

Schroder

UK Growth Fund plc

Half-Year Report and Accounts for the six months ended 31 October 2014



Schroders

Investment Objective

The Company's principal investment objective is to achieve capital growth predominantly from investment in UK equities, with the aim of providing a total return in excess of the FTSE All-Share Index.

Alternative Investment Fund Managers ("AIFM") Directive

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found either in this Report or on the web at www.schroders.co.uk/its.

Directors

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Alternative Investment Fund Manager ("Manager")

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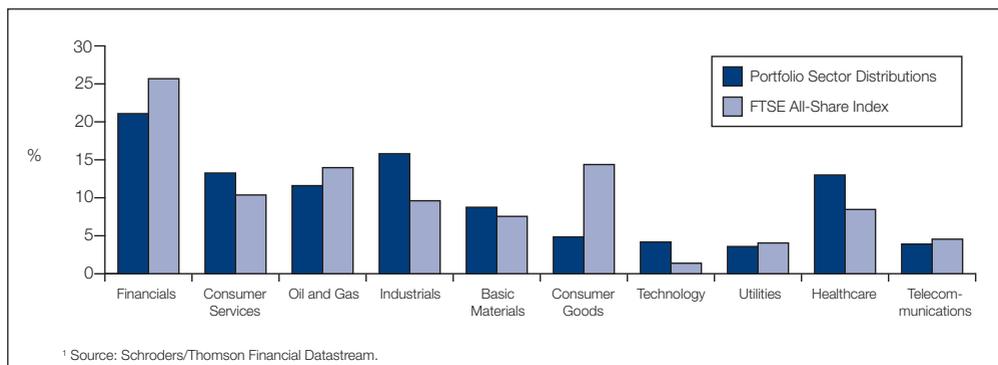
Financial Highlights

Total returns (including dividends reinvested)	Six months ended		
	31 October 2014		
Net asset value ("NAV") per share ¹	(6.3)%		
Share price ¹	(8.8)%		
Benchmark ²	(1.6)%		
	31 October 2014	30 April 2014	% Change
Shareholders' funds (£'000)	278,954	302,917	(7.9)
Shares in issue	160,917,184	160,917,184	–
NAV per share	173.35p	188.24p	(7.9)
Share price	159.75p	178.50p	(10.5)
Share price discount	7.8%	5.2%	

¹ Source: Morningstar.

² Source: Thomson Financial Datastream. The Company's benchmark is the FTSE All-Share Index total return.

Comparison of Portfolio Sector Distribution with the FTSE All-Share Index at 31 October 2014¹



Ten Largest Investments

At 31 October 2014

Company and Activity	Market value of holding £'000	Percentage of total equity shareholders' funds
Royal Dutch Shell Integrated oil and gas producer	19,570	7.0
GlaxoSmithKline Pharmaceuticals manufacturer	17,594	6.3
BP Integrated oil and gas producer	15,482	5.6
HSBC Banking services provider	14,770	5.3
Barclays Banking services provider	12,970	4.6
Reed Elsevier Professional publisher	12,484	4.5
BT Communications services provider	10,717	3.8
AstraZeneca Biopharmaceutical research	10,575	3.8
British American Tobacco Cigarette manufacturer	9,065	3.3
Imperial Tobacco Cigarette manufacturer	8,702	3.1
Total	131,929	47.3

At 30 April 2014, the ten largest investments represented 42.8% of total equity shareholders' funds.

Interim Management Report

Chairman's Statement

The six months to the end of October 2014 was another period of significant change for your Company, both as it became an Alternative Investment Fund in accordance with the requirements of the Alternative Investment Fund Managers ("AIFM") Directive and because of the departure of Julie Dean, our former lead manager, from Schroders, which led to a comprehensive review of investment management arrangements.

I am pleased to report that shareholders expressed overwhelming support for the continuation of the Company as an investment trust for a further five year period at the Annual General Meeting on 5 August 2014.

Investment Management Review

In September, the Board was disappointed to learn that Julie Dean had decided to leave Schroders with immediate effect. The Board believes that there are many types of investment strategies that are capable of delivering our Company's investment objectives but a long term approach and skilful judgement is necessary. Ms Dean was lead manager for just over a year and during that period the investment portfolio underperformed its Benchmark by almost 9%.

Following this development, the Board undertook a comprehensive review of investment management arrangements. A substantial number of well regarded managers indicated a strong interest in managing the Company's portfolio. In this review process the Board was guided by the Company's major shareholders' wish to maintain the Company's current investment objective and mandate. The Board was also mindful of the need to maintain the stability of the Company's share register and rating throughout and following the review.

The Board narrowed down the proposals through several rounds of written submissions and due diligence, culminating in final presentations by a short-list of managers. In assessing the options, the Board considered a number of factors, including management track record, risk management, investment process, depth of investment resource, administration, shareholder relations and marketing capabilities.

While a number of highly credible options were put forward, the Board unanimously concluded that Schroders had provided a most convincing case for retention of the Company's investment mandate, given its overall strength in UK equities and its substantial corporate support resources.

Schroders' re-appointment as Manager was confirmed on 30 October 2014, with the assets to be managed by Schroders' Specialist UK Equity team in line with the Company's existing investment objective. The portfolio was transitioned to mirror the investment process utilised by the Schroder UK Alpha Plus Fund, where the investment process focuses on long term earnings and valuations. This is explained in more detail in the Manager's Review. Much of this transition was completed before the close of business on 31 October, the end of our reporting period for the Half Year.

There were a number of conditions attached to Schroders' re-appointment. These were, first, that Schroders would cover the entire cost of transition of the portfolio through a fee holiday. The transition is now more than 99% complete. We expect the entire costs of implementing the transition to be in the region of £1.6 million, and the fee holiday from the Manager to last at least until the end of 2015. Secondly, shareholders will also benefit in the long term as the Board has agreed an ongoing reduction of the management fee from 0.6% to 0.5% per annum with effect from 1 November 2014. Thirdly, the Board has received certain assurances from Schroders in relation to succession planning and key man risk.

Performance

For the six month period to 31 October 2014, the Company's NAV saw a total return of -6.3%, while the share price returned -8.8% and the discount widened from 5.2% at the beginning of the period to 7.8% at 31 October 2014. These performance figures compare with an equivalent return of -1.6% by the FTSE All-Share Index over the same period.

Further comment on performance and investment policy may be found in the Manager's Review.

Dividends

The Directors have declared a first interim dividend of 2.50p per share for the year ending 30 April 2015 (2014: 2.25p) and the Directors expect at least to maintain the final dividend paid in respect of the previous year. The first interim dividend will be payable on 30 January 2015 to shareholders on the Register on 9 January 2015.

Interim Management Report

AIFM Directive

In accordance with the AIFM Directive, the Company has, with effect from 17 July 2014, become an Alternative Investment Fund and has appointed Schroder Unit Trusts Limited ("SUTL"), a wholly owned subsidiary of Schroders plc, as the Alternative Investment Fund Manager (the "Manager") to provide portfolio management, risk management, accounting and company secretarial services to the Company in accordance with an Alternative Investment Fund Manager Agreement (the "AIFM Agreement"). With the consent of the Board, SUTL has delegated investment management, accounting and company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited.

In addition, the Company has appointed HSBC Bank plc as its Depositary, also with effect from 17 July 2014. An additional fee of 0.01% of net assets will be payable for depositary services. In return, shareholders gain an enhanced level of protection of the Company's assets.

Further details of both the AIFM Agreement and the Depositary Agreement may be found on page 15 in the Company Summary section of this Report.

Gearing

The Company continues to maintain a credit facility of £35 million. Net effective gearing (which takes account of cash held in the portfolio as well as borrowings) was 9.3% at the beginning of the period under review. On 11 September 2014, the Board decided that the gearing would be repaid pending review of the Company's investment management arrangements. At the end of the period the Company held net cash of 6.1% of net assets.

The Manager will take the opportunity to utilise the gearing facility when market opportunities arise. The Board continues to believe that gearing can enhance performance over time, and has set pre-agreed limits for gearing which stipulate that gearing should not represent more than 20% of shareholders' funds.

Leverage

The AIFM Directive has introduced new requirements to disclose maximum leverage levels. The definition of leverage in this context includes not only gearing but also leverage used in other ways. Please refer to note 8 on page 14 of the Half Year Report for further information on leverage.

Discount Management

The Board seeks to keep the average discount of the Company's share price to its ex income NAV at no more than 5% over the long term.

Over the six months to 31 October 2014, the average discount was 6.4%. The discount widened following the announcement of Julie Dean's departure from Schroders and the inevitable uncertainty this caused pending the outcome of the review and has remained at that slightly higher level since Schroders was re-appointed. Following the re-appointment of Schroders and the commencement of an ongoing active marketing programme, the Directors are keeping the discount under close review and will purchase shares, when appropriate, in accordance with the Board's formal discount management policy.

Outlook

Listed UK companies in aggregate have frequently failed to achieve profits growth in line with expectations in recent times. There have been plausible explanations including sterling's strength and the market's relatively large number of commodity and energy companies which disappointed. With the uncertainty of next year's General Election and a possible slowdown in Europe, investors need reassurance that companies are still capable of higher profits and dividends.

For the Company, we look to our Manager to continue our strong long term record of achievement. When announcing the re-appointment of the Manager in October, I said that "the Board unanimously concluded that Schroders demonstrated the most compelling combination of a strong long-term track record, a well-resourced management team in the UK equity sector and a commitment and capability to supporting the Company both in marketing and administration".

Alan Clifton

Chairman
24 December 2014

Interim Management Report

Manager's Review

Over the six months to 31 October 2014 the total return on the net asset value was -6.3%, compared to the total return of the FTSE All-Share Index of -1.6%.

Market Background

The FTSE All-Share Index ended the six month period slightly lower than at the start of the period. The short-term setbacks in this broadly flat outcome were often triggered by macro uncertainties, such as geopolitical tension in Ukraine and the Middle East, the Scottish independence vote and, latterly, renewed uncertainty over global growth prospects and the fall in the oil price. Prices of other commodities came under increasing pressure as a result of flagging Chinese and eurozone growth and the resurgent US dollar.

The UK economy continued to perform relatively strongly, driven by growth in household spending and, more recently, by increased business investment. Despite uncertainty a year ago about how long Western central banks would continue with their monetary easing, interest rates remain well below their historical averages.

Portfolio Performance

Following strong absolute and relative performance in 2012 and 2013, the Company has underperformed so far this year, with stock-specific factors providing a substantial drag on performance over the six month period.

The UK equity market rotated aggressively into larger cap more defensive stocks, which put selling pressure on the shares of a number of smaller companies. After performing well over the previous two years certain cyclical companies performed poorly. Examples include printing technology firm Xaar, which experienced pricing pressure in China followed by a slowdown in construction; industrial engineering turnaround specialist Melrose Industries; and online/catalogue retailer N Brown Group. Oil producer, Enquest, was a significant detractor as low oil prices impacted share prices across the oil sector. Other detractors included Thomas Cook Group and Rolls-Royce where earnings expectations have been cut.

On the positive side, the overweight holding in publisher and information provider Reed Elsevier was helpful as were overweight positions in pharma companies BTG and Shire. Finally, the Company did not own any shares in Tesco or mining giant BHP Billiton, both of which performed badly.

Change in Investment Philosophy

Philip Matthews, a member of Schroders' Specialist UK Equity team, took responsibility for the portfolio on 30 October 2014.

The Manager invests in equities that are believed to offer the best combination of value and quality. Attention is paid to cyclical risks, cash generation, structural growth trends, franchise and balance sheet strength, as well as relative and absolute valuation, to build a margin of error into the investment case.

The Manager believes that valuation is the key determinant of future returns; high multiples are often accompanied by higher growth expectations, resulting in a higher probability of an unsuccessful investment. Systematic screening of the market forces a constant re-evaluation of where this best combination of value and quality lies. The nature of the screens penalises businesses whose profit streams are cyclically extended, are capital intensive, and where those profits do not convert into cash over time.

The Manager aims to add value by identifying appropriate investments through fundamental research and the approach has no pre-determined style bias. It is believed that, over time, the mis-pricing of stocks compared to their fair value will be recognised by the market. There is no attempt to take a macroeconomic view or impose a view top-down on the portfolio; instead the portfolio is constructed to perform well independently of a particular macro outcome.

Investment process

The investment process identifies companies that demonstrate the best combination of value and quality. This approach provides a consistent framework to appraise a company's valuation and to identify mispriced investment opportunities.

Interim Management Report

Typically this results in a portfolio of 50-65 large and medium-sized UK companies that the Manager believes have strong business models and franchises, healthy balance sheets and as yet unrecognised potential on a two to three year view.

- The first stage of the process assesses relative value. It utilises a monthly quantitative screen that ranks companies on the basis of the best combination of value and quality.
- The next step is to consider absolute value by looking at the Shiller Price to 10-year-Average-Earnings ratio. This irons out the cyclical nature of a company's earnings by using a longer term earnings data series. The Manager analyses forecast profits and operating margins in the contexts of both their own histories and that of the economic cycle.
- The final stage is to assess the quality of the business in a more subjective sense since the Manager believes that different businesses should trade on different multiples, depending upon their structural growth characteristics, franchise strength or stability of earnings.

In these ways, the Manager aims to build a margin of error into the investments, seeking companies with significant upside opportunities that also offer a degree of downside protection through, for example, cash on the balance sheet, recurring revenue streams or low valuation. Upside opportunities are typically presented in the form of management initiatives, unrecognised growth potential or cyclical recovery and low valuation.

Portfolio Activity

Starting from the re-appointment on 30 October, the portfolio was transitioned into the new investment strategy, with approximately 55% of the portfolio changed. 33 new holdings were added and 30 were sold in their entirety. Seven were reduced in size, whilst nine were increased. The portfolio has been changed materially and swiftly. As at 31 October 2014, the transition was 94% complete.

The portfolio's gearing was temporarily removed in September at the Board's request. The gearing will be utilised when appropriate market opportunities are presented.

Outlook

Having delivered a broadly flat performance in 2014, the aggregate valuation of the market has not changed significantly. Commentators expect low single digit earnings growth in 2015, which is slightly lower than had been anticipated for 2014 a year ago. Earnings expectations have been scaled back during the course of 2014 and projections for global growth have been cut.

Share valuations remain close to their long-run average, which provides some comfort in the market's aggregate level and, in general, risk and reward appears to be more broadly balanced than in the recent past. The UK equity market is not cheap, but equally it is not excessively expensive, a balance that leaves shareholders with a portfolio that is fully invested but not geared. The prospects for the market's more domestically-focused companies remain reasonably positive. Falling unemployment and signs of real wage growth should support the British consumer. Interest rate rises, when they materialise, have been anticipated and are likely to be relatively small.

Following a de-rating of the more cyclical sectors in 2014, some relative value has emerged. The media sector also catches the eye, including Daily Mail & General Trust and the FTSE 250 events companies, Informa and UBM. Similarly, the software sector is presenting interesting opportunities with IT infrastructure services business, Computacenter, worth highlighting. Conversely, some of the more defensive companies with more resilient earnings streams have re-rated strongly in 2014. The Manager remains happy to hold such businesses, including Imperial Tobacco, publisher and information provider Reed Elsevier and medical equipment group Smith & Nephew, though wary of their increased valuations.

Among the UK-focused companies, the Manager sees value in the domestic banks and house builders, despite the latter being among that small cadre of companies to have benefited in the past year from earnings upgrades. However, it is worth bearing in the mind that the general election in May could prompt volatility among the house builders, along with other potential targets for political intervention such as gaming companies, bus and rail operators and utility firms.

Schroder Investment Management Limited

24 December 2014

Interim Management Report

Principal Risks and Uncertainties

The principal risks and uncertainties with the Company's business fall into the following categories: financial risk; strategic risk; and accounting, legal and regulatory risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 13 and 14 of the Company's published Annual Report and Accounts for the year ended 30 April 2014. These risks and uncertainties have not materially changed during the six months ended 31 October 2014.

Going Concern

The Directors believe that, having considered the Company's investment objective, risk management policies, capital management policies and procedures, expenditure projections and the fact that the Company's investments comprise readily realisable securities which can be sold to meet funding requirements if necessary, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the financial statements.

Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company.

No Director of the Company served as a director of Schroder Unit Trusts Limited, or any member of the Schroders plc group, at any time during the six months ended 31 October 2014.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge, this set of condensed financial statements has been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and with the Statement of Recommended Practice Financial Statements of Investment Companies and Venture Capital Trusts (SORP) issued in January 2009 and the Interim Management Report as set out above includes a fair review of the information required by 4.2.7R and 4.2.8R of the FCA's Disclosure and Transparency Rules.

Income Statement

	(Unaudited) Six months ended 31 October 2014			(Unaudited) Six months ended 31 October 2013			(Audited) Year ended 30 April 2014		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(Losses)/gains on investments held at fair value through profit or loss	-	(22,363)	(22,363)	-	42,425	42,425	-	25,148	25,148
Income from investments	4,823	-	4,823	4,953	-	4,953	10,700	-	10,700
Other interest receivable and similar income	14	-	14	43	-	43	58	-	58
Gross return/(loss)	4,837	(22,363)	(17,526)	4,996	42,425	47,421	10,758	25,148	35,906
Investment management fee	(258)	(601)	(859)	(91)	(213)	(304)	(271)	(633)	(904)
Administrative expenses	(197)	-	(197)	(327)	-	(327)	(528)	-	(528)
Net return/(loss) before finance costs and taxation	4,382	(22,964)	(18,582)	4,578	42,212	46,790	9,959	24,515	34,474
Finance costs	(45)	(106)	(151)	(57)	(133)	(190)	(117)	(273)	(390)
Net return/(loss) on ordinary activities before taxation	4,337	(23,070)	(18,733)	4,521	42,079	46,600	9,842	24,242	34,084
Taxation (note 4)	-	-	-	-	-	-	1	-	1
Net return/(loss) on ordinary activities after taxation	4,337	(23,070)	(18,733)	4,521	42,079	46,600	9,843	24,242	34,085
Return/(loss) per share (note 5)	2.70p	(14.34)p	(11.64)p	2.81p	26.15p	28.96p	6.12p	15.06p	21.18p

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 period.

Reconciliation of Movements in Shareholders' Funds

	For the six months ended 31 October 2014 (unaudited)							
	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 30 April 2014	40,229	9,875	19,759	78,071	417	146,314	8,252	302,917
Net (loss)/return on ordinary activities	–	–	–	–	–	(23,070)	4,337	(18,733)
Ordinary dividends paid in the period	–	–	–	–	–	–	(5,230)	(5,230)
At 31 October 2014	40,229	9,875	19,759	78,071	417	123,244	7,359	278,954

	For the six months ended 31 October 2013 (unaudited)							
	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 30 April 2013	40,229	9,875	19,759	78,071	417	122,072	5,651	276,074
Net return on ordinary activities	–	–	–	–	–	42,079	4,521	46,600
Ordinary dividend paid in the period	–	–	–	–	–	–	(3,621)	(3,621)
At 31 October 2013	40,229	9,875	19,759	78,071	417	164,151	6,551	319,053

	For the year ended 30 April 2014 (audited)							
	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 30 April 2013	40,229	9,875	19,759	78,071	417	122,072	5,651	276,074
Net return on ordinary activities	–	–	–	–	–	24,242	9,843	34,085
Ordinary dividends paid in the year	–	–	–	–	–	–	(7,242)	(7,242)
At 30 April 2014	40,229	9,875	19,759	78,071	417	146,314	8,252	302,917

Balance Sheet

	(Unaudited) 31 October 2014 £'000	(Unaudited) 31 October 2013 £'000	(Audited) 30 April 2014 £'000
Fixed assets			
Investments held at fair value through profit or loss	275,108	347,540	322,497
Current assets			
Debtors	126,153	2,791	17,002
Cash at bank and in hand	22,126	997	1,696
	148,279	3,788	18,698
Current liabilities			
Creditors: amounts falling due within one year	(144,433)	(32,275)	(38,278)
Net current assets/(liabilities)	3,846	(28,487)	(19,580)
Net assets	278,954	319,053	302,917
Capital and reserves			
Called-up share capital	40,229	40,229	40,229
Share premium	9,875	9,875	9,875
Capital redemption reserve	19,759	19,759	19,759
Share purchase reserve	78,071	78,071	78,071
Warrant exercise reserve	417	417	417
Capital reserves	123,244	164,151	146,314
Revenue reserve	7,359	6,551	8,252
Total equity shareholders' funds	278,954	319,053	302,917
Net asset value per share (note 6)	173.35p	198.27p	188.24p

Cash Flow Statement

	(Unaudited) Six months ended 31 October 2014 £'000	(Unaudited) Six months ended 31 October 2013 £'000	(Audited) Year ended 30 April 2014 £'000
Net cash inflow from operating activities (note 7)	6,209	4,797	8,145
Net cash outflow from servicing of finance	(158)	(187)	(394)
Overseas tax paid	(4)	–	(5)
Net cash inflow/(outflow) from investment activities	44,613	(16,383)	(15,199)
Dividends paid	(5,230)	(3,621)	(7,242)
Net cash (outflow)/inflow from financing	(25,000)	5,000	–
Net cash inflow/(outflow) in the period	20,430	(10,394)	(14,695)
Reconciliation of net cash flow to movement in net cash/(debt)			
Net cash inflow/(outflow) in the period	20,430	(10,394)	(14,695)
Loan repaid/(drawn down)	25,000	(5,000)	–
Changes in net cash/(debt) arising from cash flows	45,430	(15,394)	(14,695)
Net debt at the beginning of the period	(28,304)	(13,609)	(13,609)
Net cash/(debt) at the end of the period	17,126	(29,003)	(28,304)
Represented by:			
Cash at bank and in hand	22,126	997	1,696
Bank loan	(5,000)	(30,000)	(30,000)
Net cash/(debt)	17,126	(29,003)	(28,304)

Notes to the Accounts

1. Financial Statements

The information contained within the accounts in this Half Year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 30 April 2014 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009.

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

The accounting policies applied to these Half Year accounts are consistent with those applied in the accounts for the year ended 30 April 2014.

3. Dividends

	(Unaudited) Six months ended 31 October 2014 £'000	(Unaudited) Six months ended 31 October 2013 £'000	(Audited) Year ended 30 April 2014 £'000
Second interim dividend of 2.25p (2013: 2.25p)	3,621	3,621	3,621
Special dividend of 1.00p (2013: nil)	1,609	–	–
First interim dividend of 2.25p	–	–	3,621
	5,230	3,621	7,242

A first interim dividend of 2.50p (2013: 2.25p) per share, amounting to £4,023,000 (2013: £3,621,000) has been declared payable in respect of the six months ended 31 October 2014.

4. Taxation

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. The tax credit in the comparative accounts comprises a rebate of overseas withholding tax.

5. Return/(loss) per share

	(Unaudited) Six months ended 31 October 2014 £'000	(Unaudited) Six months ended 31 October 2013 £'000	(Audited) Year ended 30 April 2014 £'000
Revenue return	4,337	4,521	9,843
Capital (loss)/return	(23,070)	42,079	24,242
Total (loss)/return	(18,733)	46,600	34,085
Weighted average number of shares in issue during the period	160,917,184	160,917,184	160,917,184
Revenue return per share	2.70p	2.81p	6.12p
Capital (loss)/return per share	(14.34)p	26.15p	15.06p
Total (loss)/return per share	(11.64)p	28.96p	21.18p

6. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31 October 2014 of 160,917,184 (31 October 2013 and 30 April 2014: same).

Notes to the Accounts

7. Reconciliation of total (loss)/return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	(Unaudited) Six months ended 31 October 2014 £'000	(Unaudited) Six months ended 31 October 2013 £'000	(Audited) Year ended 30 April 2014 £'000
Total (loss)/return on ordinary activities before finance costs and taxation	(18,582)	46,790	34,474
Less capital loss/(return) on ordinary activities before finance costs and taxation	22,964	(42,212)	(24,515)
Scrip dividends received as income	(102)	–	(97)
Decrease/(increase) in accrued dividends and interest receivable	2,601	920	(1,053)
(Increase)/decrease in other debtors	(17)	8	4
Decrease in accrued expenses	(54)	(496)	(35)
Management fee allocated to capital	(601)	(213)	(633)
Net cash inflow from operating activities	6,209	4,797	8,145

8. Leverage

Leverage is any method by which the Company increases its exposure to changes in market prices. In addition to the Company's £35 million credit facility, the Company may employ leverage through other financial instruments such as derivatives or convertible securities. Leverage is then expressed as the ratio of the total exposure to its net asset value.

The AIFM Directive requires that this ratio is 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. Further details on how these ratios are calculated are given on the web at www.schroders.co.uk/its.

The AIFM Directive requires the Manager to set maximum leverage ratio limits as defined in the AIFM Directive. Accordingly the limits have been set at 2.0 for both the Gross and Commitment calculation methods. The Manager expects that, under normal conditions, the typical level of leverage will be substantially lower than the maximum limits and, as at 31 October 2014, the Company's Gross leverage ratio and its Commitment leverage ratio both stood at 1.0.

The Manager may change the maximum level of leverage from time to time. Any changes will be disclosed to shareholders in accordance with the AIFM Directive.

Company Summary

The Company

Schroder UK Growth Fund plc is an independent investment trust whose shares are listed on the London Stock Exchange. As at 24 December 2014, the Company had 160,917,184 Ordinary shares of 25p each in issue (no shares were held in Treasury). The Company's assets are managed and it is administered by Schroders. The Company has, since its launch in 1994, measured its performance against the FTSE All-Share Index. The Company measures its performance on a total return basis.

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 Company's Annual General Meeting at five yearly intervals. The next resolution for the continuation of the Company will be put to shareholders at the Annual General Meeting in 2019.

Website and Price Information

The Company has a dedicated website, which may be found at www.schroderukgrowthfund.com. The website 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 (subject to a delay of 15 minutes) and copies of Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of Committees and other governance arrangements. In addition, the site contains links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. There is also a section entitled "How to Invest".

The Company releases its Net Asset Value on both a cum and ex income basis to the market on a daily basis.

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

Manager

Schroder Unit Trusts Limited was appointed on 17 July 2014 as the Company's Alternative Investment Fund Manager ("Manager") under the AIFM Directive. The annual management fee is 0.5% p.a.

The AIFM Agreement, which is governed by the laws of England and Wales, can be terminated by either party on three months' notice or on immediate notice in the event of certain breaches or the insolvency of either party.

Depositary

HSBC Bank plc has been appointed with effect from 17 July 2014 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.

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 custody, unless the Depositary is permitted to and has discharged such liability under the AIFM Directive and 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

Company Summary

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 Services

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 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.

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, 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. Visit www.shareview.co.uk for more details.

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.

Non-Mainstream Pooled Investments (NMPI) Status

The Company currently conducts its affairs so that its shares 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.

Dealing Codes

The dealing codes for the shares in the Company are as follows:

ISIN: GB0007913485

SEDOL: 0791348

Ticker: SDU

AIFM Directive – Periodic Disclosure

Preferential Treatment of Investors

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

Liquidity Risk Management

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

Periodic and Regular Disclosure under the Directive

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

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

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

www.schroderukgrowthfund.com

www.schroders.co.uk/its