

# Schroder Income Growth Fund plc

Report and Accounts for the year ended 31 August 2015



**Schroders**

# Investment Objective and Advisers

## Investment objectives

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

## Financial Conduct Authority ("FCA") Rules implementing the EU 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 web at [www.schroders.co.uk/its](http://www.schroders.co.uk/its).

## Advisers

### **Alternative Investment Fund Manager (the "Manager")**

Schroder Unit Trusts Limited  
31 Gresham Street  
London EC2V 7QA

### **Company Secretary**

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA  
Telephone: 020 7658 6501

### **Registered Office**

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London EC2V 7QA

### **Lending Bank**

Scotiabank Europe Plc  
201 Bishopsgate  
London EC2M 3NS

### **Depository and Custodian**

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### **Independent Auditor**

Deloitte LLP  
2 New Street Square  
London EC4A 3BZ

### **Corporate Broker**

Stifel Nicolaus Europe Limited  
150 Cheapside  
London EC2V 6ET

### **Registrar**

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Shareholder Helpline: 0800 032 0641\*

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

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

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# Financial Highlights

Total returns for the year ended 31 August	2015	2014	
Net asset value ("NAV") per share <sup>1</sup>	3.1%	14.1%	
Share price <sup>1</sup>	5.1%	10.2%	
FTSE All-Share Index <sup>2</sup>	(2.3)%	10.3%	
Shareholders' funds, net asset value, share price and discount at 31 August			% Change
Shareholders' funds (£'000)	188,165	188,936	(0.4)
NAV per share	273.94p	275.06p	(0.4)
Share price	269.75p	266.50p	+1.2
Share price discount	1.5%	3.1%	
Revenue for the year ended 31 August			
Net revenue return after taxation (£'000)	7,761	7,428	4.5
Revenue return per share	11.30p	10.82p	4.4
Dividends per share	10.30p	10.10p	2.0
Consumer Prices Index			
Gearing <sup>3</sup>	9.5%	9.6%	
Ongoing Charges <sup>4</sup>	0.99%	0.93%	

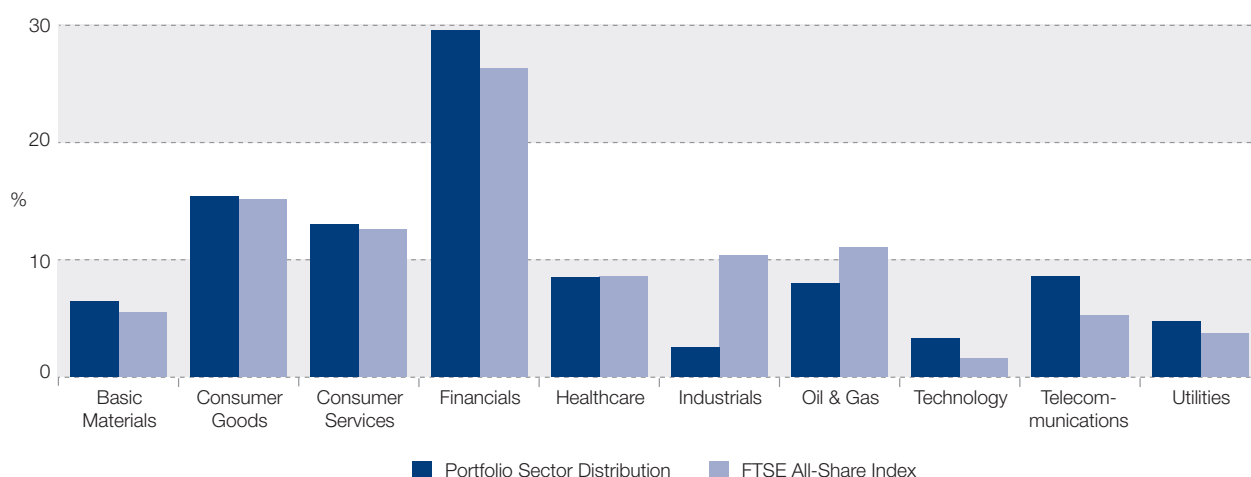
<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: Thomson Reuters.

<sup>3</sup>Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

<sup>4</sup>Ongoing Charges represents the management fee and all other operating expenses excluding finance costs and any performance fee payable, expressed as a percentage of the average daily net asset values during the year.

## Comparison of Portfolio Sector Distribution with the FTSE All-Share Index at 31 August 2015



Source: Schroders/Thomson Reuters.

# Ten-Year Financial Record

At 31 August	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Shareholders' funds (£'000)	160,195	168,975	136,104	123,479	130,288	134,787	143,100	171,616	188,936	188,165
NAV per share (pence)	220.39	235.71	198.15	179.77	189.68	196.23	208.33	249.85	275.06	273.94
Share price (pence)	203.75	212.50	172.00	165.25	184.75	187.75	199.75	251.25	266.50	269.75
Share price (discount)/premium (%)	(7.6)	(9.8)	(13.2)	(8.1)	(2.6)	(4.3)	(4.1)	0.6	(3.1)	(1.5)
Ongoing charges (%) <sup>1</sup>	0.91	0.90	0.92	0.99	0.99	0.97	1.07	1.00	0.93	0.99

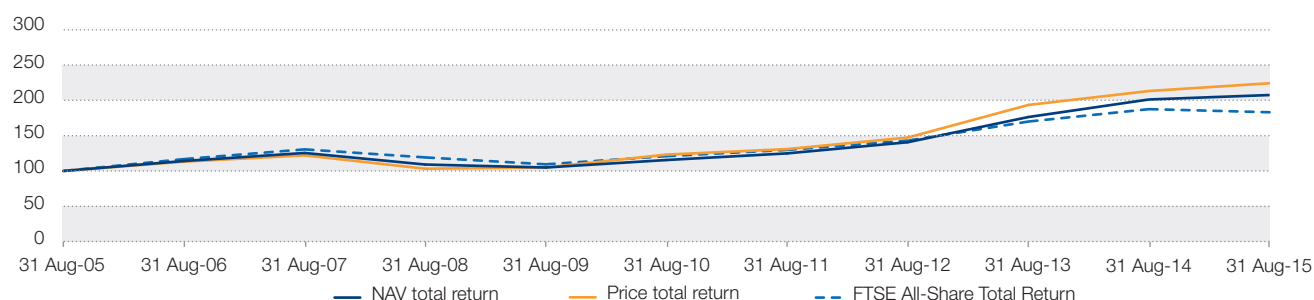
Year ended 31 August	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net revenue return after taxation (£'000)	5,521	5,828	6,817	5,757	5,301	6,065	6,886	7,003	7,428	7,761
Revenue return per share (pence)	7.44	8.10	9.83	8.38	7.72	8.83	10.02	10.20	10.82	11.30
Dividends per share (pence)	6.90	8.10	8.70	8.90	9.10	9.30	9.50	9.80	10.10	10.30

Performance <sup>2</sup>	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
NAV total return	100.0	114.1	125.5	109.1	104.9	115.5	124.9	140.7	176.4	201.3	207.6
Share price total return	100.0	113.2	122.1	103.2	104.9	123.2	131.0	147.3	193.5	213.3	224.3
FTSE All-Share Index total return	100.0	116.8	130.6	119.2	109.4	121.0	129.8	143.0	170.0	187.6	183.2

<sup>1</sup> Ongoing Charges represents the management fee and all other operating expenses excluding finance costs and any performance fee payable, expressed as a percentage of the average daily net asset values during the year.

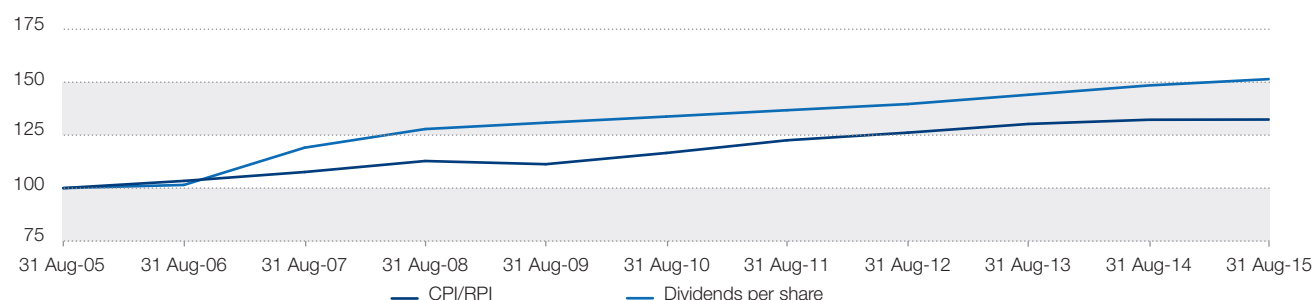
<sup>2</sup> Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 August 2005.

## NAV/share price/FTSE All-Share Index total returns



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 August 2005.

## Dividends per share vs the rate of inflation



Source: Morningstar/Office for National Statistics. Rebased to 100 at 31 August 2005.

The Retail Prices Index ("RPI") was used as the measure of inflation up to 31 August 2013 and the Consumer Prices Index ("CPI") thereafter.

# Chairman's Statement

## Revenue return for the year and dividends

During the year ended 31 August 2015, the revenue return per share increased by 4.4%, with steady increases in dividend income assisted by the increased borrowings introduced in July 2014 but partially offset by higher expenses and interest costs.

The Board has declared total dividends of 10.30 pence per share for the year ended 31 August 2015, an increase of 2.0% over the 10.10 pence per share declared in respect of the year ended 31 August 2014. This compares to a rise of only 0.1% for the Consumer Prices Index over the period and continues to build on one of the Company's primary objectives: to provide real growth of income, being growth of income in excess of the rate of inflation. This distribution also enabled £685,000 to be added to the revenue reserve, thereby increasing it to £4.3 million (6.2 pence per share) after allowing for payment of the fourth interim dividend for the year ended 31 August 2015.

## Performance

During the year under review, the net asset value produced a total return of 3.1%, comparing favourably to a total return of -2.3% for the FTSE All-Share Index and continuing to build on the Company's longer-term outperformance of the FTSE All-Share Index. The share price total return for the year was 5.1%.

## Share price discount

The discount of the Company's share price to net asset value narrowed during the period from 3.1% at the start of the year to 1.5% on 31 August 2015, with an average over the year of 3.7%.

Detailed commentary on the performance of your Company's assets may be found in the Manager's Review on pages 6 and 7.

## Gearing

During the year under review, the Company renewed the revolving £10 million credit facility with Scotiabank Europe Plc, which is in addition to the £20 million three-year term loan entered into with the same lender in 2014.

Gearing stood at 9.6% at the beginning of the year and had decreased marginally to 9.5% at 31 August 2015. The level of gearing continues to be monitored closely by the Board and will not exceed 25% of shareholders' funds.

## Share issuance and buy back authorities

While the Board continued to monitor the share price relative to net asset value during the year, no shares were bought back or issued during the period. However, the Board believes that the authority to issue and buy back shares remains a valuable potential tool both to enhance shareholder value and to reduce the volatility of the share price relative to net asset value and will therefore be seeking to renew the existing relevant authorities and appropriate resolutions are therefore included in the Notice of the Annual General Meeting.

## Board composition and succession planning

Your Board has considered its composition, balance and diversity. In view of the length of service of a number of its members, it has agreed plans for refreshment so

# Chairman's Statement

that at least one of the longer serving Directors will retire at each of the Annual General Meetings to be held in 2016 and 2017, with a view to appointing new Directors thereafter to maintain the number of Board members at five.

## Continuation vote

In accordance with the provisions of the Company's Articles of Association, a resolution for the continuation of the Company as an investment trust for a further five year period is included in the Notice of the Annual General Meeting.

Your Board has reviewed the Company's current position, taking into account the following factors: its structure as an investment vehicle, its performance over recent years; its investment remit and long-term investment objectives; its market rating; and the depth of management and resource provided by the Manager.

The Company's long-term performance record remains strong and the Board believes that its investment objectives remain an attractive proposition for investors, that the Manager is well placed to deliver superior returns over the longer term and that the structure as an investment vehicle remains beneficial to shareholders.

As a result, the Board recommends that the Company should continue as an investment trust for a further five year period. The Directors will be voting their shares accordingly and wish to encourage all other shareholders likewise to vote in favour of the Company's continuation.

## Annual General Meeting

The Company's Annual General Meeting will be held at 2.30 p.m. on Tuesday, 15 December 2015. As in previous years, the meeting will include a presentation by the Manager on the Company's investment strategy and market prospects.

## 20 years of dividend increases

While it is always satisfying to announce another year of increased dividends, it is particularly so this time. Your Company was launched in 1995, and it can now proudly report having increased its dividend every year since then. The dividend's growth of 4.6% per annum has been more than the rate of inflation, while £1,000 invested in the Company at the start would, if all the dividends had been reinvested, have had a value of £6,211 on 31 August 2015.

Pleasing as it has been to see our Manager's ability to find the opportunities to achieve this, with the Company outperforming the FTSE All-Share Index over those 20 years, it has ultimately been the strength of the UK corporate sector that has provided the dividend growth and underpinned the rise in the stock market. Much market commentary at the moment is stressing the challenges facing UK companies, and the Manager's Review discusses the shorter term issues. It is traditional – and proper – that a Chairman should stress the undeniable risks and uncertainties. At the same time, however, I would emphasise the optimism with which your Board looks forward to the future. We believe that the investment logic behind the Company's original launch – the virtue of targeting real growth in income – is still valid, and one that can play an important role in the portfolios of long-term, lower-risk investors.

**Mr Ian Barby**  
Chairman

16 November 2015



# Manager's Review

The Company's net asset value total return in the 12 months to 31 August 2015 was 3.1%, compared to a total return of -2.3% for the FTSE All-Share Index over the same period.

## Review of the year

While UK investors have faced a series of unexpected news, both negative and positive, over the last 12 months, the stock market has ended the period close to where it started.

The period began with volatility as investors worried about tighter monetary policy in the US, uncertainty in Europe (particularly around Greece), and weaker emerging markets' growth. However, encouraging US macro-economic data and quantitative easing by the European Central Bank subsequently drove an equity market recovery. UK domestically-orientated companies benefited from the Conservative party unexpectedly securing a majority in the general election in May, whilst the outlook for UK consumers improved as real wages returned to growth, unemployment fell and inflation moderated in line with lower oil prices.

Volatility returned towards the period end, however, amid a breakdown in Greece's bailout negotiations, while China's decision to devalue its currency in August reawakened questions not just about its own economic health but emerging markets' growth in general.

## Performance

The net result of the above was a small decline in the FTSE All-Share Index, while the Company's net asset value produced a total return of 3.1%. The contributions to the outperformance were spread across a range of sectors, including stock selection within consumer goods shares such as house builders (eg Taylor Wimpey and Bellway) and tobacco companies (Imperial Tobacco). There were also good contributions from the holdings in Friends Life (taken over by Aviva), Synthomer (where new management is improving the Asian business and focusing on shareholder returns), and Microfocus (an IT software company which made a transformational takeover of a US company).

The companies that were avoided, by a large degree, were any involved with commodities. Rio Tinto was one of the portfolio's worst performers, but overall the Company benefited relative to the index by being underweight in commodity companies and from its stock choice within mining (eg selling Glencore in January and not owning Anglo American).

The Company's borrowing facilities were used to keep gearing around 8-10% through the year, which was mildly beneficial to performance. It also had an impact on dividend income, with a full year of the enlarged portfolio helping to augment what was a relatively modest rise in dividends from most UK companies, and the continued absence of any contribution from writing call options on the holdings due to the relatively low premiums. In aggregate investment income rose 7.2%.

## Portfolio changes

Within financials we bought a new holding in Nordea Bank, funded from a reduction in the position in Swedbank. We bought a position in Lloyds Banking Group towards the end of the period, due to its potential for paying attractive and growing dividends. We increased the holding in Centrica mid-way through the year as we became attracted to the turnaround under new management and the valuation of its shares.



# Manager's Review

We switched out of Total and Statoil, reinvesting some of the proceeds into Royal Dutch Shell, and switched the Glencore holding into Rio Tinto where the balance sheet is sufficiently strong to protect its dividend payment. A new holding was started in infrastructure company John Laing Group at its initial public offering, funded by selling out of the holding in wholesaler/retailer Inchcape which had performed well.

In all cases we continue to look for a balance between stocks yielding more than the average and companies with an ability to grow their dividends consistently from current levels.

## Outlook

There is currently a dichotomy between developed markets and developing markets. In both the US and UK, economic data looks reasonably robust. However, deflationary pressures arising from weak commodity prices and currency movements, along with weakness in developing economies, are causing policymakers to defer the normalisation of interest rates.

In the UK, consumer spending remains the main driver of growth, thanks to rising real incomes. Real household disposable incomes grew at the fastest rate since 2010 as employee pay growth accelerated. Looking forward, however, the new government's introduction of a national living wage, together with benefit cuts as a result of tightening austerity and possible interest rate rises, could lead to pressure on a range of UK companies with significant domestic operations. Those particularly vulnerable are in the retail, food retail, leisure and support services sectors.

With profits growth vulnerable to further downgrades as a result of the slower pace of global growth, we expect dividend growth to moderate, not least because the share of profits being distributed as dividends has risen to historic highs. We expect the recent increase in merger and acquisition activity to continue, partly due to the continuing availability of cheap finance.

We remain committed to our investment process, which is based on fundamentals and a long-term, valuation-based approach. We continue to balance our existing holdings against potential new opportunities. Thus, as markets have weakened recently, we have looked for opportunities in harder-hit stocks. These have included turnaround situations, which the market has ignored recently due to its short term focus, such as Centrica, together with British American Tobacco, Greencore, Pearson and Prudential.

### **Schroder Investment Management Limited**

16 November 2015

*Securities shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.*

# Strategic Report

The Directors have pleasure in presenting the Company's Strategic Report. This Report provides a review of the Company's business and sets out the principal risks and uncertainties applicable to it.

## Business and Company structure

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 the Company will continue to conduct its affairs in a manner which will enable it to retain this status.

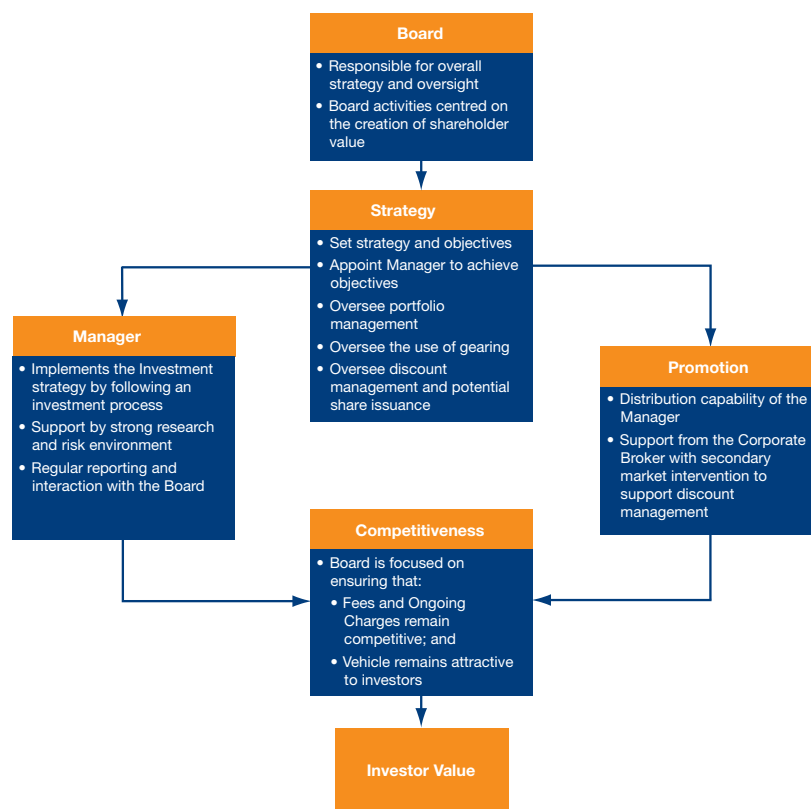
The Company is domiciled in the UK and is an investment company within the meaning of Section 833 of the Companies Act 2006.

The Company is not a close company for taxation purposes.

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

## Business model

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



## Investment objectives

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

## Investment policy

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

A full analysis of the Company's investment portfolio may be found on page 16.

## Investment restrictions and spread of investment risk

Risk in relation to the Company's investments is spread as a result of the Manager investing the Company's portfolio with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objectives. The key restrictions imposed on the Manager include (i) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one single company; (ii) 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 which are listed on the Official List of the London Stock Exchange; (iii) no more than 15% of the Company's gross assets may be invested in other investment companies or investment trusts which are listed on the Official List of the London Stock Exchange; (iv) no more than 15% of the Company's total net assets may be invested in open-ended funds; and (v) no more than 25% of the Company's total net assets may be invested in the aggregate in unlisted investments and holdings representing 20% or more of the equity capital of any company.

The Investment Portfolio on page 16 demonstrates that, as at 31 August 2015, the Manager invested in 36 UK and three overseas equity investments spread across a range of industry sectors. The Board believes that the diversity of the stocks, along with the above-mentioned restrictions imposed on the Manager, achieve the objective of spreading investment risk.

## Gearing

The Company's policy is to permit gearing (as described in note 23 on page 52) up to 25% of shareholders' funds. It is intended that the Manager should have the flexibility to utilise this power in order to maximise potential returns when and to the extent that this is considered appropriate by the Directors.

The Company has in place a £20 million three-year term loan (entered into in July 2014) and a £10 million one-year revolving credit facility with Scotiabank Europe Plc. The revolving credit facility remained undrawn throughout the year under review. As at 31 August 2015, gearing stood at 9.5% (2014: 9.6%). The Directors keep the Company's gearing strategy under review and impose strict restrictions on borrowings to mitigate gearing risk.

## Leverage

The AIFM Directive requires the Manager to set maximum levels of leverage, using a wider definition than gearing and including the use of derivatives. The “Leverage Ratio” represents the sum of the leverage generated by all financial instruments held by the Company, as calculated in accordance with the detailed requirements of the AIFM Directive, divided by the Company’s net asset value. Details on how the amount of Leverage is calculated for each class of financial instrument may be found by referring to the AIFM Directive or to the detailed guidance published by the Association of Investment Companies in September 2013. The AIFM Directive requires that ratios are calculated in accordance with two methodologies, the “Gross Method” and the “Commitment Method”. The essential difference between the two is that the Commitment Method allows netting off for the effect of hedges under certain strict conditions.

The Manager has set a maximum limit of 2.0 for both the Gross and Commitment Methods of calculating the ratio but expects that, under normal market conditions, the figures will be substantially lower than this limit. At 31 August 2015, the Company’s Gross ratio and its Commitment ratio were both 1.1.

The Manager may change the maximum limits from time to time. Any change would be disclosed to shareholders in accordance with the AIFM Directive.

## Investment strategy

The Board has delegated management of the Company’s portfolio to Schroder Unit Trusts Limited. The Manager manages the portfolio with the aim of helping the Company to achieve its investment objectives. Details of the Manager’s investment approach, along with other factors that have affected performance during the year, are set out in the Manager’s Review on pages 6 and 7.

## Investment management

The Manager is authorised and regulated by the FCA and provides portfolio management, risk management, accounting and company secretarial services to the Company under the terms of an Alternative Investment Fund Manager Agreement. The Manager also provides general marketing support to the Company and manages relationships with key investors, in conjunction with the Chairman, other Board members and/or the corporate broker as appropriate. The Manager has, with the Company’s approval, 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 £294.8 billion (as at 30 September 2015) 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.

The Manager implements the investment strategy, managing the Company’s assets in line with 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, hedging, cash, derivatives and other financial instruments. Schroder Investment Management Limited acts as Company Secretary, providing the Board with corporate governance support, liaising with the Company’s corporate broker to assist in monitoring the share price relative to underlying net asset value and advising

the Board on key relationships with other service providers, whose services are subject to regular review.

## Investment philosophy

The investment approach is based on Schroders' belief that stock markets are inefficient. The Manager believes it can exploit such inefficiencies by conducting its own research, through disciplined portfolio construction, and taking a long term view.

## Investment process

The Company's portfolio manager, Sue Noffke, has been a member of Schroders' UK Equity team for over 20 years and has been managing the Company's portfolio since 2010. She is a key member of the team which employs a rigorous and disciplined investment process aiming to deliver consistent outperformance with low volatility against set objectives.

### 1. Research

The portfolio manager and the rest of Schroders' UK Equity team work closely with Schroders' specialist industry analysts who conduct independent fundamental research: as one of the largest UK investors, Schroders has substantial access to companies' management teams. The research focuses on factors that influence a company's ability to create value for shareholders over the long term and looks beyond short term profits to a company's profits potential and to the quality of those profits. The focus is not exclusively on growth, value, or earnings momentum factors but on each company's individual ability to create value for shareholders.

### 2. Portfolio construction/monitoring

The decision to buy or sell a security lies with the portfolio manager, and bottom-up (that is based on analysis of individual companies rather than general market or sector trends) stock selection is therefore the primary influence on portfolio performance. When assessing stocks for inclusion in the portfolio and in managing existing investments, the portfolio manager places a greater emphasis on the sustainability and the potential growth of a company's dividend rather than a high initial yield. The size of each holding is determined on the basis of investment conviction and an assessment of the risks and volatility associated with it, rather than its market value. Portfolio construction is supported by a robust system of risk controls. Proprietary risk tools help the portfolio manager and the Board to understand the factors contributing to risk and to avoid unintended risk.

The portfolio manager may invest up to 20% of assets in overseas stocks and this is utilised in three main ways: for added diversification where overseas equities are cheaper than their equivalents in the UK; when attractive dividends are available; and for exposure to sectors that are not well represented in the UK equity market.

### 3. Review/sell discipline

The management of a relatively concentrated portfolio requires a rigorous sell discipline enforced by competition for capital. The portfolio manager will sell a holding if its share price reaches a level where there appear to be better opportunities elsewhere or if a material change in a company's circumstances makes the original investment case no longer valid. Given the long term approach, portfolio turnover tends to be low.

## 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 identifying significant strategic, investment, financial, regulatory, custodial and service provider risks relevant to the Company's business as an investment company and has put in place an appropriate monitoring system. This system assists the Board in determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. Both the principal risks and the monitoring system are subject to robust review at least annually. The last review took place in October 2015.

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 Board, 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 Board's on going risk assessment which has been in place throughout the financial year and up to the date of this Report.

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, and actions taken to mitigate these risks and uncertainties, is set out below.

### Strategy and competitiveness risk

Over time, the Company's investment strategy and asset class may become out of favour with investors or fail to meet their investment objectives, or the Company's cost base could become uncompetitive, particularly in light of open-ended fund alternatives. This may result in a wide discount of the share price to underlying net asset value both in absolute terms and in comparison to the peer group.

In order to mitigate this risk, the Directors periodically review whether the Company's investment remit remains appropriate and monitor the success of the Company in meeting its stated objectives at each Board meeting. The Manager monitors the share price relative to net asset value and the Directors review the marketing and distribution activity undertaken by the Manager and the corporate broker at each Board meeting.

The level of fees charged by the Manager and the Company's other service providers is also monitored by the Board and the ongoing competitiveness of management fee levels is considered annually by the Management Engagement Committee and the Board.

### Investment management risk

The Manager's investment strategy (for example in terms of asset allocation or the level of gearing), if inappropriate, may result in the Company underperforming the market and/or peer group companies.

To mitigate this risk, the Board reviews: the Manager's compliance with the agreed investment restrictions; investment performance and risk against investment objectives and strategy; the portfolio's risk profile; and appropriate strategies employed to mitigate any negative impact of substantial changes in markets. These factors are considered at each Board Meeting; the Board also receives an annual



presentation from the Manager's internal audit function and conducts an annual review of the ongoing suitability of the Manager.

## **Financial risk**

In pursuing the investment objectives, the Company is exposed to the effect of market price fluctuations and interest rate movements. A significant fall in equity markets would have an adverse impact on the market value of the Company's underlying investments.

To mitigate this risk, the Directors consider the risk profile of the portfolio at each Board meeting and discuss appropriate strategies to mitigate any negative impact of substantial changes in markets with the Manager.

The Board also monitors the Manager's use of gearing and derivatives in accordance with agreed guidelines and restrictions set out in the Company's investment policy. The Company utilises a three-year term loan (entered into in 2014) together with a one-year revolving credit facility, which together amount to £30 million. 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.

To mitigate this risk, the Directors keep the Company's gearing under review and impose strict restrictions on borrowings. The Company's gearing continues to operate within pre-agreed limits so that it does not exceed 25% of shareholders' funds. In addition, index put options may be used up to the value of the Company's borrowing as a means of offsetting the gearing without the cost of selling portfolio holdings.

The Company may utilise short-dated call options written on holdings in the portfolio in order to generate additional income. One consequence of this is that it may limit the portfolio's participation in future rises in prices in the underlying securities. This risk is limited by only writing call options on securities held in the portfolio and there is a limit to the total income that may be generated by such instruments.

A full analysis of the financial risks facing the Company is set out in note 22 on pages 48 to 52.

## **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. Should the Company not comply with these requirements, it could ultimately lose its investment trust status and capital gains within the Company's portfolio could, as a result, be subject to Capital Gains Tax.

In addition, breaches of the UK Listing Rules, the Companies Acts or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes which could damage the Company's reputation, including suspension from listing on the London Stock Exchange or a qualified audit report.

To mitigate these risks, the Board receives confirmation from the Manager and other key service providers at each Board meeting of compliance with relevant laws and regulations. Shareholder documents and announcements, including the Company's published Half Year and Annual Reports, are subject to stringent review processes, and procedures are in place to safeguard against the disclosure of inside information.

## **Custody and Depositary risk**

Safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber hacking. To mitigate this risk, the Board receives

quarterly reports from the Depositary confirming safe custody of the Company's assets, including cash, and portfolio holdings are independently reconciled by the Manager. In addition the existence of assets is subject to annual external audit and the Depositary's audited internal controls reports are reviewed by the Audit Committee and any concerns investigated.

## Service provider risk

The Company has no employees and has delegated certain functions to a number of service providers, principally the Manager, Depositary and Registrar. Failure of controls and poor performance of any service provider could lead to reputational damage or loss. The Board is therefore reliant on the effective operation of the systems of its service providers. To mitigate this risk, the Board considers regular reports from key service providers and monitors the quality of services provided, and the Management Engagement Committee conducts an annual review of services to ensure that they remain appropriate. The Audit Committee also reviews annual audited internal controls reports from its key service providers, which includes confirmation of business continuity arrangements.

## Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014 (the "Code"), the Directors have assessed the prospects of the Company over the three year period to the Annual General Meeting in 2018. The Directors believe this period to be appropriate notwithstanding that they will be required by the Articles of Association to put forward a proposal for the continuation of the Company at the forthcoming AGM as they have no reason to presume that such resolution will not be passed by shareholders.

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 12 to 14 and in particular the impact of a significant fall in the UK equity market 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; the share price discount; the Manager's compliance with the investment objective; asset allocation; the portfolio risk profile; 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 the Annual General Meeting in 2018.

## 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. It also 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](http://www.schroders.com/ri). We note that the Schroders view is 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 by asking the Manager to regularly report on the engagement activity, how it is integrated into the investment process, and the outcomes of the activity.

## Board diversity

As at 31 August 2015, the Board comprised four men and one woman. All Directors are non-executive and are considered by the Board to be independent. 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 existing Board, taking into account the specific criteria for the role being offered. Candidates are not specifically selected on the grounds of their gender or race, but this is taken into account when the Board examines its overall balance, skills set and experience.

## Future developments

The future performance of the Company depends upon the success of the Company's investment strategy in the light of economic factors and equity market developments. Further comments on the outlook for the Company for the next 12 months are set out in both the Chairman's Statement on pages 4 and 5 and the Manager's Review on pages 6 and 7.

By Order of the Board

**Schroder Investment Management Limited**

Company Secretary

16 November 2015

# Investment Portfolio

As at 31 August 2015

Company	Sector classification	Principal activity	Market value of holding £'000	% of total equity shareholders' funds
Vodafone	Telecommunications	Mobile telephone provider	9,199	4.9
Aviva	Financials	Insurance and financial services	9,012	4.8
Legal & General	Financials	Financial services	9,004	4.8
AstraZeneca	Healthcare	Pharmaceutical research and development	8,790	4.7
British American Tobacco	Consumer Goods	Cigarette manufacturer	8,722	4.6
GlaxoSmithKline	Healthcare	Pharmaceuticals producer	8,516	4.5
BT	Telecommunications	Fixed-line telecommunications provider	8,368	4.4
HSBC	Financials	Banking and financial services	8,020	4.3
Royal Dutch Shell 'B'	Oil and Gas	Integrated oil producer	7,992	4.2
Imperial Tobacco	Consumer Goods	Cigarette manufacturer	7,869	4.2
Rio Tinto	Basic Materials	Mining	6,687	3.6
BP	Oil and Gas	Integrated oil producer	6,299	3.4
Lloyds	Financials	Banking and financial services	6,261	3.3
Prudential	Financials	Financial services	6,195	3.3
Pearson	Media	Educational book publisher	6,160	3.3
ITV	Media	Television broadcasting	5,664	3.0
ICAP	Financials	Interdealer broker	5,201	2.8
Centrica	Utilities	Gas and energy supplier	5,132	2.7
Nordea	Financials	Banking and financial services	4,960	2.6
Societe Generale (France)	Financials	Banking and financial services	4,487	2.4
<b>Twenty largest investments</b>			<b>142,538</b>	<b>75.8</b>
RELX	Consumer Services	Information and analytics provider	4,396	2.3
Micro Focus International	Technology	Computer software provider	4,314	2.3
Taylor Wimpey	Consumer Goods	UK house builder	4,128	2.2
Bellway	Consumer Goods	UK house builder	4,030	2.1
Carnival	Consumer Services	Cruise liner operator	3,950	2.1
Unilever	Consumer Goods	Consumer products manufacturer	3,886	2.1
Halfords	Consumer Services	General retailer	3,736	2.0
Unite	Consumer Services	Student accommodation provider	3,543	1.9
Synthomer	Basic Materials	Specialty chemical manufacturer	3,427	1.8
Intermediate Capital	Financials	Financial services	3,397	1.8
BAE Systems	Industrials	Defence research and development	3,258	1.7
Direct Line Insurance	Financials	Non-life insurance provider	3,120	1.7
John Laing	Consumer Services	Infrastructure developer and operator	2,953	1.6
Daily Mail & General Trust	Media	Provider of media and analytical information	2,904	1.6
Greencore (Ireland)	Consumer Goods	Convenience foods manufacturer	2,819	1.5
Sage	Technology	Business accounting software developer	2,502	1.3
Swedbank (Sweden)	Financials	Banking and financial services	2,133	1.1
John Wood	Oil and Gas	Oil and gas services	2,033	1.1
IMI	Industrials	Diversified manufacturer	1,762	0.9
<b>Total investments</b>			<b>204,829</b>	<b>108.9</b>
<b>Current assets less liabilities</b>			<b>(16,664)</b>	<b>(8.9)</b>
<b>Total equity shareholders' funds</b>			<b>188,165</b>	<b>100.0</b>

At 31 August 2014, the 20 largest investments represented 73.3% of total equity shareholders' funds.

All UK investments unless otherwise stated.

# Directors



**Ian Barby** (Chairman)

Aged 70, was appointed as a Director of the Company on 31 October 2005. He practised as a Barrister before joining Warburg Investment Management Ltd in 1985, subsequently becoming a Vice Chairman of Mercury Asset Management plc and latterly, until 2003, a Managing Director of Merrill Lynch Investment Managers. He has

wide experience of the investment management industry and of the investment trust sector and is currently chairman of Invesco Perpetual UK Smaller Companies PLC and of Ecofin Water and Power Opportunities plc as well as being a director of Blackrock World Mining Trust plc and Pantheon International Participations PLC.



**Keith Niven**

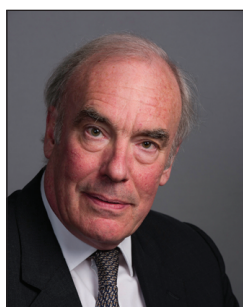
Aged 67, was appointed as a Director of the Company on 5 January 1995. He is non-executive chairman of Mobeus Income & Growth VCT plc. He is also an investment adviser to the Rolls-Royce Pension Fund. Mr Niven was previously a Vice Chairman of Schroder Investment Management Limited and chairman of Schroder Unit Trusts Limited.



**David Causer**

Aged 65, was appointed as a Director on 11 December 2008. He is a Chartered Accountant and a member of The Securities Institute. He has held a number of senior positions within financial organisations including Finance Director of Mercury Asset Management Group plc and a managing director of Merrill Lynch Investment Managers until 2001. He

was Finance Director of The British Red Cross Society until December 2007. He is currently a director and Audit Committee chairman of Fidelity China Special Situations plc.



**Peter Readman**

Aged 68, was appointed as a Director of the Company on 15 December 1999. He is chairman of Abercromby Property International, the Cambridge University Investment Board and the Chamber Orchestra of Europe. He is also a director of a number of other companies including Keystone Investment Trust plc and The Social Market Foundation.



**Bridget Guerin**

Aged 53, was appointed as a Director of the Company on 1 June 2012. Mrs Guerin was the managing director of Matrix Money Management Limited, an asset management and distribution firm, from its launch in 1999 until March 2011. She is an independent non-executive director of Charles Stanley Group PLC and of the London listed Mobeus Income & Growth VCT.

She is also a non-executive director of the CCP Quantitative Fund, a Cayman Islands CTA Fund managed by Cantab Capital, and of other funds and companies managed by, or associated with, Cantab Capital. She is also a Member of the York Race Committee and a Trustee of the York Racecourse Pension Fund. From 2000 until 2009 she was a director of Matrix Group Limited and also sat on the board of several funds of hedge funds and UCITS Fund boards. Mrs Guerin was a director of Schroder Unit Trusts Limited between 1993 and 1999.

All Directors are members of the Audit, Management Engagement and Nomination Committees.

Mr Causer is Chairman of the Audit Committee; Mr Barby is Chairman of the Nomination and Management Engagement Committees.

# Report of the Directors

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 August 2015.

## Revenue and earnings

The net revenue return for the year was £7,761,000 (2014: £7,428,000), equivalent to net revenue of 11.30 (2014: 10.82) pence per ordinary share.

## Dividend policy

The Directors of the Company intend to continue to pay dividends at the end of January, April, July and October in each year. Although it is intended to distribute substantially all of the Company's net income after expenses and taxation, the Company may retain up to a maximum of 15% of the Company's gross income in each year as a revenue reserve to provide flexibility in dividend policy.

For the year ended 31 August 2015, the Directors have declared four interim dividends, totalling 10.30 (2014: 10.10) pence per ordinary share.

## Directors and their interests

The Directors of the Company and their biographical details can be found on page 17. All Directors held office throughout the year under review and up to the date of this Report.

No Director has any material interest in any contract which is significant to the Company's business.

The Company's Articles of Association and the provisions of the UK Corporate Governance Code require Directors to retire for re-election at every third Annual General Meeting following their appointment and for any Director who has served for more than nine years to be subject to annual re-election by shareholders.

The Board considers that shareholders should be given the opportunity to vote on the re-election of all of its members on an annual basis. Accordingly, all of the Directors will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Board has assessed the independence of the Directors and all Directors are considered to be independent. Mr Barby, Mr Niven and Mr Readman are each considered to be independent in character and judgement notwithstanding that they have each served on the Board for more than nine years.

Re-appointment as a Director is not automatic and follows a formal process of evaluation of each Director's performance. The evaluation of each Director who has served on the Board for more than six years has involved particularly rigorous assessment of their independence and contribution to the Board.

The Board, having reviewed its performance during the year, considers that each of Mr Barby, Mr Causer, Mrs Guerin, Mr Niven and Mr Readman continues to demonstrate commitment to his or her role and provides a valuable contribution to the deliberations of the Board. It therefore recommends that shareholders vote in favour of their re-elections.



# Report of the Directors

The Directors' interests in the Company's share capital at the beginning and end of the financial year ended 31 August 2015, all of which were beneficial, were as follows:

	Ordinary shares of 10p each at 31 August 2015	Ordinary shares of 10p each at 1 September 2014
Ian Barby	100,000	100,000
David Causer	23,750	23,750
Bridget Guerin	18,862	6,049
Keith Niven	89,499	89,499
Peter Readman	Nil	Nil

There have been no changes to the above holdings between the end of the financial year and the date of this Report.

The information in the above table has been audited (see Independent Auditor's Report on pages 34 to 37).

## Share capital

As at the date of this Report, the Company had 68,688,343 ordinary shares of 10p each in issue. No shares were held in Treasury. Accordingly, the total number of voting rights in the Company as at the date of this Report is 68,688,343. There was no change in the number of shares in issue during the year under review (2014: no change). Full details of the Company's share capital are set out in note 14 on page 46.

## Substantial share interests

As at the date of this Report, the Company has received notifications in accordance with the FCA's 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 ordinary share capital:

	Number of Ordinary shares	Percentage of total voting rights
Charles Stanley & Co Limited	3,446,355	5.0%

In addition, the Directors are aware that 22,204,667 ordinary shares, representing 33.3% of the Company's issued share capital, were held by investors in the Schroder ISA as at the date of this Report.

## 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 AIFM Agreement. The AIFM Agreement, which is governed by the laws of England and Wales, can be terminated by either party on 12 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.

# Report of the Directors

From 1 September 2014, the Manager has been entitled to a management fee of 0.75% per annum, charged on the value of the Company's assets under management, net of current liabilities other than short term borrowings less any cash up to the level of borrowings.

Prior to 1 September 2014, the Manager was entitled to a fee at the rate of 10% of the net revenue return for the year after taxation plus 0.375% on assets up to and including £75 million, 0.35% on the next £50 million, and 0.325% on assets in excess of £125 million. There was also a performance fee arrangement in place which rewarded the Manager for outperformance but penalised for underperformance. The fee (or rebate) was based on 5% of the outperformance (or underperformance) of the NAV over the FTSE All-Share Index.

Details of fees paid to the Manager are set out in note 4 on page 43.

The Board has reviewed the performance of the Manager during the year under review and continues to consider that it has the appropriate depth of resource to achieve above-average returns in the longer term. Thus, the Board considers that the Manager's appointment under the terms of the AIFM Agreement, further 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 FCA and the Prudential Regulation Authority, has been appointed to carry 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 to the extent described in the AIFM Directive.

In carrying out such functions the Depositary shall act honestly, fairly, professionally, independently and in the interests of the shareholders of the Company.

The Depositary is liable to the Company for the loss of any financial instrument held in its custody, unless the Depositary is permitted to and has discharged such liability under the AIFM Directive and the Depositary Agreement. The Manager will inform investors of any changes with respect to the Depositary's liability for the loss of any financial instrument held in custody. The Depositary is also liable to the Company for all other losses suffered by it as a result of the Depositary's fraud, negligence and/or intentional failure to properly fulfil its duties. Under the Depositary Agreement, the Company has agreed to indemnify the Depositary against certain liabilities for direct losses suffered by the Depositary except in the case of any liability arising from applicable law or from the negligence, fraud or wilful default of the Depositary.

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.

## Registrar

The Company has appointed Equiniti Limited to act as Registrar. The services provided in their capacity as Registrar include share register maintenance, including the cancellation and allotment of shares as required; handling shareholder queries and

# Report of the Directors

correspondence; arranging for the payment of dividends, maintenance and reconciliation of associated bank accounts; meeting management for company meetings including registering of proxy votes and scrutineer services as and when required; and corporate action services.

## Greenhouse gas emissions

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

## Going concern

Having assessed the principal risks and the other matters discussed in connection with the Viability Statement, the Directors consider it appropriate to adopt the going concern basis in preparing the accounts.

A statement on the longer term viability of the Company can be found in the Strategic Report on page 14.

## 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/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.

## Independent Auditor

The Company's Auditor, Deloitte LLP, has expressed its willingness to remain in office and resolutions to re-appoint it as Auditor to the Company and to authorise the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

# 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 company 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 "2014 Code") which applies to accounting periods beginning on or after 1 October 2014. Prior to that, the UK Corporate Governance Code published in 2012 (the "2012 Code") has remained in force. Both Codes are published by the UK Financial Reporting Council and is available to download from [www.frc.org.uk](http://www.frc.org.uk).

## Compliance statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the UK Corporate Governance Code. This Corporate Governance Statement, together with the viability statement, the going concern statement and the statement of Directors' responsibilities, set out on pages 21, 26 and 27, indicate how the Company has complied with the principles of good governance of the Code and its requirements on internal control.

# Report of the Directors

The Board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the 2012 Code, save in respect of the appointment of a Senior Independent Director, where departure from the 2012 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 chair 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.

In October 2014, the Board reviewed the provisions of the revised UK Corporate Governance Code and has chosen to report its compliance with the 2014 Code as it believes it has been in compliance with the 2014 Code since that time.

## Operation and composition of the Board

### **Role and composition 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. It also identifies and monitors the key risks facing the Company.

Investment activities are predominantly monitored through quarterly Board meetings at which the Board receives detailed reports and updates from the portfolio manager, who attends each Board meeting. Services from other key service providers are reviewed as appropriate.

In order to support the promotion of the Company by assisting in reducing the volatility of the discount, the Board monitors the discount of the Company's share price to its underlying net asset value and the discounts of peer group companies and considers the use of its share buy back authority when warranted.

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 both closed and open ended peers. An analysis of the Company's costs, including management fees, Directors' fees and general expenses, is submitted to each Board meeting. Management fees are reviewed at least annually and were last restructured with effect from 1 September 2014 (further details can be found in the Report of the Directors on page 20).

The Board has no executive directors and has not appointed a Chief Executive Officer as it has contractually delegated responsibility for the management of its investment portfolio, the arrangement of custodial and depositary services and the provision of accounting and company secretarial services. The Company has no employees.

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 17. He has no conflicting relationships.

# Report of the Directors

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 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 and the wider sector, 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 provided on a regular basis 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 and training and development needs are included as part of the evaluation process.

## 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 appraisal 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 July 2015.

## Directors' and officers' liability insurance and indemnity

Directors' and officers' liability insurance cover was in place in respect of 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.

## Directors' attendance at meetings

Four Board meetings are usually scheduled each year to deal with various matters including the setting and monitoring of investment strategy, approval of borrowings, review of investment performance, the level of the share price discount or premium to net asset value and evaluation of service providers. Additional meetings of the Board may be arranged as required.

# Report of the Directors

The number of meetings of the Board and its Committees held during the financial year, and the attendance of individual Directors, are shown below. Other than in extenuating circumstances all Directors attend the Annual General Meeting.

Director	Board	Nomination Committee	Audit Committee	Management Engagement Committee
Ian Barby	4/4	1/1	2/2	1/1
David Causer	4/4	1/1	2/2	1/1
Bridget Guerin	4/4	1/1	2/2	1/1
Keith Niven	4/4	1/1	2/2	1/1
Peter Readman	4/4	1/1	2/2	1/1

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 his/her duty as a Director.

## Board Committees and their activities

The Committees of the Board have defined Terms of Reference which are available on the webpage [www.schroderincomegrowthfund.com](http://www.schroderincomegrowthfund.com). Membership of the Committees is set out on page 17.

## Nomination Committee

The Nomination Committee advises the Board on succession planning, taking into consideration the balance of skills, knowledge and experience existing on the Board, and makes recommendations to the Board in this regard. The Nomination Committee advises the Board on its balance of relevant skills and experience, including gender, race, age and length of service of the Directors serving on the Board.

Before the appointment of a new Director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. The Committee is dedicated to selecting the best person for the role, while recognising the importance of diversity.

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

The Committee met on one occasion during the year under review and considered its Terms of Reference, the balance, skills, independence and experience of the Board, and succession planning.

The Board considers each member of the Committee to be independent.

## Management Engagement Committee

The role of the Management Engagement Committee is to ensure that the Company's Manager remains suitable to manage the portfolio, that the terms of the AIFM Agreement remain competitive and reasonable for shareholders, that Directors' fees remain competitive and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other service providers. The Board considers each member of the Committee to be independent.



# Report of the Directors

To discharge its duties, the Committee met on one occasion during the year under review to consider: the performance and suitability of the Manager; the terms and conditions of the AIFM Agreement, including fees; the performance and suitability of other service providers; the Committee's Terms of Reference; and fees paid to Directors.

## Audit Committee

The role, duties and activities of the Audit Committee are set out in the Report of the Audit Committee on page 28.

## Relations with shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the Half Year Report and the Annual Report which aim 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 Annual General Meeting ("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 inside front 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 by the Board.

## Anti bribery and corruption policy

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

This policy expressly prohibits any Director or persons acting on the Company's behalf from accepting, offering, soliciting, paying or authorising any payment, gift or hospitality to secure any improper benefit for themselves or the Company. The Company has implemented this policy to ensure compliance with the Bribery Act 2010. In pursuance of this policy, the Board has undertaken due diligence in respect of relevant persons who perform services for and on behalf of the Company and has obtained assurances that appropriate anti bribery and corruption policies are in operation.

## 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 Board will continue to review annually whether an internal audit function is needed.

## Internal control and risk management system

Information on the Company's internal control and risk management system can be found in the Strategic Report on pages 8 to 15.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Report of the Directors including 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 they have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 profit 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 have been followed, subject to any material departures disclosed and explained in the financial statements respectively; 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.

Each of the Directors, whose names and functions are set out on page 17, confirms 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 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

# Report of the Directors

- they consider that 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, performance, business model and strategy.

By Order of the Board

**Schroder Investment Management Limited**

Company Secretary

16 November 2015

# Report of the Audit Committee

I am pleased to present the Report of the Audit Committee (the “Committee”), outlining the work carried out by the Committee during the year ended 31 August 2015.

## Composition and Terms of Reference

Membership of the Committee is set out on page 17. The Committee’s terms of reference are available on the webpage [www.schroderincomegrowthfund.com](http://www.schroderincomegrowthfund.com).

## Role of the Committee

The role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting and internal control. The Board considers each member of the Committee to be independent.

The Audit Committee met twice during the year to consider its Terms of Reference, the operational controls maintained by the Manager and Depositary; the Half Year and Annual Report and Accounts and related audit plan and engagement letter; the need for an internal audit function; the independence of the Auditor; and an evaluation of the Auditor’s performance. The Board has satisfied itself that at least one of the Committee’s members has recent and relevant financial experience (see Directors’ biographies on page 17).

## Annual Report and financial statements

During its review of the Company’s financial statements for the year ended 31 August 2015, 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
<ul style="list-style-type: none"><li>• Overall accuracy of the Annual Report and Accounts</li></ul>	<ul style="list-style-type: none"><li>• Consideration of the draft Annual Report and Accounts and the letter from the Manager in support of the letter of representation to the Auditor’s Report to the Audit Committee.</li></ul>
<ul style="list-style-type: none"><li>• Calculation of the investment management fee</li></ul>	<ul style="list-style-type: none"><li>• Consideration of methodology used to calculate the fee, matched against the criteria set out in the AIFM Agreement.</li></ul>
<ul style="list-style-type: none"><li>• Valuation and existence of holdings</li></ul>	<ul style="list-style-type: none"><li>• Review of portfolio holdings and assurance reports on controls from the Manager and Depositary.</li></ul>
<ul style="list-style-type: none"><li>• Compliance with the investment trust qualifying rules in S1158 of the Corporation Tax Act 2010</li></ul>	<ul style="list-style-type: none"><li>• Consideration of the Manager’s report confirming compliance.</li></ul>
<ul style="list-style-type: none"><li>• Internal controls and risk management</li></ul>	<ul style="list-style-type: none"><li>• Consideration of several key aspects of internal control and risk management operating within the Manager and Depositary.</li></ul>
<ul style="list-style-type: none"><li>• Recognition of investment income</li></ul>	<ul style="list-style-type: none"><li>• Consideration of dividends received against forecast and the allocation of special dividends to income or capital.</li></ul>

# Report of the Audit Committee

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31 August 2015, 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 pages 26 and 27.

## 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 third year that the Senior Statutory Auditor has conducted the audit of the Company's financial statements.

The European Parliament and the Council of the European Union adopted an amending Directive on statutory audits of annual accounts and consolidated accounts in April 2014, which will apply to certain companies, including the Company, in respect of financial years commencing on or after 17 June 2016. The reforms include the mandatory periodic tendering of the audit contract and rotation of audit firms. The Board is considering the impact of the reforms, which have yet to be implemented under UK law.

## Provision of non-audit services

The Audit Committee has adopted a policy requiring pre-approval by the Committee for any non-audit services provided by the Auditor. No non-audit services were provided during the year (2014: nil).

### **David Causer**

Chairman of the Audit Committee

16 November 2015

# Remuneration Report

## 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 Directors' Annual Report on Remuneration is subject to shareholder approval at the forthcoming Annual General Meeting ("AGM").

## 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 £150,000 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 receive fees at a higher rate than the other Directors to reflect their additional responsibilities. The fees payable to Directors are not performance-related. They 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 are comprised of non-executive Directors. No Director past or present has an entitlement to pensions, and the Company has not awarded, and does not intend 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 with the Company and are not entitled to notice in the event of termination. 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 levels of fees paid to 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.



# Remuneration Report

## Annual Report on implementation of the Remuneration Policy

This Report sets out how the Directors' Remuneration Policy was implemented during the year ended 31 August 2015.

### Fees paid to Directors

During the year ended 31 August 2015, the Chairman was paid a fee of £28,000 and the other Directors were each paid a fee of £22,000. The chairman of the Audit Committee received an additional fee of £3,000, reflecting the additional time commitment for this role.

The following amounts were paid by the Company to the Directors for services as non-executive Directors in respect of the year ended 31 August 2015 and the previous financial year:

Director	Fees		Taxable benefits		Total	
	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £
Ian Barby (Chairman)	28,000	25,000	160	52	28,160	25,052
David Causer	25,000	22,000	160	–	25,160	22,000
Bridget Guerin	22,000	19,000	–	505	22,000	19,505
Keith Niven	22,000	19,000	160	1,072	22,160	20,072
Peter Readman	22,000	19,000	160	–	22,160	19,000
<b>Total</b>	<b>119,000</b>	<b>104,000</b>	<b>640</b>	<b>1,629</b>	<b>119,640</b>	<b>105,629</b>

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

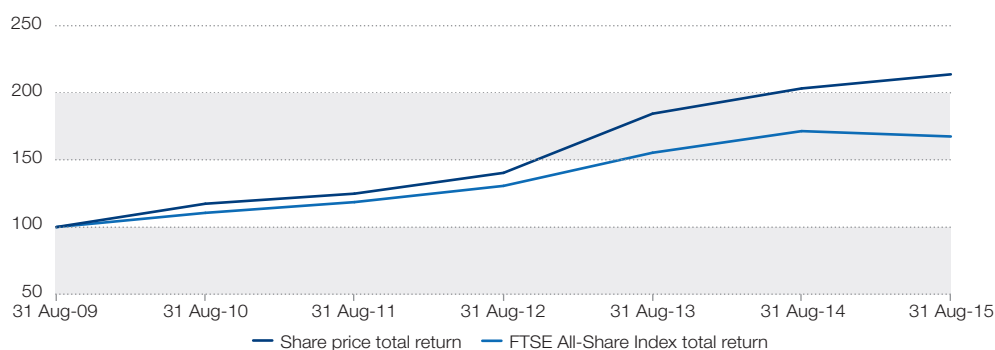
### Consideration of matters relating to Directors' remuneration

Directors' remuneration levels were reviewed by the Management Engagement Committee and the Board during the year under review and in October 2015. The members of the Committee at the time that remuneration levels were considered were as set out on page 17. No external advice was sought in considering Directors' fee levels. However, information on fees paid to Directors of other investment trusts managed by Schroders and peer group companies corporate broker was taken into consideration. Following the annual review, the Board decided that Directors' fees should remain unchanged. The Directors' fees were last increased with effect from 1 September 2014.

# Remuneration Report

## Performance graph

A graph showing the Company's share price total return compared with the FTSE All-Share Index total return, over the last six years, is set out below. The FTSE All-Share Index has been selected as an appropriate comparison based on the composition of the Company's investment portfolio.



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 August 2009.

## Expenditure by the Company on Directors' remuneration compared with distributions to shareholders

The table below compares the remuneration payable to Directors with distributions paid to shareholders during the year under review and the prior financial year. In considering these figures, shareholders should take into account the Company's principal investment objectives of providing both income and capital growth.

	Year ended 31 August 2015 £	Year ended 31 August 2014 £	% Change
Remuneration payable to Directors	119,640	105,629	13.3
Distributions paid to shareholders – dividends <sup>1</sup>	6,937,523	6,731,458	3.1

<sup>1</sup>Comprises dividends paid to shareholders during the year.

## Directors' share interests

The Company's Articles of Association do not require Directors to own shares in the Company. The shareholdings of Directors, including those of connected persons, at the beginning and end of the financial year under review are set out in the Report of the Directors on page 19. Such information has been audited.

The Company does not operate a share scheme for Directors nor does it award Directors share options.

## Implementation of the Remuneration Policy for the year ending 31 August 2016

The Board does not intend to make any significant changes to the implementation of the Remuneration Policy as set out in this Report for the year ending 31 August 2016.

# Remuneration Report

## Shareholder approval

### Remuneration Policy

The above Remuneration Policy is currently in force and is subject to a binding vote every three years. An ordinary resolution to approve this Policy was approved by shareholders at the last AGM. The full policy provisions will continue to apply until the AGM held in 2017 unless a revised Remuneration Policy is approved prior to such AGM.

At the AGM held on 18 December 2014, 99.2% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Remuneration Policy were in favour while 0.8% were against. 43,953 votes were withheld.

### Director's annual report on remuneration

The above Report on Directors' Remuneration is subject to an annual advisory vote. An ordinary resolution to approve this Report will be put to shareholders at the forthcoming AGM.

At the AGM held on 18 December 2014, 99.2% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Remuneration Report for the year ended 31 August 2014 were in favour while 0.8% were against. 37,780 votes were withheld.

**Ian Barby**  
Chairman

16 November 2015

# Independent Auditor's Report to the members of Schroder Income Growth Fund plc

## Opinion on financial statements of Schroder Income Growth Fund plc

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice issued by the Association of Investment Companies in January 2009 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice issued by the Association of Investment Companies in January 2009 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

## Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Company

As required by the Listing Rules we have reviewed the Directors' statement contained within the Report of the Directors on page 21 that the Company is a going concern.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 12 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 12-14 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 21 of 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 Company's ability to continue for a period of at least 12 months from the date of approval of the financial statements;
- the Director's explanation on page 14 as to how they have assessed the prospects of the Company, 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 Company 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 agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

## Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

# Independent Auditor's Report to the members of Schroder Income Growth Fund plc

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
<b>Valuation and ownership of investments</b> The investments of the Company (£204.8m) make up 98% of total assets (£208.7m). Please see accounting policy 1. (b) and note 10.  There is a risk that investments within the portfolio may not be actively traded or that the prices quoted may not be reflective of fair value.  There is a risk that the assets recorded may not represent the property of the Company.	<ul style="list-style-type: none"><li>– We have evaluated the design and implementation of controls in place in relation to the valuation and ownership of investments.</li><li>– We agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an independent pricing source.</li><li>– In order to confirm the liquidity of all the holdings at year-end we compared the holding size of each investment to the volume of its shares traded in the month after the year end.</li><li>– We have agreed 100% of the Trust's portfolio to the independently obtained confirmation from the custodian.</li><li>– We reviewed a report prepared on the design and operation of controls at the custodian, who are responsible for holding the investments on the Company's behalf.</li></ul>
<b>Recognition of investment income</b> Revenue (£9.2m) may be understated where it is not recognised or recognised in the incorrect period. Please see accounting policy 1. (d) and note 3.  There is a risk that revenue is not complete, or correctly allocated between revenue and capital accounts.	<ul style="list-style-type: none"><li>– We have evaluated the design and implementation of controls for monitoring completeness of revenue and key controls over revenue recognition;</li><li>– For a sample of investments held obtained the dividend history and determined whether that all dividends due were correctly and accurately recorded;</li><li>– We have tested a sample of dividends received after the balance sheet date to confirm whether they had been recorded in the correct period;</li><li>– For a sample of corporate actions and special dividends received, we determined whether the allocation between revenue and capital was appropriate by reviewing management's allocation and performing independent research to determine if it was appropriate.</li></ul>

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 28.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company to be £1,881,000 (2014: £1,889,000), which is 1% (2014: 1%) of total net assets.

# Independent Auditor's Report to the members of Schroder Income Growth Fund plc

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £37,000 (2014: £37,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

As part of our audit we assessed the controls in place at the fund administrator who prepares the financial statements of the Company by reviewing a controls report over their activities.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- 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 consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and

# Independent Auditor's Report to the members of Schroder Income Growth Fund plc

understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

## 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.

Calum Thomson, FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor,  
London, United Kingdom

16 November 2015



# Income Statement

for the year ended 31 August 2015

	Note	2015			2014		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	2	–	(1,426)	(1,426)	–	16,999	16,999
Net foreign currency (losses)/gains		–	(16)	(16)	–	19	19
Income from investments	3	9,214	909	10,123	8,599	612	9,211
Other interest receivable and similar income	3	10	–	10	4	–	4
<b>Gross return/(loss)</b>		<b>9,224</b>	<b>(533)</b>	<b>8,691</b>	8,603	17,630	26,233
Investment management fee	4	(789)	(789)	(1,578)	(711)	(711)	(1,422)
Performance fee	4	–	–	–	–	(174)	(174)
Administrative expenses	5	(356)	–	(356)	(292)	–	(292)
<b>Net return/(loss) before finance costs and taxation</b>		<b>8,079</b>	<b>(1,322)</b>	<b>6,757</b>	7,600	16,745	24,345
Finance costs	6	(272)	(272)	(544)	(121)	(121)	(242)
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>7,807</b>	<b>(1,594)</b>	<b>6,213</b>	7,479	16,624	24,103
Taxation on ordinary activities	7	(46)	–	(46)	(51)	–	(51)
<b>Net return/(loss) on ordinary activities after taxation</b>		<b>7,761</b>	<b>(1,594)</b>	<b>6,167</b>	7,428	16,624	24,052
<b>Return/(loss) per share</b>	9	<b>11.30p</b>	<b>(2.32)p</b>	<b>8.98p</b>	10.82p	24.20p	35.02p

The "Total" column of this statement is the profit and loss account of the Company. The "Revenue" and "Capital" columns represent supplementary information prepared under guidance issued by the Association of Investment Companies. The Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

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

## Reconciliation of Movements in Shareholders' Funds

for the year ended 31 August 2015

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2013	6,869	7,404	2,011	34,936	1,596	113,092	5,708	171,616
Net return on ordinary activities	–	–	–	–	–	16,624	7,428	24,052
Dividends paid in the year	–	–	–	–	–	–	(6,732)	(6,732)
At 31 August 2014	6,869	7,404	2,011	34,936	1,596	129,716	6,404	188,936
Net (loss)/return on ordinary activities	–	–	–	–	–	(1,594)	7,761	6,167
Dividends paid in the year	–	–	–	–	–	–	(6,938)	(6,938)
<b>At 31 August 2015</b>	<b>6,869</b>	<b>7,404</b>	<b>2,011</b>	<b>34,936</b>	<b>1,596</b>	<b>128,122</b>	<b>7,227</b>	<b>188,165</b>

The notes on pages 41 to 52 form an integral part of these accounts.

# Balance Sheet

as at 31 August 2015

	Note	2015 £'000	2014 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	10	204,829	206,332
<b>Current assets</b>			
Debtors	11	1,709	1,871
Cash at bank and in hand		2,184	1,791
		3,893	3,662
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	12	(557)	(1,058)
<b>Net current assets</b>		3,336	2,604
<b>Total assets less current liabilities</b>		208,165	208,936
Creditors: amounts falling due after more than one year	13	(20,000)	(20,000)
<b>Net assets</b>		188,165	188,936
<b>Capital and reserves</b>			
Called-up share capital	14	6,869	6,869
Share premium	15	7,404	7,404
Capital redemption reserve	15	2,011	2,011
Share purchase reserve	15	34,936	34,936
Warrant exercise reserve	15	1,596	1,596
Capital reserves	15	128,122	129,716
Revenue reserve	15	7,227	6,404
<b>Total equity shareholders' funds</b>		188,165	188,936
<b>Net asset value per share</b>	16	273.94p	275.06p

These accounts were approved and authorised for issue by the Board of Directors on 16 November 2015 and signed on its behalf by:

**Ian Barby**

Chairman

The notes on pages 41 to 52 form an integral part of these accounts.

Company registration number: 3008494

# Cash Flow Statement

for the year ended 31 August 2015

	Note	2015 £'000	2014 £'000
<b>Net cash inflow from operating activities</b>	<b>17</b>	<b>6,862</b>	6,603
<b>Servicing of finance</b>			
Interest paid		(544)	(161)
<b>Net cash outflow from servicing of finance</b>		<b>(544)</b>	(161)
<b>Taxation</b>			
Overseas tax paid		(30)	(73)
<b>Investment activities</b>			
Purchases of investments		(37,346)	(51,596)
Sales of investments		37,496	38,746
Special dividend received allocated to capital		909	612
<b>Net cash inflow/(outflow) from investment activities</b>		<b>1,059</b>	(12,238)
Dividends paid		(6,938)	(6,732)
<b>Net cash inflow/(outflow) before financing</b>		<b>409</b>	(12,601)
<b>Financing</b>			
Loan drawn down		–	13,300
<b>Net cash inflow from financing</b>		<b>–</b>	13,300
<b>Net cash inflow in the year</b>	<b>18</b>	<b>409</b>	699

The notes on pages 41 to 52 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 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.

The policies applied in these accounts are consistent with those applied in the preceding year.

### (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 strategy 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, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value, which are quoted bid prices 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 within "Gains and losses on sales of investments". Increases and decreases in the valuation of investments held at the year end, are included in the Income Statement and dealt with in capital reserves within "Investment holding gains and losses".

Foreign exchange gains and losses on cash and deposit balances are included in the Income Statement and in capital reserves within "Gains and losses on sales of investments".

### (d) Income

Dividends receivable from equity shares 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. Overseas dividends are included gross of any withholding tax.

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.

Deposit interest outstanding at the year end is calculated and accrued on a time apportionment basis using market rates of interest.

### (e) Expenses

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

- The management fee is allocated 50% to revenue and 50% 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 45.

### (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 the provisions of FRS 25 "Financial Instruments: Presentation" and FRS 26 "Financial Instruments: Measurement".

Finance costs are allocated 50% to revenue and 50% 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 classified as loans and receivables and are initially measured at fair value and subsequently at amortised cost. They are recorded at the proceeds received net of direct issue costs.

# Notes to the Accounts

## (h) Taxation

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

Deferred tax is accounted for in accordance with FRS 19: "Deferred Tax".

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) Foreign currency

In accordance with FRS 23: "The effects of changes in Foreign Currency Exchange Rates" the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board has determined that sterling is the Company's functional currency and the presentational currency of the accounts.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

## (k) Dividends payable

In accordance with FRS 21: "Events after the Balance Sheet Date", dividends are included in the accounts in the year in which they are paid.

## 2. (Losses)/gains on investments held at fair value through profit or loss

	2015 £'000	2014 £'000
Gains on sales of investments based on historic cost	3,699	7,150
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	(6,384)	(7,881)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(2,685)	(731)
Net movement in investment holding gains and losses	1,259	17,730
<b>(Losses)/gains on investments held at fair value through profit or loss</b>	<b>(1,426)</b>	16,999

## 3. Income

	2015 £'000	2014 £'000
Income from investments:		
UK dividends	7,987	7,209
Overseas dividends	1,154	1,328
Scrip dividends	73	62
	9,214	8,599
Other interest receivable and similar income:		
Deposit interest	10	4
<b>Total income</b>	<b>9,224</b>	8,603
Capital:		
Special dividends allocated to capital	909	612

# Notes to the Accounts

## 4. Investment management fee

	2015			2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	789	789	1,578	711	711	1,422
Performance fee	–	–	–	–	174	174
	789	789	1,578	711	885	1,596

The basis for calculating the management fee is set out in the Report of the Directors on page 20.

## 5. Administrative expenses

	2015 £'000	2014 £'000
Administration expenses	212	163
Directors' fees	119	104
Auditor's remuneration for audit services <sup>1</sup>	25	25
	356	292

<sup>1</sup>Includes £4,000 (2014: £4,000) irrecoverable VAT.

## 6. Finance costs

	2015			2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on bank loans and overdrafts	272	272	544	121	121	242

## 7. Taxation

### (a) Analysis of charge in the year:

	2015 £'000	2014 £'000
Irrecoverable overseas tax	46	51
<b>Current tax charge for the year</b>	<b>46</b>	<b>51</b>

### (b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2014: lower) than the Company's applicable rate of corporation tax for the year of 20.58% (2014: 22.17%).

# Notes to the Accounts

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

	2015			2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	7,807	(1,594)	6,213	7,479	16,624	24,103
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 20.58% (2014: 22.17%)	1,607	(328)	1,279	1,658	3,686	5,344
Effects of:						
Capital (loss)/return on investments	–	297	297	–	(3,773)	(3,773)
Income not chargeable to corporation tax	(1,896)	(187)	(2,083)	(1,906)	(136)	(2,042)
Unrelieved expenses	289	218	507	248	223	471
Irrecoverable overseas tax	46	–	46	51	–	51
<b>Current tax charge for the year</b>	<b>46</b>	<b>–</b>	<b>46</b>	<b>51</b>	<b>–</b>	<b>51</b>

## (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £4,267,000 (2014: £3,773,000) based on the current corporation tax rate of 20% (2014: 20%) effective from 1 April 2015. 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 continue to meet the conditions required to retain its status as an investment trust, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

## 8. Dividends

### (a) Dividends paid and declared

	2015 £'000	2014 £'000
2014 fourth interim dividend of 4.1p (2013: 3.8p)	2,816	2,610
First interim dividend of 2.0p (2014: 2.0p)	1,374	1,374
Second interim dividend of 2.0p (2014: 2.0p)	1,374	1,374
Third interim dividend of 2.0p (2014: 2.0p)	1,374	1,374
<b>Total dividends paid in the year</b>	<b>6,938</b>	<b>6,732</b>

	2015 £'000	2014 £'000
Fourth interim dividend declared of 4.3p (2014: 4.1p)	2,954	2,816

### (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 £7,761,000 (2014: £7,428,000).



# Notes to the Accounts

	2015 £'000	2014 £'000
First interim dividend of 2.0p (2014: 2.0p)	1,374	1,374
Second interim dividend of 2.0p (2014: 2.0p)	1,374	1,374
Third interim dividend of 2.0p (2014: 2.0p)	1,374	1,374
Fourth interim dividend of 4.3p (2014: 4.1p)	2,954	2,816
<b>Total dividends of 10.3p (2014: 10.1p) per share</b>	<b>7,076</b>	6,938

## 9. Return/(loss) per share

	2015 £'000	2014 £'000
Revenue return	7,761	7,428
Capital (loss)/return	(1,594)	16,624
<b>Total return</b>	<b>6,167</b>	24,052
Weighted average number of ordinary shares in issue during the year	68,688,343	68,688,343
Revenue return per share	11.30p	10.82p
Capital (loss)/return per share	(2.32)p	24.20p
<b>Total return per share</b>	<b>8.98p</b>	35.02p

## 10. Investments held at fair value through profit or loss

	2015 £'000	2014 £'000
Opening book cost	157,555	137,493
Opening investment holding gains	48,777	38,928
Opening valuation	206,332	176,421
Purchases at cost	37,419	51,658
Sales proceeds	(37,496)	(38,746)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(2,685)	(731)
Net movement in investment holding gains and losses	1,259	17,730
<b>Closing valuation</b>	<b>204,829</b>	206,332
Closing book cost	161,177	157,555
Closing investment holding gains	43,652	48,777
<b>Total investments held at fair value through profit or loss</b>	<b>204,829</b>	206,332

All investments are listed on a recognised stock exchange.

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

	2015 £'000	2014 £'000
On acquisitions	180	268
On disposals	34	34
	<b>214</b>	302

# Notes to the Accounts

## 11. Debtors

	2015 £'000	2014 £'000
Dividends and interest receivable	1,606	1,751
Taxation recoverable	65	81
Other debtors	38	39
	1,709	1,871

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

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

	2015 £'000	2014 £'000
Other creditors and accruals	557	1,058

The Company's £10 million revolving credit facility with Scotiabank was extended during the year and now expires on 30 June 2016. 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 met. The facility was undrawn at the current and comparative year ends. Further details of the credit facility are given in note 22 on page 49.

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

## 13. Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Bank loan	20,000	20,000

The Company has in place a £20 million three-year term loan with Scotiabank expiring on 30 June 2017 carrying a fixed interest rate of 2.72% per annum. The loan is unsecured but is subject to certain undertakings and restrictions, all of which have been met.

## 14. Called-up share capital

	2015 £'000	2014 £'000
Ordinary shares allotted, called-up and fully paid: 68,688,343 (2014: 68,688,343) shares of 10p each	6,869	6,869

# Notes to the Accounts

## 15. Reserves

	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves		Revenue reserve £'000
					Gains and losses on sales of investments £'000	Investment holding gains and losses £'000	
Opening balance	7,404	2,011	34,936	1,596	80,939	48,777	6,404
Losses on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	(2,685)	–	–
Net movement in investment holding gains and losses	–	–	–	–	–	1,259	–
Transfer on disposal of investments	–	–	–	–	6,384	(6,384)	–
Realised foreign currency losses	–	–	–	–	(16)	–	–
Management fee and finance costs allocated to capital	–	–	–	–	(1,061)	–	–
Special dividend allocated to capital	–	–	–	–	909	–	–
Dividends paid	–	–	–	–	–	–	(6,938)
Retained revenue for the year	–	–	–	–	–	–	7,761
<b>Closing balance</b>	<b>7,404</b>	<b>2,011</b>	<b>34,936</b>	<b>1,596</b>	<b>84,470</b>	<b>43,652</b>	<b>7,227</b>

## 16. Net asset value per share

	2015	2014
Net assets attributable to shareholders (£'000)	188,165	188,936
Shares in issue at the year end	68,688,343	68,688,343
<b>Net asset value per share</b>	<b>273.94p</b>	275.06p

## 17. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	2015 £'000	2014 £'000
Total return on ordinary activities before finance costs and taxation	6,757	24,345
Less capital loss/(return) on ordinary activities before finance costs and taxation	1,322	(16,745)
Decrease/(increase) in accrued dividends and interest receivable	145	(523)
Decrease in other debtors	1	3
Management fee and performance fee allocated to capital	(789)	(885)
Scrip dividends received as income	(73)	(62)
(Decrease)/increase in accrued expenses	(501)	470
<b>Net cash inflow from operating activities</b>	<b>6,862</b>	6,603

# Notes to the Accounts

## 18. Analysis of changes in net debt

	At 31 August 2014 £'000	Cash flow £'000	Exchange movement £'000	At 31 August 2015 £'000
Cash at bank and in hand	1,791	409	(16)	2,184
Bank loan	(20,000)	–	–	(20,000)
<b>Net debt</b>	<b>(18,209)</b>	<b>409</b>	<b>(16)</b>	<b>(17,816)</b>

## 19. Transactions with the Manager

Under the terms of the AIFM Agreement, the Manager is entitled to receive a management fee. The performance fee arrangement ceased on 31 August 2014 and a new management fee calculation took effect from 1 September 2015. Details of the basis of the calculation are given in the Report of the Directors on page 20. 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 calculation and therefore incur no fee.

The management fee payable in respect of the year ended 31 August 2015 amounted to £1,578,000 (2014: £1,422,000) of which £383,000 (2014: £724,000) was outstanding at the year end. A performance fee amounting to £174,000 was payable in respect of the comparative year and the whole of that amount was outstanding at the comparative year end.

No Director of the Company served as a director of any member of the Schroders Group at any time during the year.

## 20. Related party transactions

The Company has no related parties other than its Directors. Details of the remuneration payable to Directors are given in the Remuneration Report on page 31 and details of Directors' shareholdings are given in the Report of the Directors on page 19.

## 21. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio. The investments are categorised into a hierarchy consisting of the following three levels:

Level 1 – valued using quoted prices in active markets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 41.

At 31 August 2015, all investments in the Company's portfolio are categorised as level 1 (2014: same).

There have been no transfers between Levels 1 and 2 or 3 during the year (2014: nil).

## 22. Financial instruments' exposure to risk and risk management policies

The Company's objectives are set out on the inside front cover of this Annual Report. In pursuing these objectives, 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 direct exposure to foreign exchange risk on monetary items.

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 may comprise the following:

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

# Notes to the Accounts

## (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.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the credit facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant. The Company's term loan with Scotiabank carries a fixed interest rate and therefore does not give rise to any interest rate risk.

### 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:

	2015 £'000	2014 £'000
Exposure to floating interest rates:		
Cash at bank and in hand	2,184	1,791
<b>Total exposure</b>	<b>2,184</b>	1,791

Interest receivable on cash balances is at a margin below LIBOR (2014: same).

During the year, the Company extended its £10 million revolving credit facility with Scotiabank, and this now expires on 30 June 2016. 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. The facility was undrawn at the year ended 31 August 2015 and the prior year end.

The above year end amounts are not representative of the exposure to interest rates during the current or comparative years as the level of cash balances and drawings on the credit facility have fluctuated. The maximum and minimum net cash/credit facility balances during the year are as follows:

	2015 £'000	2014 £'000
Minimum debit/maximum credit interest rate exposure during the year – net (debt)/cash balances	(15,313)	1,791
Maximum debit interest rate exposure during the year – net debt	(18,921)	(14,480)

# Notes to the Accounts

## Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2014: 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 which are exposed to interest rate movements, with all other variables held constant.

	2015		2014	
	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	11	(11)	9	(9)
Capital return	–	–	–	–
<b>Total return after taxation</b>	<b>11</b>	<b>(11)</b>	<b>9</b>	<b>(9)</b>
<b>Net assets</b>	<b>11</b>	<b>(11)</b>	<b>9</b>	<b>(9)</b>

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

Market price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of equity 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 31 August comprised the following:

	2015 £'000	2014 £'000
Investments held at fair value through profit or loss	204,829	206,332

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 16. The portfolio principally comprises securities of companies listed on the London Stock Exchange and accordingly there is a concentration of exposure to economic conditions in the UK. However it should be noted that an investment may not just be entirely exposed to the economic conditions in its country of listing, as many companies in the UK conduct much of their business overseas. Furthermore, up to 20% of the portfolio may be listed on overseas stock exchanges.

### 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 10% (2014: 10%) 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 equity investments and includes the impact on the management fee but assumes that all other variables are held constant.

# Notes to the Accounts

	2015		2014	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement – return after taxation				
Revenue return	(77)	77	(77)	77
Capital return	20,406	(20,406)	20,556	(20,556)
<b>Total return after taxation and net assets</b>	<b>20,329</b>	<b>(20,329)</b>	<b>20,479</b>	<b>(20,479)</b>
Change in net asset value	<b>10.8%</b>	<b>(10.8%)</b>	10.8%	(10.8%)

## (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. Short term borrowings are 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:

	2015			2014		
	Three months or less £'000	One to two years £'000	Total £'000	Three months or less £'000	Two to three years £'000	Total £'000
<b>Creditors: amounts falling due within one year</b>						
Other creditors and accruals	468	–	468	969	–	969
<b>Creditors: amounts falling due after more than one year</b>						
Term loan – including interest	137	20,949	21,086	137	21,493	21,630
	<b>605</b>	<b>20,949</b>	<b>21,554</b>	<b>1,106</b>	<b>21,493</b>	<b>22,599</b>

## (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 Balance Sheet, represent the maximum exposure to credit risk at the current and comparative year end.



# Notes to the Accounts

	2015		2014	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets				
Investments held at fair value through profit or loss	204,829	–	206,332	–
Current assets				
Debtors – dividends and interest receivable and other debtors	1,709	1,709	1,871	1,871
Cash at bank and in hand	2,184	2,184	1,791	1,791
	208,722	3,893	209,994	3,662

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 liabilities are either carried in the balance sheet at fair value or the balance sheet amount is a reasonable approximation of fair value.

## 23. 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:

	2015 £'000	2014 £'000
<b>Debt</b>		
Bank loans	20,000	20,000
<b>Equity</b>		
Called-up share capital	6,869	6,869
Reserves	181,296	182,067
	188,165	188,936
<b>Total debt and equity</b>	208,165	208,936

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the 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.

	2015 £'000	2014 £'000
Borrowings used for investment purposes, less cash	17,816	18,209
Net assets	188,165	188,936
Gearing	9.5%	9.6%

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 dividend to be paid, in excess of that which is required to be distributed.

# Annual General Meeting (“AGM”) – Explanation of Special Business

**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.**

The AGM of the Company will be held on Tuesday, 15 December 2015 at 2.30 p.m. The formal Notice of Meeting is set out on page 55.

## Special business to be proposed at the AGM

Resolutions relating to the following items of special business will be proposed at the AGM:

### **Resolution 10 – continuation vote (ordinary resolution)**

In accordance with the Company's Articles of Association, the Directors are required to put forward a proposal for the continuation of the Company to shareholders at five yearly intervals. The Board considers that the long term investment objectives of the Company remain appropriate and that the current Manager is well placed to deliver superior returns over the longer term. An ordinary resolution will therefore be proposed at the AGM to agree that the Company should continue as an investment trust for a further five year period.

### **Resolution 11 – authority to allot shares (ordinary resolution) and resolution 12 – Power to disapply pre-emption rights (special resolution)**

At the AGM held on 18 December 2014, the Directors were granted authority to allot a limited number of new ordinary shares or reissue 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 December 2014, power was also given to the Directors to allot a limited number of new shares and/or reissue 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 on page 55.

An ordinary resolution (resolution 11) will be proposed to authorise the Directors to allot shares for cash up to a maximum aggregate nominal amount of £686,882 (being 10% of the issued share capital as at 16 November 2015). A special resolution (resolution 12) 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 £686,882 (being 10% of the Company's issued share capital (excluding any shares held in Treasury) as at 16 November 2015). Pre-emption rights under the Companies Act 2006 apply to the reissue of Treasury shares for cash as well as the allotment of new shares. Resolution 12 therefore relates to both issues of new shares and the reissue 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 2016 unless renewed or revoked earlier.

### **Resolution 13 – authority to make market purchases of the Company's ordinary shares (special resolution)**

At the AGM held on 18 December 2014, the Company was granted authority to make market purchases of up to 10,296,382 ordinary shares for cancellation or to be held in Treasury. No shares have been bought back under this authority and the Company therefore has remaining authority to purchase up to 10,296,382 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. 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 at 16 November 2015. The Directors will exercise this authority only if they consider that any purchase would be for the benefit of the Company and its

# Annual General Meeting (“AGM”) – Explanation of Special Business

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 will expire at the conclusion of the AGM in 2016, unless renewed or revoked earlier.

The maximum purchase price that may be paid for an ordinary share will be no more than the greater of 5% of the average of the middle market quotations for the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase and the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 10p, being the nominal value per ordinary share.

The resolution to be put to shareholders will also authorise the Company to hold up to 10% of the issued share capital bought back in Treasury for potential reissue in line with the conditions outlined above. Shares held in Treasury may be reissued or cancelled at a future date rather than simply cancelled at the time of acquisition.

## Recommendation

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

By Order of the Board

**Schroder Investment Management Limited**

Company Secretary

16 November 2015

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Schroder Income Growth Fund plc will be held at 2.30 p.m. on Tuesday, 15 December 2015 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12 and 13 will be proposed as special resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 August 2015.
2. To approve the Annual Report on Remuneration for the year ended 31 August 2015.
3. To re-elect Mr Ian Barby as a Director of the Company.
4. To re-elect Mr David Causer as a Director of the Company.
5. To re-elect Mrs Bridget Guerin as a Director of the Company.
6. To re-elect Mr Keith Niven as a Director of the Company.
7. To re-elect Mr Peter Readman as a Director of the Company.
8. To re-appoint Deloitte LLP as Auditor of the Company.
9. To authorise the Directors to determine the remuneration of Deloitte LLP as Auditor of the Company.
10. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:  
"That in accordance with the Articles of Association, the Company should continue as an investment trust for a further five year period."
11. 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 £686,882 (representing 10% of the share capital in issue on 16 November 2015); 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."
12. To consider and, if thought fit, to pass, the following resolution as a special resolution:  
"That, subject to the passing of resolution 11 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 in accordance with section 551 of the Act by the said resolution 11 above and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act as if section 561(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 £686,882 (representing 10% of the aggregate nominal amount of the share capital in issue on 16 November 2015); 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."
13. 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 10p 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 10,296,382, representing 14.99% of the issued share capital as at 16 November 2015;
  - (b) the minimum price which may be paid for a Share is 10p;
  - (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

16 November 2015

Registered Office:  
31 Gresham Street  
London EC2V 7QA

# Explanatory Notes

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 enclosed. 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(0) 121 415 0207 for overseas callers), or you may photocopy the enclosed 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](http://www.sharevote.co.uk). Shareholders who are not registered to vote electronically, will need to enter the Voting ID, Task ID and Shareholder Reference ID 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](http://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 for the meeting. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641 (or +44 (0)121 415 0207 for overseas callers).

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 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 6.00 p.m. on 13 December 2015, or 6.00 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 6.00 p.m. on 13 December 2015 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](http://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 Meeting by any attendee, for at least 15 minutes prior to, and during, the Meeting. None of the Directors has a contract of service with the Company.
6. The biographies of the Directors offering themselves for re-election at the Meeting are set out on page 17 of the Company's Annual Report and Accounts for the year ended 31 August 2015.
7. As at 16 November 2015, 68,688,343 ordinary shares of 10 pence each were in issue (no shares were held in Treasury). Accordingly, the total number of voting rights of the Company as at 16 November 2015 is 68,688,343.
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 the Company's website, [www.schroderincomegrowthfund.com](http://www.schroderincomegrowthfund.com).
9. Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the Meeting any question relating to the business being dealt with at the Meeting 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.

# Company Summary and Shareholder Information

## The Company

Schroder Income Growth Fund plc was launched in 1995. It is an independent investment trust, whose shares are listed on the London Stock Exchange. As at 16 November 2015, the Company had 68,688,343 ordinary shares of 10p each in issue (no shares were held in Treasury). The Company's assets are managed by Schroders, which also administers the Company.

It is not intended that the Company should have a limited life, but the Directors consider it desirable that the shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company contain provisions requiring the Directors to put a proposal for the continuation of the Company to shareholders at the forthcoming Annual General Meeting and thereafter at five-yearly intervals.

## Website and Share Price Information

The Company has a dedicated webpage, which may be found at [www.schroderincomegrowthfund.com](http://www.schroderincomegrowthfund.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 share price and copies of the Annual Report and Accounts and other documents published by the Company as well as information on the Directors, Committee Terms of Reference and other governance arrangements. In addition, the webpage contains links to announcements made by the Company to the market; Equiniti's shareview and, in the lead up to General Meetings of the Company, voting service; and Schroders' website. There is also a link entitled "How to Invest".

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

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

## Registrar Services

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

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

## Non-Mainstream Pooled Investments (NMPI) Status

The Company currently conducts its affairs so that its shares (with ISIN GB0007915860 and ticker SCF) can be recommended by Independent Financial Advisers 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.

## Association of Investment Companies

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

## AIFM Directive Disclosures

### 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 Report; and
  - (d) the total amount of leverage employed by the Company may be found in the Strategic Report.
- Any changes to the following information will be provided through a regulatory news service without undue delay:
- (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.

### AIFM 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](http://www.schroders.co.uk/its).



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

[www.schroders.co.uk/its](http://www.schroders.co.uk/its)

#### **Dealing Codes**

ISIN: GB0007915860  
SEDOL Code: 0791586  
Ticker: SCF

#### **Global Intermediary Identification Number (GIIN)**

T34UKV.99999.SL.826



**Schroders**