

Schroder Income Growth Fund plc

Half Year Report and Accounts
for the six months ended
28 February 2018

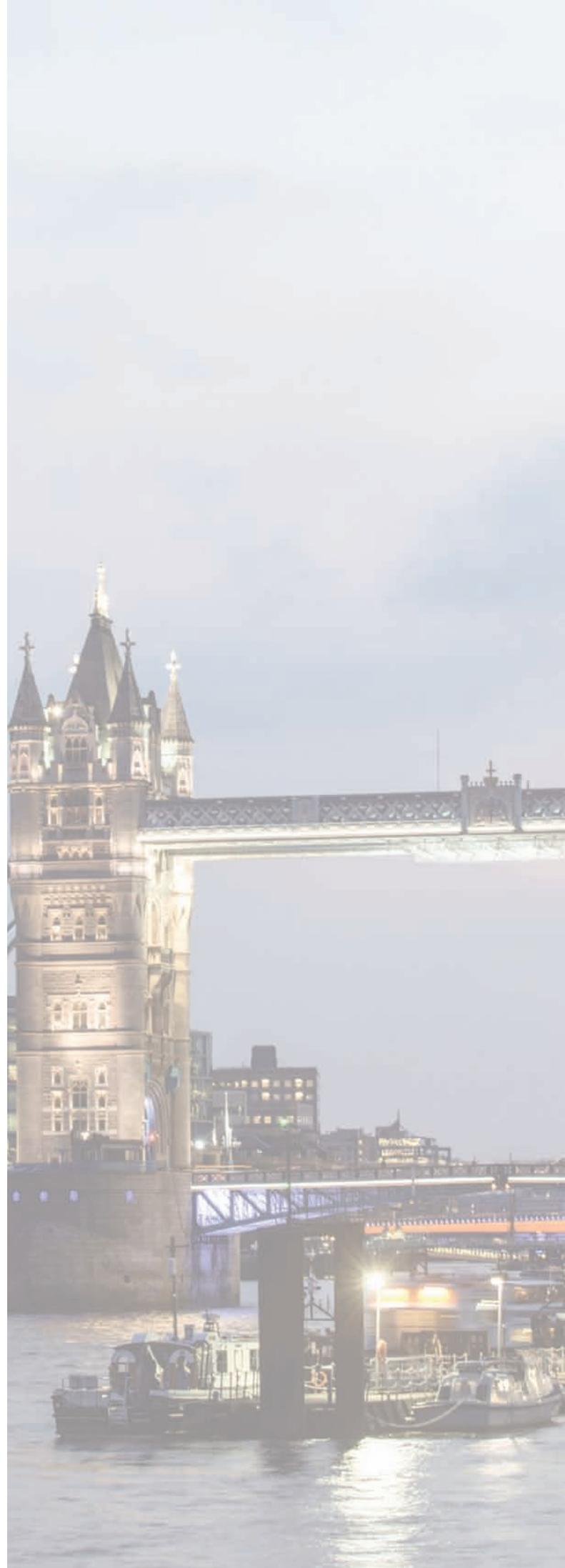


Investment objectives

The Company's principal investment objectives are to provide real growth of income, being growth of income in excess of the rate of inflation, and capital growth as a consequence of the rising income.

Investment policy

The investment policy of the Company is to invest primarily in above-average yielding UK equities but up to 20% of the portfolio may be invested in equities listed on recognised stock exchanges outside the UK. If considered appropriate, the Company may use equity related instruments such as convertible securities and up to 10% of the portfolio may be invested in bonds. In addition, up to 20% of total income may be generated by short-dated call options written on holdings in the portfolio. Put options comprising short-term exchange-traded instruments on major stock market indices of an amount up to the value of the Company's borrowings may also be utilised.





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Financial Highlights

Total returns (including dividends reinvested) for the six months ended 28 February 2018¹



Net asset value ("NAV") per share²



Share price²



FTSE All-Share Index³

¹ Total returns measure the combined effect of any dividends paid, together with the rise or fall in the share price or NAV per share. Total return statistics enable the investor to make performance comparisons between investment companies with different dividend policies. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares of the Company at the time the shares were quoted ex-dividend (to calculate the share price total return) or in the assets of the Company at its NAV per share (to calculate the NAV per share total return).

² Source: Morningstar.

³ Source: Thomson Reuters.

Other financial information

	28 February 2018	31 August 2017	% change
Shareholders' funds (£'000)	207,688	216,718	(4.2)
NAV per share (pence)	302.36	315.51	(4.2)
Share price (pence)	283.00	293.63	(3.6)
Share price discount to NAV per share (%)	6.4	6.9	
Gearing (%) ¹	6.9	5.8	

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

Dividends

Dividends declared in respect of the six months ended 28 February 2018 amounted to 4.80 pence per share (six months ended 28 February 2017: 4.00 pence and year ended 31 August 2017: 11.20 pence).

Interim Management Report – Chairman’s Statement

Performance

Over the six months to 28 February 2018, your Company marginally underperformed the FTSE All-Share Index, achieving a total return in net asset value (‘NAV’) terms of -1.8% as against an equivalent -0.9% for the Index. The share price total return over the same period was a slightly better -1.1%, reflecting a marginal narrowing of the discount to NAV at which the Company’s shares traded – from 6.9% to 6.4%. On 16 May (the latest practicable date prior to publication of this Statement) the discount stood at 6.5%.

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

Revenue and dividends

Revenue after taxation fell 15% year-on-year due both to the timing of income received, as well as to the strengthening of sterling. This is discussed further in the Manager’s review.

During the period, the Company has paid two interim dividends for the year ending 31 August 2018 amounting to 4.80 pence per share (2017: 4.00 pence per share).

The increased rate of these interim dividends reflects the Board’s decision to rebalance distributions so that the difference between the first three interim dividends and the fourth interim dividend should be reduced.

While the Board remains committed to increasing the total annual dividend level over time, the level of the two interim dividends so far declared this financial year should not be considered indicative of the level of total dividends that may be declared in respect of the full year.

Gearing

The Company has in place a £20 million revolving credit facility. At 28 February 2018, the facility was fully drawn, with gearing having increased from 5.8% to 6.9% during the period under review.

Board composition

At the last Annual General Meeting, one of our long-standing Directors, Mr Keith Niven, stepped down as a Director and Mr Ewen Cameron Watt was elected by shareholders to join the Board. We thank Mr Niven for his wise counsel and meaningful contribution over many years.

Meanwhile, your Board continues to review its composition, balance and diversity in its ongoing succession planning.

Outlook

My vision of your Company’s future starts, as always, with the prospects for income growth. Whilst the companies in the portfolio are doing well, the prospects for dividends remain significantly influenced by currency movements. During a period when the pound is stronger, income earned outside the UK is reduced in sterling terms by currency appreciation. This has been particularly so in the first half of the current year, which anyway represents a seasonal low point in the timing of dividend payments. Forecasting currency movements is a difficult business as outcomes rely on a range of different factors both at home and abroad.

Your Board continues to endorse the Manager’s ongoing search for income growth to sustain the Company’s proud achievement of increasing its dividend every year since launch.

Ian Barby
Chairman

23 May 2018

Interim Management Report – Manager’s Review

In the six months to 28 February 2018, the NAV total return was -1.8%. This compares to -0.9% from the FTSE All-Share Index and -2.4% from the average peer fund (source: Morningstar, AIC UK Equity Income average excluding ZDPs). The share price total return was -1.1%.

Whilst the Company usually receives a relatively small part of its income in the first half of the financial year, income this time fell 15% year-on-year. The principal reason has been timing. In the same period last year the Company benefited from considerable final dividends from Rio Tinto and Micro Focus, which have not been captured in this period. Meanwhile, these negative timing impacts have not been fully offset by the positive timing impacts of dividends paid by British American Tobacco and Taylor Wimpey. Additionally, income from new purchases (Hollywood Bowl, Diageo and Tesco) was lower than had been received from holdings sold over the past year (ENI, Imperial Tobacco, Sage and Greencore). Lastly, the sterling/dollar exchange rate, which had a positive effect on dividend income last year, has reversed its direction.

Market background

UK equities fell sharply at end of the period, following the US market down on fears around the pace of policy tightening in response to growing inflationary pressures. The market weakness – which more than offset strong performance earlier in the period – was exacerbated by a rise in the VIX (volatility) index, which forced leveraged short volatility strategies to close their positions.

Government bond yields rose, driving a rotation away from more stable and defensive areas of the market. While the ‘Goldilocks’ scenario of low stable growth and inflation was put to the test, hopes remained that the world economy would continue to enjoy a sustained and synchronised recovery. The International Monetary Fund upgraded its growth forecasts twice, and is now expecting the global economy to expand by 3.9% in 2018 (up from a forecast of 3.6% in July 2017). Cyclical areas of the market continued to perform well against this backdrop.

Sterling recovered as the Bank of England increased base rates for the first time since November 2007. The Bank nudged up its forecast for UK real GDP growth in 2018, from 1.7% to 1.8%. Investors also welcomed progress with Brexit negotiations, with an agreement struck to allow talks to proceed to the future of trade arrangements.

Portfolio performance

The Company’s NAV total return was behind the FTSE All-Share Index, driven by negative stock selection, whilst the use of gearing moderately detracted from returns as the market fell.

Six months to 28 February 2018	Impact (%)
FTSE All-Share Index	-0.9
Stock selection	-0.4
Sector allocation	0.0
Costs	-0.4
Gearing	-0.1
NAV total return	-1.8

Source: Schroders

Stock selection within financials was the principal driver of the underperformance. Whilst Intermediate Capital and Lloyds Banking performed well, the holding in Nordic financial services group Nordea Bank was weak, while not holding Barclays was also a negative relative to the benchmark. Having been one of the key contributors last year, Nordea’s share price suffered from raising cost spend on IT systems. Investors were frustrated by an extended period of higher investment spend as well as fearing the potential for cost overrun and delays.

Burberry shares weakened in response to the new CEO’s strategic update. However, it is worth highlighting that the new strategic initiatives were aimed at delivering longer-term benefits – in particular, sharpening the brand positioning with renewed focus on the new product range. The market also fretted about the need to find a new creative director. On 1 March 2018 the company announced the appointment of Riccardo Tisci. Tisci is regarded as having the right credentials and is seen as a good fit, having previously acted as creative director at Givenchy and having worked with CEO Marco Gobetti (also previously at Givenchy) before.

On the positive side, the portfolio benefited from not holding a number of stocks which performed poorly. Consumer goods company Reckitt Benckiser and biopharmaceuticals company Shire suffered from more challenging operational performance of their core businesses and recently acquired businesses. National Grid, also not in the portfolio, weakened along with other domestic utilities on heightened political risks under a Labour government. However, this was somewhat offset by the portfolio’s position in British Gas owner Centrica, whose share price suffered further as a result of pressures to cap pricing on domestic entry tariffs and disappointing operating profits.

Interim Management Report – Manager’s Review

Five top/bottom relative stock performers

Security	Portfolio weight (%) ¹	Weight relative to index (%) ¹	Relative performance (%) ²	Impact (%) ³
Reckitt Benckiser	0.0	-1.7	-20.4	+0.4
National Grid	0.0	-1.2	-21.9	+0.3
Intermediate Capital	1.6	1.5	21.0	+0.3
Shire	0.0	-1.3	-18.0	+0.2
Lloyds Banking	4.6	2.6	8.6	+0.2

Security	Portfolio weight (%) ¹	Weight relative to index (%) ¹	Relative performance (%) ²	Impact (%) ³
Nordea Bank	2.3	2.3	-19.7	-0.5
Burberry Group	2.1	1.8	-13.3	-0.2
Centrica	1.0	0.7	-26.2	-0.2
RELX	2.6	1.9	-10.9	-0.2
Sky	0.0	-0.4	43.2	-0.2

Source: Factset, 31 August 2017 to 28 February 2018.

¹ Average over period.

² Relative to FTSE All-Share Index.

³ Contribution relative to the FTSE All-Share Index.

Portfolio activity

We reduced or sold out of positions in some long-standing winners in the portfolio, principally on valuation grounds, and reinvested the proceeds into more out-of-favour, lower-valued stocks where we believe the prospects have been treated harshly.

We bought outsourcing company G4S as the shares trade on a low valuation despite growing sales and earnings and initiated a position in Weir Group, an engineer supplying the oil, gas and mining sectors, given its significant operational leverage to increased capex spend from resource companies, which is currently below maintenance spend levels. Melrose was added after a setback in the shares relating to a mixed half year results (its small gas turbines business has been weak and there were cost headwinds in the Nortek business) provided an attractive opportunity to start a position.

We also added a number of domestic stocks. We believe Tesco’s turnaround is being effectively executed leading to a profile of recovering earnings, balance sheet deleveraging and increasing cash flow, which we expect to lead to the restoration of an attractive dividend payout. Pets at Home is the UK’s number one pet retailer. The company has about 700 stores, with more than half including vet practices and grooming parlours. These increase footfall for the stores, while also bringing attractive earnings in their own right. We also initiated a

position in Hollywood Bowl, the UK’s leading tenpin bowling operator. This is a smaller company which has invested steadily in improving its customer experience whilst emphasising value for money. It is a cash-generative business capable of funding its own growth as well as paying an attractive dividend.

Utilising the Company’s ability to invest outside the UK, we added German property company Deutsche Wohnen whilst selling out of Swiss pharmaceuticals company Roche. The former was added due to the rental income growth derived from the strength of Berlin’s housing market. Their property portfolio has significant and growing reversionary rental potential, which we believe will deliver double-digit dividend growth. Meanwhile, we exited the position in Roche as progress on the new therapeutic cancer treatments has proved mixed.

We reduced holdings in long-standing winners, including Micro Focus, Intermediate Capital, housebuilders Bellway and Taylor Wimpey, RELX, Unilever and London Stock Exchange, mainly on valuation grounds. We also sold out of Imperial Brands, with part of the proceeds used to top up the holding in British American Tobacco, which we believe has a superior position in Next Generation products and operates in more attractive markets.

Lastly, we exited the position in Laird, as we believed it was hard to argue for a further rerating given the recovery in margins. Our confidence in the investment case waned following a meeting with their management where the question was raised of whether the company had the scale to take their connected vehicle solutions business to the next level. We also had concerns about the strength of the company’s balance sheet given the cyclical nature of the autos business.

Outlook

The global economy has started 2018 on the same strong footing that it ended 2017, with US fiscal stimulus expected to provide further support. Given the relatively late stage of the cycle, this growth brings the risk of an increase in inflationary pressures. We expect the ‘Goldilocks’ environment of synchronised growth and muted inflation that was the theme of last year to give way to a more reflationary one in 2018. As a consequence, we expect a continued slowdown in the growth in global liquidity. This is expected to turn into an outright contraction in 2019. We also expect to see further interest rate rises from both the Federal Reserve and the Bank of England during 2018.

It is clearly a positive that economies no longer require the same level of monetary support. However, the shift from the loose conditions that provided a positive tailwind over the last nine years may present challenges, particularly with the high debt pervading the global economy.

Interim Management Report – Manager’s Review

In anticipation of both rising interest rates and inflation, global bond yields rose in the early part of 2018. This was one of the main triggers that led to the market volatility of the first quarter. Periods of elevated volatility do present opportunities for us, but we are conscious that there is still a considerable amount of optimism baked into global markets, so we continue to proceed with caution and are selective in looking for new opportunities.

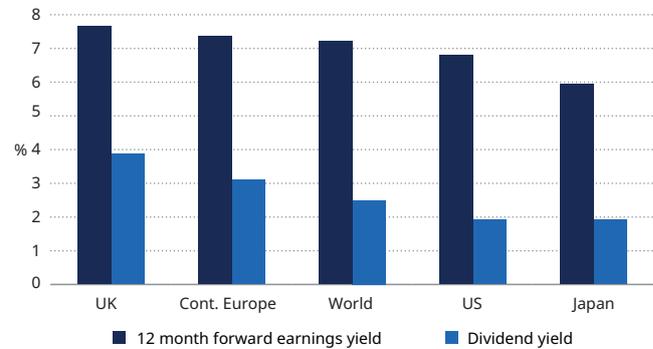
UK domestic outlook

The UK economy continues to fare better than the majority of forecasters predicted in the aftermath of the decision to leave the EU. We have seen upward revisions to growth figures, which are now closer to 2% a year than 1.5% – not brilliant, but certainly not disastrous.

Unemployment at 4.3% is matching the lowest level since 1975. Regular wage growth continues a steady upward trend. Consumer Price Inflation in February also dropped below 3% for the first time since August 2017. This suggests that the 2017 price increases from the depreciation of sterling have started to wane. As a result, real wage growth is now at its least negative since March 2017, and is expected to turn positive later in the year. This provides a boost to household spending power, and companies that serve the UK consumer should be among the main beneficiaries. Given that inflation is expected to remain above the Bank of England’s 2% target for a while though, expectations are for another interest rate rise in May.

Despite this, uncertainty about the UK’s relationship with the EU has left many international investors nervous about investing in UK companies. One poll showed that UK stocks were the least popular among global fund managers. As a result of this nervousness, the valuation of the UK market looks attractive relative to other major markets. Shares of domestic stocks in particular are trading at their biggest discount to exporters and to the overall market since the financial crisis of 2008/09.

Valuation opportunity in UK equities relatively attractive



Source: Credit Suisse Research, as at 28 March 2018. Countries shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

We continue to be selective in our search for high-quality domestic companies trading on attractive valuations, and pay close attention to the strength of the balance sheets, since high debt can quickly become a burden when profits fall.

The valuation opportunity, combined with the relatively weak level of sterling, makes many UK companies look attractive to international buyers, factors that have given rise to a pick-up in corporate activity. There have been a number of high profile takeover approaches for UK businesses, the majority from overseas predators, as well as a number of stakes by activist investors. Activity like this supports our view that there is a significant relative valuation opportunity in the UK market at present.

Interim Management Report – Manager’s Review

Record levels of global M&A activity



Source: Dealogic; Graphic: Eric Platt/FT

Further US rate rises

President Trump’s fiscal stimulus is expected to provide further support to global growth, albeit leading to a worsening US budget deficit and raising the risk of the economy overheating. New Federal Reserve Chair Jerome Powell announced that the committee had pushed up its growth and inflation forecasts and increased its expected path for interest rates. In addition, as the European economic recovery continues, the European Central Bank is likely to end its programme of quantitative easing in September 2018, before raising interest rates in 2019.

Whereas stronger US demand should feed through into stronger trade and better growth elsewhere, President Trump’s proposed trade tariffs threaten to derail this. Trade tariffs could bring about elevated global political tension in 2018, particularly with China.

Dividend outlook

The principal influence over the portfolio’s dividends, in both the short and medium term, is the exchange rate. Your Company, like the equity market as a whole, derives around two fifths of its income from companies which declare their dividends in overseas currencies. Dividend income in the periods to February and August 2017 was boosted by the weakness in the exchange rate in 2016. However sterling has strengthened since early 2017, particularly against the US dollar, and this strength, if sustained, will negatively impact income from international UK equities. Sterling also has a direct bearing on the rate of UK inflation.

The likely shape of Brexit negotiations could also influence the exchange rate. This may lead to further sterling strength in a ‘soft/good Brexit’ which would result in stronger UK growth but reduce dividend income from international companies. Alternatively a ‘hard/bad Brexit’ would lead to a fall in sterling which would be negative

for UK economic activity but which would benefit dividends from companies whose dividends are declared in US dollars or euros.

Dividend pay-out ratios remain somewhat higher than historical averages and whilst companies’ earnings are increasing it is likely that dividend increases will lag the increases in earnings in order to rebalance pay-out ratios. Additionally special dividends have run at high levels recently and whilst there was a partial moderation from the peak in 2016, we would not be surprised to see this continue. However, the portfolio is likely to continue to see special dividends augment its income.

We maintain our confidence in being able to find attractive investment opportunities to maintain the portfolio’s dividend growth over the longer term, in order to meet our and shareholders’ objectives of growing dividends to investors in real terms.

Investment policy

We remain disciplined investors using a long-term fundamental approach and the team’s long investment experience. We are acutely conscious of the need to balance the risks relative to the potential reward from opportunities that can be thrown up in such unpredictable markets.

Interim Management Report – Manager’s Review

Five largest overweight stocks

Security	Portfolio weight (%)	Index weight (%)	Difference (%)
Rio Tinto	5.0	2.0	+3.0
Lloyds Banking	4.9	2.1	+2.8
Aviva	3.2	0.9	+2.3
Nordea Bank	2.2	-	+2.2
Assura	2.1	0.1	+2.0

Source: Schroders, as at 28 February 2018

We continue to actively monitor the holdings and the investment universe to identify mispriced opportunities. We are working closely with our in-house analysts who provide proprietary research to help to identify attractive investment candidates and to assess the validity of the investment case for current holdings. We continue to prioritise balance sheet strength and companies’ competitive advantages. We remain disciplined in our portfolio construction to ensure that our highest conviction ideas are reflected in the holdings. Our process focuses on building a diversified portfolio within a risk controlled framework, which aims to deliver attractive levels of income that can grow in real terms.

Schroder Investment Management

23 May 2018

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

Interim Management Report

Investment Portfolio at 28 February 2018

Companies in bold represent the 20 largest investments, which by value account for 68.0% (28 February 2017: 69.7% and 31 August 2017: 71.9%).

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

	£'000	%		£'000	%
Financials			Industrials		
Lloyds	10,878	4.9	BAE Systems	5,559	2.5
HSBC	10,461	4.7	Smurfit Kappa (Ireland)	4,283	1.9
Prudential	7,219	3.3	Melrose Industries	3,436	1.5
Aviva	6,991	3.2	G4S	3,281	1.5
Legal & General	5,764	2.6	IMI	2,965	1.3
Nordea (Sweden)	4,811	2.2	Weir Group	2,306	1.0
Assura	4,652	2.1	Total Industrials	21,830	9.7
John Laing	4,336	2.0	Healthcare		
NEX	4,115	1.9	GlaxoSmithKline	9,247	4.2
Intermediate Capital	3,215	1.4	AstraZeneca	6,068	2.7
ICAP	3,004	1.4	Total Healthcare	15,315	6.9
Unite	2,628	1.2	Basic Materials		
Deutsche Wohnen (Germany)	2,169	1.0	Rio Tinto	10,999	5.0
Total Financials	70,243	31.9	Total Basic Materials	10,999	5.0
Oil and Gas			Telecommunications		
Royal Dutch Shell 'B'	15,952	7.2	Vodafone	6,242	2.8
BP	10,923	4.9	BT	3,790	1.7
Galp Energia (Portugal)	3,876	1.7	Total Telecommunications	10,032	4.5
Royal Dutch Shell 'A' (Netherlands)	898	0.4	Technology		
John Wood	648	0.3	Micro Focus International	3,588	1.6
Total Oil and Gas	32,297	14.5	Total Technology	3,588	1.6
Consumer Goods			Utilities		
British American Tobacco	12,580	5.7	Centrica	2,058	0.9
Unilever	4,863	2.2	Total Utilities	2,058	0.9
Burberry	4,080	1.8	Total investments	221,876	100.0
Taylor Wimpey	2,671	1.2			
Bellway	2,547	1.1			
Diageo	2,309	1.0			
Total Consumer Goods	29,050	13.0			
Consumer Services					
ITV	4,373	2.0			
Pearson	4,301	1.9			
RELX	3,929	1.8			
Tesco	3,540	1.6			
Hollywood Bowl	2,988	1.3			
Halfords	2,555	1.2			
Pets At Home	2,425	1.1			
Daily Mail and General Trust	2,353	1.1			
Total Consumer Services	26,464	12.0			

Interim Management Report

Principal risks and uncertainties

The principal risks and uncertainties with the Company's business fall into the following risk categories: strategy and competitiveness; investment management; financial and currency; accounting, legal and regulatory; custodian and depositary; and service providers. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 12 and 13 of the Company's published Annual Report and Accounts for the year ended 31 August 2017. These risks and uncertainties have not materially changed during the six months ended 28 February 2018.

Going concern

Having assessed the principal risks and uncertainties, and the other matters discussed in connection with the viability statement as set out on page 14 of the published Annual Report and Accounts for the year ended 31 August 2017, the Directors consider it appropriate to adopt the going concern basis in preparing the accounts.

Related party transactions

There have been no transactions with related parties that have materially affected the financial position or the performance of the Company during the six months ended 28 February 2018.

Directors' responsibility statement

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

Income Statement

For the six months ended 28 February 2018 (unaudited)

	(Unaudited) For the six months ended 28 February 2018			(Unaudited) For the six months ended 28 February 2017			(Audited) For the year ended 31 August 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	-	(5,834)	(5,834)	-	14,160	14,160	-	19,489	19,489
Net foreign currency losses	-	(25)	(25)	-	(4)	(4)	-	(9)	(9)
Income from investments	3,128	-	3,128	3,650	-	3,650	10,553	-	10,553
Other interest receivable and similar income	6	-	6	-	-	-	-	-	-
Gross return/(loss)	3,134	(5,859)	(2,725)	3,650	14,156	17,806	10,553	19,480	30,033
Investment management fee	(410)	(410)	(820)	(402)	(402)	(804)	(834)	(834)	(1,668)
Administrative expenses	(166)	-	(166)	(150)	-	(150)	(302)	-	(302)
Net return/(loss) before finance costs and taxation	2,558	(6,269)	(3,711)	3,098	13,754	16,852	9,417	18,646	28,063
Finance costs	(41)	(41)	(82)	(135)	(135)	(270)	(243)	(243)	(486)
Net return/(loss) on ordinary activities before taxation	2,517	(6,310)	(3,793)	2,963	13,619	16,582	9,174	18,403	27,577
Taxation on ordinary activities (note 3)	(16)	-	(16)	(15)	-	(15)	(67)	-	(67)
Net return/(loss) on ordinary activities after taxation	2,501	(6,310)	(3,809)	2,948	13,619	16,567	9,107	18,403	27,510
Return/(loss) per share (note 4)	3.64p	(9.19)p	(5.55)p	4.29p	19.83p	24.12p	13.26p	26.79p	40.05p

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

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

Statement of Changes in Equity

For the six months ended 28 February 2018 (unaudited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2017	6,869	7,404	2,011	1,596	34,936	153,627	10,275	216,718
Net (loss)/return on ordinary activities	-	-	-	-	-	(6,310)	2,501	(3,809)
Dividends paid in the period (note 5)	-	-	-	-	-	-	(5,221)	(5,221)
At 28 February 2018	6,869	7,404	2,011	1,596	34,936	147,317	7,555	207,688

For the six months ended 28 February 2017 (unaudited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2016	6,869	7,404	2,011	1,596	34,936	135,224	8,450	196,490
Net return on ordinary activities	-	-	-	-	-	13,619	2,948	16,567
Dividends paid in the period (note 5)	-	-	-	-	-	-	(4,534)	(4,534)
At 28 February 2017	6,869	7,404	2,011	1,596	34,936	148,843	6,864	208,523

For the year ended 31 August 2017 (audited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2016	6,869	7,404	2,011	1,596	34,936	135,224	8,450	196,490
Net return on ordinary activities	-	-	-	-	-	18,403	9,107	27,510
Dividends paid in the year (note 5)	-	-	-	-	-	-	(7,282)	(7,282)
At 31 August 2017	6,869	7,404	2,011	1,596	34,936	153,627	10,275	216,718

Statement of Financial Position at 28 February 2018 (unaudited)

	(Unaudited) 28 February 2018 £'000	(Unaudited) 28 February 2017 £'000	(Audited) 31 August 2017 £'000
Fixed assets			
Investments held at fair value through profit or loss	221,876	226,001	228,315
Current assets			
Debtors	1,147	1,620	1,982
Cash at bank and in hand	5,729	1,447	7,349
	6,876	3,067	9,331
Current liabilities			
Creditors: amounts falling due within one year	(21,064)	(20,545)	(20,928)
Net current liabilities	(14,188)	(17,478)	(11,597)
Total assets less current liabilities	207,688	208,523	216,718
Net assets	207,688	208,523	216,718
Capital and reserves			
Called-up share capital (note 6)	6,869	6,869	6,869
Share premium	7,404	7,404	7,404
Capital redemption reserve	2,011	2,011	2,011
Warrant exercise reserve	1,596	1,596	1,596
Share purchase reserve	34,936	34,936	34,936
Capital reserves	147,317	148,843	153,627
Revenue reserve	7,555	6,864	10,275
Total equity shareholders' funds	207,688	208,523	216,718
Net asset value per share (note 7)	302.36p	303.58p	315.51p

Registered in England and Wales

Company registration number: 3008494

Notes to the Accounts

1. Financial Statements

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

The figures and financial information for the year ended 31 August 2017 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditor which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

Basis of accounting

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the Association of Investment Companies in November 2014 and updated in February 2018.

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

The accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 31 August 2017.

3. Taxation on ordinary activities

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

4. Return/(loss) per share

	(Unaudited) Six months ended 28 February 2018 £'000	(Unaudited) Six months ended 28 February 2017 £'000	(Audited) Year ended 31 August 2017 £'000
Revenue return	2,501	2,948	9,107
Capital (loss)/return	(6,310)	13,619	18,403
Total (loss)/return	(3,809)	16,567	27,510
Weighted average number of shares in issue during the period	68,688,343	68,688,343	68,688,343
Revenue return per share	3.64p	4.29p	13.26p
Capital (loss)/return per share	(9.19)p	19.83p	26.79p
Total (loss)/return per share	(5.55)p	24.12p	40.05p

Notes to the Accounts continued

5. Dividends paid

	(Unaudited) Six months ended 28 February 2018 £'000	(Unaudited) Six months ended 28 February 2017 £'000	(Audited) Year ended 31 August 2017 £'000
2017 fourth interim dividend of 5.2p (2016: 4.6p)	3,572	3,160	3,160
First interim dividend of 2.4p (2017: 2.0p)	1,649	1,374	1,374
Second interim dividend of 2.0p	-	-	1,374
Third interim dividend of 2.0p	-	-	1,374
	5,221	4,534	7,282

A second interim dividend of 2.4p (2017: 2.0p) per share, amounting to £1,649,000 (2017: £1,374,000) has been declared payable in respect of the year ending 31 August 2018.

6. Called-up share capital

	(Unaudited) Six months ended 28 February 2018 £'000	(Unaudited) Six months ended 28 February 2017 £'000	(Audited) Year ended 31 August 2017 £'000
Ordinary shares allotted, called up and fully paid: 68,688,343 (28 February 2017 and 31 August 2017: same) shares of 10p each	6,869	6,869	6,869

7. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 28 February 2018 of 68,688,343 (28 February 2017 and 31 August 2017: same).

8. Financial instruments measured at fair value

The Company's financial instruments that are held at fair value comprise its investment portfolio. At 28 February 2018, all investments in the Company's portfolio were categorised as Level 1 in accordance with the criteria set out in paragraph 34.22 (amended) of FRS 102. That is, they are all valued using unadjusted quoted prices in active markets for identical assets (28 February 2017 and 31 August 2017: same).

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

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

Directors

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

Advisers

Alternative Investment Fund Manager ("Manager")

Schroder Unit Trusts Limited
31 Gresham Street
London EC2V 7QA

Investment Manager and Company Secretary

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA
Telephone: 020 7658 4430

Registered Office

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London EC2V 7QA

Depositary and Custodian

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8 Canada Square
London E14 5HQ

Lending Bank

Scotiabank Europe PLC
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London EC2M 3NS

Corporate Broker

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7th Floor
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Registrar

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Aspect House
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BN99 6DA
Shareholder Helpline: 0800 032 0641*
Website: www.shareview.co.uk
*Calls to this number are free of charge from UK
landlines.

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Independent Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found on the website www.schroders.co.uk/its.

The Company's leverage policy and details of limits on leverage required under the AIFM Directive are published on the website at www.schroders.co.uk/its.

Dealing Codes

ISIN Number: GB0007915860
SEDOL Number: 0791586
Ticker: SCF

Global Intermediary Identification Number (GIIN)

T34UKV.99999.SL.826

Legal Entity Identifier (LEI)

549300X1RTYYP7S3YE39

Privacy Statement

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