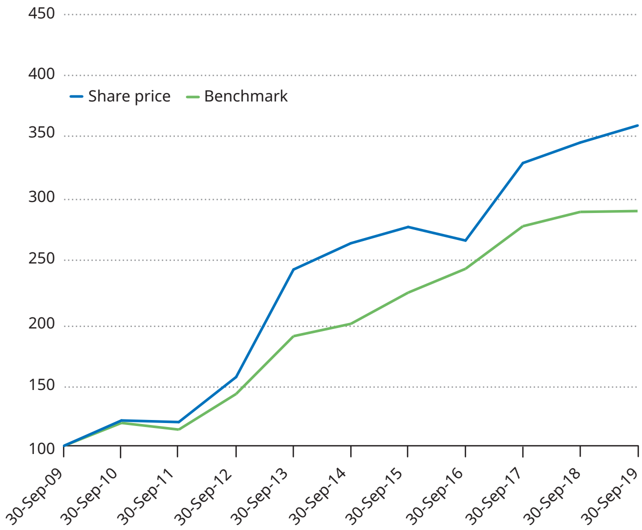
The information in the above table has been audited.

Expenditure by the Company on remuneration and distributions to shareholders

The table below compares the remuneration payable to directors to distributions made 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 objective.

	Year ended 30 Sep 2019 £'000	Year ended 30 Sep 2018 £'000	Change %
Remuneration payable to directors	**144**	135	6.7
Distributions paid to shareholders			
Dividends	**5,915**	4,768	24.1
Share buybacks	**597**	–	N/A
Total distributions paid to shareholders	**6,512**	4,768	36.6

Ten year share price and Benchmark total returns



[1]Source: Morningstar/Thomson Reuters. Rebased to 100 at 30 September 2009. Definitions of terms and performance measures are given on page 54.

Directors' Remuneration Report

Directors' share interests

The Company's articles of association do not require directors to own shares in the Company.

The interests of the directors, including those of connected persons, in the Company's share capital at the beginning and end of the financial year under review are set out below:

	Ordinary shares of 25p each 30 September 2019	Ordinary shares of 25p each 1 October 2018
Eric Sanderson	**2,070**	2,070
Clare Dobie	**2,044**	2,044
Andrew Page	**9,000**	4,000
Robert Rickman	**4,300**	4,300
Robert Talbut	**6,609**	5,064

There have been no changes notified since the year end.

The information in the above table has been audited.

On behalf of the board

Eric Sanderson
Chairman

19 December 2019

Governance

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

The directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 its profit or loss 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 comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual report and accounts

We confirm that to the best of our knowledge:

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

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the board

Eric Sanderson
Chairman

19 December 2019

Independent Auditor's Report to the Members of Schroder UK Mid Cap Fund plc

1. Our opinion is unmodified

We have audited the financial statements of Schroder UK Mid Cap Fund plc ("the Company") for the year ended 30 September 2019 which comprise the Income Statement, Statement of Changes in Equity, Statement of Financial Position and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit and risk committee.

We were first appointed as auditor by the directors on 21 June 2017. The period of total uninterrupted engagement is for the three financial years ended 30 September 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matter (unchanged from 2018), in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

	The risk	Our response
Carrying amount of quoted investments (£232.6m; 2018: £221.7m) *Refer to page 22 (Audit and Risk Committee Report), page 38 (accounting policy) and pages 42 and 45-47 (financial disclosures).*	**Low risk, high value:** The Company's portfolio of quoted investments makes up 98.2% of the Company's total assets (by value) and is considered to be the key driver of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: – **Tests of detail:** Agreeing the valuation of 100% of investments in the portfolio to externally quoted prices; and – **Enquiry of custodians:** Agreeing 100% of investment holdings in the portfolio to independently received third party confirmations from investment custodians. **Our results:** – We found the carrying amount of quoted investments to be acceptable (2018: acceptable).

Independent Auditor's Report to the Members of Schroder UK Mid Cap Fund plc

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £2.30m (2018: £2.30m), determined with reference to a benchmark of total assets, of which it represents 1%.

In addition, we applied materiality of £365,000 (2018: £300,000) to revenue for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Company.

We agreed to report to the audit and risk committee any corrected or uncorrected identified misstatements exceeding £115,000 (2018: £115,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the offices of HSBC Securities Services in Edinburgh and KPMG Glasgow.

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the risk of Brexit and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional procedures.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 16 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the annual report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement on page 16 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 and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the audit and risk committee does not appropriately address matters communicated by us to that Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 30, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors, Schroder Unit Trusts Limited ("the Manager") and HSBC Securities Services Limited ("the Administrator") (as required by auditing standards) and discussed with the directors, the manager and the administrator the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), and its qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: the Listing Rules and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations, to enquiry of the directors and management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Philip Merchant (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

19 December 2019

Income Statement
for the year ended 30 September 2019

	Note	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
(Losses)/gains on investments held at fair value through profit or loss	2	–	(3,615)	(3,615)	–	1,607	1,607
Income from investments	3	8,260	615	8,875	6,997	1,459	8,456
Other interest receivable and similar income	3	9	–	9	7	–	7
Gross return/(loss)		8,269	(3,000)	5,269	7,004	3,066	10,070
Investment management fee	4	(442)	(1,032)	(1,474)	(485)	(1,133)	(1,618)
Administrative expenses	5	(476)	–	(476)	(482)	–	(482)
Net return/(loss) before finance costs and taxation		7,351	(4,032)	3,319	6,037	1,933	7,970
Finance costs	6	(39)	(91)	(130)	(10)	(23)	(33)
Net return/(loss) on ordinary activities before taxation		7,312	(4,123)	3,189	6,027	1,910	7,937
Taxation on ordinary activities	7	13	–	13	(12)	–	(12)
Net return/(loss) on ordinary activities after taxation		7,325	(4,123)	3,202	6,015	1,910	7,925
Return/(loss) per share	9	20.43p	(11.50)p	8.93p	16.78p	5.33p	22.11p

The "Total" column of this statement is the profit and loss account of the Company. The "Revenue" and "Capital" columns represent supplementary information prepared under guidance issued by The Association of Investment Companies. The Company has no other items of other comprehensive income, and therefore the net return on ordinary activities after taxation is also the total comprehensive income for the year.

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

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

Statement of Changes in Equity for the year ended 30 September 2019

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 September 2017		9,036	13,971	220	2,184	13,934	180,277	6,955	226,577
Net return on ordinary activities		–	–	–	–	–	1,910	6,015	7,925
Dividends paid in the year	8	–	–	–	–	–	–	(4,768)	(4,768)
At 30 September 2018		9,036	13,971	220	2,184	13,934	182,187	8,202	229,734
Repurchase of the Company's own shares into treasury		–	–	–	–	(597)	–	–	(597)
Net (loss)/return on ordinary activities		–	–	–	–	–	(4,123)	7,325	3,202
Dividends paid in the year	8	–	–	–	–	–	–	(5,915)	(5,915)
At 30 September 2019		**9,036**	**13,971**	**220**	**2,184**	**13,337**	**178,064**	**9,612**	**226,424**

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

Statement of Financial Position at 30 September 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	**232,621**	221,691
Current assets			
Debtors	11	**3,990**	1,796
Cash at bank and in hand		**356**	6,781
		4,346	8,577
Current liabilities			
Creditors: amounts falling due within one year	12	**(10,543)**	(534)
Net current (liabilities)/assets		**(6,197)**	8,043
Net assets		**226,424**	229,734
Capital and reserves			
Called-up share capital	13	**9,036**	9,036
Share premium	14	**13,971**	13,971
Capital redemption reserve	14	**220**	220
Merger reserve	14	**2,184**	2,184
Share purchase reserve	14	**13,337**	13,934
Capital reserves	14	**178,064**	182,187
Revenue reserve	14	**9,612**	8,202
Total equity shareholders' funds		**226,424**	229,734
Net asset value per share	15	**633.51p**	640.80p

These accounts were approved and authorised for issue by the board of directors on 19 December 2019 and signed on its behalf by:

Eric Sanderson
Chairman

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

Registered in Scotland as a public company limited by shares

Company registration number: SC082551

Financial

Notes to the Accounts

1. Accounting Policies

(a) Basis of accounting

Schroder UK Mid Cap Fund plc ("the Company") is registered in Scotland as a public company limited by shares. The Company's registered office is 1 Exchange Crescent, Edinburgh, EH3 8UL.

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 going concern basis under the historical cost convention, as modified by the revaluation of investments held at fair value through profit or loss. The directors believe that the Company has adequate resources to continue operating for at least 12 months from the date of approval of these accounts. In forming this opinion, the directors have taken into consideration: the controls and monitoring processes in place; the Company's low level of debt and other payables; the low level of operating expenses, comprising largely variable costs which would reduce pro rata in the event of a market downturn; and that the Company's assets comprise cash and readily realisable securities quoted in active markets.

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

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

The accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 30 September 2018.

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

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment objective 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 at 2400 hours on the accounting date, for investments traded in active markets.

Any investments that are unlisted or not actively traded would be valued using a variety of techniques to determine their fair value; any such valuations would be 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. Increases and decreases in the valuation of investments held at the year end, are included in the Income Statement and in capital reserves within "Investment holding gains and losses".

(d) Income

Dividends receivable 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.

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.

(e) Expenses

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

– The management fee is allocated 30% to revenue and 70% 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 and in accordance with FRS 102.

Finance costs are allocated 30% to revenue and 70% to capital in line with the board's expected long-term split of revenue and capital return from the Company's investment portfolio.

(g) Financial instruments

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

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

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

(h) Taxation

Taxation on ordinary activities comprises 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 balance sheet 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) Dividends payable

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

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

	2019 £'000	2018 £'000
Gains on sales of investments based on historic cost	**2,282**	16,004
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	**(1,602)**	(12,678)
Gains on sales of investments based on the carrying value at the previous balance sheet date	**680**	3,326
Net movement in investment holding gains and losses	**(4,295)**	(1,719)
(Losses)/gains on investments held at fair value through profit or loss	**(3,615)**	1,607

Notes to the Accounts

3. Income

Revenue:	2019 £'000	2018 £'000
Income from investments:		
UK dividends	7,988	6,684
UK property income distributions	272	293
Stock dividends	–	20
	8,260	6,997
Other interest receivable and similar income:		
Deposit interest	9	7
	8,269	7,004
Capital:		
Special dividends allocated to capital	615	1,459

4. Investment management fee

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Management fee	442	1,032	1,474	485	1,133	1,618

The bases for calculating the investment management fee are set out in the Directors' Report on page 19 and details of all amounts payable to the Manager are given in note 16 on page 44.

5. Administrative expenses

	2019 £'000	2018 £'000
Directors' fees	137	134
Secretarial fee	133	128
Auditor's remuneration for audit services[1]	26	23
Other administrative expenses	180	197
	476	482

[1]Includes £4,000 (2018: £3,000) irrecoverable VAT.

6. Finance costs

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Interest on bank loans and overdrafts	39	91	130	10	23	33

Notes to the Accounts

7. Taxation on ordinary activities

(a) Analysis of charge in the year:

	2019 £'000	2018 £'000
Taxation on ordinary activities	(13)	12

(b) Factors affecting tax charge for the year

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

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

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Net return/(loss) on ordinary activities before taxation	7,312	(4,123)	3,189	6,027	1,910	7,937
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 19.0% (2018: 19.0%)	1,389	(783)	606	1,145	363	1,508
Effects of:						
Capital returns on investments	–	687	687	–	(305)	(305)
Income not chargeable to corporation tax	(1,518)	(117)	(1,635)	(1,274)	(277)	(1,551)
Unrelieved expenses	129	213	342	129	219	348
Irrecoverable overseas tax	(13)	–	(13)	12	–	12
Taxation on ordinary activities	(13)	–	(13)	12	–	12

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £5,283,000 (2018: £4,977,000) based on a prospective corporation tax rate of 17.0% (2018: 17.0%). The reduction in the standard rate of corporation tax was substantively enacted in September 2016 and is effective from 1 April 2020.

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

Given the Company's intention to 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.

8. Dividends

(a) Dividends paid and declared

	2019 £'000	2018 £'000
2018 final dividend of 12.7p (2017: 10.0p) paid out of revenue profits	4,553	3,585
Interim dividend of 3.8p (2018: 3.3p) paid out of revenue profits	1,362	1,183
Total dividends paid in the year	5,915	4,768

	2019 £'000	2018 £'000
2019 final dividend declared of 14.7p (2018: 12.7p) to be paid out of revenue profits	5,254	4,553

Notes to the Accounts

(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 £7,325,000 (2018: £6,015,000).

	2019 £'000	2018 £'000
Interim dividend of 3.8p (2018: 3.3p)	1,362	1,183
Final dividend of 14.7p (2018: 12.7p)	5,254	4,553
	6,616	5,736

9. Return per share

	2019 £'000	2018 £'000
Revenue return	7,325	6,015
Capital (loss)/return	(4,123)	1,910
Total return	3,202	7,925
Weighted average number of shares in issue during the year	35,848,258	35,851,190
Revenue return per share	20.43p	16.78p
Capital (loss)/return per share	(11.50)p	5.33p
Total return per share	8.93p	22.11p

10. Investments held at fair value through profit or loss

	2019 £'000	2018 £'000
Opening book cost	180,388	169,959
Opening investment holding gains	41,303	55,700
Opening valuation	221,691	225,659
Purchases at cost	60,053	68,454
Sales proceeds	(45,508)	(74,029)
Gains on sales of investments based on the carrying value at the previous balance sheet date	680	3,326
Net movement in investment holding gains and losses	(4,295)	(1,719)
Closing valuation	232,621	221,691
Closing book cost	197,215	180,388
Closing investment holding gains	35,406	41,303
Total investments held at fair value through profit or loss	232,621	221,691

All investments are listed on a recognised stock exchange.

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

	2019 £'000	2018 £'000
On acquisitions	275	278
On disposals	22	47
	297	325

Notes to the Accounts

11. Debtors

	2019 £'000	2018 £'000
Securities sold awaiting settlement	**2,784**	672
Dividends and interest receivable	**1,198**	1,113
Other debtors	**8**	11
	3,990	1,796

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

12. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loan	**10,000**	–
Other creditors and accruals	**543**	534
	10,543	534

The bank loan comprises £10 million (2018: nil) drawn down on the Company's £25 million (2018: £15 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.

13. Called-up share capital

	2019 £'000	2018 £'000
Allotted, called-up and fully paid:		
Ordinary shares of 25p each:		
Opening balance of 35,851,190 (2018: same) shares, excluding shares held in treasury	**8,963**	8,963
Repurchase of 110,000 (2018: nil) shares into treasury	**(28)**	–
Subtotal of 35,741,190 (2018: 35,851,190) shares	**8,935**	8,963
402,500 (2018: 292,500) shares held in treasury	**101**	73
Closing balance[1]	**9,036**	9,036

[1]Represents 36,143,690 (2018: 36,143,690) shares of 25p each, including 402,500 (2018: 292,500) shares held in treasury. During the year, the Company purchased 110,000 of its own shares, nominal value £27,500 to hold in treasury for a total consideration of £597,000 representing 0.31% of the shares outstanding at the beginning of the year. The reason for these share repurchases was to seek to manage the volatility of the share price discount to net asset value per share.

Notes to the Accounts

14. Reserves

	Share premium[1] £'000	Capital redemption reserve[1] £'000	Merger reserve[1] £'000	Capital reserves 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	13,971	220	2,184	13,934	140,884	41,303	8,202
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	680	–	–
Net movement in investment holding gains and losses	–	–	–	–	–	(4,295)	–
Transfer on disposal of investments	–	–	–	–	1,602	(1,602)	–
Management fee allocated to capital	–	–	–	–	(1,032)	–	–
Special dividend allocated to capital	–	–	–	–	615	–	–
Finance costs allocated to capital	–	–	–	–	(91)	–	–
Share buybacks	–	–	–	(597)	–	–	–
Dividends paid	–	–	–	–	–	–	(5,915)
Retained revenue for the year	–	–	–	–	–	–	7,325
Closing balance	13,971	220	2,184	13,337	142,658	35,406	9,612

[1]These reserves are not distributable. The "Merger reserve" represents the premium over the nominal value of shares issued following a merger in 1989.
[2]These are realised (distributable) capital reserves which may be used to repurchase the Company's own shares or distributed as dividends. The "Share purchase reserve" is for the purpose of financing share buy-backs and was created following the cancellation of the "Warrant reserve" in 2003.
[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 be distributed as dividends or used to repurchase the Company's own shares.

15. Net asset value per share

	2019	2018
Net assets attributable to the Ordinary shareholders (£'000)	226,424	229,734
Shares in issue at the year end	35,741,190	35,851,190
Net asset value per share	633.51p	640.80p

16. Transactions with the Manager

Under the terms of the AIFM Agreement, the Manager is entitled to receive a management fee and a company secretarial fee. Details of the basis of these calculations are given in the Directors' Report on page 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 management fee calculation and therefore incur no fee.

The management fee payable in respect of the year ended 30 September 2019 amounted to £1,474,000. (2018: £1,618,000) of which £387,000 (2018: £405,000) was outstanding at the year end. The secretarial fee payable for the year amounted to £133,000 (2018: £128,000) including VAT, of which £33,000 (2018: £32,000) 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 27 and details of directors' shareholdings are given in the Directors' Remuneration Report on page 27. Details of transactions with the Manager are given in note 16 above. There have been no other transactions with related parties during the year (2018: nil).

18. Disclosures regarding financial instruments measured at fair value

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

FRS 102 requires that financial instruments held at fair value are categorised into a hierarchy consisting of the three levels below. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement.

Level 1: valued using unadjusted quoted prices in an active market for identical assets.

Level 2: valued using inputs other than quoted prices included within Level 1, that are observable (ie developed using market data).

Level 3: valued using inputs that are unobservable (ie for which market data is unavailable).

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

At 30 September 2019, the Company's investments were all categorised in Level 1 (2018: same).

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

The Company's investment objective is to invest in mid cap equities with the aim of providing a total return in excess of the FTSE 250 (ex-Investment Companies) Index. In pursuing this objective, 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 exposure to foreign exchange risk.

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 are as follows:

– investments in shares which are held in accordance with the Company's investment objective;

– short-term debtors, creditors and cash arising directly from its operations; and

– a sterling credit facility with Scotiabank, 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. However any drawings on the credit facility are normally for one-month periods at a fixed rate of interest and therefore exposure to interest rate risk is not significant.

Notes to the Accounts

Interest rate exposure

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

	2019 £'000	2018 £'000
Exposure to floating interest rates:		
Cash at bank and in hand	**356**	6,781
Other payables: drawings on the revolving credit facility	**(10,000)**	–
Total exposure	**(9,644)**	6,781

Interest receivable on cash balances is at a margin below LIBOR (2018: same).

During the year, the Company extended its revolving credit facility with Scotiabank Europe plc to 8 July 2020 and increased the limit from £15 million to £25 million. The facility is unsecured but subject to covenants and restrictions which are customary for a facility of this nature. 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 30 September 2019, the Company had drawn down £10 million (2018: nil) at an interest rate of 1.35%, repayable on 31 October 2019.

The above year end amounts are not representative of the exposure to interest rates during the year due to fluctuations in the level of cash balances and drawings on the credit facility. The maximum and minimum exposure during the year was as follows:

	2019 £'000	2018 £'000
Minimum debit/maximum credit interest rate exposure during the year – net (debt)/cash	**(1,520)**	10,540
Maximum debit interest rate exposure during the year – net debt	**(9,644)**	(5,969)

Interest rate sensitivity

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

	2019		2018	
	0.5% increase in rate £'000	0.5% decrease in rate £'000	0.5% increase in rate £'000	0.5% decrease in rate £'000
Income statement – return after taxation				
Revenue return	**(13)**	**13**	34	(34)
Capital return	**(35)**	**35**	–	–
Total return after taxation	**(48)**	**48**	34	(34)
Net assets	**(48)**	**48**	34	(34)

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

(ii) Other price risk

Other 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 30 September comprises the following:

	2019 £'000	2018 £'000
Investments held at fair value through profit or loss	**232,621**	221,691

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 Company's investments are all listed in the United Kingdom. Accordingly there is a concentration of exposure to this country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of listing.

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 20% (2018: 20%) 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 its investments and includes the impact on the management fee, but assumes that all other variables are held constant.

	2019		2018	
	20% increase in fair value £'000	20% decrease in fair value £'000	20% increase in fair value £'000	20% decrease in fair value £'000
Income statement – return after taxation				
Revenue return	**(91)**	**91**	(93)	93
Capital return	**46,312**	**(46,312)**	44,121	(44,121)
Total return after taxation and net assets	**46,221**	**(46,221)**	44,028	(44,028)
Percentage change in net asset value	**20.4**	**(20.4)**	19.2	(19.2)

(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 the 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. Short-term flexibility is achieved through the use of a credit facility.

The board's policy is for the Company to remain fully invested in normal market conditions and that the credit facility 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:

	Three months or less 2019 £'000	Three months or less 2018 £'000
Creditors: amounts falling due within one year		
Other creditors and accruals	**543**	534
Other payables: drawings on the revolving credit facility (including interest)	**10,011**	–
	10,554	534

Financial

(c) Credit risk

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

Management of credit risk

This risk is not significant and is managed as follows:

Portfolio dealing

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

Exposure to the Custodian

The custodian of the Company's assets is HSBC Bank plc which has Long-Term Credit Ratings of AA- with Fitch and Aa3 with Moody's.

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

Credit risk exposure

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

	2019		2018	
	Balance sheet £'000	**Maximum exposure £'000**	**Balance sheet £'000**	**Maximum exposure £'000**
Current assets				
Debtors – securities sold awaiting settlement, dividends and interest receivable and other debtors	**3,990**	**3,982**	1,796	1,785
Cash at bank and in hand	**356**	**356**	6,781	6,781
	4,346	**4,338**	8,577	8,566

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 in the Statement of Financial Position at fair value or the amount is a reasonable approximation of fair value.

20. Capital management policies and procedures

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

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

	2019 £'000	2018 £'000
Debt		
Bank loan	10,000	–
Equity		
Called-up share capital	9,036	9,036
Reserves	217,388	220,698
	226,424	229,734
Total debt and equity	236,424	229,734

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the capital 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. If the figure so calculated is negative, this is shown as a "net cash" position.

	2019 £'000	2018 £'000
Borrowings used for investment purposes, less cash	9,644	(6,781)
Net assets	226,424	229,734
Gearing/(net cash)	4.3%	(3.0)%

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 dividends to be paid, in excess of that which is required to be distributed.

Annual General Meeting – Recommendations

The Annual General Meeting ("AGM") of the Company will be held on Tuesday, 28 January 2020 at 12.00 noon. The formal Notice of Meeting is set out on page 51.

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

Ordinary business

Resolutions 1 to 11 are all ordinary resolutions. Resolution 1 is a required resolution. Resolution 2 invites shareholders to approve the final dividend. Resolutions 3 and 4 concern the Directors' Remuneration Policy and the Directors' Remuneration Report, on pages 27 and 28. Resolution 5 invites shareholders to elect Wendy Colquhoun as a director of the Company. Resolutions 6 to 9 invite shareholders to re-elect each of the directors who have put themselves forward for re-election for another year, following the recommendations of the nomination committee, set out on pages 25 and 26 (their biographies are set out on pages 17 and 18). Resolutions 10 and 11 concern the re-appointment and remuneration of the Company's auditor, discussed in the Audit and Risk Committee Report on pages 22 and 23.

Special business

Resolution 12 – directors' authority to allot shares (ordinary resolution) and resolution 13 – power to disapply pre-emption rights (special resolution)

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

Appropriate resolutions will be proposed at the forthcoming AGM and are set out in full in the Notice of AGM. An ordinary resolution will be proposed to authorise the directors to allot shares up to a maximum aggregate nominal amount of £884,030 (being 10% of the issued share capital (excluding any shares held in treasury) as at the date of the Notice of the AGM). A special resolution will also be proposed to give the directors authority to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £884,030 (being 10% of the Company's issued share capital (excluding any shares held in treasury) as at the date of the Notice of the AGM). This authority includes shares that the Company sells or transfers that have been held in treasury. The board has established guidelines for treasury shares and will only reissue shares held in treasury at a price equal to or greater than the Company's net asset value (inclusive of current year income) plus any applicable costs.

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

If approved, both of these authorities will expire at the conclusion of the AGM in 2021 unless renewed, varied or revoked earlier.

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

At the AGM held on 24 January 2019, the Company was granted authority to make market purchases of up to 5,374,093 ordinary shares of 25p each for cancellation or holding in treasury. 490,000 shares have been bought back into treasury under this authority and the Company therefore has remaining authority to purchase up to 4,884,093 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 and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue as at the date of the Notice of the AGM. The directors will exercise this authority only if the directors consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled or held in treasury for potential reissue. If renewed, the authority to be given at the 2020 AGM will lapse at the conclusion of the AGM in 2021 unless renewed, varied or revoked earlier.

Recommendations

The board considers that the resolutions relating to the above items of business are in the best interests of shareholders as a whole. Accordingly, the board unanimously recommends to shareholders that they vote in favour of the 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 UK Mid Cap Fund plc will be held at 1 London Wall Place, London EC2Y 5AU on Tuesday, 28 January 2020 at 12.00 noon to consider the following resolutions of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 and 14 will be proposed as special resolutions:

1. To receive the Report of the Directors and the audited accounts for the year ended 30 September 2019.
2. To approve a final dividend of 14.7 pence per share for the financial year ended 30 September 2019.
3. To approve the Directors' Remuneration Policy.
4. To approve the Directors' Remuneration Report for the year ended 30 September 2019.
5. To elect Wendy Colquhoun as a director of the Company.
6. To re-elect Eric Sanderson as a director of the Company.
7. To re-elect Clare Dobie as a director of the Company.
8. To re-elect Andrew Page as a director of the Company.
9. To re-elect Robert Talbut as a director of the Company.
10. To re-appoint KPMG LLP as auditor to the Company.
11. To authorise the directors to determine the remuneration of KPMG LLP as auditor to the Company.
12. To consider, and if thought fit, pass the following resolution as an ordinary resolution:

    "THAT the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 551 of the Act) up to an aggregate nominal amount of £884,030 (being 10% of the issued ordinary share capital at the date of this Notice) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company, but that the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the board may allot relevant securities in pursuance of that offer or agreement."

13. To consider and, if thought fit, to pass the following resolution as a special resolution:

    "THAT, subject to the passing of resolution 12 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(1) of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said resolution 12 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 £884,030 (representing 10% of the aggregate nominal amount of the share capital in issue at the date of this Notice); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry."

14. To consider and, if thought fit, to pass the following resolution as a special resolution:

    "THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 25p 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 which may be purchased is 5,300,642, representing 14.99% of the Company's issued ordinary share capital as at the date of this Notice;

    (b) the maximum price (exclusive of expenses) which may be paid for a Share shall not exceed the higher of;

      i) 105% of the average of the middle market quotations for the Shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase; and

      ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange;

    (c) the minimum price (exclusive of expenses) which may be paid for a Share shall be 25p, being the nominal value per Share;

    (d) this authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2021 (unless previously renewed, varied or revoked by the Company prior to such date);

    (e) the Company may make a contract to purchase Shares under the authority hereby conferred which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and

    (f) any Shares so purchased will be cancelled or held in treasury for potential reissue."

By order of the board

Schroder Investment Management Limited
Company Secretary
19 December 2019

Registered Office:
1 Exchange Crescent,
Conference Square,
Edinburgh EH3 8UL

Registered number: SC082551

Explanatory Notes to the Notice of Meeting

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

   A proxy form is attached. If you wish to appoint a person other than the Chairman as your proxy, please insert the name of your chosen proxy holder in the space provided at the top of the form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

   Additional proxy forms can be obtained by contacting the Company's Registrars, Equiniti Limited, on 0800 032 0641 or +44(0) 121 415 0207 for overseas callers, or you may photocopy the attached proxy form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. Completion and return of a form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

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

   The "Vote Withheld" option on the proxy form is provided to enable you to abstain on any particular resolution.

   However it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

   A proxy form must be signed and dated by the shareholder or his or her attorney duly authorised in writing. In the case of joint holdings, any one holder may sign this form. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder and for this purpose seniority will be determined by the order in which the names appear on the Register of Members in respect of the joint holding. To be valid, proxy form(s) must be completed and returned to the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 hours before the time fixed for the meeting, or an adjourned meeting, excluding non-working days. 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 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 12.00 noon on 24 January 2020. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641 (or +44(0) 121 415 0207 for overseas callers).

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

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

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

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

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

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of members of the Company at 6.30 p.m. on 24 January 2020, or 6.30 p.m. two days prior to the date of an adjourned meeting, excluding non-working days, 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 24 January 2020 shall be disregarded in determining the right of any person to attend and vote at the meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the

Explanatory Notes to the Notice of Meeting

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 articles of association, terms of appointment of the non-executive directors and a statement of all transactions of each director and of his family interests in the shares of the Company, will be available for inspection by any member of the Company at the registered office of the Company during normal business hours on any weekday (English public holidays excepted) and at the Annual General Meeting by any attendee, for at least 15 minutes prior to, and during, the Annual General Meeting. None of the directors has a contract of service with the Company.

6. The biographies of the directors offering themselves for re-election are set out on pages 17 and 18 of the Company's annual report and accounts for the year ended 30 September 2019.

7. As at 13 December 2019, 35,361,190 ordinary shares of 25p each were in issue and 782,500 shares were held in treasury. Therefore the total number of voting rights of the Company as at 13 December 2019 was 35,361,190.

8. A copy of this Notice of Meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available from the webpages dedicated to the Company: www.schroders.co.uk/ukmidcap.

9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

Definitions of Terms and Performance Measures

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

Net asset value ("NAV") per share

The NAV per share of 633.51p (2018: 640.80p) represents the net assets attributable to equity shareholders of £226,424,000 (2018: £229,734,000) divided by the number of shares in issue, excluding any shares held in treasury, of 35,741,190 (2018: 35,851,190).

The change in the NAV amounted to -1.1% (2018: +1.4%) over the year. However this performance measure excludes the positive impact of dividends paid out by the Company during the year. When these dividends are factored into the calculation, the resulting performance measure is termed the "total return". Total return calculations and definitions are given below.

Total return

Total return is 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 30 September 2019 is calculated as follows:

NAV at 30/9/18	640.80p
NAV at 30/9/19	633.51p

Dividend	XD date	NAV on XD date	Factor	Cumulative factor
12.7p	03/01/2019	534.41p	1.0238	1.0238
3.8p	11/07/2019	613.39p	1.0062	1.0301

NAV total return, being the closing NAV, multiplied by the cumulative factor, expressed as a percentage change in the opening NAV	1.8%

The share price total return for the year ended 30 September 2019 is calculated as follows

Share price at 30/9/18	538.00p
Share price at 30/9/19	540.00p

Dividend	XD date	Share price on XD date	Factor	Cumulative factor
12.7p	03/01/2019	446.00p	1.0285	1.0285
3.8p	11/07/2019	504.00p	1.0075	1.0362

Share price total return, being the closing share price, multiplied by the cumulative factor, expressed as a percentage change in the opening share price	4.0%

Annualised total return

The annualised total return is the compound annual rate of return which equates to the total return as calculated above, for a period of more than one year.

Benchmark

A measure against which the performance of an investment company is compared, or against which it sets its objective. With effect from 1 April 2011, the Company's benchmark has been the FTSE 250 (ex-Investment Companies) Index. Prior to that date the benchmark was the FTSE All-share, ex-Investment Companies Index, ex-FTSE 100. The return for 2011 is based on a combination of both of these indices, calculated on a pro-rata basis.

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 expressed as a percentage of the NAV per share. The discount at the year end amounted to 14.8% (2018: 16.0%), as the closing share price at 540.00p (2018: 538.00p) was 14.8% (2018: 16.0%) lower than the closing NAV of 633.51p (2018: 640.80p).

Gearing

The gearing percentage reflects the amount of borrowings (that is, bank loans or overdrafts) that the Company has used to invest in the market. This figure 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 49.

Ongoing Charges

Ongoing Charges represents the management fee and all other operating expenses excluding finance costs and transaction costs amounting to £1,950,000 (2018: £2,100,000), expressed as a percentage of the average daily net asset values during the year of £215,597,000 (2018: £230,789,000).

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.

Shareholder Information

Webpages and share price information

The Company has dedicated webpages, which may be found at www.schroders.co.uk/ukmidcap. The webpages have been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's ordinary share price and copies of annual 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 webpages contain links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. There is also a section entitled "How to Invest".

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

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

The Manager publishes monthly and quarterly updates on the Company and other Schroders investment trusts, which may be found under the "Literature" section on the webpages www.schroders.co.uk/ukmidcap.

Association of Investment Companies

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

Individual Savings Account ("ISA") status

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

Non-Mainstream Pooled Investments status

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

Financial calendar

Annual General Meeting	January
Final dividend paid	February
Half year results announced	May/June
Interim dividend paid	June
Financial year end	30 September
Annual results announced	December

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 Company's webpages.

Leverage

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

Leverage exposure	Maximum ratio	Actual ratio
Gross method	2.0	1.0
Commitment method	2.0	1.0

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 AIFM Directive information disclosure document published on the Company's webpages.

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/ukmidcap

Directors

Eric Sanderson (Chairman)
Clare Dobie
Andrew Page
Robert Rickman
Robert Talbut

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 6596

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Conference Square
Edinburgh EH3 8UL

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8 Canada Square
London E14 5HQ

Lending Bank

Scotiabank Europe plc
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Corporate Broker

Panmure Gordon & Co
1 New Change
London EC4M 9AF

Independent auditor

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15 Canada Square
Canary Wharf
London E14 5GL

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 address above.

Lawyers

Shepherd and Wedderburn
1 Exchange Crescent
Edinburgh EH3 8UL

Shareholder enquiries

General enquiries about the Company should be addressed to the Company Secretary at the address set out above.

Dealing Codes

ISIN: GB0006108418
SEDOL: 0610841
Ticker: SCP

Global Intermediary Identification Number (GIIN)

9GN3DU.99999.SL.826

Legal Entity Identifier (LEI)

549300SOEWCYZTK2SP87

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

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