Schroder UK Mid Cap Fund plc

Annual Report and Accounts for the year ended 30 September 2016

Schroders

Investment objective

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

Strategy/investment policy

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

The Manager has adopted a unique and consistent investment process, taking a stock specific approach with an emphasis on growth companies. Sector weightings play a secondary role, resulting naturally from stock selection. Fundamental research forms the basis of each investment decision taken by the Manager, which carries out its own research with numerous company contacts. When analysing stocks, the Manager looks for companies with strong management teams with a proven record, good future prospects and a strong business franchise within their markets.

Key financial highlights

The Board considers the Company to be a compelling investment opportunity. It has outperformed over the last 10 years, invests in the mid cap market which offers good growth opportunities and has a Manager with proven stock-picking skills.

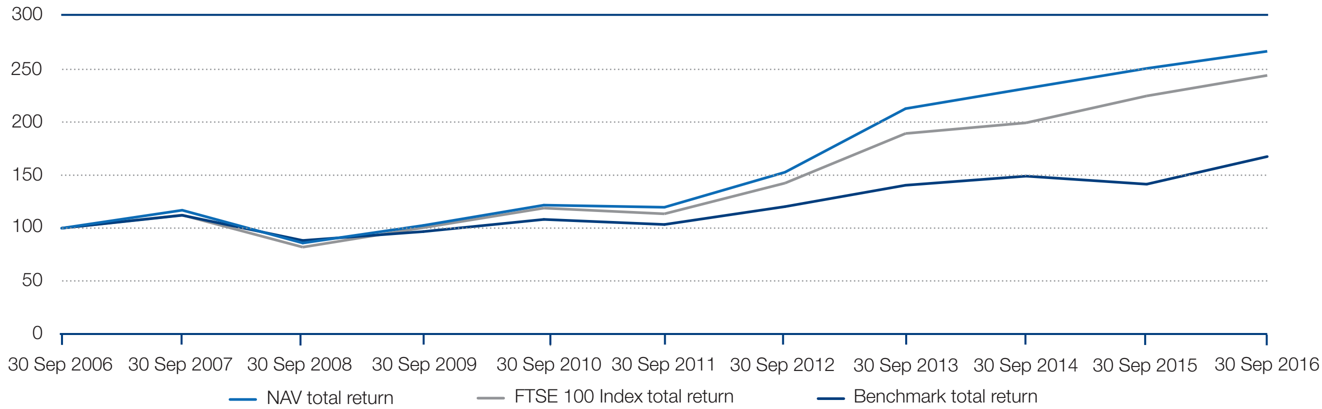
1 Year NAV[1] Total Return	1 Year Benchmark[2] Total Return	10 Year Annualised NAV Total Return	10 Year Annualised Benchmark[3] Total Return
6.5%	**8.6%**	**10.3%**	**9.3%**

[1]Net asset value.

[2]FTSE 250 (ex-Investment Companies) Index.

[3]With effect from 1 April 2011, the Company's benchmark has been the FTSE 250 (ex-Investment Companies) Index. Prior to that date the benchmark was the FTSE All-share, ex-Investment Companies Index, ex-FTSE 100.

Rise in the Company's net asset value vs the FTSE 100 Index and the Benchmark – over 10 years



Source: Morningstar/Thomson Reuters. Rebased to 100 at 30 September 2006.

Contents

A glossary of terms used in this Annual Report may be found on the Company's webpage at www.schroderukmidcapfund.com.

Financial Highlights

Total returns (including dividends reinvested) for the year ended 30 September	2016	2015
Net asset value ("NAV") per share[1]	**6.5%**	8.2%
Share price[1]	**(4.0)%**	5.0%
Benchmark[2]	**8.6%**	12.7%

Net asset value, share price and discount at 30 September	2016	2015	% Change
Shareholders' funds (£'000)	**192,718**	184,260	4.6
Shares in issue	**36,143,690**	36,143,690	
NAV per share	**533.20p**	509.80p	4.6
Share price	**435.38p**	462.50p	(5.9)
Share price discount	**18.3%**	9.3%	

Revenue for the year ended 30 September	2016	2015	% Change
Net revenue return after taxation (£'000)	**4,455**	3,549	25.5
Revenue return per share	**12.33p**	9.82p	25.5
Dividends per share	**11.25p**	9.20p	22.3
Gearing/(net cash)[3]	**1.5%**	(6.1)%	
Ongoing Charges[4]	**0.95%**	0.93%	

[1]Source: Morningstar.
[2]Source: Thomson Reuters. The Company's benchmark is the FTSE 250 (ex-Investment Companies) Index.
[3]Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets. If the amount so calculated is negative, this is shown as a "net cash" position.
[4]Ongoing Charges represents the management fee and all other operating expenses excluding finance costs and transaction costs, expressed as a percentage of the average daily net asset values during the year.

Ten Year Financial Record

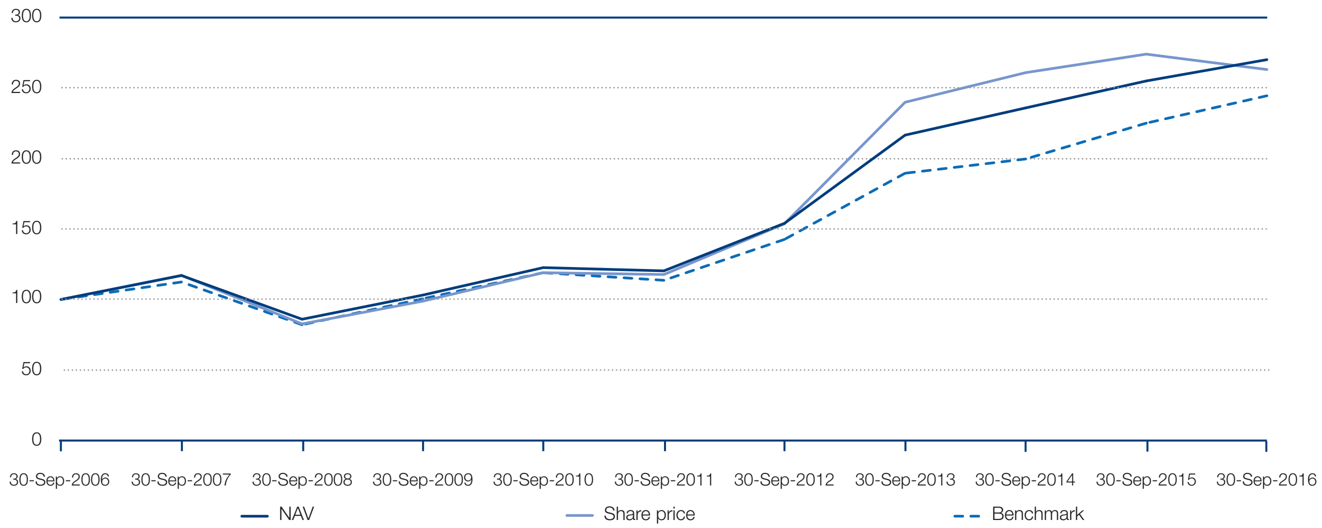
At 30 September	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Shareholders' funds (£'000)	100,852	73,556	85,109	98,750	95,269	118,942	161,739	173,327	184,260	192,718
NAV per share (pence)	278.3	203.5	235.5	273.2	263.6	329.1	447.5	479.6	509.8	533.2
Share price (pence)	242.5	168.0	192.8	225.5	218.0	277.0	420.0	448.9	462.5	435.4
Share price discount (%)	12.9	17.4	18.1	17.5	17.3	15.8	6.1	6.4	9.3	18.3
Gearing/(net cash) (%)[1]	2.5	(9.7)	(2.6)	3.1	2.8	3.7	2.0	(4.4)	(6.1)	1.5

Year ended 30 September	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net revenue return after taxation (£'000)	1,817	2,253	1,880	2,156	2,437	2,789	3,096	3,506	3,549	4,455
Revenue return per share (pence)	4.97	6.22	5.20	5.96	6.74	7.72	8.57	9.70	9.82	12.33
Dividends per share (pence)	4.11	5.30	5.30	5.83	6.20	6.82	7.70	8.50	9.20	11.25
Ongoing Charges (%)[2]	1.31	1.15	1.19	1.21	1.12	1.11	1.01	0.94	0.93	0.95

Performance[3]	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NAV total return[4]	100.0	117.0	86.0	102.6	121.8	119.8	152.9	213.0	232.1	251.0	267.2
Share price total return	100.0	117.1	82.7	98.8	119.0	117.7	153.7	239.8	260.8	273.9	263.0
Benchmark[5]	100.0	112.4	82.1	100.5	119.0	113.6	142.6	189.5	199.6	225.0	244.4

[1]Gearing represents borrowings used for investment purposes less cash, expressed as a percentage of net assets. If the amount so calculated is negative, this is shown as a "net cash" position.
[2]Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, transaction costs and any performance fee payable, expressed as a percentage of the average daily net asset values during the year. The figures for 2010 and prior years represent the expenses calculated as above, expressed as a percentage of the average of the opening and closing net asset values in the year.
[3]Source: Morningstar/Thomson Reuters. Rebased to 100 at 30 September 2006.
[4]Calculated using capital net asset values plus income reinvested for the period to 30 September 2008 and cum income net asset values plus income reinvested thereafter.
[5]With effect from 1 April 2011, the Company's benchmark has been the FTSE 250 (ex-Investment Companies) Index. Prior to that date the benchmark was the FTSE All-Share, ex-Investment Companies Index, ex-FTSE 100. The return for 2011 is based on a combination of both of these indices, calculated on a pro rata basis.

10 Year NAV, share price and Benchmark total returns



Source: Morningstar/Thomson Reuters. Rebased to 100 at 30 September 2006. With effect from 1 April 2011, the Company's benchmark has been the FTSE 250 (ex-Investment Companies) Index. Prior to that date, the benchmark was the FTSE All-Share, ex-Investment Companies Index, ex-FTSE 100. The return for 2011 is based on a combination of both of these indices, calculated on a pro rata basis.

Chairman's Statement

Eric Sanderson

Performance, revenue and dividends

As reported in my half year statement, performance during the first half of the year was affected by uncertain markets leading up to the UK's referendum on its membership of the EU. Immediately after the vote, mid cap share prices became exceptionally weak on concern about the implications for domestic growth. Subsequently, these fears have generally dissipated and mid cap share prices have recovered. In advance of the referendum we held net cash on our balance sheet and took advantage of lower stock prices by utilising limited gearing to add to our portfolio at that time.

During the year under review, the Company's net asset value produced a total return of 6.5%, compared to a total return of 8.6% for the Company's benchmark, the FTSE 250 (ex-Investment Companies) Index. This relative underperformance was largely attributable to our holdings of domestically-focused stocks which performed less well than those with a more export led turnover. For the most part, these companies have reported solid or strong trading updates, but the shares have nonetheless suffered in the months leading up to and immediately after the UK's referendum on EU membership amid fears about the UK's economic outlook. Many of those companies have raised their dividends by significant amounts reflecting underlying strong profit growth.

"...a significant increase in income..."

While performance lagged the benchmark, I am pleased to report a significant increase in income generated by the portfolio during the year under review: the revenue return per share increased by 25.5%, from 9.82 pence per share to 12.33 pence per share. Consequently, the Directors recommend the payment of a final dividend of 8.50 pence per share for the year ended 30 September 2016, which, together with the interim dividend of 2.75 pence per share paid during the year, brings total dividends for the year to 11.25 pence per share, an increase of 22.3% over dividends declared in respect of the previous financial year.

A resolution approving the payment of the final dividend for the year ended 30 September 2016 will be proposed at the forthcoming Annual General Meeting. If the resolution is passed, the dividend will be paid on 6 February 2017 to shareholders on the register on 30 December 2016.

"...long-term performance remains strong..."

Meanwhile, although the Company has underperformed the benchmark in recent years, its long term performance remains strong, having outperformed the benchmark over the 13 years since Schroders assumed the investment management mandate, as well as over five and 10 year periods to 30 September 2016.

The Manager's Review on pages 7 to 11 provides greater detail on performance, market background and investment outlook for the Company.

Gearing facility

During the year, the Company renewed its £15 million revolving credit facility with Scotiabank (Europe) Plc. At the beginning of the year, the Company held net cash of 6.1%, which had changed to gearing of 1.5% at the year end.

The Board considers that the flexibility to utilise gearing remains an important tool in allowing the Manager to pursue investment opportunities when appropriate. To this end, parameters for the use of gearing have been established and these are reviewed regularly by the Board. The Company's gearing continues to operate within pre-agreed limits so that it does not represent more than 25% of total assets and facilities arranged represent an even smaller percentage.

Purchase of shares for cancellation and discount management

The share price produced a negative total return for the year of 4.0%, reflecting a significant widening of the Company's share price discount over the period from 9.3% to 18.3%. This widening is representative of a trend across UK-centric investment trusts in the sector, in part triggered by the results of the EU referendum. The average share price discount for the year was 13.6% and it ranged between 5.8% and 21.7%.

At the Company's last Annual General Meeting held on 10 February 2016, the Company was granted authority to purchase up to 14.99% of its issued share capital for cancellation or holding in Treasury. During the year ended 30 September 2016, the Company did not purchase any shares for cancellation or for holding in Treasury.

The decision whether to purchase shares is considered in Board discussions, particularly so this year in light of the wider discount. Whilst share buy-backs are one method of addressing discount levels, their effectiveness depends on the size and nature of the share register.

Your Board believes that the most sustainable way to close the share price discount is to increase demand for the Company's shares by effective marketing over the longer term, and a continuation of the Company's strong longer term performance track record. In the meantime, the Board will continue to consider on a regular basis whether share purchases should be made, alongside other means of discount control. To provide maximum flexibility for the future, it is proposed that the existing authority be renewed at the forthcoming Annual General Meeting.

Portfolio management team

We were pleased to announce in September 2016 that Jean Roche, a fund manager in Schroders' Pan-European Small and Mid Cap team, had been appointed as the Company's co-portfolio manager, joining lead portfolio manager Andy Brough. I reiterate my comment at the time that the Board is delighted by Jean's appointment. She and Andy work very well together as a team and her appointment as co-manager is a recognition of the relationship she and Andy have established on our Company's portfolio and her role in managing the assets.

Board refreshment

As previously announced and reported in my half year report, following Rachel Beagles's retirement as a Director at the Annual General Meeting held on 10 February 2016, Robert Talbut joined the Board as a non-executive Director with effect from the same date. A resolution for shareholders to appoint Mr Talbut as a Director of the Company will be proposed at the Annual General Meeting, details of which are set out at the end of this Statement. Mr Talbut's biographical details can be found on page 22.

These changes reflect the Board's policy to continue to refresh its membership on an ongoing basis. All members of the Board have now been appointed within the past six years and there are no plans for further changes within the foreseeable future.

Outlook

2016 has been unusual for the Company. We are fortunate in being able to say that its history in the last decade has been one not just of strong performance, but one driven by the success of the companies in the portfolio. This year, politics has had a disproportionate impact, as the EU referendum result and the subsequent fall in

Chairman's Statement

sterling has dominated the performance of mid cap shares relative to other UK equities.

"We want our Manager to keep on targeting these successful businesses..."

This should not obscure, however, the continuing success of so many companies in the portfolio. As one measure, the dividends the Company has received from them has increased by a half in the last three years, against a backdrop of little macro-economic growth. We want our Manager to keep on targeting these successful businesses, and expect there to be many opportunities to do so in a world as diverse and exciting as that of UK mid caps.

Annual General Meeting

The Company's Annual General Meeting will be held at 12.00 noon on Tuesday, 31 January 2017 and shareholders are encouraged to attend. The meeting will include a presentation by the Manager on the prospects for the UK market and the Company's investment strategy.

Eric Sanderson
Chairman

20 December 2016

Manager's Review

Market background

> "From 1 May 2003...to 30 September 2016, the net asset value produced a total return of 648.3%..."

As noted in the Chairman's Statement, the Company's net asset value produced a total return of 6.5% for the year ended 30 September 2016, compared to a total return of 8.6% for the benchmark, the FTSE 250 (ex-Investment Companies) Index. The Company's share price fell 4.0% over the year, with its discount to the net asset value widening from 9.3% to 18.3% (source: Morningstar, Schroders).

From 1 May 2003, when Schroders took responsibility for the management of the portfolio, to 30 September 2016, the net asset value produced a total return of 648.3%, compared to 470.7% from the chain-linked benchmark over the same period (source: Morningstar).

The benchmark's performance of 8.6% trailed that of the FTSE 100 Index, which returned 18.4% over the year. The reason for this divergence in performance was largely down to perceived future negative effects of June's EU referendum on the more domestic UK-facing FTSE 250 (ex-Investment Companies) Index (see graph below). The UK's decision to leave the EU caused sterling to fall sharply and large caps, which have a greater proportion of non-sterling earnings than mid cap stocks, outperformed as a result. The FTSE 100 Index also benefited from a high weighting to internationally diversified defensive sectors (e.g. Tobacco and Pharmaceuticals) and from greater exposure to commodity stocks as underlying commodity prices began to rally.

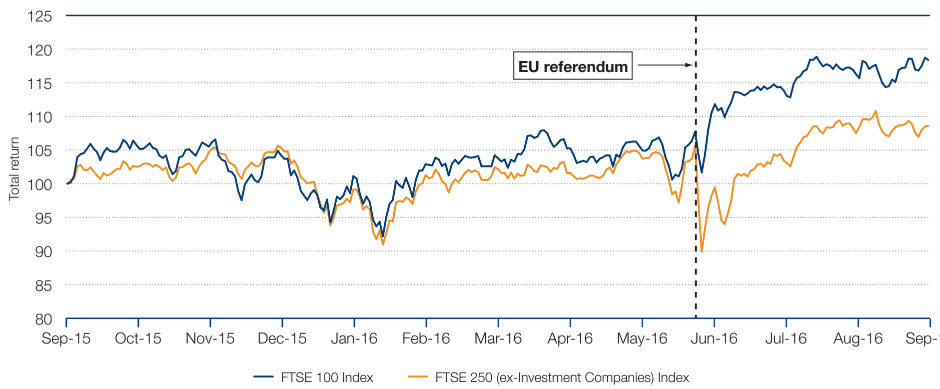
Nonetheless, the FTSE 250 (ex-Investment Companies) Index grew dividends by c.15% in the period vs. FTSE 100 Index dividend growth of just c.4% (source: Thomson Reuters).

More generally, equities continued to be supported this year as central banks maintained accommodative monetary policy stances, amid recurring worries about the health of the global economy. The Bank of Japan, People's Bank of China, European Central Bank and Bank of England all eased further. Meanwhile, the US Federal Reserve deferred raising rates again following the anticipated 0.25% increase in December.

> "Having sold off in the run up to and immediate wake of the EU referendum, mid caps rallied towards the year end."

Having sold off in the run up to and immediate wake of the EU referendum, mid caps rallied towards the year end. Investors welcomed the appointment of Theresa May as Prime Minister, and were reassured by comments from the new Chancellor of the Exchequer, Philip Hammond, who said UK fiscal policy could be "reset" at the Autumn Statement to counteract any economic slowdown. The market was further supported as the Bank of England launched a series of monetary easing measures, which, while widely anticipated, were more extensive than expected.

UK mid caps and large caps: total return over the last year



Source: Thomson Reuters, year to 30 September 2016

Cyclical areas of the market outperformed amid a general return in risk appetite given the accommodative central bank policy backdrop. Many of the internationally-diversified mid-cap sectors, including industrials and resources, performed particularly well, in part as investors discounted the beneficial impact of sterling weakness to their overseas earnings bases. By contrast, many domestic-facing financials and other UK-orientated sectors such as house builders, retailers, travel and leisure and real estate, lagged, despite resilient trading updates and, more generally, strong dividend growth as mentioned above. This underperformance reversed somewhat towards the year end as the first economic data published following the unexpected "leave" decision suggested that the initial negative impact on UK growth had been less than feared.

Corporate activity, in terms of outright bids, was limited this year relative to last, but many mid cap companies executed bolt-ons or larger deals, for example Micro Focus, WS Atkins, Synthomer and Dechra Pharmaceuticals, all of which the Company owned for part or all of the year under review.

Portfolio performance

"...the underperformance relative to the benchmark was largely attributable to domestically-focused holdings..."

"...earnings growth, driven primarily by dividends from the underlying holdings, of 26% relative to the benchmark's c.15%."

In line with the market commentary above, the underperformance relative to the benchmark was largely attributable to domestically-focused holdings. These included automotive retailer Lookers, gaming group Rank and housebuilder Redrow. For the most part, these companies have reported solid or strong trading updates, but the shares have nonetheless suffered in the months leading up to and immediately after the EU referendum amid fears about the UK's economic outlook. Meanwhile, Lookers, Rank and Redrow raised their dividends by 20%, 18% and 67% respectively, in contrast to much of the wider market, underpinned by rising streams of profits in all cases. More generally, your Company delivered earnings growth, driven primarily by dividends from the underlying holdings, of 26% relative to the benchmark's c.15%.

As in the first half of the financial year, the strongest positive contribution over the full year came from international veterinary products business Dechra Pharmaceuticals. The company has enjoyed stable growth of its animal drugs portfolio and strong performance in North America. The market also welcomed the purchase of Putney, a leading developer of generic companion animal pharmaceuticals in the US.

Many of our other internationally diversified companies performed well, for example software and IT services provider Micro Focus (c.95% ex-UK revenues), domestic home repairs and insurance provider HomeServe (c.55% ex-UK revenues) and specialist provider of marine services James Fisher (c.60% ex-UK revenues). The market rewarded underlying growth and was also willing to attribute an additional premium to expectations of future benefit from overseas earnings exposure, relative to more domestically-focused holdings.

Stocks held – significant positive and negative contributions versus the benchmark

Positive contributor	Portfolio (%)	Relative to index (%)	Absolute return (%)	Impact (%)
Dechra Pharmaceuticals	3.1	+2.8	50.9	+1.0
Micro Focus International	2.9	+1.9	68.9	+0.9
HomeServe	2.4	+2.0	45.8	+0.7
James Fisher and Sons	1.4	+1.4	9.8	+0.7
Halma	2.5	+1.3	47.3	+0.4
Total				**+3.7**

Negative contributor	Portfolio (%)	Relative to index (%)	Absolute return (%)	Impact (%)
Lookers	1.5	+1.4	-20.4	-0.7
Rank Group	2.0	+1.9	-20.9	-0.6
Redrow	2.9	+2.6	-10.1	-0.6
CLS Holdings	1.4	+1.3	-17.3	-0.5
Lamprell	0.8	+0.8	-39.5	-0.4
Total				**-2.8**

Source: Schroders, Factset.

There were however positive contributions from not holding stocks such as post-merger betting and gaming company Paddy Power Betfair, and London-exposed real estate companies Capital & Counties and Derwent London. Not owning supermarket group Wm Morrison detracted from performance, as did the decision not to hold Rentokil Initial. From a sector perspective, our underweight position in mining and industrial groups negatively impacted performance as the market rotated into these stocks despite a failure to meet market forecasts in many cases.

Stocks not held – significant positive and negative contributions versus the benchmark

Positive contributor	Portfolio (%)	Relative to index (%)	Absolute return (%)	Impact (%)
Paddy Power Betfair	0.0	-0.4	-15.5	+0.6
Capital & Counties	0.0	-0.9	-33.4	+0.5
Derwent London	0.0	-1.1	-27.5	+0.4
Cobham	0.0	-1.0	-26.9	+0.4
Great Portland Estates	0.0	-0.9	-25.1	+0.3
Total				**+2.2**

Negative contributor	Portfolio (%)	Relative to index (%)	Absolute return (%)	Impact (%)
Wm Morrison Supermarkets	0.0	-0.3	37.2	-0.4
Rentokil Initial	0.0	-1.1	53.6	-0.4
Polymetal International	0.0	-0.6	88.6	-0.4
Betfair Group	0.0	-0.3	35.7	-0.4
Weir Group	0.0	-0.9	52.2	-0.4
Total				**-2.0**

Source: Schroders, Factset, as at 30 September 2016

Portfolio activity

We initiated a new holding in online car classifieds business Auto Trader in November 2015. As the market leader, the company is well positioned to generate revenue from its data sources and drive up average revenue per retailer. We also bought self storage provider Safestore in the same month and added throughout the first quarter of 2016. We believe that the company has considerable growth potential in both the UK and France (in Paris), where occupancy levels and pricing can be driven up.

In January we established a new holding in specialist buy-to-let lender Paragon, which we viewed as oversold following taxation and regulatory changes. We added to the position throughout the first half of 2016, due to our belief that the market will continue to see growth thanks to favourable supply and demand demographics in the UK.

Dunelm Group (a homewares retailer) was added in April. This organic growth story is driven by new space, margin gains and, more recently, new merchandising initiatives, which are driving improved sales per square foot. The company, which is highly cash-generative, is benefiting from a fresh pair of eyes in the form of new CEO John Browett (formerly at Dixons and Apple). We also bought into Cranswick (a pork and poultry processor), which has strong relationships across all supermarket chains, including the discounters and the higher end, is partially protected from pork prices through partial vertical integration and longer dated contracts with its customers, and is investing internally generated cash into the high-growth poultry market.

After the referendum we initiated a position in cash-rich Howden Joinery (manufacturer and supplier of kitchens) at a depressed valuation. We initiated a new position in sports retailer JD Sports, which has strong relationships with suppliers, particularly Nike and Adidas, whose products it sells to relatively less price-sensitive customers, and which is exploring international growth avenues. Finally, we added to existing holdings such as alternative asset manager Intermediate Capital Group, since we think that demand for yield in a low interest rate environment will continue to drive growth in assets under management.

We sold out of business service provider MITIE and funeral provider Dignity in April and May respectively. The sale of the former was due to observed weakness across sector peers and likely cost pressure from the National Minimum Wage, and the latter due to concerns around higher death rates in previous periods, resulting in difficult comparables.

We exited our position in Micro Focus in September, taking profits after the share performance discussed above and the company's promotion to the FTSE 100 Index. Other sales include performance materials company Alent following its acquisition by Platform Specialty Products in November 2015, and support services group DCC due to its promotion to the FTSE 100 Index towards the end of 2015. We exited Cable & Wireless Communications in January following a recommended offer for the company from European cable group Liberty Global.

Outlook

A number of macroeconomic data points (GDP, consumer confidence, the Purchasing Managers' Index) have emerged after the referendum suggesting that the immediate shift down by the markets was an over-reaction. Whether the Bank of England should take credit for this apparent soft landing is a moot point, but the fact that both the FTSE 100 Index and the FTSE 250 Index are trading above pre-referendum levels suggests that the market is now more willing to believe that economic activity will be only marginally negatively affected by the Brexit process. The market has been inclined to reward overseas earners with higher ratings after the referendum, whilst ignoring in some cases stronger fundamentals from domestic-facing companies. We will seek to exploit opportunities presented by this mismatch.

Bid activity has been relatively limited this year so it is possible that pent-up demand from overseas acquirers for UK mid caps will be released in the year ahead, underpinned by weaker sterling.

The FTSE 250 Index continues to deliver dividend growth which is significantly better than that of the FTSE 100 Index. The latter is currently distributing c.70% of its earnings compared with c.48% for the former. This suggests that the outperformance of the FTSE 250 Index can continue, given the higher level of dividend cover for the FTSE 250 constituents.

The Company is currently 1.3% geared, having taken advantage of the depressed valuations of some companies following the referendum. However, current valuations, broadly in line with their long term average, make it unlikely that net gearing will increase.

Our investment strategy

"...we therefore aim to direct our domestically-focused investments towards companies with pricing power, strong balance sheets, and in sectors seeing structural growth..."

Although UK consumer sentiment appears to be holding up relatively well, we remain alert to the risk that imported inflation may begin to erode earnings power in the UK, and we therefore aim to direct our domestically-focused investments towards companies with pricing power, strong balance sheets, and in sectors seeing structural growth.

Without doubt the uncertainty about the UK's economic outlook will result in some investment decisions being delayed and a lot of companies are going to struggle. However, for well-financed businesses with strong market positions this could create opportunities. This is particularly true of companies where management is well aligned with investors' interests due to large shareholdings.

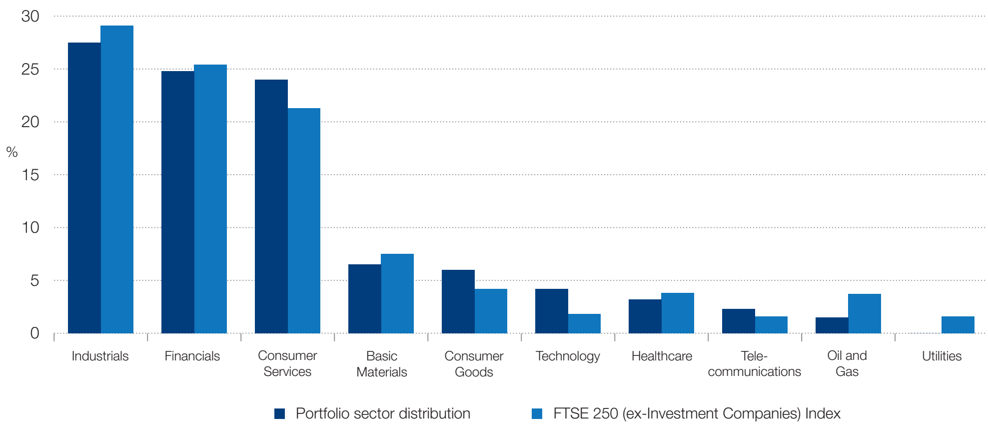
10 largest overweight positions

	Company (%)	Index (%)	Difference (%)
Dechra Pharmaceuticals	3.2	0.4	+2.8
HomeServe	3.0	0.5	+2.5
Grainger	2.6	0.3	+2.3
SuperGroup	2.6	0.3	+2.3
Northgate	2.2	–	+2.2
Redrow	2.5	0.3	+2.2
Telecom Plus	2.3	0.2	+2.1
Kennedy Wilson Real Estate	2.4	0.4	+2.0
SSP	2.5	0.5	+2.0
Victrex	2.2	0.4	+1.8

Source: Schroders as at 30 September 2016.

The majority of our most overweight holdings, listed above, have seen both profits and dividend upgrades over the course of the past year. We continue to expect that our portfolio holdings are well positioned to generate superior long-term returns as they deliver a rising stream of earnings to underpin progressive dividend policies.

Comparison of the portfolio sector distribution with the benchmark at 30 September 2016



[1]Source: Schroders/Thomson Reuters.

"... companies with strong management teams with a proven record, good future prospects and a strong business franchise within their markets."

Team changes

Changes in the investment team during the year under review are outlined in the Strategic Report on page 14. The team's investment philosophy continues as before: concentrating on companies with strong management teams with a proven record, good future prospects and a strong business franchise within their markets.

Schroder Investment Management Limited

20 December 2016

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

Investment Portfolio

As at 30 September 2016

Stocks in bold are the 20 largest investments, which by value account for 46.8% (2015: 50.3%) of total investments. Investments are all equities.

	£'000	%		£'000	%
Industrials			**Consumer Services (continued)**		
HomeServe	**5,755**	**3.0**	Pets at Home	3,054	1.6
Halma	**4,736**	**2.4**	Photo-me International	2,940	1.5
Berendsen	**4,354**	**2.2**	Dunelm	2,569	1.3
Northgate	**4,315**	**2.2**	Lookers	2,404	1.2
Diploma	**3,953**	**2.0**	Restaurant Group	2,196	1.1
Renishaw	**3,428**	**1.7**	Thomas Cook	2,007	1.0
James Fisher	3,421	1.7	Inchcape	1,975	1.0
Bodycote International	3,237	1.7	Halfords	1,195	0.6
WS Atkins	3,231	1.7	Millennium & Copthorne Hotels	1,175	0.6
Paypoint	3,088	1.6	JD Sports	1,115	0.6
Keller	2,852	1.5	**Total Consumer Services**	**46,769**	**24.0**
Smurfit Kappa	2,543	1.3	**Basic Materials**		
Grafton	2,486	1.3	**Victrex**	**4,312**	**2.2**
RPS	1,990	1.0	Synthomer	2,642	1.4
Howden Joinery	1,912	1.0	Elementis	2,286	1.2
SIG	1,163	0.6	Acacia Mining	1,969	1.0
Senior	1,145	0.6	Anglo Pacific	1,439	0.7
Total Industrials	**53,609**	**27.5**	**Total Basic Materials**	**12,648**	**6.5**
Financials			**Consumer Goods**		
IG	**5,226**	**2.7**	**Redrow**	**4,800**	**2.5**
Grainger	**5,173**	**2.6**	Crest Nicholson	2,818	1.4
Kennedy Wilson Europe Real Estate	**4,764**	**2.4**	AG Barr	2,087	1.1
Brewin Dolphin	**3,561**	**1.8**	Cranswick	2,043	1.0
Segro	**3,435**	**1.8**	**Total Consumer Goods**	**11,748**	**6.0**
Safestore	3,078	1.6	**Technology**		
Londonmetric Property	2,960	1.5	Computacenter	3,287	1.7
Paragon	2,878	1.5	SDL	3,204	1.6
Phoenix	2,857	1.5	Laird	1,745	0.9
CLS	2,749	1.4	**Total Technology**	**8,236**	**4.2**
Investec	2,744	1.4	**Healthcare**		
Intermediate Capital	2,465	1.3	**Dechra Pharmaceuticals**	**6,269**	**3.2**
Esure	2,274	1.2	**Total Healthcare**	**6,269**	**3.2**
Just Retirement	2,144	1.1	**Telecommunications**		
Man Group	1,970	1.0	**Telecom Plus**	**4,424**	**2.3**
Total Financials	**48,278**	**24.8**	**Total Telecommunications**	**4,424**	**2.3**
Consumer Services			**Oil & Gas**		
Rightmove	**5,700**	**2.9**	Soco International	1,620	0.8
Supergroup	**5,035**	**2.6**	Lamprell	1,311	0.7
SSP	**4,797**	**2.5**	**Total Oil & Gas**	**2,931**	**1.5**
Auto Trader	**3,850**	**2.0**	**Total investments**	**194,912**	**100.0**
Rank Group	3,467	1.8			
J D Wetherspoon	3,290	1.7			

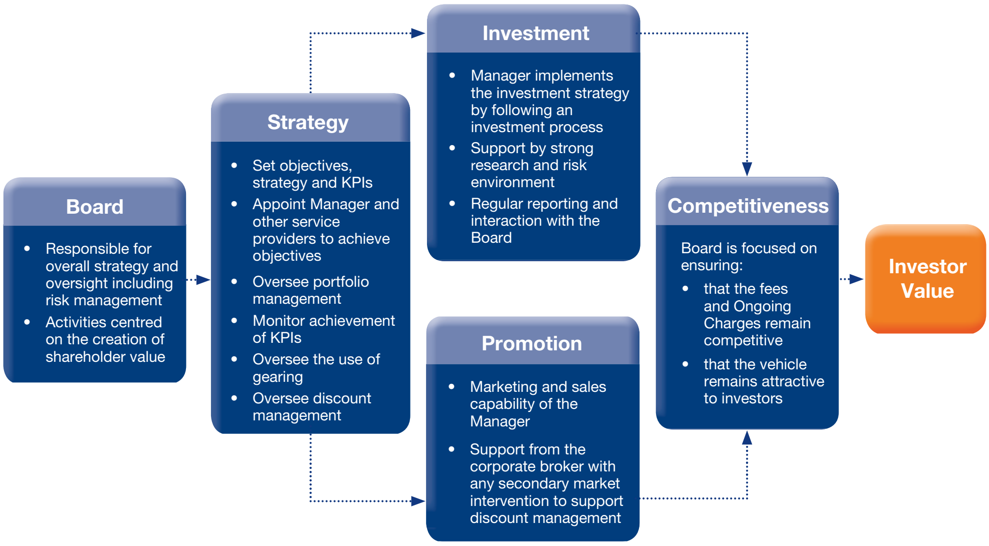
Business model

The Company carries on business as an investment trust. It has been approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 by way of a one-off application and it is intended that the Company will continue to conduct its affairs in a manner which will enable it to retain this status.

The Company is domiciled in the UK and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company is not a "close company" for taxation purposes.

It is not intended that the Company should have a limited life and the Articles of Association do not contain any provision for the review of the future of the Company at specified intervals.

The Company's business model may be demonstrated by the diagram below.



Investment objective and policy

Details of the Company's investment objective and policy may be found on the inside front cover.

The Board has appointed the Manager, Schroder Unit Trusts Limited, to implement the investment strategy and to manage the Company's assets in line with the appropriate restrictions placed on it by the Board, including limits on the type and relative size of holdings which may be held in the portfolio and on the use of gearing, cash, derivatives and other financial instruments as appropriate.

Gearing

The Board has authorised borrowings of up to 25% of total assets, as appropriate.

The Company currently has in place a £15 million (2015: £15 million) revolving credit facility. As at 30 September 2016, gearing stood at 1.5% (2015: 6.1% net cash). In falling markets any reduction in net asset value and share price would be amplified by the gearing. The Company's gearing continues to be operated within pre-agreed limits so that gearing does not exceed 25% of total assets. The flexibility to utilise gearing remains an important tool in allowing the Manager to pursue investment opportunities when appropriate.

Investment philosophy and approach

The Manager believes that short term market divergence from underlying value can be particularly marked in mid-sized companies. A lack of quality third-party quantitative and qualitative information means that a solid internal research underpinning is required for any successful investment process. The Manager attributes the long-term success of the Company to its proprietary research, as well as the limitation of overall risk by reasonable diversification.

The Manager believes that profits growth is most easily achieved through pricing power. In a world where the internet and the industrial expansion of China and India are deflationary forces on manufactured goods and increasingly on services, pricing power is a valuable attribute and the research emphasis is on identifying companies that harness this characteristic.

The team adheres to a bottom-up investment strategy, which has no pre-determined style bias. It does not focus exclusively on "growth", "value" or "earnings momentum" factors, but on each company's individual ability to create value for shareholders. The approach is applicable in all investment environments and can generate attractive returns in varied market conditions.

The team typically makes over 800 contacts with companies each year, through which they seek to understand and evaluate the strategies being pursued by management and assess the characteristics and competitive dynamics of industries and sectors.

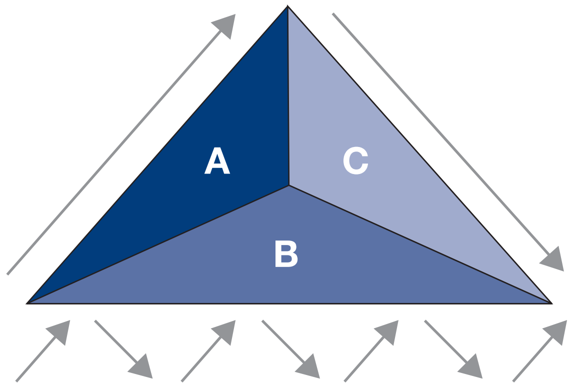
Team

Andy Brough is head of the team. He has been at Schroders for 28 years, and was co-manager of the Company with Rosemary Banyard since Schroders took over the management contract in 2003. Rosemary left Schroders in March 2016, and Andy became the lead portfolio manager. Jean Roche became co-manager with Andy in September 2016. She joined the team in January 2016 from Hargreave Hale where she was a fund manager and analyst.

Investment approach

The Manager believes that as broker coverage on small and mid cap companies is limited in scope and often in quality, detailed analysis of company report and accounts, company meetings and visits, governance engagements and the use of industry experts are all a vital part of the Manager's research process. It is the application of experience to these varied inputs, coupled with an extensive global in-house small cap and mid cap analytical resource that the Board believes gives the team an advantage over others.

As a result of the fundamental research, companies and industries are classified in the investment universe within a simple framework – the 'investment triangle' as set out on the next page.



- **'A' companies** operate in industries where demand for their goods or services exceeds supply, which gives them pricing power. These sectors are typically concentrated so that the demand for shares in the constituent companies exceeds the supply of stock, which appreciates in value as investors ascribe a higher rating to the company and its prospects.
- **'B' companies** are usually cyclical stocks or franchises in transition, among which the portfolio managers look for trading opportunities. The balance of supply and demand for these shares shifts over time as companies reduce capacity and shrink the amount of equity on the market by buying back shares.
- **'C' companies** operate in industries where supply exceeds demand, which are typically experiencing long-term decline and which will not provide investors with successful growth opportunities. The supply of shares in these companies will typically exceed demand, leading to downward pressure on share prices.

The team seeks to concentrate investments in 'A' companies, to avoid 'C' companies and to trade 'B' companies. In addition, the team also seeks to anticipate the movement of companies and industries around this investment triangle.

Bottom-up stock selection has the primary influence on the portfolio. Individual stock weightings reflect a combination of investment conviction and the team's assessment of the stock's likely volatility. Sector weightings are primarily shaped by individual stock decisions, with care being taken to ensure that this does not result in an excessive or unintended thematic concentration.

Portfolio construction is supported by a robust system of risk controls. Attention is paid to the shape and concentration of the portfolio by stock, industry sector and other common characteristics, as well as to the contribution to total risk from individual holdings. Proprietary risk tools allow the managers to understand the aggregate characteristic and risk profile of the portfolio and provide detailed breakdowns of the individual factors contributing to risk.

Investment restrictions and spread of investment risk

Risk in relation to the Company's investments is spread as a result of the Manager monitoring the Company's portfolio with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objective. The key restrictions imposed on the Manager are that: (a) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one single company; (b) no more than 10% of the value of the Company's gross assets may be invested in other listed investment companies unless such companies have a stated investment policy not to invest more than 15% of their gross assets in other listed investment companies; (c) no more than 15% of the Company's gross assets may be invested in other listed investment companies (including listed investment trusts); (d) no more than 15% of the Company's total net assets may be invested in open-ended funds; and (e) no holding may represent 20% or more of the equity capital of any company.

The investment portfolio on page 12 demonstrates that, as at 30 September 2016, the Company held 64 investments spread over a range of industry sectors. The largest investment, Dechra Pharmaceuticals, represented 3.2% of total investments. The Board therefore believes that the objective of spreading investment risk has been achieved.

Promotion

The Company promotes its shares to a broad range of investors who have the potential to be long-term supporters of the investment strategy. The Company seeks to achieve this through its Manager and corporate broker, which promote the shares of the Company through regular contact with both current and potential shareholders.

Promotion is focused via three channels:

– Discretionary fund managers. The Manager promotes the Company via both London and regional teams. This market is the largest channel by a significant margin.
– Execution-only investors. The Company promotes its shares via engaging with platforms and through its webpage. Volume is smaller but platforms have experienced strong growth in recent times and are an important focus for the Manager.
– The Company also promotes its shares to institutional investors.

The Board also seeks active engagement with investors and meetings with the Chairman are offered to professional investors where appropriate. These activities consist of investor lunches, one-on-one meetings, regional road shows and attendances at conferences for professional investors. In addition, the Company's shares are supported by the Manager's wider marketing of investment companies targeted at all types of investors; this includes maintaining close relationships with adviser and execution-only platforms, advertising in the trade press, maintaining relationships with financial journalists and the provision of digital information on Schroders' website.

Details of the Board's approach to discount management and share issuance may be found in the Chairman's Statement on page 5 and in the Explanation of Special Business of the AGM on page 54.

Key performance indicators

The Board measures the development and success of the Company's business through achievement of the Company's investment objectives, which is considered to be the most significant key performance indicator for the Company.

The Board continues to review the Company's Ongoing Charges to ensure that the total costs incurred by shareholders in the running of the Company remain competitive when measured against peer group funds. An analysis of the Company's costs, including the management fee, Directors' fees and general expenses, is submitted to each Board meeting. The management fee is reviewed at least annually.

Corporate and social responsibility

Board gender diversity

As at 30 September 2016, the Board comprised four men and one woman. The Board's approach to diversity is that candidates for Board vacancies are selected based on their skills and experience, which are matched against the balance of skills and experience of the overall Board taking into account the specific criteria for the role being offered. Candidates are not specifically selected on the grounds of their gender but this is taken into account in terms of overall balance.

Responsible investment policy

The Company delegates to its Manager the responsibility for taking environmental, social and governance ("ESG") issues into account when assessing the selection, retention and realisation of investments. The Board expects the Manager to engage with investee companies on social, environmental and business ethics issues and to promote best practice. The Board expects the Manager to exercise the Company's voting rights in consideration of these issues.

A description of the Manager's policy on these matters can be found on the Schroders website at www.schroders.com/ri. The Board notes that Schroders believes that companies with good ESG management often perform better and deliver superior returns over time. Engaging with companies to understand how they approach ESG management is an integral part of the investment process. Schroders is compliant with the UK Stewardship Code and its compliance with the principles therein is reported on its website.

The Board monitors the implementation of this policy through regular reporting by the Manager on its engagement activity, how it is integrated into the investment process, and the outcomes of the activity.

Anti-bribery and corruption policy

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

Greenhouse gas emissions

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

Principal risks and uncertainties

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Company's business as an investment trust and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Audit Committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. Both the principal risks and the monitoring system are also subject to robust review at least annually. The last review took place in November 2016.

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

A summary of the principal risks and uncertainties faced by the Company, which have remained unchanged throughout the year, and actions taken by the Board and, where appropriate, its Committees, to manage and mitigate these risks and uncertainties, is set out below.

Risk	Mitigation and management
Strategic risk	
The Company's investment objectives may become out of line with the requirements of investors, resulting in a wide discount of the share price to underlying net asset value.	Appropriateness of the Company's investment remit periodically reviewed and success of the Company in meeting its stated objectives is monitored. Share price relative to net asset value monitored and use of buy back authorities considered on a regular basis. Marketing and distribution activity is actively reviewed.
The Company's cost base could become uncompetitive, particularly in light of open ended alternatives.	Ongoing competitiveness of all service provider fees subject to periodic benchmarking against competitors. Annual consideration of management fee levels.
Investment management risk	
The Manager's investment strategy, if inappropriate, may result in the Company underperforming the market and/or peer group companies, leading to the Company and its objectives becoming unattractive to investors.	Review of the Manager's compliance with the agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and appropriate strategies employed to mitigate any negative impact of substantial changes in markets. Annual review of the ongoing suitability of the Manager.
Financial	
The Company is exposed to the effect of market fluctuations due to the nature of its business. A significant fall in equity markets could have an adverse impact on the market value of the Company's underlying investments.	Risk profile of the portfolio considered and appropriate strategies to mitigate any negative impact of substantial changes in markets discussed with the Manager.
Custody risk	
Safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber hacking.	Depositary reports on safe custody of the Company's assets, including cash and portfolio holdings, are independently reconciled with the Manager's records. Review of audited internal controls reports covering custodial arrangements. Annual report from the Depositary on its activities, including matters arising from custody operations.

Risk	Mitigation and management
Gearing and leverage risk	
The Company utilises credit facilities. These arrangements increase the funds available for investment through borrowing. While this has the potential to enhance investment returns in rising markets, in falling markets the impact could be detrimental to performance.	Gearing is monitored and strict restrictions on borrowings imposed: gearing continues to operate within pre-agreed limits so as not to exceed 25% of total assets.
Accounting, legal and regulatory risk	
In order to continue to qualify as an investment trust, the Company must comply with the requirements of Section 1158 of the Corporation Tax Act 2010. Breaches of the UK Listing Rules, the Companies Act or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes.	Confirmation of compliance with relevant laws and regulations by key service providers. Shareholder documents and announcements, including the Company's published Annual Report, are subject to stringent review processes. Procedures have been established to safeguard against disclosure of inside information.
Service provider risk	
The Company has no employees and has delegated certain functions to a number of service providers. Failure of controls and poor performance of any service provider could lead to disruption, reputational damage or loss.	Service providers appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations. Regular reporting by key service providers and monitoring of the quality of services provided. Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements.

Risk assessment and internal controls

Risk assessment includes consideration of the scope and quality of the systems of internal control operating within key service providers, and ensures regular communication of the results of monitoring by such providers to the Audit Committee, including the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition. No significant control failings or weaknesses were identified from the Audit Committee's ongoing risk assessment which has been in place throughout the financial year and up to the date of this Report.

A full analysis of the financial risks facing the Company is set out in note 19 on pages 49 to 53.

Viability statement

The Directors have assessed the prospects of the Company over the three year period to 30 September 2019. The Directors consider that three years is a sufficiently long-term investment time horizon to be relevant to shareholders and that choosing a longer time period would be difficult, given the lack of longer term economic visibility.

In its assessment of the viability of the Company, the Directors have considered each of the Company's principal risks and uncertainties detailed on pages 18 and 19 and in particular the impact of a significant fall in UK equity markets on the value of the Company's investment portfolio. The Directors have also considered the Company's income and expenditure projections and the fact that the Company's investments comprise readily realisable securities which can be sold to meet funding requirements if necessary.

Based on the Company's processes for monitoring operating costs, our view that the Manager has the appropriate depth of resource to deliver above-average returns over the longer term, the portfolio risk profile, limits imposed on gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 30 September 2019.

Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement set out above, and the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" published by the Financial Reporting Council ("FRC") in 2014, the Directors consider it appropriate to adopt the going concern basis in preparing the accounts.

By Order of the Board

Schroder Investment Management Limited
Company Secretary

20 December 2016

Board of Directors

Eric Sanderson

Status: Independent Non-Executive Chairman
Length of service: 5 years, appointed a Director in January 2011 and Chairman in June 2014
Experience: Mr Sanderson is a Chartered Accountant and a Banker and was Chief Executive of British Linen Bank from 1989 to 1997 and a member of the Management Board of Bank of Scotland in his role as Head of Group Treasury Operations from 1997 to 1999. He was also formerly Chairman of MyTravel Group PLC, MWB Group Holdings PLC and Dunedin Fund Managers Limited and has held a number of non-executive Board positions. He is Chairman of BlackRock Greater Europe Investment Trust plc.
Committee membership: Audit, Management Engagement and Nomination Committees (Chairman of the Nomination and the Management Engagement Committees)
Current remuneration: £33,500 per annum
Connections with the Manager: None
Material interests in any contract which is significant to the Company's business: None
Shared Directorships with any other Directors of the Company: None
Elected/last re-elected: 2016

Clare Dobie

Status: Independent Non-Executive Director
Length of Service: 3 years, appointed a Director in September 2013
Experience: Mrs Dobie is a non-executive director of Alliance Trust PLC, F&C Capital and Income Trust plc and Aberdeen New Thai Investment Trust PLC and a trustee of Essex and Herts Air Ambulance Trust. She was a marketing consultant after holding senior positions in the asset management industry at Barclays Global Investors and GAM. She began her career as a financial journalist, working at The Times and The Independent, where she was City Editor.
Committee membership: Audit, Management Engagement and Nomination Committees
Current remuneration: £22,500 per annum
Connections with the Manager: None
Material interests in any contract which is significant to the Company's business: None
Shared Directorships with any other Directors of the Company: None
Elected/last re-elected: 2016

Andrew Page

Status: Independent Non-Executive Director
Length of Service: 2 years, appointed a Director in October 2014
Experience: Mr Page was, until August 2014, the Chief Executive Officer of The Restaurant Group plc ("TRG"), a FTSE 250 company which operates 460 restaurants throughout the UK. He is chairman of Northgate plc, Senior Independent Director at Carpetright plc and a non-executive director of JP Morgan Emerging Markets Investment Trust plc. Prior to joining TRG in 2001, Mr Page held a number of senior positions within the Leisure and hospitality sector including Senior Vice President with InterContinental Hotels. Before that he spent six years working in Kleinwort Benson's Corporate Finance department. Mr Page is a Chartered Accountant.
Committee membership: Audit, Management Engagement and Nomination Committees (Chairman of the Audit Committee).
Current remuneration: £27,000 per annum
Connections with the Manager: None
Material interests in any contract which is significant to the Company's business: None
Shared Directorships with any other Directors of the Company: None
Elected/last re-elected: 2015

Board of Directors

Robert Rickman

Status: Independent Non-Executive Director
Length of Service: 5 years, appointed a Director in January 2011
Experience: Mr Rickman is a founding partner of the Rockley Group, making and managing technology based investments worldwide and particularly in China. He is an independent non-executive director of London Stock Exchange ("LSE") listed Carclo plc. He was an independent non-executive director of AIM listed Cambium Global Timberland Ltd from 2007 until October 2014 when he stepped down from the board to manage the realisation of the assets. From 2001 until 2007 he was a director and latterly chairman of the AIM-listed Highland Timber PLC.
Mr Rickman was a director of telecoms and datacoms equipment manufacturer Bookham Technology PLC from 1994 to 2004, during which time the company was listed on the LSE and NASDAQ. He is currently chairman of the property and finance committee of Modern Art Oxford.
Committee membership: Audit, Management Engagement and Nomination Committees
Current remuneration: £22,500 per annum
Connections with the Manager: None
Material interests in any contract which is significant to the Company's business: None
Shared Directorships with any other Directors of the Company: None
Elected/last re-elected: 2015

Robert Talbut

Status: Independent Non-Executive Director
Length of Service: 10 months, appointed a Director in February 2016
Experience: Mr Talbut was, until December 2014, the Chief Investment Officer of Royal London Asset Management and has over 30 years of financial services experience. He has represented the asset management industry through the chairmanship of both the ABI Investment Committee and the Asset Management Committee of the Investment Association.
Mr Talbut has also been a member of the Audit & Assurance Council of the FRC and the FCA's Listing Authority Advisory Panel.
Mr Talbut is currently a non-executive director of investment trusts Shires Income plc, EFG Asset Management (UK) Limited and Pacific Assets Trust plc.
Committee membership: Audit, Management Engagement and Nomination Committees
Current remuneration: £22,500 per annum
Connections with the Manager: None
Material interests in any contract which is significant to the Company's business: None
Shared Directorships with any other Directors of the Company: None
Elected/last re-elected: N/A

Report of the Directors

The Directors submit their Report and the audited financial statements of the Company for the year ended 30 September 2016.

Revenue and dividend

The net revenue return for the year, after finance costs and taxation, was £4,455,000 (2015: £3,549,000), equivalent to a revenue return per ordinary share of 12.33 pence (2015: 9.82 pence).

For the year ended 30 September 2016, the Directors have declared an interim dividend of 2.75 pence per ordinary share and have recommended a final dividend of 8.50 pence per ordinary share which, subject to approval by shareholders at the forthcoming Annual General Meeting ("AGM"), will be paid on 6 February 2017 to shareholders on the register on 30 December 2016. The dividend, if approved, will not be accounted for until it is paid. The payment of the final dividend, if approved by shareholders, will bring total dividends for the year ended 30 September 2016 to 11.25 pence per ordinary share (2015: 9.20 pence).

Directors and their interests

The Directors of the Company and their biographical details can be found on pages 21 and 22. All Directors held office throughout the year under review with the exception of Mr Talbut, who was appointed a Director on 10 February 2016, and Rachel Beagles who retired as a Director on the same date. Details of Directors' share interests in the Company are set out in the Remuneration Report on page 35.

In accordance with the Company's Articles of Association, Mr Talbut will seek election at the forthcoming AGM, this being the first AGM since his appointment during the year. Full biographical details for Mr Talbut may be found on page 22. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, Mr Page and Mr Rickman will retire at the AGM, and being eligible, offer themselves for re-election.

Re-appointment as a Director is not automatic and follows a formal process of evaluation of each Director's performance and Directors who have served for more than six years are subject to particulary rigorous assessment of their independence and contribution.

Whilst the Board does not believe that length of service, by itself, necessarily affects a Director's independence of character or judgment, Directors are also required to retire each year if they have served more than nine years on the Board, but may then offer themselves for re-election. The Board has assessed the independence of all Directors. All Directors are considered to be independent in character and judgment.

The Board, having taken all relevant matters into account, considers that Mr Page and Mr Rickman continue to demonstrate commitment to their roles, provide valuable contributions to the deliberations of the Board and remain free from conflicts with the Company and its Directors. It therefore recommends that shareholders vote in favour of their re-elections and the election of Mr Talbut.

Share capital

As at the date of this Report, the Company had 36,143,690 ordinary shares of 25p in issue. No shares were held in Treasury. Accordingly, the total number of voting rights in the Company at the date of this Report is 36,143,690.

Substantial share interests

As at the date of this Report, the Company has received notifications in accordance with the Financial Conduct Authority's ("FCA") Disclosure and Transparency

Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital.

	Number of ordinary shares	% of total voting rights
East Riding of Yorkshire Council	2,500,000	6.92
Barclays plc	2,281,470	6.31
Rathbone Brothers PLC	2,014,026	5.57
Smith & Williamson Holdings Ltd	1,821,654	5.04
Lloyds Banking Group plc	1,806,240	5.00
Standard Life Investments Ltd	1,377,785	3.81

Key service providers

The Board has adopted an outsourced business model and has appointed the following key service providers:

Manager

The Company is an Alternative Investment Fund as defined by the AIFM Directive and has appointed Schroder Unit Trusts Limited ("SUTL") as the Manager in accordance with the terms of an Alternative Investment Fund Manager ("AIFM") Agreement. The AIFM Agreement, which is governed by the laws of England and Wales, can be terminated by either party on six months' notice or on immediate notice in the event of certain breaches or the insolvency of either party. As at the date of this Report no such notice had been given by either party.

SUTL is authorised and regulated by the Financial Conduct Authority ("FCA") and provides portfolio management, risk management, accounting and company secretarial services to the Company under the AIFM Agreement. The Manager also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the Chairman, other Board members or the corporate broker as appropriate. The Manager has delegated investment management, accounting and company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Manager has in place appropriate professional indemnity cover.

The Schroders Group manages £375 billion (as at 30 September 2016) on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

Up until 1 April 2016, under the terms of the AIFM Agreement, the Manager was entitled to receive a management fee at the rate of 0.8% on defined assets up to and including £75 million, and 0.6% on the excess over £75 million. An annual performance fee was also in operation, calculated on an annual basis at 0.1% of average defined assets for each 1% outperformance of the benchmark (the FTSE 250 (ex-Investment Companies) Index) over and above 0.8%, to a maximum performance fee of 1% of average defined assets in any given year.

With effect from 1 April 2016, the tiered management fee was replaced by a single management fee of 0.7% per annum and the performance fee was removed. The management fee will continue to be paid quarterly in arrears on total assets less current liabilities other than short term borrowings, provided that if there are any short-term borrowings, the value of cash up to the level of such borrowings is deducted from the calculation of assets.

The management fee payable in respect of the year ended 30 September 2016 amounted to £1,291,000 (2015: £1,241,000). No performance fee was payable in respect of the year (2015: nil).

The Manager is also entitled to a secretarial fee amounting to £121,000 (2015: £120,000) per annum including VAT. This fee is subject to annual adjustment in line with the preceding year's change in the Retail Prices Index.

Details of all amounts payable to the Manager are set out in note 16 on page 49.

The Board has reviewed the performance of the Manager during the year under review and continues to consider that it has the appropriate depth and quality of resource to deliver superior returns over the longer term. Thus, the Board considers that the Manager's appointment under the terms of the AIFM Agreement, details of which are set out above, is in the best interests of shareholders as a whole.

Depositary

HSBC Bank plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, carries out certain duties of a Depositary specified in the AIFM Directive including, in relation to the Company, as follows:

- safekeeping of the assets of the Company which are entrusted to it;
- cash monitoring and verifying the Company's cash flows; and
- oversight of the Company and the Manager.

The Company, the Manager and the Depositary may terminate the Depositary Agreement at any time by giving 90 days' notice in writing. The Depositary may only be removed from office when a new Depositary is appointed by the Company.

Corporate Governance Statement

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment trust in order to comply with the principles of the UK Corporate Governance Code. The Financial Reporting Council published a revised version of the UK Corporate Governance Code in September 2014 (the "Code") which applies to accounting periods beginning on or after 1 October 2014 and the disclosures in this Statement report against its provisions. The Code is published by the UK Financial Reporting Council and is available to download from www.frc.org.uk.

The Board has noted the publication of a further revised UK Corporate Governance Code in April 2016, which applies to financial years beginning on or after 17 June 2016. This latest update of the Code has been driven by the implementation of the EU's Audit Regulation and Directive and its impact on audit committees and the Board is considering the Company's governance framework in light of the new provisions.

Compliance statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities set out on page 32 and the Viability Statement and Going Concern Statement set out on page 20, indicate how the Company has complied with the Code's principles of good governance and its requirements on internal control.

The Board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the Code, save in respect of the appointment of a Senior Independent Director, where departure from the Code is considered appropriate given the Company's position as an investment trust. The Board has considered whether a Senior Independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a Senior

Independent Director is not considered necessary. However, the chairman of the Audit Committee effectively acts as the Senior Independent Director, leads the evaluation of the performance of the Chairman and is available to Directors and/or shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

Operation of the Board

Chairman

The Chairman is an independent non-executive Director who is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chairman's other significant commitments are detailed on page 21. He has no conflicting relationships.

Role and operation of the Board

The Board is the Company's governing body; it sets the Company's strategy and is collectively responsible to shareholders for its long-term success. The Board is responsible for appointing and subsequently monitoring the activities of the Manager and other service providers to ensure that the investment objectives of the Company continue to be met. The Board also ensures that the Manager adheres to the investment restrictions set by the Board and acts within the parameters set by it in respect of any gearing.

A formal schedule of matters specifically reserved for decision by the Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The Chairman ensures that all Directors receive relevant management, regulatory and financial information in a timely manner and that they are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

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

Training and development

On appointment, Directors receive a full, formal and tailored induction. Directors are also regularly provided with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars. Training and development needs are included as part of the evaluation process and are agreed with the Chairman.

Conflicts of interest

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

Board evaluation

In order to review the effectiveness of the Board, the Committees and the individual Directors, a thorough evaluation process is in place. This is implemented by way of a questionnaire and discussions with the Chairman. In respect of the Chairman himself, discussions are held between the Directors and the Audit Committee Chairman. The process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees, the contribution of individual Directors and building and developing individual and collective strengths. The last evaluation took place in September 2016.

Directors' and officers' liability insurance and indemnity

Directors' and officers' liability insurance cover was in place for the Directors throughout the year. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour by the Court. This indemnity was in place throughout the year under review and to the date of this report.

Directors' attendance at meetings

Five Board meetings are usually scheduled each year to deal with matters including: the setting and monitoring of investment strategy; approval of borrowings and/or cash positions; review of investment performance, the level of discount of the Company's shares to underlying net asset value and promotion of the Company and services provided by third parties. Additional meetings of the Board are arranged as required.

The number of meetings of the Board and its committees held during the financial year and the attendance of individual Directors is shown below. Whenever possible all Directors attend the Annual General Meeting.

Director	Board	Nomination Committee	Audit Committee	Management Engagement Committee
Eric Sanderson	5/5	2/2	3/3	2/2
Rachel Beagles[1]	2/2	2/2	1/1	1/1
Clare Dobie	5/5	2/2	3/3	2/2
Andrew Page	5/5	2/2	3/3	2/2
Robert Rickman	5/5	2/2	3/3	2/2
Robert Talbut[2]	3/3	0/0	2/2	1/1

[1]Mrs Beagles retired as a Director on 10 February 2016.
[2]Mr Talbut was appointed as a Director and member of the Board's Committees on 10 February 2016.

The Board is satisfied that the Chairman and each of the other non-executive Directors commits sufficient time to the affairs of the Company to fulfil their duties as Directors.

Relations with shareholders

Shareholder relations are given high priority by both the Board and the Manager. The Company communicates with shareholders through its webpage and the Annual Report which aims to provide shareholders with a clear understanding of the Company's activities and its results.

The Chairmen of the Board and its committees attend the AGM and are available to respond to queries and concerns from shareholders.

It is the intention of the Board that the Annual Report and Notice of the AGM be issued to shareholders so as to provide at least 20 working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the Company Secretary at the address given on the outside back cover.

The Company has adopted a policy on complaints and other shareholder communications which ensures that shareholder complaints and communications addressed to the Company Secretary, the Chairman or the Board are, in each case, considered by the Chairman and the Board.

Committees

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

The Committees of the Board have defined Terms of Reference which are available on the webpage www.schroderukmidcapfund.com. Membership of the Committees is set out on pages 21 and 22.

Nomination Committee

The Nomination Committee is responsible for succession planning bearing in mind the balance of skills, knowledge, experience and diversity existing on the Board and will recommend to the Board when the further recruitment of non-executive Directors is required. The Nomination Committee aims to maintain a balance of relevant skills, experience and length of service of the Directors serving on the Board, taking gender and other diversity factors into account.

Before the appointment of a new Director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. While the Committee is dedicated to selecting the best person for the role, the Board also recognises the importance of diversity. The Board agrees that its members should overall possess a range of experience, knowledge, professional skills and personal qualities as well as independence necessary to provide effective oversight of the affairs of the Company. These qualities are taken into account in considering the appointment of a new Director. The Board does not consider it appropriate or to be in the interests of shareholders as a whole to establish prescriptive diversity targets.

Candidates are drawn from suggestions put forward either from recommendation from within the Company or by the use of an external agency. Candidates are then interviewed by members of the Committee, which makes a recommendation to the Board.

To discharge its duties the Nomination Committee met on two occasions during the year to consider Board balance, skills and succession planning, including the appointment of a new Director. The Committee utilised the services of an external search consultancy, Trust Associates, in the selection of suitable candidates for a new Director. Trust Associates has no other connection with the Company.

Management Engagement Committee

The role of the Management Engagement Committee is to ensure that the Manager remains suitable to manage the portfolio, that the management contract is competitive and reasonable for the shareholders, and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other service providers. All Directors are members of the Management Engagement Committee which is chaired by the Chairman of the Board. The Board considers each member of the Committee to be independent.

To discharge its duties the Committee met on two occasions during the year to consider management and performance fees paid to the Manager, the termination period of the AIFM Agreement, the Committee's terms of reference, the performance and suitability of the Manager, general terms and conditions of the AIFM Agreement, the performance and suitability of other service providers, and the fees paid to Directors.

By Order of the Board

Schroder Investment Management Limited
Company Secretary

20 December 2016

Report of the Audit Committee

The responsibilities and work carried out by the Audit Committee in the year under review are set out in the following report. The duties and responsibilities of the Committee may be found in the Terms of Reference, which are available on the Company's webpage, www.schroderukmidcapfund.com. Membership of the Committee is as set out on pages 21 and 22. The Board has satisfied itself that at least one of the Committee's members has recent and relevant financial experience.

The Audit Committee met three times during the year ended 30 September 2016. The Audit Committee discharged its responsibilities by:

- considering its Terms of Reference;
- reviewing the operational controls maintained by the Manager and Depositary;
- reviewing the Half Year and Annual Report and Accounts and related audit plan and engagement letter;
- reviewing the need for an internal audit function;
- reviewing the independence of the Auditor;
- evaluating the Auditor's performance; and
- reviewing the principal risks faced by the Company and the system of internal control.

Annual report and financial statements

During its review of the Company's financial statements for the year ended 30 September 2016, the Audit Committee considered the following significant issues, including consideration of principal risks and uncertainties in light of the Company's activities, and issues communicated by the Auditor during its reporting:

Issue considered	How the issue was addressed
• Valuation and existence of holdings	• Review of portfolio holdings and assurance reports on controls from the Manager and Depositary.
• Recognition of investment income	• Consideration of dividends received against forecast and the allocation of special dividends to income or capital.
• Overall accuracy of the Annual Report and Accounts	• Consideration of the draft Annual Report and Accounts and the letter from the Manager in support of the letter of representation to the Auditor.
• Calculation of the investment management fee	• Consideration of methodology used to calculate the fee, matched against the criteria set out in the AIFM Agreement.
• Internal controls and risk management	• Consideration of several key aspects of internal control and risk management operating within the Manager and Depositary.
• Compliance with the investment trust qualifying rules in S1158 of the Corporation Tax Act 2010	• Consideration of the Manager's report confirming compliance.

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 30 September 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 32.

Effectiveness of the independent audit process

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

Representatives of the Auditor attend the Audit Committee meeting at which the draft Annual Report and Accounts is considered. Having reviewed the performance of the Auditor as described above, the Committee considered it appropriate to recommend the firm's re-appointment.

The Auditor is required to rotate the Senior Statutory Auditor every five years. This is the fifth year that the Senior Statutory Auditor has conducted the audit of the Company's financial statements, and the appointment of his successor is under consideration by the Audit Committee.

Ernst & Young LLP has provided audit services to the Company from its incorporation in 1995 to date. The Statutory Auditors and Third Country Regulations 2016 (the "Regulations") were published on 17 June 2016 and take effect for financial periods commencing on or after that date. The Audit Committee is reviewing the impact of the Regulations on the Company's current policies, noting that they include mandatory periodic rotation of the Auditor and re-tendering of the audit contract. Ernst & Young LLP must be replaced as the Company's Auditor before commencement of the audit in 2020 and the Audit Committee has decided to put the audit contract out to tender in 2017. The tender process will be overseen by the Committee, which will invite a number of audit firms to participate before making a recommendation to the Board for approval. Ernst & Young LLP will not be invited to take part in the process.

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

Provision of information to the Auditor

The Directors at the date of approval of this Report confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Provision of non-audit services

The Audit Committee has reviewed the FRC's Guidance on Audit Committees and has formulated a policy on the provision of non-audit services by the Company's Auditor. The Auditor may, if required, provide non-audit services however, and this will be judged on a case-by-case basis, having regard to recent restrictions introduced by the Statutory Audit Amending Directive and Regulation.

The Auditor has not provided any non-audit services to the Company during the year (2015: nil).

Internal audit

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

Andrew Page
Audit Committee Chairman

20 December 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Report of the Directors, the Corporate Governance Statement, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard (FRS)102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the return or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions in FRS102, used in the preparation of financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Manager is responsible for the maintenance and integrity of the Company's webpage. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 21 and 22, confirm that to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the Strategic Report contained in the Report and Accounts includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

Eric Sanderson
Chairman

20 December 2016

Introduction

This Report has been prepared in accordance with the relevant provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The following Remuneration Policy is currently in force and is subject to a binding vote every three years. The next vote will take place at the AGM to be held in 2017 and the policy provisions will continue to apply until that date. An ordinary resolution to approve the Remuneration Policy will be put to shareholders at the forthcoming AGM (no changes are proposed). In addition, the below Directors' annual Report on Remuneration is subject to an annual advisory vote. An ordinary resolution to approve this Report will also be put to shareholders at the forthcoming AGM.

At the AGM held on 31 January 2014, 98.2% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Directors' Remuneration Policy were in favour while 1.8% were against. 1,615 votes were withheld.

At the AGM held on 10 February 2016, 98.2% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Report on Remuneration for the year ended 30 September 2015 were in favour while 1.8% were against. 2,524 votes were withheld.

Directors' Remuneration Policy

The determination of the Directors' fees is a matter dealt with by the Management Engagement Committee and the Board.

It is the Board's policy to determine the level of Directors' remuneration having regard to amounts payable to non-executive directors in the industry generally, the role that individual directors fulfil in respect of Board and Committee responsibilities, and time committed to the Company's affairs, taking into account the aggregate limit of fees set out in the Company's Articles of Association. This aggregate level of Directors' fees is currently set at £200,000 per annum and any increase in this level requires approval by the Board and the Company's shareholders. The Chairman of the Board and the Chairman of the Audit Committee each receives fees at a higher rate than the other Directors to reflect their additional responsibilities. Directors' fees are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long-term strategic objectives.

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

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

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

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

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

Directors' annual Report on Remuneration

This Report sets out how the Remuneration Policy was implemented during the year ended 30 September 2016.

Fees paid to Directors

The following amounts were paid by the Company to the Directors for services as non-executive Directors in respect of the year ended 30 September 2016 and the previous financial year:

Director	Fees 2016 £	Fees 2015 £	Taxable benefits[1] 2016 £	Taxable benefits[1] 2015 £	Total 2016 £	Total 2015 £
Eric Sanderson	**33,500**	33,500	**1,443**	1,895	**34,943**	35,395
Rachel Beagles[2]	**9,740**	27,000	**855**	106	**10,595**	27,106
Clare Dobie	**22,500**	22,500	**747**	272	**23,247**	22,772
Andrew Page[3]	**24,247**	22,500	**271**	362	**24,518**	22,862
Robert Rickman	**22,500**	22,500	**523**	425	**23,023**	22,925
Robert Talbut[4]	**15,484**	–	**275**	–	**15,759**	–
Total	**127,971**	128,000	**4,114**	3,060	**132,085**	131,060

[1]Comprises amounts reimbursed for expenses incurred in carrying out business for the Company.
[2]Retired on 10 February 2016, Chairman of the Audit Committee until that date.
[3]Appointed Chairman of the Audit Committee on 10 February 2016.
[4]Appointed on 10 February 2016.

The information in the above table has been audited (see the Independent Auditor's Report on pages 36 to 39).

Consideration of matters relating to Directors' remuneration

Directors' remuneration was last reviewed by the Management Engagement Committee and the Board in September 2016. The members of the Board at the time that remuneration levels were considered were as set out on pages 21 and 22. Although no external advice was sought in considering the levels of Directors' fees, information on fees paid to Directors of other investment trusts managed by Schroders and peer group companies provided by the Manager and corporate broker was taken into consideration.

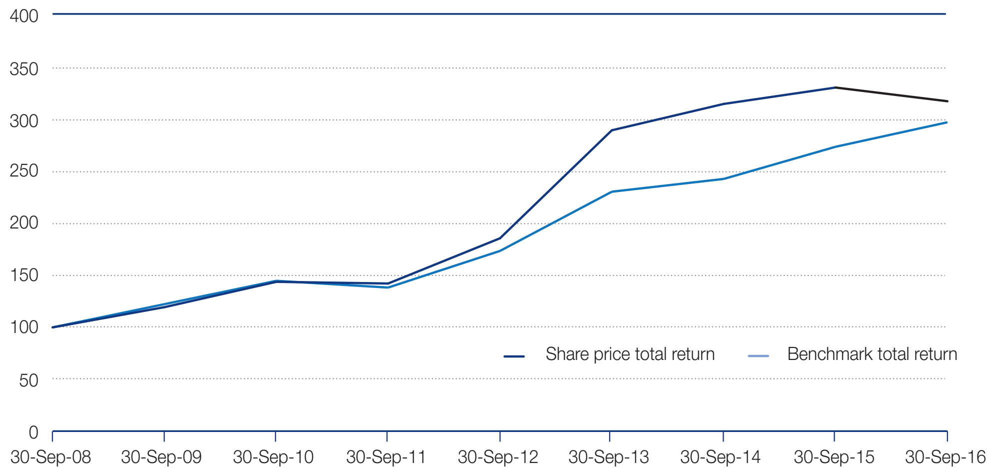
Following the annual review, the Board decided that Directors' fees should remain unchanged. Directors' fees were last increased with effect from 1 October 2014.

Expenditure by the Company on remuneration and distributions to shareholders

The table below compares the remuneration payable to Directors to distributions made to shareholders during the year under review and the prior financial year. In considering these figures, shareholders should take into account the Company's investment objectives.

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000	Change %
Remuneration payable to Directors	**132**	131	+0.8
Distributions paid to shareholders – dividends	**3,416**	3,073	+11.2

8 Year share price and Benchmark total returns



Source: Morningstar/Thomson Reuters. Rebased to 100 at 30 September 2008.

Directors' share interests

The Company's Articles of Association do not require Directors to own shares in the Company.

The interests of the Directors, including those of connected persons, in the Company's share capital at the beginning and end of the financial year ended 30 September 2016, all of which were beneficial, were as follows:

	Ordinary shares of 25p each 30 September 2016	Ordinary shares of 25p each 1 October 2015
Eric Sanderson	**2,070**	2,070
Clare Dobie	**1,040**	1,019
Andrew Page	**4,000**	4,000
Robert Rickman	**4,300**	2,035
Robert Talbut[1]	**2,500**	N/A

[1]Mr Talbut was appointed as a Director of the Company on 10 February 2016. Since the year end, Mr Talbut has acquired an additional 2,564 ordinary shares and his current holding at the date of this report is 5,064 ordinary shares.

The information in the above table has been audited (see Independent Auditor's Report on pages 36 to 39).

Eric Sanderson
Chairman

20 December 2016

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

Our opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2016 and of its return for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006;

What we have audited

The financial statements of Schroder UK Mid Cap Fund plc comprise:

- Income Statement for the year ended 30 September 2016
- Statement of changes in Equity for the year ended 30 September 2016
- Statement of Financial Position as at 30 September 2016
- Related notes 1 to 20 to the financial statements

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK GAAP.

Overview of our audit approach

Risks of material misstatement

- Incomplete or inaccurate revenue recognition, including the allocation of special dividends.

Audit scope

- We performed an audit of the financial statements of Schroder UK Mid Cap Fund plc.

Materiality

- Materiality of £1.93m which represents 1% of equity shareholders' funds (2015: £1.84m)

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Incomplete or inaccurate revenue recognition, including the allocation of special dividends (as described on page 29 of the Report of the Audit Committee). The investment income directly affects the Company's ability to pay a dividend to shareholders. There is also a judgemental element in allocating special dividends between revenue and capital which may be subject to manipulation in order to meet the investment objective of the Company. Most of the Company's income is received in the form of dividends from equity investments, being £5.32m (2015: £4.40m) for the year. During the year the Company received five special dividends.	We agreed, on a sample basis, dividend receipts to an independent source and to the Company bank statements. We agreed on a sample basis, investee company dividend announcements from an independent source to the income recorded by the Company. We agreed all accrued dividends to an independent source and ensured these were recorded in the correct period. Based on the underlying circumstances we have determined the allocation of the material special dividends to be appropriate.	We have no exceptions to report.

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

Risk	Our response to the risk	What we concluded to the Audit Committee
The incorrect valuation and ownership of the investment portfolio (as described on page 29 of the Report of the Audit Committee). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value. As the largest figure on the balance sheet, incorrect asset pricing could therefore have a significant impact on this value. The valuation of the portfolio at 30 September 2016 was £194.91m (2015: £173.17m), consisting of listed UK equities.	We compared 100% of the prices used in the valuation of the Company's portfolio to an independent source as at 30 September 2016. We have agreed 100% of the equity holdings to an independently obtained Custodian and Depositary confirmation.	We have no exceptions to report.

The scope of our audit
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, changes in the business environment when assessing the level of work to be performed. The Company is a single component and we perform a full audit on this Company.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1.93m (2015: £1.84m), which is 1% (2015: 1%) of equity shareholders' funds. This provided a basis for determining the nature, timing and extent of our risk assessment procedures, identifying and assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We derived our materiality calculation from a proportion of total equity as we consider that to be the most important financial metric on which shareholders judge the performance of the Company.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% of planning materiality, being £1.45m (2015: £1.38m). Our objective in adopting this approach was to ensure that total undetected and uncorrected audit differences in all accounts did not exceed our planning materiality level. We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold of £0.22m (2015: £0.18m) for the revenue column of the Statement of Comprehensive Income, being 5% of the revenue return on ordinary activities before taxation.

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

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £96,000 (2015: £92,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting

We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:

We have no exceptions to report.

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.

Companies Act 2006 reporting

We are required to report to you if, in our opinion:

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

We have no exceptions to report.

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

Listing Rules review requirements

We are required to review:

– the Directors' statements in relation to going concern and longer term viability, set out on page 20; and – the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

– the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; – the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; – the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and – the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Amarjit Singh (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 December 2016

Notes:

- The maintenance and integrity of the **Schroder UK Mid Cap Fund plc** webpage is the responsibility of the Manager; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

for the year ended 30 September 2016

	Note	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Gains on investments held at fair value through profit or loss	2	–	7,975	7,975	–	10,652	10,652
Income from investments	3	5,320	361	5,681	4,397	674	5,071
Other interest receivable and similar income	3	3	–	3	3	–	3
Gross return		5,323	8,336	13,659	4,400	11,326	15,726
Investment management fee	4	(387)	(904)	(1,291)	(372)	(869)	(1,241)
Administrative expenses	5	(475)	–	(475)	(485)	–	(485)
Net return before finance costs and taxation		4,461	7,432	11,893	3,543	10,457	14,000
Finance costs	6	(6)	(13)	(19)	–	–	–
Net return on ordinary activities before taxation		4,455	7,419	11,874	3,543	10,457	14,000
Taxation on ordinary activities	7	–	–	–	6	–	6
Net return on ordinary activities after taxation		4,455	7,419	11,874	3,549	10,457	14,006
Return per share	9	12.33p	20.53p	32.86p	9.82p	28.93p	38.75p

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 items of other comprehensive income, and therefore the net return on ordinary activities after taxation is also the total comprehensive income for the year.

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

The notes on pages 43 to 53 form an integral part of these accounts.

Statement of Changes in Equity

for the year ended 30 September 2016

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 September 2014	9,036	13,971	220	2,184	15,477	127,847	4,592	173,327
Net return on ordinary activities	–	–	–	–	–	10,457	3,549	14,006
Dividends paid in the year	–	–	–	–	–	–	(3,073)	(3,073)
At 30 September 2015	9,036	13,971	220	2,184	15,477	138,304	5,068	184,260
Net return on ordinary activities	–	–	–	–	–	7,419	4,455	11,874
Dividends paid in the year	–	–	–	–	–	–	(3,416)	(3,416)
At 30 September 2016	**9,036**	**13,971**	**220**	**2,184**	**15,477**	**145,723**	**6,107**	**192,718**

The notes on pages 43 to 53 form an integral part of these accounts.

Statement of Financial Position

at 30 September 2016

	Note	**2016 £'000**	2015 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	**194,912**	173,171
Current assets			
Debtors	11	**1,088**	490
Cash at bank and in hand		**1,193**	11,180
		2,281	11,670
Current liabilities			
Creditors: amounts falling due within one year	12	**(4,475)**	(581)
Net current (liabilities)/assets		**(2,194)**	11,089
Net assets		**192,718**	184,260
Capital and reserves			
Called-up share capital	13	**9,036**	9,036
Share premium	14	**13,971**	13,971
Capital redemption reserve	14	**220**	220
Merger reserve	14	**2,184**	2,184
Share purchase reserve	14	**15,477**	15,477
Capital reserves	14	**145,723**	138,304
Revenue reserve	14	**6,107**	5,068
Total equity shareholders' funds		**192,718**	184,260
Net asset value per share	15	**533.20p**	509.80p

These accounts were approved and authorised for issue by the Board of Directors on 20 December 2016 and signed on its behalf by:

Eric Sanderson
Chairman

The notes on pages 43 to 53 form an integral part of these accounts.

Notes to the Accounts

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, 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" (the "SORP") issued by the Association of Investment Companies in November 2014 and which superseded the SORP issued in January 2009. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss.

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

The Company has adopted Financial Reporting Standard (FRS) 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the amended SORP, both of which became effective for periods beginning on or after 1 January 2015. FRS 102 replaces all existing standards applicable to the Company's accounts. As a result there are some presentational changes to the accounts but no change in the way numbers are measured. The adoption of FRS 102 has not affected the reported financial position or financial performance of the Company.

The changes to these accounts arising from FRS 102 and the amended SORP may be summarised briefly as follows:

- the reconciliation of movements in shareholders' funds has been renamed "Statement of Changes in Equity";
- the balance sheet has been renamed "Statement of Financial Position";
- the Company no longer presents a statement of cash flows or the two related notes, as it is no longer required for an investment company which meets certain specified conditions; and
- footnotes have been added to note 14, indicating which of the Company's reserves are regarded as distributable.

Other than these changes, the accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 30 September 2015.

The Company has early adopted an amendment to paragraph 34.22 of FRS 102, issued by the Financial Reporting Council in March 2016 regarding the categorisation of financial instruments into the fair value hierarchy in note 18. As a result of this amendment, the criteria used to allocate financial instruments into the three levels remain unchanged from prior years.

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment objective and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as "held at fair value through profit or loss". They are included initially at fair value which is taken to be their cost. Subsequently the investments are valued at fair value, which are quoted bid prices at close of business on the accounting date, for investments traded in active markets.

All purchases and sales are accounted for on a trade date basis.

(c) Accounting for reserves

Gains and losses on sales of investments and the management fee or finance costs allocated to capital, are included in the Income Statement and dealt with in capital reserves. Increases and decreases in the valuation of investments held at the year end, are included in the Income Statement and in capital reserves within "Investment holding gains and losses".

(d) Income

Dividends receivable are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

UK dividends are included net of tax credits.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

(e) Expenses

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

- The management fee is allocated 30% to revenue and 70% to capital in line with the Board's expected long-term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 47.

(f) Finance costs

Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method and in accordance with FRS 102.

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

(g) Financial instruments

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

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

Bank loans and overdrafts are initially measured at fair value, which normally equates to the proceeds received net of direct issue costs, and subsequently measured at amortised cost.

(h) Taxation

Current tax is provided at the amounts expected to be received or paid.

Deferred tax is accounted for in accordance with FRS 102.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date.

Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to the capital column of the Income Statement on the "marginal basis". On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to the capital column.

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis.

(i) Value added tax ("VAT")

Expenses are disclosed inclusive of the related irrecoverable VAT.

(j) Dividends payable

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

2. Gains on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Gains on sales of investments based on historic cost	**13,091**	14,133
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	**(8,927)**	(13,621)
Gains on sales of investments based on the carrying value at the previous balance sheet date	**4,164**	512
Net movement in investment holding gains and losses	**3,811**	10,140
Gains on investments held at fair value through profit or loss	**7,975**	10,652

3. Income

	2016 £'000	2015 £'000
Revenue:		
Income from investments:		
UK dividends	**5,076**	4,314
UK property income distributions	**244**	32
Stock dividends	**–**	51
	5,320	4,397
Other interest receivable and similar income:		
Deposit interest	**3**	3
	5,323	4,400
Capital:		
Special dividends allocated to capital	**361**	674

4. Investment management fee

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Management fee	**387**	**904**	**1,291**	372	869	1,241

The basis for calculating the investment management fee are set out in the Report of the Directors on page 24 and details of all amounts payable to the Manager are given in note 16 on page 49.

5. Administrative expenses

	2016 £'000	2015 £'000
Directors' fees	**128**	128
Secretarial fee	**121**	120
Auditor's remuneration for audit services[1]	**23**	20
Other administrative expenses	**203**	217
	475	485

[1]Includes £4,000 (2015: £3,000) irrecoverable VAT.

6. Finance costs

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Interest on bank loans and overdrafts	**6**	**13**	**19**	–	–	–

7. Taxation on ordinary activities

	2016 £'000	2015 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	**–**	(6)
Total tax charge for the year	**–**	(6)

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2015: lower) than the Company's applicable rate of corporation tax for the year of 20.0% (2015: 20.5%).

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

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Net return on ordinary activities before taxation	**4,455**	**7,419**	**11,874**	3,543	10,457	14,000
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 20.0% (2015: 20.5%)	**891**	**1,484**	**2,375**	726	2,144	2,870
Effects of:						
Capital returns on investments	**–**	**(1,595)**	**(1,595)**	–	(2,184)	(2,184)
Income not chargeable to corporation tax	**(1,015)**	**(72)**	**(1,087)**	(891)	(138)	(1,029)
Unrelieved expenses	**124**	**183**	**307**	165	178	343
Irrecoverable overseas tax	**–**	**–**	**–**	(6)	–	(6)
Total tax charge for the year	**–**	**–**	**–**	(6)	–	(6)

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £4,635,000 (2015: £4,839,000) based on a prospective corporation tax rate of 18% (2015: 20%). The reduction in the standard rate of corporation tax was substantively enacted in October 2015 and is effective from 1 April 2020.

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

Given the Company's intention to meet the conditions required to retain its status as an Investment Trust Company, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

8. Dividends

	2016 £'000	2015 £'000
(a) Dividends paid and declared		
2015 final dividend of 6.70p (2014: 6.00p) paid out of revenue profits	**2,422**	2,169
Interim dividend of 2.75p (2015: 2.50p) paid out of revenue profits	**994**	904
Total dividends paid in the year	**3,416**	3,073

	2016 £'000	2015 £'000
2016 final dividend declared of 8.50p (2015: 6.70p) to be paid out of revenue profits	**3,072**	2,422

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ("Section 1158")

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year as shown below. The revenue available for distribution by way of dividend for the year is £4,455,000 (2015: £3,549,000).

	2016 £'000	2015 £'000
Interim dividend of 2.75p (2015: 2.50p)	994	904
Final dividend of 8.50p (2015: 6.70p)	3,072	2,422
	4,066	3,326

9. Return per share

	2016 £'000	2015 £'000
Revenue return	4,455	3,549
Capital return	7,419	10,457
Total return	11,874	14,006
Weighted average number of Ordinary shares in issue during the year	36,143,690	36,143,690
Revenue return per share	12.33p	9.82p
Capital return per share	20.53p	28.93p
Total return per share	32.86p	38.75p

10. Investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Opening book cost	137,555	126,740
Opening investment holding gains	35,616	39,097
Opening valuation	173,171	165,837
Purchases at cost	52,687	52,703
Sales proceeds	(38,921)	(56,021)
Gains on sales of investments based on the carrying value at the previous balance sheet date	4,164	512
Net movement in investment holding gains and losses	3,811	10,140
Closing valuation	194,912	173,171
Closing book cost	164,412	137,555
Closing investment holding gains	30,500	35,616
Total investments held at fair value through profit or loss	194,912	173,171

All investments are listed on a recognised stock exchange.

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

	2016 £'000	2015 £'000
On acquisitions	324	320
On disposals	45	75
	369	395

11. Debtors

	2016 £'000	2015 £'000
Securities sold awaiting settlement	**150**	31
Dividends and interest receivable	**928**	451
Other debtors	**10**	8
	1,088	490

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

12. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loan	**4,000**	–
Securities purchased awaiting settlement	**–**	145
Other creditors and accruals	**475**	436
	4,475	581

The bank loan comprises £4m (2015: nil) drawn down on the Company's 364 day, £15m revolving credit facility with Scotiabank. The facility is unsecured but is subject to covenants and restrictions which are customary for a facility of this nature, all of which have been complied with during the year. Further details of the facility are given in note 19(a)(i) on page 50.

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

13. Called-up share capital

	2016 £'000	2015 £'000
Ordinary shares allotted, called-up and fully paid:		
36,143,690 (2015: 36,143,690) shares of 25p each	**9,036**	9,036

14. Reserves

					Capital reserves		
	Share premium[1] £'000	Capital redemption reserve[1] £'000	Merger reserve[1] £'000	Share purchase reserve[2] £'000	Gains and losses on sales of investments[2] £'000	Investment holding gains and losses[3] £'000	Revenue reserve[4] £'000
Opening balance	**13,971**	**220**	**2,184**	**15,477**	**102,688**	**35,616**	**5,068**
Gains on sales of investments based on the carrying value at the previous balance sheet date	**–**	**–**	**–**	**–**	**4,164**	**–**	**–**
Net movement in investment holding gains and losses	**–**	**–**	**–**	**–**	**–**	**3,811**	**–**
Transfer on disposal of investments	**–**	**–**	**–**	**–**	**8,927**	**(8,927)**	**–**
Management fee allocated to capital	**–**	**–**	**–**	**–**	**(904)**	**–**	**–**
Special dividend allocated to capital	**–**	**–**	**–**	**–**	**361**	**–**	**–**
Finance costs allocated to capital	**–**	**–**	**–**	**–**	**(13)**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(3,416)**
Retained revenue for the year	**–**	**–**	**–**	**–**	**–**	**–**	**4,455**
Closing balance	**13,971**	**220**	**2,184**	**15,477**	**115,223**	**30,500**	**6,107**

[1]These reserves are not distributable. The "Merger reserve" represents the premium over the nominal value of shares issued following a merger in 1989.
[2]These are realised (distributable) capital reserves which may be used to repurchase the Company's own shares or distributed as dividends. The "Share purchase reserve" is for the purpose of financing share buy-backs and was created following the cancellation of the "Warrant reserve" in 2003.
[3]This reserve comprises holding gains on liquid investments (which may be deemed to be realised) and other amounts which are unrealised. An analysis has not been made between those amounts that are realised (and may be distributed as dividends or used to repurchase the Company's own shares) and those that are unrealised.
[4]The revenue reserve may be distributed as dividends or used to repurchase the Company's own shares.

15. Net asset value per share

	2016	2015
Net assets attributable to the Ordinary shareholders (£'000)	**192,718**	184,260
Ordinary shares in issue at the year end	**36,143,690**	36,143,690
Net asset value per share	**533.20p**	509.80p

16. Transactions with the Manager

Under the terms of the AIFM Agreement, the Manager is entitled to receive a management fee and a company secretarial fee. Details of the basis of these calculations are given in the Report of the Directors on page 24. Any investments in funds managed or advised by the Manager or any of its associated companies, are excluded from the assets used for the purpose of the management fee calculation and therefore incur no fee.

The performance fee arrangement ceased with effect from 1 April 2016 and no performance fee was payable in respect of the current or prior year.

The management fee payable in respect of the year ended 30 September 2016 amounted to £1,291,000 (2015: £1,241,000) of which £344,000 (2015: £316,000) was outstanding at the year end. The secretarial fee payable for the year amounted to £121,000 (2015: £120,000) including VAT, of which £31,000 (2015: £31,000) was outstanding at the year end.

No Director of the Company served as a director of any company within the Schroder Group, at any time during the year.

17. Related party transactions

Details of the remuneration payable to Directors are given in the Remuneration Report on page 34 and details of Directors' shareholdings are given in the Report of the Directors on page 35. Details of transactions with the Manager are given in note 16 above. There have been no other transactions with related parties during the year (2015: nil).

18. Disclosures regarding financial instruments measured at fair value

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

FRS 102 requires financial instruments to be categorised into a hierarchy consisting of the three levels below. Note that the criteria used to categorise investments include an amendment to paragraph 34.22 of FRS 102, issued by the Financial Reporting Council in March 2016, and which the Company has early adopted.

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.

Details of the valuation techniques used by the Company are given in note 1(b) on page 43.

At 30 September 2016, all investments in the Company's portfolio are categorised as Level 1 (2015: same).

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

The Company's investment objective is to invest in Mid Cap equities with the aim of providing a total return in excess of the FTSE 250 (ex-Investment Companies) Index. In pursuing this objective, the Company is exposed to a variety of financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These financial risks include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Board coordinates the Company's risk management policy. The Company has no significant exposure to foreign exchange risk.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments are as follows:

- investments in shares which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- a sterling credit facility with Scotiabank, the purpose of which is to assist in financing the Company's operations.

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises two elements: interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) to this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings when interest rates are re-set.

Management of interest rate risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Board's policy is to permit gearing up to 25% where gearing is defined as borrowings used for investment purposes less cash, expressed as a percentage of net assets. However any drawings on the credit facility are normally for one-month periods at a fixed rate of interest and therefore exposure to interest rate risk is not significant.

Interest rate exposure

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

	2016 £'000	2015 £'000
Exposure to floating interest rates:		
Cash at bank and in hand	**1,193**	11,180
Other payables: drawings on the revolving credit facility	**(4,000)**	–
Total exposure	**(2,807)**	11,180

Interest receivable on cash balances is at a margin below LIBOR (2015: same).

During the year, the Company extended its £15m revolving credit facility with Scotiabank Bank to 10 July 2017. The facility is unsecured but subject to covenants and restrictions which are customary for a facility of this nature. Interest is payable at a rate of LIBOR as quoted in the market for the loan period plus a margin, plus Mandatory Costs, which are the lender's costs of complying with certain regulatory requirements of the Bank of England. At 30 September 2016, the Company had drawn down £4m (2015: nil) on this facility at an interest rate of 0.825% per annum.

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

	2016 £'000	2015 £'000
Maximum credit interest rate exposure during the year – net cash balances	**14,888**	13,709
Maximum debit/minimum credit interest rate exposure during the year – net (debt)/cash balances	**(3,588)**	7,688

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2015: 0.5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

	2016		2015	
	0.5% increase in rate £'000	0.5% decrease in rate £'000	0.5% increase in rate £'000	0.5% decrease in rate £'000
Income statement – return after taxation				
Revenue return	–	–	56	(56)
Capital return	(14)	14	–	–
Total return after taxation	(14)	14	56	(56)
Net assets	(14)	14	56	(56)

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

(ii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of investments.

Management of market price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Market price risk exposure

The Company's total exposure to changes in market prices at 30 September comprises the following:

	2016 £'000	2015 £'000
Investments held at fair value through profit or loss	194,912	173,171

The above data is broadly representative of the exposure to market price risk during the year.

Concentration of exposure to market price risk

An analysis of the Company's investments is given on page 12. This shows that the portfolio principally comprises investments listed in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of listing.

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 20% (2015: 20%) in the fair values of the Company's investments. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's exposure through its investments and includes the impact on the management fee, but assumes that all other variables are held constant.

	2016		2015	
	20% increase in fair value £'000	20% decrease in fair value £'000	20% increase in fair value £'000	20% decrease in fair value £'000
Income statement – return after taxation				
Revenue return	(82)	82	(62)	62
Capital return	38,791	(38,791)	34,489	(34,489)
Total return after taxation and net assets	38,709	(38,709)	34,427	(34,427)
Percentage change in net asset value	20.1	(20.1)	18.7	(18.7)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of a credit facility.

The Board's policy is for the Company to remain fully invested in normal market conditions and that the credit facility be used to manage working capital requirements and to gear the Company as appropriate.

Liquidity risk exposure

Contractual maturities of the financial liabilities, based on the earliest date on which payment can be required are as follows:

	Three months or less 2016 £'000	Three months or less 2015 £'000
Creditors: amounts falling due within one year		
Bank loan – including interest	**4,002**	–
Securities purchased awaiting settlement	**–**	145
Other creditors and accruals	**475**	436
	4,477	581

(c) Credit risk

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

Management of credit risk

This risk is not significant and is managed as follows:

Portfolio dealing

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

Exposure to the Custodian

The custodian of the Company's assets is HSBC Bank plc which has long-term Credit Ratings of AA- with Fitch and Aa2 with Moody's. The Company's investments are held in accounts which are segregated from the custodian's own trading assets. If the custodian were to become insolvent, the Company's right of ownership of its investments is clear and they are therefore protected. However the Company's cash balances are all deposited with the Custodian as banker and held on the custodian's balance sheet. Accordingly, in accordance with usual banking practice, the Company will rank as a general creditor to the custodian in respect of cash balances.

Credit risk exposure

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

	2016		2015	
	Balance sheet £'000	**Maximum exposure £'000**	Balance sheet £'000	Maximum exposure £'000
Current assets				
Debtors – securities sold awaiting settlement, dividends and interest receivable and other debtors	**1,088**	**1,078**	490	482
Cash at bank and in hand	**1,193**	**1,193**	11,180	11,180
	2,281	**2,271**	11,670	11,662

No debtors are past their due date and none have been written down or deemed to be impaired.

(d) Fair values of financial assets and financial liabilities

All financial assets and financial liabilities are either carried at fair value or the amount in the Statement of Financial Position is a reasonable approximation of fair value.

20. Capital management policies and procedures

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

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

	2016 £'000	2015 £'000
Debt		
Bank loan	4,000	–
Equity		
Called-up share capital	9,036	9,036
Reserves	183,682	175,224
	192,718	184,260
Total debt and equity	196,718	184,260

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the capital return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to permit gearing up to 25% where gearing is defined as borrowings used for investment purposes less cash, expressed as a percentage of net assets. If the amount so calculated is negative, this is shown as a "net cash" position.

	2016 £'000	2015 £'000
Borrowings used for investment purposes, less cash	2,807	(11,180)
Net assets	192,718	184,260
Gearing/(net cash)	1.5%	(6.1)%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back equity shares, which takes into account the share price discount;
- the opportunities for issues of new shares; and
- the amount of dividends to be paid, in excess of that which is required to be distributed.

Annual General Meeting – Explanation of Special Business

The Annual General Meeting ("AGM") of the Company will be held on Tuesday, 31 January 2017 at 12.00 noon. The formal Notice of Meeting is set out on page 55.

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

Special business to be proposed at the AGM

Resolution 10 – Directors' authority to allot ordinary shares (ordinary resolution) and resolution 11 – power to disapply pre-emption rights (special resolution)

At the AGM held on 10 February 2016, the Directors were granted authority to allot a limited number of new ordinary shares or shares held in Treasury for cash. No shares have been allotted under this authority, which will expire at the forthcoming AGM. At the AGM held in February 2016, power was also given to the Directors to allot a limited number of new shares, or shares held in Treasury, other than pro rata to existing shareholders. This power will also expire at the forthcoming AGM and resolutions to renew both authorities will be proposed at the forthcoming AGM, the details of which are set out in full in the Notice of Meeting.

An ordinary resolution will be proposed to authorise the Directors to allot shares for cash up to a maximum aggregate nominal amount of £451,796 (being 5% of the issued share capital as at 20 December 2016). A special resolution will also be proposed to give the Directors power to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £451,796 (being 5% of the Company's issued share capital (excluding any shares held in Treasury) as at 20 December 2016). Pre-emption rights under the Companies Act 2006 apply to the resale of Treasury shares for cash as well as the allotment of new shares. Resolution 11 therefore relates to both issues of new shares and the re-sale of Treasury shares.

The Directors intend to use the authorities to issue new ordinary shares or reissue shares from Treasury whenever they believe it is advantageous both to new investors and to the Company's existing shareholders to do so. The authority will only be used to issue ordinary shares at a premium to net asset value at the time of issue.

If renewed, both authorities will expire at the conclusion of the AGM in 2018 unless renewed or revoked earlier.

Resolution 12 – authority to make market purchases of the Company's own shares (special resolution)

At the AGM held on 10 February 2016, the Company was granted authority to make market purchases of up to 5,417,939 ordinary shares of 25p each for cancellation. No shares have been bought back under this authority and the Company therefore has remaining authority to purchase up to 5,417,939 ordinary shares. This authority will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market as they keep under review the share price discount to net asset value and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue as at the date of the Notice of the AGM. The Directors will exercise this authority only if the Directors consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled or held in Treasury for potential reissue. If renewed, the authority to be given at the 2017 AGM will lapse at the conclusion of the AGM in 2018 unless renewed or revoked earlier.

Recommendation

The Board considers that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the above resolutions and the other resolutions to be proposed at the forthcoming AGM, as they intend to do in respect of their own beneficial holdings.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Schroder UK Mid Cap Fund plc will be held on Tuesday, 31 January 2017 at 12.00 noon at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 10 will be proposed as ordinary resolutions and resolutions 11 and 12 will be proposed as special resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 30 September 2016.
2. To approve a final dividend of 8.50 pence per share for the year ended 30 September 2016.
3. To approve the Directors' Remuneration Policy.
4. To approve the Directors' Annual Report on Remuneration for the year ended 30 September 2016.
5. To elect Mr Robert Talbut as a Director of the Company.
6. To re-elect Mr Andrew Page as a Director of the Company.
7. To re-elect Mr Robert Rickman as a Director of the Company.
8. To re-appoint Ernst & Young LLP as Auditor of the Company.
9. To authorise the Directors to determine the remuneration of Ernst & Young LLP as Auditor of the Company.
10. To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

    "That the Directors be and are hereby generally and unconditionally authorised, in substitution for all subsisting authorities in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £451,796 (representing 5% of the share capital in issue on 20 December 2016); provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company but so that this authority shall enable the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry."
11. To consider and, if thought fit, to pass, the following resolution as a special resolution:

    "That, subject to the passing of resolution 10 set out above, the Directors be and are hereby empowered, pursuant to Section 571 of the Act, to allot equity securities (including any shares held in Treasury) (as defined in Section 560 of the Act) pursuant to the authority given by resolution 10 above and/or where such allotment constitutes an allotment of equity securities by virtue of Section 560(2) of the Act as if Section 560(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £451,796 (representing 5% of the aggregate nominal amount of the share capital in issue on 20 December 2016); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry."
12. To consider and, if thought fit, to pass, the following resolution as a special resolution:

    "That the Company be and is hereby generally and unconditionally authorised in accordance with Section 693 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25p each in the capital of the Company ("Shares"), at whatever discount the prevailing market price represents to the prevailing net asset value per share provided that:

    (a) the maximum number of Shares hereby authorised to be purchased shall be 5,417,939, representing 14.99% of the issued share capital as at 20 December 2016;

    (b) the minimum price which may be paid for a share is 25p;

    (c) the maximum price which may be paid for a share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased, and (ii) the higher of the price of the last independent trade in the shares of that class and the highest then current independent bid for the shares of that class on the London Stock Exchange;

    (d) purchases may only be made pursuant to this authority if the shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to net asset value;

    (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed or revoked prior to such time; and

    (f) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract."

By Order of the Board
Schroder Investment Management Limited
Company Secretary

20 December 2016

Registered Office:
1 Exchange Crescent
Conference Square
Edinburgh EH3 8UL
Registered Number: SC82551

Explanatory Notes to the Notice of Meeting

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

   A proxy form is attached. If you wish to appoint a person other than the Chairman as your proxy, please insert the name of your chosen proxy holder in the space provided at the top of the form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Additional proxy forms can be obtained by contacting the Company's Registrars, Equiniti Limited, on 0800 032 0641 (or +44 121 415 0207 for oversees shareholders), or you may photocopy the attached proxy form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. Completion and return of a form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

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

   The "Vote Withheld" option on the proxy form is provided to enable you to abstain on any particular resolution. However it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

   A proxy form must be signed and dated by the shareholder or his or her attorney duly authorised in writing. In the case of joint holdings, any one holder may sign this form. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder and for this purpose seniority will be determined by the order in which the names appear on the Register of Members in respect of the joint holding. To be valid, proxy form(s) must be completed and returned to the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 hours before the time fixed for the Meeting, or an adjourned meeting. Shareholders may also appoint a proxy to vote on the resolutions being put to the meeting electronically at www.sharevote.co.uk. Shareholders who are not registered to vote electronically, will need to enter the Voting ID, Task ID and Shareholder Reference Number set out in their personalised proxy form. Alternatively, shareholders who have already registered with Equiniti's Shareview service can appoint a proxy by logging onto their portfolio at www.shareview.co.uk and clicking on the link to vote. The on-screen instructions give details on how to complete the appointment process. Please note that to be valid, your proxy instructions must be received by Equiniti no later than 48 hours before the time fixed for the meeting, or an adjourned Meeting. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641 (or +44 121 415 0207 for oversees shareholders).

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

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

   Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the Meeting. Please contact the Registrar if you need any further guidance on this.

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

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

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company at 6.30 p.m on 29 January 2017, or 6.30 p.m. two days prior to the date of an adjourned Meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 6.30 p.m. on 29 January 2017 shall be disregarded in determining the right of any person to attend and vote at the Meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. The CREST manual can be viewed at www.euroclear.com. A CREST message appointing a proxy (a "CREST proxy instruction") regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction previously given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time for receipt of proxy appointments.

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

6. The biographies of the Directors offering themselves for election and re-election are set out on the inside front cover of the Company's Annual Report and Accounts for the year ended 30 September 2016.

7. As at 20 December 2016, 36,143,690 ordinary shares of 25 pence each were in issue. No shares were held in Treasury; accordingly, the total number of voting rights in the Company as at 20 December 2016 is 36,143,690.

8. A copy of this Notice of Meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available to download from www.schroderukmidcapfund.com.

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

Shareholder Information

Webpage and share price information

The Company has a dedicated webpage, which may be found at www.schroderukmidcapfund.com. The webpage has been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's ordinary share price and copies of 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".

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

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

The Manager publishes monthly and quarterly updates on the Company and other Schroders investment trusts, which may be found under the "Literature" section on the webpage www.schroderukmidcapfund.com.

ISA status

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

Non-Mainstream Pooled Investments status

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

Financial calendar

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

Alternative Investment Fund Managers ("AIFM") Directive

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found either in this Annual Report or 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.

Preferential treatment of investors

The Company's investors purchase shares on the open market and therefore the Company is not in a position to influence the treatment of investors. No investor receives preferential treatment.

Liquidity risk management

The Company's shares are traded on the London Stock Exchange through market intermediaries. There are no special rights to redemption.

Periodic and regular disclosure under the Directive

(a) none of the Company's assets are subject to special arrangements arising from their illiquid nature;
(b) there are no new arrangements for managing the liquidity of the Company including, but not limited to, any material changes to the liquidity management systems and procedures employed by the Manager in place. Shareholders will be notified immediately where the issue, cancellation, sale and redemption of shares is suspended, when redemptions are suspended or where other similar special arrangements are activated;
(c) the current risk profile of the Company and the risk management systems employed by the Manager to manage those risks can be found in the Strategic Review; and
(d) the total amount of leverage employed by the Company may be found in the AIFM disclosures on the website www.schroders.co.uk/its.

Any changes to the following information will be provided through a regulatory news service without undue delay and in accordance with the Directive:

(a) the maximum level of leverage which the Manager may employ on behalf of the Company; and
(b) the right of re-use of collateral or any changes to any guarantee granted under any leveraging arrangement.

Remuneration disclosures

The information required under the AIFM Directive to be made available to investors in the Company on request in respect of remuneration paid by the AIFM to its staff, and, where relevant, carried interest paid by the Company, can be found on the website www.schroders.co.uk/its.

www.schroderukmidcapfund.com

www.schroders.co.uk/its

Advisers

Alternative Investment Fund Manager (the "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 6501

Registered Office
1 Exchange Crescent
Conference Square
Edinburgh EH3 8UL

Depositary and Custodian
HSBC Bank plc
8 Canada Square
London E14 5HQ

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

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Shareholder Helpline: 0800 032 0641*
Website: www.shareview.co.uk
*Calls to this number are free of charge from UK landlines

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at the address above.

Corporate Broker
Panmure Gordon & Co
1 New Change
London EC4M 9AF

Independent Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

Shareholder enquiries
General enquiries about the Company should be addressed to the Company Secretary at the address given above.

Dealing Codes

ISIN:	GB0006108418
SEDOL Code:	0610841
Ticker:	SCP

Global Intermediary Identification Number (GIIN)
9GN3DU.99999.SL.826

Schroders