

Schroder Asian Total Return Investment Company plc

(formerly Asian Total Return Investment Company plc)

Half year report and accounts for the six months ended 30 June 2016



Schroders

Contents, Investment Objective and Investment Policy

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Investment objective

Schroder Asian Total Return Investment Company plc (formerly Asian Total Return Investment Company plc) seeks to provide a high rate of total return through investment in equities and equity related securities of companies trading in the Asia Pacific region (excluding Japan). The Company seeks to offer a degree of capital preservation through tactical use of derivative instruments.

Investment policy

The Company will invest principally in a diversified portfolio of 40-70 companies operating primarily in Asia, including Australasia but excluding Japan. It is intended that the Company will have a bias to investing in small and mid cap companies.

Investments may be made in companies listed on the stock markets of countries located in the region and/or listed elsewhere but controlled from within the region and/or with a material exposure to the region. The Company will focus on investing in companies with sound balance sheets, professional management and capital allocation policies that are aligned with the interests of minority shareholders.

The use of derivatives to protect the capital value of the portfolio or for efficient portfolio management is fundamental to the strategy of the Company's portfolio managers. Such derivatives may include listed futures, call options, long puts, OTC instruments and instruments to hedge currency exposure. The Board will monitor the effectiveness of the underlying process and the use of derivatives.

In order to obtain further exposure to equity indices or individual stocks, the Company may enter into contracts for difference where the underlying investments are not delivered and settlement is made in cash. In extreme circumstances, and subject to Board approval, the majority, or even all, of the Company's assets could be held in cash or near cash instruments, with appropriate diversification of cash held on deposit.

The Company may use gearing to enhance performance but net gearing will not exceed 30% of net asset value.

The Company does not tie its portfolio construction to the constituents of any benchmark; instead, the size of stock positions are set on an absolute basis reflecting where the best potential risk adjusted returns are to be found.

Financial Highlights

Total returns (including dividends reinvested) to 30 June 2016	6 months %	1 year %	3 years %	5 years %	10 years %
Net Asset Value ("NAV") per share ¹	15.8	16.0	27.8	22.7	145.2
Share price ²	15.8	13.1	18.6	21.0	148.3
Reference Index ³	12.9	5.6	18.8	15.3	132.2
Peer group NAV per share ⁴	14.5	9.7	27.0	34.0	168.9

¹ Source: Morningstar. For periods of 6 months, 1, 3 and 5 years, the cum income NAV per share total return is shown. For the 10 year period, the ex income NAV per share total return is shown.

² Source: Morningstar.

³ Source: Thomson Reuters. With effect from 15 March 2013, the Reference Index has been the MSCI AC Asia Pacific ex-Japan Index (sterling adjusted). Prior to that date, it was the MSCI AC Asia ex-Japan Index (sterling adjusted).

⁴ Source: Morningstar. The arithmetic average of a group of nine comparable Asia (excluding Japan) investment trusts.

	30 June 2016	31 December 2015	% Change
NAV per share	240.0p	211.4p	+13.5
Share price	216.0p	190.0p	+13.7
Share price discount to NAV per share	10.0%	10.1%	
Gearing ¹	5.1%	1.0%	

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

Interim Management Report – Chairman’s Statement

Performance

During the six months to 30 June 2016, the Company produced a net asset value (“NAV”) total return of 15.8%, outperforming both the Reference Index, which produced a total return of 12.9%, and the peer group average NAV total return of 14.5%. If this level of performance continues, a performance fee will be payable for the year ending 31 December 2016, with management fees as a whole capped at 2% of the Company’s net asset value at the year end.

Much of the absolute return came from a sharp weakening of sterling after the EU referendum, rather than strong performance from Asian markets, which were mostly flat in local currency terms. However, it is pleasing to report that the portfolio, which had previously outperformed when the market slumped, continued to outperform the market. Relative performance during the period benefited from a strong contribution from technology stocks, leading internet players in China and holdings in Australia.

Further details on performance may be found in the Portfolio Managers’ Review.

Promotion and discount management

The Board remains focused on promotion of the Company’s shares based on the distinctive characteristics of the Company’s strategy and the differentiation of the opportunities offered by the Company from those offered by its peer group.

The discount management policy continues to target a discount to net asset value of 5% in normal market conditions, using the Company’s share buyback authority when required. In the six months to 30 June 2016, the average discount to NAV was 6.5% (7.9% on a cum income basis compared with an average 10.9% for the peer group).

Change of name

Following discussions with our advisers, and in view of the market awareness of the Manager’s brand and the benefits which that brand can offer the Company when promoting its shares, the Board has decided to change the name of the Company and, with effect from 21 September 2016, it became known as Schroder Asian Total Return Investment Company plc.

Gearing and the use of derivatives

The portfolio managers continued to use gearing during the period and at 30 June 2016, net gearing stood at 5.1%. Gearing will not exceed 30% of net asset value. The Board has agreed a disciplined framework for gearing, based on valuation indicators.

General Meeting

The Board is making a number of recommendations to shareholders in relation to the Company’s Articles of Association, including the introduction of a cap on Directors’ fees for the first time, and is also seeking changes to the parameters for the reissue of shares from Treasury. Proposals will be made at a General Meeting to be held on 15 November 2016. A Circular outlining the changes will be mailed to those who have requested printed copies of all documents released by the Company and will be made available on the Company’s webpage.

Interim Management Report – Chairman’s Statement

Outlook

In the current environment, we expect our portfolio managers to realise profits in overpriced holdings in order to target stocks which have lagged the market and which bear attractive and sustainable yields. Should markets rise from current levels the Board would also encourage the use of capital protection strategies in view of the portfolio managers’ current views on valuations.

David Brief

Chairman

22 September 2016

Interim Management Report – Portfolio Managers' Review

Performance analysis

Most Asian equity markets ended the first half of the year close to where they began. Stock markets got off to a turbulent start following the devaluation in the Chinese currency and fears of a Chinese hard landing; however Asian markets then recovered on the back of reassuring comments from the US Federal Reserve and a rebound in oil prices. Flat local currency returns were turned into a strong gain for UK investors following the sharp fall in sterling after the UK's EU referendum, with the Company's reference index – the MSCI AC Asia Pacific ex-Japan Index – returning 12.9% in sterling terms (source: Thomson Reuters).

Within the region, the ASEAN markets were the biggest outperformers as stabilising currencies and hopes of reforms in Indonesia and the Philippines led to a strong recovery. The Chinese stock market was the laggard as concerns over economic growth and worries over rising bad debts continued to weigh on sentiment. There was high dispersion in performance across sectors, with Energy and Materials leading gains driven by higher commodity prices. Financials on the other hand came under pressure on the back of general weakness across insurance and bank stocks, due to concerns about a deteriorating credit cycle and the negative impact on margins of continued unconventional monetary policy.

Against this backdrop, the portfolio delivered an NAV return of 15.8% in sterling terms (source: Morningstar) in the first half. Performance was driven by a strong contribution from technology holdings, in particular smartphone components and supply chain stocks in Taiwan and China on hopes of a pick-up in demand. Korean IT conglomerate Samsung Electronics also extended its positive momentum on signs of a turnaround in earnings driven by stabilising margins in its mobile handset division. In the internet space, China's leading players Tencent and Alibaba outperformed as earnings continued to deliver steady growth on the back of long-term growth opportunities in the e-commerce and online advertising business.

Positive contributions also came from the Australian holdings, with logistics and healthcare names advancing on solid corporate results. Amongst the top contributors was Medibank, a private health insurer, which surged following news that it received government approval for a premium increase. Elsewhere, most ASEAN stocks saw broad-based gains amid improving sentiment, with Thai financials leading gains on expectations of a stabilising macro environment.

Amongst the detractors, export-oriented companies saw sluggish returns. Automotive component supplier Johnson Electric, bicycle manufacturers Merida Industry and Giant Manufacturing, as well as textile companies Pacific Textile and Shenzhou International fell on concerns over a slower global demand backdrop. Hong Kong-based conglomerate CK Hutchison was also down on worries over its UK business exposure post-Brexit.

The portfolio was slightly geared at 5.1% with total equity exposure of 104.7% at the end of June. Gearing was used to purchase high-yielding telecom stocks and REITs, which added to returns over the period. The contribution from capital protection (in the form of put options on the Australian, Korean and Taiwan markets and short futures on the Hong Kong, China H-shares and Singapore indices) was small given the flat markets, while the currency hedge on the Australian dollar pared some gains as the currency appreciated on the back of higher commodity prices. Adjusting for the derivative protection, net exposure was approximately 85% (93.3% delta-adjusted) at the end of June.

Interim Management Report – Portfolio Managers’ Review

Performance attribution for the six months ended 30 June 2016

	Contribution to returns (%)	Main Contributors/detractors
Australia	+4.3	Medibank, Brambles, Resmed, Amcor, Recall
China	+3.5	Tencent, AAC Technologies, China Lodging Group, Haitian International, Alibaba
Hong Kong	+1.0	Jardine Strategic, Techtronic Industries, Hysan Development
India	+1.0	Indusind Bank, HDFC Bank, Zee Entertainment
Indonesia	+0.2	PT Sumber Alfaria Trijaya
Korea	+0.7	Samsung Electronics
Malaysia	-0.2	Karex
Philippines	+0.8	RFM
Singapore	+0.2	Great Eastern Life
Taiwan	+3.1	Taiwan Semiconductor Manufacturing, Largan Precision, Vanguard International Semiconductor
Thailand	+0.9	Kasikornbank, Aeon Thana
Derivatives	+0.1	Puts and short futures on market indices
Currency forwards	-0.3	Hedging the Australian dollar exposure
Gearing	+2.1	Purchase of yield stocks
Cash	-0.5	
Fees/costs	-0.8	
Residual	-0.3	
Total return	+15.8	

Source: Schroders.

Principal contributors	£ Return (%)	Contribution to return (%)
Taiwan Semiconductor Manufacturing	32.5	1.3
Largan Precision	45.6	1.2
Tencent Holdings	27.6	0.9
Medibank Private	57.6	0.9
AAC Technologies	45.6	0.9

Source: Schroders

Principal detractors	£ Return (%)	Contribution to return (%)
Johnson Electric Holdings	-28.2	-0.6
Merida Industry	-14.1	-0.3
Pacific Textiles Holdings	-10.8	-0.3
Hollysys Automation Technologies	-13.7	-0.2
Karex	-14.9	-0.2

Source: Schroders

Interim Management Report – Portfolio Managers' Review

Portfolio positioning

Top 10 largest stock positions as at 30 June 2016

Holding	Business	% of total
Taiwan Semiconductor Manufacturing	Semiconductors	3.8
Tencent Holdings	Chinese internet service portal	3.6
Jardine Strategic	Regional conglomerate	3.6
Techtronic Industries	Home improvement products	3.1
Brambles	Australian-based pallets and logistics	2.6
Samsung Electronics	Korean conglomerate	2.5
AIA Group	Regional insurance	2.4
Hon Hai Precision Industries	Electronics contract manufacturing	2.3
HDFC Bank	Indian bank	2.3
Largan Precision	Supplier of optical lens modules	2.2

These stocks are for illustrative purposes only, and should not be taken as a recommendation to buy or sell.

Outlook

The earnings backdrop for Asian companies continues to look challenging. Falling interest rates in Asia are squeezing net interest margins for banks and insurance companies at a time where non-performing loans are rising across the region after the strong credit cycle since 2010. On the export front, we find it hard to expect a sustained improvement in export demand from Europe, the largest export region for Asian goods and services, given the continued sluggish economic backdrop. We are slightly more sanguine on domestic demand in Asia. Whilst we do not expect a major pick-up, some stabilization and improvement is possible in India, Indonesia and the Philippines where there has been better policy follow-through and where the impact on the agricultural sector of last year's El Nino will wane.

We have pared down most of the portfolio's exposure in ASEAN as valuations are now high compared to recent history. We see few structural improvements to justify the recent major re-rating and we think the valuation premium is down to an 'anything but China' mentality. We increasingly question the competitive advantage of the region, and without better government, we think ASEAN may well be stuck in a low-growth rut.

The portfolio is now mostly focused in Australia, Hong Kong, China, Taiwan and India. With the exception of India, the holdings are principally concentrated on names that offer attractive dividend yields, such as telecom stocks and Hong Kong property investors, or that we think have good niches with potential to grow globally, e.g. China/Hong Kong exporters, Taiwan technology and Australian healthcare. The only significant domestic consumption plays are Chinese internet names, the Jardine group, and the Indian banks and consumer stocks which we are still comfortable to hold despite high valuations, given these are amongst the only good structural demand stories in Asia.

Conclusion

Overall we think little has changed, and with Asian valuations looking expensive relative to history, we are inclined to lock in profits on some of the more cyclical holdings and put the proceeds into a few laggards, particularly where we can find attractive and sustainable yields. Further price rises from current levels will also see us add to capital protection if pricing is attractive, given the lack of fundamental underpinning for further market rallies.

Robin Parbrook, King Fuei Lee

For Schroder Investment Management Limited

22 September 2016

Interim Management Report – Investment Portfolio at 30 June 2016

Investments are classified by the Investment Manager in the country of their main business operations.

Stocks in bold are the 20 largest investments, which by value account for 48.5% (30 June 2015: 45.2% and 31 December 2015: 49.8%) of total investments and derivative financial instruments.

	£'000	%		£'000	%
Australia			Indonesia		
Amcor	2,706	1.5	Sumber Alfaria Trijaya	1,557	0.9
ASX	2,170	1.2	Total Indonesia	1,557	0.9
BHP Billiton	1,909	1.0	Philippines		
Brambles	4,827	2.6	Ayala Land	3,878	2.1
CSL	2,337	1.3	GMA Network	1,430	0.8
Incitec Pivot	3,099	1.7	RFM Corporation	2,420	1.3
Iron Mountain	2,947	1.6	Total Philippines	7,728	4.2
Medibank Private	3,250	1.8	Singapore		
Resmed	3,156	1.7	Comfortdelgro	2,332	1.3
Total Australia	26,401	14.4	Great Eastern Holding	2,641	1.4
China			IFast	1,486	0.8
AAC Technologies ²	3,842	2.1	Total Singapore	6,459	3.5
Alibaba ¹	3,862	2.1	South Korea		
China Lodging Group ¹	3,871	2.1	Mando	611	0.3
Haitian International Holdings ²	2,839	1.5	Samsung Electronics	4,488	2.5
Hangzhou Hikvision Digital Technology LEPO 17/04/17 ⁵	2,272	1.3	Total South Korea	5,099	2.8
Hutchison China MediTech ⁴	57	–	Taiwan		
Shenzou International Group ²	2,431	1.3	Far EasTone Telecomm	3,078	1.7
Sina ¹	891	0.5	Giant Manufacturing	2,746	1.5
Sunny Optical ²	712	0.4	Hon Hai Precision Industries	4,261	2.3
Tencent Holdings ²	6,630	3.6	Largan Precision	4,098	2.2
Total China	27,407	14.9	Merida Industry	2,695	1.5
Hong Kong			Taiwan Mobile	3,195	1.7
AIA	4,459	2.4	Taiwan Semiconductor Manufacturing	7,006	3.8
Café De Coral	2,460	1.4	Vanguard International Semiconductors	2,426	1.3
CK Hutchison Holdings	2,372	1.3	Total Taiwan	29,505	16.0
Dah Sing Banking	550	0.3	Thailand		
HKT Trust and HKT	3,840	2.1	Aeon Thana Sinsap	2,620	1.4
Hongkong Land ³	3,725	2.0	Delta Electronics	2,820	1.5
Hysan Development	2,408	1.3	Hana Microelectronics	2,409	1.3
International Housewares Retail	528	0.3	KasikornBank	2,024	1.1
Jardine Strategic ³	6,538	3.6	Land & Houses	1,054	0.6
Johnson Electric Holdings	2,073	1.1	Thai Stanley Electric	798	0.5
Pacific Textiles Holdings	3,263	1.8	Total Thailand	11,725	6.4
Sunlight Real Estate Investment Trust	2,828	1.5	Total Investments ⁶	183,231	99.8
Swire Properties	3,901	2.1	Derivative Financial Instruments		
Techtronic Industries	5,757	3.1	Index Put Options		
Total Hong Kong	44,702	24.3	KOSPI 200 Put Option 242.5 July 2016	87	–
India			KOSPI 200 Put Option 245 July 2016	66	–
Apollo Hospitals Enterprise (JPM) 07/11/17 ⁵	4,052	2.2	KOSPI 200 Put Option 250 July 2016	102	0.1
Cognizant Technology Solutions ¹	3,661	2.0	KOSPI 200 Put Option 242.5 August 2016	74	–
HDFC Bank	1,652	0.9	KOSPI 200 Put Option 250 August 2016	123	0.1
HDFC (JPM) 06/02/17 ⁵	2,576	1.4	KOSPI 200 Put Option 252.5 August 2016	20	–
Indusind Bank LEPO 11/06/19 ⁵	2,387	1.3	Total Index Put Options ⁷	472	0.2
Phoenix Mills (Merrill Lynch) 18/05/18 ⁵	915	0.5	Forward Currency Contracts		
Phoenix Mills (Merrill Lynch) 18/06/18 ⁵	2,425	1.3	Purchase USD21.80 million for AUD29.50 million for settlement on 16 September 2016	(80)	–
Schroder Intl Selection Fund – Indian Opportunities	2,183	1.2	Purchase of USD22.09 million for HKD171.30 million for settlement on 6 October 2016	(2)	–
Zee Entertainment Enterprises (JPM) 20/03/17 ⁵	2,797	1.6	Total Forward Currency Contracts ⁸	(82)	–
Total India	22,648	12.4	Total investments and Derivative Financial Instruments	182,621	100.0

¹Listed in the USA.

²Listed in Hong Kong.

³Listed in Singapore.

⁴Listed in the UK.

⁵Participatory notes.

⁶With the exception of the participatory notes shown above, all investments are equities.

⁷The combined effect of the put options gives downside protection to 11.2% of total investments.

⁸Forward currency contracts are valued at fair value, being the cost of closing out the contracts at the accounting date.

Interim Management Report

Principal risks and uncertainties

The principal risks and uncertainties with the Company's business fall into the following categories: strategic risk; investment management risk; custody risk; financial and currency risk; gearing and leverage risk; accounting, legal and regulatory risk; and service provider risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 18 and 19 of the Company's published Annual Report and Accounts for the year ended 31 December 2015. These risks and uncertainties have not materially changed during the six months ended 30 June 2016.

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 20 of the published Annual Report and Accounts for the year ended 31 December 2015, 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 30 June 2016.

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 Trust Companies and Venture Capital Trusts" issued in November 2014 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

	Note	(Unaudited) for the six months ended 30 June 2016			(Unaudited) for the six months ended 30 June 2015			(Audited) for the year ended 31 December 2015		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss		–	25,220	25,220	–	3,506	3,506	–	2,704	2,704
Net (losses)/gains on derivative contracts		–	(744)	(744)	–	(72)	(72)	–	596	596
Net foreign currency losses		–	(914)	(914)	–	(123)	(123)	–	(940)	(940)
Income from investments		2,396	–	2,396	2,002	–	2,002	4,117	–	4,117
Other interest receivable and similar income		233	–	233	57	–	57	96	–	96
Gross return		2,629	23,562	26,191	2,059	3,311	5,370	4,213	2,360	6,573
Investment management fee		(143)	(428)	(571)	(136)	(408)	(544)	(259)	(777)	(1,036)
Performance fee	3	–	(1,429)	(1,429)	–	–	–	–	–	–
Administrative expenses		(288)	–	(288)	(239)	–	(239)	(520)	–	(520)
Net return before finance costs and taxation		2,198	21,705	23,903	1,684	2,903	4,587	3,434	1,583	5,017
Finance costs		(16)	(49)	(65)	(18)	(54)	(72)	(33)	(100)	(133)
Net return on ordinary activities before taxation		2,182	21,656	23,838	1,666	2,849	4,515	3,401	1,483	4,884
Taxation on ordinary activities	4	(184)	–	(184)	(123)	–	(123)	(165)	–	(165)
Net return on ordinary activities after taxation		1,998	21,656	23,654	1,543	2,849	4,392	3,236	1,483	4,719
Return per share	5	2.74p	29.69p	32.43p	2.11p	3.89p	6.00p	4.43p	2.03p	6.46p

The “Total” column of this statement is the profit and loss account of the Company. The “Revenue” and “Capital” columns represent supplementary information prepared under guidance issued by The Association of Investment Companies. The Company has no recognised gains and losses other than those disclosed in the Income Statement and Statement of Changes in Equity.

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 30 June 2016 (unaudited)

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2015		4,260	5	11,646	29,182	98,120	10,973	154,186
Net return on ordinary activities		–	–	–	–	21,656	1,998	23,654
Dividend paid in the period	6	–	–	–	–	–	(2,772)	(2,772)
At 30 June 2016		4,260	5	11,646	29,182	119,776	10,199	175,068

for the six months ended 30 June 2015 (unaudited)

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2014		4,260	5	11,646	29,182	97,133	10,116	152,342
Repurchase of the Company's own shares into Treasury		–	–	–	–	(215)	–	(215)
Net return on ordinary activities		–	–	–	–	2,849	1,543	4,392
Dividend paid in the period	6	–	–	–	–	–	(2,379)	(2,379)
At 30 June 2015		4,260	5	11,646	29,182	99,767	9,280	154,140

for the year ended 31 December 2015 (audited)

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2014		4,260	5	11,646	29,182	97,133	10,116	152,342
Repurchase of the Company's own shares into Treasury		–	–	–	–	(496)	–	(496)
Net return on ordinary activities		–	–	–	–	1,483	3,236	4,719
Dividend paid in the year	6	–	–	–	–	–	(2,379)	(2,379)
At 31 December 2015		4,260	5	11,646	29,182	98,120	10,973	154,186

Statement of Financial Position

	Note	(Unaudited) 30 June 2016 £'000	(Unaudited) 30 June 2015 £'000	(Audited) 31 December 2015 £'000
Fixed assets				
Investments held at fair value through profit or loss		183,231	165,444	155,403
Current assets				
Debtors		3,131	546	409
Cash at bank and in hand		4,420	715	6,101
Derivative financial instruments held at fair value through profit or loss		472	789	403
		8,023	2,050	6,913
Current liabilities				
Bank loans		(13,315)	(12,399)	(7,667)
Creditors: amounts falling due within one year		(2,789)	(955)	(388)
Derivative financial instruments held at fair value through profit or loss		(82)	–	(75)
		(16,186)	(13,354)	(8,130)
Net current liabilities		(8,163)	(11,304)	(1,217)
Total assets less current liabilities		175,068	154,140	154,186
Net assets		175,068	154,140	154,186
Capital and reserves				
Called-up share capital	7	4,260	4,260	4,260
Share premium		5	5	5
Capital redemption reserve		11,646	11,646	11,646
Special reserve		29,182	29,182	29,182
Capital reserves		119,776	99,767	98,120
Revenue reserve		10,199	9,280	10,973
Total equity shareholders' funds		175,068	154,140	154,186
Net asset value per share	8	239.99p	210.86p	211.36p

Registered in England and Wales

Company Registration number: 02153093

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 auditors.

The figures and financial information for the year ended 31 December 2015 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

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

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 December 2015.

3. Performance fee

The performance fee is a provision based on the performance of the Company in the half year to 30 June 2016, calculated in accordance with the AIFM Agreement. The provision represents the amount that would be payable for the year ending 31 December 2016, if the Company's NAV per share were to remain unchanged at the year end. Note that under the terms of the AIFM Agreement, any performance fee payable is capped at an amount which, when added to the management fee payable for the year, is equal to 2.0% of the Company's NAV at the year end.

4. Taxation on ordinary activities

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. The taxation charge comprises irrecoverable overseas withholding tax on dividends receivable and overseas capital gains tax.

5. Return per share

	(Unaudited) Six months ended 30 June 2016	(Unaudited) Six months ended 30 June 2015	(Audited) Year ended 31 December 2015
Revenue return £'000	1,998	1,543	3,236
Capital return £'000	21,656	2,849	1,483
Total return £'000	23,654	4,392	4,719
Weighted average number of shares in issue during the period, excluding shares held in Treasury	72,949,141	73,171,240	73,104,209
Revenue return per share	2.74p	2.11p	4.43p
Capital return per share	29.69p	3.89p	2.03p
Total return per share	32.43p	6.00p	6.46p

Notes to the Accounts

6. Dividend paid

	(Unaudited) Six months ended 30 June 2016 £'000	(Unaudited) Six months ended 30 June 2015 £'000	(Audited) Year ended 31 December 2015 £'000
2015 dividend paid of 3.80p (2014: 3.25p)	2,772	2,379	2,379

No interim dividend has been declared in respect of the six months ended 30 June 2016 (2015: nil).

7. Called-up share capital

Changes in issued shares are as follows:

	(Unaudited) Six months ended 30 June 2016 £'000	(Unaudited) Six months ended 30 June 2015 £'000	(Audited) Year ended 31 December 2015 £'000
Opening balance of 72,949,141 (31 December 2015: 73,199,141) shares of 5p each	3,647	3,660	3,660
Repurchase of nil (30 June 2015: 100,000 and 31 December 2015: 250,000) shares into Treasury	–	(5)	(13)
Subtotal of 72,949,141 (30 June 2015: 73,099,141 and 31 December 2015: 72,949,141) shares	3,647	3,655	3,647
12,255,671 (30 June 2015: 12,105,671 and 31 December 2015: 12,255,671) shares held in Treasury	613	605	613
Closing balance of 85,204,812 (30 June 2015 and 31 December 2015: same) shares of 5p each, including shares held in Treasury.	4,260	4,260	4,260

8. Net asset value per share

Net asset value per share is calculated by dividing total equity shareholders' funds by the number of shares in issue, excluding shares held in Treasury, at 30 June 2016 of 72,949,141 (30 June 2015: 73,099,141 and 31 December 2015: 72,949,141).

Notes to the Accounts

9. Financial instruments measured at fair value

The Company's financial instruments that are held at fair value include its investment portfolio and derivative financial instruments.

These financial instruments are categorised into a hierarchy consisting of the following three levels:

Level 1 – valued using unadjusted quoted prices in active markets for identical assets.

Level 2 – valued using observable inputs other than quoted prices included within Level 1.

Level 3 – valued using inputs that are unobservable.

The following table sets out the fair value measurements using the above hierarchy:

	30 June 2016 (unaudited)			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial instruments held at fair value through profit or loss				
Equity investments and derivative financial instruments	166,197	–	–	166,197
Participatory notes ¹	–	17,424	–	17,424
Total	166,197	17,424	–	183,621

	30 June 2015 (unaudited)			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial instruments held at fair value through profit or loss				
Equity investments and derivative financial instruments	153,389	–	–	153,389
Participatory notes ¹	–	12,844	–	12,844
Total	153,389	12,844	–	166,233

	31 December 2015 (audited)			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial instruments held at fair value through profit or loss				
Equity investments and derivative financial instruments	141,907	–	–	141,907
Participatory notes ¹	–	13,824	–	13,824
Total	141,907	13,824	–	155,731

¹ Participatory notes, which are valued using the quoted prices of the underlying securities, have been allocated to Level 2 as, strictly, these are not identical assets.

10. 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 significant events which have not been reflected in the financial statements.

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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.

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: GB0008710799
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