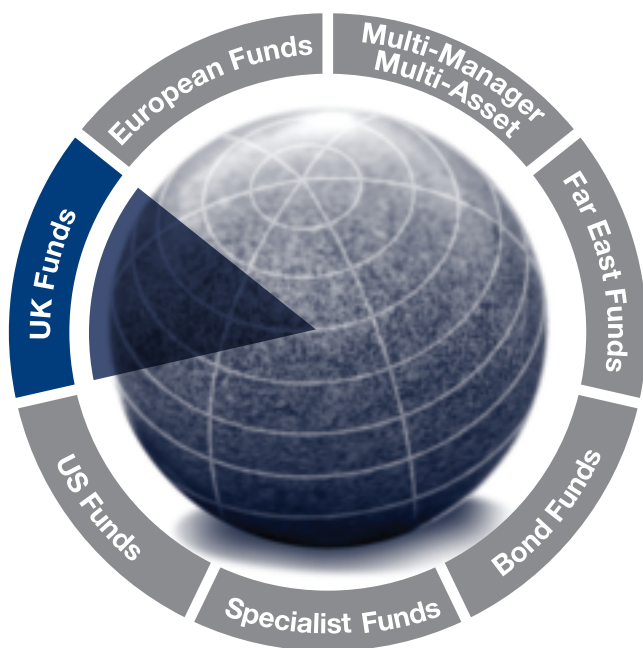


# Schroder Income Fund

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## Interim Short Report

26 February 2016 to 25 August 2016



**Schroders**

# Schroder Income Fund

## Review of Investment Activities

**From 25 February 2016 to 25 August 2016, the price of A Accumulation units on a selling price to selling price basis rose 15.00%. In comparison, the FTSE\* All Share Index generated a total return of 15.30%<sup>1</sup>.**

**1 Source: Thomson Reuters Datastream.**

Despite the resurgence of some of the cheapest areas of the UK market over the past six months (most notably mining companies) the disparity in valuations between the cheapest and most expensive areas remains extreme. The premium paid by investors for the perceived safety of many traditionally defensive stocks which we have avoided – such as food & beverages and tobacco companies – has continued to increase.

Miners Anglo American, South32 and BHP Billiton were top contributors as they continued to rebound to better reflect business fundamentals rather than short term sentiment. Our US technology holdings, including PC and printer manufacturer HP and Hewlett Packard Enterprise (sold off in the period), semiconductor group Intel and network equipment maker Cisco Systems all performed well on the back of robust results.

Our positions in UK banks performed poorly over the period and Royal Bank of Scotland Group (RBS) was the worst performer in share price terms. In the short term RBS faces multiple headwinds from litigation to regulatory uncertainty, while low interest rates continue to hamper profitability. But the potential for long term capital and dividend growth is significant. It is one of the best capitalised banks in Europe, yet it is significantly undervalued. Bank stocks generally have only been cheaper in early 2009 and late 2011 – at the height of systemic risk – and profitable new business is helping them build significant excess capital. UK banks' capital ratios are now among the highest in the world; they have ten times the capital buffers when compared with 2007. Importantly, banks have traditionally paid out over half of their profits in dividends. Not all banks currently pay a dividend but as profits continue to grow and legacy issues subside, our view is that dividends will return. We believe UK banks offer the best opportunity for attractive returns to UK value investors for the coming decade.

We took advantage of market volatility and short term price weakness to add to our positions in the financials HSBC Holdings, RBS, Barclays and to power company Centrica. Instead of trying to second guess short term market movements, we focus on identifying companies that have become significantly undervalued relative to their long term earnings potential. We cannot forecast exactly when the market will recognise the intrinsic value of our selected holdings. However, we believe the fund is well positioned to capture both the capital returns generated by lowly valued companies improving, and the significant income such companies produce through paying growing dividends over time.



**Co-Fund Managers:**  
Nick Kirrage  
Kevin Murphy

# Fund Information

	Interim	Final
Accounting dates	25 August	25 February
Revenue allocation dates	25 October	25 April

	For the period to 25.8.16	For the year to 25.2.16
<b>Ongoing charges figure</b>		
A Income units	1.66% <sup>1</sup>	1.66%
A Accumulation units	1.66% <sup>1</sup>	1.66%
L Income units	0.83% <sup>1</sup>	0.83%
L Accumulation units	0.83% <sup>1</sup>	0.83%
S Income units	0.53% <sup>1</sup>	0.53%
S Accumulation units	0.53% <sup>1</sup>	–
Z Income units	0.91% <sup>1</sup>	0.91%
Z Accumulation units	0.91% <sup>1</sup>	0.91%

<sup>1</sup> The Ongoing charges figure is annualised based on the fees incurred during the accounting period.

# Performance Record

<b>Fund performance</b>	Net Asset Value as at 25.8.16 pence per unit	Net Asset Value as at 25.2.16 pence per unit	Net Asset Value % change
A Income units	1,048.34	921.38	13.78
A Accumulation units	7,862.84	6,824.87	15.21
L Income units	53.75	47.04	14.26
L Accumulation units	60.02	51.88	15.69
S Income units	51.93	45.38	14.43
S Accumulation units	52.61	–	–
Z Income units	66.55	58.26	14.23
Z Accumulation units	81.20	70.22	15.64

	3 months	6 months	5 years
<b>Schroder Income Fund</b>	7.37%	15.00%	86.20%
FTSE* All Share Index	9.12%	15.30%	66.66%

Fund Source: A Accumulation units on a selling price to selling price basis to 25.8.16.

Index Source: Thomson Reuters Datastream, total return to 25.8.16.

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## Performance Record (continued)

Unit price range	A Income units		A Accumulation units	
	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
Financial year to 25 February				
2014	1,121.00	880.50	7,493.00	5,815.00
2015	1,171.00	956.00	8,095.00	6,608.00
2016	1,157.00	866.00	8,182.00	6,213.00
Financial period to 25 August 2016	1,075.00	932.70	7,959.00	6,909.00

	L Income units		L Accumulation units	
	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
Financial year to 25 February				
2014	56.03 <sup>1</sup>	49.72 <sup>1</sup>	56.03 <sup>1</sup>	49.72 <sup>1</sup>
2015	59.29	48.25	61.03	49.67
2016	58.62	44.20	61.76	47.22
Financial period to 25 August 2016	55.09	47.63	60.76	52.52

	S Income units		S Accumulation units	
	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
Financial year to 25 February				
2014	53.03 <sup>2</sup>	49.49 <sup>2</sup>	–	–
2015	57.01	46.35	–	–
2016	56.40	42.62	–	–
Financial period to 25 August 2016	53.22	45.94	53.26 <sup>3</sup>	46.13 <sup>3</sup>

	Z Income units		Z Accumulation units	
	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
Financial year to 25 February				
2014	69.93	54.48	75.95	58.50
2015	73.48	59.82	82.66	67.30
2016	72.65	54.74	83.64	63.90
Financial period to 25 August 2016	68.21	58.98	82.20	71.08

## Performance Record (continued)

**Net revenue**

Financial year to 25 February	A Income units pence per unit	A Accumulation units pence per unit
2014	36.4785	242.1381
2015	39.9802	273.4506
2016	43.1740	306.9660
Financial period to 25 August 2016	13.2500	93.8123

Financial year to 25 February	L Income units pence per unit	L Accumulation units pence per unit
2014	0.6249 <sup>1</sup>	0.6253 <sup>1</sup>
2015	2.0097	2.0465
2016	2.1945	2.3261
Financial period to 25 August 2016	0.6727	0.7104

Financial year to 25 February	S Income units pence per unit	S Accumulation units pence per unit
2014	0.2378 <sup>2</sup>	–
2015	1.9281	–
2016	2.1127	–
Financial period to 25 August 2016	0.6472	Nil <sup>3,4</sup>

Financial year to 25 February	Z Income units pence per unit	Z Accumulation units pence per unit
2014	2.2665	2.4465
2015	2.4985	2.7780
2016	2.7214	3.1480
Financial period to 25 August 2016	0.8346	0.9613

1 The unit class was launched on 1 October 2013.

2 The unit class was launched on 31 January 2014.

3 The unit class was launched on 11 March 2016.

4 There will not be a distribution as the total amount distributable is below de minimis.

Please remember that past performance is not a guide to future performance and it might not be repeated. The value of investments and the revenue from them may go down as well as up and investors may not get back the amount originally invested. Because of this, you are not certain to make a profit on your investments and you may lose money.

## Portfolio Information

	% of net assets as at 25.8.16	% of net assets as at 25.2.16
<b>Spread of investments</b>		
Oil & Gas	10.56	9.56
Basic Materials	6.90	7.21
Industrials	2.29	3.08
Health Care	13.45	14.35
Consumer Services	18.34	21.02
Telecommunications	3.73	4.70
Utilities	6.60	5.52
Financials	29.37	26.01
Technology	8.46	8.78
US Dollar Denominated Derivatives	0.07	(0.30)
Net other assets	0.23	0.07

	% of net assets as at 25.8.16		% of net assets as at 25.2.16
<b>Major holdings</b>			
BP	6.22	GlaxoSmithKline	6.26
GlaxoSmithKline	6.03	BP	5.55
Royal Bank of Scotland Group	5.31	Aviva	5.17
HSBC Holdings	5.23	AstraZeneca	5.05
Aviva	4.47	Royal Bank of Scotland Group	4.22
Barclays	4.39	Royal Dutch Shell B	4.01
Royal Dutch Shell B	4.34	Vodafone Group	3.99
Centrica	4.16	HSBC Holdings	3.96
AstraZeneca	4.04	Tesco	3.88
Vodafone Group	3.73	Wm Morrison Supermarkets	3.78

## Investment Objective & Policy

The fund's investment objective is to provide a growing income, predominantly from investment in UK equities.

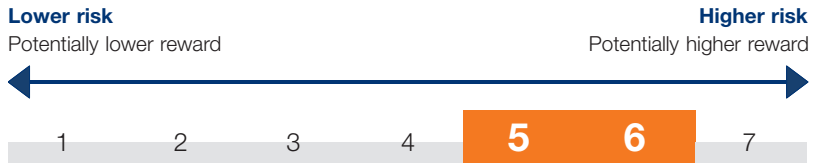
In seeking a yield higher than that offered by the major UK equity indices, the fund will invest primarily in above average yielding equities rather than fixed interest securities.

Investment will be in directly held transferable securities. The fund may also invest in collective investment schemes, warrants and money market instruments.



# Risk Profile

## Risk and reward indicator



The risk and reward indicator changed from 5 to 6 with effect from 1 July 2016 for A Income units, A Accumulation units, L Income units, L Accumulation units, S Income units, Z Income units and Z Accumulation units. At the period end the risk and reward indicator for S Accumulation units remained at 5.

There is a difference between unit classes caused by the technical nature of the calculation of the risk and reward indicator.

The risk category was calculated using historical performance data and may not be a reliable indicator of the fund's future risk profile.

The fund is in this category because it can take higher risks in search of higher rewards and its price may rise and fall accordingly.

The fund's risk category is not guaranteed to remain fixed and may change over time.

A fund in the lowest category does not mean a risk free investment.

## Specific risks

The fund invests in assets which are exposed to currencies other than sterling. Exchange rates may cause the value of overseas investments and the revenue from them to rise or fall.

The fund invests predominantly in the securities of a particular country. There may be a greater risk than investing in funds that hold securities in a range of countries.

The fund invests in a smaller number of stocks. This carries more risk than funds spread across a larger number of companies.

As a result of the Annual management charge being charged wholly to capital, the distributable revenue of the fund may be higher, but the capital value of the fund may be eroded which may affect future performance.

For these reasons, the purchase of units should not normally be regarded as a short term investment.

# Report & Accounts

This document is a short report for Schroder Income Fund for the period ended 25 August 2016. The long form Report & Accounts for the fund are available on our website [www.schroders.co.uk](http://www.schroders.co.uk) or upon written request to Schroders, FREEPOST, RLTX-CHSY-HBUT, PO Box 1102, Chelmsford, Essex CM99 2XX.

## Other Information

The information contained in this report is designed to enable unitholders to make an informed judgement on the activities of the fund during the period it covers and the results of those activities at the end of the period. For more information about the activities and performance of the fund during this and previous periods, please contact the Manager.

The Prospectus, the Key Investor Information Document and details of investment charges and costs are available on request or can be downloaded from our website [www.schroders.co.uk](http://www.schroders.co.uk).

**Please remember that past performance is not a guide to future performance and it might not be repeated. The value of investments and the revenue from them may go down as well as up and investors may not get back the amount originally invested. Because of this, you are not certain to make a profit on your investments and you may lose money.**



For investors' security, calls to Schroder Investor Services may be recorded. **Manager:** Schroder Unit Trusts Limited, 31 Gresham Street, London EC2V 7QA. Authorised and regulated by the Financial Conduct Authority. **Investment Adviser:** Schroder Investment Management Limited, 31 Gresham Street, London EC2V 7QA. Authorised and regulated by the Financial Conduct Authority. **Trustee:** J.P. Morgan Europe Limited, Chaseside, Bournemouth BH7 7DA. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. **Independent Auditors:** PricewaterhouseCoopers LLP, Atria One, 144 Morrison Street, Edinburgh EH3 8EX.

**For further literature please contact Schroder Investor Services on 0800 718 777 or at [investorservices@schroders.com](mailto:investorservices@schroders.com), or visit our website at [www.schroders.co.uk](http://www.schroders.co.uk).**

