



# Results analysis: Schroder Income Growth

SCF's three decades of real dividend growth presents a compelling income proposition for investors.

Update  
15 May 2026

- **Schroder Income Growth (SCF)** delivered a NAV total return of 17.4% for the six months to 28/02/2026, against the FTSE All-Share Index return of 18.9%. Positive performance came from stocks including Rio Tinto, SSE and Balfour Beatty. Relative underperformance stemmed largely from an unusually concentrated market, with a small number of index constituents delivering exceptionally strong returns.
- Long-term returns remain strong with an annualised NAV total return of 8.5% versus 7.8% for the index, since Sue Noffke took responsibility for the portfolio in July 2011.
- SCF's higher share price total return of 18.9% reflected the discount narrowing from 8.2% to 7.2% over the reported period. Given the discount, the board repurchased 803,214 ordinary shares during the half-year, equivalent to 1.2% of the issued share capital.
- Revenue earnings per share climbed to 3.97p, a 39.8% increase on the 2.84p recorded in the first half of FY2025, supported by a 7% rise from ordinary dividends and a special dividend from Lancashire Holdings. Moreover, there was a 0.17p contribution from the management fee reduction which took effect 01/09/2025.
- The first and second interim dividends were held at 3.25p, in line with the prior year, as income is typically more weighted to the second half. The board remains focussed on increasing the total dividend for FY26, which would mark 31 consecutive years of dividend growth and maintain the trust's coveted AIC Dividend Hero status. Dividend growth is not only supported by portfolio income, but also by revenue reserves of 7.1p per share, equivalent to 48% of last year's total dividend, alongside a substantial pool of distributable capital reserves.
- Shareholders voted 95.8% in favour of the trust's five-year continuation vote. Further, the board noted the recommended cash acquisition of Schrodgers by Nuveen, expected to complete Q4 2026, with continuity of management intended.
- Chairman Ewen Cameron Watt will step down at the December 2026 AGM after nine years, with Senior Independent Director Victoria Muir set to succeed as Chair. Reflecting on the period, the Chairman noted the board's constructive medium-term outlook, citing supportive UK

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valuations and a diverse range of market opportunities, whilst acknowledging that significant uncertainty remains, particularly with respect to the conflict in Iran and its potential implications for inflation and interest rates.

## Kepler View

We think these are good results from SCF, and the income picture is the perfect place to start, as portfolio investment income rose 17.5% over the period. This reflected a special dividend from Lancashire Holdings, alongside a solid 7% rise in underlying ordinary dividend income, supported by double-digit dividend increases from several holdings, including Prudential, XPS Pensions, Hollywood Bowl and Balfour Beatty.

Buybacks are also worth noting. At period end, 30 of SCF's 46 holdings were actively repurchasing their own shares, representing two thirds of the portfolio. For income investors this can look like a headwind, and at the market level it has modestly



dampened headline dividend growth. But Sue Noffke argues that the real effect has been on dividend cover, which has strengthened considerably, making the portfolio's income more sustainable over time. She also notes that the UK market may now have reached a peak in buyback activity, with the partial re-rating of certain larger companies undermining the case for further repurchases, and capital increasingly being redirected toward organic investment and acquisitions. Among smaller and mid-sized companies, however, which have not experienced the same degree of re-rating and remain relatively lowly valued, buyback activity looks set to continue, something Sue believes could be a source of ongoing return potential for the portfolio.

SCF has also showed a level of income consistency over the long term. Dividends have compounded at 4.1% annually since 1996, against inflation of 2.5%, delivering genuine real income growth for investors. The board has made clear its intention to pursue a 31st consecutive year of dividend growth, supported by revenue reserves of 7.1p per share, covering 48% of last year's dividend, and a larger pool of distributable capital reserves. Together, we think the foundations to achieve another year of growth are in good shape.

On performance, the trust delivered a NAV total return of 17.4% against the FTSE All-Share's 18.9% for the six months to 28/02/2026, with the share price total return matching the benchmark as the discount narrowed. These are strong absolute returns, and the relative gap is a story of market structure rather than stock selection. A rotation into larger, globally diversified companies, away from expensive US technology stocks, overwhelmingly favoured the FTSE 100, which passed 10,000 for the first time, whilst mid and small-cap stocks lagged. Artificial intelligence added a further nuance, pressuring software and IT services, an area where the UK has greater index representation, whilst hardware benefitted. Sue's longer-term record since July 2011 remains ahead of the index, and that context matters when reading the short-term relative numbers.

Sue took advantage of this environment by trimming strong performers and recycling capital into areas offering better long-term value. Mining exposure was increased via Rio Tinto and a new position in Glencore, reflecting conviction in commodity dynamics and the energy transition theme. In healthcare, GlaxoSmithKline was increased as US pricing clarity improved, and Reckitt Benckiser was initiated as litigation concerns eased. Exits included 3i Group on valuation grounds and Pearson on AI disruption risk, a deliberate contrast to adding to RELX, where Sue and her team believe its analytics tools are considerably more resilient to disruption than the market had priced in.

Looking ahead, the conflict in the Middle East has complicated the inflation and rate outlook since the period

end, with cuts that had looked likely this year now off the table. Top-tier cash ISAs offering above 4% will inevitably draw some investors, as they did in 2022 and 2023, but they lack the capital growth potential on offer with SCF, alongside the above-inflation dividend growth record it has cultivated since 1996. SCF's smaller company exposure remains a risk if sentiment stays cautious, but it equally represents the trust's most interesting opportunity, those valuations sit at historically wide discounts to larger peers, and any narrowing could be a meaningful driver of returns. At a 6.5% discount, with a 4.3% yield and 30 years of dividend growth ahead of inflation, we think the case for SCF is stronger than the current price suggests.

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