

**Schroder**

# **Income Growth Fund plc**

Half-Yearly Report to 29 February 2012

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**Schroders**

## Investment Objective

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

## Directors

**Sir Paul Judge (Chairman)**

**Ian Barby**

**David Causer**

**Keith Niven**

**Peter Readman**

## Advisers

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

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA

### **Registered Office**

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Telephone: 020 7658 6501

### **Registrar**

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Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Shareholder Helpline: 0800 032 0641\*

Website: [www.shareview.co.uk](http://www.shareview.co.uk)

\*Calls to this number are free of charge from UK landlines.

### **Bankers**

Scotiabank Europe PLC  
201 Bishopsgate  
6th Floor  
London EC2M 3NS

### **Independent Auditors**

Deloitte LLP  
Hill House  
2 New Street Square  
London EC4A 3BZ

### **Custodian**

JP Morgan Chase Bank, N.A.  
1 Chaseside  
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Dorset BH7 7DB

### **Stockbrokers**

Matrix Corporate Capital LLP  
One Vine Street  
London W1J 0AH

## Contents

Financial Highlights and Portfolio Sector Distribution	2
Interim Management Report	3
Ten Largest Investments	7
Income Statement	8
Reconciliation of Movements in Shareholders' Funds	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Accounts	12
Company Summary	Inside back cover

## Financial Highlights

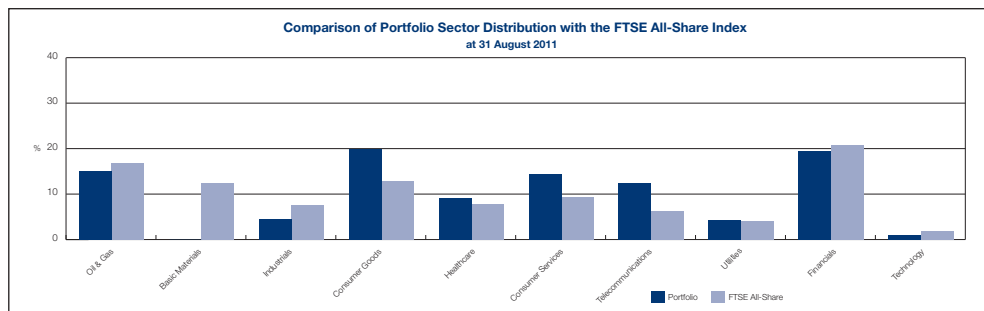
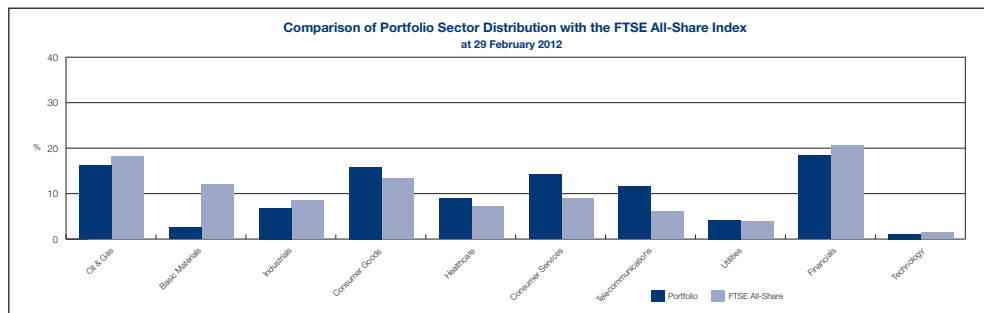
	29 February 2012	31 August 2011	% Change
Net asset value ("NAV") per ordinary share	<b>206.42p</b>	196.23p	5.2
Share price	<b>196.00p</b>	187.75p	4.4
Share price discount	<b>5.0%</b>	4.3%	
Shareholders' funds (£'000)	<b>141,789</b>	134,787	5.2
Shares in issue ('000)	<b>68,688</b>	68,688	-

	Six months ended 29 February 2012	Six months ended 28 February 2011	% Change
Net revenue return per ordinary share	<b>3.76p</b>	2.71p	38.7
Dividends per share declared in respect of the period	<b>4.00p</b>	3.20p	-
Total return per ordinary share	<b>16.69p</b>	26.63p	
NAV total return*	<b>10.1%</b>	13.0%	
FTSE All-Share Index total return**	<b>10.3%</b>	16.5%	
FTSE 350 Higher Yield Index total return**	<b>9.5%</b>	15.2%	
Share price total return*	<b>8.1%</b>	8.4%	

\*Source: Morningstar ([www.morningstar.co.uk](http://www.morningstar.co.uk)).

\*\*Source: Thomson Financial Datastream.

## Portfolio Sector Distribution



## Interim Management Report

### Chairman's Statement

#### Investment Performance

During the six month period ended 29 February 2012, the Company earned net revenue of 3.76 pence per share, a 1.05 pence (38.7%) increase on the 2.71 pence per share earned in the six months ended 28 February 2011.

0.61 pence of this revenue increase was the result of the increase in the income from special dividends (2012: 0.71 pence; 2011: 0.10 pence). The changes to the Company's investment policy as adopted at the 2010 Annual General Meeting, and the introduction of modest levels of gearing, added to the underlying growth in income from the portfolio's holdings to generate an increase in net revenue for the period which, excluding the increase in special dividends, grew by 0.44 pence (16.2%).

The Company's net asset value produced a total return of 10.1%\* which outperformed the FTSE 350 Higher Yield Index, which achieved a total return of 9.5%\*\* during the period, and was slightly below the FTSE All-Share Index, which produced a total return of 10.3%\*\*.

The share price total return for the six months under review was 8.1%\*. The share price discount to net asset value widened very slightly from 4.3% at 31 August 2011 to 5.0% at 29 February 2012.

#### Dividends

The Company paid a first interim dividend for the year ending 31 August 2012 of 2.00 pence per share (2011: 1.60 pence per share) on 31 January 2012. The Board has since declared the payment of a second interim dividend for the current financial year of 2.00 pence per share (2011: 1.60 pence per share), which will be paid on 30 April 2012 to shareholders who were on the register at the close of business on 10 April 2012.

The increase in the rate of the first and second interim dividends compared to those in the previous financial year follows a decision by the Board that the difference between the first three and the fourth interim dividends should be reduced. While the Board remains committed to increasing the total annual dividend level over time, this increase in the rate of the first and second interim dividends should not be considered indicative of an increase or decrease in the total annual dividend level for the current financial year.

#### Gearing Facility

During the period, the Company entered into a £7 million unsecured revolving credit facility with Scotiabank Europe PLC. As at 29 February 2012, £4.5 million of the facility had been drawn and net effective gearing (which takes into account cash held in the portfolio as well as borrowings) was 2.2%. The Company's gearing policy is reviewed regularly by the Board.

#### Share Purchases

The Board continued to monitor the share price discount to net asset value during the period under review. No shares were purchased for cancellation or holding in treasury during the period. The Directors continue to consider share buy-backs as one of a number of tools that may be used to enhance shareholder value.

#### Board composition

In my statement in the 2011 Annual Report, I reported that the Board hoped to refresh its composition during 2012. We expect to make an appointment later this year.

## Interim Management Report

### Outlook

Even allowing for the factors that boosted income during the period under review, it is reassuring to see the general rise in dividends from the holdings in the Company's portfolio. It is a reminder that, difficult as it is to assess what is going to happen in the Eurozone and to global growth, many leading UK companies are performing well and have a financial strength that allows larger distributions to shareholders.

The macro-economic uncertainty is likely to continue but the priority of the Company remains finding those companies that can continue to increase their dividends on a sustainable basis. More growth such as that of the last 18 months, helped by option premiums and modest levels of gearing, would allow your Company to continue to increase its dividends.

### Sir Paul Judge

Chairman

25 April 2012

\* Source: Morningstar.

\*\* Source: Thomson Financial Datastream.

## Interim Management Report

### Investment Manager's Review

In the six months to the end of February the Company's net asset value had a total return of 10.1%\*. This compares to a 10.3%\*\* total return from the FTSE All-Share Index and a 9.5%\*\* total return from the FTSE 350 Higher Yield Index.

#### Market Background

After a weak September, the UK market recovered to the levels of June/July. The immediate cause has been the improvement in sentiment after the ECB's major injection of funds into the Eurozone's banking systems. For the time being this has not only met the stated goal of adding liquidity to Europe's financial system but has also reassured markets about Eurozone sovereign bonds and about the Euro. This in its turn has allowed stock market investors to regain some confidence about the future, not least as economic data from the US has been relatively good.

This improvement in sentiment led to a change in the shares that performed well. At the start of the period the more defensively-positioned companies such as telecoms and pharmaceuticals did well, but they subsequently lagged the market recovery that was led by cyclical shares such as financials. The portfolio's concentration in well-financed and higher-yielding companies has given it a bias towards the former, and this was reflected in better relative performance during the early weakness of the market. This relative performance reversed in the recovery. In aggregate the performance over the six months was broadly in line with the main relevant indices with individual stock selection (eg Imperial Tobacco and Legal & General) offsetting a sector stance that was always unlikely to outperform a strongly rising index.

Other holdings that did well over the period were Tate & Lyle and BT, while the disappointments included RSA and KPN. Purchases were primarily new holdings in cyclical companies such as easyJet, Smiths Group, Daily Mail and Yule Catto. These were funded from trimming some of the more defensive holdings that had performed well in the uncertainty of recent years, such as BT, Imperial Tobacco and Unilever.

The other feature in this period was a 35% increase in the portfolio's income before expenses. This included special dividends paid by Vodafone, easyJet and Admiral, totalling £488,000, which compared to a total of £68,000 of special dividends received during the first half of 2011. At the same time, the continued writing of covered call options and the first deployment of a small amount of bank borrowing also boosted income. While the resulting increase in total income overstates the portfolio's yield on a recurring basis, there was continuing evidence of most holdings' willingness and ability to pay higher dividends. Excluding the special dividends and the call premiums, investment income was 8% higher than in the same period last year. The call premiums earned during the period were £189,000, 6% of total revenue.

#### Outlook

For all of the global uncertainty and volatility in share prices over the last 12 months, the UK stock market and the Company's net assets today are about the same level as a year ago. The portfolio has gradually increased its potential to generate higher income in a more diversified fashion through an increase in the number of holdings (including a small number of overseas stocks), by writing call options where appropriate, and more recently by using bank debt to add holdings where the dividend yield is above the interest cost (even if it is lower than the portfolio average).

The challenges are well-known. The ECB's injections of liquidity are unlikely to be a long-term solution to the Eurozone's (and in particular Greece's) debt problems, while global growth is fragile and could go into reverse if (among other things) oil prices continue to rise. Though we are conscious that the outlook remains uncertain our central view is for modest global growth. Interest rates are set to remain low for an extended period and there is potential for further quantitative easing in the US and the UK should the growth outlook deteriorate.

Whilst we expect continued volatility in markets as the attractions of a low valuation and abundant liquidity compete with this uncertain economic environment, we believe the long-term valuation attractions of UK equities are considerable. We continue to focus on companies with solid balance sheets, attractive dividend yields and internationally diversified earnings.

#### Schroder Investment Management Limited

25 April 2012

\* Source: Morningstar.

\*\* Source: Thomson Financial Datastream.

## Interim Management Report

### Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business fall into the following categories: financial risk; strategic risk; and accounting, legal and regulatory risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on page 11 of the Company's published Annual Report and Accounts for the year ended 31 August 2011. These risks and uncertainties have not materially changed during the six months ended 29 February 2012.

### Going Concern

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

### Related Party Transactions

Details of related party transactions can be found on page 37 of the Company's published Annual Report and Accounts for the year ended 31 August 2011. There have been no material transactions with the Company's related parties during the six months ended 29 February 2012.

### Directors' Responsibility Statement

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



## Ten largest investments

As at 29 February 2012

Company and Activity	Market Value of Holding £'000	% of Shareholders' Funds
<b>Vodafone</b> Global mobile telephone provider	11,204	7.90
<b>Royal Dutch Shell 'B'</b> Integrated oil company	9,833	6.93
<b>British American Tobacco</b> International cigarette company	9,607	6.78
<b>GlaxoSmithKline</b> Global pharmaceutical company	7,317	5.16
<b>BP</b> Integrated oil company	6,617	4.67
<b>Imperial Tobacco Group</b> International cigarette company	5,909	4.17
<b>Legal &amp; General</b> UK financial services group	5,808	4.10
<b>AstraZeneca</b> Global pharmaceutical company	5,666	4.00
<b>HSBC</b> Banking and financial services group	5,617	3.96
<b>Unilever</b> International consumer products group	5,544	3.91
<b>Total</b>	<b>73,122</b>	<b>51.58</b>

At 31 August 2011, the ten largest investments represented 50.76% of shareholders' funds.

## Income Statement

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 29 February 2012</b>			<b>(Unaudited)</b> <b>For the six months</b> <b>ended 28 February 2011</b>			<b>(Audited)</b> <b>For the year</b> <b>ended 31 August 2011</b>			
Note	<b>Revenue</b> <b>£'000</b>	<b>Capital</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	
Gains on investments held at fair value	-	9,376	9,376	-	16,754	16,754	-	5,346	5,346	
Movement on written options	-	(187)	(187)	-	-	-	-	-	-	
Currency (losses)/gains	-	-	-	-	(7)	(7)	-	14	14	
Income	2	3,041	26	3,067	2,252	-	2,252	6,894	-	6,894
Investment management fee	3	(287)	(287)	(574)	(254)	(254)	(508)	(555)	(555)	(1,110)
Performance fee	3	-	(38)	(38)	-	(64)	(64)	-	(120)	(120)
Administrative expenses		(153)	-	(153)	(135)	-	(135)	(247)	-	(247)
<b>Net return before finance costs and taxation</b>		<b>2,601</b>	<b>8,889</b>	<b>11,490</b>	1,863	16,429	18,292	6,092	4,685	10,777
Interest payable and similar charges		(4)	(4)	(8)	-	-	-	-	-	-
<b>Net return on ordinary activities before taxation</b>		<b>2,597</b>	<b>8,885</b>	<b>11,482</b>	1,863	16,429	18,292	6,092	4,685	10,777
Taxation on ordinary activities		(15)	-	(15)	-	-	-	(27)	-	(27)
<b>Net return attributable to equity shareholders</b>		<b>2,582</b>	<b>8,885</b>	<b>11,467</b>	1,863	16,429	18,292	6,065	4,685	10,750
<b>Net return per ordinary share</b>	4	<b>3.76p</b>	<b>12.93p</b>	<b>16.69p</b>	2.71p	23.92p	26.63p	8.83p	6.82p	15.65p

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

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

The notes on page 12 form an integral part of these accounts.

## Reconciliation of Movements in Shareholders' Funds

## For the six months ended 29 February 2012 (Unaudited)

	Called-up share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
Balance at 1 September 2011	6,869	2,011	7,404	34,936	1,596	76,413	5,558	134,787
Net return from ordinary activities	–	–	–	–	–	8,885	2,582	11,467
Ordinary dividends paid	–	–	–	–	–	–	(4,465)	(4,465)
<b>At 29 February 2012</b>	<b>6,869</b>	<b>2,011</b>	<b>7,404</b>	<b>34,936</b>	<b>1,596</b>	<b>85,298</b>	<b>3,675</b>	<b>141,789</b>

## For the six months ended 28 February 2011 (Unaudited)

	Called-up share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
Balance at 1 September 2010	6,869	2,011	7,404	34,936	1,596	71,728	5,744	130,288
Net return from ordinary activities	–	–	–	–	–	16,429	1,863	18,292
Ordinary dividends paid	–	–	–	–	–	–	(4,053)	(4,053)
At 28 February 2011	6,869	2,011	7,404	34,936	1,596	88,157	3,554	144,527

## For the year ended 31 August 2011 (Audited)

	Called-up share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
Balance at 1 September 2010	6,869	2,011	7,404	34,936	1,596	71,728	5,744	130,288
Net return from ordinary activities	–	–	–	–	–	4,685	6,065	10,750
Ordinary dividends paid	–	–	–	–	–	–	(6,251)	(6,251)
At 31 August 2011	6,869	2,011	7,404	34,936	1,596	76,413	5,558	134,787

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

The notes on page 12 form an integral part of these accounts.

## Balance Sheet

	Note	(Unaudited) At 29 February 2012 £'000	(Unaudited) At 28 February 2011 £'000	(Audited) At 31 August 2011 £'000
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		144,633	143,797	132,913
		<b>144,633</b>	143,797	132,913
<b>Current assets</b>				
Debtors		819	582	1,015
Cash at bank and short-term deposits		1,384	482	1,314
		<b>2,203</b>	1,064	2,329
<b>Current liabilities</b>				
Creditors – amounts falling due within one year	6	(4,846)	(334)	(445)
Fair value of open derivative contracts investment liabilities		(201)	–	(10)
		<b>(5,047)</b>	(334)	(455)
<b>Net current (liabilities)/assets</b>		<b>(2,844)</b>	730	1,874
<b>Net assets</b>		<b>141,789</b>	144,527	134,787
<b>Capital and reserves</b>				
Called-up share capital		6,869	6,869	6,869
Capital redemption reserve		2,011	2,011	2,011
Share premium account		7,404	7,404	7,404
Share purchase reserve		34,936	34,936	34,936
Warrant exercise reserve		1,596	1,596	1,596
Capital reserve		85,298	88,157	76,413
Revenue reserve		3,675	3,554	5,558
<b>Equity shareholders' funds</b>		<b>141,789</b>	144,527	134,787
<b>Net asset value per ordinary share</b>	7	<b>206.42p</b>	210.41p	196.23p

The notes on page 12 form an integral part of these accounts.

## Cash Flow Statement

	<b>(Unaudited)</b> <b>For the six</b> <b>months ended</b> <b>29 February 2012</b> <b>£'000</b>	(Unaudited) For the six months ended 28 February 2011 £'000	(Audited) For the year ended 31 August 2011 £'000
Net cash inflow from operating activities	<b>2,388</b>	1,831	5,418
Taxation paid	<b>(7)</b>	–	(55)
Net cash (outflow)/inflow from investment activities	<b>(2,346)</b>	1,642	1,119
Equity dividends paid	<b>(4,465)</b>	(4,053)	(6,251)
Net cash inflow from financing	<b>4,500</b>	–	–
Net cash inflow/(outflow)	<b>70</b>	(580)	231
<b>Reconciliation of net cash flow to movement in net funds</b>			
Net cash inflow/(outflow)	<b>70</b>	(580)	231
Net funds at 1 September	<b>1,314</b>	1,069	1,069
Currency (losses)/gains	<b>–</b>	(7)	14
Net funds at period end	<b>1,384</b>	482	1,314

The notes on page 12 form an integral part of these accounts.

## Notes to the Accounts

## 1. Accounting policies

The financial information for each of the six month periods ended 29 February 2012 and 28 February 2011 comprises non-statutory accounts within the meaning of sections 434 – 436 of the Companies Act 2006. The financial information for the year ended 31 August 2011 has been extracted from published accounts that have been delivered to the Registrar of Companies and on which the report of the auditors was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Company's accounting policies have not varied from those described in the Report and Accounts for the year ended 31 August 2011.

## 2. Income

	(Unaudited) For the six months ended 29 February 2012 £'000	(Unaudited) For the six months ended 28 February 2011 £'000	(Audited) For the year ended 31 August 2011 £'000
Income from investments:			
UK franked dividend income	2,234	2,181	6,296
UK franked Special dividend income	488	68	127
Overseas dividend income	127	–	363
	<b>2,849</b>	2,249	6,786
Option premium income	189	–	101
Interest on deposits	3	3	7
	<b>3,041</b>	2,252	6,894
Capital:			
Special dividends allocated to capital	26	–	–
	<b>3,067</b>	2,252	6,894

## 3. Investment management fees and interest payable

The investment management fee is apportioned 50% to revenue and 50% to capital; the performance fee is apportioned 100% capital.

## 4. Return per ordinary share

	(Unaudited) For the six months ended 29 February 2012	(Unaudited) For the six months ended 28 February 2011	(Audited) For the year ended 31 August 2011
Revenue (£'000)	2,582	1,863	6,065
Capital (£'000)	8,885	16,429	4,685
Total (£'000)	11,467	18,292	10,750
Weighted average number of ordinary shares in issue	68,688,343	68,688,343	68,688,343
Revenue	3.76p	2.71p	8.83p
Capital	12.93p	23.92p	6.82p
Total	16.69p	26.63p	15.65p

## 5. Dividends

The second interim dividend of 2.00 pence per Ordinary share for the year ending 31 August 2012 will be paid on 30 April 2012 to shareholders on the register at 10 April 2012. A first interim dividend of 2.00 pence per Ordinary share was paid on 31 January 2012. In total, dividends of 4.00 pence per share have been declared for the year ending 31 August 2012.

## 6. Creditors: amounts falling due within one year

The Company has a £7 million revolving credit facility with Scotiabank Europe PLC (unsecured), of which £4.5 million (31 August 2011: nil) was drawn at the period end. This amount is included within creditors of £4.8 million.

## 7. Net asset value per ordinary share

	(Unaudited) 29 February 2012	(Unaudited) 28 February 2011	(Audited) 31 August 2011
Net assets attributable to ordinary shareholders (£'000)	141,789	144,527	134,787
Ordinary shares in issue at end of period	68,688,343	68,688,343	68,688,343
Net asset value per ordinary share	206.42p	210.41p	196.23p

## Company Summary

### The Company

Schroder Income Growth Fund plc was established in March 1995 and is an independent investment trust whose ordinary shares are listed on the London Stock Exchange. As at 25 April 2012, the Company had 68,688,343 ordinary shares of 10p each in issue. The Company is administered by Schroders, which also manages its assets.

It is not intended that the Company should have a limited life, but the Directors consider it desirable that shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company contain provisions requiring the Directors to put forward a proposal for the continuation of the Company to shareholders at five yearly intervals. The next proposal will be put forward at the Annual General Meeting in 2015.

### Website and Share Price Information

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

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

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

### Registrar Services

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

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

### Association of Investment Companies

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

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