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Schroder Income Growth (SCF)

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Results analysis from Kepler Trust Intelligence

Schroder Income Growth (SCF) has released its half-year results for the six months to 28/02/2025, reporting NAV total returns of 2.9% and a share price total return of 1.8%, compared to the FTSE All-Share Index's 5.2% return. Stock selection within financials was a bright spot-three of the trust's top five performers were financials: Standard Chartered, 3i Group, and Lloyds Banking Group. However, this was offset by adverse stock picking in consumer discretionary, industrials and consumer staples.

Earnings fell by 3.9% over the period, largely due to capital allocation trends, with more companies favouring share buybacks over dividends, particularly special dividends. Despite this earnings dip, the board raised the first and second interim dividends to 3.25p per share, up from 2.50p, citing this decision as a reflection of their desire to rebalance the pattern of income more evenly through the year. As such, they anticipate a greater portion of the total dividend will be paid across the first three interims, with the fourth likely to be lower.

The board is adopting a more active approach to discount management, aiming to reduce volatility and maintain the discount within a single-digit range under normal market conditions. Additionally, the board have announced a number of changes to reduce SCF's fees. First, management fees will fall from 0.45% to 0.40%, effective from 01/09/2025, and will be charged on the lesser of market capitalisation or NAV. Second, the separate fee for secretarial and administration services will be removed. The board estimates that, all other things being equal, this could result in savings of over £300,000 for shareholders-equivalent to around 0.4p per share, assuming a prevailing 10% discount to NAV.

Matt Bennison was appointed co-manager during the period, reflecting his long-standing working relationship with Sue Noffke and the valuable support and experience he's brought to SCF over his eight years on the team. Whilst a positive announcement, the appointment does not change how the trust is managed, it simply reinforces the strength of the management team.

Kepler View

As the Chairman notes, Schroder Income Growth (SCF) performed well in its 2024 financial year, outpacing the index primarily through strong stock selection, particularly in financials. However, the first half of FY2025 (to 28/02/2025) brought renewed volatility, with geopolitical tensions and domestic uncertainty prompting a flight to defensiveness and liquidity. This was reflected in index performance: the FTSE 250 ex IT and FTSE SmallCap ex IT fell by 4.2% and 7.3%, respectively, whilst the FTSE 100 rose 6.5%. SCF's overweight to small- and mid-caps-and corresponding underweight to large caps-was therefore a key driver of relative underperformance. Whilst this tilt may increase short-term volatility, it has historically supported long-term outperformance and contributed to SCF's near three-decade dividend growth. With mid-cap valuations at attractive levels, a yield premium over the FTSE 100, and earnings growth potential, we believe SCF remains well positioned-offering both meaningful upside if sentiment turns and a way to enhance underlying earnings power.

Since launch, SCF has delivered real dividend growth ahead of CPI inflation. That continued in FY2024, marking SCF's 29th consecutive annual dividend increase. FY2025 is on track to extend this run, with the first and second interim dividends climbing to 3.25p per share (from 2.5p). However, the growing preference among companies for share buybacks over special dividends has weighed on near-term income. To support the dividend, the board drew on revenue reserves. After the first two interim payments, reserves stood at 7.8p per share-equivalent to just 57% of last year's total dividend.

To help strengthen income generation, Sue has increased exposure to financials-an area offering strong yields, attractive valuations, and sound fundamentals-and continues to blend dependable income generators with a mix of high yielders and lower-yielding names. We also note the board's effort to smooth income delivery by rebalancing payments more evenly across all four dividends, reducing reliance on a large final payout.

Overall, in our view, SCF's dividend growth consistency-combined with a diversified portfolio blending high-quality income generators, selective high-yielders and higher-growth lower-yielders-could appeal to long-term investors seeking differentiated income with growth potential, supported further by the boards decision to reduce costs and adopt a more active approach regarding the trust's discount management.

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