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# Results analysis: Schroder Income Growth

Positive results for SCF mark its 31st consecutive year of dividend growth.

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- Schroder Income Growth (SCF) has reported an NAV total return of 19.0% for the year to 31/08/2026, against the FTSE All-Share's 21.3%. The share price total return was stronger at 23.0%. Over the longer term, SCF has delivered an annualised NAV total return of 8.7%, ahead of 8.1% for the FTSE All-Share since Sue Noffke took the reins in July 2011.
- Over the year, Computacenter was among the strongest contributors, benefitting from AI-related capital expenditure in its US business, alongside Standard Chartered, which was supported by the interest rate environment and strong growth in Asian wealth management.
- The shortfall against the index came largely from the overweight to consumer discretionary. Burberry was hit by weaker sentiment towards luxury goods and Whitbread by higher costs following the UK Budget. Elsewhere, Telecom Plus detracted after warning that renewed competition in the energy market would weigh on 2027 earnings.
- The higher share price return reflected the discount narrowing from 8.2% to 5.3%, aided by strong buyback activity. The board repurchased c. 4.4% of the issued share capital for £10.7m, adding around 0.3% to NAV, and a further 1.1% has been bought back since the year end, as at 09/11/2026.
- It has been another positive year for shareholders' income. Dividends per share rose 4.1% to 15.30p, and dividend growth has now exceeded inflation over one, three and ten years, delivering real rather than merely nominal income growth. Importantly, this marks SCF's 31st consecutive year of growth, further cementing its AIC Dividend Hero status.
- Revenue earnings per share rose 8.5% to 13.62p, despite broadly flat dividend income of £10.3m. By our calculations, lower revenue costs and finance charges, including a one-off VAT recovery, added around 0.7p per share, whilst a smaller share count following buybacks added around 0.4p. Sue attributes the flat income to three factors: portfolio repositioning, companies' growing preference for buybacks, and dividend cuts at Diageo, Taylor Wimpey, Pets at Home and Telecom Plus.
- That said, the dividend over the year was 0.89× covered by earnings, with the shortfall drawn from revenue reserves. Following payment of the fourth interim dividend, the revenue reserve stood at £3.3m, equivalent to 5.07p per share, or c. four months of the annual dividend. Whilst this may seem modest, SCF also benefits from distributable, realised capital reserves of 225.16p per share, which can be used to support distributions and equate to nearly 15 times the annual dividend.
- Ongoing charges fell to 0.57% from 0.78%, reflecting the management fee cut to 0.40% from 0.45%, now charged on the lower of market capitalisation or NAV, along with the removal of the separate secretarial fee and lower service provider costs.
- Portfolio activity was elevated, with ten new holdings and twelve exits. Sue's changes ranged from increasing mining exposure through new positions in Glencore and Anglo American and building up recovery situations via Reckitt Benckiser, Croda and Diageo, to using the AI-related de-rating of data businesses to buy LSEG and add to RELX.
- Chairman Ewen Cameron Watt will step down at the December AGM after nine years on the board, making this his final statement, and Victoria Muir will succeed him. Looking ahead, he struck a constructive tone on the UK, citing attractive valuations, resilient earnings, strong balance sheets and increasing corporate investment, despite geopolitical tensions, inflation and higher bond yields. He also noted that whilst total dividends paid by UK companies remain below 2019 levels, SCF's dividend has risen 23% over the same period.

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## Kepler View

In our view, these are good results for income investors. Schroder Income Growth (SCF) raised its dividend by 4.1%, not only extending its growth record to a 31st consecutive year but once again staying ahead of inflation. Since 1996, dividends have compounded at an annualised 4.1% against inflation of 2.5%, providing real growth over multiple market cycles. Sue has overseen half of that period, and her process has been central to sustaining it, steering the portfolio through very different markets without anchoring to a single style or reaching for unsustainable yields, which gives us confidence in the durability of SCF's income.

Over the year, Sue took profits in higher-yielding winners such as Lloyds and TP ICAP, recycling the capital into businesses like RELX and LSEG, which yield less but are highly cash-generative and could support stronger income growth in future. There were challenges, though. Diageo and Taylor Wimpey were among the holdings to cut their dividends, and with cover at 0.89×, the revenue reserve has thinned to 5.07p per share. However, we think it's important to remember that SCF has access to substantial realised capital reserves, which give the board ample support. Moreover, Sue notes that the shift towards buybacks has left ordinary dividends across the market better covered.

Regarding changes to the portfolio over the year, we think RELX and LSEG highlight Sue's willingness to lean against the market. Both sold off sharply earlier in the year on fears that AI would erode their businesses, with RELX falling by double digits in a single day after Anthropic launched an AI legal tool in February, and Sue used that weakness to add to RELX and open a position in LSEG. These changes make sense, in our view, as AI is only as good as its data. Both businesses own proprietary, constantly refreshed datasets for customers, from lawyers to traders, who need answers that are accurate and auditable. Rather than being bypassed, they are building AI into their own products or, in LSEG's case, supplying the data third-party tools rely on. We think their rally since July suggests the market is coming round to that view.

More broadly, the UK backdrop looks supportive for SCF's approach. Over the year, 26 of SCF's 46 holdings announced buybacks, and as Sue anticipated, the trend is spreading to mid-caps, including existing holdings like Hollywood Bowl, Fevertree and QinetiQ. M&A involving UK companies also doubled to £65bn in the first eight months of 2026, reinforcing Sue's long-term view that UK equities offer value the market has been slow to recognise. And with around three-quarters of portfolio revenues generated outside the UK, SCF offers far broader exposure than its domestic label implies.

There are, of course, risks to weigh. The consumer discretionary overweight held back relative returns this year, recovery positions such as Diageo may take time to come good, and higher bond yields or renewed geopolitical tension could test sentiment towards equity income, as they did in 2023. Even so, we think the balance looks favourable. Sue sees the clearest value among small and mid-sized companies, where SCF has meaningful exposure, and investors can access that opportunity at a 6.8% discount, at the time of writing, wider than its five-year average, with costs now lower at an OCF of 0.57%. With a current yield of 4.2% and a 31-year record of dividend growth behind it, we think SCF is potentially well placed to turn the cash UK companies are returning to shareholders into a rising income for its own.

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