Schroder Income Growth Fund plc

Half Year Report
For the six months ended 29 February 2024

Schroders

Performance Summary

Net asset value ("NAV") per share total return*

1.9%

(31 August 2023: 4.2%)

Share price total return*

–0.3%

(31 August 2023: -3.0%)

NAV per share

290.20p

(31 August 2023: 293.58p)

Share price

258.00p

(31 August 2023: 267.50p)

Investment objectives

The principal objectives of Schroder Income Growth Fund plc (the "Company") are to provide growth in income that exceeds the rate of inflation and capital growth as a consequence of rising income.

Why invest in the Company?

The Company has grown its dividend for 28 consecutive years, since it was launched in 1995 – a feat that has earned it a place on the Association of Investment Companies' list of dividend heroes.

- **Benefit from consistent rising income**
  The Company has delivered reliable dividend growth for shareholders in each of the last 28 years, allowing investors to capture fully the significant power of long-term compounding.
- **Rely on decades of deep expertise**
  Managed by Schroders' Head of UK Equities, Sue Noffke, with support from an investment team with nearly a century of combined experience.
- **Capture long-term capital growth**
  Strong long-term performance through successful stock-picking, with the team adding value across the market cap spectrum.

MORNINGSTAR ★★★★

aic DIVIDEND HERO

ELITE RATED by FundCalibre.com

Kepler INCOME & GROWTH RATING

Ongoing charges ratio*
0.78%
(31 August 2023: 0.77%)

Share price discount to NAV per share*
11.1%
(31 August 2023: 8.9%)

Net revenue return after taxation
£2.12m
(31 August 2023: £9.13m)

Gearing*
13.6%
(31 August 2023: 13.7%)

Revenue return per share
3.06p
(31 August 2023: 13.14p)

Some of the financial measures are classified as Alternative Performance Measures ("APMs"), as defined by the European Securities and Markets Authority and are indicated with an asterisk (*). Definitions of these performance measures, and other terms used in this report, are given on pages 20 and 21 together with supporting calculations where appropriate.

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Interim Management Report

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Your Company has now paid an increased nominal dividend for the last 28 years, throughout multiple market cycles. It has been able to do this through stock selection and careful management of its reserves. This prudent management has enabled the delivery of these annual increases in income regardless of the economic backdrop.

Performance

It is disappointing to report that for the six-month period to 29 February 2024, your Company's NAV per share total return was 1.9%, compared to 3.9% for the FTSE All-Share Index. The share price total return was also lower than the NAV per share total return, returning –0.3% reflecting the widening discount from 8.9% to 11.1% over the period.

This outcome largely stems from the particular underperformance of some specific stocks held in the portfolio and is covered in detail in the Investment Manager's review on pages 6 to 9.

Between 29 February 2024 to 24 April 2024 the NAV and share price have delivered total returns of 7.6% and 6.8% respectively, versus the return on the FTSE All-Share Index of 5.9%.

Discount management

Your Board agrees with the principle of buying back its shares where the market price materially undervalues the portfolio. Your Board keeps your Company's share price discount to NAV under close review and is committed to buying back its shares to help manage its position. In this respect, and post period end, your Company has bought back 38,000 shares as at 24 April 2024, to be held in treasury, for the first time since 2008. This demonstrates your Board's confidence in the fundamental value of your Company's investments, and we will continue to buy back shares where such action materially enhances asset value per share.

Revenue and dividends

Your Company has paid a first interim dividend for the year ending 31 August 2024, amounting to 2.50 pence per share (2023: 2.50 pence per share). A second interim dividend of 2.50 pence per share (2023: 2.50 pence per share) has been declared payable on 26 April 2024.

The income from investments received by your Company during the first half of the year has risen by 9.2% compared to the same period last year. This is as a result of deliberate stock picking decisions made by your Investment Manager, which have led to the receipt of income being more heavily weighted to the second half of the financial year. There has also been a clear trend of companies now considering a wider range of strategies for returning surplus funds to shareholders, with an increased emphasis on share buybacks over dividends. This reflects the low absolute valuation of UK companies.

Your Company has revenue reserves of 11.4 pence per share (based on shares outstanding at the period end) after paying the first interim dividend; equivalent to 86% of the dividends paid last year. Such reserves are available to support the level of dividend you receive. This ability remains a key advantage of investment trusts over other savings vehicles.

We are pleased that we were able to deliver an increased dividend for the 28th consecutive year for the year ended 31 August 2023, ensuring continuing AIC 'Dividend Hero' status. We remain committed to delivering portfolio income supported, when necessary, by the use of revenue reserves to provide growing income for our shareholders.

Gearing

Your Company has in place a £30 million revolving credit facility with SMBC Bank International plc ("SMBC"), expiring in September 2024. Average gearing during the period remained at 13.6%. This made a modest contribution, net of financing costs, to your Company's income. As of 24 April 2024, gearing was 13.0%.

Outlook

The underperformance against the FTSE All-Share Index during the period under review was concentrated on stock selection in three key sectors – consumer discretionary, industrials and basic materials. Whilst it is disappointing that your Company has underperformed, in the short-term, it is important that we put this into the context of the longer-term returns that have been generated. The current investment team took the helm on 1 July 2011, since then the cumulative outperformance of the FTSE All-Share Index has been 0.8% per annum. The team's track record, spanning nearly 13 years, has been accompanied by consistent growth in dividend per share, which is the main aim of your Company[1]. It is important to note that short-term investment returns are not as important as longer-term returns which are less dependent on fleeting and unpredictable factors. As your Board, we prioritise the protection of our shareholders' interests and take

[1]The dividend history of the Company is available on the AIC website.

a very proactive approach, maintaining an ongoing and frequent dialogue with your Investment Manager.

Returning to the reporting period, the performance of UK equities, yet again masked a volatile economic backdrop for both UK corporates and households. The Bank of England ceased its interest rate hiking cycle in August last year and has continued to retain a tight policy since. Unlike last year, inflationary pressures have eased as energy, fuel prices and goods prices have moderated. However, service and wage inflation have remained high. There was a period at the end of the last year where markets had anticipated interest rate cuts, however these have now been pushed out further into 2024 and are now expected to be more muted. Despite these challenges, the UK economic environment is predicted to improve following the brief recession in the latter half of 2023, with moderate GDP growth of around 1% being projected for 2024. Key indicators such as low unemployment, rising household disposable income, and increased business investment all contribute to the positive outlook, while the Bank of England is anticipated to cut interest rates to around 4.5% by the end of 2024. The markets and short-term policy decision making are still being affected by the ongoing uncertainty surrounding the timing of the General Election.

One example of current policy paralysis, which is wholly relevant to you as shareholders, is the inability of the Treasury and regulators to address the contradictions in the application of packaged retail and insurance-based investment products ("PRIIPs") and Consumer Duty regulation. Although the EU regulation does not apply to any listed investment companies in Europe, the UK has adopted a seemingly unique application of this Europe wide regulation in counting investment trusts as PRIIPs. In practice this means that the costs of listed companies held in the portfolio should be accounted in the total costs disclosed by your Company. Yet such costs are presumably incorporated in the price at which the shares of these companies are bought and sold. The consequent double counting of costs, in share prices and further disclosure, makes investment trusts appear extremely expensive investments for you as investors. As a result we believe, this is one of the reasons that in recent months discounts to NAV for investment trusts holding listed securities have widened in aggregate despite rising global stock markets.

It is against this backdrop that your Company seeks to continue to deliver its investment objective of growing dividends and delivering capital growth. While delivering real dividend growth year on year will be challenging in the near term, both your Investment Manager and your Board are keenly focused on positioning the portfolio to optimise income. Your Investment Manager has made significant changes to the portfolio in response to the changing environment and the ongoing oversight and experience of Sue Noffke, and her team, should give investors some comfort.

Your Company has now paid an increased nominal dividend for the last 28 years, throughout multiple market cycles. It has been able to do this through stock selection and careful management of its reserves. This prudent management has enabled the delivery of increases in income regardless of the economic backdrop. While there may still be a degree of uncertainty in the economic outlook, your Company's reserves remain healthy. Your Board will not hesitate to use these reserves if necessary to continue to deliver on your Company's investment mandate of raising dividends, even if such increases lag the growth rate of inflation for now.

Ewen Cameron Watt
Chair

26 April 2024

Sue Noffke

In the UK equity market, there remains a noticeable disconnect between company fundamentals and valuations. The UK stock market presents an attractive opportunity for forward returns, particularly in the Small and Mid-Cap area.

The NAV total return in the six-months to 29 February 2024 was 1.9%. This compares to 3.9% from the FTSE All-Share Total Return Index. The share price total return was negative at –0.3%.

Revenue after tax for your Company increased by 4.9% versus the same period last year. Investment income rose by 9.2% compared to the same period last year due principally to the portfolio benefitting from movement in income accruing to your Company's first half year, from either the prior fiscal year or the second half of this year. A combination of movements in ex-dividend dates, portfolio transactions and the move to paying quarterly dividends for some portfolio holdings boosted your Company's first half income.

Your Investment Manager observed a wider range of dividend outcomes for portfolio companies relative to their underlying profits compared to the past. Several portfolio company boards have amended their capital allocation policies to favour share buybacks over special dividends, and in some cases increases in ordinary dividends. The low valuation of many UK companies argues in favour of share buybacks.

Whilst some holdings posted notable increases in dividends in the period, eight of the portfolio's holdings held their dividend level with prior years. Of these, seven opted to reward shareholders additionally through a share buyback programme, indicating that their boards believe their shares to be undervalued. Oil major Shell, Empiric Student Properties and budget hotel company Whitbread paid notably increased dividends. Shell did so whilst also conducting a significant share buyback of $3.5 billion. Electricity energy provider SSE reduced its dividend by one third as it seeks to balance income to shareholders with the capital required to take advantage of the many investment opportunities afforded by the energy transition whilst maintaining a strong balance sheet.

Market background

The interest rate hiking cycle came to an end in the summer months of 2023; July for the US Federal Reserve and August for the Bank of England. Central banks have maintained tight monetary policy since then but have not needed to raise interest rates further as inflationary pressures have begun to abate. Goods and energy prices have moderated whilst services and wage inflation have proved a bit stickier. Markets have attempted to price in a pivot in Central Bank policy and may have got ahead of themselves at the end of the calendar year 2023 in anticipation of early and numerous interest rate cuts, which now appear to be pushed further into 2024 and be more modest in scale.

After confounding gloomy expectations of weak economic growth in the first half of 2023, the UK economy slowed in the second half, slipping into a shallow recession with two consecutive quarters of economic contraction. Data released for the early months of 2024 show the economy growing again, suggesting that the recession may prove short lived. Whilst forecasts for UK economic activity are for growth to pick up, the level of growth is expected to remain lacklustre. UK inflation moderated in the second half of 2023, showing the UK to be less of an outlier compared to other developed markets than many commentators had stated.

Markets have recovered strongly from an early autumn sell off related to concerns over the impact of higher interest rates and weaker Chinese economic growth. Contrary to expectations at the beginning of 2023, the re-opening of China's borders following the end of its zero-Covid policy, delivered slower growth, greater price deflation and an ongoing property crisis. There are signs that the economic environment in China is improving but the property market, which has historically supported GDP growth, remains a key area of concern for markets. UK equities rose over the period, however returns were more modest than the returns achieved in other major markets. The UK sectors most exposed to the disappointing economic performance in China were luxury goods, basic materials and financials. Narrowness rather than breadth has characterised returns within other equity markets – in the US this is most clearly represented by the outsized returns of the so-called 'Magnificent 7' stocks.

Portfolio performance

Underperformance was a result of adverse stock selection within three sector groups of consumer discretionary, industrials and basic materials. This more than offset positive positioning and stock selection in the consumer staples area.

Five top/bottom relative performers

	Portfolio weight[1] (%)	Weight relative to index[2] (%)	Relative performance[3] (%)	Impact (%)
Hollywood Bowl	2.2	+2.2	+39.1	+0.7
Intermediate Capital Group	2.0	+1.8	+40.7	+0.6
RELX	3.6	+1.1	+30.3	+0.3
M&G	2.2	+1.1	+17.6	+0.3
Reckitt Benckiser	0.0	–1.8	–16.3	+0.3

	Portfolio weight[1] (%)	Weight relative to index[2] (%)	Relative performance[3] (%)	Impact (%)
Burberry	2.1	+1.8	–44.4	–1.1
Pets at Home	2.5	+2.5	–29.7	–0.9
Rolls Royce	0.0	-1.0	62.1	–0.5
Drax Group	1.7	+1.7	–19.5	–0.4
Prudential	2.2	+1.1	–23.0	–0.3

Source: Schroders, FactSet, for Schroder Income Growth investment portfolio, six months to end February 2024.
[1]Average weights over the period.
[2]Total return of the stock relative to the FTSE All-Share TR over the period.
[3]Contribution to performance relative to the FTSE All-Share TR. The securities shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

At a sector level the main driver of negative relative returns was stock selection in the consumer discretionary area. Two holdings suffered particular setbacks, a tougher market backdrop in luxury goods for Burberry and regulatory scrutiny of the veterinary market for pet care provider Pets at Home. Stock selection in the industrials area also detracted. Your Company did not own the strongest performing stocks in this sector, where aerospace and defence companies Rolls Royce and BAE Systems rose as orderbooks strengthened with a strong post Covid recovery in civil and defence aerospace end markets. The holding in defence services business QinetiQ contributed positively, however its degree of outperformance was more muted than that of its peers.

Being overweight consumer discretionary weighed on returns over the period. Burberry was the single biggest detractor to performance. Global luxury sales weakened after a strong period over the pandemic and initial re-opening. Additionally, a change in chief designer has unsettled customers. Both factors have hindered the company's strategy of brand elevation with associated price increases. Also, in the consumer facing space, retailer and veterinary business Pets at Home, the UK's leading pet care business, was the second largest detractor. The shares fell on news of the Competition and Markets Authority ("CMA") announcing an initial review of the veterinary sector in September 2023 which focused on transparency of ownership and pricing dynamics in the vet market. In March 2024 the CMA announced that it will be consulting with a view to launching a full investigation into the UK vet sector noting five areas of potential concern, which could take 18 months. We have not seen evidence of abusive charging practices within the business and do not expect any substantive adverse outcomes for the group's business from the review.

Being underweight aerospace and defence companies was detrimental to performance. Not owning Rolls Royce, which continued its strong operational and share price recovery from the Covid pandemic under new management with an extensive restructuring plan, detracted from your Company's performance. Drax, the UK's largest supplier of renewable power, suffered from a combination of weaker power prices from the highs of 2022, regulatory overhangs related to biomass subsidies and sustainability reporting, and governmental delays to their carbon capture and storage project. Prudential was affected by the same China macroeconomic concerns that caused your Company's holdings in Burberry, Standard Chartered and Anglo American to underperform.

Your Company's underweight positioning and stock selection in the consumer staples area was positive for portfolio performance. Companies in this area experienced an unwind of the pandemic boost to volumes of household goods, cigarettes and alcohol. Not owning Reckitt Benckiser, British American Tobacco and being underweight Diageo, all of which underperformed in an environment of higher interest rates and higher inflation, was positive. Stock selection was also positive in the financial sector, particularly in asset managers. Stock selection in healthcare, contributed positively, principally through your Company's large position in GSK which rose on stronger operational performance and receding fears associated with US litigation on historic sales of gastrointestinal medicine, Zantac.

Despite our overweight position in the consumer discretionary sector companies being negative over the period, two companies were amongst the biggest contributors to performance. Hollywood Bowl was the largest contributor to portfolio performance in the period. The group is the UK's established market leader with national scale, and the second largest operator of ten-pin bowling centres in the world. The shares re-rated from the low levels at the start of the period for three reasons. Firstly, the business continued to perform strongly following the impact of closure from the pandemic as it offers consumers a value for money leisure experience. Secondly, the acquisition of peer Ten Entertainment Group underpinned the attractiveness of the industry, and Hollywood Bowl. Thirdly, the promotion of the stock from the Smaller Companies Index to the FTSE 250 Index at the end of the period boosted interest in the shares. RELX, a global provider of information-based analytics and decision tool for professional and business customers, performed strongly over the course of the period. The company's historic investment in AI and market leading technologies and digital tools accelerated growth across its various business segments of risk, scientific, technical and medical, legal and exhibitions. Not owning health and personal care company Reckitt Benckiser also benefitted your Company.

Being overweight financials was positive with asset managers Intermediate Capital Group, M&G and 3i Group all outperforming. Intermediate Capital Group, a private assets business, traded strongly, particularly in its debt funds, while returns on the investment company improved after a more challenging period in the previous year. 3i Group, another private asset company, performed well. 3i Group's largest asset is European discount retailer Action, which continued to benefit from consumers choosing cheaper options to offset cost of living pressures and higher mortgage costs. Action has an attractive pipeline of store rollouts which should further enhance growth. M&G has benefited from the diversified nature of its businesses, which has enabled the group to seed new strategies to drive inflows whilst also rewarding shareholders with an attractive dividend. The shares have been very lowly valued and as the market has reappraised the risks to the investment case, the shares have delivered robust performance in total return terms.

Portfolio activity

During the period your Investment Manager sold out of three positions and added four new holdings.

Your Company exited its longstanding holding in Tesco. The shares had performed strongly during Covid and the subsequent inflationary period, as well as benefitting from consolidation within the supermarket sector. Your Investment Manager believes balancing the interests of all stakeholders – staff, customers, suppliers as well as shareholders – will continue to be challenging. Despite the take-private transactions and associated higher leverage of peers, ASDA and WM Morrison, the food retail industry remains highly competitive. Your Company exited its holding in mid-cap precision instrumentation and controls company Spectris, where after modest outperformance your Investment Manager's conviction in its strategy has waned and views better opportunities elsewhere.

Paypoint's recent acquisition of Love2Shop aims to diversify the business away from the group's slower growing legacy businesses, but your Investment Manager's view is that this brings greater regulatory scrutiny and risks. As a result, your Company exited the position during the period. Proceeds of these sales were used to initiate a new position in British multinational beverage company Diageo. Over the past three years the shares have underperformed due to higher inflation and interest rates which created headwinds to sales growth and valuation. Your Investment Manager believes that the de-rating of the shares, which now trade at the lowest price earnings multiple in almost 10 years, has created an opportunity to initiate a modest position.

Your Company created a new position in global automotive distributor Inchcape, which is taking share in the automotive market from independents who are struggling with debt and increasingly onerous demands from automotive manufacturers. Inchcape is the leader in its markets, generates attractive returns on capital, has a long growth runway and your Investment Manager believes the shares are mispriced because the market underappreciates the resilience and quality of this business.

Another new holding is international med-tech business Smith and Nephew. The valuation of the shares has compressed, relative to the company's own history and to international peers, while the outlook has improved. Sales growth has recently accelerated, positive operational leverage and cost benefits from restructuring programmes should boost margins and profitability and lead to an improved valuation.

Property company British Land, whose shares trade at a material discount to NAV, was added to the portfolio during the period. It has a well invested portfolio in diverse, high quality business segments, including retail and office space, that are well located and your Investment Manager sees good prospects for occupancy and rental growth in the future, as well as expecting the shares to benefit as interest rates fall later in 2024.

Further portfolio activity saw your Company add to existing holdings on share price weakness. Your Investment Manager has increased conviction in the longer-term strategies of defence services business, QinetiQ, pet product and services provider, Pets at Home and power company, Drax. Conversely, profits have been taken in some well performing positions, including information company RELX, asset managers 3i and Intermediate Capital and global education company Pearson.

Outlook

In financial markets the mood is buoyant with stocks in the US, Eurozone and Japan at record highs. A soft economic landing looks increasingly likely as consumer demand remains resilient, particularly in the US, and headline inflation has fallen significantly, although it is likely to remain above central bank targets. Labour markets have started to soften but are expected to remain tight for a while. This is likely to result in sticky inflation. While this may delay interest rate cuts, central banks appear increasingly comfortable with cutting rates ahead of inflation returning to target. The US Federal Reserve, Bank of England and European Central Banks have all recently signalled that they are on track to cut rates this year. Markets are anticipating the start of cuts in the summer. This a key driver of the current positive global market sentiment. A setback to this path could cause disappointment.

The UK experienced a shallow recession in the second half of 2023, but there are signs of economic activity gradually resuming in 2024, albeit at a slow pace. It is worth noting that UK inflation is not an outlier compared to other major developed markets, and it is expected to decline towards the Bank of England's 2% target, especially as energy costs drop out of the comparisons. On a global scale, it is important to note that there will be significant elections this year, including the US presidential election in November and a likely UK general election in the second half of 2024. While political risk is a factor to consider, the main parties have mostly shifted towards the centre.

In the UK equity market, there remains a noticeable disconnect between company fundamentals and valuations. Among the 23 industry sectors, only one UK sector trades at a higher multiple compared to its US equivalent, while the majority trade at a discount of 25% or more[1]. This dislocation has been recognised by overseas corporates and private equity buyers, who have begun to take advantage of the situation. For example, in 2023, there were over 40 transactions of value over £100 million announced with bid premia averaging over 50%[2]. This scale of bid premium highlights how far below intrinsic value the shares of these companies were trading. While this activity has primarily focused on smaller companies, there has been an increase in activity within larger companies in 2024 as well as all-equity mergers taking place, particularly in the housebuilding and paper and packaging sectors. This trend will no doubt continue as long as valuations remain compelling.

Valuations in the UK stock market present attractive opportunities for forward returns, particularly in the Small and Mid-Cap ("SMID") area. Over the three years leading up to February 2024, the FTSE 100 outperformed the FTSE Small-Cap Index by 25% and the FTSE 250 Mid-Cap Index by 31%. Historical trends indicate that periods of underperformance have often been followed by strong returns for SMIDs. The FTSE 250 Mid Cap Index, in particular, has outperformed the S&P 500 Index in local currency terms since 2000.

The contribution from one-off special dividends for your Company and for the market has declined markedly in the past two years following a particularly strong period for special dividends influenced by two key aspects: the surge in profitability of the mining sector from 2020 to 2022, considered by companies to be "super normal", as well as the catch-up effect from the pandemic for a range of other companies. Special dividends have typically featured more heavily in the fund's second half than the first. In this period the fund received a special dividend from Hollywood Bowl, a company that has historically been a consistent payer of special dividends. The special this year was lower than last time but was accompanied by a return of capital via a share buyback.

[1]Schroders analysis. Forward price/earnings multiples for industry groups in MSCI UK and MSCI USA. As at 31 January 2024. Data sourced from LSEG Datastream.
[2]Peel Hunt, 'Shifts in the UK equity market landscape', April 2024.

As your Investment Manager commented in the 2023 annual report and accounts, UK companies are looking to take advantage of, and trying to address, their lowly valuations. In both 2022 and 2023, FTSE 100 companies returned over £55 billion to investors through share buybacks, significantly above the highest previous level of circa. £34 billion in 2018[1]. Several large companies have embarked on major buyback programmes, cancelling their shares after purchase. Companies who feel that their share price does not reflect the true value of the company are especially keen on share buybacks to enhance earnings per share which should, all other things equal, boost the share price. In the context of the circa. £2 trillion market capitalisation of the FTSE 100, it implies an over 2.5% reduction in shares outstanding per year. In both 2022 and 2023, the proportion of UK large companies that bought back 1% or more of their shares each year matched the USA. Increasingly we observe that mid cap companies are also pivoting to share buybacks in preference of, or in addition to, ordinary dividend increases. Of your Company's eight holdings which withheld dividend payments during the reporting period, seven are conducting share buybacks.

Dividend income for the UK market, forecast for the calendar year 2024 by Computershare, is for growth to slow to around 2% on an underlying basis. Taking account of special dividends, which are expected to continue to trend lower, total income is forecast to fall.

Your Investment Manager remains a bottom-up stock picker looking for idiosyncratic investment opportunities in individual companies. Regardless of external conditions, your Investment Manager's investment approach remains constant: to construct a diversified portfolio of mispriced opportunities capable of delivering both real growth of income and attractive capital returns.

Schroder Investment Management Limited

26 April 2024

[1]Computershare Q4 2023 UK Dividend Monitor.

Investment Portfolio
at 29 February 2024

Companies in bold represent the 20 largest investments, which by value account for 66.1% (28 February 2023: 64.8% and 31 August 2023: 66.6%) of total investments.

All companies are headquartered in the UK. All investments are equities, listed on a recognised stock exchange.

	£'000	%
Financials		
HSBC	**10,258**	**4.5**
Legal & General	**6,927**	**3.0**
3i Group	**6,315**	**2.8**
Lloyds Bank	**6,256**	**2.7**
Standard Chartered	**5,857**	**2.6**
M&G	**5,513**	**2.4**
Intermediate Capital	**5,497**	**2.4**
Prudential	4,551	2.0
Empiric Student Property	4,540	2.0
TP ICAP	3,277	1.4
Assura	3,011	1.3
Natwest	2,656	1.2
British Land REIT	2,099	0.9
Total Financials	**66,757**	**29.2**
Consumer Services		
RELX	**6,768**	**3.0**
Hollywood Bowl	**6,045**	**2.6**
Pets at Home	**5,722**	**2.5**
Pearson	**5,439**	**2.4**
Whitbread	4,666	2.0
Inchcape	3,536	1.5
XPS	2,719	1.2
888 (Gibraltar)	1,193	0.5
ITV	1,183	0.5
Total Consumer Services	**37,271**	**16.2**
Healthcare		
AstraZeneca	**14,577**	**6.4**
GSK (GlaxoSmithKline)	**10,804**	**4.7**
ConvaTec	5,147	2.2
Smith & Nephew	2,304	1.0
Total Healthcare	**32,832**	**14.3**

	£'000	%
Oil and Gas		
Shell	**15,120**	**6.6**
BP	4,343	1.9
Total Oil and Gas	**19,463**	**8.5**
Industrials		
QinetiQ	**6,874**	**3.0**
Balfour Beatty	**5,453**	**2.4**
Bunzl	4,913	2.2
Total Industrials	**17,240**	**7.6**
Basic Materials		
Glencore	**7,666**	**3.3**
Johnson Matthey	4,410	1.9
Anglo American	3,906	1.7
Victrex	1,252	0.6
Total Basic Materials	**17,234**	**7.5**
Utilities		
SSE	**6,258**	**2.7**
National Grid	**6,203**	**2.7**
Drax	4,458	2.0
Total Utilities	**16,919**	**7.4**
Consumer Goods		
Unilever	**7,763**	**3.4**
Burberry	3,931	1.7
Cranswick	2,723	1.2
Diageo	2,130	0.9
Total Consumer Goods	**16,547**	**7.2**
Telecommunications		
BT	4,799	2.1
Total Telecommunications	**4,799**	**2.1**
Total Investments	**229,062**	**100.0**

Principal risks and uncertainties

The principal risks and uncertainties with the Company's business fall into the following risk categories: strategic; investment management; economic and market; custody; gearing; accounting, legal and regulatory; service provider; cyber; and ESG and climate change. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 24 to 26 of the Company's published annual report and accounts for the year ended 31 August 2023.

The Company's principal risks and uncertainties have not materially changed during the six months ended 29 February 2024.

Going concern

Having assessed the principal risks and uncertainties, and the other matters discussed in connection with the viability statement as set out on page 27 of the published annual report and accounts for the year ended 31 August 2023, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Related party transactions

There have been no transactions with related parties that have materially affected the financial position or the performance of the Company during the six months ended 29 February 2024.

Directors' responsibility statement

In respect of the half year report for the six months ended 29 February 2024, the Directors confirm that, to the best of their knowledge:

– the condensed set of Financial Statements contained within have been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice in particular with Financial Reporting Standard 104 "Interim Financial Reporting" and with the statement of Recommended Practice, "Financial Statements of Investment Companies and Venture Capital Trusts" issued in July 2022 and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company as at 29 February 2024, as required by the Disclosure Guidance and Transparency Rule 4.2.4R; and

– the half year report includes a fair review of the information as required by the Disclosure Guidance and Transparency Rules 4.2.7R and 4.2.8R.

Ewen Cameron Watt
Chair
For and on behalf of the Board

26 April 2024

Financial

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Statement of Comprehensive Income
for the six months ended 29 February 2024 (unaudited)

	Note	(Unaudited) For the six months ended 29 February 2024 Revenue £'000	Capital £'000	Total £'000	(Unaudited) For the six months ended 28 February 2023 Revenue £'000	Capital £'000	Total £'000	(Audited) For the year ended 31 August 2023 Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss		–	2,500	2,500	–	19,626	19,626	–	326	326
Net foreign currency losses		–	23	23	–	–	–	–	–	–
Income from investments		2,995	–	2,995	2,743	–	2,743	10,560	–	10,560
Other interest receivable and similar income		–	–	–	–	–	–	90	–	90
Gross return		**2,995**	**2,523**	**5,518**	**2,743**	**19,626**	**22,369**	**10,650**	**326**	**10,976**
Management fee		(205)	(307)	(512)	(214)	(322)	(536)	(422)	(633)	(1,055)
Administrative expenses		(282)	–	(282)	(281)	–	(281)	(552)	–	(552)
Net return/(loss) before finance costs and taxation		**2,508**	**2,216**	**4,724**	**2,248**	**19,304**	**21,552**	**9,676**	**(307)**	**9,369**
Finance costs		(385)	(578)	(963)	(224)	(336)	(560)	(546)	(821)	(1,367)
Net return/(loss) before taxation		**2,123**	**1,638**	**3,761**	**2,024**	**18,968**	**20,992**	**9,130**	**(1,128)**	**8,002**
Taxation	3	–	–	–	–	–	–	–	–	–
Net return/(loss) after taxation		**2,123**	**1,638**	**3,761**	**2,024**	**18,968**	**20,992**	**9,130**	**(1,128)**	**8,002**
Return/(loss) per share (pence)	4	**3.06**	**2.36**	**5.42**	**2.91**	**27.31**	**30.22**	**13.14**	**(1.62)**	**11.52**

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 other items of other comprehensive income, and therefore the net return/(loss) after taxation is also the total comprehensive income for the period.

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

Statement of Changes in Equity

for the six months ended 29 February 2024 (unaudited)

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2023		6,946	9,449	2,011	1,596	34,936	137,112	11,882	203,932
Net return after taxation		–	–	–	–	–	1,638	2,123	3,761
Dividends paid in the period	5	–	–	–	–	–	–	(6,113)	(6,113)
At 29 February 2024		**6,946**	**9,449**	**2,011**	**1,596**	**34,936**	**138,750**	**7,892**	**201,580**

for the six months ended 28 February 2023 (unaudited)

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2022		6,946	9,449	2,011	1,596	34,936	138,240	11,922	205,100
Net return after taxation		–	–	–	–	–	18,968	2,024	20,992
Dividends paid in the period	5	–	–	–	–	–	–	(5,696)	(5,696)
At 28 February 2023		**6,946**	**9,449**	**2,011**	**1,596**	**34,936**	**157,208**	**8,250**	**220,396**

for the year ended 31 August 2023 (audited)

	Note	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 August 2022		6,946	9,449	2,011	1,596	34,936	138,240	11,922	205,100
Net (loss)/return after taxation		–	–	–	–	–	(1,128)	9,130	8,002
Dividends paid in the year	5	–	–	–	–	–	–	(9,170)	(9,170)
At 31 August 2023		**6,946**	**9,449**	**2,011**	**1,596**	**34,936**	**137,112**	**11,882**	**203,932**

Statement of Financial Position
as at 29 February 2024 (unaudited)

	Note	(Unaudited) 29 February 2024 £'000	(Unaudited) 28 February 2023 £'000	(Audited) 31 August 2023 £'000
Fixed assets				
Investments held at fair value through profit or loss		229,062	247,420	229,714
Current assets				
Debtors		755	839	2,557
Cash at bank and in hand		2,492	2,830	1,560
		3,247	**3,669**	**4,117**
Current liabilities				
Creditors: amounts falling due within one year	6	(30,729)	(30,693)	(29,899)
Net current liabilities		**(27,482)**	**(27,024)**	**(25,782)**
Net assets		**201,580**	**220,396**	**203,932**
Capital and reserves				
Called-up share capital	7	6,946	6,946	6,946
Share premium		9,449	9,449	9,449
Capital redemption reserve		2,011	2,011	2,011
Warrant exercise reserve		1,596	1,596	1,596
Share purchase reserve		34,936	34,936	34,936
Capital reserves		138,750	157,208	137,112
Revenue reserve		7,892	8,250	11,882
Total equity shareholders' funds		**201,580**	**220,396**	**203,932**
Net asset value per share (pence)	8	**290.20**	**317.28**	**293.58**

Registered in England and Wales as a public company limited by shares.

Company registration number: 03008494

1. Financial Statements

The information contained within the financial statements in this half year report has not been audited or reviewed by the Company's auditor.

The figures and financial information for the year ended 31 August 2023 are extracted from the latest published financial statements of the Company and do not constitute statutory accounts for that year. Those financial statements have been delivered to the Registrar of Companies and included the report of the auditor which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, in particular with Financial Reporting Standard 104 "Interim Financial Reporting" and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the Association of Investment Companies in July 2022.

All of the Company's operations are of a continuing nature.

The accounting policies applied to these financial statements are consistent with those applied in the financial statements for the year ended 31 August 2023.

3. Taxation

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. Taxation on ordinary activities comprises irrecoverable overseas withholding tax.

4. Return/(loss) per share

	(Unaudited) For the six months ended 29 February 2024 £'000	(Unaudited) For the six months ended 28 February 2023 £'000	(Audited) For the year ended 31 August 2023 £'000
Revenue return	2,123	2,024	9,130
Capital return/(loss)	1,638	18,968	(1,128)
Total return	**3,761**	**20,992**	**8,002**
Weighted average number of shares in issue during the period	69,463,343	69,463,343	69,463,343
Revenue return per share (pence)	3.06	2.91	13.14
Capital return/(loss) per share (pence)	2.36	27.31	(1.62)
Total return per share (pence)	**5.42**	**30.22**	**11.52**

5. Dividends paid

	(Unaudited) For the six months ended 29 February 2024 £'000	(Unaudited) For the six months ended 28 February 2023 £'000	(Audited) For the year ended 31 August 2023 £'000
2023 fourth interim dividend of 6.3p (2023: 5.7p)	4,376	3,959	3,959
First interim dividend of 2.5p (2023: 2.5p)	1,737	1,737	1,737
Second interim dividend of 2.5p	–	–	1,737
Third interim dividend of 2.5p	–	–	1,737
	6,113	**5,696**	**9,170**

A second interim dividend of 2.5p (2023: 2.5p) per share, amounting to £1,737,000 (2023: £1,737,000) has been declared payable in respect of the year ending 31 August 2024.

6. Creditors: amounts falling due within one year

	(Unaudited) At 29 February 2024 £'000	(Unaudited) At 28 February 2023 £'000	(Audited) At 31 August 2023 £'000
Other creditors and accruals	729	1,193	399
Bank loan	30,000	29,500	29,500
	30,729	**30,693**	**29,899**

The bank loan comprises £30million (31 August 2023: £29.5 million, 28 February 2023: £29.5 million) drawn down on the Company's revolving credit facility with SMBC Bank International plc. The facility was extended to 23 September 2024.

7. Called-up share capital

	(Unaudited) At 29 February 2024 £'000	(Unaudited) At 28 February 2023 £'000	(Audited) At 31 August 2023 £'000
69,463,343 ordinary shares of 10p each	6,946	6,946	6,946

There were no changes to called up share capital during the period (period ended 28 February 2023 and year ended 31 August 2023: nil).

8. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 29 February 2024 of 69,463,343 (28 February 2023 and 31 August 2023: 69,463,343).

9. Financial instruments measured at fair value

The Company's financial instruments that are held at fair value comprise its investment portfolio. At 29 February 2024, all investments in the Company's portfolio were categorised as Level 1 in accordance with the criteria set out in paragraph 34.22 (amended) of FRS 102. That is, they are all valued using unadjusted quoted prices in active markets for identical assets (28 February 2023 and 31 August 2023: all valued using unadjusted quoted prices in active markets for identical assets).

10. Events after the interim period that have not been reflected in the financial statements for the interim period

The Directors have evaluated the period since the interim date and have not noted any other events which have not been reflected in the financial statements.

Other Information

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The terms and performance measures below are those commonly used by investment companies to assess values, investment performance and operating costs. Numerical calculations are given where relevant. Some of the financial measures below are classified APMs as defined by the European Securities and Markets Authority. Under this definition, APMs include a financial measure of historical financial performance or financial position, other than a financial measure defined or specified in the applicable financial reporting framework. APMs have been marked with an asterisk.

Net asset value ("NAV") per share

The NAV per share of 290.20p (31 August 2023: 293.58p) represents the net assets attributable to equity shareholders of £201,580,000 (31 August 2023: £203,932,000) divided by the number of shares in issue of 69,463,343 (31 August 2023: 69,463,343).

The change in the NAV amounted to 1.2% (year ended 31 August 2023: –0.6%) over the period. However this performance measure excludes the positive impact of dividends paid out by the Company during the period. When these dividends are factored into the calculation, the resulting performance measure is termed the "total return". Total return calculations and definitions are given below.

Total return*

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV per share. Total return statistics enable the investor to make performance comparisons between investment companies with different dividend policies. Any dividends received by a shareholder are assumed to have been reinvested in either the assets of the Company at its NAV per share at the time the shares were quoted ex-dividend (to calculate the NAV per share total return) or in additional shares of the Company (to calculate the share price total return).

The NAV total return for the period ended 29 February 2024 is calculated as follows:

Opening NAV at 31/08/2023	293.58p
Closing NAV at 29/02/2024	290.20p

Dividend received	XD date	NAV on XD date	Factor	Cumulative factor
6.3p	05/10/2023	284.17p	1.0222	1.0222
2.5p	28/12/2023	299.74p	1.0083	1.0307

NAV total return, being the closing NAV, multiplied by the cumulative factor, expressed as a percentage increase in the opening NAV:	1.9%

The NAV total return for the year ended 31 August 2023 is calculated as follows:

Opening NAV at 31/08/2022	295.26p
Closing NAV at 31/08/2023	293.58p

Dividend received	XD date	NAV on XD date	Factor	Cumulative factor
5.7p	13/10/2022	265.18p	1.0215	1.0215
2.5p	29/12/2022	298.48p	1.0084	1.0301
2.5p	06/04/2023	305.88p	1.0082	1.0385
2.5p	06/07/2023	284.73p	1.0088	1.0476

NAV total return, being the closing NAV, multiplied by the cumulative factor, expressed as a percentage increase in the opening NAV:	4.2%

The share price total return for the period ended 29 February 2024 is calculated as follows:

Opening Share price at 31/08/2023	267.50p
Closing Share price at 29/02/2024	258.00p

Dividend received	XD date	Share price on XD date	Factor	Cumulative factor
6.3p	05/10/2023	255.00p	1.0247	1.0247
2.5p	28/12/2023	278.00p	1.0090	1.0339

Share price total return, being the closing share price, multiplied by the cumulative factor, expressed as a percentage change in the opening share price:	–0.30%

The share price total return for the year ended 31 August 2023 is calculated as follows:

Opening Share price at 31/08/2022	289.00p
Closing Share price at 31/08/2023	267.50p

Dividend received	XD date	Share price on XD date	Factor	Cumulative factor
5.7p	13/10/2022	257.00p	1.0222	1.0222
2.5p	29/12/2022	305.00p	1.0082	1.0306
2.5p	06/04/2023	301.00p	1.0083	1.0391
2.5p	06/07/2023	281.00p	1.0089	1.0484

Share price total return, being the closing share price, multiplied by the cumulative factor, expressed as a percentage change in the opening share price:	–3.0%

Discount/premium*

The amount by which the share price of an investment trust is lower (discount) or higher (premium) than the NAV per share. If shares are trading at a discount, investors would be paying less than the value attributable to the shares by reference to the underlying assets. A premium or discount is generally the consequence of supply and demand for the shares on the stock market The discount or premium is expressed as a percentage of the NAV per share. The discount at the period end amounted to 11.1% (31 August 2023: 8.9%), as the closing share price at 258.00p (31 August 2023: 267.50p) was 11.1% (31 August 2023: 8.9%) lower than the closing NAV of 290.20p (31 August 2023: 293.58p).

Gearing*

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) which the Company has drawn down and invested in the market. This figure is indicative of the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall. Gearing is defined as: borrowings used for investment purposes, less cash, expressed as a percentage of net assets. The gearing figure at the relevant period/year end is calculated as follows:

	29 February 2024 £'000	31 August 2023 £'000
Borrowings used for investment purposes, less cash	27,508	27,941
Net assets	201,580	203,932
Gearing	13.6%	13.7%

Leverage*

For the purpose of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as the ratio of the Company's exposure to its net asset value and is required to be calculated both on a "Gross" and a "Commitment" method. Under the Gross method, exposure represents the sum of the absolute values of all positions, so as to give an indication of overall exposure. Under the Commitment method, exposure is calculated in a similar way, but after netting off hedges which satisfy certain strict criteria.

Ongoing Charges*

Ongoing Charges is calculated in accordance with the AIC's recommended methodology and represents the management fee and all other operating expenses excluding finance costs and transaction costs, amounting to £1,581,000 (31 August 2023: £1,607,000), expressed as a percentage of the average daily net asset values during the period of £201.6 million (31 August 2023: £207.9 million).

Warning to shareholders

Companies are aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FCA before getting involved by visiting https://register.fca.org.uk
- Report the matter to the FCA by calling 0800 111 6768 or visiting https://fca.org.uk/consumers/report-scam-unauthorised-firm
- Do not deal with any firm that you are unsure about

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA provides a list of unauthorised firms of which it is aware, which can be accessed at https://www.fca.org.uk/consumers/unauthorised-firmsindividuals#list.

More detailed information on this or similar activity can be found on the FCA website at https://www.fca.org.uk/consumers/protectyourself-scams

Dividends

Paying dividends into a bank or building society account helps reduce the risk of fraud and will provide you with quicker access to your funds than payment by cheque.

Applications for an electronic mandate can be made by contacting the Registrar, Equiniti.

This is the most secure and efficient method of payment and ensures that you receive any dividends promptly.

If you do not have a UK bank or building society account, please contact Equiniti for details of their overseas payment service.

Further information can be found at www.shareview.co.uk, including how to register with Shareview Portfolio and manage your shareholding online.

Information about the Company

www.schroders.co.uk/incomegrowth

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[1]Calls to this number are free of charge from UK landlines.

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

Other information
Company number
03008494

Shareholder enquiries
General enquiries about the Company should be addressed to the Company Secretary at the Company's registered office.

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Privacy notice
The Company's privacy notice is available on its web pages.

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