Holding out for a dividend hero

SCF's record of real dividend increases and total return strategy differentiate it from peers.

Update
27 November 2025

The legendary investor Warren Buffett once remarked that "someone is sitting in the shade today because someone planted a tree a long time ago". In other words, long-term thinking today benefits both us and others further down the line.

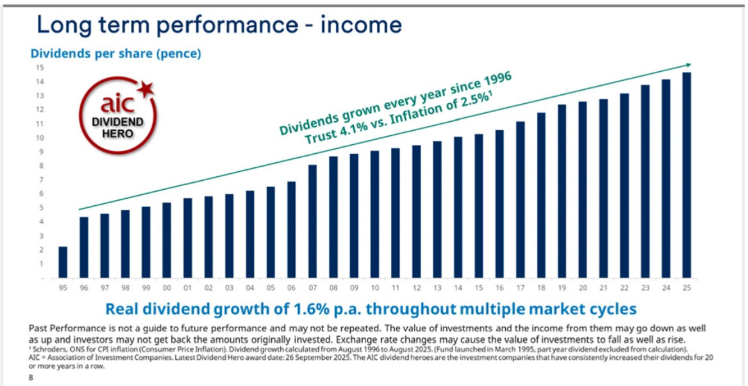
One could argue that the best example of this within the investment trust universe are its dividend heroes, that elite club of 20 trusts that have increased their dividends for 20 consecutive years or more.

By thinking decades into the future, these dividend heroes have successfully harnessed one of the most unique features of investment trusts (their ability to hold back up to 15% of their income every year) and as a result have provided a steady trickle of often inflation-beating dividend increases that help shareholders to compound their returns.

That may sound boring, but, in our view, it's exactly what investing should be, and an excellent use of investment trusts' many unique features.

There are 15 dividend heroes with 30 years' or more of dividend increases under their belts, with the latest of these being **Schroder Income Growth (SCF)**. SCF has grown its dividend every year since its first full financial year in 1996, making this its 30th year of increases. The dividend has grown 4.1% on an annualised basis, versus annualised inflation of 2.5%, from launch to 31/08/2025, equating to real annual growth of 1.6%, helping to grow shareholders' purchasing power.

Fig.1: Dividend Growth Record



Source: Schroders, ONS

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This achievement is even more impressive when set against the fact that in those 30 years, we've seen the global financial crisis, a period during which time dividends from UK shares fell 15%, according to the Capita Registrars Dividend Monitor; and the Covid-19 pandemic, when UK dividends plunged 44%, according to the Link Group UK Dividend Monitor. Yet during these troubled periods, SCF continued to increase its payout consistently.

Thinking for the long term

SCF has been able to do this thanks to a unique feature of the closed-end vehicle. Trusts can retain up to 15% of their income every year, allowing them to build up what are called revenue reserves during years of plentiful dividend growth and pay some of that out in leaner periods. You can **find out more about revenue reserves** in our jargon buster.

Indeed, SCF's 2024 dividend increase came despite a fall in the total income received from the portfolio, with the trust utilising its revenue reserves to help it fulfil its objective of real income growth over the long term.

Investment trusts can distribute capital, as well as revenue, reserves as dividends, providing a further buffer to dividend cover. SCF's board is of the view that investors focus excessively on revenue reserves, noting that all reserves generated from investment returns should be and are available for shareholders. SCF's total distributable reserves as of 31/08/2025 include capital reserves of £208.5m and revenue reserves of £7.6m.

There are, of course, some trust-specific factors at play that have allowed SCF to build up this record, too. Manager Sue Noffke, portfolio manager of the trust since 2011 and head of UK equities at Schroders, takes a long-term approach to portfolio construction, allowing it to ensuring today's payouts are made, while also keeping an eye on future dividends.

SCF does this by blending income generators with select high yielders, and lower-yielding companies offering strong dividend and capital growth potential. This combination makes SCF style agnostic, holding both value and growth stocks and differentiating it from some peers in the sector.

Sue can also call upon a wealth of resources within Schroders, including the wider Schroders UK equity community with a combined investment experience of 250 years, allowing her to seek opportunities further down the market-cap spectrum, an area many peers might not be able to take advantage of. This seeking of opportunities across the whole of the UK market allows Sue to combine established large-caps with carefully selected mid-cap stocks, helping to diversify SCF's portfolio and providing exposure to varied drivers of income and capital growth.

Buying back better

SCF has also been benefitting from the rise in portfolio company share buyback activity. When a company buys back some of its shares, it reduces the number of shares outstanding, increasing each remaining shareholder's proportion of ownership and enhancing earnings and dividends per share.

There are many reasons why companies buy back shares, including to return surplus capital, exploit undervaluation, boost per share metrics, and signal management's confidence in the future.

During SCF's most recent financial year, 31 of its 47 portfolio holdings, 67% by portfolio value, conducted buybacks, up from 60% in 2024 and 38% in 2023.

Sue searches for businesses with healthy cash flows and solid balance sheets, so it's heartening that its companies have enough firepower to reward shareholders with both dividends and by buying back stock.

It's also a sign that management teams across swathes of the UK market recognise that their share prices are undervalued, are looking to do something about it and are seeing investing in their own business as the best possible use for their excess cash.

It's worth taking a moment here to consider the future and what impact this share buyback frenzy might have on prospects for future dividend growth – a key part of SCF's remit. Fewer special dividends have been observed during a time when share buybacks have risen, suggesting cash that would otherwise have gone on special dividends are being rerouted.

Computershare's most recent UK dividend monitor, for instance, recently highlighted that buybacks had been a major factor dragging on dividend growth, with dividends in Q3 2025 falling 1.4% year-on-year and special dividends dropping to £93m, their lowest level for five years.

Buybacks from corporates don't automatically lead to better performance and one must carefully scrutinise the mechanics of such programmes. Buybacks should only be made at accretive share prices, should not override core business investment, nor be funded by debt.

That said, well executed share buyback programmes made at good valuations can create lasting value. Investors would do well to consider total shareholder returns (that is, dividends plus buybacks), in our view.

Indeed, we are seeing evidence that businesses with disciplined, long-term buyback programmes are starting to outperform due in large part to enhanced earnings and dividend per share growth.

One sector in particular that is benefitting is the banking sector, with many banks both buying back shares and making strong dividend increases. Sue's view is that total shareholder returns from banks could equate to as much as a quarter of their current market value over the next three years.

SCF's Board has implemented measures aimed at enhancing shareholder value, with cost benefits coming from the fee reduction from 0.45% to 0.4%, charged on the lesser of market cap or NAV, alongside the elimination and administration services fee.

Tighter discount management, aimed at keeping the discount in single digits under normal market conditions, should also help, while the effective use of distributable reserves will help the board meet the trust's longer-term commitment of real dividend growth that we've outlined.

The dividend heroes are arguably the standard bearers when it comes to investment trust best practice, using the uniqueness of the closed-end structure to enhance outcomes for shareholders hoping to preserve and grow their future purchasing power.

SCF's record of real dividend increases, alongside its all-cap, total return strategy, sets it apart from its peers. In addition, its c. 5.2% yield is more than a 50% premium to the broad UK stock market, which we think makes SCF, currently trading on a c. 6.5% discount to net asset value, a standout choice for income-focused investors.

Upcoming SCF AGM

The Company's AGM will be held at 12:30pm on Thursday, 11 December at 1 London Wall Place, London, EC2Y 5AU. Shareholders are encouraged to **attend and participate**. Your votes can be submitted in advance through your investment platform should you be unable to attend.

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