EDISON

Schroder Income Growth Fund

Dividend record intact, repositioning to prove

Investment companies

24 November 2026

Schroder Income Growth Fund (SCF) has used a strong year for UK equities to reposition its portfolio, with manager Sue Noffke recycling profits into businesses she believes the market undervalues. We believe these changes are meaningful but still to be proven, with stock selection, rather than a re-rating, key to longer-term returns, even though the discount has widened since year-end. FY26 brought a 19.0% NAV total return against 21.3% for the UK All-Share index, while the share price returned 23.0% as the discount narrowed from 8.2% to 5.3%. The dividend rose 4.1% to 15.30p, marking its 31st consecutive annual increase, while the c 4.3% historical yield remains a key part of the investment proposition as the portfolio changes develop.

Price	**356.00p**
Market cap	**£228m**
Shares in issue	64.1m
Code/ISIN	SCF/GB0007915860
Primary exchange	LSE
AIC sector	UK Equity Income
Financial year end	31 August

Fund objective

Schroder Income Growth Fund (SCF) is a UK equity income investment trust, launched in 1995 and managed by Sue Noffke of Schroders since 2011. It aims to grow income ahead of inflation and achieve capital growth as a consequence of rising income, investing mainly in UK equities through a valuation-led approach.

Bull points

- 31-year dividend growth record and c 4.3% historical yield.
- Valuation-led portfolio changes offer recovery and stock-selection potential.
- Global underlying revenues provide diversified sources of returns.

Bear points

- Dividend remains below full earnings cover, reducing revenue reserves.
- NAV performance has lagged the index over three, five and 10 years.
- Discount volatility could weigh on share price returns.

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Recycling profits into recovery and mispriced quality

In FY26, Noffke took profits in Lloyds and Standard Chartered, redeploying capital into a new position in London Stock Exchange Group and an increased holding in RELX, two businesses that had de-rated amid concerns about AI disruption. Noffke believes the market underappreciates their proprietary data and embedded customer relationships, while AI could also enhance their services. Diageo and Croda offer recovery potential, although turnarounds carry execution risk. The FY26 shortfall against the index largely reflected an overweight in consumer discretionary, with Burberry hit by weak luxury demand, particularly in China, and Whitbread by higher UK costs, while ICG de-rated alongside other private-market managers. Burberry's November interims, showing 4% comparable retail sales growth, offer early, if limited, evidence of recovery. With c 75% of portfolio-company revenues generated overseas, SCF offers diversified exposure beyond the UK economy.

Reserves bridge the dividend through buyback era

Since 1996, SCF's dividend has grown c 4.1% per year against c 2.5% inflation. Revenue EPS rose 8.5% to 13.62p, helped by lower costs and fewer shares, lifting dividend cover from 0.85x to 0.89x, but revenue reserves declined to 5.07p/share after payment of the fourth interim dividend in October 2026, from 6.33p/share a year earlier. Part of the shortfall reflects how UK companies now return cash: 26 of SCF's 46 holdings (64% of portfolio value) announced buybacks in FY26, supporting per-share value without adding to SCF's income. SCF also has substantial realised capital reserves, although all dividends to date have been paid from revenue profits, and fee cuts reduced ongoing charges from 0.78% to 0.57%. We regard the progressive policy as credible, but restoring full cover will depend on the newer holdings growing their payouts.

Discount widens, NAV delivery remains key

Buybacks equivalent to 4.4% of share capital supported the rating in FY26, but by 23 November 2026, SCF's discount had widened to c 7.0%, broadly back in line with the 6.8% FY26 average. NAV returns trailed the UK All-Share Index by 1.0pp, 0.9pp and 0.5pp pa over three, five and 10 years to October 2026, although SCF's NAV has returned 8.7% pa against 8.1% for the index from Noffke's appointment in July 2011 to August 2026. The wider discount leaves some scope for narrowing, although we believe stronger NAV performance would provide a more durable driver of future share price returns.

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