Annual Report and Accounts 2018

Schroders

Highlights

Profit before tax and exceptional items

£761.2m

(2017: £800.3m)

Profit before tax

£649.9m

(2017: £760.2m)

Total dividend per share

114p

(2017: 113p)

Basic earnings per share before exceptional items

215.8p

(2017: 226.9p)

Basic earnings per share

183.1p

(2017: 215.3p)

Total equity

£3.6bn

(2017: £3.5bn)

Contents

Our Annual General Meeting (AGM) will be held at 11.30am on 2 May 2019 at 1 London Wall Place, London, EC2Y 5AU.

A glossary of terms used throughout the Annual Report and Accounts, including details of Alternative Performance Measures, can be found from page 178.

As a global investment manager, our overall purpose is to help build the long-term future prosperity of our clients. We recognise that we have an important role to play in shaping our clients' futures as well as having a strong focus on doing the right thing for our people, our suppliers and for society more widely. By understanding the needs of our stakeholders, we can deliver long-term growth for our shareholders.

In order to deliver for our stakeholders, we prioritise growing a sustainable business that takes a long-term approach. We do this by investing behind strategic growth opportunities, which help us deliver on our commitment to provide positive outcomes for all of our clients, society, our shareholders and our people.

When our stakeholders prosper, so do we.

Clients

Our clients are at the centre of our business. Our ongoing success is built upon our understanding of their evolving needs and partnering with them to construct products and solutions that help them meet their financial goals. We are proud of our track record of delivering long-term performance for clients.

Three-year client investment performance*

74%

Read about how we create value for our clients from page 13.

Society

As a principle-led business, we believe that engaging with companies on corporate responsibility is the right thing to do. As part of our commitment to society, we maintain positive relationships with our regulators. We also build strong relationships with our external service providers.

Environmental, social and governance (ESG) engagements

2,200

Read about how we create value for society from page 35.

Read about how we create value for our people from page 31.

People

Our people are key to the ongoing success of the business. We are proud of our reputation as an employer of choice and of the talented people who drive our business. Our people strategy aims to attract, retain and develop an agile and diverse workforce, who we are able to provide with engaging and rewarding work.

Retention of key talent

94%

Read about how we create value for our shareholders from page 21.

Shareholders

We rely on the support of our shareholders in order to generate sustainable long-term growth. Our business model aligns the interests of our shareholders with those of our clients. This means that in delivering for our clients, we create value for those invested in our business.

Basic earnings per share before exceptional items

215.8p

* More information on how on how we measure investment performance is set out on pages 24 and 178-179.

An active approach to building long-term future prosperity

We manage investments for institutions and individuals to help them meet their financial goals and prepare for the future. As the world changes, so do our clients' needs. That's why we have a long history of adapting to meet the challenges of the times, keeping our focus on what matters most to our clients. From pension funds and insurance companies to individuals and charities, we work with a wide range of clients, whose needs are as diverse as they are.

Asset Management

We manage investments for institutions and private investors throughout the client life cycle.

Our institutional clients include local authorities, pension schemes, insurance companies and sovereign wealth funds. We also manage assets for end clients as part of our relationship with distributors, financial advisers and online platforms.

We believe that the key to delivering better outcomes lies in gathering highly talented people who bring a diverse range of thoughts and ideas. Our 42 investment teams in 19 global locations actively manage investments across a range of asset classes. Our approach allows us to channel our insights into the right outcomes for our clients.

Our client service teams build lasting relationships, which allow us to develop a clear view of our clients' needs and how these may change over time.

By combining these client relationships with market insights and our strong investment capabilities, we can design bespoke products and services. These solutions are designed to fit our clients' needs and are rigorously tested to ensure that they are fit for purpose.

Contribution to Group net income

£1,801.2m

Wealth Management

We provide a wide range of wealth management services, which focus on preserving and growing our clients' wealth. There will soon be three key components to supplement our existing wealth management offering, which reflects our strategic ambition to provide wealth management and financial planning services to clients across the wealth spectrum.

Cazenove Capital (in the UK and Channel Islands) and Schroder Wealth (outside the UK) offer bespoke discretionary and advisory investment services to private clients, family offices and charities.

Benchmark Capital provides technology-led regulatory and administrative services for a network of independent financial advisers, as well as providing platform services.

We have announced our plans to create a joint venture with Lloyds Banking Group in the UK. The business will be named Schroders Personal Wealth and will address the growing gap in the advice market by offering personalised financial planning and investment services to affluent customers.

Contribution to Group net income

£289.8m

Infrastructure

Our infrastructure teams provide critical services that support the business and include capabilities across Technology, Operations, Finance, Risk, Human Resources, Compliance, Legal, Governance, Internal Audit and Tax.

Group

The overall governance and corporate management of the Group is driven by the Chairman, Group Chief Executive and Chief Financial Officer, as well as employees involved in corporate development and strategy.

Read more about how our business creates value in our business model on pages 18-19.

A diversified strategy for growing our business

Taking a diversified approach is important in an environment of uncertainty. By ensuring diversity across our business model, we are able to maintain our resilience to industry headwinds and generate long-term growth through the cycle. This means we can take a long-term view and continue to invest in our business.

Assets under management (£407.2bn)

Geographies

UK	40%
Asia Pacific	23%
Europe, Middle East and Africa	22%
Americas	15%

Asset classes

Equities	38%
Multi-asset	25%
Fixed Income	17%
Private Assets and Alternatives	9%
Wealth Management	11%

Clients

Institutional	59%
Intermediary	30%
Wealth Management	11%

Expanding the core business

At our core we are a committed active investment manager. Our product offering and range of strategic capabilities are structured around the areas that we believe demonstrate the clear, repeatable benefits of active management. We deploy seed capital to develop new strategies to achieve positive outcomes for our clients. This allows us to continue growing a core business that is diversified across geography, asset class and client type.

Developing capabilities in private assets

As the number of publicly-listed companies continues to fall, we are seeing increased demand from clients for access to private markets. Broadening our investment expertise and product offering within private assets and alternatives remains a key strategic focus for us.

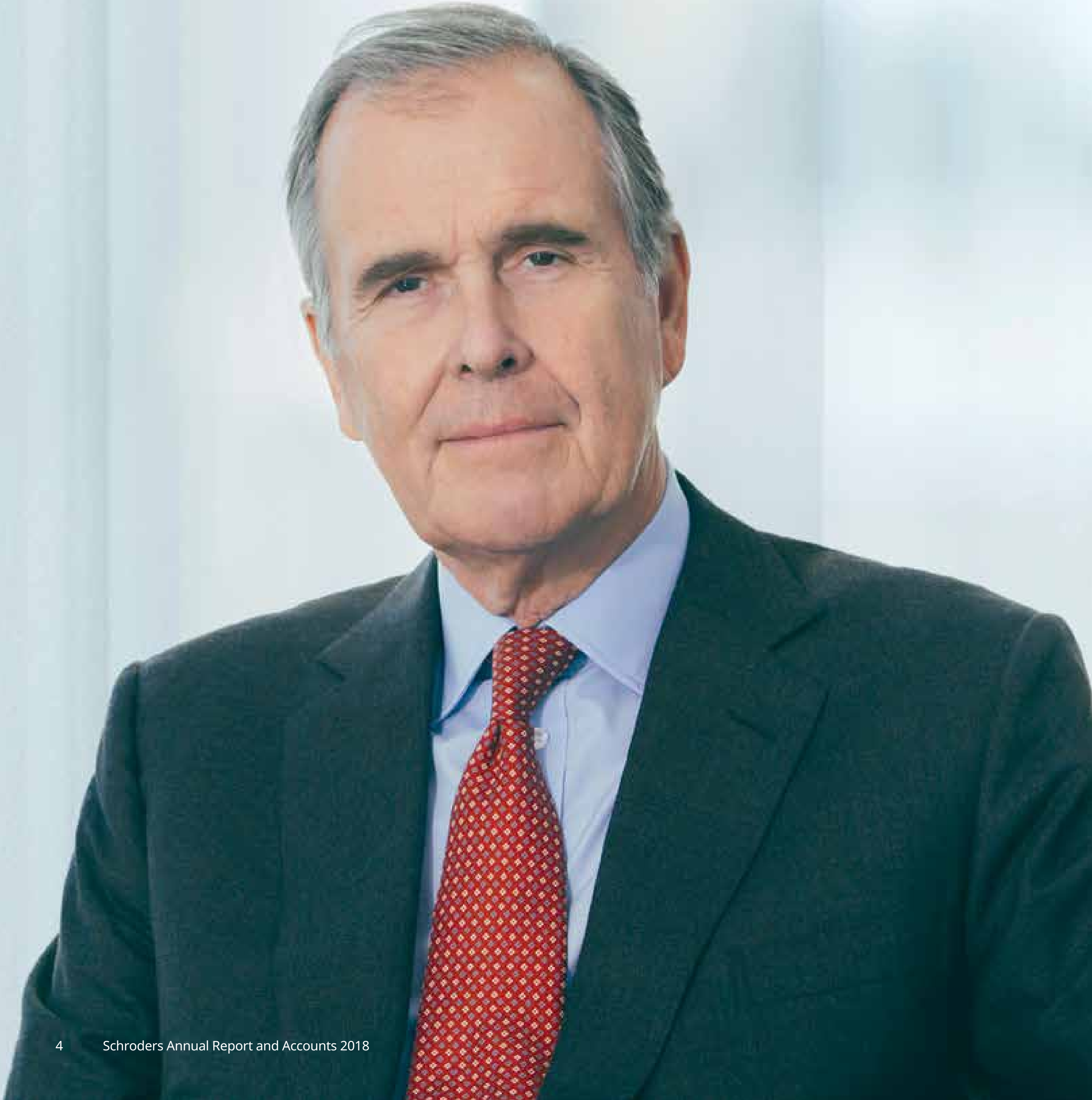
We have recently made a number of successful acquisitions and investments to add further private equity, infrastructure finance, securitised credit and real estate capabilities to our product set.

Building closer relationships with our end clients

There has historically been a high level of intermediation between investment managers and their end clients, which can increase client turnover and the fees they pay. To reduce the impact of this and improve client longevity, we are working to build closer relationships with our end clients, particularly in wealth management. We have developed several key strategic partnerships to support this objective. These include Schroders Personal Wealth in the UK, our partnership with Maybank in Malaysia and our distribution relationship with Hartford Funds in the US.

Performing in more challenging times

2018 was a challenging year for investors, particularly in the second half as most markets declined. As a result the asset management industry saw high levels of fund outflows towards the end of the year. Against this background Schroders delivered solid results with profit before tax and exceptional items of £761.2 million (2017: £800.3 million). Profit before tax was £649.9 million (2017: £760.2 million). Net outflows were £9.5 billion (2017: net inflows of £9.6 billion) and assets under management and administration at the end of the year amounted to £421.4 billion (2017: £447.0 billion).



Dividend

Our policy is to provide our shareholders with a sustainable dividend, increasing dividends progressively in line with the trend in profitability and maintaining a payout ratio of approximately 50%. The Board will recommend to shareholders at the Annual General Meeting a final dividend of 79 pence per share (2017: 79 pence) bringing the full year dividend to 114 pence per share (2017: 113 pence). The final dividend will be paid on 9 May 2019 to shareholders on the register at 29 March 2019.

Corporate purpose

Schroders plays a vital role in helping a broad range of investors from major institutional clients such as pension funds, insurance companies or sovereign wealth funds, through to individuals saving for retirement, meet their financial goals. Entrusted with more than £400 billion of client assets, we also have a major role to play in channelling capital to companies to support them in investing for growth and we actively engage with our investee companies in relation to strategy, governance and environmental impact.

Our business philosophy is based on our belief that if we deliver for our clients, by offering the investment capabilities which successfully protect and enhance their capital, then we will deliver satisfactory returns for our shareholders over the long term.

We have a wide range of stakeholders including clients, the companies in which we invest, our shareholders, our counterparties and suppliers, wider society and, of course, our employees. We have nominated Ian King, the Senior Independent Director, to be responsible for providing feedback from employees to the Board and Ian will attend several of our global employee forum meetings in 2019. We were pleased to see in our 2018 employee opinion survey that 92% said they were proud to be associated with Schroders and 86% said they would recommend Schroders as a good place to work.

We take very seriously the views of our clients and shareholders. At one of our Board meetings in 2018 we discussed a detailed report on client needs and how we are perceived by clients. We also discussed an investor review which we commissioned to gain shareholder insights into our strategy, competitive positioning and governance.

The Board

Bruno Schroder died on 20 February 2019, aged 86, after a short illness. Bruno joined the Board of Schroders in 1963 and made an enormous contribution to the Company over more than 50 years. He was passionate about Schroders, unwavering in his support and always thinking long term. He brought long experience, sound judgement and a sense of humour to our deliberations. He travelled widely on behalf of the Company, meeting clients and employees, supporting management and reinforcing our values. Bruno was anticipating retiring from the Board at the Annual General Meeting on 2 May 2019 but we were looking forward to his continued support. We will miss that and we send our heartfelt condolences to Bruno's wife and family.

In anticipation of Bruno's retirement, the Nominations Committee gave consideration in 2018 to the model for recognising in the Board composition the interests in the Company of the principal shareholder group, as well as to his succession. For over 40 years the Board has included two Directors with a connection to the principal shareholder group. We have been consistent in our view that having two members of the family serve on the Board benefits the Company in aligning interests and reinforcing long-term thinking. We continue to believe that the Board operates most effectively with an appropriate mix of executive Directors, independent non-executive Directors and Directors connected to the principal shareholder group. We confirmed that view as part of our succession discussions in 2018.

New headquarters

In September 2018 we moved to our new headquarters 1 London Wall Place, which has enabled us to bring together almost all our London based employees in a new, state of the art building. It was a great honour to welcome Her Majesty The Queen to Schroders on 7 November 2018 to mark the occasion.

The Nominations Committee consulted with the trustees of the Schroder family trusts and other members of the principal shareholder group regarding a successor to Bruno Schroder. Following those consultations, the Committee received from the trustees a proposal that Leonie Schroder was their preferred candidate to succeed Bruno Schroder on the Board. After careful consideration, the Nominations Committee decided to recommend to the Board her appointment as a Director. The Board supported the proposal and she will join the Board effective 11 March.

Deborah Waterhouse will join the Board as an independent non-executive Director also on 11 March. Deborah has considerable experience as Chief Executive of a major international business operating in many of the markets in which we are active.

Robin Buchanan will retire as a Director at the Annual General Meeting in May having completed nine years on the Board. Robin has made a major contribution during his time on the Board and as a member of the Remuneration Committee and Audit and Risk Committee. He has always provided constructive challenge and valuable insights to our strategic discussions. On behalf of the Board, I would like to thank him for all he has done for the Company.

Our people

Schroders' success derives from our diversified business model, our financial strength, our values and above all our more than 5,000 talented people. We remain committed to the progress and development of our employees around the world and to providing an environment that is open, collaborative and based on merit.

2018 was a year of hard work and considerable achievement, laying the foundations for future growth in many areas of our business. On behalf of the Board I would like to extend our thanks to all our employees for their contribution to this success.

Michael Dobson
Chairman

Investing to grow our business in a changing market

2018 was an important year for Schroders, with significant progress in a number of key areas. We have concluded some critical and strategically important initiatives that have positioned the firm well to meet the headwinds facing the industry. Our focus continues to be on investing for growth.

We see growth opportunities across our business, but most notably in the Americas, Asia and in private markets. We also see clear benefits of moving closer to the end client through our wealth management capabilities. Our initiatives in 2018 helped us to continue to realign the business to take advantage of these opportunities and to bring us closer to realising our strategic objectives. At the same time, we have continued to differentiate ourselves through a strong focus on sustainability and responsible investing.

One of the highlights of the year was the announcement of a wide-ranging partnership with Lloyds Banking Group (LBG). We were delighted to announce that LBG selected us to manage around £80 billion of its clients' assets. This is one of the largest mandates ever awarded and is testament to the quality of our investment offering and leading technology capabilities.

One of the highlights of the year was the announcement of a wide-ranging partnership with Lloyds Banking Group

In addition, we will enter into a strategic wealth and financial planning joint venture with LBG called Schroders Personal Wealth. This will see us combining our skills with its branch network to enhance the products and services available to UK savers and investors.

Generating sustainable, profitable growth requires investment in technology across the firm. Following a multi-year project, in 2018 we successfully transferred the majority of our clients' assets on to a new front office technology platform. This provides the opportunity to improve efficiency, reduce operational risk and, importantly, enhance our service to clients.

Our employees have worked particularly hard during 2018 to deliver the many projects and initiatives we are focused on. I am immensely proud of what they have achieved and grateful to them all.

Despite this hard work, the market background has provided challenges. After a strong first half of the year, markets retreated during the second half in the face of trade disputes, rising interest rates and slowing growth. These weaker markets significantly reduced the amount of performance fees we were able to earn, compared with the unusually high levels achieved in 2017. Index-tracking strategies continued to take share from active management and put further pressure on prices.

In spite of these headwinds, our growth initiatives in the Americas proved particularly beneficial. Within Asia, one large client outflow in fixed income in Japan offset an otherwise good performance in South East Asia. An increasing sense of risk aversion, particularly in continental Europe and the UK, had an impact on demand for equity products.

In 2018, we generated net operating revenue of £2,070.7 million (2017: £2,010.2 million) and achieved a ratio of total costs to net income of 64% (2017: 61%). Pre-exceptional profit before tax was £761.2 million (2017: £800.3 million).

We remain committed to investing for future growth, notwithstanding the current market conditions, and recognise the importance of realising efficiencies. We have therefore taken the opportunity to undertake structural changes to the Group, realigning our resources to focus on areas of strategic growth. These one-off initiatives have led to certain costs that, together with other exceptional items, mean profit before tax was £649.9 million (2017: £760.2 million).

More information on our financial performance is set out in the business and financial review from page 22.

Role to play for our stakeholders

Our overall purpose is to help build long-term future prosperity for our clients, and to do the right thing for our stakeholders. We believe that we have an important role to play in driving better outcomes for the world around us.

> None of this would be possible without a talented and engaged workforce

We focus on helping our clients to meet their financial goals through active, long-term, responsible investing. Using a combination of fundamental research and data-driven insights, we can construct solutions that meet their changing needs.

This approach offers benefits to the wider economy. We actively engage with companies across the world to drive high levels of corporate responsibility, governance and transparency. Our thoughtful engagement helps to promote sustainable growth, both for our clients and society as a whole. With an increasing proportion of the world stock markets owned passively, we believe the responsibility of active managers to appropriately allocate capital is more important than ever.

None of this would be possible without a talented and engaged workforce. We pride ourselves on creating an inclusive and diverse culture, and a working environment that promotes collaboration and innovation.

More information on our approach to sustainable investing can be found on pages 36-37.

Investment performance
As an active asset manager, we prioritise consistently delivering positive investment outcomes for our clients. Investment performance over three years (our key performance indicator) remained strong to 31 December 2018, with 74% of Asset Management assets outperforming. Over five years, 76% of assets outperformed and over one year the figure was 43%, as market movements in the fourth quarter impacted performance over the short term. More information on how we measure investment performance is set out on pages 24 and 178-179.

Evolving industry trends
Twelve months ago, I set out my views on the trends we were seeing across the industry. I discussed how, in an increasingly challenging environment, we had identified areas of future growth and how we are investing behind them. Wherever possible, we focus on evolving the business to benefit from these changing market dynamics.

One year on, we have continued to see these trends develop. Geopolitical risks have grown and the economic uncertainty surrounding the slowing of quantitative easing is clear. Our clients are facing a difficult new environment of lower returns and increasing volatility. Technology offers new ways to engage with end consumers, to better understand markets and to drive efficiencies.

Against this backdrop, the strategic decisions that we make to evolve our business in response to these changes have never been more important. They are what will shape our future growth.

A closer relationship with our end clients
One of the challenges of our business is the high level of intermediation between us, as manufacturers, and our end customers. This can have the effect of increasing client turnover and the costs to clients. We aim to develop and maintain long-term relationships with our end clients, reducing the impact of this intermediation and aligning our interests.

> We are continuing to develop strong relationships with end clients as well as institutions

Our Wealth Management business is an important part of how we can do this and is a strategic priority for us. In 2017, we acquired the wealth business of C. Hoare & Co. and in 2018 we further increased our investment in Benchmark Capital, both of which have been successful.

Our strategic partnership with LBG is a further important development. It is exclusively focused on the needs of UK savers and investors. We expect to launch Schroders Personal Wealth later in 2019, combining our investment expertise and leading technology with LBG's significant client base, multi-channel distribution and digital capabilities.

We will also continue to pursue closer, longer-term relationships with our asset management clients. As we demonstrated with the award of the LBG mandate, we are well placed to offer broad-based, tailored solutions to meet complex client needs. In 2017, we launched our range of strategic capabilities, focused on our clients' goals, be they income, growth, retirement or sustainability. In 2018, we invested further in developing our ability to offer complex solutions for clients globally.

A focused active offering
We are committed to active management and believe the ability to add value over a benchmark or make choices between markets will be more highly prized in a world of low returns. Furthermore, as clients increasingly recognise the value of better corporate governance and sustainability, the value of deep and close relationships with companies will become increasingly important. We continue to invest in new tools and sources of data to give our portfolio managers an edge in outperforming markets.

> We continue to focus on strategic areas where active management can demonstrate clear repeatable benefits

Unquestionably, the growth in index-tracking products has been significant across equity markets and has increasingly spread to fixed income and multi-asset products. We recognise that passive strategies have an important role to play in keeping clients' costs low. However, the growth of exchange-traded funds, which remain untested in challenging conditions, poses an ongoing threat to market stability. As market volatility rises, we will need to be especially vigilant in understanding the potentially significant impact of this risk as it emerges.

Diversification away from public markets

Increased regulation, growing public scrutiny and a diminishing need for growth capital has significantly undermined the attractiveness of companies listing on western stock exchanges. As a result, the number of public companies continues to shrink rapidly. Institutional investors have shifted their focus to private markets, where investment returns and risks can be more attractive.

In line with our stated strategy, we have continued to focus on further diversifying our product offering by expanding our capabilities in private assets and alternatives. In 2018, we broadened our expertise in real estate with the acquisition of Algonquin Management Partners S.A. (Algonquin), a hotel management company. We also made an investment in A10, a loan origination business based in the US.

2018 also saw the first full year contribution from Schroder Adveq, the private equity business we acquired in 2017. This has grown to £7.4 billion of assets under management (AUM), benefiting from the combination of investment expertise and Schroders' wider distribution footprint. We have supported this growth with investment in specialist infrastructure support and a dedicated private assets and alternatives distribution team. We continue to look for opportunities to further develop our offering in this area.

In aggregate, private assets and alternatives account for 9% of our total AUM and 11% of our net operating revenue and we have a target of growing the latter measure to 20% over the long term.

Technology investment across the business

I remain a passionate believer in the value that we can deliver by investing in innovative technology across the firm. The asset management industry has historically under-invested in this area and there are opportunities across our business. The benefits of technology investment can be categorised into three main areas.

The first is in delivering investment returns for clients. We have continued to invest in our data insights unit, which has now grown to more than 20 people globally. This is a team of data-scientists and geo-spatial engineers who use non-traditional and bespoke data sets to deliver proprietary insights for our fund managers. We have undergone behavioural biases training with our investment professionals, helping them identify their blind spots. We are also using technology to achieve more efficient trading processes, decreasing costs and achieving better outcomes for our clients.

The second area is in improving the client experience. Automating some of our processes gives clients timely and personalised access to their portfolios and relevant information, based on their holdings, behaviours and preferences. We have simplified client onboarding processes and real-time data provides us with insights into changing client demands.

> I remain a passionate believer in the value that we can deliver by investing in innovative technology across the firm

The final area is in improving operational efficiency. Our industry is experiencing top-line pricing pressures and in order to maintain profitability we are investing today to improve efficiency tomorrow. The transition to a new front office technology platform was a significant step in this direction. We have also invested in robotics projects in a number of locations across Europe, Asia and the Americas. The automation of multi-system dynamic processes allows us to improve efficiency and free up resources to focus on areas of value add.

Success through our people

We are proud of our distinctive and collaborative culture, which focuses on doing the right thing for our stakeholders. Throughout this year, we have continued to work hard to build upon and protect this culture. I am delighted that our employee opinion survey showed that 92% of our people are proud to be associated with Schroders.

Our industry suffers from poor diversity. In common with much of financial services, it has consistently failed to attract and retain diverse talent. We are actively working to address this through new recruitment methods, better policies, unconscious bias training, clear targets and a tangible commitment from the executive team.

Whilst we have made measurable progress on many metrics, this will remain an important focus for 2019. Achieving real diversity of thought will require further improvements.

More information on our achievements against diversity and inclusion objectives can be found on page 32.

Well-positioned for future growth

As we have demonstrated, our diversified business model and global footprint mean we are well-positioned to drive future growth over the long term.

There are headwinds facing the industry, but we remain confident in our ability to identify new opportunities across the regions and asset classes in which we operate.

We will continue to invest behind these and maintain the long-term strength of our business. We will retain our intense focus on achieving positive investment outcomes for our clients and helping them build their future prosperity.

I look forward to working with the talented people across our business and continuing to lead our ongoing success.

Peter Harrison
Group Chief Executive

Market review

2018 markets in review

Many of the themes that played a prominent role in recent years have continued in 2018. After two years of steady growth in asset prices, 2018 proved to be a more challenging year, particularly in the last quarter.

A challenging macro backdrop

2018 began much as 2017 had ended. Risk assets continued to perform well, while government bonds saw prices decline and yields rise.

However, by February market uncertainty had increased and investor sentiment had begun to worsen. While expectations for global growth had started the year relatively strongly, the introduction of tariffs marked the start of heightened trade tensions between China and the US. Within the US, tax cuts provided an added boost for investors heading into 2018, while GDP accelerated. The strength of the US dollar had an impact globally, particularly for emerging markets. Trade tensions and increasing oil prices impacted global growth, which reached a turning point around the middle of the year.

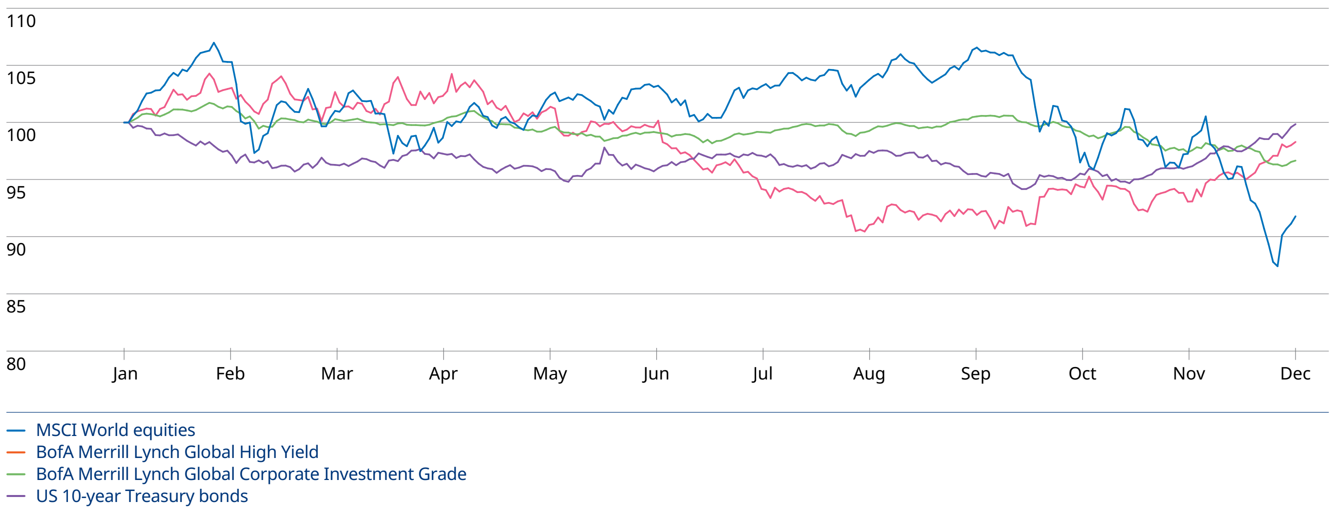
In continental Europe, there were elections across a number of countries. In Germany, the CDU/CSU alliance agreed, after months of negotiations, to re-establish their previous coalition agreement with the Social Democrats. However, reformation of the government that had performed poorly in the 2017 election led to further deterioration in poll ratings. Angela Merkel later announced that she would step down as CDU party leader and would not contest the next federal election. In Italy, victory for populist parties resulted in a coalition government. Cold weather in the Eurozone in the first three months of the year provided challenges for the region as markets struggled to recover confidence and exports dropped.

In emerging markets, Jacob Zuma resigned as president of South Africa after nine years in power. Initially, the appointment of his deputy helped to boost optimism but increasingly populist rhetoric ultimately negatively impacted investor sentiment. Initially some investors hoped that the US administration might ease pressure on Russia, but ultimately new sanctions were imposed. Mounting currency weakness in April marked the beginnings of crises in Argentina and Turkey. In October, an election in Brazil saw far right candidate Jair Bolsonaro defeat the establishment parties on an anti-corruption platform.

In the UK, the government put forward a plan, known as the Chequers Agreement, which was intended to be a compromise between a "soft" and "hard" Brexit. However, it proved to be widely unpopular in parliament and resulted in a number of resignations from the cabinet. Uncertainty over Brexit continued throughout the year, with Prime Minister Theresa May facing an internal party leadership challenge and being forced to delay the parliamentary vote on an updated withdrawal agreement until early 2019. The proposed agreement was defeated by a record margin in January 2019, forcing Theresa May back to Brussels to renegotiate.

Monetary policy continued to be tightened through 2018 as the Federal Reserve (Fed) raised its interest rate target four times. Meanwhile, the European Central Bank (ECB) decided to taper its quantitative easing programme throughout 2018, with an end to purchases in December. Interest rates remained unchanged with the

Asset class returns in 2018*



* Returns in US dollar, rebased to 100 at 31 December 2017.

ECB providing guidance that it expects this to remain the case until mid-2019. The Bank of England raised rates only once in 2018, as uncertainty over Brexit clouded the outlook.

The People's Bank of China moved contrary to the global trend and eased policy, not by cutting rates but through further reductions in the reserve requirement ratio and open market operations. Most other emerging market central banks enacted rate increases during 2018, in part in reaction to the tighter policy emanating from the US.

A more volatile year for risk assets

2018 was a difficult year for investors in almost all markets. Across all major asset classes, only US cash made a positive return, while commodities and equities were the worst performing. The best non-cash asset class was US Treasuries, although they too failed to generate a positive return as interest rates rose.

Despite sentiment being poor, lower risk investment grade credit bonds underperformed riskier and lower quality high yield bonds. Reduced issuance in the high yield category seemed to provide support relative to investment grade credit. Gold also had a poor year as rising real interest rates sapped demand for the precious metal.

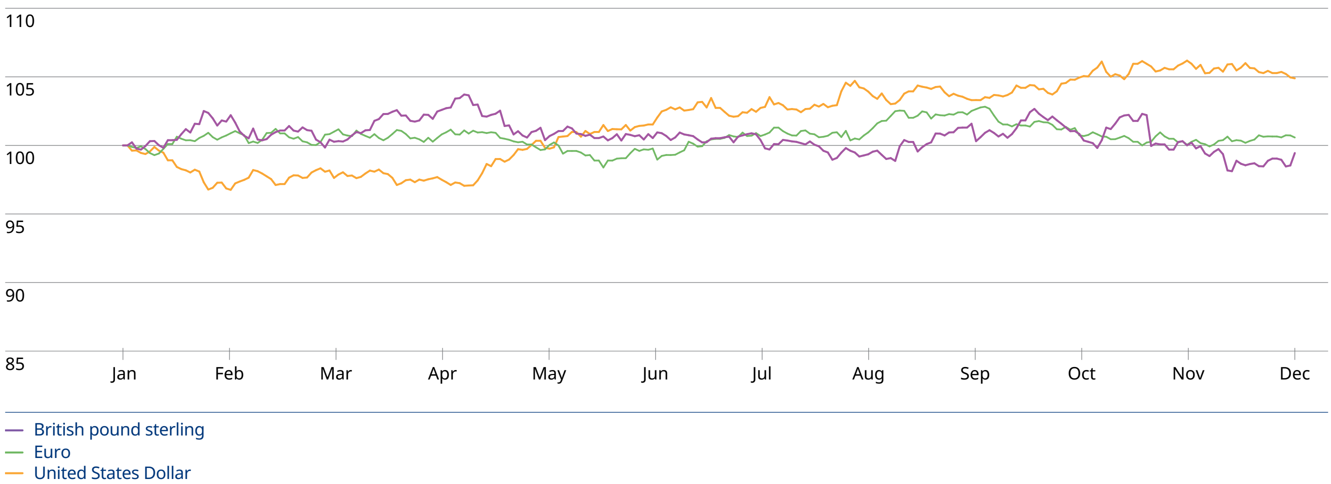
Usual seasonal patterns failed to materialise in 2018, with markets avoiding both the traditional summer sell-off and the 'Santa rally' towards the end of the year. In fact, December was the worst on record, with the MSCI World equity index losing 7.6% in the month alone.

The year was a poor one for equity investors in general, with all major indices netting a loss in both local currency and US dollar terms. The US equity market was the best performer with the FAANG (Facebook Apple, Amazon, Netflix, Google) stocks performing well in the first half of the year, until they were hit by data breaches and flagging sales in the second half. European markets saw mixed results, with Germany hit particularly hard, while less cyclical markets such as France and the UK performed better. In emerging markets, while the overall index was down, performance across different countries was dispersed.

Currency markets ended 2018 largely reflecting the anxieties of investors. The US dollar started the year weaker, which helped to boost risk assets. By April it had strengthened and ended the year up. The initial rise over the summer reflected the stronger US economy, however by autumn, the strong US dollar highlighted concern in the global economy. The euro had a reasonably steady year, finishing 2018 slightly up, while things were more volatile for sterling owing to the lack of resolution on Brexit. In emerging markets, the strength of the dollar meant that very few currencies generated a positive return.

While US Treasuries posted a negative return in 2018, a number of government bonds saw positive returns. 10-year Australian government bonds and German Bunds were top performers, while Canadian bonds, UK gilts, French OATs and Japanese government bonds all achieved a positive return. Emerging market dollar denominated sovereign debt as a whole had a bad year, with Brazil the only country offering a positive return.

Currency returns in 2018*



* Effective exchange rate, based on a basket of major currencies, rebased to 100 at 31 December 2017.

The right capabilities to deliver for clients

Delivering investment capabilities to help create a more prosperous future because managing risks is as important as taking them

Our investment capabilities

The cornerstone of our value proposition across both asset and wealth management, our investment capabilities enable us to fulfil our overall purpose of building future prosperity for our clients. By having the right capabilities for our clients, we can also do the right thing for our other stakeholders.

Strategic capabilities

Alpha Equity

In a climate of low interest rates, investors need to look for solutions that have the potential to deliver higher performance and help them meet their financial goals.

Credit

Investors are facing poor returns from cash and government bonds. Opportunities for higher returns exist within credit markets that can be unlocked via in-depth research and active management.

Emerging Markets

Emerging markets comprise more than 60 countries, each with their own local nuances. The right investment skills and local knowledge provide access to these exciting markets.

Income

Over the past decade, traditional sources of income have begun to dry up, meaning investors need to look elsewhere to meet their income needs.

Liquid Alternatives

The relationships between equities, bonds and property are closer than ever. In this environment, alternative strategies can be a good source of uncorrelated returns.

Multi-Asset Solutions

By diversifying across a variety of asset classes, investors can potentially improve performance and reduce risk. We see a trend towards solutions that invest in different asset classes.

Private Assets

There are a number of opportunities within private markets that cannot be found publicly. Private assets can help our clients to target better returns or meet specific outcomes.

Retirement

As responsibility for retirement planning has shifted from governments and employers to the individual, people need to focus more on individualised retirement savings plans.

Solutions

We have a long history of helping our clients to find solutions tailored to their needs. We draw on knowledge and experience from across the globe to build bespoke solutions and deliver risk management tools.

Sustainability

Social and environmental change is happening faster than ever. We take an active approach to analysing the impact of these forces and invest in the companies that stand to benefit from this changing world.

Wealth Management

We provide a wide range of wealth management services, designed to meet the individual needs of our clients. Our wealth management teams are able to draw from a broad range of investment capabilities and also bring their own knowledge and experience. There will soon be three key components to our wealth management offering, reflecting our strategic ambition to provide wealth management and financial planning services to clients across the wealth spectrum.

We manage investments for institutions and individuals to help them meet their financial goals and prepare for the future. By combining a deep understanding of their financial needs with comprehensive, data-driven insights, we are able to build a clear picture of our clients' requirements. We are proactive in helping our clients prosper.

How we engage

We build close, lasting relationships with our clients. This gives us an in-depth understanding of their financial needs.

The value we create

As an active investment manager, we are committed to delivering consistent outcomes for our clients, whether that is outperforming a benchmark or peer group, or achieving a specific outcome.

Continuing to develop a long-term sustainable business

We see significant opportunities in three key areas – the further development of our core asset management business, expansion of our private assets and alternatives capabilities and building closer relationships with end clients. This helps us to deliver on our commitment to build future prosperity for our clients and provide positive outcomes for our stakeholders.

Our priorities	Develop and maintain long-term client partnerships	Offer a range of innovative products
Why it's important	We focus on helping our clients achieve their financial goals and build their future prosperity. This allows us to sustainably grow our business over the long term, helping us to deliver positive outcomes for our wider stakeholder groups. By building close partnerships with our clients, we can gain a deeper understanding of their needs, leading to greater client longevity and new business opportunities. One of our strategic priorities is to focus on developing closer relationships with our end clients, particularly in Wealth Management. This allows us to reduce the impact of intermediation between us as manufacturers and our clients.	Providing innovative products and solutions to meet the increasingly complex needs of our clients is crucial to our future growth. Our clients are increasingly looking for products that can provide a specific outcome rather than just offering exposure to a market or asset class. Our range of strategic capabilities is designed to provide our clients with the necessary products to build their future prosperity. We continually look to expand our core product offering and expand into new areas of investment expertise. In recent years, we have focused particularly on developing our capabilities in private assets and alternatives.
Key performance indicators	– Net new business – Net operating revenue	– Net new business – Net operating revenue
Progress through 2018	– Continued momentum in North America with £3.0 billion of net new business – Winning the Lloyds Banking Group (LBG) mandate, one of the largest awarded in UK asset management – Increased proximity to end clients with the growth of our Wealth Management business and the announcement of our strategic partnerships with LBG in the UK and Maybank in Malaysia	– Development of our strategic capability range with the acquisition of Algonquin and relationship with A10 – Growth of private assets and alternatives, with £2.3 billion of net new business – Increased seed and co-investment to support new products – Launch of 70 new products in 2018, focusing on strategically important growth areas such as sustainability, private assets and solutions
Growth opportunities	– Attract and retain business with clients, particularly in strategically important growth areas – Increase client longevity through focus on products and client relationships – Continue to build our proximity to end clients including through the LBG partnership	– Continue to develop our strategic capabilities – Maintain our commitment to developing new products – Focus on private assets and alternatives, diversifying our business away from public markets
Key risks	1 2 3 6 7 10 16 17	1 2 3 6 7 8 9 19 20 21 22

Find out about these risks and how our strategy mitigates them from page 44.

Read more within the key performance indicator section and Directors' remuneration report from pages 16 and 68 respectively.

Consistently deliver outcomes for clients	**Develop leading technology**	**Developing and retaining talented people**
As an active investment manager, we are committed to delivering consistent outcomes for our clients. While many of our strategies seek to outperform a stated benchmark or peer group, client demand is increasing for outcome-oriented solutions, which provide a specific result such as income or risk-management. Delivering outperformance or achieving a predefined outcome increases value for our clients and builds trust in our business.	Our business inherently involves processing and analysing data to achieve a desired outcome. It is critical to our ongoing success that we have leading technology to support this. Better use of technology can be employed to innovate, improving productivity and efficiency. In doing so, we can continue to evolve and develop our business, adding value for our clients and other stakeholders. Our philosophy of investing in the future growth of our business includes an emphasis on embracing technology and comes with a focus on cost discipline.	Developing and retaining a diverse and talented workforce is key to the delivery of our business model. We invest heavily in our people, offering opportunities to grow their knowledge, skills and capabilities. We also focus on providing them with a positive working environment that supports productivity, innovation and collaboration. In supporting our people to operate at their very best, we are able to deliver positive outcomes for our stakeholders.
– Client investment performance – Net new business – Net operating revenue	– Ratio of total costs to net income – Client investment performance	– Retention of key talent

– 74% of our assets outperformed their stated comparator over three years. More details on our performance reporting can be found on pages 24 and 178-179
– Developed our ability to deliver complex, risk-managed solutions to meet client needs
	– Implementation of a new front office technology platform, improving efficiency and driving better outcomes
	– Continued investment in technology solutions throughout the business, including:
	  – Robotics and automation projects in Europe, Asia and the Americas
	  – Investment in cloud-based technology systems for all employees in London
		– 94% retention rate of highly rated employees
		– 41% of employees have been with us for more than six years
		– Female representation in senior management roles ended the year at 32%
		– 92% of employees proud to be associated with Schroders
		– Move to new London headquarters at 1 London Wall Place

– Continue to deliver high levels of investment performance for clients – Provide value for money and build clients' future prosperity	– Continue to invest in technology across the firm – Ongoing investment in robotics and automation – Maintain cost discipline through focus on ratio of total costs to net income	– Maintain high retention rate for highly-rated employees – Continue to target 33% of female representation in senior management roles by the end of 2019
1 3 4 5 6 7 17	2 3 6 7 11 12 13 15 18	3 6 10 13 14 18

Tracking progress against our strategy

To ensure that we are delivering against our strategy, we track progress against a number of key performance indicators.

Client investment performance (%)

74%

We target at least 60% of our AUM to outperform their stated comparator over rolling three-year periods.

Investment performance over a three-year period continued to be strong in 2018, with 74% of assets outperforming their stated comparator. We have been above our target for each of the past five years.

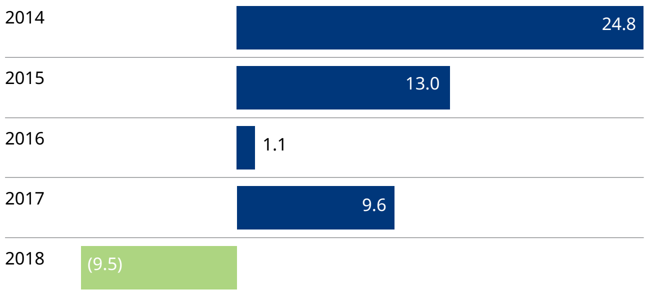
Five-year investment outperformance was 76% and the one-year figure was 43% as significant market movements in the fourth quarter impacted short-term performance.

For more details on how we calculate investment performance, please see pages 24 and 178-179.

Net new business (£bn)

£(9.5)bn

We seek to generate positive net new business across the business.



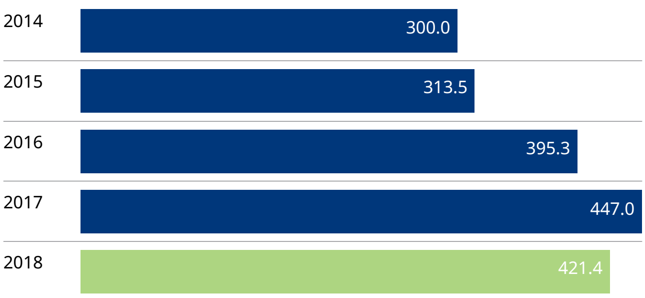
Macro and political uncertainty weighed on investor sentiment in 2018 and we saw total net outflows of £9.5 billion. There were net outflows of £6.6 billion in our Institutional sales channel and £4.6 billion from Intermediary clients.

Wealth Management continued to perform strongly and generated £1.7 billion of net inflows.

Assets under management and administration (£bn)

£421.4bn

We aim to grow AUMA over time in excess of market growth through positive investment outperformance and net new business. As a sterling denominated reporter, currency movements may also impact asset levels.



AUMA decreased by 6% in 2018 to £421.4 billion, as global markets declined and investor sentiment worsened, particularly in the fourth quarter.

Falling markets reduced AUMA by £30.3 billion, while currency movements increased assets by £10.7 billion. We saw £9.5 billion of net outflows while acquisitions net of disposals added £0.6 billion of AUM. AUA increased by £2.9 billion to £14.2 billion.

Retention of key talent (%)

94%

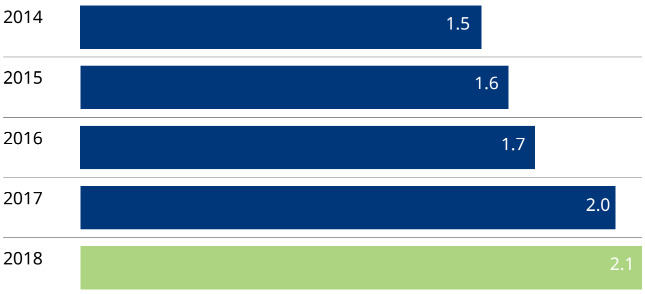
Developing and retaining talented people is key to our ongoing success. We actively monitor our retention of those employees who have been rated as either outstanding or exceed expectations in their annual performance review.

Our retention of highly-rated employees has consistently been more than 90%. This represents a committed and engaged workforce, which is aligned with Schroders' values.

Net operating revenue (£bn)

£2.1bn

Net operating revenue is primarily revenues generated from AUM, less cost of sales. We aim to grow net operating revenue over time as AUM increase. However, this is also impacted by changing fee rates which result in different revenue margins.



Net operating revenue increased 3% to £2.1 billion as average AUM increased in 2018.

Ratio of total costs to net income* (%)

64%

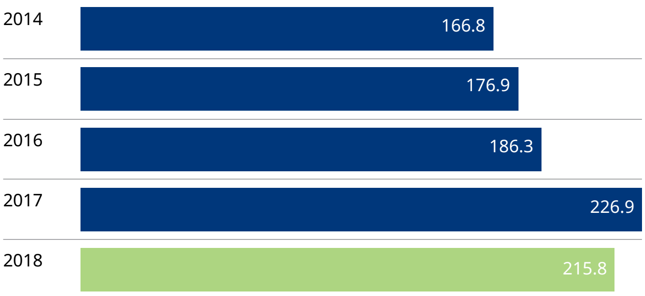
We target a 65% ratio of total costs to net income, recognising that in weaker markets the ratio may be higher than our long-term target.

In 2018, this ratio was better than our target at 64%. We have exceeded our target for each of the past five years. 2017 benefited from an accounting adjustment relating to deferred compensation for material risk takers (see page 25) as well as unusually high performance fees.

Basic earnings per share* (p)

215.8p

We aim to grow earnings per share consistently, recognising the potential impact of market volatility on results in the short term.

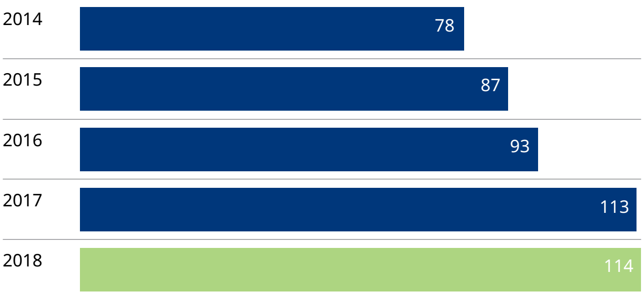


In 2018, basic earnings per share before exceptional items was 215.8 pence.

Dividend per share (p)

114p

Our policy is to increase dividends progressively, in line with the trend in profitability and to maintain a payout ratio of approximately 50%. For more information, see page 29.



The Board is recommending a final dividend of 79 pence per share, bringing the total dividend for the year to 114 pence per share. This represents a payout ratio of 53%.

* Before exceptional items

A sustainable business designed to deliver positive outcomes for stakeholders over the long term

What we offer

We actively manage investment solutions to help build future prosperity for our clients. In doing so, we are able to deliver positive outcomes for our other stakeholders, including our shareholders, our people and society.

We offer innovative products and solutions across a wide range of asset classes, including equities, fixed income, multi-asset, private assets and alternatives.

Within our Asset Management business, we work with institutional clients, including pension funds, insurance companies and sovereign wealth funds. We also work with a variety of intermediaries, including financial advisers, private wealth managers and online platforms.

We offer a wide range of wealth management services, which focus on preserving and growing our clients' wealth. Our wealth management offering reflects our strategic ambition to provide wealth management and financial planning services to clients across the wealth spectrum.

We differentiate ourselves from our competitors through:

A strong financial position

Our ownership structure and strong capital base enables us to take a long-term perspective. It means we can remain focused on our strategy and take advantage of opportunities in any market environment.

Close, lasting relationships

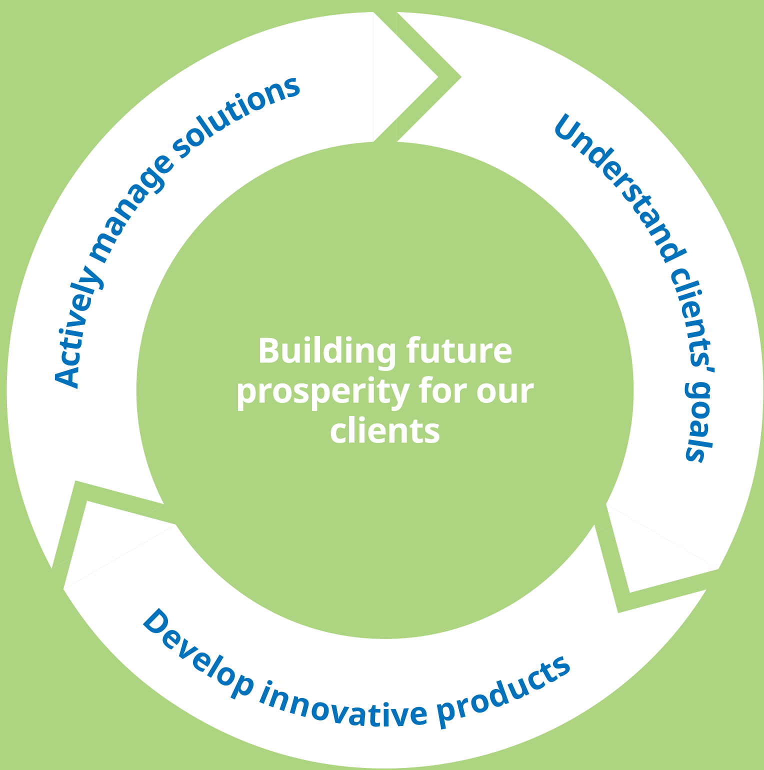
We focus on developing strong relationships with our clients, which give us an in-depth understanding of their financial needs. We use these insights to identify and build solutions that help our clients to achieve their financial goals.

A diversified business

Our business is genuinely diversified by asset class, geography and client type. This means that we are more resilient to changes in client demand or economic cycle and can focus on delivering for our stakeholders.

How we do it

Our clients are at the centre of our business. Our ongoing success is built on our understanding of their evolving needs. We partner with them and construct products and solutions that help them meet their changing financial goals. We are proud of our track record of delivering performance for clients.



Building future prosperity for our clients

We recognise that we have an important role to play in shaping our clients' financial futures. By delivering investment outperformance and providing value for money to our clients, we can continue to successfully grow our business and deliver for our other stakeholder groups.

We earn fees charged as a percentage of our clients' AUMA. We may also earn other revenues, such as performance fees, carried interest and transaction-related fees.

The right capabilities to deliver for clients

Understand clients' goals

We build principled partnerships with our clients to understand their financial goals. This allows us to provide a high level of client service and select appropriate products to meet their needs.

Develop innovative products

We design innovative products to consistently meet our clients' financial needs, whether that is outperforming a comparator, providing a regular sustainable income or delivering an absolute return.

Actively manage solutions

We take an active approach to managing investment solutions designed to build our clients' future prosperity over the long term.

Read more about our investment capabilities on page 13.

What we deliver for other stakeholders

Our client-led approach to maintaining a successful business model allows us to deliver for other stakeholders, including our shareholders, people, society as a whole, regulators and suppliers.

Read more about our stakeholders on page 59.

The right proposition to deliver for shareholders

Our business model focuses on delivering growth over the long term, which enables us to generate sustainable shareholder returns. We rely on the support and engagement of our shareholders to generate long-term growth. The interests of our shareholders are very closely aligned with those of our clients, which means that in doing the right thing for our clients, we are also able to deliver value to those invested in our business.

Dividend per share

114p

Read our investment proposition on page 21.

The right culture to deliver for our people

Our people are central to the ongoing success of the business. We are proud of our reputation as an employer of choice that provides our people with inspiring and motivating places to work. Our people strategy aims to attract, develop and retain an agile and diverse workforce, who we are able to provide with engaging and rewarding work.

Retention of key talent

94%

Read about our people on page 31.

The right principles to deliver for society

As a principle-led business, we believe that engaging with companies and demanding high levels of corporate responsibility is the right thing to do. As part of our commitment to society, we build positive relationships with our regulators globally. We also have good relationships with the external service providers we use to supplement our own infrastructure.

Company engagements on environmental, social and governance (ESG) issues

2,200

Read about our impact on society from page 35.

The right proposition to deliver for our shareholders

Delivering positive outcomes and a long-term view for our shareholders because the road ahead is more important than the path behind

A strong financial position

Our ownership structure and strong capital base allow us to take a long-term perspective. This supports us in staying focused on our strategy and investing in the opportunities available to us to deliver value for our shareholders and other stakeholders.

Total equity

£3.6bn

(2017: £3.5bn)

Regulatory surplus capital

£1.2bn

(2017: £1.4bn)

Lasting client relationships and a focus on product development

An in-depth understanding of our clients' financial needs, coupled with data-driven market intelligence, helps us build a clear picture of future trends and changing client demands.

Assets under management and administration

£421.4bn

(2017: £447.0bn)

Seed and co-investment capital

£535m

(2017: £392m)

Diversified by geography, asset class and client type

As a global business with people across six continents, we have a clear understanding of what matters most to our clients, wherever they are in the world.

Our business is diversified across the UK (40%), Asia-Pacific (23%), Europe, Middle East and Africa (22%) and the Americas (15%).

Within our asset management business, we invest across a range of asset classes including equities (43%), multi-asset (28%), fixed income (19%), private assets and alternatives (10%).

Our client base consists of institutional (59%), intermediary (30%) and wealth management clients (11%).

We focus on delivering growth over the long term, which enables us to generate sustainable shareholder returns. By aligning our interests with those of our clients, we can continue to grow our business and successfully deliver returns for our shareholders.

How we engage

We engage with our shareholders in a number of ways throughout the financial year. This includes the AGM, Annual Report and Accounts, results presentations and a comprehensive investor relations programme.

The value we create

By delivering value for our clients we are able to grow the business and generate returns for our shareholders. This means that in doing the right thing for our clients we are also able to deliver value to those invested in our business and other stakeholders.

Making progress in challenging markets

2018 was an important year for Schroders. We implemented a new front office investment platform and moved into our new headquarters in London, both of which offer significant benefits for our clients and our people. We continued to develop the business in line with our strategic priorities and made a number of investments in new opportunities.

We delivered pre-tax and exceptional profits of £761.2 million in 2018. That is down from profits of £800.3 million we reported last year, but in 2017 these included unusually high performance fees and a one-off accounting benefit relating to deferred compensation, which is explained on page 23. Taking into account these two impacts and the significant investments we have been making to grow the business, we are pleased with the progress we have made in 2018 and the results we have delivered.

Net operating revenues increased by 3% in 2018 to £2,070.7 million (2017: £2,010.2 million). Excluding performance fees and carried interest, the growth in this key performance indicator was 4%, principally driven by a year-on-year increase in average AUM.

The growth in average AUM was driven by net new business, along with acquisitions. Markets, net of currency movements, did not have any impact on the growth of average AUM and therefore net operating revenue.

Net new business in 2017 and 2018 contributed around £41 million to the growth in 2018 management fees. We expect the net outflows in 2018 to reduce annualised revenues by around £35 million in 2019. Acquisitions this year and last contributed around £72 million to the additional revenues, principally from the acquisition of Schroder Adveq, which completed in July 2017.

The increase in net operating revenue drove a 3% rise in net income to £2,123.9 million (2017: £2,068.9 million). This was a good performance, particularly when the unusually high levels of performance fees generated last year are considered. However, the growth was more than offset by expected increases to our cost base.

Profit before tax and exceptional items of £761.2 million

These cost increases include a reduction to the accounting benefit we recognised in 2017, following a regulatory driven change to the deferral of compensation costs for material risk takers (MRTs). This resulted in a 1% reduction to the total compensation ratio in 2017. The accounting benefit of the change reduced to around 0.5% this year. Despite the reduction to this benefit, we have maintained a total compensation ratio of 43% in 2018. This follows a targeted cost reduction programme which is explained below. Reflecting the investments we are making to grow the business, we have seen some increases in non-compensation costs. However, our ratio of total cost to net income continues to be better than our long-term target of 65%. The result is profit before tax and exceptional items of £761.2 million (2017: £800.3 million).

We have delivered these results despite challenging conditions as market uncertainty re-emerged, particularly towards the end of the year. This period of uncertainty comes as the headwinds facing the sector continue to present challenges.

We still see the impact of industry changes, shifting product demand and market-wide pricing pressures resulting in further underlying declines in fee margins. In this context, we remain focused on our strategic initiatives, set out in the Group Chief Executive's report, and particularly in growing our core Asset Management business, while also looking to expand our capabilities in private assets and building closer relationships with our end clients.

The most significant expansion of our private assets capabilities this year came through the acquisition of Algonquin Management Partners S.A. (Algonquin), which completed in May 2018. Algonquin is a specialist pan-European hotels investment management business that complements our existing real estate capabilities. The acquisition added £1.6 billion of AUM from institutional clients across continental Europe. As our private assets and alternatives capability grows, it is changing the dynamics of our performance. It is reducing the impact of fee margin pressures that are affecting the industry in our core Asset Management business, as well as increasing client longevity. Importantly for Schroders, it is expanding our already diverse product offering in line with our strategic capabilities summarised on page 13.

In October, we announced a strategic partnership with Lloyds Banking Group (LBG) that we expect to complete in 2019. This partnership will add significant AUM to the Group, as well as creating a strategically important joint venture called Schroders Personal Wealth in the financial planning space. We believe that this will drive further growth for the Group in the UK wealth management and savings market, bringing us closer to our end clients.

As well as focusing on growing the business, we are committed to delivering long-term efficiencies and being an employer of choice, which is able to attract, retain and develop the best talent. In line with these objectives, we continue to invest in technology to enhance our processes and review our operating model to ensure it is optimal for the future. In the second half of 2018, we completed the implementation of our new front office technology platform and moved into our new headquarters, based in London. These are important developments in our infrastructure and support our overall strategy, enabling technological solutions for various aspects of the business and facilitating efficient, scalable growth.

Our new investment platform provides additional capabilities for our fund managers, enabling them to deliver tailored solutions to our clients across our product offering. We are investing in further change initiatives, including embracing technology such as robotic process automation, which can be effectively deployed to drive efficiencies.

The move into our new headquarters, based in London, was a significant event for Schroders and is an important component in attracting and retaining talent and promoting our collaborative approach that is part of ensuring we continue to be successful. The building's design is in line with our focus on corporate and social responsibility, and specifically the environment.

As we maintain our focus on the long-term growth of the business, this year we have undertaken a targeted cost reduction programme, taking advantage of operating efficiency opportunities coming from our investment in technology and other developments. This resulted in a one-off charge of £56.0 million, which we have recorded within exceptional items, reflecting the fact that this is not a normal activity for us. Along with other exceptional costs, the majority of which relate to amortisation of intangible assets, the pre-tax profit after exceptional items decreased to £649.9 million (2017: £760.2 million).

As a UK-listed business, we have been closely monitoring the progress of the Brexit negotiations between the UK and the EU. We already have a strong presence in continental Europe and we do not expect Brexit to have a significant impact on our operating activities, although we are prepared to make necessary changes where these may be required. In 2018, we have taken steps to develop our corporate structure in continental Europe and added permissions to enable us to continue to service our European clients.

Overall, we believe we are well-placed to deal with the ongoing industry challenges and market conditions, while remaining focused on our long-term strategic priorities.

Reflecting our dividend policy and the decline in pre-tax and exceptional profits this year, the Board is recommending a final dividend of 79 pence per share (2017: 79 pence) which, after the increase to the interim dividend, brings the total dividend for the year to 114 pence (2017: 113 pence).

The following commentary provides a more detailed review of our financial results.

Assets under management and administration (AUMA)

Geopolitical uncertainty and trade fears have been a consistent theme throughout 2018, particularly towards the end of the year and into 2019. These have led to a general decline in most major equity markets around the world, with many suffering double digit falls in the fourth quarter. The Group Chief Executive's review, on pages 6 to 9, provides further details on the market dynamics and industry trends affecting the Group. These matters are important to understanding our results as they are a key driver of the changes to our AUMA.

Against this backdrop of uncertainty and market volatility, our AUMA declined by 6% to close 2018 at £421.4 billion (2017: £447.0 billion). AUMA comprises assets managed or advised on behalf of clients (AUM) of £407.2 billion (2017: £435.7 billion) and assets under administration (AUA) where we solely provide administrative support through our Benchmark Capital business of £14.2 billion (2017: £11.3 billion).

There are four components to the movement in our AUMA:

- net new flows from clients
- assets acquired or disposed of through acquisitions or disposals
- investment returns, including currency movements
- changes in AUA

AUM in the Asset Management segment decreased by 7% to £363.5 billion at 31 December 2018 (2017: £389.8 billion). This decline occurred as many markets around the world retreated on the back of continued economic uncertainty and global trade tensions. These decreases led to negative investment returns of £16.7 billion and also impacted on investor sentiment. Within our Institutional sales channel, we had net client withdrawals of £6.6 billion. This was principally driven by the loss of a single mandate, although we were also impacted by a small number of clients restructuring their portfolios and internalising parts of their investment strategies. There were net redemptions from our Intermediary sales channel of £4.6 billion. These outflows were principally from equity products as clients, particularly in continental Europe, looked to de-risk their portfolios on the back of the continued market uncertainty.

Wealth Management is a strategic focus for us and continues to be an area of growth. In 2018, we generated £1.7 billion of net new business from clients, with £0.3 billion in our Schroder Wealth business and £1.4 billion through Benchmark Capital.

The outlook for 2019 continues to be impacted by the uncertainty both in the UK and continental Europe, principally relating to Brexit, but also globally owing to ongoing macroeconomic issues. Against this backdrop, we were pleased to announce that we had won the LBG mandate, which we expect to fund in the second half of 2019 and to introduce around £80 billion of additional AUM.

Wealth Management is a strategic focus for us and continues to be an area of growth with £1.7 billion of net new money in 2018

Client investment performance

Our ability to generate positive investment outcomes for clients is central to our success as an active investment manager. Investment performance over a three-year period (our KPI) remained strong in 2018, with 74% of assets outperforming their stated comparator (2017: 74%). Five-year investment outperformance was 76% (2017: 84%) and the one-year figure was 43% (2017: 70%) as significant market movements in the fourth quarter impacted short-term performance.

Client investment performance is calculated internally by Schroders to give shareholders and financial analysts general guidance on how our AUM is performing. The data is aggregated and is intended to provide information for comparison to prior reporting periods only. It is not intended for clients or potential clients investing in our products. Calculations for investment performance are made gross of fees with the exception of those for which the stated comparator is a net of fees competitor ranking.

When a product's investment performance is discussed or shared with a client or potential client, it is specific to the strategy or product. For clients introduced through our Intermediary sales channel, performance will be shown net of fees at the relevant fund share-class level, while for institutional clients it will typically be shown gross of fees with a fee schedule for the strategy supplied. We actively monitor the performance of our individual products against their stated objectives. Further information about the calculation of investment performance is provided in the glossary on pages 178 to 179.

	AUM						
£bn	Institutional	Intermediary	Asset Management	Wealth Management	Total	AUA	AUMA
1 January 2018	**255.8**	**134.0**	**389.8**	**45.9**	**435.7**	**11.3**	**447.0**
Gross inflows	**36.0**	**47.4**	83.4	7.1	90.5		
Gross outflows	**(42.6)**	**(52.0)**	(94.6)	(5.4)	(100.0)		
Net flows	**(6.6)**	**(4.6)**	**(11.2)**	**1.7**	**(9.5)**		
Acquisitions or disposals	**1.6**	**–**	1.6	(1.0)	0.6		
Investment returns*	**(8.5)**	**(8.2)**	(16.7)	(2.9)	(19.6)		
31 December 2018	**242.3**	**121.2**	**363.5**	**43.7**	**407.2**	**14.2**	**421.4**

* Includes currency movements which increased AUM by around £10.7 billion.

The Group's financial performance

Net income before exceptional items was up 3% to £2,123.9 million (2017: £2,068.9 million), mainly as a result of increased net operating revenue of £2,070.7 million (2017: £2,010.2 million). Net operating revenue represents operating revenues earned on the assets we manage, net of cost of sales.

The increase in net operating revenue was driven by higher average AUM, which was up 6%. The effect of higher AUM was partially offset by lower performance fees and net carried interest of £55.0 million (2017: £78.4 million). Carried interest mainly arises from our Schroder Adveq private equity business and is explained further on page 26.

Net gains on financial instruments and other income before exceptional items decreased slightly to £33.3 million (2017: £35.2 million). Other income includes fees we earn on AUA within Benchmark Capital, which increased to £7.5 million (2017: £6.0 million).

In addition, we have a number of joint ventures and associate interests across the world. These include our partnerships with Bank of Communications in China and with Axis Bank in India. Joint ventures and associates continued to make a good contribution with our share of profits of associates and joint ventures before exceptional items, generating £19.9 million (2017: £23.5 million) of profits.

Our operating expenses excluding exceptional items increased by 7% to £1,362.7 million (2017: £1,268.6 million). This represents a ratio of total costs to net income of 64%, which is better than our long-term KPI target of 65%.

We are a people business and around 66% of our cost base is related to compensation. We manage our compensation costs with reference to our net income. This allows us to invest in growing the business and to reward our people in line with the Group's performance.

In 2017, we made changes to our remuneration approach for employees deemed to be MRTs under the UCITS or AIFM Directives. We increased bonus deferral levels for these employees, to create further alignment with clients and shareholders and to meet these regulatory requirements. This resulted in an increase in the proportion of variable remuneration deferred and created an accounting benefit that improved our total compensation ratio by 1% in 2017. This accounting benefit has partly unwound in 2018. Despite this change and an increase in headcount, we have maintained our total compensation ratio at 43%.

As we have grown, we have invested in developing our systems and processes. These investments include a new front office investment platform, as well as further investment in our data platforms and wider business infrastructure, including our new London head office. These are important strategic investments that provide us with a strong foundation for the future growth of the business.

Business acquisitions resulted in around £10.0 million of increases to our costs in 2018. This increase includes the acquisitions made this year, most notably Algonquin, combined with the full-year impact from acquisitions made in 2017. As a result, non-compensation costs excluding exceptional items increased to £459.4 million (2017: £387.3 million).

Pre-exceptional profit before tax was £761.2 million (2017: £800.3 million), a decrease of 5% on the previous year. Basic earnings per share before exceptional items decreased to 215.8 pence (2017: 226.9 pence).

Exceptional items normally relate principally to acquisitions, including amortisation of intangible assets. In 2018, they also included costs relating to a targeted cost reduction programme. Further information on exceptional items is provided in note 1(b) to the accounts. After exceptional items, the profit before tax was £649.9 million (2017: £760.2 million) and basic earnings per share was 183.1 pence (2017: 215.3 pence).

Asset Management

Asset Management net operating revenue increased 3% to £1,788.8 million (2017: £1,743.3 million), including performance fees and net carried interest of £54.6 million (2017: £77.5 million). Net carried interest of £28.4 million was generated by our private assets business. It represents our rights to share in the returns from certain investment vehicles when these vehicles have delivered specified investment returns for investors.

Certain management directly involved in the relevant business may hold interests in the carried interest vehicles that entitle them to receive a share of this return. We report the Group's right to receive carried interest net of this third-party share where the right is not linked to current employment, with separate disclosures provided within the notes to the financial statements. Further information on the accounting for carried interest is set out below.

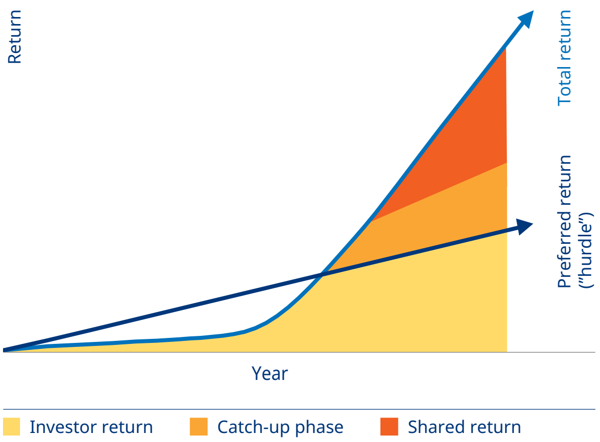
An explanation of carried interest

Carried interest is similar to the performance fees we earn on our core business, but is part of private asset and alternative fee structures. We receive carried interest over a longer timeframe compared with the typical one year for performance fees. As with performance fees, carried interest is earned once clients have received their original capital investment and preferred return. Once we have achieved the preferred return for clients, there is normally a catch-up phase where returns are allocated fully to the carried interest holder until the total returns are split in accordance with the agreed proportions. For Schroder Adveq, this is typically 90/10 in favour of the clients with subsequent returns normally shared in the same proportion. We generally only receive carried interest distributions from the vehicle once clients have received their original capital investment and their preferred return, which can only occur following the realisation of a portion of the underlying investments.

In accordance with the accounting rules, we accrue for carried interest as it is earned but normally before it becomes receivable. We determine our accrued right to income based on an estimate of the amount of carried interest that we expect to receive over the life of the vehicles. This assessment requires us to estimate the returns that will crystallise when the underlying investments are sold and the preferred return is paid to investors based on the expected timing of distributions. We only recognise carried interest when we believe there is a low probability of a significant risk of reversal, which is an accounting requirement. This means that we do not recognise carried interest until the latter part of the relevant vehicle's life, which normally means it is in the distribution phase. We recognise a financial liability where we share carried interest with management and others involved in the development of the business, including the former owners. Carried interest payable is determined on a similar basis but, based on accounting rules, there are lower thresholds to record the charge, which means that we generally recognise a third-party interest in carried interest as an expense earlier than the related income.

We have rights to receive carried interest from 74 investment vehicles. The relevant investment vehicles have a weighted average age of approximately 10 years and would typically be liquidated after a period of around 15 years.

The chart below illustrates how returns are allocated on the basis that the fund has not yet made any distributions to investors and that the preferred return continues to grow. The preferred return and catch-up will stop growing when these distributions are made.



- Rights to carried interest arise once a preferred return has been achieved for investors
- Once the preferred return has been achieved a catch-up phase arises, during which we receive all the investment returns until the total returns are split in accordance with the investment agreement
- After the catch-up phase, returns are shared in accordance with the investment agreement
- A proportion of our carried interest is shared with relevant employees and others who have been directly involved in developing the relevant business and is recognised as a financial liability

The accounting policies for carried interest receivable and payable are set out in note 2 of the financial statements.

Excluding performance fees and net carried interest, the net operating revenue margin on average AUM was 45 basis points (2017: 45 basis points). This was in line with our expectations as external fee pressures were largely offset by the positive effect of changes in business mix, including our growth in private assets and alternatives and the impact of market movements.

In our Institutional sales channel, the net operating revenue margin was slightly lower than 2017 at 31 basis points (2017: 32 basis points), with growth in higher margin private assets and alternatives products and positive investment returns only partially offsetting outflows from equity strategies and the impact of market-wide pricing pressures. There were £25.5 million of performance fees (2017: £57.6 million) and £28.4 million of net carried interest (2017: nil).

The net operating revenue margin for the Intermediary sales channel, before performance fees, remained unchanged at 72 basis points in 2018 (2017: 72 basis points). We generated £0.7 million of performance fees (2017: £19.9 million).

Total Asset Management net income increased by 2% to £1,801.2 million (2017: £1,757.9 million), which includes £15.7 million of income from our share of profits from joint ventures and associates (2017: £20.8 million).

Operating expenses before exceptional items within the Asset Management segment increased to £1,130.4 million (2017: £1,052.0 million) as we continued to grow the business. Non-compensation costs increased in line with business growth, and as we continued to make strategic acquisitions and investments in technology and infrastructure to support the future growth of the business. In particular, in 2018 we completed the implementation of our new front office technology platform and moved into our new headquarters in London at 1 London Wall Place. We continue to invest in technology, which is a strategic priority as set out in the Group Chief Executive's review from page 6.

Profit before tax and exceptional items decreased by 5% to £670.8 million (2017: £705.9 million). There were exceptional items of £82.6 million. These typically relate to acquisitions including amortisation of acquired intangible assets but this year also include £55.6 million relating to the cost reduction programme. After exceptional items, profit before tax decreased to £588.2 million (2017: £688.7 million).

Assets under management (£407.2bn)

Institutional (£242.3bn)[1]

UK	39%
Asia Pacific	24%
Europe, Middle East and Africa	17%
Americas	20%

Intermediary (£121.2bn)[1]

UK	26%
Asia Pacific	27%
Europe, Middle East and Africa	35%
Americas	12%

Wealth Management clients by portfolio size (£43.7bn)

<£1m	17%
£1m – £5m	17%
£5m – £10m	11%
£10m – £25m	16%
£25m – £50m	11%
£50m – £100m	9%
£100m – £250m	7%
>£250m	12%

See more analysis on our AUM on page 3.

1. By client domicile.

Wealth Management

Wealth Management net income increased by 6% to £289.8 million (2017: £273.3 million), driven by net operating revenue, which was up 6% to £281.9 million (2017: £266.9 million).

Net operating revenue within Wealth Management comprises management fees, performance fees, transaction fees and net banking interest income. Management fees increased by £12.4 million to £216.2 million, driven by an increase in average AUM of 5%. There were performance fees of £0.4 million (2017: £0.9 million). Transaction fees were slightly down from 2017 at £38.5 million (2017: £40.8 million) and net banking interest rose to £26.8 million (2017: £21.4 million). Net operating revenue margins were unchanged from 2017 at 61 basis points.

AUA within the Benchmark Capital business contributed £7.5 million to other income (2017: £6.0 million).

Operating expenses before exceptional items were £196.4 million, up 7% (2017: £183.0 million). The increase was mainly driven by the investments we have made in our wealth management systems and infrastructure and as we have grown the business.

Profit before tax and exceptional items increased 3% to £93.4 million (2017: £90.3 million). Exceptional items within Wealth Management comprise mainly amortisation of acquired intangible assets and other costs incurred in relation to acquisitions. After exceptional items, profit before tax grew by 1% to £68.0 million (2017: £67.4 million).

Group segment

The Group segment comprises central management costs, returns on investment capital, including income from financial instruments and our associate interests in RWC Partners Limited and Schroder Ventures Investment Limited, together with net returns from seed capital investments after hedging and co-investments arising through our private assets businesses.

Net income for the Group segment was £32.9 million (2017: £37.7 million). Costs in the Group segment increased by 7% to £35.9 million (2017: £33.6 million). This resulted in a loss before tax of £3.0 million (2017: profit of £4.1 million).

Financial strength and liquidity

The Group's net assets increased by £150.2 million during 2018 to £3,621.2 million. We generated total comprehensive income of £519.5 million (2017: £580.4 million) and distributed £311.7 million to shareholders in the form of the 2017 final and the 2018 interim dividends (2017: £267.6 million).

The different forms of business that we conduct affect our total assets and liquidity. Certain assets managed on behalf of investors are recognised in the consolidated statement of financial position, while others are not. The table below sets out how these assets are broken down between on-balance sheet assets and others that form part of our total AUM.

Within Asset Management, assets that are managed for clients are not generally owned by the Group and are not recorded in the Consolidated statement of financial position. However, certain clients invest through life insurance policies that are managed by the Life Company. The assets backing these policies are owned by the Life Company and are included in the Consolidated statement of financial position along with a matching policyholder liability.

Wealth Management principally provides investment management, advisory and banking services. Certain Wealth Management subsidiaries provide banking services. These entities are legally responsible for the banking assets and liabilities and the relevant AUM is therefore included in the consolidated statement of financial position. The assets are managed to earn a net interest margin within the Wealth Management segment with consideration of the liquidity demands that may arise from clients. These assets are not made available for general corporate purposes.

Reflecting these structures, the Group's total assets decreased by £2.9 billion to £19.6 billion at 31 December 2018. Excluding those assets that form part of AUM, the Group's total assets increased to £5.1 billion (2017: £4.8 billion). Our assets comprise three components of investment capital, seed and co-investment capital, and other assets.

	Statement of financial position £bn	Not recorded in the Statement of financial position £bn	Total £bn
Life Company	11.3	–	11.3
Other Asset Management	–	352.2	352.2
Total Asset Management	**11.3**	**352.2**	**363.5**
Wealth Management	**3.2**	**40.5**	**43.7**
Total AUM	**14.5**	**392.7**	**407.2**
Investment capital	0.6		
Seed and co-investment capital	0.5		
Other assets	4.0		
Total Group assets excluding clients' investments	**5.1**		
Total Group assets	**19.6**		

Investment capital represents surplus assets held in excess of operating requirements. It is managed in accordance with limits set by the Board, with the aim of making a low volatility return. The Group Capital Committee is responsible for monitoring the investment capital portfolio with consideration of potential capital and liquidity demands, including dividend distributions.

Investment capital is mainly comprised of investment grade corporate bonds and investments in our own pooled funds.

Investment capital reduced by £213 million to £630 million (2017: £843 million), largely owing to acquisitions. Capital released from the operating businesses was more than offset by dividends paid in the year as operating capital was retained to develop our offices and the front office technology platforms.

We deploy some of our capital to develop new organic investment strategies or co-invest selectively alongside our clients. Our seed and co-investment capital increased from £392 million at 31 December 2017 to £535 million at the end of 2018.

Other assets increased by £397 million to £3,978 million (2017: £3,581 million). This represents assets that support our ongoing operating activities.

In 2018, we continued to invest in the future growth of the business with a number of acquisitions, the most significant of which was the acquisition of Algonquin in May 2018. These acquisitions increased goodwill and intangible assets by £95.7 million, before amortisation and foreign exchange movements. We have invested in our offices both in London and other locations, which increased fixed assets by £111.1 million before depreciation. We are also investing in technology to support our strategic priorities, including a new front office technology platform, which completed this year. These investments increased our software assets by £90.8 million before amortisation and foreign exchange movements. Finally, we work closely with the UK defined benefit (DB) pension scheme trustees, who use our asset management capabilities to manage the plan assets of the scheme. During 2018, the surplus on our UK DB pension scheme decreased by £7.3 million to £155.6 million, principally due to market movements at the year end.

The Group's liquidity and regulatory capital position remains strong and further information on this is set out in note 19 of the financial statements.

Dividends

In line with our dividend policy and as pre-exceptional profit after tax decreased this year, the Board is recommending a final dividend of 79 pence per share. It means a total dividend for the year of 114 pence per share (2017: 113 pence per share) and represents a payout ratio of 53%.

It is our policy to increase dividends progressively in line with the trend in profitability

It is our policy to increase dividends progressively in line with the trend in profitability, having regard to overall Group strategy, capital requirements, liquidity and profitability. This approach enables the Group to maintain sufficient surplus capital to take advantage of future investment opportunities while providing financial security to withstand possible risk scenarios and periods of economic downturn. We intend to maintain a dividend payout ratio of around 50%. This is determined as the total dividend per share in respect of the year, divided by the Group's pre-exceptional basic earnings per share.

The distributable profits of Schroders plc are £2.8 billion (2017: £2.7 billion) and include retained profits of £2.9 billion (2017: £2.8 billion). The Group's ability to pay dividends is, however, restricted by the need to hold regulatory capital and to maintain sufficient operating capital to support its ongoing business activities. Operating capital requirements include co-investments with clients and seed capital investments in our funds to support new investment strategies.

Circumstances that could adversely impact the Group's ability to pay dividends in line with the policy include a combination of significantly increased costs and a prolonged deterioration in markets or performance leading to reduced revenues and a consequential increase in the ratio of total costs to net income. After deducting the regulatory capital requirement and regulatory capital buffer, there continues to be sufficient capital to maintain our current dividend level for at least three years before taking account of any future profits.

Richard Keers
Chief Financial Officer

The right culture to deliver for our people

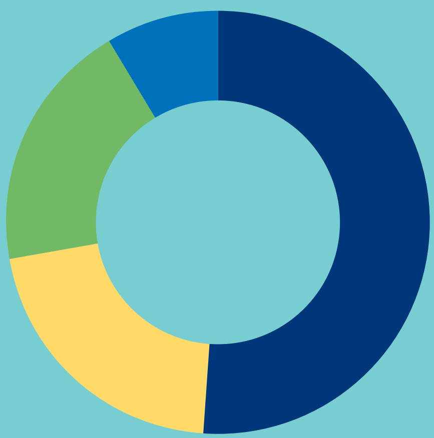
Providing opportunities for our people to reach their full potential because making waves can be better than riding them

Creating a place people want to work

Providing a positive, open and collaborative working environment for our people is a key part of the value that we deliver to this important stakeholder group. We engage with our people to provide rewarding work and support development opportunities to ensure they have the chance to fulfil their potential. This means that we are well placed to support the business and deliver for other stakeholders.

Through our 2018 employee opinion survey, 92% of our people are proud to be associated with Schroders and 86% would recommend Schroders as a good place to work.

Our people around the world



UK	52%
Asia Pacific	21%
Europe, Middle East and Africa	19%
Americas	8%

We foster an environment of innovation, success and teamwork.

We strive for

Excellence
Being good at what we do is a powerful way to create value for our clients and secure a long-term future for our business.

We work with

Innovation
We challenge how things are done and anticipate future opportunities.

Teamwork
Delivering value for our clients takes collaboration and a healthy respect for individual skills.

We have

Passion
We are realistic about what we can achieve, but we are ambitious too and approach everything we do with energy and drive.

Integrity
Openness and responsibility fuel our long-term client relationships and consistently delivering on our promises sets us apart.

Our ongoing success is driven by our people. We foster a culture of collaboration and inclusion, supporting a talented and diverse workforce. We aim to be the most attractive place to work in our industry. To do this we provide an inspiring and meritocratic working environment, and prioritise our employees' health and wellbeing, offering a broad range of benefits. We believe job satisfaction goes beyond the day job and encourage our people to support the causes and activities that are important to them.

How we engage

We engage with employees across a variety of channels, including a UK employee forum, an annual employee opinion survey, management briefings, videos, an internal magazine and a social intranet. Ian King is the designated non-executive Director responsible for gathering employee feedback and will attend global employee forum meetings to hear directly from employees on the issues that concern them.

The value we create

Our people strategy is aimed at developing an agile workforce as we continue to attract, retain, develop and motivate the right people for our business. Our approach is defined in our guiding principles document, which outlines our values.

Our people

An employer of choice

Our people strategy is aimed at making Schroders the best employer in the asset management sector by providing our people with a collaborative and innovative working environment. We are developing an agile workforce as we continue to attract, retain, develop and motivate the right people for our current and future business needs. To ensure our people have the best environment to work in, we foster an inclusive culture that celebrates diversity.

Our approach to business is enshrined in our guiding principles, which we share with our employees and people looking to join our business, and includes our values of excellence, innovation, teamwork, passion and integrity. Our values are a key part of our culture, defining the high standards of behaviour that we expect from our people. We recruit people who embody these values and assess the performance of our people against them, celebrating those who are role models for the behaviours that we encourage.

Diversity of thought

We are committed to fostering an inclusive culture of diversity across our global workforce. This is led by our Group Chief Executive. Talented people who can understand and embrace different perspectives are crucial to our continued success. This means attracting, retaining and developing a diverse team regardless of age, gender, ethnicity, sexual orientation, disability, religious beliefs or other characteristics. We are proud to have been part of the inaugural Bloomberg 2019 Equality Index in January 2019, which recognises us as a leader in advancing gender equality globally.

As we look to foster an inclusive culture and expand our diverse talent pool, we have taken a number of key measures, including:

- Publishing our gender pay gap over the past three years, both in the UK and on a global basis
- Ensuring that our entry level assessment centres are gender-balanced
- Providing training to managers on diversity issues and unconscious bias
- Providing internal and external mentoring programmes to encourage diversity
- Introducing talent programmes to accelerate the development of future female leaders
- Offering maternity and paternity coaching, shared parental leave and flexible working policies to help support employees with children

We have 12 employee resource groups that thrive across our business including gender equality, sexual orientation, disability, mental health and multi-cultural groups. They are a key feature of our identity as an inclusive place to work.

We are committed to providing equal employment opportunities and combating discrimination. Where possible, we monitor the ethnicity, age and gender composition of our workforce and those applying for jobs.

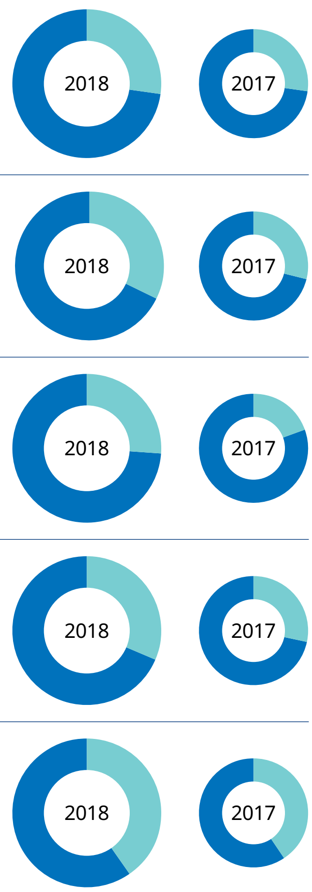
We were among the first signatories to the 2016 Women in Finance Charter. We achieved our initial target of 30% women within senior management during the first quarter of 2017 and are now targeting 33% by the end of 2019. At the end of 2018, we had reached 32%. More information on female representation and our gender pay gap can be found on page 78.

In line with our equal opportunities policy, we give fair consideration to all employment applications, including from disabled people, considering particular aptitudes and abilities. If employees become disabled, employment continues wherever possible, with retraining given if necessary. For the purposes of training, career development and progression, all employees are treated equally as part of our commitment to making Schroders an inclusive place to work. More on our approach to diversity and inclusion can be found at schroders.com/inclusion.

We are proud to have been an accredited London Living Wage employer for many years. All of our London-based employees and contractors are paid above the London Living Wage.

Gender diversity at 31 December 2018 (vs. 31 December 2017)

	Female	Male
Directors of Schroders plc	3 (3)	8 (8)
Senior managers[1]	263 (238)	549 (580)
Subsidiary directors[2]	30 (9)	84 (37)
Total senior management	293 (247)	633 (617)
All employees	2,034 (1,876)	3,005 (2,743)



1. Senior managers excludes the executive Directors of Schroders plc and includes some individuals who are also subsidiary directors.
2. Subsidiary directors comprises directors of subsidiaries who are not classified above as senior managers or Directors of Schroders plc.

Employee wellbeing

We have a multi-generational workforce and it is vital that our people are provided with the support and opportunities they need to optimise their health and wellbeing.

As well as being members of several thought leadership networks, we provide a comprehensive calendar of wellbeing events for our people across five key areas: mind, workplace, body, financial and work-life balance. There is also extensive resilience and mental health training embedded within our learning and development programmes.

Engaged and highly motivated employees

We listen to our employees and carry out an annual firm-wide employee opinion survey. The results demonstrate that our employees are engaged with their roles, understand our values and believe that we behave responsibly towards our clients.

We recognise that good communication is key to delivering high levels of engagement and ensuring that our people understand the role they play in delivering our strategic goals is a focus of our regular employee communications. We communicate regularly through a variety of channels, including management briefings, videos, an internal magazine and a social intranet. Annual 'Inside Schroders Live' employee meetings are held with the Group Chief Executive to discuss the progress made by the business and future objectives and challenges. Similar events are held across our offices globally.

Employee opinion survey 2018

92%
Employees are proud to be associated with Schroders

86%
Employees would recommend Schroders as a good place to work

High ethical standards

We promote high ethical standards and have a strong culture of doing the right thing for our clients, our employees, our shareholders and other stakeholders. We have a whistleblowing policy, under which employees can raise concerns. A widely publicised 24-hour hotline is available for employees to report concerns anonymously. Personal securities trading by employees is subject to clearly defined internal policies.

Employees are not permitted to solicit or accept any gifts, entertainment or inducements that are likely to conflict with their duties. We have policies in place and train employees on identifying potential tax evasion, anti-money laundering, awareness of terrorist financing, anti-bribery, market integrity and data protection. Due diligence is undertaken before entering any material new client relationship and this is enhanced for higher-risk countries, entities or individuals.

Retaining our talented people

We have a highly engaged, experienced and stable workforce, with 41% of employees having been with the firm for six years or more. Overall turnover in 2018 was 12% (2017: 9%). We focus on retaining our most talented employees and our retention of high-performing employees remains high, at 94% (2017: 94%).

As part of our focus on developing talent, 27% of open roles across the business globally were filled internally, an increase on previous years. This helps us to provide our employees with the opportunities and experience they need to achieve their full potential.

In 2018, we launched Spark – a dedicated global learning management platform offering an extensive range of digital learning content. This was a significant investment in developing the knowledge, skills and capabilities of our people to keep up with a changing world. Spark provides our people with a one-stop-shop for hours of 'just in time' structured learning. It includes a broad range of learning preferences to cater to all learning styles and an instantly accessible and consistent learning experience for everyone.

As part of the Investment 2020 and apprenticeship programmes, Schroders provides opportunities for school leavers and graduates across the business, with a particular focus on social mobility. A little less than half of our 2017 trainees progressed on to other roles in Schroders after their traineeship and the majority of those that did not stay with the business took up places at university.

Competitive remuneration that reflects the performance of each employee and of the firm is important in retaining our people. Our approach is explained in the Remuneration report on pages 68 to 90.

Employee length of service

<4 years	46%
4 years to <6 years	13%
6 years to <10 years	18%
>10 years	23%

The right principles to deliver for society

Delivering a more sustainable world for society because we have a responsibility to improve futures for those around us

Driving high levels of corporate responsibility

As a FTSE 100-listed business with a global footprint, we have an important responsibility to contribute to the communities around us, both through our actions as a corporate and our ability to influence the companies that we invest in.

ESG engagements
2,200
(2017: 1,014)

Volunteer hours
1,566
(2017: 1,000)

Charitable donations
£2.1m
(2017: £2.0 million)

Where to find more information

The table below sets out where stakeholders can find more information that relates to non-financial matters, as required under the new Non-Financial Reporting Directive requirements.

Reporting requirements	Policies and standards which govern our approach[1]	Due diligence, outcomes and additional information	Page number
Environmental matters	Environmental, social and governance policy Statement of compliance with UN Principles for Responsible Investment	Our approach to corporate responsibility ESG engagements Climate change and the environment	34-39 36-37 37-38
Employees	Guiding principles and values Directors' remuneration policy Policy on Board diversity Group health and safety policy Group malus and clawback policy Internal HR policies include: equal opportunities policy, flexible working policy, parents and family leave policy, mental health and wellbeing policy, trans inclusion policy	Retention of key talent Creating a place people want to work Gender diversity Employee opinion survey highlights Employee length of service Board diversity Remuneration report	33 30-33 32 33 33 61 68
Human rights	Slavery and human trafficking statement Supplier code of conduct Personal data policy Environmental, social and governance policy Statement of compliance with UN Principles for Responsible Investment	Our approach to corporate responsibility Human rights Our suppliers Our clients	34-39 36 36 36-37
Social matters	Volunteering policy Supplier relationship management policy Environmental, social and governance policy Statement of compliance with the UK Stewardship Code Statement of compliance with UN Principles for Responsible Investment	Our approach to corporate responsibility Our communities Charitable giving Our clients The environment Our approach to tax	34-39 36 36 36-37 38 38-39
Anti-bribery and anti-corruption	Anti-bribery and corruption and inducements policies (including gifts and entertainment) Anti-money laundering and counter-terrorist financing policy Group tax strategy and tax evasion policy Whistleblowing policy	Key risks and mitigations Process risk Creating a place people want to work	40-47 45 30-33
Additional information			
Key risks and mitigations Description of key risks			40-47 44-46
Business model			18-19
Non-financial indicators			16-17

[1] Certain policies, standards and guidelines are not published externally.

We recognise that we have an important role to play in the wider economy. We work with and invest in companies across the world, promoting growth across a range of sectors. We focus on driving high levels of corporate responsibility, governance and sustainability. We are proud to be playing a part in improving futures for the communities we call home.

How we engage

We engage with our stakeholders on a range of environmental, social, governance, economic and ethical issues. This reinforces our commitment to act responsibly and contribute to society.

The value we create

We believe that taking a sustainable approach is key to managing current social and environmental challenges. We focus on identifying well-managed businesses, understanding their risks and opportunities, and actively engaging to improve behaviours and governance.

Committed to building future prosperity

We recognise the responsibility we have to our key stakeholder groups, including society as a whole. We believe that demanding high levels of corporate responsibility is the right thing to do for a principle-led business like Schroders. We engage with our stakeholders on a range of environmental, social, governance, economic and ethical issues. This forms the basis of our corporate responsibility strategy, which has continued to evolve throughout the year, reinforcing our commitment to act responsibly and contribute positively to society.

In 2018, our impact and commitment across a number of these areas has been demonstrated through work with our communities, our clients and the environment. Following a review of the UN's 2030 Agenda in 2017, we are supportive of the aims of the 17 Sustainable Development Goals, which represent a comprehensive agenda for addressing the world's societal challenges.

Our communities

In 2018, we continued to focus on how our business can play a part in improving futures within the communities that we call home. It is with this perspective on our activities that we renewed our focus on social mobility and financial education.

We continued our partnerships with both the Social Mobility Foundation and disability charity 'my AFK', delivering two successful 'Futures Days' and providing work placements across our business. These provided insight into the asset management industry and the world of work for high-achieving students from low income backgrounds and young adults with physical or learning disabilities.

To complement our strong, long-term secondary school partnership with Mossbourne Community Academy, we joined forces with Moreland Primary to extend our impact to younger pupils. We also collaborated with educational charity, Guy Fox History Project Limited. A number of Schroders employees volunteered to work with pupils at Moreland Primary to create a children's book on asset management.

We also added a number of new partnerships and initiatives this year in support of this focus on improving futures. This included an initiative with Stemettes, a social enterprise that works to inspire and support young women in Science, Technology, Engineering and Maths careers. As a founding member of the KickStart Money project, we continue to support financial education workshops delivered across the UK and have recently partnered with TeachFirst, which will allow us to roll out a number of education-focused initiatives in 2019.

In the US, we have been partners of READ Alliance, a charity which offers one-to-one reading to underprivileged children, for more than a decade.

Human rights

Respect for human rights is fundamental to contributing properly to society and lies at the heart of the responsibility we have towards our stakeholders. Our business model is designed to comply with applicable human rights legislation in the countries in which we operate.

We are strongly opposed to slavery and human trafficking in any form and we actively manage our supply chain to ensure that our zero tolerance approach to human rights abuses is maintained and we have specific training for everybody involved in managing our suppliers. While our business is undertaken predominantly in countries with a clear commitment in this area and the majority of our suppliers are headquartered in low-risk countries, we have additional due diligence procedures in place where the risk is higher. More information can be found in our Slavery and Human Trafficking statement at schroders.com/slavery.

As a responsible investor we include human rights assessments in our evaluation of companies from a sustainability perspective. This includes specific modern slavery assessments across our holdings in high-risk sectors.

Our suppliers

We rely on the use of external service providers to supplement our own infrastructure. This enables us to benefit from their expertise or specialist skills, as well as accessing lower costs for service delivery.

We engage pro-actively with our external service providers and have a Supplier Code of Conduct, which sets out the high standards and behaviours that we expect from them. This requires that the prohibition of forced labour and human trafficking, together with the ethical and responsible sourcing of goods or services, are incorporated into their processes.

Our Audit and Risk Committee reviews our material supplier relationships annually to confirm that our approach remains consistent and adds value to supplement our own infrastructure.

As signatories to the UK's Prompt Payment Code, we are committed to the principles regarding treatment of suppliers, which include paying suppliers on time, providing clear guidance on terms with our suppliers and encouraging our suppliers to adopt the code.

Charitable giving

We are proud to support the communities in which we operate and actively encourage our employees to do the same. We have a long history of positively contributing to local communities through monetary donations and employee time. In 2018, we donated £2.1 million to charitable causes around the world (2017: £2.0 million), £447,000 of which was outside the UK (2017: £783,000). Our charitable giving continues to focus on employee-led giving, supporting our employees in charitable endeavours through a number of different matching schemes. In the UK, 29% of our employees give through Give As You Earn (2017: 29%), which saw £670,000 donated by employees before the contributions were matched by Schroders. We received the Payroll Giving Quality Mark Diamond Award for the scheme. More than £307,000 was raised through our fundraising and time matching schemes.

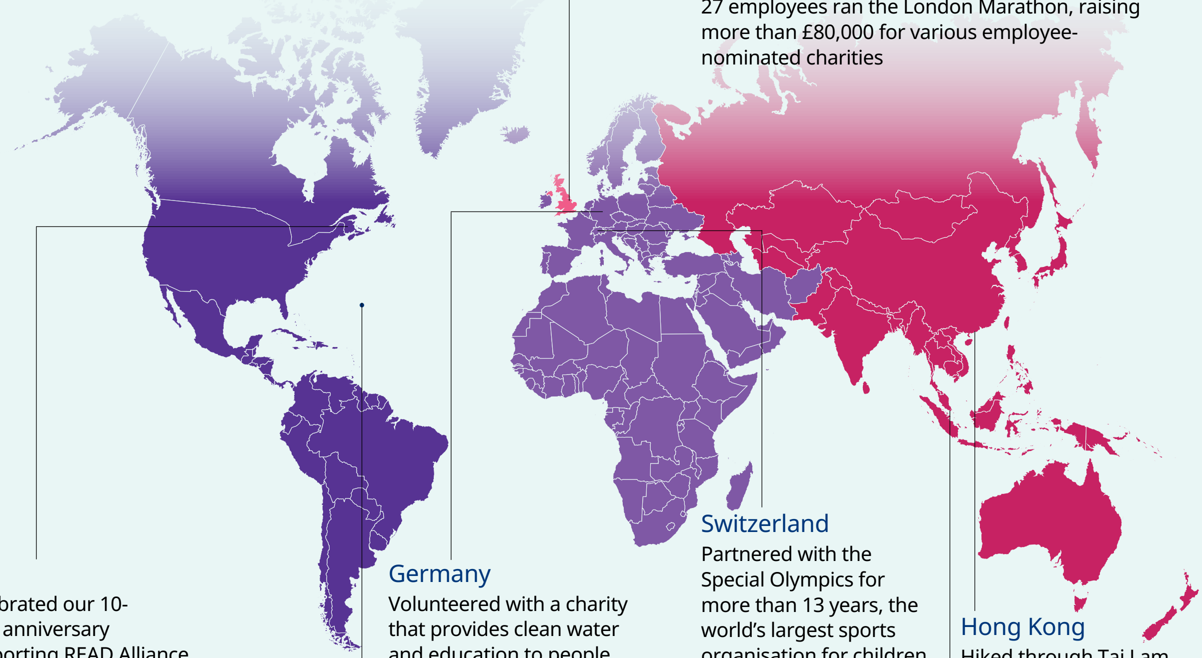
In addition to financial donations, we have provided gifts in kind, organised frequent charitable collections and encouraged our employees to share their knowledge, skills and capabilities with charitable organisations through volunteering. To support our employees giving back to communities, we offer time matching for volunteering hours completed outside of working hours, and up to 15 hours of volunteering leave a year. Last year, employees globally volunteered 1,566 working hours.

Our clients

Social and environmental change is happening faster than ever. Climate change, shifting demographics and the technology revolution are reshaping the world around us. We believe that companies that can adapt and thrive will be more successful in attracting customers, employees and growing their business.

As active managers of our clients' money, we have a responsibility to identify and invest in those companies that have a sustainable future ahead of them. For fund managers navigating this backdrop, consistently delivering positive investment outcomes can be challenging. A forward-looking, active investment approach is needed to understand the impact of these forces.

Charitable giving around the world



UK
27 employees ran the London Marathon, raising more than £80,000 for various employee-nominated charities

US
Celebrated our 10-year anniversary supporting READ Alliance, a charity that offers one-to-one reading to underprivileged children

Germany
Volunteered with a charity that provides clean water and education to people in Ghana

Bermuda
Sponsored the Bermuda Amateur Swimming Association for the sixth year running which aims to inspire and enable the community to have access to aquatics

Switzerland
Partnered with the Special Olympics for more than 13 years, the world's largest sports organisation for children and adults with intellectual disabilities

Hong Kong
Hiked through Tai Lam Country Park for Hike for Hospice, a local charity supporting end-of-life patients

Singapore
Joined forces with a local soup kitchen, Willing Hearts, who deliver 5,000 meals daily to underprivileged people in Singapore

This means understanding how a company interacts with society and its environment, as well as analysing its profit lines. We have a team of investment professionals who apply experience and knowledge to specific situations and help to manage the risks.

Our commitment to integrating ESG factors into our investment process began in 1998. We now have a team of 15 people working with our investment teams across asset classes and geographies. ESG factors are integrated in our core investment processes and we are launching new funds designed to meet client demand for a more sustainable investment approach.

Stewardship
At Schroders, we believe that we are owners – rather than renters – of capital. Effective and responsible active ownership has long been part of our fundamental approach to investment.

We recognise that companies play a critical role in shaping futures for societies and the environment. It is essential to question and challenge companies about issues that we perceive may affect their value. As such, we actively exercise voting powers and engage with companies on issues such as strategy, risk, performance and governance.

Through our engagement, we can improve our understanding of the issues companies face and influence their actions, helping to protect or enhance the value of our investments. The overriding principle governing our approach to voting is to act in the best interests of our clients. Where proposals are not consistent with the interests of our clients, we are not afraid to vote against resolutions.

In 2018, we carried out more than 2,200 ESG engagements across more than 50 countries. We have addressed a wide range of issues ranging from climate change to human capital management and shareholder rights. We voted at more than 5,200 company AGMs around the world and instructed a vote against at least one resolution at 48% of meetings.

In 2017, we were ranked as the top European Asset Manager for Responsible Investment performance by ShareAction. In 2018, we received a UNPRI A+ ranking for our responsible investment principles.

We are a founding signatory of the 'Climate Action 100+' initiative, a five-year collaborative engagement project to engage more than 100 of the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

As well as our quarterly and annual reports, we regularly publish thematic research and our monthly voting records at schroders.com/sustainability.

Climate change
We believe that climate change will be a defining driver of the global economy, society and financial markets over the coming years, decades and beyond. Whether the global economy is rebuilt on less carbon intensive foundations or the temperature continues to escalate, investors will be unable to avoid its impacts.

Addressing climate change will require co-operation across a wide range of stakeholder groups, including clients, companies and policy makers.

We are committed to reporting in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and have also signed up to a Global Investor Statement on Climate Change. The task force is committed to taking steps towards a low carbon and climate resilient investment approach.

In 2018, we had more than 200 company engagements focused on climate change covering topics such as carbon emissions, carbon reduction targets, physical risks and analysis and disclosure in line with TCFD recommendations. We also voted on 37 climate-related shareholder resolutions. Our latest climate change research and insights can be found at schroders.com/climatechange.

The environment

We aim to minimise the impact that our own business has on the environment. We constantly review opportunities to minimise the environmental impact of our operations and to deliver continuous improvements in our environmental performance.

Since 2015, we have established minimum targets for sourcing our global electricity supply from renewable sources, targeting 60%. In 2018, we signed up to the Climate Group and Carbon Disclosure Project (CDP)'s RE100 initiative, which brings together more than 100 businesses globally. As part of this commitment, we are aiming to increase our use of renewable energy to 75% by 2020 and 100% by 2025. By the end of 2018, we had reached a total of 65% of our energy being supplied from renewable sources globally and we anticipate our membership of RE100 will help us towards our final goal.

We continue to participate in the Dow Jones Sustainability Index and the CDP climate change program and have demonstrated a continual reduction of our electricity consumption, achieving the Carbon Saver Gold standard for the past 11 years.

We use DEFRA's conversion factors to calculate our CO_2e emissions for all consumption apart from overseas electricity, for which we use the International Energy Agency's conversion factors as recommended by DEFRA. Our data has been verified and further information is disclosed in our CDP submission. Our total carbon output in 2018 has increased by 17%. This was largely due to one-off activities relating to the move of our UK headquarters and should decrease in future years. For the last four years, we have used the internationally accepted GHG Protocol Corporate Standard for reporting.

In 2018, we moved to our new UK headquarters at 1 London Wall Place. This move has allowed us to co-locate the majority of our London-based employees under one roof. The office provided the opportunity to introduce a number of significant sustainable initiatives, including:

- environmental controls to give the highest level of comfort
- occupancy and daylight sensing lighting
- removal of single use plastic from catering services
- reduction in print wastage through follow me print services
- introduction of electronic tools that reduce paper storage requirements
- urban biodiversity that attracts bees, butterflies, other insects and birds
- district heating connection
- grey water capture for reuse in WCs
- kitchen cool room heat recovery to aid hot water production

Our relationships with regulators

As a global business, we aim to build positive relationships with our regulators around the world. Regulators provide important oversight of how we run our business. Our clients' interests are best served when we work constructively with our regulators.

We regularly engage with regulators and policymakers to ensure that our business understands and contributes to evolving regulatory requirements. Senior management hold regular meetings with regulators to foster healthy working relationships.

We also report regularly to the Board and the Audit and Risk Committee on engagement with regulators, and how changes in regulatory regimes may impact our business processes and procedures. In 2018, these reports included the implementation of GDPR, MiFID II, PRIIPs and the impact of Brexit.

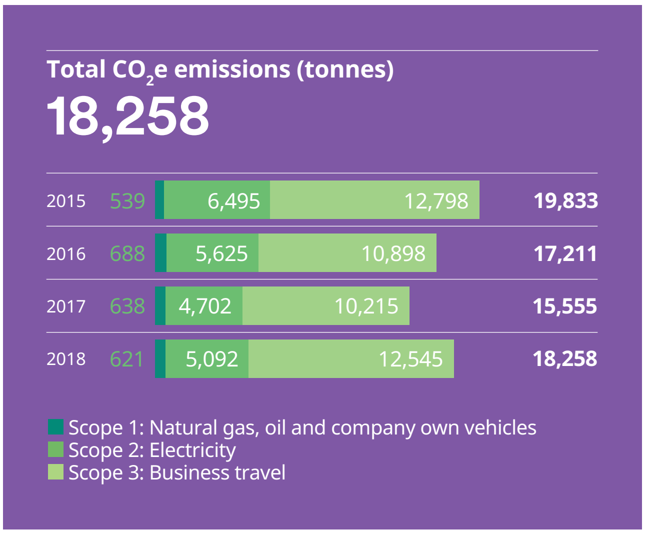
Our approach to tax

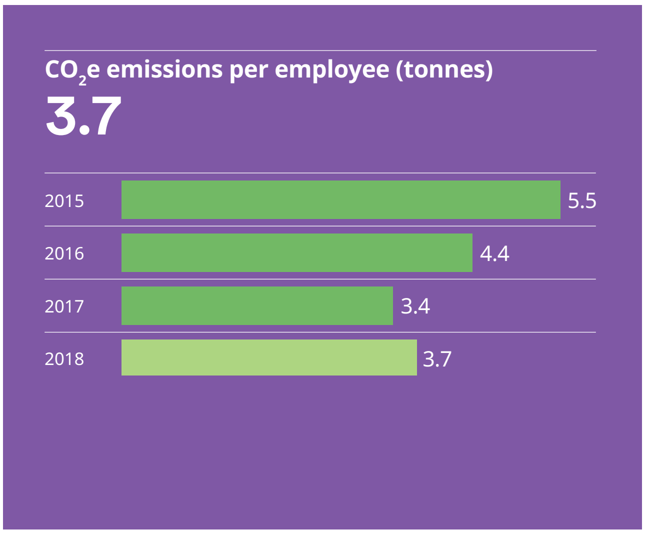
We aim to comply with both the spirit and letter of the law and are committed to conducting our tax affairs in an open and transparent way.

This means that we comply with our tax filing, reporting and payment obligations globally. We also seek to maintain good relationships with the tax authorities in the jurisdictions in which we operate. This may take the form of discussing key developments in our business and the potential impact of those developments on the amount of tax we pay.

From time to time, our views on the appropriate tax treatment in any given situation may differ from those of the tax authorities. Where this occurs, we work constructively and pro-actively to achieve an early resolution. We comply with the UK's Code of Practice on Taxation for Banks and are treated as 'low risk' by HM Revenue & Customs.

We believe it is important that businesses behave responsibly and build trust within society regarding their role and contribution on tax. With this in mind, we support initiatives to improve international transparency on taxation matters, including the Organisation for Economic Co-operation and Development measures on country-by-country reporting and automatic exchange of information.





Our tax strategy, available at schroders.com/taxstrategy, sets out our approach to tax matters across the Group more generally. This strategy is reviewed and approved annually by the Audit and Risk Committee.

Taxes borne

Taxes borne include corporate income tax on the profits arising in each country, indirect taxes such as value added tax on our expenses and payroll taxes on our employees' remuneration.

The total tax borne by the Group in 2018 was £253.1 million (2017: £250.4 million).

Taxes collected

Companies also have an important role in collecting and administering taxes on behalf of governments, where the cost of tax is borne by others. This includes income tax and social security payments deducted from our employees' remuneration and indirect taxes charged to our clients. These are taxes paid in addition to the taxes we incur as a business, which are referred to above.

The total tax collected in 2018 was £223.0 million (2017: £238.4 million).

The combined taxes borne by us as a business and the amounts collected by us on behalf of tax authorities in 2018 were £476.1 million (2017: £488.8 million).

Further information on taxes borne and collected can be found at schroders.com/taxtransparency.

Corporate awards

Armed Forces Covenant
Silver Award

European Fund Trophy
Best Asset Management Firm

Option Finance
Most Dynamic Foreign Asset Manager of the Year

Investment Europe
Fund Manager of the Year

Fitch Ratings
Investment Management Quality Rating: Excellent

Pensions & Investments
Best places to work 2018 (North America)

Memberships

working families
We are a member of working families, the UK's leading work-life balance organisation

Business Disability Forum
We are a member of The Disability Forum

OUTstanding
We are a member of OUTstanding, the professional network for LGBT+ executives and future leaders and their allies

Cityparents
We are a member of Cityparents – a network for city professionals who have shared interest in balancing home/family life with a progressive career

City Mental Health Alliance
We are a member of the City Mental Health Alliance (CMHA).

Armed Forces Covenant
Signatory of the promise that those who serve or have served, and their families, are treated fairly

Business in the Community
Member of the Prince of Wales' Responsible Business Network, a unique group of leading companies committed to acting responsibly

Heart of the City
We are a member of the Heart of the City's alumni programme

London Benchmarking Group
We are a member of the London Benchmarking Group

Carbon Disclosure Project
We participate in the Carbon Disclosure Project (CDP) climate change programme

Stonewall
We are members of Stonewall's Diversity Champions programme

Diversity Project
We are members of the Investment Association's Diversity Project

The Lord Mayor's Appeal
We are a founding patron of the Lord Mayor's Appeal

CAF
We received the Payroll Giving Quality Mark Diamond Award

London Women's Forum
We are members and one of our employees is on the board for the London Women's Forum

Risk management culture focused on integrity and good conduct

We are exposed to a variety of risks as a result of our business activities. Effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. We place significant focus on the integrity and good conduct of employees and doing the right thing for our stakeholders. Our risk management framework is underpinned by a strong control culture with clear oversight responsibilities.

Managing risk

The Board is accountable for risk and oversight of the risk management process. It assesses the most significant risks facing the business and also uses quantitative exposure measures, such as stress tests, where appropriate to understand the potential impact on the business. Non-executive oversight of the risk management process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee, more details of which are on page 62.

It is the responsibility of all employees to uphold the control culture of Schroders. We embed risk management within all areas of the business at a Group and legal entity level. The Group Chief Executive and Group Management Committee (GMC), as the principal executive committee, have responsibility for regularly reviewing the key risks we face. This includes ensuring that their respective business areas in all legal entities are monitoring and reporting relevant risks and controls. They are also responsible for monitoring individual behaviours, ensuring that they mirror the culture and core values of the business.

The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer (CFO). The CFO has responsibility for the risk and control framework of the Group. Independent monitoring and reporting of risks and controls at a Group and legal entity level is supported by the Group Head of Risk.

The CFO chairs the Group Risk Committee (GRC), which meets ten times a year. The GRC supports the CFO and the GMC in discharging their risk management responsibilities. The committee is attended by the heads of the control functions (Group Risk, Compliance, Legal and Internal Audit) along with chief operating officers from across the business and senior managers from Distribution, Product and Wealth Management. Other GMC members regularly attend. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and current exposures to our key risks and considers issues as they arise. The GRC and the Wealth Management Audit and Risk Committee (WMARC), details of which are on page 62, receive reports relating to the risk profile of Wealth Management.

Our Business Issues and Conflicts Committee supports the GRC and GMC in identifying and managing conflicts that may arise from time to time in our diversified business.

Lines of defence

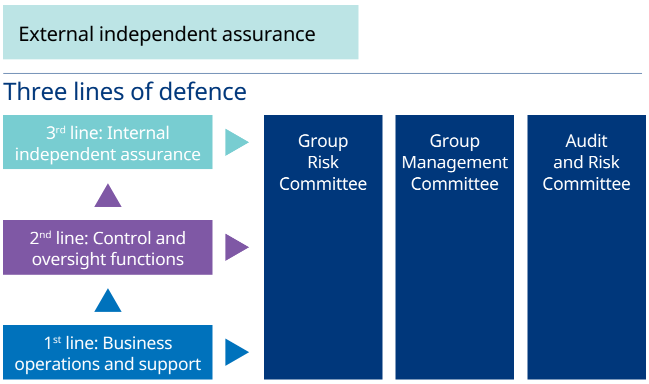
The first line of defence against undesirable outcomes is the business functions themselves and the line managers across Asset Management, Wealth Management and Infrastructure. Heads of each business area take the lead role with respect to identifying potential risks in their area and implementing and maintaining appropriate controls to manage these risks.

Line management is supplemented by the control and oversight functions, including Group Risk, Compliance, Legal, Governance, Finance, Tax and Human Resources, which constitute the second line of defence. The compliance monitoring programme reviews the effective operation of relevant key processes against regulatory requirements.

Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from the Group's auditors. The team also carries out thematic compliance monitoring work.

Lines of defence

Overview



We maintain comprehensive insurance cover with a broad range of policies covering a number of insurable events.

2018 developments

Management of our key risks has remained a priority throughout 2018. In particular, we have focused on embedding our risk framework within the businesses we have acquired and new business relationships we have established. We have also managed the risks involved in transitioning to our new front office technology platform.

Specific initiatives were undertaken that covered a wide range of activities across the Group and are covered below:

- Group Risk has been actively and extensively engaged in the implementation of our strategic projects: notably our new front office technology platform, our move to a new London headquarters, transition to S3 (a new virtual desktop technology) and in establishing material new business relationships with Lloyds Banking Group.
- Our Operational Risk teams have supported the implementation of our new front office technology platform across each of our global locations, so that risks are clearly assessed, understood and controlled by management. Where necessary, action plans to mitigate risk were formulated and put into action.
- The design and implementation of our new front office technology platform has improved our capabilities in the management and oversight of investment risk. It has provided a broad suite of integrated metrics that can be monitored centrally on a more frequent basis. Group Risk deployed portfolio-level stress testing across our client mandates and funds, which allows us to develop a better understanding of how our client portfolios perform under adverse market conditions relative to their portfolio objectives.
- A number of thematic investment risk reviews were conducted to support the oversight and challenge of risk taking. These included themes such as consideration of active risk levels, performance relative to benchmarks and fund liquidity.
- As an integral part of the corporate investment process, Group Risk worked alongside business teams performing due diligence on opportunities to assess the risks.
- Group Risk has worked to integrate the risk framework across new business areas, including Schroder Adveq, Benchmark Capital and Algonquin. This included the deployment of policies, alignment of governance and escalation, and reporting across various legal entities.
- Ongoing monitoring of our risk appetite measures and metrics was performed. In certain areas these were enhanced, most notably in the ongoing priority of information security, which is overseen by our Information Security Risk Oversight Committee.
- The Audit and Risk Committee reviews a comprehensive dashboard of metrics for key risks on a quarterly basis.
- Further work has been undertaken to assess model risk and to manage user-developed tools to reduce risks from changes to software.
- A new approach was developed to assess the risks when we deploy robots as part of our robotics program.

The risk and control assessment (RCA) process continues to be a key part of our risk management framework and is summarised in the diagram below. In 2018, we completed an upgrade of our technology to manage our operational risk framework, including RCAs, issues, events and data loss management.

Risk and control assessment process

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have carried out a robust assessment of the key risks facing the Group and expect that Schroders plc will continue to be viable for at least the next five years.

Assessment of prospects

A five-year period to December 2023 is in line with the Group's strategic business planning and forecasting period. The Group's strategic and financial planning process includes a detailed review of the business model and key planning assumptions. It is led by the Group Chief Executive and Chief Financial Officer in conjunction with management teams, with the one-year outlook most recently updated in March 2019. Notwithstanding the five-year viability horizon, the business plan addresses the longer term headwinds that the business currently expects to face, to ensure that the business model adapts to the changing environment. The business plan is based on the Group's strategy, which is summarised on pages 14-15.

Key assumptions underpinning our financial planning process include AUMA growth from both markets and net new business; changes to net operating revenue margins owing to changes in business mix, planned business activity and industry-wide margin pressures; and additional costs comprising the expected total compensation cost ratio and non-compensation costs including those arising from the Group's continued investment in technology, increased accommodation costs and costs driven by regulatory requirements.

Progress against financial budgets and key objectives are reviewed throughout the year by both the Directors and the GMC, along with periodic reviews of the capital and dividend policies.

Assessment of viability

The assessment of the Group's viability requires the Directors to consider the principal risks that could affect the Group, which are outlined on the following pages. The Directors review the key risks regularly and consider the options available to the Group to mitigate these risks so as to ensure the ongoing viability of the Group is sustained.

Stress testing is performed on the Group's business plan, which considers the impact of a number of the Group's key risks crystallising over the assessment period.

The severe but plausible stress scenario applied to the business plan include the following factors which, where relevant, use assumptions more severe than the regulatory stress scenario required by the Prudential Regulation Authority:

- Outflows of our AUMA, or deterioration in the value of our AUMA, as a result of a market downturn, foreign exchange movements or poor investment performance;
- a more severe decline in net operating revenue margins reducing projected revenues, together with an increase in the ratio of total costs to net income; and
- the impact of a material operational risk event which could lead to reputational damage and outflows of our AUMA.

The stress scenarios are consistent with those used in the Group's consolidated Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

Having reviewed the results of the stress scenario, the Directors have concluded that the Group would have sufficient capital and liquid resources in the above scenario and that the Group's ongoing viability would be sustained. In drawing this conclusion, the business model would be able to adapt to the changes in capital and liquid resources. The stress scenario assumptions include maintaining the Group's dividend policy but this and other commitments would be reassessed if the circumstances determined this to be necessary over the longer term.

It is possible that a stress event could be more severe or come sooner and have a greater impact than we have determined plausible. Actions are available that may reduce the impact of more severe scenarios, but these have not been considered in this viability statement.

The Directors' current, reasonable expectation is that Schroders plc will be able to continue in operation, meeting its liabilities as they fall due, over a viability horizon of at least five years. The Board's five-year viability and longer-term assessment is based on information known today.

Key risks

Assessment of key risks

We have identified 22 key risks across strategic, business, operational and financial instrument risk categories, as shown on the following page.

These risks have been assessed in light of the current environment, taking into consideration the views of subject matter experts and risk owners within the firm, geo-political risks that may impact our clients, market conditions and the ability of our employees to operate in local offices around the world. Regulatory sentiment, changes within the business and threats with uncertain impact, probability and timeframe could impact the Group. We continuously monitor internal and external environments to identify new and emerging risks. We then analyse each risk and, if needed, develop and apply mitigation and management plans.

The Group determines which key risks it considers to be heightened, for example those that are more costly if they materialise. We then undertake further work to manage these actively. When considering these risks, we also take account of the objectives of regulators to ensure market integrity, appropriate consumer protection and promotion of competition within the industry. The diagram on the following page illustrates the relative likelihood and impact of our risks and is an outcome of our assessments.

We remain vigilant in considering the impact of Brexit on our business model and have described this further at the end of this section.

Strategic risks

- 1 Changing investor requirements
- 2 Fee attrition
- 3 Business model disruption
- 4 Market returns
- 5 Regulatory landscape change

Business risks

- 6 Reputational risk
- 7 Investment performance risk
- 8 Product risk
- 9 Business concentration risk

Operational risks

- 10 Conduct and regulatory risk
- 11 Third-party service provider risk
- 12 Information security risk
- 13 Process risk
- 14 Fraud risk
- 15 Technology risk
- 16 Legal risk
- 17 Tax risk
- 18 People and employment practices risk

Financial instrument risks*

- 19 Credit risk
- 20 Market risk
- 21 Risk of insufficient capital
- 22 Liquidity risk

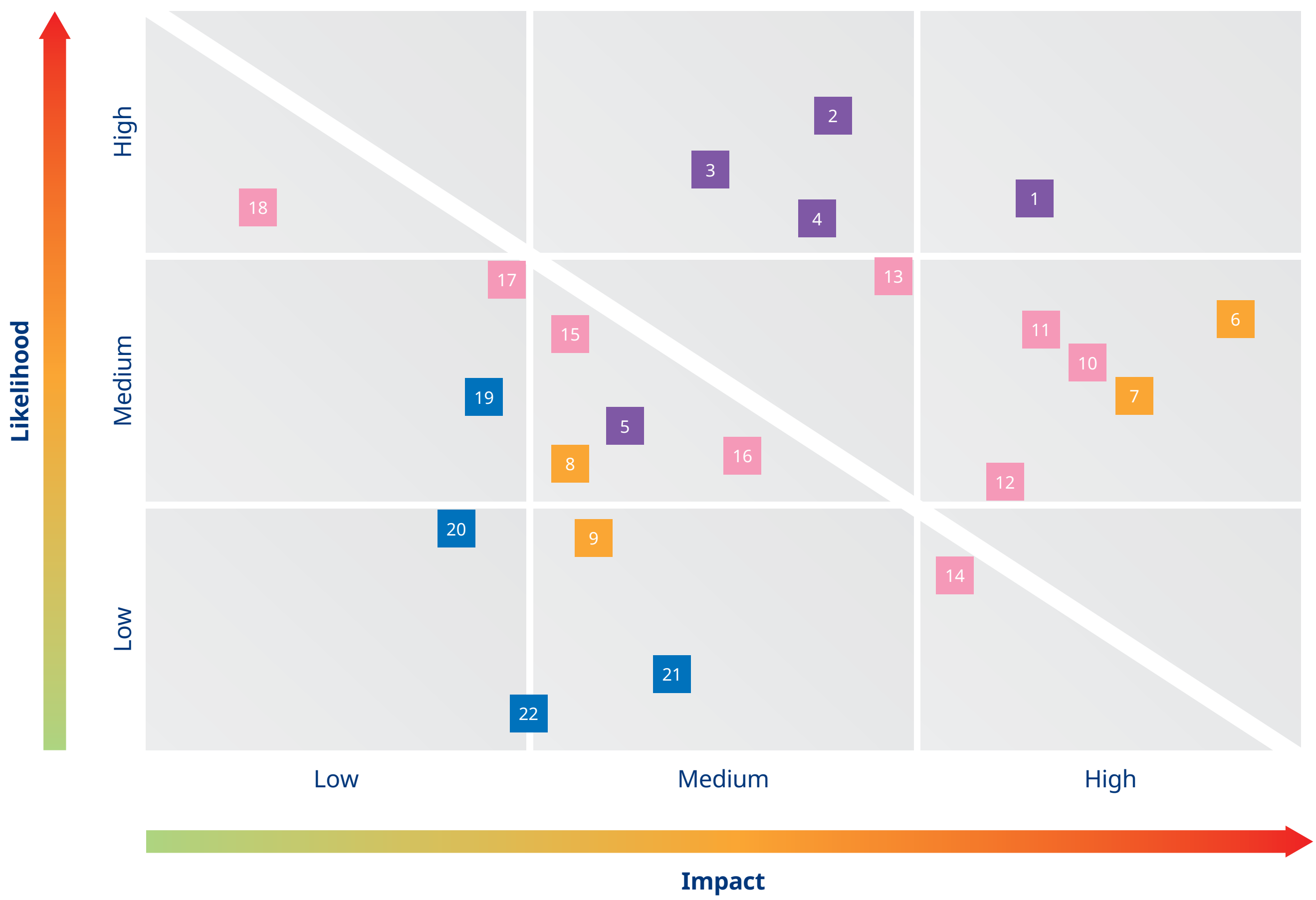
Reporting on our material risks

The diagram below shows our key risks. The horizontal axis illustrates the impact of a key risk if it were to materialise and the vertical axis illustrates the likelihood of this occurring. The scales of each axis are set on a relative basis between each risk and are based on the residual risks.

The risks that we consider to have either a higher likelihood of impacting the organisation, or with a higher likelihood of occurring, are shown above the diagonal line. Details of how we manage our risks are described in the tables on the following pages.

* Financial instrument risks are considered in note 19 of the financial statements.

Risk impact matrix, based on residual risk assessment (after controls)



Key risks

Strategic risks

Impact for Schroders: These risks relate to our strategy and the environment in which we operate. The impact of these risks, if not carefully managed, is to lower our AUMA and the income we therefore receive. Our business plans seek to address these risks by responding to the challenges faced and growing our assets and earnings.

Higher-rated key risks	How we manage this
1 Changing investor requirements Client requirements are evolving rapidly. Failing to adapt or evolve our business model and product range to reflect changing investor requirements could lead to a drop in AUMA. This includes index-tracking strategies, such as passive funds.	We have a dedicated Product and Solutions function that focuses on developing our product strategy. We continue to expand our capabilities into new areas, including private assets, and commit seed capital to developing solutions. We carefully manage our cost base to reflect our clients' changing asset allocation requirements.
2 Fee attrition Continued reduction of fees due to the current market environment and pricing pressures and a move towards vertical integration could impact our revenues.	We are increasing our focus on solutions and outcome-oriented strategies and private assets, which diversify our fee income. We are also increasingly diversifying our product offering, supporting long-term profitability.
3 Business model disruption Our business model could be disrupted by a range of external factors including technology advancements, product evolution and market participants. Good progress in managing this risk has lowered the impact.	We are increasing our effort to deliver efficiencies and insights through technology. Digital initiatives are in progress to improve client experience, engagement and servicing. We are investing in our technology platform to support scalability, agility in our product offering and our expanding private assets and alternatives businesses.
4 Market returns Our income is derived from the assets we manage and administer. Falling markets could reduce AUMA and cause a fall in revenues.	We have diversified income streams across a range of markets to mitigate falling markets in any one area.

Lower-rated key risk	How we manage this
5 Regulatory landscape change The risk that we do not respond appropriately to regulatory changes such as MiFID II, BEAR, GDPR or SM&CR, or other events such as Brexit.	Regulatory and legal change is monitored by the Compliance, Legal and Public Policy teams. We engage with regulators globally on potential or planned regulatory changes and in response to Brexit.

Business risks

Impact for Schroders: In executing our strategy, a number of key risks arise that could impact our ability to attract and retain clients. By evolving our product offering and delivering investment performance, we have the best opportunity to be selected by clients when allocating assets. A failure to achieve this could lead to a decrease in AUMA.

Higher-rated key risks	How we manage this
6 Reputational risk This may arise from poor conduct, judgement or risk events due to weaknesses in systems or controls. The reputation of Schroders can be impacted by any of our key risks.	We consider reputational risks when initiating changes to our strategy or operating model and maintain high standards of conduct.
7 Investment performance risk There is a risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent performance.	We have clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge.

Lower-rated key risks	How we manage this
8 Product risk There is a risk that our product offering is not suitably diversified, or does not provide access to strategies that will help investors to meet their objectives.	Our dedicated Product and Solutions function focuses on strategy, innovation and changing investor requirements.
9 Business concentration risk Insufficient diversification in distribution channels, products, clients, markets, or income streams could pose a risk to our business.	We have a broad range and scale of products, distribution and investment channels and our development of strategic relationships and acquisitions enables further diversification of income streams.

Operational risks

Impact for Schroders: Operational risks are inherent in all activities and processes. They exist in the normal course of business and are heightened when we undertake changes to our organisation. When operational risk events occur, this may affect our clients and our ability to serve them. We may be liable for financial losses or fines, which could affect our business performance and may weaken our standing with stakeholders.

Higher-rated key risks	How we manage this
10 **Conduct and regulatory risk** The risk of inappropriate conduct, conflicts management practice or behaviour impacting on client outcomes, or of failing to respond appropriately to regulatory changes.	We promote a strong compliance culture and seek to maintain good relationships with our regulators. We also encourage appropriate conduct via our conduct risk framework and culture assessment, supported by compliance monitoring and surveillance programmes.
11 **Third-party service provider risk** The risk that suppliers may not meet their agreed service level terms.	We have policies in place to govern our approach to appointing, managing and reviewing third-party providers.
12 **Information security risk**[1] The risk that our technology is compromised or inadequate, resulting in the confidentiality, integrity or availability of our data or Schroders' services being negatively impacted.	Formal governance of information security (cyber) risks exists across the three lines of defence and is monitored by the Information Security Risk Oversight Committee.
13 **Process risk**[2] The risk of failure of significant business processes, such as mandate compliance, client suitability checks, financial crime risk management and asset pricing.	Our key business processes are regularly reviewed and the risks assessed through the RCA process. When we undertake change, such as acquisitions, we assess new processes that may arise.

Lower-rated key risks	How we manage this
14 **Fraud risk** Fraud could arise from any attempt to defraud the firm or our clients by circumventing our processes and controls.	Controls are in place, which are assessed as part of the RCA process. We have applied particular focus to our payment processes.
15 **Technology risk** A change or failure in technology could pose a risk to the integrity or availability of the services we offer.	Policies and technical standards are deployed, together with robust project and change management processes, which cover the assessment of business requirements, risk and scalability.
16 **Legal risk** The risk that we, our clients, suppliers or other third parties fail to meet or record legal or regulatory obligations.	Our policies and procedures consider legal risk as part of their design. We have an escalation process for the areas of material risk and our Legal function supports our employees and the business.
17 **Tax risk** We and the funds we manage are exposed to tax compliance and reporting risks, which include the submission of late or inaccurate tax returns. We have further reviewed the impact and updated our risk position.	Our tax strategy sets out our approach to managing our tax affairs, underpinned by a governance framework and supported by the Tax function, which works with management and advisers to monitor our position and relevant tax changes.
18 **People and employment practices risk** The inability to attract, retain or develop key employees to support our business or maintain high standards in employment practices.	We have competitive remuneration and retention plans and build depth and strength in our workforce. We have sustainable succession and employee development processes and recruit selectively through our entry-level and experienced hire programmes.

1 Separated from technology risk.
2 Change risk has been removed.

Financial instrument risks

Impact for Schroders: We face market, credit, liquidity and capital risks from the instruments we manage as part of our AUM, as well as those arising from holding investments where we act as principal. The impact of financial instrument risks on our business may negatively affect our earnings or ability to invest in our business.

Lower-rated key risks	How we manage this
19 Credit risk Exposure to counterparty risk from clients, principal investment holdings and in the assets we manage. Our wealth management lending activities also face credit risk exposure.	We assess counterparty creditworthiness and set limits for both principal and agency counterparties. In Wealth Management, credit risk is monitored and managed against approved limits and where collateral is taken.
20 Market risk Market movements may cause a fall in the value of principal investments and a decline in the value of our proprietary assets.	The Group Capital Committee (GCC) regularly reviews all principal assets held for investment or seed capital purposes. The Group's seed capital investments are hedged in respect of market risk and currency risk, where practical. The Wealth Management Executive Committee monitors and manages market risk in the Group's Wealth Management business.
21 Risk of insufficient capital The risk that the Group is unable to support its strategic business objectives due to its minimum regulatory capital requirements.	The Group and its legal subsidiaries maintain an appropriate level of capital, including a significant buffer over the minimum regulatory capital requirements, which allows us to conduct business and invest in new business opportunities as they arise.
22 Liquidity risk The inability to meet our contractual or payment obligations in a timely manner and, in relation to client portfolios, the inability to sell the underlying investments for full value or at all.	The GCC reviews the Group's liquidity needs, considering the current liquidity position, future cash flows, regulatory requirements and potential stress scenarios. The Wealth Management Executive Committee monitors and manages liquidity risk in the Group's banking businesses. We have established processes to assess and monitor the liquidity risk profile of funds on an ongoing basis.

Our business model and Brexit

On 29 March 2017, the British government gave notice under Article 50 of the Lisbon Treaty that the UK would leave the European Union (EU) on 29 March 2019. Negotiations continue but uncertainty remains and there is a range of possible outcomes and timeframes for many aspects of the UK's exit from the EU.

Uncertainty with respect to the terms on which the UK will leave the EU has impacted some of the markets in which we invest our clients' assets. We have taken this into account as events have developed over the year, particularly with respect to European-invested strategies with a UK weighting, and have made adjustments accordingly.

Schroders is well-positioned to manage the challenges that arise as a result of Brexit. Our diversified business model and significant presence in the EU27 mean that we are well-placed to continue to service our clients and grow our business.

We have a long-standing commitment to continental Europe, with a substantial presence involving more than 750 employees across nine offices. In Luxembourg, we have around 250 employees in a wide range of functions and from there distribute funds across borders within the EU as well as more widely around the world. We have also obtained additional permissions to ensure we can continue to offer services, including segregated mandates, to European institutional clients where they wish, or need, to contract with an EU27 entity. We delegate portfolio management to a number of jurisdictions including the UK and welcomed the announcements by the UK and other European regulators that they had agreed the necessary cooperation arrangements to allow the delegation of portfolio management to the UK to continue.

Globally, our two largest fund ranges are in the UK and Luxembourg. The UK range is not actively marketed outside the UK. Investors in the Luxembourg range are predominantly comprised of EU27 and other non-UK investors. The UK government has introduced a regime to allow EU27-based funds to continue to be offered to clients based in the UK in the period immediately after Brexit.

Pages 1 to 47 constitute the strategic report, which was approved by the Board on 6 March 2019 and signed on its behalf by:

Peter Harrison
Group Chief Executive

6 March 2019

Board of Directors

Michael Dobson

Chairman (66)

Appointed Chairman in April 2016, having been Chief Executive since November 2001. He first joined the Board as a non-executive Director in April 2001.

Experience: Prior to joining Schroders he was Chief Executive of Morgan Grenfell Group and a member of the Board of Managing Directors of Deutsche Bank AG.

External appointments: Member of the President's Committee of the Confederation of British Industry.

Committee membership: Chairman of the Nominations Committee.

Peter Harrison

Group Chief Executive (52)

Appointed Group Chief Executive in April 2016. He was an executive Director and Head of Investment from May 2014.

Experience: He began his career at Schroders and subsequently held roles at Newton Investment Management, JP Morgan Asset Management as Head of Global Equities and Multi-Asset and at Deutsche Asset Management as Global Chief Investment Officer. He was Chairman and Chief Executive of RWC Partners before re-joining Schroders as Global Head of Equities in March 2013.

External appointments: Chairman of the Investment Association, a Director of FCLT Global and a member of the Takeover Panel.

Richard Keers

Chief Financial Officer (55)

Appointed a Director and Chief Financial Officer in May 2013.

Experience: He is a chartered accountant and was a senior audit partner of PricewaterhouseCoopers LLP (PwC) until May 2013. He became a partner of PwC in 1997 and has 25 years' experience in the audits of global financial services groups. His experience includes time spent in PwC's New York, Sydney, Edinburgh and London offices.

External appointments: Non-executive member of Lloyd's Franchise Board and Chairman of its Audit Committee.

Ian King

Senior Independent Director (62)

Appointed Senior Independent Director in April 2018 having been a non-executive director since January 2017.

Experience: He was Chief Executive of BAE Systems plc from 2008 to 2017 having been originally appointed to the BAE board as Chief Operating Officer, UK and Rest of the World. Prior to this, he was Chief Executive of Alenia Marconi Systems. He also served as a non-executive Director and Senior Independent Director of Rotork plc until June 2014.

External appointments: Senior Adviser to the Board of Gleacher Shacklock LLP, Chairman of Senior plc and lead non-executive Director for the Department of Transport.

Committee membership: Member of the Nominations and Remuneration Committees.

Robin Buchanan

Independent non-executive Director (66)

Appointed in March 2010.

Experience: He was the Senior Partner of Bain & Company Inc. in the UK for 12 years and remains a Senior Adviser. Most recently he served as Chairman of PageGroup plc until December 2015. He was Dean and President of London Business School. He is a chartered accountant and holds an MBA from Harvard Business School. He will retire at the AGM in May 2019.

External appointments: Non-executive Director of LyondellBasell Industries N.V. He is Chairman of the Advisory Board of Access Industries and a Director of CICAP Limited.

Committee membership: Member of the Nominations, Audit and Risk, and Remuneration Committees.

Sir Damon Buffini

Independent non-executive Director (56)

Appointed in February 2018.

Experience: He has over 25 years' experience in private equity, joining Schroder Ventures in 1988. He was Managing Partner of Permira from 1997 to 2007 before becoming Chairman. He retired in 2015 and remains a Senior Adviser.

External appointments: Chair of the National Theatre, Independent Director of the European Golf Tour and was Chair of the Government's Patient Capital Review.

Committee membership: Member of the Nominations and Remuneration Committees.

Rhian Davies

Independent non-executive Director (54)

Appointed in July 2015.

Experience: She is a chartered accountant and was a partner at Electra Partners, an independent private equity fund manager, until June 2015, and then a Senior Adviser until March 2017. She previously worked in PwC's audit and insolvency practice before joining Electra in 1992.

Committee membership: Chairman of the Audit and Risk Committee. Member of the Nominations Committee.

Rakhi Goss-Custard

Independent non-executive Director (44)

Appointed in January 2017.

Experience: She is an experienced executive in digital retailing, having spent 11 years at Amazon. Prior to joining Amazon, she held roles at TomTom and in management consultancy in the US.

External appointments: Non-executive Director of Kingfisher plc, Rightmove plc, Intu Properties plc. She will step down from the Board of Intu Properties plc at its Annual General Meeting on 3 May 2019.

Committee membership: Member of the Nominations and Audit and Risk Committees.

Philip Mallinckrodt

Non-executive Director (56)

Appointed as an executive Director in January 2009 and a non-executive Director on 1 March 2017.

Experience: He started his career at Credit Suisse First Boston in 1985. He first joined Schroders in 1994, and then worked for Citigroup from 2000 to 2002. He rejoined Schroders in 2002 as Head of Corporate Development, was Group Head of Wealth Management from 2006 to 2016, and then Group Head of Private Assets and Wealth Management until 1 March 2017.

External appointments: Non-executive Director of The Economist and a member of the International Advisory Council of the Brookings Institution.

Committee membership: Member of the Nominations Committee.

Nichola Pease

Independent non-executive Director (57)

Appointed in September 2012.

Experience: She has over 30 years' experience in the asset management and stock broking industries. She was the Chief Executive and then Deputy Chairman of J O Hambro Capital Management Ltd from 1998 until 2008, following which she held a number of roles in the charity and public sectors.

External appointments: Co-founder and Chair of Investment 2020 and a Member of the Eton College Investment Committee.

Committee membership: Chairman of the Remuneration Committee. Member of the Nominations and Audit and Risk Committees.

Bruno Schroder (Died 20 February 2019)

Non-executive Director (86)

Appointed in January 1963. An appreciation of Bruno's life is contained on page 50.

Experience: He was the great-great-grandson of John Henry Schroder, co-founder of the Schroders businesses in 1804. He joined the Schroder Group in London where he worked in the Commercial Banking and Corporate Finance divisions of J. Henry Schroder Wagg & Co Ltd.

External appointments: He was a Director of a number of private limited companies.

Committee membership: He was a Member of the Nominations Committee.

Bruno Schroder
1933 - 2019

We were very saddened to learn that Bruno Schroder, aged 86, died on 20 February after a short illness. He leaves behind his wife Suzanne and daughter Leonie, along with three grandchildren, to whom we send our condolences.

Bruno had a big influence on Schroders. Following National Service in the army, Oxford University and Harvard Business School he joined the Company in 1960 as an executive. After three years he was appointed to the Board in a non-executive capacity. During his 56 years on the Board, Bruno saw some important strategic shifts including the sale of the commercial banking business in the US in 1985 and of the investment banking business in 2000, allowing the Company to focus exclusively on asset and wealth management that is Schroders' business today.

Bruno was passionate about Schroders, unwavering in his support and always emphasising the long term over short term considerations. This long-term thinking has been key to Schroders' success in putting clients first, in growing the business organically, in developing talent and in setting the culture. He believed that, in so doing, shareholders would also benefit from the value created. He loved to travel to our overseas offices, meeting clients and employees, supporting management and reinforcing our values. He felt a strong connection to previous generations of the family who had established and grown the business as well as to the current generation.

Bruno's long experience, sound judgement and sense of humour will be sorely missed but his legacy and his values live on.

Group Management Committee and Company Secretary

Peter Harrison
Group Chief Executive (52)
Responsible for the management of the overall business and strategic development of the Group.

Richard Keers
Chief Financial Officer (55)
Responsible for financial management, risk management, tax, capital and treasury, human resources, corporate services and a range of operational areas. He is also chair of the Group Risk, Group Capital and Global Operations Committees.

Stewart Carmichael
Chief Technology Officer (53)
He joined Schroders in March 2015 as Group Head of IT. Prior to joining Schroders, he was Chief Technology Officer for JP Morgan Corporate and Investment Bank in Asia. From 1993 to 2008 he held various senior leadership positions at Merrill Lynch.

He is responsible for technology across the Group's global operations.

Karl Dasher
CEO North America and Co-Head of Fixed Income (49)
He joined Schroders in 2008 as Global Head of Product and became Head of Fixed Income in October 2008. He previously worked at SEI Investments in various investment roles, including Chief Investment Officer.

He is responsible for the Group's operations in North America and is also Co-Head of Fixed Income within the Investment division.

Lieven Debruyne
CEO Asia Pacific (49)
He joined Schroders in London in 2000 as Head of Asian Investment Product before moving to Hong Kong in 2005. Prior to joining Schroders, he worked for Mees Pierson Capital Management as Chief Investment Officer and for Fortis Investments.

He is responsible for the Group's operations in the Asia Pacific region.

Peter Hall

Global Head of Wealth Management (55)

He joined Schroders in January 2019. Over the past 20 years, he has held leadership roles in Wealth Management at UBS, Barclays and Tilney.

He is responsible for the Wealth Management division.

Emma Holden

Global Head of Human Resources (44)

She joined Schroders in 2007 as Head of Communications and Investor Relations and was appointed Global Head of Human Resources in November 2014. Prior to joining Schroders, she held various roles at Corus Group. She qualified as a chartered accountant with PwC in 1998.

She works with senior management on the issues that affect our people and the development of talent throughout the business.

Louise Hosking

Chief of Staff (60)

She joined Schroders in 2008 and was appointed Chief of Staff in 2016. Prior to joining Schroders, she formed the Scott King Partnership, an independent business consultancy. She has over 35 years' experience in management and business consultancy.

She is responsible for supporting the Group Chief Executive and management team on growing the business in the context of culture and strategy.

Johanna Kyrklund

Global Head of Multi-Asset Investments (42)

She joined Schroders in 2007 as Head of UK Multi-Asset and became Global Head of Multi-Asset Investments in 2016. She previously worked at Insight Investment and Deutsche Asset Management in various fund management and asset allocation roles.

She is Head of Multi Asset within the Investment division.

Philippe Lespinard

Co-Head of Fixed Income (55)

He joined Schroders in 2010 as Chief Investment Officer for Fixed Income. He was previously a partner at Brevan Howard and Chief Investment Officer at BNP Paribas Asset Management.

He is Co-Head of Fixed Income within the Investment division.

Richard Mountford

Head of Planning, Adviser to the Group Chief Executive (60)

He joined Schroders in 1980 as a graduate and held a number of investment and management roles before becoming Global Head of Intermediary Sales in 2008, Head of Asia Pacific in 2012 and Global Head of Product in 2016.

He is responsible for planning Schroders' organic and inorganic growth initiatives.

Charles Prideaux

Global Head of Product and Solutions (52)

He joined Schroders in October 2017. Prior to joining Schroders, he held senior roles at BlackRock including Head of the EMEA Institutional Client Business and most recently as Head of the European Active Investment Platform.

He is responsible for our Global Product and Solutions business.

Nicky Richards

Global Head of Equities (52)

She began her investment career at Schroders as a graduate in 1987. She held a number of senior roles in the firm before joining Fidelity International and then MLC Investment Management in Australia. She re-joined Schroders in 2014 as Global Head of Equities. She was appointed non-executive Chairman of RWC Partners in March 2016.

She is responsible for the Equities investment business.

Carolyn Sims

Chief Financial Officer of Wealth Management (53)

She joined Schroders in 2013 having been Chief Financial Officer of Cazenove Capital Management since 2007. Prior to that, she was Finance Director at Lazard UK between 2004 and 2007.

She is responsible for finance and operations within the Wealth Management division.

John Troiano

Global Head of Distribution (60)

He began his career at Schroders as a graduate in 1981. After holding a number of senior roles, he was appointed Deputy Head of Distribution in September 2012 and was appointed Head of Distribution in 2016.

He is responsible for the Group's Distribution function globally.

Howard Trust

General Counsel (64)

He joined Schroders in 2003 from Barclays where he held various roles including Group General Counsel and Board Secretary.

He is responsible for the Group's Compliance, Legal and Governance function.

Graham Staples

Group Company Secretary (57)

He joined Schroders in 2004. Previously, he held senior company secretarial, compliance and business development roles at NatWest, Barclays, TSB and Computershare.

He is responsible for the Group's governance framework and advising the Board and GMC on all governance matters.

Committee changes

Nicky Richards will step down from the Committee and Rory Bateman will join the Committee as Head of Equities later in March 2019.

Andrew Ross stood down from the Committee on 31 December 2018. His biography is set out in the 2017 Annual Report and Accounts.

A strong governance framework to support the firm's long term strategic development

I am pleased to introduce our corporate governance report for 2018 in which we describe our governance arrangements, the operation of the Board and its Committees and how the Board discharged its responsibilities during the year.

Governance

2018 was a year of significant change with regard to corporate governance in the UK as the Financial Reporting Council issued their revised UK Governance Code. The Wates Report on governance in private companies, including major subsidiaries within listed companies, was published in December. The audit market and the role of auditors is currently under review, and the FRC itself was the subject of a review by Sir John Kingman, who recommended the establishment of a new regulator to replace the FRC with responsibility for governance in the UK. Further changes to governance in the UK are inevitable.

The Board has followed all these developments closely, receiving regular updates on how proposals might impact our own governance arrangements and what changes we might need to make. We have not had to change our approach to any significant degree, the emphasis being on articulating better what we do rather than introducing fundamental change, and we continue to believe that a strong corporate governance framework is vital to good decision making and the continued success of the Company.

We have a strong Board of experienced Directors with diverse backgrounds and skills and a majority of independent non-executive Directors. During 2018 the Board focused on succession planning for Robin Buchanan who will step down at the Annual General Meeting in May after nine years on the Board, and on succession to Bruno Schroder. We are pleased that Deborah Waterhouse and Leonie Schroder will join the Board on 11 March. The majority of non-executive independent Directors continues and 45 per cent of our Board will be comprised of women.

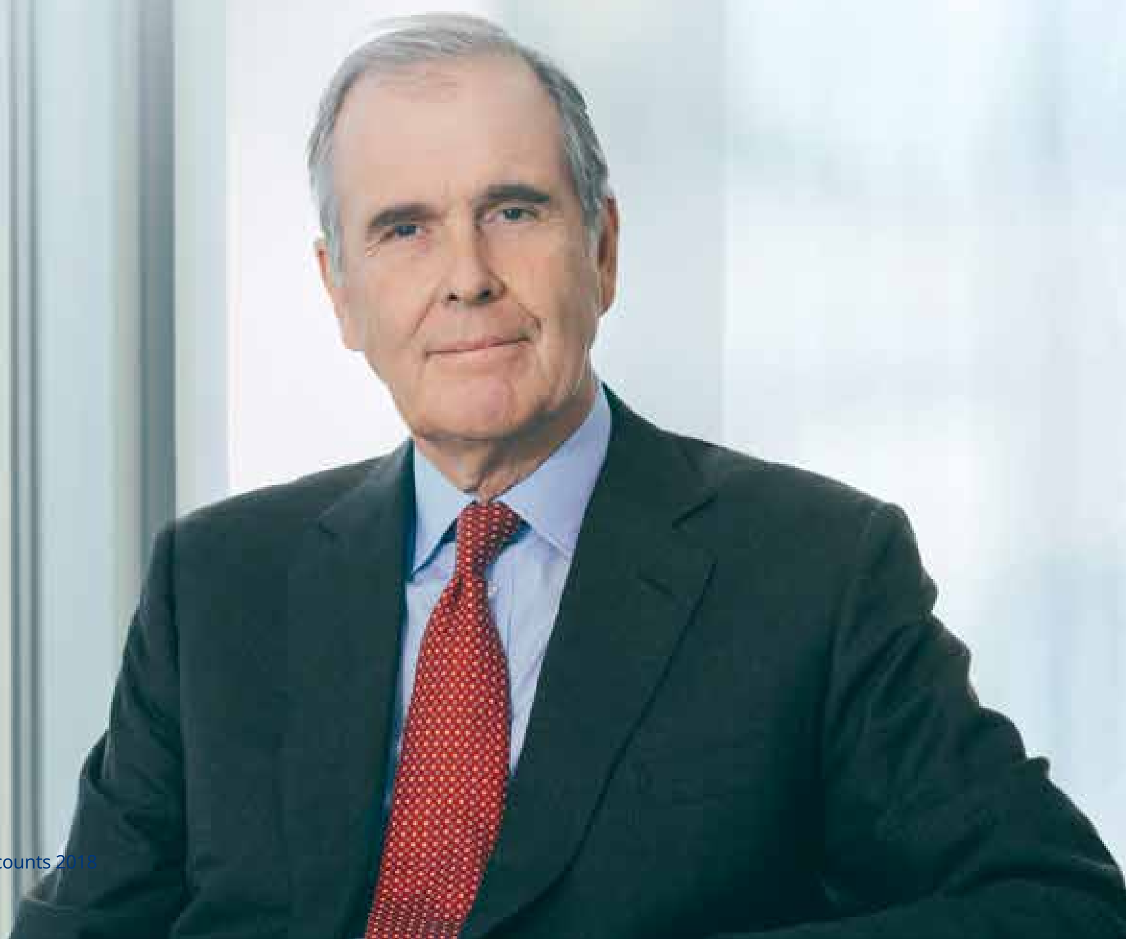
During 2018 the Board focused principally on strategic opportunities in our core business and in diversifying growth areas. In this context the Board was actively engaged in the implications for Schroders for the joint venture we announced with Lloyds Banking Group.

We also focussed on talent management and development and the firm's culture, both of which are key to success and, particularly as the Company has grown rapidly in recent years, the Board's engagement in these areas will continue to be at a high level.

I would like to thank all my colleagues on the Board for their contribution during the year.

Michael Dobson
Chairman

6 March 2019



Directors are expected to attend all meetings of the Board and Committees on which they serve. Details of Board and Committee attendance are included in the table below.

2018 Board and Committee meeting attendance	Board[1]	Audit and Risk Committee	Remuneration Committee[2]	Nominations Committee
Michael Dobson	6/6			7/7
Executive Directors				
Peter Harrison	6/6			
Richard Keers	6/6			
Non-executive Directors				
Ian King[3]	6/6		6/7	7/7
Lord Howard[4]	2/2	1/1	2/2	2/2
Robin Buchanan[5]	5/6	4/5	7/7	6/7
Sir Damon Buffini[6]	6/6		1/1	6/6
Rhian Davies	6/6	5/5		7/7
Rakhi Goss-Custard[7]	6/6			7/7
Philip Mallinckrodt[8]	5/6			7/7
Nichola Pease	6/6	5/5	7/7	7/7
Bruno Schroder[9]	4/6			6/7

1. There were five scheduled Board meetings held during the year and one additional Board meeting in April to discuss the acquisition of Algonquin.
2. There were four scheduled Remuneration Committee meetings held during the year and three additional meetings outlined on page 74.
3. Ian King was unable to attend one of the unscheduled Remuneration Committee meetings due to a prior commitment which could not be moved.
4. Lord Howard retired from the Board at the 2018 AGM.
5. Robin Buchanan was unable to attend the Audit and Risk Committee in September, the Nominations Committee and the Board meeting in November due to prior commitments.
6. Sir Damon Buffini was appointed to the Board and Nominations Committee on 1 February 2018 and as a member of the Remuneration Committee on 29 November 2018.
7. Rakhi Goss-Custard was appointed as a member of the Audit and Risk Committee on 29 November 2018. There were no meetings of the Committee in 2018 after her appointment.
8. Philip Mallinckrodt was unable to attend the Board meeting in July due to a family commitment.
9. Bruno Schroder was unable to attend two Board meetings and a Nominations Committee meeting due to illness.

Compliance with the 2016 UK Corporate Governance Code (Code)

Throughout 2018, the Company has applied the main principles and provisions of the Code with the exception of A.3.1 as Michael Dobson was not independent on appointment as Chairman in April 2016. The Chairman's appointment was fully explained in the 2015 Annual Report and Accounts. There has been an absolute majority of independent Directors on the Board throughout 2018.

Copies of the Code can be obtained from the FRC's website at frc.org.uk.

The Board and its committees

The Board has collective responsibility for the management, direction and performance of the Company. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. In discharging its responsibilities, the Board takes appropriate account of the interests of our wider stakeholders including clients, employees, external service providers, regulators and society as a whole. Certain decisions can only be taken by the Board, including deciding on the Group's overall strategy, significant new business activities and the strategy for management of the Group's investment capital. These are contained in the Schedule of Matters Reserved to the Board, which can be found on the Company's Investor Relations website, schroders.com/ir.

The Board has delegated specific responsibilities to Board committees, notably the Nominations Committee, Audit and Risk Committee, and the Remuneration Committee. The minutes of committee meetings are made available to all Directors. At each Board meeting, the Chairman of each committee provides the Board with an update of the work currently being carried out by the committee they chair. Membership of the Committees is detailed in each committee report. The committees' terms of reference can be found on the Company's Investor Relations website.

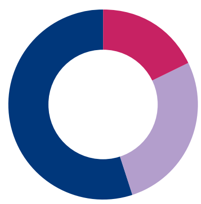
During the year, the Board established a Disclosure Committee, which meets as and when required to determine whether a market announcement is required in respect of any inside information. There was one meeting of the Disclosure Committee in 2018.

There is also a Chairman's Committee whose membership is comprised of the non-executive Directors. The Chairman's Committee is not a committee of the Board and serves as an informal forum for the discussion of such matters as the Chairman considers appropriate. In 2018, the Chairman's Committee considered Board evaluation, the performance of the Group Chief Executive, the investor perception report, acquisition opportunities and succession.

Following the 2017 external board evaluation, which is explained further on page 57, there have been four Board calls during the year. These calls are used as an additional avenue for communication that supplements the formal Board meeting programme.

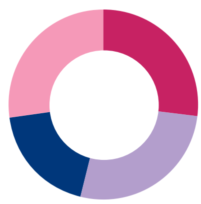
Board composition at 31 December 2018

Board composition



Executive Directors	18%
Non-independent non-executive Directors	27%
Independent non-executive Directors	55%

Length of tenure



0-3 years	27%
3-6 years	27%
6-9 years	19%
9+ years	27%

The Board believes that it operates most effectively with an appropriate balance of executive Directors, independent non-executive Directors and Directors who have a connection with the Company's principal shareholder group. No individual or group of individuals is in a position to dominate the Board's decision-making.

The Nominations Committee report contains more detail on our approach to Board Composition. Biographies of each of the Directors are set out on pages 48 and 49.

Independence

The Board has an absolute majority of independent Directors. All the non-executive Directors are independent in terms of character and judgement.

Michael Dobson, as former Chief Executive, is not considered independent under the Code. Philip Mallinckrodt is not considered independent as he is a former executive Director, a member of the principal shareholder group and has served on the Board for more than nine years. The Nominations Committee believes that their judgement and experience continues to add value to the Board and the Group. The Board will therefore recommend their re-election at the 2019 AGM.

Bruno Schroder was not considered independent as he was a member of the principal shareholder group and had served on the Board for more than nine years at the time of his death on 20 February 2019.

Director appointments and time commitment

The rules providing for the appointment, election, re-election and the removal of Directors are contained in the Company's Articles of Association and remain unchanged from the previous year.

The Company has decided that all Directors should retire and stand for re-election annually, unless they are retiring from the Board. Details of the Directors' length of tenure are set out on page 55.

Non-executive Directors' letters of appointment stipulate that they are expected to commit sufficient time to discharge their duties. The Board has adopted a policy that allows executive Directors to take up one external non-executive directorship. Non-executive Directors are required to notify the Chairman before taking on any additional appointments. The Board is satisfied that all Directors continue to be effective and demonstrate commitment to their respective roles.

For details of executive Directors' service contracts, termination arrangements and non-executive Directors' letters of appointment, please refer to the summary of our Directors' Remmuneration policy at schroders.com/directors-remuneration-policy.

Governance framework

Board
The Board is responsible for the management, direction and performance of the Company.

Chairman
The Chairman is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. He is responsible for creating an environment for open, robust and effective debate. The Chairman is also responsible for ensuring effective communication with shareholders and other stakeholders.

Group Chief Executive
The Group Chief Executive is responsible for the executive management of the Company and its subsidiaries. He is responsible for proposing the strategy for the Group and for its execution. He is assisted by members of the GMC in the delivery of his and the Board's objectives for the business.

Senior Independent Director (SID)
The SID's role is to act as a sounding board for the Chairman, oversee the evaluation of the Chairman's performance and serve as an intermediary for the other Directors if necessary. He is also available as an additional point of contact for shareholders and other stakeholders should they wish to raise matters with him rather than the Chairman or Group Chief Executive.

Non-executive Directors
Non-executive Directors are expected to provide independent oversight and constructive challenge to the executive Directors on issues of strategy, performance and resources including key appointments and standards of conduct.

Nominations Committee
Responsible for reviewing and recommending changes to the composition of the Board and its Committees.

Chairman: Michael Dobson

See page 60 for the Committee Report.

Audit and Risk Committee
Responsible for overseeing financial reporting, risk management and internal controls and external audit.

Chairman: Rhian Davies

See page 62 for the Committee Report.

Remuneration Committee
Responsible for the remuneration strategy for the Group and the remuneration policy for Directors and overseeing remuneration firm-wide.

Chairman: Nichola Pease

See page 68 for the Committee Report.

Group Management Committee
The GMC comprises the senior management team and is the principal advisory committee to the Group Chief Executive.

Group Capital Committee
Assists the Chief Financial Officer in the deployment of operating, seed, co-investment and investment capital.

Group Risk Committee
Assists the Chief Financial Officer in discharging his responsibilities in respect of risk and controls.

Key areas of focus during the year

At each scheduled Board meeting the Board discusses reports from the Group Chief Executive on the performance of the business, the Chief Financial Officer on financial performance, the Company Secretary on governance developments, and, where relevant, a report from each of the Board Committees. In addition to these regular matters, specific areas of focus by the Board during 2018 included:

Meeting dates	Key areas considered
February	– Equities strategy – Potential acquisitions – Technology strategy – Annual Report and Accounts 2017 and dividend proposal
May	– Strategic update, including clients, solutions, competitors and risks, and the evolution of the core business – Investing for growth – China strategy – Brexit
July	– Corporate responsibility strategy – Front office technology platform – Strategic partnership with LBG – Half-year results and dividend proposal – ICAAP and ILAAP
September	– Strategic partnership with LBG – Group Recovery Plan and Resolution Pack – Fixed income strategy – Acquisition integration
November	– Europe strategy – People strategy – Wind down plan – Remuneration strategy – 2019 budget

Throughout the year, the Board continued to focus on the development of our overall strategy for the Group and the key individual drivers of growth over the next five years. As part of this, the Board had a two-day off-site strategy meeting in May. Particular focus was given to the competitive environment, our clients and their needs, the evolution of our core business, investing for growth opportunities, our capital strategy and an assessment of our strategic risks.

There was an unscheduled Board meeting in April 2018 to approve the acquisition of Algonquin Management Partners S.A.

Board induction and training

The Group Company Secretary supports the Chairman and Group Chief Executive in providing a personalised induction programme to all new Directors. This helps to familiarise them with their duties and the Group's culture and values, strategy, business model, businesses, operations, risks and governance arrangements.

Following Sir Damon Buffini's appointment in February 2018, a comprehensive induction programme was developed and is ongoing. The induction process involved:

- Meeting all members of the GMC to gain an insight into and an understanding of the opportunities and challenges facing their area of responsibility
- One-to-one meetings with other senior management across the Company, including from the first, second and third lines of defence, to understand the Group's internal control and risk management framework

Sir Damon Buffini and Rakhi Goss-Custard were provided with committee-specific briefings following their respective appointments to the Remuneration Committee and Audit and Risk Committee.

During the year, the induction process has been reviewed and updated and tailored to ensure it remains appropriate for the needs of newly appointed directors.

The Board believes that the ongoing development and briefing of Directors is an important aspect of the Board's agenda. Briefing sessions are arranged each year which, during 2018, included presentations on our Fixed Income business, our acquisition of Adveq in 2017, our investment in Benchmark Capital in 2016 and the findings from the investor perceptions study. Members of the Board Committees also receive regular updates on technical developments at scheduled Committee meetings.

2017 Board evaluation (external)

The Board supported an externally facilitated evaluation in 2017, one year earlier than required by the Code. Independent Board Evaluation were selected to facilitate the evaluation. They have no other connection with the Company.

The 2017 Board evaluation identified a number of recommendations to maintain and improve the Board's effectiveness:

Recommendations	Actions taken/progress
Having Board update calls between Board meetings	– During 2018 there were four Board calls: in January, April, October and December. These calls are used to supplement the formal Board meeting programme and provide an additional avenue for communication.
Reviewing recent acquisitions more systematically	– The review of acquisitions and their integration into the Group has been incorporated into the agenda for the Board and Board briefings, with update papers measuring both integration and continued alignment with strategic goals.
Standardising Board papers further	– The Company has worked with Board Intelligence to further refine Board paper standards and structures. This has led to a well-integrated board paper process that has improved the flow and quality of information to the Board and its Committees to facilitate better decision making.
Developing the induction process further to help new Directors, in particular those from outside the financial services sector	– A review of the induction process against market practice has been undertaken during the year, with additional briefing sessions made available to new Directors in specialist areas. The review has also considered how ongoing briefings and information can be made more readily available.
Having more informal time outside of Board meetings to strengthen Board relationships	– Board dinners are held the evening before most Board meetings. At the May offsite meeting the Board was joined by members of the GMC for parts of the formal strategy discussion and also for the informal networking and Board dinner.

2018 Board evaluation

The 2018 Board evaluation was undertaken internally. The Chairman and Company Secretary met with each Director to discuss a number of questions regarding the effectiveness of the Board, its principal committees and individual Directors. The overall conclusion was that the Board was effective and focussed on the right things. The executive team was felt to be executing the strategy well. The committees were seen as effective in discharging their responsibilities. Succession planning had been handled well. In addition to strategy, areas for focus included broadening and deepening the non-executives' knowledge of the industry and our business outside the formal Board meetings and providing further opportunities for non-executive Directors to meet with management following the successful offsite with the GMC in 2018.

As part of the evaluation process, Directors gave feedback on their colleagues and the Chairman wrote to each Director with a summary. Ian King led the evaluation of the Chairman's performance through a discussion with the whole Board. He then provided the Chairman with a summary of the feedback.

Priorities for 2019

In light of the recommendations of the 2018 evaluation and following the 2019 process, the Board agreed a set of high-level objectives for 2019 based on the core responsibility of delivering strong financial performance. These include:

- Our growth strategy for all parts of the business
- Talent development and succession plans
- Capital
- Major risks to our strategy
- Culture, employee engagement and compensation
- More opportunities to meet with senior management

Group Company Secretary

All Directors have access to the advice and services of the Group Company Secretary and can arrange through him to receive professional advice independently of the Company, at the Company's expense.

Shareholder engagement

The Group operates a complete investor relations programme. In 2018, the Group Chief Executive and Chief Financial Officer participated in investor roadshows in the UK and North America. They met with a number of our major shareholders in both share classes to discuss our recent results and strategy for driving future growth. Investor Relations also led roadshows in continental Europe and Schroders was represented at a number of industry conferences. The Group is also planning a second capital markets day for the investor community in the first half of 2019, following the first event in 2017.

To ensure that the Board developed and maintained an understanding of the views of our major shareholders, we commissioned an independent investor perception study in 2018. A third party provider conducted in-depth interviews with 18 of the Company's largest shareholders in the UK, North America and Asia Pacific. Their interviews covered shareholders' views on the Group's results, strategy, future prospects, competitive positioning and quality of senior management. Their findings were presented to the GMC and the Board.

The primary means of communicating with shareholders is through the Annual General Meeting, the Annual Report and Accounts, half-year results and related presentations. All of these are available on the Company's website and the Annual Report and Accounts is posted to all shareholders who elect to receive it. The Group's website also contains information on the business of the Company, Corporate Governance, all regulatory announcements, key dates in the financial calendar and other important shareholder information.

The AGM is an opportunity to meet with shareholders, hear their views and answer their questions about the Group and its business. All resolutions are voted on by way of a poll. This allows the Company to count all votes rather than just those of shareholders attending the meeting. All resolutions are voted on separately and the final voting results are published as soon as practicable after the meeting. Together with the rest of the Board, the Chairmen of the Audit and Risk, Remuneration and Nominations Committees will be present to answer questions. The 2019 AGM is to be held on Thursday 2 May 2019 at 11.30 a.m.

Directors' duties – compliance with s172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires directors to promote the success of the company for the benefit of the members as a whole and in doing so have regard to the interests of stakeholders including clients, employees, suppliers, regulators and the wider society in which it operates.

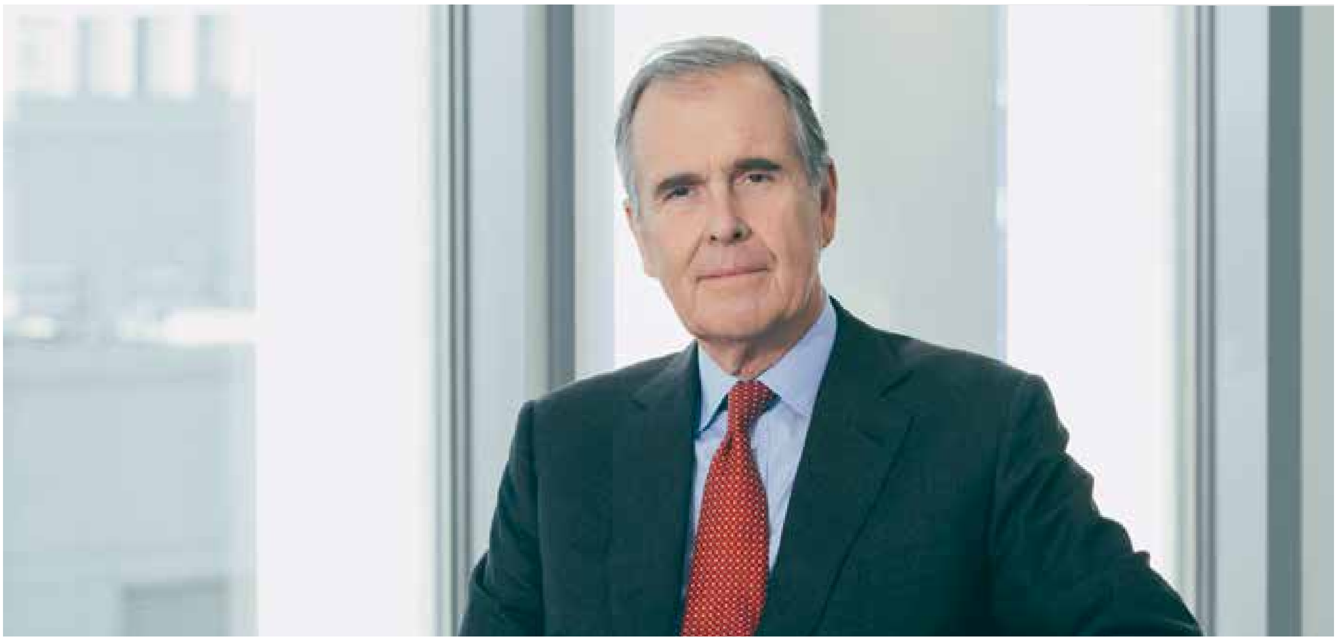
On page 59, we have set out how we have engaged with our key stakeholders and how the Board has considered their interests during the year.

Stakeholder interests

Stakeholders	Why they are important	How we engage and consider their interests
Clients See page 13	Clients are the central focus of our business. The Group's resilience and ongoing success is built upon an ability to understand clients' needs and respond to them. This allows us to anticipate how these needs will evolve and to construct products that meet their financial goals and build future prosperity.	– The client service teams build lasting relationships with current and potential clients to develop a clear view of client objectives and how these will evolve. – A strategic goal of the Group is to get closer to the ultimate investor in our products, which was a key consideration of the strategic partnership with LBG. We view the strategic partnership as highly beneficial for the Group's clients and investors in our products. – A key driver behind the Board's consideration of the acquisition of Algonquin, in April 2018, was the ability to integrate this into the existing private assets business and increase the product range available to clients.
Society See page 35.	We recognise the responsibility we have to wider society and other key stakeholders. Schroders is a principle-led business and we believe that demanding high levels of corporate responsibility is the right thing to do.	– We aim for high standards of governance across the Group. As an asset manager, we frequently engage with companies on environmental, societal and corporate governance concerns. – The Board agreed the Group's approach to corporate responsibility, with a Corporate Responsibility Committee established with key stakeholders from our businesses. This Committee reports to the Board on the Group's Corporate Responsibility strategy and reporting. – We are proud to support the communities in which we operate and have a long history of contributing through donations and employee time. The Board receives an update on the Group's activities in corporate responsibility, which have four pillars; clients, people, community and the environment.
External Service Partners See page 36.	We rely on the use of external service partners to supplement our own infrastructure benefiting from the expertise our partners provide. This enables access to lower costs for service delivery.	– We engage pro-actively with our external service partners and have a supplier code of conduct that sets out the high standards and behaviours we expect from them. The Code requires that the prohibition of forced labour and human trafficking, together with the ethical and responsible sourcing of goods or services, are incorporated into the sourcing governance and execution processes of our suppliers. – The Audit and Risk Committee reviews the Group's material outsource providers annually to ensure that the strategy for the use of outsourced suppliers remains consistent with our objective of using service partners to add value to supplement our own infrastructure. – The oversight of outsource service providers and the transition to the new front office technology platform has been a key area of focus for both the Audit and Risk Committee and the Board in 2018 and will continue to be in 2019.
People See page 31.	Our people are central to the ongoing success of the business. We are proud of our reputation as an employer of choice. Our people strategy aims to develop an agile workforce as we continue to attract, retain, develop and motivate the right people for our current and future business needs.	– We engage through a variety of channels including management briefings, videos, an internal magazine and presentations by the Group Chief Executive to discuss progress made by the business, together with future objectives and challenges. We also conduct an annual employee opinion survey and have invested in our corporate communications to help employees understand and deliver our strategic objectives. – The Board considers the Group's employees to be an important stakeholder and the consideration of their interests forms part of many Board discussions. The Board discussed the results of the 2018 employee opinion survey and agreed an action plan to address the issues raised. – Ian King, the SID, is the designated non-executive director responsible for gathering workforce feedback, a key requirement of the 2018 Code. As part of this, Ian will attend global employee forum meetings to hear directly from employees on the issues that concern them.
Shareholders See page 21	We rely on the support and engagement of our shareholders to deliver our strategic objectives and grow the business. Our shareholder base supports the long-term approach we take in the management of our business.	– The Board considered the full-year and half-year results. Both the Group Chief Executive and Chief Financial Officer presented them to investors. – The Board answered questions around strategy and our impact on society at the 2018 AGM. – Outside of results presentations, meetings are held with investors throughout the year, with engagement from both executive and non-executive directors. – We will hold a capital markets day in 2019 to give investors the opportunity to better understand our strategy and engage with senior management. – We commissioned an independent investor perception study. Through interviews with a number of major shareholders, we gathered their views on the Group's strategy, results and competitive position. The findings were presented to the Board.
Regulators See page 38	As a global business, we build positive relationships with our regulators around the world. Regulators provide key oversight of how we run our business. Our clients' best interests are served by our working constructively with regulators.	– We regularly engage with regulators and policymakers to ensure that our business understands and contributes to evolving regulatory requirements. Senior management hold regular meetings to foster good working relationships. – The Audit and Risk Committee receives regular reports from these meetings that cover the Group's regulatory processes and procedures and its relationship with regulators around the world. The reports also outline the material changes in the regulatory environment in which the Group operates. In 2018, these included the Group's implementation of GDPR, MiFID II, PRIIPs and the possible impacts of Brexit.

Nominations Committee report

Ensuring diversity in skills and experience



Committee membership (meeting attendance is on page 55)	
Michael Dobson (Chairman)	Lord Howard (until April 2018)
Robin Buchanan	Ian King
Sir Damon Buffini	Philip Mallinckrodt
Rhian Davies	Nichola Pease
Rakhi Goss-Custard	Bruno Schroder

I am pleased to present the Nominations Committee report for 2018.

Responsibilities of the Nominations Committee

The Committee is responsible for keeping under review the composition of the Board and its Committees and for ensuring appropriate executive and non-executive Director succession plans are in place.

The Committee's terms of reference are available on the Company's Investor Relations website at schroders.com/ir.

Biographical details and experience of the Committee members are set out on pages 48 and 49.

Activities of the Nomination Committee

As we stated in our last annual report, our priorities in 2018 were Board composition and succession planning for non-executive Directors, including a successor to Robin Buchanan who will stand down at the 2019 AGM after nine years on the Board. Senior management succession was discussed by the full Board at the November meeting.

At our meeting in May, we discussed the required skills and experience for potential non-executive candidates. We were looking for sound business judgement, a clear ability to contribute to our strategic discussions and experience of leading an international business.

Following that meeting, we agreed the role profile and appointed MWM Consulting to conduct the search for potential candidates. MWM Consulting is a signatory to the Voluntary Code of Conduct on Gender Diversity and is independent of Schroders.

After discussing an initial long list of candidates, I interviewed five candidates, four of whom went forward to meet the Nominations Committee and the Group Chief Executive. On 6 March 2019, the Board approved the appointment of Deborah Waterhouse, who is Chief Executive of ViiV Healthcare. Deborah will join the Board on 11 March 2019 and we look forward to benefiting from her experience as CEO of a major international business.

In addition to Board succession, the Committee also considered the composition of the principal Board Committees, particularly in the context of Robin Buchanan's impending retirement. At our meeting in November 2018, the Committee recommended to the Board that Damon Buffini should join the Remuneration Committee and Rakhi Goss-Custard join the Audit and Risk Committee. The Board supported both these recommendations and the appointments were effective 29 November 2018.

Bruno Schroder died on 20 Feburary, aged 86 after a short illness. For more than 40 years the Board has included two Directors with a connection to the principal shareholder group. The Board has previously stated that it operates most effectively with an appropriate balance of executive Directors, independent non-executive Directors and Directors with a connection to the principal shareholder group.

Policy on board diversity

The Board recognises the importance of diversity and that it is a wider issue than gender. We believe that members of the Board should collectively possess a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the Group. The Nominations Committee considers diversity as one of many factors when recommending new appointments to the Board.

As at 31 December 2018, 27% of the Board comprised women. With the appointments of Deborah Waterhouse and Leonie Schroder, and the retirement of Robin Buchanan, 45% of the Board will comprise women.

We also endeavour to only use the service of executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity.

Bruno Schroder was anticipating retiring from the Board at the AGM on 2 May 2019. Consequently, the Nominations Committee gave consideration in 2018 to the model for recognising in the Board composition the interests in the Company of the principal shareholder group, as well as to his succession. We considered alternative models and, on behalf of the Committee, the Senior Independent Director and I consulted with representatives of the trustees of the family trusts and other members of the principal shareholder group. The Committee concluded that the current model continues to be in the best interests of the Company and all its shareholders, whereby two family members serve on the Board as non-independent, non-executive Directors, alongside a majority of independent non-executive Directors and the two executive Directors. In February 2019, prior to Bruno Schroder's death, the Committee received from the trustees of the family trusts controlling 44.75% of the Company's ordinary shares a proposal that Leonie Schroder succeed Bruno Schroder on the Board. Nichola Pease and I interviewed Leonie Schroder and were satisfied that she would make a valuable contribution, act in the best interests of all shareholders and provide a useful communications channel with the principal shareholder group. After careful consideration, the Committee recommended the appointment of Leonie Schroder to the Board and this was supported by all Directors. Leonie will join the Board also on 11 March 2019.

As part of the process, the Board engaged with a number of major institutional shareholders. All those shareholders indicated their support for the proposal to appoint Leonie Schroder, given the overall mix of skills on the Board and the majority of independent non-executive Directors. Following the changes announced, the Board will continue to comprise 11 Directors, six of whom are independent non-executive Directors.

Directors standing for re-election

The Committee agreed that all Directors standing for re-election continue to make a valuable contribution to the Board's deliberations and recommends their re-election.

As Nichola Pease and Philip Mallinckrodt have served on the Board for more than six years and nine years respectively, the proposal for their re-election was given particular consideration. The Committee recommends their re-election. As required by the UK Listing Rules, the appointment of independent Directors must be approved by a simple majority of all shareholders and by a simple majority of the independent shareholders. Further details are set out in the 2019 Notice of AGM.

Diversity

Diversity goes beyond gender or ethnic background. We look for diversity of skills, experience and background, which is important for an effective Board and management team, and this will continue to be the primary criterion by which we select candidates for the Board.

The Board fully understands the importance of increasing gender diversity and has committed to have a minimum of 33% of Board positions held by women by 2020. Following the changes announced, 45% of the Board will comprise women. We endeavour only to use the services of executive search firms which have signed up to the Voluntary Code of Conduct on Gender Diversity. The full Board diversity policy is above and also on our website.

Evaluating the performance of the Committee

The internal evaluation process for 2018 is set out in detail on page 58. As part of that process I discussed with each Director how the Committee had performed over the year. The overall view was that the Committee had established a clear and effective process for succession for independent non-executive Directors and for Directors with a connection to the principal shareholder group.

Priorities for 2019

During 2019, we will continue to review Board composition and succession planning for senior management and non-executive Directors.

Michael Dobson
Chairman of the Nominations Committee

6 March 2019

Responding to new audit governance challenges and changes

Committee membership
(meeting attendance is on page 55

- Rhian Davies (Chairman)
- Robin Buchanan
- Rakhi Goss-Custard (from November 2018)
- Lord Howard (until April 2018)
- Nichola Pease

I am pleased to present the Committee's report for the year ended 31 December 2018. The Committee plays a key role in overseeing the integrity of the Company's financial statements and robustness of the Group's systems of internal control and financial and risk management systems.

The Committee recognises its role in promoting the integrity of the Group's financial results and high-quality reporting. At the 2018 AGM, Ernst & Young (EY) were appointed as the Group's external auditor and we have welcomed the fresh insights, challenges and perspectives they have brought to the 2018 Annual Report and Accounts and to our discussions throughout the year. The smooth transition is a testament to the work undertaken by the Group and the professionalism of EY and the outgoing external auditor, PwC.

We welcome the Kingman review and the Competition and Markets Authority's efforts to improve audit quality and to reduce the risk of further reduction in the choice of auditor and we fully support the objective of increasing confidence in financial reporting through a focus on transparent reporting by companies, along with the assurance of a high-quality audit.

The Committee plays an important role in reviewing culture and conduct risk in the Group, which seeks to promote a client-centric culture. We have continued to oversee the development of our conduct programme designed to identify emerging trends and heightened risk issues. Conduct and culture risk is informed by a number of metrics, including conduct risk reports, employee opinion surveys and oversight by the second line of defence functions. Although there is no overall standard industry approach, we believe that the Group's arrangements are well-positioned against regulatory expectations.

During the year, the Committee continued to focus on its responsibility for oversight of the Group's control environment and system of internal controls and the Group's management of risk and compliance related activities. As part of this work, the Committee considered the Group's ICAAP, ILAAP, wind down plan, risk appetite and various operational stress scenarios to support the Board's conclusions on the viability statement set out on page 42.

I would like to welcome Rakhi Goss-Custard as a member of the Committee. Rakhi replaces Robin Buchanan, who will retire from the Board at the 2019 AGM. On behalf of the Committee, I would like to thank Robin for his invaluable contribution over the past nine years.

I am grateful to all members of the Committee for their support in 2018 and I look forward to continuing our work in 2019.

Rhian Davies
Chairman of the Audit and Risk Committee

6 March 2019

Responsibilities of the Committee

The principal role of the Committee is to assist the Board in fulfilling its oversight responsibilities in relation to financial reporting, financial controls and audit, risk and internal controls.

All members of the Committee are independent non-executive Directors. Biographical details and the experience of Committee members are set out on pages 48 and 49. The Board has determined that, by virtue of their previous experience gained in other organisations, members collectively have the competence relevant to the sector in which the Group operates. In addition, the Board considers that Rhian Davies, a chartered accountant, has the recent and relevant financial experience required to chair the Committee.

The Chairman, Group Chief Executive, Chief Financial Officer and Bruno Schroder were invited to attend meetings by the Chairman of the Committee. Other regular attendees who advised the Committee were the Group Financial Controller, the heads of Compliance, Risk and Internal Audit and the General Counsel. Other members of senior management were also invited to attend as appropriate. The Chairman of the Wealth Management Audit and Risk Committee (WMARC), who is an independent non-executive Director of Schroder & Co. Limited, attended one meeting and provided a report to each meeting on matters related to the Wealth Management business.

Representatives from EY, including Julian Young, the new lead audit partner for the 2018 financial year, attended all of the Committee's scheduled meetings. During 2018, two private meetings were held with the external auditor without management present. Private meetings were also held with the Chief Financial Officer and the heads of the Compliance, Risk and Internal Audit functions. These meetings provided an opportunity for any matters to be raised confidentially.

The Committee's primary activities are the oversight of:

Financial reporting, financial controls and audit	Risk and internal controls
– The content and integrity of financial and Pillar 3 reporting – The appropriateness of accounting estimates and judgements – The effectiveness of the financial control framework – The effectiveness of the external auditor – The independence of the external auditor – Recommending to the Board the appointment of the external auditor	– The Group's risk and control framework, including the Group's whistleblowing procedures and the Head of Financial Crime Risk's reports – The Group's ICAAP, ILAAP, wind down plan, risk appetite and the recovery plan and resolution pack – The Group's regulatory compliance processes and procedures and its relationships with regulators and compliance monitoring – The Group's Internal Audit function – Emerging and thematic risks that may have a material impact on the Group's operations in the future

Key areas of focus during the year

The table below summarises the key issues that the Committee considered at each of its meetings during 2018. At every meeting, the Committee receives updates from Internal Audit, Compliance, Legal and External Audit covering ongoing projects, key issues that have arisen since the prior meeting and reviews a dashboard of metrics in place for key risks.

Meeting	Financial reporting, financial controls and audit	Risk and internal controls
February	– Annual Report and Accounts, including financial estimates and judgements – Viability statement – Pillar 3 disclosures	– Report from WMARC – Key risks and risk management – Internal audit control framework review – Financial crime review
May	– External audit plan, including significant audit risks (being improper recognition of revenue and cost of sales)	– ICAAP and ILAAP – Business continuity – Oversight of outsource providers – Privileged access review
July	– Half-year results, including financial estimates and judgements	– Key risks – Risk and control assessments
September	– Tax strategy – Client on-boarding processes	– Conduct and culture risk oversight – Group recovery plan and resolution pack – Financial Crime and AML review
November	– Financial controls – Accounting policies and judgements including future accounting developments – Policies for safeguarding the independence of the external auditor	– Information security and technology risk – Cyber security – Wind down plan – Key risks – Legal risk – Insurance review – 2019 Internal Audit and Compliance monitoring plans

Financial reporting, financial controls and external audit

The Committee's responsibilities include reviewing the half-year and annual results and the Annual Report and Accounts before recommending them to the Board for approval. The Committee's responsibilities also include oversight of the effectiveness of the external audit, the independence of the external auditor and recommending to the Board the appointment of the external auditor.

At the AGM in April 2018, shareholders approved the appointment of EY, to replace PwC as external auditor. Since the conclusion of the audit tender process in 2016, the Committee has overseen the transition of the external audit. The audit tender process, the transition process and the Committee's work during 2018, with respect to the auditor, was primarily focused on ensuring that the Committee selected a firm that would provide robust challenge over the production of the Group's financial statements and that the audit would be effective and of high-quality from the first year. Providing oversight of the external auditor also supports the Committee's responsibilities with respect to the content and integrity of financial reporting, the appropriateness of accounting estimates and judgements, and the effectiveness of the financial control framework.

Significant accounting estimates and judgements

The preparation of the financial statements requires the application of certain estimates and judgements. The material areas of either estimation or judgement are set out in the presentation of the financial statements on page 150. Each of these areas are considered by the Committee based on reports prepared by Finance. EY consider each estimate and judgement and present their conclusions to the Committee. The significant estimates and judgements considered in respect of the 2018 financial statements and the agreed action by the Committee are summarised below.

Significant estimates and judgements	Action and conclusion
Acquisition of subsidiaries and associates in 2018	
The Group acquired a number of subsidiaries and associates during 2018. Significant judgements were made to estimate the fair value of the acquired intangible assets and the deferred consideration in relation to the acquisition of Algonquin. The judgements were mainly in respect of the estimation of forecast returns from the business and the applicable discount rate, which were used to determine both the contingent consideration component of the purchase price and the acquired intangible asset. The other acquisitions did not require any significant estimate or judgement in the context of the Group's results.	The Committee considered a report from Finance that set out the principal valuation assumptions and fair values in respect of Algonquin. The Committee considered the assumptions and the sensitivity of the fair values to changes in the assumptions. EY also provided the Committee with a report summarising the findings from their audit of the acquisition accounting for Algonquin. The Committee discussed the findings with EY who confirmed they had not identified any significant matters to draw to the Committee's attention. Once the Committee was satisfied with the proposals, they concluded that the fair value estimates were appropriate.
Please refer to Note 28 in respect of estimates and judgements made in respect of acquisitions made in 2018.	
Carried interest	
The Group recognises carried interest from its private assets businesses. The revenue stream is dependent on the future value of certain investments that may not crystallise until an uncertain date in the future. The Group is contractually committed to make payments to various parties, including as part of deferred consideration, based on a relevant proportion of carried interest received. For financial reporting purposes, the Group is required to estimate the value of carried interest receivable, determined based on the requirements of IFRS 15 Revenue from Contracts with Customers; and the fair value of amounts payable that relate to carried interest, determined based on the requirement of IFRS 9 Financial Instruments. The valuation bases for the significant balances in 2018 were materially consistent with those applied in the prior year and comprised the fair value of the relevant assets on which carried interest may be earned, growth rates, the expected realisation dates and the discount rates. Following the implementation of IFRS 15 Revenue from Contracts with Customers, the amounts recorded as receivable were constrained through applying adjustments as explained in note 2.	The Committee received a report from Finance, which reviewed the valuation bases for estimating the amounts receivable and payable in respect of carried interest. The Committee considered the judgement applied in determining the principal assumptions and the sensitivity of the relevant balances to those assumptions. The Committee discussed the accounting for carried interest with EY and considered the findings from their audit work. Once the Committee was satisfied with the judgements applied, the estimated carrying values of each component were approved. Due to the increase in value of carried interest balances at the year end, the Committee considered the additional disclosures presented in 2018 and concluded that they were appropriate.
Please refer to note 2 for the estimates and judgements made in respect of carried interest receivable and amounts payable in respect of carried interest. An explanation of carried interest is set out on page 26.	
Pension Schemes	
The Group's principal DB pension scheme is in respect of certain UK employees and former employees (the 'Scheme'). The Scheme was closed to future accrual in 2011 and, as at 31 December 2018, had a significant surplus. The pension obligation, which was valued as £795.6 million at the year end, is estimated based on a number of assumptions, the most significant relating to mortality rates. The other assumptions used to determine the DB pension surplus are significantly less judgemental and the valuation of plan assets is mainly based on securities with readily available market values.	The finance report to the Committee included the key financial assumptions, which had been applied by the independent qualified actuaries, Aon Hewitt Limited, to determine the Scheme surplus. EY's report sets out their conclusions on the pension surplus. The Committee considered the proposed assumptions, and specifically those relating to mortality rates, and was satisfied that the estimates were appropriate.
Please refer to Note 24 for more information on the estimates and judgements made in respect of the Scheme.	
Presentation of profits	
The consolidated income statement separately presents exceptional items. This presentation is permitted by accounting rules for specific items of income or expense that are considered material. The presentation involves judgement by the Group to identify the items that warrant specific disclosure in accordance with accounting standards. **Please refer to note 1b for more information on exceptional items.**	The Committee considered, and was satisfied with, the continued presentation of exceptional items within a separate column in the consolidated income statement. This presentation is considered appropriate as it provides a transparent view of certain items and the underlying performance of the business. In forming their conclusions, the Committee considered the findings of EY. For 2018, exceptional items principally comprised the cost reduction programme, amortisation of acquired intangible assets and costs associated with acquisitions and disposals.

Financial reporting and financial controls

The Committee reviews whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements, including those summarised on page 150. The Committee is also required to report to shareholders on the process it followed in its review of significant estimates and judgemental issues that it had considered during the year. These areas are set out on page 64. During 2018, the Committee considered the Group's final proposals on the adoption of two new accounting standards for 2018, and received an update on further accounting developments that would be adopted in the future. These are summarised in the basis of preparation of the financial statements on pages 149 and 150.

Financial reporting relies on there being an appropriate financial control environment. The Committee receives reports on the existing control environment as well as plans to enhance controls in the future, along with progress made against previous planned changes. The reports provide a comprehensive summary of the controls that exist across the Finance function globally and support the Group's risk and control assessments. For more details, see page 41. For 2018, the reports mainly focused on proposed enhancements to the Group's reporting capabilities and cost management processes, as well as providing an update on control enhancements within the revenue and commissions processes. The financial control environment is also subject to audit procedures by both the Group's internal and external auditors.

The Committee also considers other controls that might have an impact on financial reporting. During 2018, the Committee received a report from EY that presented a company and industry review of cyber security. In addition, the Committee reviews the Group's tax strategy annually, which is discussed with the external auditors. For more details see pages 38 and 39.

The Committee considers the Group's financial projections and the application of stress scenarios so that the Board can make the viability statement, as set out on page 42, and to support the going concern basis of preparation of the financial statements.

A key focus of the Committee is its work in assisting the Board in ensuring that the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and assessing whether it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee considered the key messages communicated in the 2018 Annual Report and Accounts, as well as the information provided to the Committee and the Board as a whole during the year and their discussions on these. The Committee, having completed its review, recommended to the Board that, when taken as a whole, the 2018 Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Oversight of the external auditor

The Committee places great importance on the quality, effectiveness and independence of the external audit process. The external auditor attends all the Committee's scheduled meetings and EY have attended the Committee since November 2017, prior to their appointment, at the request of the Committee. The Committee holds private meetings with the external auditor without management present. In selecting EY as the external auditor and in performing their other responsibilities with regards to the external auditor, the Committee applies the principles of the Code and guidance provided by various bodies, including the FRC.

The Committee can confirm that the Company has complied with the provisions of the Competition and Markets Authority Order 2014 relating to the UK audit market for large companies throughout the year under review and as at the date of this report.

Assessment of audit quality and effectiveness

Following the completion of PwC's audit for the 2017 Annual Report and Accounts, the Group Financial Controller undertook a review of their performance on behalf of the Committee. This assessment was performed in addition to the normal assessment processes that were conducted by the Committee prior to the publication of the 2017 Annual Report and Accounts. The Chairman of the Committee provided feedback to a senior PwC partner, independent of the engagement team, that areas of improvement identified following the review in respect of the 2016 audit had been addressed and that no deterioration in the quality of the audit was noted, with PwC being independent and bringing objectivity and scepticism to the 2017 audit. This process concluded the Group's external audit relationship with PwC and the formal assessment of PwC's performance for the 2017 year-end.

EY were selected as external auditor based on criteria that were primarily focused on audit quality and effectiveness. Notwithstanding the Committee's decision to recommend EY's appointment, during the audit tender process the Committee identified some areas of focus for EY and these were discussed with the lead engagement partner and the Committee's assessment of EY's performance was undertaken with particular focus on these identified areas.

During the transition phase, prior to EY's appointment in 2018, the Committee received regular reports from the Group Financial Controller on the transition activity to ensure that this was well planned and executed.

Following EY's appointment in April 2018, the Committee has continued to assess their performance, including consideration of the audit plan, which contained the key areas of audit risk, progress against the plan, responsiveness to changes in our business and their conclusions on estimates, judgements and other areas of focus that were identified during the performance of their work.

The Committee has also assessed the regulatory findings on inspections conducted in respect of EY audits since the audit tender process was concluded and areas of development were discussed with Julian Young, the senior statutory auditor.

The Committee has received initial feedback from key stakeholders on the conduct of EY's audit. This initial feedback provided the Committee with assurance that there were no areas of significant concern regarding the audit. The process by which the more detailed assessment of EY's performance on the 2018 audit will be conducted was considered and approved by the Committee in March 2019. This process will be carried out later in the year by way of a questionnaire completed by key stakeholders, prepared in accordance with the FRC's guidance on assessing audit quality. The findings from this questionnaire, including any areas for improvement, will be considered by the Committee and communicated to EY prior to commencing the 2019 audit process. The Committee will then monitor EY's progress against these findings as part of their ongoing focus on auditor effectiveness and audit quality.

Independence and non-audit services

EY's independence was considered during the 2016 audit tender process, where certain services and independence constraints were identified that required resolution before EY were appointed. In May 2017, EY wrote to the Committee to confirm that all independence constraints had been cleared. EY have continued to confirm their independence during the 2018 half-year results and prior to issuing their opinion on the Annual Report and Accounts.

One key factor in ensuring auditor independence is the Committee's consideration of the provision of certain non-audit services by EY. The Committee maintains a policy on the engagement of the auditor for the provision of non-audit services to safeguard their independence and objectivity. This policy is reviewed annually and takes account of relevant regulatory restrictions and guidance in the jurisdictions in which the Group operates, including those in the UK. The policy prohibits the provision of certain non-permitted non-audit services and contains rules regarding the approving of permitted non-audit services that are permitted by regulation.

The Group's outgoing auditor, PwC, was required to comply with the policy until June 2018, when PwC resigned from all subsidiaries that are public interest entities, as defined by the EU. EY has been subject to the policy since November 2016, subject to the completion of any existing services that had begun prior to the audit tender process.

Details of the total fees paid to EY are set out in note 4 to the accounts. The policy on non-audit services restricts the appointment of EY to services that are closely related to the audit. Other services, where they are not prohibited, may also be considered but these will not normally be approved by the Committee. Certain services are provided to the Group that are closely related to the audit but are not required by regulation. The Committee considers that these services are most appropriately performed by the Group's external auditor as they support the statutory audit as well as providing the external audit with relevant insights on aspects of the business, although they are not necessarily directly related to the financial statements.

Non-audit fees, excluding audit-related assurance services required under regulation, equated to 14% of audit fees. The equivalent calculation for 2017, but in respect of services provided by PwC, was 51%.

For 2018, the non-audit services not required by regulation mainly comprised assurance services in respect of controls reports, issued under International Standard on Assurance Engagements 3402 or similar principles, that are normally conducted by a Group's external auditor but are not required by regulation and Global Investment Performance Standards verification. These services are assurance in nature and do not present a risk to independence.

Auditor oversight conclusion

Prior to recommending the 2018 Annual Report and Accounts for approval, the Committee assessed the effectiveness of the audit, whether there was sufficient evidence of audit quality and considered EY's independence. In forming their conclusion, the Committee considered the evidence provided directly to the Committee, as well as feedback compiled by the Group Financial Controller.

On the basis of the review, the Committee is satisfied with the work of EY and that they are objective and independent. Accordingly the Committee has recommended to the Board that a resolution be put to the 2019 AGM for the reappointment of EY as external auditor, and the Board has accepted this recommendation.

Risk and internal controls

The Board has overall responsibility for the Company's system of internal controls, the ongoing monitoring of risk and internal control systems and for reporting on any significant failings or weaknesses.

The system of control is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable assurance against material misstatement or loss. The Board has delegated to the Committee responsibility for reviewing the effectiveness and monitoring of the risk and internal controls framework.

On behalf of the Board, the Committee carried out the annual assessment of the effectiveness of internal controls during 2018, including those related to the financial reporting process. The Committee also considered the adequacy of the Group's risk management arrangements in the context of the Group's business and strategy. In carrying out its assessment, the Committee considered reports from the Group Financial Controller and the heads of Compliance, Risk, Internal Audit and from EY. This enabled an evaluation of the effectiveness of the Group's internal control framework.

Risk

Risk reports set out changes in the level or nature of the risks faced by the Group, developments in risk management and operational events, including significant errors and omissions. Separate reports allowed the Committee to consider a range of factors when determining the key risks and uncertainties faced by the Group. These included assessments of risk tolerance and stress testing of the Group's capital position, as well as the production of the Group's ICAAP, ILAAP, the wind down plan and the Group's Recovery Plan and Resolution Pack.

The Committee also considers emerging and thematic risks that may have a material impact on the Group. During the year, the Committee reviewed the Group's arrangements in the areas of business continuity, information security and culture and conduct risk.

Further information can be found in the key risks and mitigations section of the Strategic report set out on pages 40 to 47.

Set out on this and the following page are summaries of the Committee's activity in four areas where members of the first line of defence attended and presented to the Committee in relation to emerging and thematic risks.

Information and Cyber Security

Clients continue to seek reassurance that the Group has effective Information and Cyber Security arrangements in light of the increase in high profile cyber attacks in recent years. The Committee received an update on privileged access management, which had been identified as an area for improvement in the external review of Schroders Information Security controls undertaken by PA Consulting in 2017. The privileged access project has progressed well. In addition, changes in user access accounts are being improved to extend controls beyond the ISAE 3402 and financial audit systems.

The external landscape continues to evolve with additional volume of and increasingly sophisticated attacks. In light of the pace of developments in this area, the Committee will continue to review and assess the Group's capabilities.

Transition to new technology platforms

The move to 1 London Wall Place provided the opportunity to upgrade some of our technology systems. The Committee considered the transition to new technology platforms as a key priority for 2018 and received a number of updates throughout the year. During the year, the business introduced S3, a virtual desktop technology, for all London staff and transitioned to a new front office investment platform. These systems enabled the business to make improvements to its internal processes and business continuity arrangements.

The Committee had a number of reports on the transition to the new front office investment platform, which was implemented in 2018.

The Committee also received an update on the utilisation of technology in the key Group-wide client take-on project aimed at improving all aspects of client on-boarding across all client types, channels and asset classes. The project has already mitigated some take-on risks through the implementation of standard processes and adoption of validated data in the engagement process, the key aim being a reduction in manual processes. The Committee will continue to focus on progress made in this area during 2019.

Oversight of outsourced services

The Group relies on external service partners to supplement our own infrastructure but retains responsibility for these services. The Committee conducts regular reviews of the Group's material outsource providers in accordance with the Group's outsourcing policy. During 2018, the Group continued to develop these governance processes extending oversight to a broader range of suppliers. The Committee also reviewed the status of ongoing improvement programmes and other actions that are focused on addressing service quality issues identified in previous years. The Committee is also overseeing the transition of the Group's largest outsource provider of transfer agency and administration services for our UK funds and Life Company. This migration is scheduled to commence in 2019. The Committee will continue to provide oversight of the Group's outsourcing arrangements, particularly new partners who were engaged in 2018 and throughout 2019.

New regulatory requirements

The Committee received reports from the new Group Head of Financial Crime Risk in recognition of the Group's increased risk profile in respect of financial crime, particularly in the Wealth Management and private assets and alternatives businesses and activities in higher risk countries in Asia and South America. Financial crime remains a high priority for all of the Group's regulators, with compliance driven by the implementation of the 4th and 5th EU Money Laundering Directives, the UK Criminal Finances Act and the US sanctions regime. All relevant staff are required to undertake training and attest to compliance with the Group's financial crime policies.

GDPR came into force on 25 May 2018. During 2018, the Committee received updates on its implementation and impact on the Group including the amendments to our processes and policies to address its requirements. In January 2018, MiFID II came into force. The Committee continues to monitor the implementation and embedding of its requirements.

Compliance

Compliance reports describe the status of our relationships and dealings with our principal regulators and material changes in the regulatory environment in which the Group operates. The reports also outline key compliance issues, and the planning and execution of the compliance monitoring programme. Monitoring is carried out globally to assess the Group's compliance with local regulatory standards and requirements.

The Committee considered the extension of the Senior Managers and Certification Regime, which will include asset managers and other investment firms from 9 December 2019 and the potential impacts of possible Brexit scenarios. The Committee also received reports on the application of GDPR and MiFID to ensure the Group's arrangements remained under close review following their implementation and on conduct and culture.

Internal Audit

The Committee has authority to appoint or remove the Group Head of Internal Audit, who reports directly to the Chairman of the Committee. The Chairman of the Committee is accountable for setting the objectives of the Group Head of Internal Audit, appraising his performance against those objectives and for recommending his remuneration to the Remuneration Committee, with advice from the Group Chief Executive.

The Committee also has responsibility for approving the Internal Audit budget and being satisfied that the Internal Audit function has appropriate resources and continues to be effective and a valued assurance function within the Group. The Committee satisfies itself as to the quality, experience and expertise of the function through regular interaction with the Group Head of Internal Audit, both when the Committee meets and also through other regular meetings outside the formal meeting schedule.

Internal Audit reports to the Committee set out progress against a rolling plan of audits approved by the Committee on an annual basis. These reports include any significant findings from audits performed and their subsequent remediation and recommendations to improve the control environment. During the year the Committee agreed to proposed amendments to the internal audit plan to meet the evolving gross risks faced by the business. In 2018, additional audit work was carried out in relation to technology in Benchmark Capital, product governance, GDPR and dealing commission.

Both the annual compliance monitoring and Internal Audit plans are developed on a risk-weighted basis to provide proportionate reassurance over the Group's controls for the key risks set out on pages 40 to 47.

Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process. The findings relating to the Committee were discussed with the Committee Chairman. Overall, the Committee is considered to be performing well, is rigorous and effective in discharging its responsibilities and providing the Board with assurance.

Priorities for 2019

As well as considering the standing items of business, the Committee will also focus on the following areas during 2019:

- Cyber and information security
- Conduct and culture risk
- Financial crime
- Transition to new technology platforms and robotics
- New regulatory requirements including the expansion of the Senior Managers and Certification Regime
- Oversight of outsourced services and planned changes
- Acquisition and integration risks

Committee's assessment of internal control and risk management arrangements

In light of its work, the Committee was content with the effectiveness of the Group's processes governing financial and regulatory reporting and controls, its culture, ethical standards and its relationships with regulators. The Committee was also satisfied with the appropriateness and adequacy of the Group's risk management arrangements and supporting risk management systems including; the risk monitoring processes, internal controls framework and the three lines of defence model.

By order of the Board

Rhian Davies
Chairman of the Audit and Risk Committee

6 March 2019

Paying for performance in a simple and transparent way

Structure of the remuneration report

- Statement by the Remuneration Committee Chairman (pages 68 and 69)
- Remuneration at a glance (pages 70 to 73)
- Remuneration governance (pages 74 and 75)
- Annual report on remuneration (pages 76 to 90)

Committee membership (meeting attendance is on page 55)

Nichola Pease (Chairman)	Robin Buchanan
Sir Damon Buffini (from November 2018)	Ian King
Lord Howard (until April 2018)	

I am delighted to present our first remuneration report since I took over as Remuneration Committee Chairman in April 2018, having served on the Committee since 2014. I would like to thank Lord Howard for his contribution during his nine years as a member and almost six years as Committee Chairman, and welcome Sir Damon Buffini as a member of the Committee.

Remuneration approach for the executive Directors

Shareholders approved our Directors' remuneration policy at our AGM in 2017, to apply until our AGM in 2020. During 2018, the Committee and the Board carried out a detailed review of our remuneration approach for the executive Directors. We concluded that it continues to be right for Schroders and is a key driver of the Group's success over the long term. I wrote to our largest shareholders earlier this year to update them on our thinking following this review.

Long-term thinking governs our remuneration approach. We pay for performance in a simple and transparent way, clearly aligned to client and shareholder interests. Our remuneration strategy reflects the global marketplace in which we operate, helping us to attract, motivate, reward and retain the talented individuals we need to maintain the Group's success.

We continue to believe in a discretionary approach to assessing performance and determining annual bonus awards, as opposed to formulaic incentives. We believe that formulaic pay can often drive the wrong behaviours and the wrong long-term outcomes for clients, shareholders and other stakeholders. We look to reward appropriately all employees who perform well and adhere to the firm's values – excellence, innovation, teamwork, passion and integrity – and who demonstrate the behaviours we expect in a client-centric culture. Our discretionary approach also ensures we can reflect performance on management of risks and adherence to compliance controls in pay outcomes (see page 89).

We have comprehensively reviewed the peer groups that we use when considering pay outcomes for the executive Directors. No peer group is perfect; all companies are different so there are few if any that face exactly the same opportunities and challenges that we do. However, in setting annual bonus outcomes we focus primarily on paying for performance rather than positioning against market rates, with the peer groups used as a sense check for remuneration decisions rather than as a driver. As such, we concluded that both our asset management and FTSE-100 financial services peer groups provide useful context for our decision-making, as well as the wider FTSE-100 (see page 80).

The 2018 UK Corporate Governance Code includes new provisions on executive pay, against which we are well positioned. Our executive Directors' retirement benefits are provided on the same basis as those of other UK employees. The executive Directors' shareholding requirements extend for two years post-employment. The LTIP performance period plus post-vesting holding period totals five years and we have the discretion to reduce the extent to which awards vest if the Committee judges that the unadjusted outcome from the performance conditions does not reflect underlying performance.

During 2018, we introduced post-employment restrictions into our deferred compensation plan rules, which apply when the Committee uses its discretion to permit a departing employee to retain unvested awards. As a result, the unvested deferred remuneration that the leaver is entitled to retain is forfeitable at any time up until the vesting date if they join a competitor or poach Schroders' clients or employees.

Potential regulatory changes

Though much remains uncertain, draft legislation in Europe has the potential to result in new regulatory requirements on the structure of remuneration at Schroders, in particular the latest iteration of the Capital Requirements Directive and the new Investment Firms Directive. We believe that our remuneration approach is right for Schroders and our stakeholders but we continue to monitor developments closely. If regulatory changes were to mean a new remuneration policy is required for the executive Directors we will consult with shareholders.

Independent advisers

In July 2018, we appointed PwC as independent advisers to the Committee. We selected PwC because they are amongst the market leaders in this area, with a good understanding of the firm through their existing HR consulting engagement with Schroders (see page 75). The Committee assesses the performance of its advisers annually, including the quality of advice provided, to ensure that it is independent of any support provided to management.

Governance

2018 performance and pay outcomes

2018 saw significant progress for Schroders across a number of strategically important areas. However, these strategic developments took place against a backdrop of an increasingly difficult market environment. Throughout this, management have continued to invest in the future growth of our business. As a result, profit before tax and exceptional items was £761.2 million (2017: £800.3 million). The Board has recommended a 1 pence increase in the total dividend per share for the year.

We recognise the significant challenges that our industry faces and in light of this wish to remain prudent on pay levels. We recommended to the Board a total compensation ratio maintained at 43%, below our target range of 45% to 49%, to position the firm for more challenging market conditions and the headwinds facing the industry in the future. As a result, the annual bonus pool is down 7% on last year.

We continue to manage the executive Directors' remuneration in line with our Directors' remuneration policy, as outlined last year. Our approach to determining the annual bonus awards for the executive Directors is consistent with that for the rest of our employees. We have taken into account the progress we have made against our strategic goals. We look to reward a balanced approach to growing the business profitably and sustainably, encouraging the longevity of client relationships, while retaining and developing our talented people who are key to organisational stability and long-term success. More information on the annual bonus awards for the executive Directors is outlined on pages 81 to 83.

For 2018, we have awarded Peter Harrison, our Group Chief Executive, an annual bonus of £6.175 million, down 5% on 2017. Our financial results fell short of budget in a number of areas, although aspects of this were market-wide rather than Schroders-specific issues. Despite ongoing pressure on fee margins, net income increased 3%. Management continued to invest in the future growth of the business during 2018. Strategic progress during the year was excellent and saw significant advances as we grew our Wealth Management and private assets businesses.

We have awarded Richard Keers, our Chief Financial Officer, an annual bonus of £2.6 million, down 5% on 2017. Again, this reflects our weaker financial performance, as we continued to invest for future growth. Richard had a strong 2018. He was responsible for two key projects, the implementation of our new front office technology platform and the completion of and move into our new London headquarters, both of which were successfully completed. He also managed a smooth and efficient change of our statutory auditor.

The LTIP performance conditions remain highly demanding and in March 2019 we expect LTIP awards granted in 2015 to lapse without vesting. The earnings per share (EPS) and net new business (NNB) targets will not be met, despite EPS growth of 21% and NNB of £14.2 billion over this period (see page 84).

In February 2019, at the same time as setting the executive Directors' bonuses, the Committee reviewed the distribution of salary increases and bonuses for the full workforce. The Group Chief Executive and Chief Financial Officer have seen decreases in total variable pay of 5% and 15% respectively, compared with a median bonus decrease of 3% and a mean decrease of 5% for employees who worked in the Group for all of 2017 and 2018. The Group Chief Executive's pay is 37 times the employee mean (2017: 35 times) and 63 times the employee median (2017: 64 times), as shown on page 81. The UK Government is introducing statutory disclosure of the ratio of CEO pay compared with UK-based employees from next year. For a number of years, we have voluntarily disclosed the CEO pay ratio compared with our employees globally and compared with the average GMC member. This year, in light of the incoming UK rules, we have included CEO pay ratios compared with our UK employees in the remuneration report. The figures I have quoted here are in comparison with our global employee-base as we feel this provides a more robust and inclusive measure of pay outcomes for our wider workforce.

Diversity and gender pay gap

We are committed to creating an inclusive working environment and ensuring employee diversity. Talented people are celebrated and valued at Schroders, whatever their gender, age, race, sexual orientation, disability, religion, beliefs or other characteristics. We pride ourselves on always being open to different ways of thinking.

This year, we have continued working to increase the representation of women in senior management roles, having been one of the first signatories of the Women in Finance Charter in the UK. We are targeting 33% women within senior management by the end of 2019, having achieved our initial target of 30% women within senior management during the first quarter of 2017. At the end of 2018, female representation in senior management was 32% and we remain committed to achieving our target over the remainder of this year. We have published more information on diversity and gender pay in a separate report on our website at schroders.com/inclusion.

Our analysis of comparable roles continues to show that we reward men and women fairly for similar work. Our gender pay gap reflects the lower representation of women at senior levels within the organisation. Our work to promote senior management diversity is reflected in improvements in our gender pay gap (page 78). Since our first disclosure, in respect of 2016 pay outcomes, the gap for mean salaries and cash allowances has narrowed from 31% to 29%, while the gap for the median narrowed from 33% to 30%. The gap for the mean bonus has narrowed from 66% to 60%. The gap for the median bonus has narrowed from 59% to 56%. This is slightly wider than in 2017, when it was 53%, reflecting a higher number of female new joiners at junior levels in 2018 as part of our strategy to improve the diversity of the firm in the longer term.

Diversity extends beyond gender. During the year-end compensation review, we consider bonus outcomes through both a gender and an ethnicity lens to ensure that recommendations are appropriate and help identify any unconscious bias. We will be encouraging our people to complete their diversity profiles, to allow us to begin reporting on other measures of diversity. There remains more to do and we are actively identifying additional steps to address this.

Nichola Pease
Chairman of the Remuneration Committee

Remuneration at a glance

1. Our remuneration principles

The overall remuneration policy is designed to promote the long-term success of the Group. The Committee has developed the remuneration policy with the following principles in mind:

Aligned with clients	A significant proportion of higher-earning employees' and material risk takers' variable remuneration is granted as fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients. This includes the executive Directors, other members of the GMC and other key employees such as senior fund managers.
Aligned with shareholders	A significant proportion of variable remuneration is granted in the form of deferred awards over Schroders shares, thereby aligning the interests of employees and shareholders. Executive Directors and other members of the GMC are required, over time, to acquire and retain a significant holding of Schroders shares or rights to shares. On stepping down, the executive Directors are required to maintain a level of shareholding for two years.
Aligned with financial performance	The total spend on remuneration is managed as a percentage of net income, the total compensation ratio. This ratio is determined by the Committee and recommended to the Board. This approach aligns remuneration with financial performance. The bottom section of this table outlines how each of our key performance indicators is factored into determining the variable elements of the executive Directors' remuneration.
Competitive	Employees receive a competitive remuneration package, which is reviewed annually and benchmarked by reference to the external market. This allows us to attract and retain highly talented people, who know that good performance will be rewarded.
Designed to encourage retention	Deferred variable remuneration does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Group until at least the third anniversary of grant in order to vest in full.
Linking remuneration with our strategy and financial performance	Each of our key performance indicators (see pages 16 and 17) is factored into determining the variable elements of the executive Directors' remuneration, as set out below:

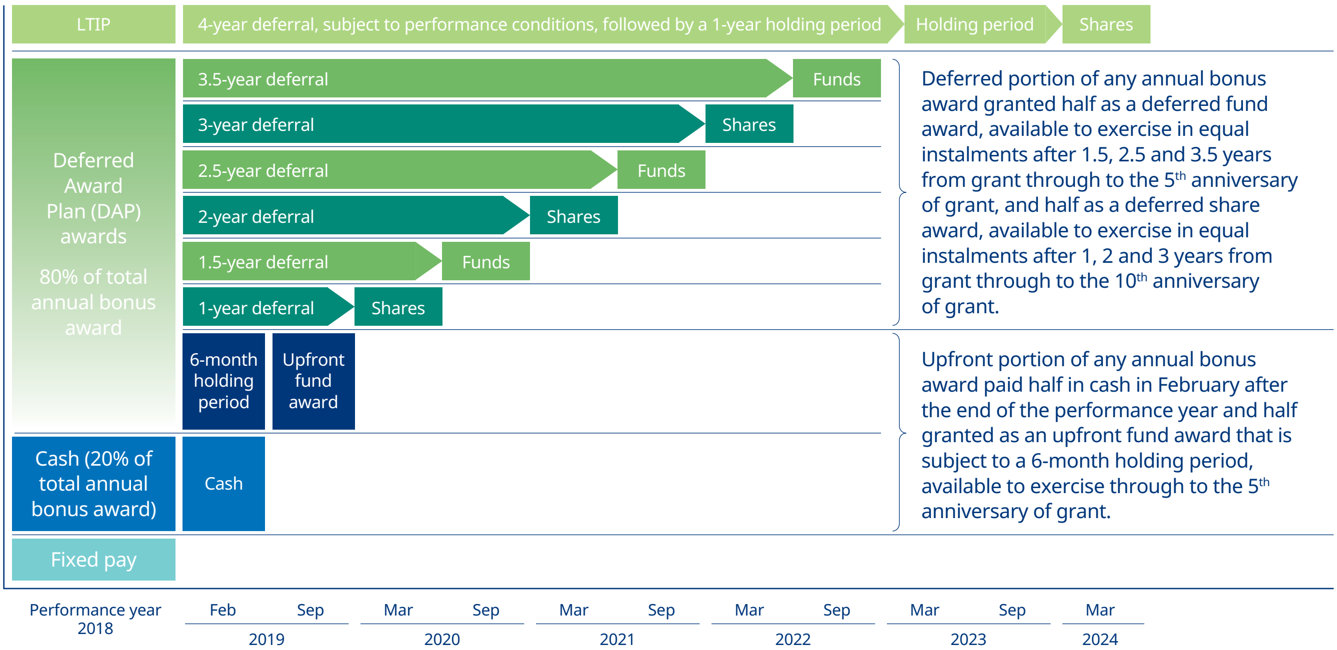
Our key performance indicators	Client investment performance	NNB	Retention of key talent	AUMA	Net operating revenue	Ratio of total costs to net income	Basic EPS	Dividend per share
LTIP vesting (based on NNB and EPS)	A key driver of AUM, which in turn drives net operating revenue and EPS.	Included as an LTIP metric. Also a key driver of AUM.	Not directly reflected in LTIP vesting but critical to delivery of business results.	Changes to AUMA drive net income and EPS.	A key element of profit and EPS.	A key indicator of profitability, which drives EPS.	Included as an LTIP metric.	EPS feeds through to the dividend per share.
Annual bonus awards	The Committee considers all of our key performance indicators in assessing the performance of the business and of each of the executive Directors, when they are determining annual bonus awards for the executive Directors (see page 82).							

2. Our remuneration policy for the executive Directors

Executive Directors' remuneration policy illustrations

The Directors' remuneration policy was approved by shareholders at our 2017 AGM, on 27 April 2017, and is summarised on our website at schroders.com/directors-remuneration-policy. The diagram below illustrates the structure of the executive Directors' remuneration, including the timing of when they receive each component of their total remuneration, across the following:

- Fixed components of pay, for salary, benefits and allowances based on when they are paid or enjoyed, and for retirement benefits based on when contributions are made or cash in lieu is paid
- The different components of any annual bonus award, showing for each portion when it will be paid or available to exercise
- The LTIP performance and holding periods, based on the LTIP awards to be granted following the financial year-end



The table below outlines other key aspects of our remuneration policy for the executive Directors.

Component	Policy overview
Malus and clawback policy	Malus terms allow deferred remuneration awards to be reduced or lapsed, at the Committee's discretion, until they have been paid or settled. Clawback terms allow amounts that have been paid or settled to be recovered for a period of up to 12 months from the date of payment or release, at the Committee's discretion. Under the Group's malus and clawback policy, these terms can be used to risk-adjust deferred remuneration awards in a range of circumstances. In addition, the executive Directors' contracts extend clawback terms to the upfront cash portion of any annual bonus awards, in the event of individual misconduct.
Personal shareholding policy	To align their interests with those of shareholders, the executive Directors are required to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary, or 500% of base salary for the Group Chief Executive. On stepping down as an executive Director, half that level of shareholding must be maintained for two years.
Equity Compensation Plan (ECP)	The ECP is one of the Group's main deferral arrangements for annual bonus awards, alongside the DAP. Deferred bonuses for employees who are not UCITS / AIF MRTs, including the executive Directors' deferred bonuses prior to performance-year 2018, are delivered as a combination of ECP fund awards and ECP share awards. Malus and clawback terms apply. Since 2018, the executive Directors' deferred bonuses have been granted under the DAP but they still hold ECP awards relating to previous deferred bonuses (see pages 87 and 88).
Equity Incentive Plan (EIP)	The EIP is an additional deferred remuneration plan, used to reward exceptional performance and potential. EIP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the fifth anniversary of grant. If a participant resigns before the fifth anniversary of grant, awards are normally forfeited in full. Malus and clawback terms apply. Executive Directors are not eligible to be granted new EIP awards but Peter Harrison holds an EIP share award granted in 2013, prior to his appointment to the Board (see page 88).

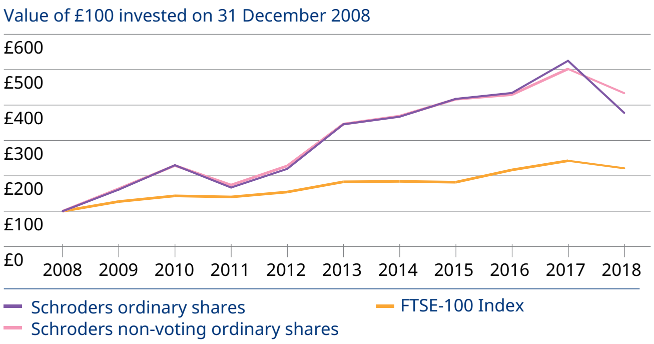
For more information on the policy see schroders.com/directors-remuneration-policy and on the implementation of the policy during 2019 see page 90.

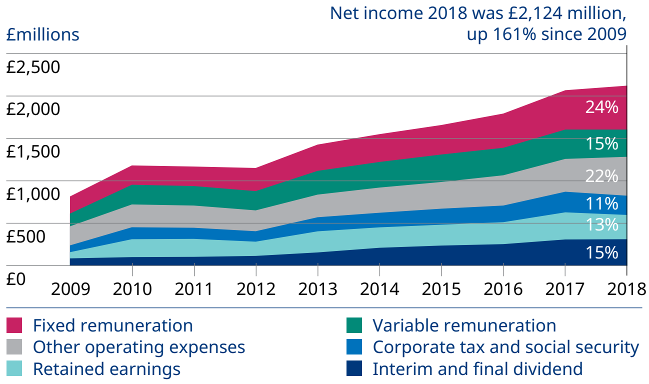
3. How we performed in 2018

The charts below provide an overview of Schroders' performance. Pages 14 and 15 provide information on our strategy for 2018 and beyond, and pages 16 and 17 give more information on our key performance indicators. Pages 82 to 84 outline the basis for determining annual bonus awards for the executive Directors and the expected vesting of LTIP awards granted in March 2015.

Performance of Schroders shares against the FTSE-100 Index and the relative spend on pay

The left-hand chart below compares the performance of Schroders shares with that of the FTSE-100 over 10 years to 31 December 2018. Over this period, the index has returned 121%, compared with a 278% return on Schroders ordinary shares and a 334% return on Schroders non-voting ordinary shares. The right-hand chart shows how net income has been utilised over the same period, as we have continued to invest for future growth, comparing remuneration costs before exceptional items and shareholder distributions to taxes arising and earnings retained. Distributions to shareholders in respect of 2018 formed a similar proportion of the total as they did for 2017.

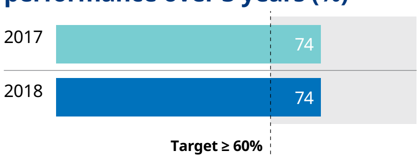




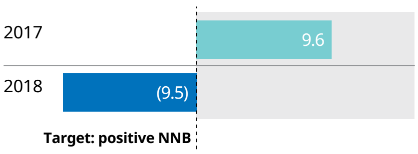
Other key factors in assessing the performance of the Group (see pages 82 to 83)

The following key performance indicators were among those that formed part of the Committee's determination of the executive Directors' pay. In reviewing performance, the Committee has looked to separate Schroders-specific performance from general market factors and recognised that the Board agreed and is supportive of the strategy of investing in a targeted way to enhance our future growth opportunities (see page 6), which increased our costs in 2018.

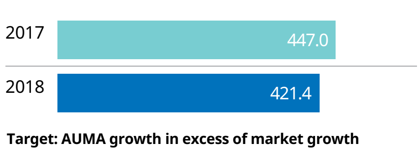
Client investment performance over 3 years (%)



Net new business (£bn)

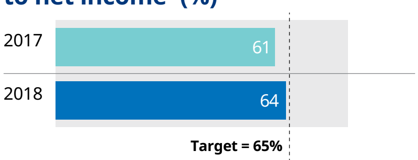


AUMA (£bn)

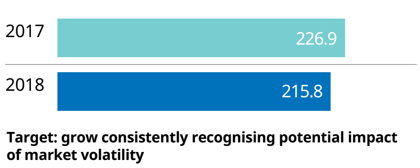


Retention of key talent (%)

Ratio of total costs to net income* (%)

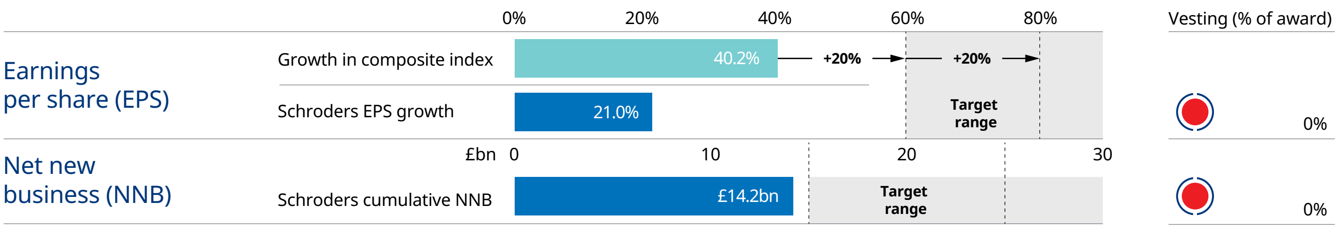


Basic earnings per share* (p)



Determining the vesting of LTIP awards granted in March 2015 (see page 84)

LTIP awards granted in March 2015 are expected to lapse without vesting on 7 March 2019, based on two metrics as set out below.



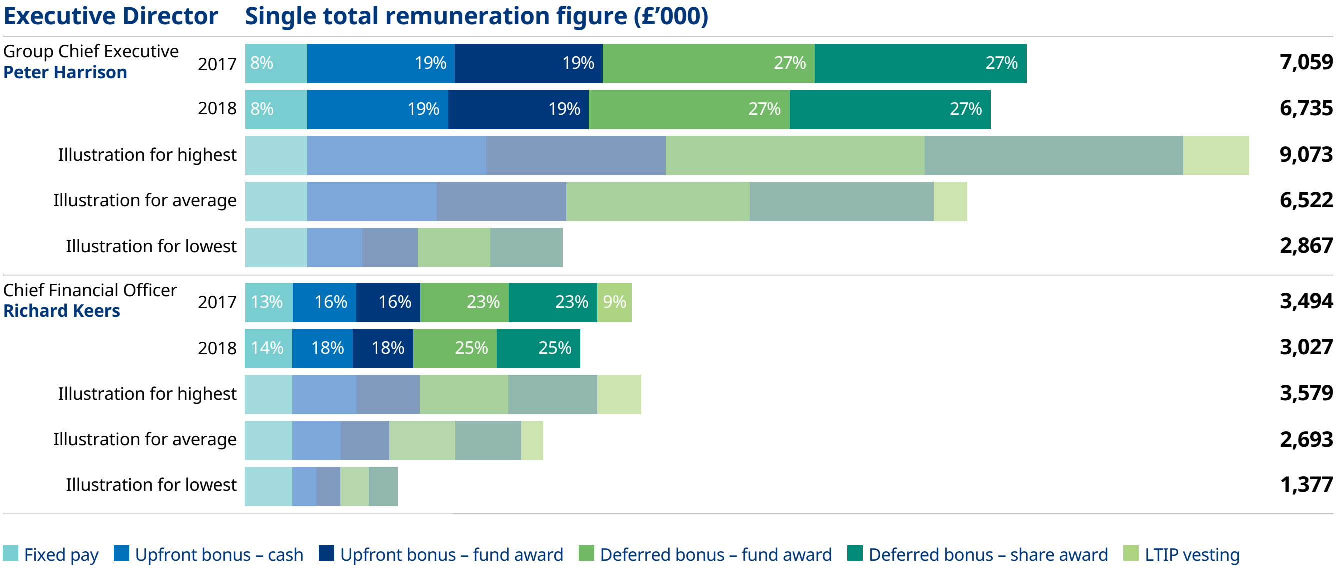
Total expected to vest in relation to 2015 to 2018 performance **0%**

* Before exceptional items.

Criteria met · Partially met · Not met

4. Our executive Directors' remuneration and shareholdings

The chart below compares the single total remuneration figures for 2017 and 2018 for each executive Director role. This is shown alongside an illustration of the potential value of each component of remuneration for each executive Director role, showing the split of fixed components of remuneration, annual bonus awards and LTIP awards in accordance with the Directors' remuneration policy, based on the highest, average and lowest remuneration over the 10 years ended 31 December 2018.

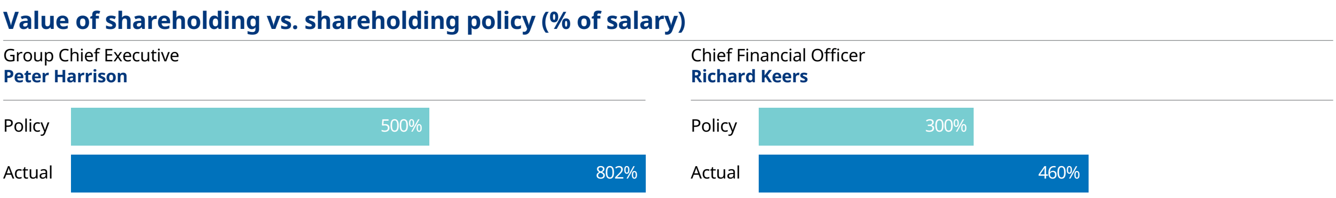


For 2017 and 2018, the charts reflect the values shown in the single total remuneration figure table on page 79. For the illustrations of the highest, average and lowest remuneration values:

- Fixed pay consists of the anticipated annualised amounts of base salary, benefits, allowances and retirement benefits from 1 March 2019. This is in line with the value shown for 2018 in the single total remuneration figure on page 79.
- The total value of annual bonus awards is based on the sum of bonus and fixed pay each year over the 10 years ended 31 December 2018. The highest, average and lowest of those annual total values is used for the scenarios. The fixed pay value outlined above is deducted from each, to provide an illustration of potential bonus value. The annual bonus award value is then split into upfront cash, an upfront fund award and deferral into fund and share awards as outlined in the policy.
- The value shown for LTIP is based on the grant-date face value of the award to be granted in March 2019, assuming 100% vesting for the illustration for a highest scenario, 50% vesting for the illustration for average and 0% vesting for the illustration for lowest.

The total remuneration values used in these scenarios for the Group Chief Executive reflect the remuneration awarded to Peter Harrison for performance in 2016 to 2018, and to his predecessor Michael Dobson for performance in 2009 to 2015. For the Chief Financial Officer they reflect the remuneration awarded to Richard Keers for performance in 2013 to 2018, and to his predecessor Kevin Parry for performance in 2009 to 2012.

The chart below compares each executive Director's shareholdings with that required under the personal shareholding policy.



For more information on the single total remuneration figures see pages 79 to 84 and on the personal shareholding policy see page 87.

Remuneration governance

Responsibilities of the Committee

The responsibilities of the Committee include:

- Reviewing the Group's remuneration strategy and recommending the Directors' remuneration policy to the Board
- Determining the remuneration of executive Directors within the policy approved by shareholders
- Determining the remuneration of the Group Company Secretary; reviewing the remuneration of the Heads of Compliance, Risk, Internal Audit and the General Counsel; monitoring the level and structure of remuneration for other senior employees and material risk takers; and overseeing remuneration more broadly across the Group
- Recommending to the Board the annual spend on fixed and variable remuneration
- Reviewing the design and operation of share-based remuneration and other deferred remuneration plans
- Overseeing any major change in the employee benefits structure throughout the Group
- Reviewing the remuneration disclosures required and ensuring compliance with those requirements
- Receiving and considering feedback from shareholders and representative shareholder bodies

The Committee's terms of reference are available on our website at schroders.com/ir.

All members of the Committee are independent non-executive Directors. Biographical details and the experience of Committee members are set out on pages 48 and 49.

At the invitation of the Committee Chairman, the Group Chairman attended seven meetings, the Group Chief Executive and Chief Financial Officer attended six meetings and Bruno Schroder attended four. No Director or employee participates in decisions determining his or her own remuneration.

The Group Head of Risk, the General Counsel, the Global Head of Compliance and the Group Head of Internal Audit also advised the Committee on matters that could influence remuneration decisions and attended meetings if required. The Chief Executive Officer, Asia Pacific attended one meeting to advise the Committee on remuneration arrangements within his remit. The Committee appointed PwC as independent remuneration advisers in July 2018 and PwC attended three meetings in that capacity, in addition to attending one meeting prior to that appointment to advise the Committee on market practice and conditions for directors' remuneration and compliance with remuneration regulations. The Global Head of Human Resources and the Head of Compensation and Benefits attended meetings to provide advice and support the Committee.

Key areas of focus during the year

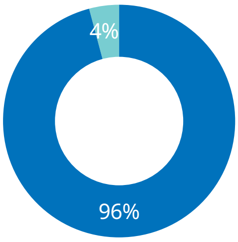
The table below summarises the key issues that the Committee considered at each of its meetings during 2018. Remuneration packages for new hires, severance arrangements for roles subject to the Committee's oversight and regulatory developments were reviewed at each meeting as required. In addition, the Board as a whole reviewed the remuneration strategy in November 2018 (see page 57).

Meeting date	Key issues considered
January	– Compensation review 2017 – Remuneration disclosures – Forecast vesting of 2014 LTIP grants – Performance conditions for 2018 LTIP grants – Malus and clawback policy – Internal audit of remuneration compliance
February	– Compensation review 2017 – Carried interest-sharing arrangements in particular business areas
May	– Shareholder and voting agency feedback on remuneration – Review of advisers to the Committee – Review of the Committee's terms of reference – Alignment of remuneration to client and shareholder interests – Annual performance objectives of the Group Chief Executive – Post-employment restrictive covenants – Remuneration and carried interest arrangements in particular business areas
June	– Remuneration arrangements in particular business areas
July	– Executive Directors' remuneration review
October	– Executive Directors' remuneration review – Compensation review 2018 – Principles and delegation for carried interest-sharing arrangements – Approval of EIP grants – Remuneration arrangements in particular business areas – Gender pay gap – Group risk adjustment framework for remuneration – Material risk taker framework and population – Internal audit of remuneration compliance
December	– Compensation review 2018 – Sustainability of earnings – Risk, legal, compliance and internal audit matters – Remuneration disclosures – Forecast vesting of 2015 LTIP grants – Carried interest-sharing and co-investment eligibility in particular business areas – Remuneration benchmarking – Total compensation ratio target for 2019

Shareholder voting on remuneration

At the 2018 AGM, shareholders approved the remuneration report that was published in the 2017 Annual Report and Accounts. Shareholders approved the Directors' remuneration policy at the 2017 AGM and that policy applies for three years from the date of approval. The results of these votes are shown below.

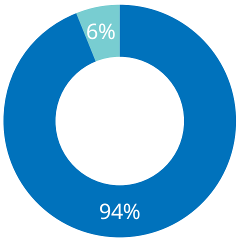
To approve the remuneration report at the 2018 AGM



	2018 AGM voting
Votes for	183,227,563
Votes against	7,971,986
(Votes withheld)	32,292

To approve the relevant remuneration report	Votes for	Votes against
2014 AGM	94%	6%
2015 AGM	97%	3%
2016 AGM	96%	4%
2017 AGM	95%	5%
2018 AGM	**96%**	**4%**

To approve the Directors' remuneration policy at the 2017 AGM



	2017 AGM voting
Votes for	181,963,125
Votes against	12,623,229
(Votes withheld)	461,454

To approve the relevant Directors' remuneration policy	Votes for	Votes against
2014 AGM	92%	8%
2017 AGM	**94%**	**6%**

External advisers

The Committee appointed or received advice from the advisers shown in the table below. Advisers were selected on the recommendation of the Global Head of Human Resources and the Head of Compensation and Benefits.

	Appointed by	Services provided to the Committee	Other services provided to the Group	Fees paid for advice to the Committee during 2018 on executive Director pay (£'000)
PwC	The Committee	Independent advisers to the Committee	HR consulting services and advice to management on remuneration design, regulatory implications, tax, social security, governance, operational and technical issues	130
McLagan (Aon) Limited (McLagan)	The Committee	Information on market conditions and competitive rates of pay	Information on market conditions and competitive rates of pay	2

From July 2018, the Committee engaged PwC to provide independent advice as they are among the market leaders in this area, with a good understanding of the firm through their existing HR consulting engagement with Schroders. A fixed fee structure has operated since appointment to cover standard services, with any exceptional items charged on a time/cost basis. PwC also provide professional services in the ordinary course of business, including tax, consulting, regulatory compliance and other advice to the Group. PwC ceased to be the Group's external auditor following the 2018 AGM in April 2018.

The Committee is satisfied that the advice received from McLagan was independent and objective, as it was factual and not judgemental. McLagan is part of Aon plc, which also provides advice and services to the Company in relation to pension benefit valuations and pension actuarial advice. McLagan's fees were charged on the basis of a fixed fee for the preparation of reports setting out the information requested.

The Committee assesses the performance of its advisers, the associated fees and the quality of advice provided annually, to ensure that it is independent of any support provided to management.

Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process. The findings relating to the Committee were discussed with the Committee Chairman. The overall view was that the Committee had operated effectively and had discharged its duties diligently. The transition of the Chair from Lord Howard to Nichola Pease had been managed smoothly.

Annual report on remuneration

Pages 76 to 90 constitute the annual report on remuneration. Shareholders will have an advisory vote on this section, together with the Committee Chairman's statement on pages 68 and 69, and the information on remuneration governance on pages 74 and 75, at the AGM. Where required, this information has been audited by EY.

This section sets out remuneration outcomes for 2018, across Schroders as a whole and specifically for the executive and non-executive Directors, and compares them to remuneration outcomes for 2017. The Directors' remuneration was managed in line with the policy approved by shareholders at the 2017 AGM, as outlined in our 2017 Annual Report and Accounts.

This section also sets out the context for the Directors' remuneration, including the main performance metrics that the Committee considered when setting the overall annual bonus pool and information on how annual bonus awards were allocated across the Group. It details the key performance criteria considered when determining executive Directors' annual bonus awards. Returns to shareholders over the past 10 years are compared with the total remuneration of the Group Chief Executive over the same period. Directors' rights under fund and share awards and the share interests of Directors and their connected persons are also detailed.

Aligning pay and performance across Schroders

Group performance

Net operating revenue excluding exceptional items increased 3% in 2018, despite ongoing pressure on fee margins. The Group's profit before tax and exceptional items was £761.2 million, down 5%, and basic EPS before exceptional items of 215.8 pence, down 5%, though 2017 included unusually high performance fees and a non-recurring regulatory-driven accounting benefit. The Board is recommending a final dividend of 79 pence, bringing the total dividend for the year to 114 pence, an increase of 1 pence.

Net outflows were £9.5 billion (2017: net inflows of £9.6 billion). AUMA ended the year at £421.4 billion (2017: £447.0 billion) and 74% (2017: 74%) of our internally-managed Asset Management AUM outperformed its stated comparator in the three years to 31 December 2018.

Further information on the Group's operating and financial performance can be found in the strategic report, beginning on page 1. The table on pages 14 and 15 outlines the Group's strategy. Pages 16 and 17 show our performance against our key performance indicators over the five years to 31 December 2018.

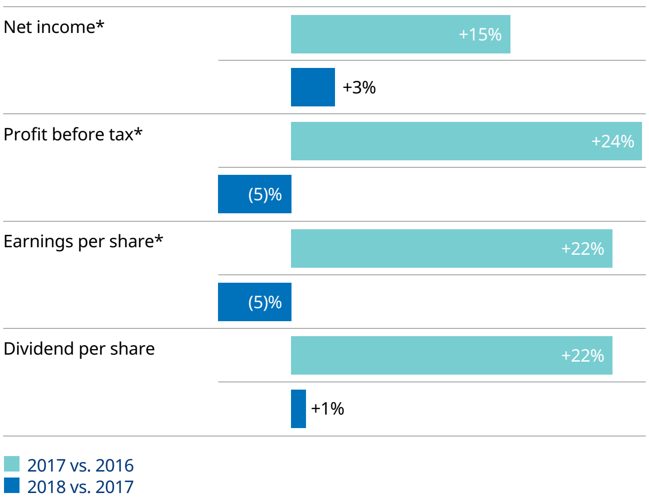
Aligning remuneration costs with financial performance

The total spend on remuneration is derived from the total compensation ratio, measuring total remuneration expense against net income. This aligns the interests of employees with the Group's financial performance.

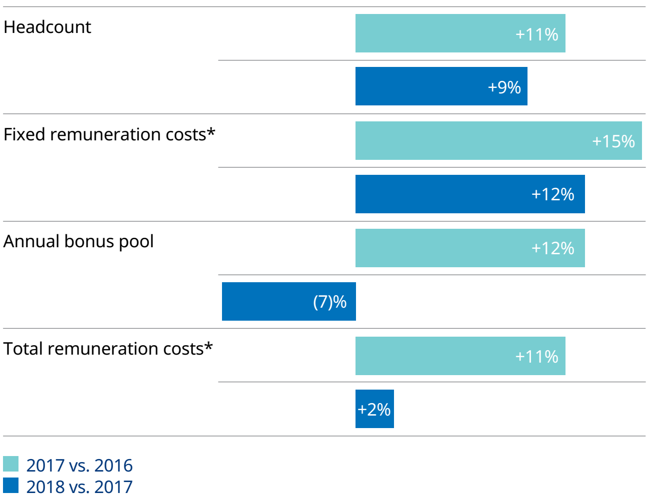
The Committee received a report on the underlying strength and sustainability of the business and reports on compliance, legal, risk and internal audit matters from the heads of those areas. These were considered as part of the 2018 compensation review.

The Committee determined the annual bonus pool for the year ended 31 December 2018 based on a total compensation ratio of 43% (2017: 43%). The total compensation ratio is below our target range of 45% to 49%, as the Committee and the Board as a whole remain mindful of the challenges the asset management industry faces. From 2017 to 2018, headcount is up 9% and fixed remuneration costs are up 12%. The annual bonus pool was down 7%, or down 12% based on the mean bonus per bonus-eligible employee, assuming constant currency rates in each case (as shown in the table on page 77).

Key performance metrics



Key remuneration metrics

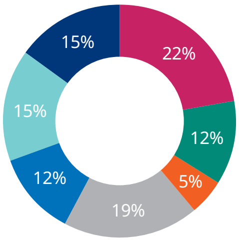


* Before exceptional items.

Relative spend on pay

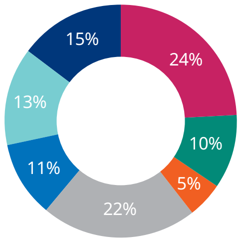
The charts below illustrate the relative spend on pay for 2018 compared with 2017. The values are taken from the financial statements and show how remuneration costs before exceptional items compare with shareholder distributions, taxes arising and earnings retained, to illustrate how net income is utilised. Distributions to shareholders in respect of 2018 formed a similar proportion of the total to that for 2017.

2017



		vs. 2016
Fixed remuneration	£464.4m	+15%
Variable remuneration – upfront	£239.9m	+2%
Variable remuneration – deferred	£105.7m	+17%
Other operating expenses	£387.3m	+9%
Corporate tax and social security	£242.9m	+24%
Retained earnings	£319.8m	+24%
Interim dividend paid and final dividend recommended	£308.9m	+22%

2018



		vs. 2017
Fixed remuneration	£518.5m	+12%
Variable remuneration – upfront	£218.6m	(9)%
Variable remuneration – deferred	£102.0m	(3)%
Other operating expenses	£459.5m	+19%
Corporate tax and social security	£227.4m	(6)%
Retained earnings	£286.1m	(11)%
Interim dividend paid and final dividend recommended	£311.8m	+1%

The annual bonus pool and annual bonus award allocations across the Group

The Group Chief Executive allocates the overall pool between the divisions or functions headed by GMC members, taking into consideration the objectives, both financial and non-financial, that were set at the beginning of the year. Variable remuneration awards for individual employees, other than those determined by the Committee or the Group Chief Executive, are recommended to the Group Chief Executive by members of the GMC, taking account of individual performance against objectives, the performance of the relevant business area and the levels of reward for comparable roles in the market.

The Committee determines the remuneration for the executive Directors and Group Company Secretary, monitors and reviews remuneration for other GMC members, control function heads and other MRTs, and also provides oversight of the compensation review outcomes for employees more broadly. For 2018, the Committee was satisfied that the year-end process was rigorous and that the allocation of the pool and the individual bonus awards took account of both financial and non-financial performance, including conduct and behaviours as described on page 89.

The table below compares the annual bonus pools for 2018 and 2017, divided into amounts paid in cash, upfront fund awards and amounts deferred into fund awards and share awards. The 2017 figures are also shown after adjustment to the foreign exchange rates used during the 2018 compensation review, to provide a better comparison of what was awarded to employees each year.

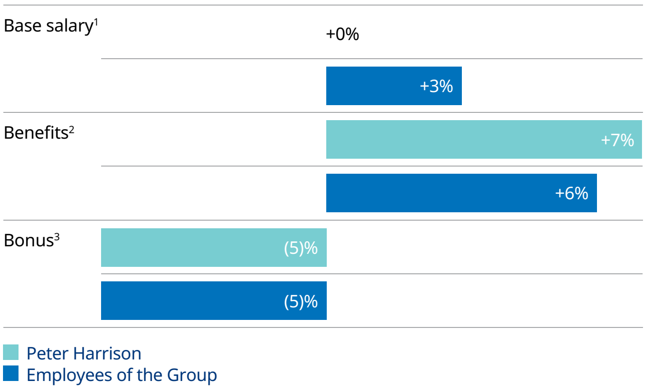
	2018	Adjusted 2017[1]	2017
Total compensation ratio	**43%**	**n/a**	**43%**
	£m	£m	£m
Annual bonus awards:			
– paid in cash	195.9	204.5	208.7
– granted in upfront fund awards	28.1	30.9	31.2
– deferred into fund awards	51.0	58.3	59.1
– deferred into share awards	55.5	60.6	61.4
Bonus pool	**330.5**	**354.3**	**360.4**
Proportion of bonus pool that is deferred	32%	34%	33%
Number of bonus-eligible employees	4,169	3,914	3,914
Mean annual bonus award per bonus-eligible employee	£79,270	£90,526	£92,070
Median annual bonus award per bonus-eligible employee	£18,500	£20,000	£20,000
Group Chief Executive's bonus as a % of the bonus pool	1.9%	1.8%	1.8%
Aggregate bonuses to executive Directors as a % of the bonus pool	2.7%	2.6%	2.6%

1. Adjusted to the same foreign exchange rates as those used for the 2018 figures.

Comparison of the percentage change in base salary, benefits and annual bonus award

The chart below compares, for each of base salary, benefits and annual bonus award, the percentage change from 2017 to 2018 for the Group Chief Executive with the average year-on-year percentage change across employees of the Group taken as a whole (except where noted).

Comparison of the percentage change in value from 2017 to 2018



1. For base salary, employees of the Group are those who were in employment for the full year to 31 December 2018 and represents the average salary increase during 2018.
2. For benefits, employees of the Group are those who were in employment in the UK for the full year to 31 December 2018 and represents the average change in benefits value during 2018.
3. For bonus, employees of the Group are bonus-eligible employees who were in employment for all of 2018 and 2017.

The Group Chief Executive received no base salary increase in 2018. Salary increases across the Group during 2018 were targeted at employees whose roles had increased in scope materially during the year and those whose fixed pay significantly lagged behind market rates. Particular attention was also given to those on lower salaries, for whom fixed pay forms a greater proportion of total remuneration.

Peter Harrison's annual bonus award for 2018 was 5% lower than for 2017, reflecting significant strategic progress against a backdrop of an increasingly difficult market environment. The mean annual bonus award decrease for bonus-eligible employees who worked in the Group for all of 2018 and 2017 was 5%, as shown above, and the median was 3%. Individual annual bonus awards for 2018 compared with 2017 varied from an increase in excess of 100% to a reduction to zero bonus, reflecting our pay for performance philosophy.

Female representation and gender pay

Schroders was one of the first signatories of the Women in Finance Charter in the UK, as part of our commitment to promote diversity of thought and ensure Schroders is an inclusive place to work. Our commitment is broader than gender and more information on our approach to diversity can be found on page 32.

We originally committed to increase the representation of women in senior management from 25% at the end of 2015 to 30% by the end of 2019. As a result of the progress we made during 2017, we increased this target to 33% female representation in senior management by the end of 2019. At the end of 2018, our female representation in senior management was 32%. We have increased female representation on the GMC from 7% to 31% since the end of 2016 and continue to focus on the pipeline of female talent immediately below the GMC, where female representation is currently 26%.

The data below illustrates the representation issue by looking at the proportion of employees by gender according to quartile pay bands, based on hourly fixed pay, reflecting base salary and cash allowances.

The proportion of female vs. male employees according to quartile pay bands

Top quartile of employees based on hourly fixed pay	22% females, 78% males
2nd quartile	39% females, 61% males
3rd quartile	48% females, 52% males
Bottom quartile	59% females, 41% males
Total workforce	**42% females, 58% males**

Our analysis of pay levels for comparable roles shows that male and female employees are paid fairly for similar work. However, the lower representation of women at senior levels within the Group, which is an issue across the financial services sector, is reflected in the gender pay gap shown below. This looks across the total workforce and sets out the gender pay gap for both hourly fixed pay, as described above, and total variable pay, consisting of the annual bonus awarded in respect of 2018 plus any other deferred remuneration awards during the year.

		Schroders globally
Hourly fixed pay	The amount by which the male median exceeds the female median, as a % of the male median	30% (2017: 31%)
	The amount by which the male mean exceeds the female mean, as a % of the male mean	29% (2017: 30%)
Total variable pay	The amount by which the male median exceeds the female median, as a % of the male median	56% (2017[1]: 53%)
	The amount by which the male mean exceeds the female mean, as a % of the male mean	60% (2017[1]: 62%)
	The proportion of female and male employees who received variable pay	93% of females, 94% of males (2017: 93% / 95%)

1. 2017 comparatives restated to include deferred bonuses.

Most of these gender pay gaps have narrowed year-on-year, as we have increased female representation at more senior levels. The median bonus gap is narrower than when we first published our gender pay gap in 2016 but slightly wider than 2017, reflecting a relatively high number of female new joiners at junior levels. More information on diversity and inclusion at Schroders, including our UK disclosures, can be found on our website at schroders.com/inclusion.

Single total remuneration figure for each executive Director (audited)

The total remuneration of each of the executive Directors for the years ended 31 December 2018 and 31 December 2017 is set out below.

	Peter Harrison		Richard Keers		Total	
£'000	**2018**	2017	**2018**	2017	**2018**	2017
Base salary	500	500	375	375	875	875
Benefits and allowances	15	14	7	9	22	23
Retirement benefits	45	45	45	45	90	90
Total fixed pay	**560**	**559**	**427**	**429**	**987**	**988**
Annual bonus award	6,175	6,500	2,600	2,750	8,775	9,250
LTIP vested	–	–	–	315	–	315
Total variable pay	**6,175**	**6,500**	**2,600**	**3,065**	**8,775**	**9,565**
Total remuneration	**6,735**	**7,059**	**3,027**	**3,494**	**9,762**	**10,553**

Methodology for determining the single total remuneration figure:

Base salary	Represents the value of salary earned and paid during the financial year.
Benefits and allowances	Includes one or more of: private healthcare, life assurance, permanent total disability insurance, Share Incentive Plan matching shares, car parking and private use of a company car and driver.
Retirement benefits – see page 84	Represents the aggregate of contributions to defined contribution (DC) pension arrangements and cash in lieu of pension for Peter Harrison, and cash in lieu of pension for Richard Keers. The table on page 84 shows how the retirement benefits figures above are comprised for each Director.
Annual bonus award – see pages 81 to 83	Represents the total value of the annual bonus award for performance during the relevant financial year. Page 81 breaks down the bonus into cash paid through the payroll and the upfront fund awards, deferred fund awards and deferred share awards that will be granted in March 2019. Pages 82 and 83 set out the basis on which annual bonus awards for 2018 were determined.
LTIP vested – see page 84	Represents the estimated value that is expected to vest on 7 March 2019 from LTIP awards granted on 9 March 2015. More information on the performance achieved, how vesting will be determined and the value shown is provided on page 84. The comparative value shown for 2017 represents the actual value that vested on 1 March 2018 from LTIP awards granted on 10 March 2014. The 2017 LTIP vested values disclosed last year were estimates, as the Annual Report and Accounts was finalised prior to the vesting date.

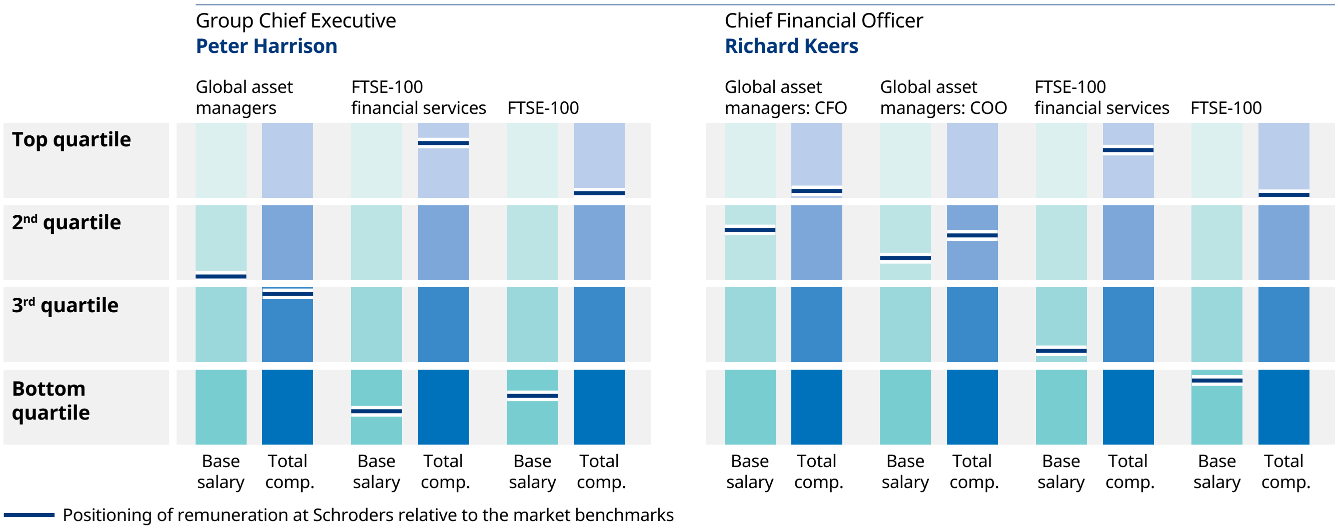
Competitive positioning

We compete for talent in a global marketplace. Most of our key competitors are headquartered outside the UK, particularly in the US, and many are not publicly listed and are therefore subject to lower standards of transparency. It is against this backdrop that the Committee determines both our pay structures and levels of pay, to ensure that we are able to attract, motivate, reward and retain the best talent.

Remuneration levels for employees, including the executive Directors, are reviewed annually and benchmarked by reference to the external market to ensure they remain appropriately competitive. The chart below illustrates the competitive positioning of pay for each executive Director, while the table on the right provides additional commentary on the remuneration benchmarking approach in each case. Total compensation (abbreviated in the chart to total comp.) reflects base salary at the year end, annual bonus award for 2018 and the grant-date face value of any LTIP award granted during the year (see page 86), assuming 50% vesting. The market data used in benchmarking these roles was provided independently by external advisers and reflects competitor pay for 2017, which is the most up-to-date data available, whereas the competitive position shown for Schroders in each case reflects remuneration awarded for 2018.

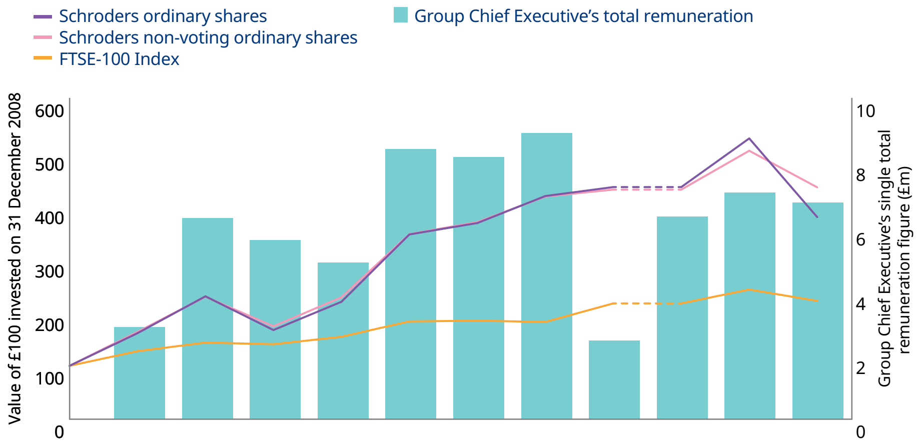
In considering competitiveness, the Committee focuses on levels of pay for comparable roles at other large international asset management firms, though the benchmark peer group is adjusted for some roles to provide a more appropriate comparison. This benchmarking is used to establish a frame of reference for what competitors are paying for comparable roles, rather than as the start point or a primary factor when remuneration decisions are made. As outlined on pages 82 and 83, annual bonus awards are based on the Committee's assessment of the overall performance of the business and of each executive Director. The policy is to aim to pay executive Directors base salaries that are competitive with other large international asset management firms. As a result, it is likely that salaries will be relatively low when compared with other FTSE-100 financial services firms and the FTSE-100 more broadly, as can be seen below.

Role	Commentary
Group Chief Executive	Approximately half of the global asset manager comparator roles are from non-listed businesses, including firms owned by a bank or insurance group and privately-owned businesses, whereas Schroders is an independent publicly-listed company. Schroders differs from most of the global asset managers in including Wealth Management within the Group Chief Executive's remit, alongside Asset Management. As a result, the Schroders Group Chief Executive role sits among the more complex of the roles making up this competitive benchmark.
Chief Financial Officer	The Schroders Chief Financial Officer has wider responsibilities than the market norm, covering direct responsibility for a range of operational areas and firm-wide operational oversight and coordination, as well as financial management, risk management, capital and treasury, human resources and corporate communications. A comparison is also shown against the rates of pay for the Chief Operating Officer (COO) role at other global asset management firms, as an additional reference point to reflect these wider responsibilities.



Performance of Schroders shares against the FTSE-100 Index and the Group Chief Executive's total remuneration

The graph on the right compares the total shareholder return of Schroders shares with that of the FTSE-100, of which Schroders is a long-standing constituent. Over the past 10 years, the index has returned 121%, compared with a 278% return for Schroders ordinary shares and 334% for Schroders non-voting ordinary shares. This graph also shows the Group Chief Executive's single total remuneration figure over the 10 years ended 31 December 2018, for comparison. The table below sets this out in figures, as well as showing how variable pay plans have paid out each year. It also shows the ratio of those single total remuneration figures to the mean and median total remuneration awarded to employees globally, to other members of the GMC and to employees in the UK.



Financial year		2009	2010	2011	2012	2013	2014	2015	2016[3]	2016[4]	2017	2018
								Michael Dobson		Peter Harrison		
Single total remuneration figure (£'000)		2,867	6,267	5,570	4,870	8,414	8,155	8,905	2,451	6,311	7,059	6,735
Annual bonus award (actual award as a % of 10-year highest bonus)[1]		30%	73%	65%	56%	81%	87%	100%	25%	70%	82%	78%
LTIP (vesting as a % of maximum)[2]		n/a	n/a	n/a	n/a	100%	50%	50%	50%	50%	n/a	0%
Ratio of single total remuneration figure to employees as a whole	to employee mean	23 x	37 x	32 x	30 x	45 x	44 x	47 x	13 x	33 x	35 x	37 x
	to employee median	44 x	85 x	67 x	60 x	99 x	92 x	93 x	23 x	60 x	64 x	63 x
Ratio of single total remuneration figure to GMC members	to GMC mean	2.0 x	2.5 x	2.3 x	2.8 x	3.5 x	2.9 x	3.3 x	1.3 x	3.3 x	3.3 x	3.3 x
	to GMC median	2.4 x	2.8 x	2.5 x	2.8 x	3.8 x	3.1 x	3.4 x	1.3 x	3.4 x	3.1 x	3.5 x
Ratio of single total remuneration figure to UK employees' full-time equivalent total remuneration	to upper quartile											37 x
	to median											65 x
	to lower quartile											101 x

1. No maximum annual bonus opportunity was in place so each annual bonus award is shown as a percentage of the highest bonus award over the past 10 years.
2. The years from 2009 to 2012 are shown as 'n/a' as the LTIP was introduced in May 2010 and the first award vested on 5 March 2014 based on the four-year performance period ended on 31 December 2013. 2017 shows as 'n/a' as Peter Harrison did not receive an LTIP award in 2014 and so had no LTIP due to vest based on performance to the end of 2017.
3. The 2016 remuneration for Michael Dobson reflects the actual remuneration that he received for the portion of 2016 that he served as Chief Executive.
4. Peter Harrison was appointed Group Chief Executive on 3 April 2016. The 2016 remuneration value above reflects his full-year single total remuneration figure.

Variable pay – annual bonus award (audited)

The table below sets out details of how the annual bonus award for each executive Director for performance during 2018 was delivered. These values are reflected in the single total remuneration figure for each executive Director on page 79.

		DAP award					
2018 (£'000)	Upfront cash bonus award	Upfront fund award	Deferred fund award	Deferred share award	Total DAP award	Total annual bonus award	Percentage deferred[1]
Peter Harrison	1,273	1,272	1,815	1,815	4,902	6,175	59%
Richard Keers	545	545	755	755	2,055	2,600	58%

1. In calculating the value of each executive Director's annual bonus award that is deferred, 25% of the grant-date face value of the LTIP award granted in 2018 (see page 86) is included in the calculation of the deferred element. This results in slightly less than 60% deferral.

Upfront fund awards cannot be exercised for six months from grant but are not normally at risk of forfeiture if the holder resigns and leaves the Group. Deferred fund awards normally require the holder to remain in employment for the 3.5 years following grant to vest in full and are available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from grant. Deferred share awards normally require the holder to remain in employment for the three years following grant to vest in full and are available to exercise in three equal instalments after 1, 2 and 3 years from grant.

Basis for determining annual bonus awards

In determining the annual bonus award for the executive Directors, the Committee made an assessment of the overall performance of the business using our key performance indicators, which are aligned to the Group's strategy, as outlined on pages 14 and 15. An assessment of each individual's performance was also made, including business performance within each individual's responsibilities, and the extent to which they have met annual objectives.

Financial factors such as profitability, cost control and investment performance represent the majority of measures the Committee considers to ensure that remuneration outcomes are aligned to the value created for shareholders. Both short-term and long-term performance are taken into account. Strategic progress is also a key element of the Committee's consideration. Non-financial factors such as risk management, conduct and employee engagement are also considered, although normally have less prominence in determining the annual bonus award.

Based on its assessment of performance, the Committee applied its judgement to determine annual bonus awards, without attaching a weighting to each performance factor or setting a value payable for achievement of each target. The Group Chief Executive's recommendation was taken into account for the Chief Financial Officer.

Group-wide factors considered when determining the executive Directors' annual bonus awards include:

Criteria	Target	Performance in 2018	Extent to which target has been met
Financial factors			
Trend in profit for the year[1] and appropriate cost control	Ratio of total cost to net income 65%. Total compensation ratio 45% to 49% depending on market conditions.	64% (2017: 61%). 43% (2017: 43%).	Financial performance in 2018 has been weaker, in line with budget, as we continued to invest for future growth. The cost base has been managed well during a period of more challenging market conditions and our key ratios are below our target.
Client investment performance[1]	At least 60% outperformance over three years.	74% (2017: 74%).	Investment performance over three years remains strong.
NNB[1]	Achieve budgeted new business flows.	£(9.5)bn (2017: £9.6bn).	NNB was significantly behind budget, in part reflecting more challenging market conditions but also a large outflow from a single Institutional client towards the end of the year in Asia Pacific. Wealth Management saw net inflows.
AUMA[1]	Grow over time in excess of market growth.	£421.4bn (2017: £447.0bn).	AUMA decreased by 6% as global markets declined and investor sentiment worsened.
Net operating revenue[1]	Grow over time as AUMA increases.	£2.1bn (2017: £2.0bn).	Net operating revenue increased 3% during 2018 as average AUMA increased.
Basic EPS[1]	Grow consistently, recognising the potential impact of market volatility on results in the short term.	215.8p (2017: 226.9p).	In 2018, basic EPS before exceptional items was 215.8 pence.
Dividend per share[1]	Increase dividends progressively in line with the trend in profitability. Maintain a payout ratio of approximately 50%.	The recommended final dividend of 79 pence per share would bring the total dividend for the year to 114 pence per share, representing a payout ratio of 53%.	There continues to be sufficient capital to maintain our current dividend level for at least 3 years before taking account of any future profits (see page 29).
Share price performance	Total shareholder returns in excess of that of the FTSE-100 Index.	Over one, three and five years, the return on ordinary shares was -28%, -9% and 9%, and on non-voting ordinary shares was -14%, 4% and 25% respectively, versus FTSE-100 returns of -9%, 22% and 21% respectively.	Schroders continues to create value for shareholders over the long term (see page 81).
Strategic factors			
Strategic progress	Progress in identified areas of growth: Asia Pacific, North America, Fixed Income, Multi-asset, new products and solutions, Wealth Management, Technology and Private Assets and Alternatives.	2018 saw significant progress across a number of strategically important areas: – We announced a wide-ranging partnership with Lloyds Banking Group and a joint venture with Maybank Asset Management. – Our momentum in North America continued, with £3.0bn of NNB. – We launched 70 new products, focused on strategically important growth areas such as sustainability, private assets and solutions. – We added to our Private Assets and Alternatives business with the acquisition of Algonquin, and acquired an associate stake in A10. – Recent acquisitions, including Benchmark Capital and Adveq, continued to perform strongly.	

Group-wide factors continued:

Criteria	Target	Performance in 2018	Extent to which target has been met	
Non-financial factors				
Talent retention[1] and succession planning	Retention of at least 90% of key talent. Identify and implement succession plans for key employees.	94% retention (2017: 94%).	Retention of key talent remains above target. Succession plans for key employees were reviewed by the Board in November 2018. A new Head of Talent has been recruited to help strengthen and support our internal talent pipeline.	Criteria met
Diversity and inclusion	33% female representation within senior management by the end of 2019.	32% (2017: 29%).	Our original target was 30% but we later increased this to 33%. At the end of 2018, this ratio was 32%. Improving diversity further remains important.	Criteria met
Risk management and good conduct	Key issues considered by Audit and Risk Committee.	No significant issues identified during the year.	Major business change including the transition to new technology platforms has been successfully implemented and the associated risks managed. See also the Audit and Risk Committee Report (page 66) and information on conduct, compliance and risk management in remuneration (page 89).	Criteria met

1. Included in the key performance indicators on pages 16 and 17.

Individual performance criteria considered when determining the executive Directors' annual bonus awards include:

Executive Director	Criteria	Performance in 2018 and extent to which the Committee judged each performance criterion has been met	
Peter Harrison	Overall performance of the Group	Group performance is outlined on the previous page. We have made excellent progress on delivering our strategic goals but results are lower than budgeted in some areas, driven by the market volatility outlined on pages 10 and 11. We believe Schroders suffered to a similar degree as many other active managers. Wealth Management continued to see net inflows during 2018. Cost control in this difficult environment has remained strong, with targeted investment in the business to deliver future growth. Investment performance for clients remains ahead of our target.	Partially met
	Strategic progress in identified areas of growth	2018 saw significant progress, as outlined above. In particular, Peter was integral to envisioning and delivering the partnership with Lloyds Banking Group, which was a highlight of the year in that it offers a transformational opportunity to expand our Wealth Management offering. During 2018, we also recruited a new Global Head of Private Assets who will join Schroders later in 2019.	Criteria met
	Retain and develop key talent and ensure succession plans are in place for all key roles	Talent retention has been good and a number of people have been identified or appointed to key leadership positions. A new Global Head of Wealth Management was recruited in the year and an internal successor selected to succeed the Global Head of Equities in 2019. There remains further work to be done on planning senior management succession.	Criteria met
	Drive sustainability at both the firm and industry level, ensuring our stakeholders understand the important role we deliver to society	Peter is Chairman of the Investment Association Board, a member of HM Treasury's Asset Management Taskforce and sits on the advisory boards of the Diversity Project, CFA and CityUK. He has confirmed his position as an industry leader to take forward the debate in these areas. His contribution to inclusion, particularly for gender and LGBT+ groups, has been externally recognised.	Criteria met
Richard Keers	Deliver the Global Operations Committee strategy	2018 has been an important year for the firm's operating platform, including the transition to a new investment technology platform and our new London headquarters.	Criteria met
	Oversee a strong risk and control function	The Group Risk and Capital Committees continued to operate well under Richard's leadership. No significant issues were reported in a year of significant operational change for the Group, with further improvements to internal risk-assessment processes. See the Audit and Risk Committee report from page 62.	Criteria met
	Accurate, appropriate, clear and timely reporting and oversight of the Group's financial position	Richard has helped ensure a smooth transition to a new external auditor for the firm. He received positive feedback from the Audit and Risk Committee, external auditors, analysts, shareholders and other industry bodies.	Criteria met

Criteria met   Partially met   Not met

The metrics and targets outlined above and on the previous page represent the most material criteria by which the Group's performance and the performance of the executive Directors were assessed. The Committee members and the Board as a whole also review performance across a broad range of other metrics as part of their normal course of business throughout the year and during the year-end process. Performance against many of these metrics is disclosed in the half-year and annual results announcements and in the Annual Report and Accounts.

Variable pay – determining vesting of prior LTIP awards (audited)

The LTIP awards granted on 9 March 2015, covering the 2015 to 2018 performance period, are expected to lapse without vesting on 7 March 2019. The criteria for determining the extent of vesting are set out below. The composite index against which EPS performance was measured for these awards was set at the time they were granted, as 60% equities, measured by the Morgan Stanley Capital International (MSCI) All Country Index, and 40% fixed income, measured by the Barclays Capital Global Aggregate Index. Despite the strong performance of Schroders since these awards were granted, the very demanding targets will not be met.

Performance measure	Maximum % of award	Performance achieved	Vesting % of award
EPS If the growth of adjusted EPS in the fourth year compared with the year prior to grant exceeds the defined composite index by: – less than 20%: no vesting – equal to 20%: 12.5% vests – between 20-40%: straight-line basis – 40% or greater: 50% vests	50	The four-year growth in the MSCI All Countries Index was 48.0% and in the Barclays Capital Global Aggregate Index was 28.4%. Weighting them 60% and 40% respectively, growth of the composite index was 40.2%. Four-year growth in adjusted EPS was 21.0%, which is less than the composite index and is insufficient to trigger any vesting of this part of the award.	0
NNB cumulative over the four-year performance period: – less than £15 billion: no vesting – equal to £15 billion: 12.5% vests – between £15-25 billion: straight-line basis – £25 billion or greater: 50% vests	50	The four-year cumulative NNB from 2015 to 2018 was £14.2 billion, which is insufficient to trigger any vesting of this part of the award.	0
Total expected to vest in relation to 2015 to 2018 performance			0

The Audit and Risk Committee independently review key estimates made by management that impact the financial statements to ensure these are reasonable. This is reflected in the LTIP vesting calculations.

Value at vesting of prior LTIP awards (audited)

The following table shows, for each Director, the estimated value vesting from LTIP awards granted on 9 March 2015, based on the average closing mid-market share price over the three months ended 31 December 2018 and the expected vesting percentage shown above. For each executive Director, the total value expected to vest is reflected in the single total remuneration figures on page 79.

Individual	Date of grant	Grant-date face value of LTIP award £'000	Expected date of vesting	Estimated total value of LTIP award shares £'000	Proportion expected to vest in relation to 2015-2018 performance	Number of shares expected to vest	Estimated value vesting £'000
Peter Harrison	9 March 2015	800	7 March 2019	665	0%	0	0
Richard Keers	9 March 2015	400	7 March 2019	333	0%	0	0
Michael Dobson	9 March 2015	800	7 March 2019	665	0%	0	0
Philip Mallinckrodt	9 March 2015	400	7 March 2019	367	0%	0	0

The awards for Michael Dobson and Philip Mallinckrodt had been reduced pro-rata for the proportion of the performance period that each of them remained an employee of the Group.

Fixed pay – retirement benefits (audited)

The following table shows details of retirement benefits provided to executive Directors for the years ended 31 December 2018 and 31 December 2017. For the executive Directors, the sum of employer contributions and cash in lieu each year is reflected in the single total remuneration figures on page 79. Employer contributions represent contributions paid into DC pension arrangements during the year and exclude any contributions made by the Directors. There has been no DB pension accrual since 30 April 2011. Accrued DB pensions are subject to actuarial reduction on early retirement so there is no enhanced benefit entitlement in these circumstances.

£'000	**2018 employer contributions**	**2018 cash in lieu of pension**[1]	**2018 retirement benefits total**	2017 employer contributions	2017 cash in lieu of pension[1]	2017 retirement benefits total	Accrued DB pension at 31 December 2018	Normal retirement age[2]
Peter Harrison	10	35	45	10	35	45	–	60
Richard Keers	–	45	45	–	45	45	–	60

1. Peter Harrison received a combination of employer contributions to the Group's DC pension arrangement and cash in lieu of pension contributions, and Richard Keers received cash in lieu of pension contributions.
2. Normal retirement age is the earliest age at which a Director can elect to draw their pension under the rules of the Schroders Retirement Benefits Scheme without the need to seek the consent of the Company or the pension scheme trustee.

Fees from external appointments

The executive Directors are permitted to retain for their own benefit fees they receive from any external non-executive directorships, provided the directorships do not relate to any interest held by the Group. Richard Keers served as a non-executive member of the Franchise Board of Lloyds throughout 2018, for which he received fees of £77,500, including in respect of his membership and chairmanship of the Franchise Board's Audit Committee during the year. These fees do not relate to the Group and so are not included in the single total remuneration figures on page 79. Peter Harrison does not receive any fees in respect of his external non-executive roles.

Non-executive Directors' remuneration (audited)

The total remuneration of each of the non-executive Directors for the years ended 31 December 2018 and 31 December 2017 is set out below, based on the structure of non-executive Directors' fees set out below the table.

	2018						2017					
£'000	**Basic fee**	**Committee chairman**	**Committee member**	**SID**	**Taxable benefits**	**Total**	Basic fee	Committee chairman	Committee member	SID	Taxable benefits	Total
Michael Dobson	625	–	–	–	10	635	625	–	–	–	8	633
Robin Buchanan	80	–	40	–	–	120	75	–	40	–	–	115
Sir Damon Buffini	73	–	2	–	–	75	–	–	–	–	–	–
Rhian Davies	80	25	20	–	–	125	75	25	20	–	–	120
Rakhi Goss-Custard	80	–	2	–	1	83	75	–	–	–	–	75
Ian King	80	–	20	14	–	114	75	–	9	–	–	84
Philip Mallinckrodt	80	–	–	–	–	80	63	–	–	–	1	64
Nichola Pease	80	14	40	–	–	134	75	–	40	–	–	115
Bruno Schroder	108	–	–	–	3	111	103	–	–	–	3	106
Lord Howard	28	6	13	6	–	53	75	20	40	15	–	150

Sir Damon Buffini was appointed to the Board with effect from 1 February 2018 and both Ian King and Rakhi Goss-Custard were appointed to the Board with effect from 1 January 2017. On 1 March 2017, Philip Mallinckrodt relinquished his executive responsibilities and continued on the Board of the Company as a non-executive Director. In each case, on appointment as non-executive Directors their fees were set at the same level as for other non-executive Directors.

Lord Howard was SID and Remuneration Committee Chairman until he stood down from the Board on 26 April 2018. Ian King succeeded him as SID and Nichola Pease succeeded him as Remuneration Committee Chairman. The fees shown in each case reflect the portion of 2018 that they each served in these roles.

The benefits for Michael Dobson were private healthcare and medical benefits for him and his family, life assurance and occasional private use of a company car and driver. Benefits for Bruno Schroder were private healthcare and medical benefits. Benefits for Rakhi Goss-Custard were travel and accommodation expenses. Benefits for Philip Mallinckrodt were private healthcare for part of 2017 under the transitional arrangements after he relinquished his executive responsibilities.

Michael Dobson and Philip Mallinckrodt each received an LTIP award on 9 March 2015, when they were in executive roles on the Board. These LTIP awards are expected to lapse without vesting on 7 March 2019 as the performance conditions have not been met (see page 84).

The structure of non-executive Directors' fees is shown below.

	£
Chairman	625,000
Board member[1]	80,000
Senior Independent Director	20,000
Audit and Risk Committee Chairman[2]	25,000
Audit and Risk Committee member	20,000
Nominations Committee Chairman	nil
Nominations Committee member	nil
Remuneration Committee Chairman[2]	20,000
Remuneration Committee member	20,000

1. Bruno Schroder also received an additional annual fee of £28,000 for services to the Group.
2. In addition to the Committee membership fee.

DAP and LTIP awards granted during 2018 (audited)

The following awards under the DAP were granted to Directors on 5 March 2018 in respect of deferred bonuses for performance during 2017. No further performance conditions need to be met for awards to vest but DAP awards normally require the participant to remain in employment with the Group until 3.5 years after the date of grant in order to vest in full. DAP fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. DAP share awards were granted as nil-cost options. These awards were included in the 2017 single total remuneration figures disclosed last year and form part of the prior year value shown in this year's single total remuneration figures on page 79. They are also shown in the tables of Directors' rights under fund and share awards on pages 87 and 88.

		Face value at grant (£'000)						
Individual	Basis of award granted	Upfront fund awards	Deferred fund awards	Deferred share awards	Total DAP Award	Share price at grant	Number of shares	Performance conditions
Peter Harrison	Deferral of bonus awarded for performance in 2017	1,337	1,913	1,913	5,163	£33.47	57,140	Awarded for performance in 2017. No further performance conditions apply.
Richard Keers		575	800	800	2,175	£33.47	23,902	

The following awards under the LTIP were granted to Directors on 5 March 2018 as nil-cost options. These awards do not appear in the single total remuneration figure on page 79 as they are subject to performance conditions and will not vest until 2022. They are shown in the table of Directors' rights under share awards on page 88.

Individual	Basis of award granted as % of salary	Vesting maximum as % of face value	% of face value that would vest at threshold[1]	Face value at grant (£'000)	Share price at grant	Number of shares	End of performance period
Peter Harrison	120	100	25	600	£33.47	17,926	31 December 2021
Richard Keers	107	100	25	400	£33.47	11,951	31 December 2021

1. Performance under both the EPS and NNB performance measures at the threshold level to achieve non-zero vesting.

All DAP share awards and LTIP awards were granted over ordinary shares. The share price used to determine the number of shares under each DAP share award and LTIP award is the mid-market closing share price on the last trading day prior to the date of grant, and this is the price used to calculate the face value shown. The vesting of the LTIP awards is subject to the performance conditions set out on page 84. The composite index against which EPS performance will be measured for these awards is as follows:

Index	Weighting %
Morgan Stanley Capital International All Countries Asia Pacific	15.0
Morgan Stanley Capital International Emerging Markets	7.5
Morgan Stanley Capital International All Countries World	15.0
Morgan Stanley Capital International Europe	7.5
FTSE All Share	5.0
Barclays Capital Global Aggregate	50.0

Personal shareholding policy (audited)

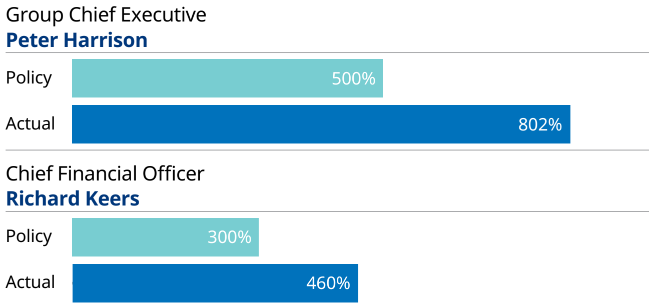
To align the interests of senior management with those of shareholders, the executive Directors and the other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary or, in the case of the Group Chief Executive, 500% of base salary. Each executive Director and GMC member undertakes not to sell any Schroders shares until their share ownership target has been reached. The executive Directors' service contracts provide that, on stepping down as an executive Director, half the level of shareholding required while an executive Director must be maintained for two years, or the actual level of shareholding on stepping down if lower.

For these purposes, rights to shares include the estimated after-tax value of unvested DAP, ECP or EIP share awards (shown as 'unvested DAP, ECP or EIP awards' on page 88) and DAP share awards in respect of performance in 2018 (see page 81). They do not include LTIP awards granted in 2015, as these are expected to lapse without vesting on 7 March 2019, or other unvested rights to shares from LTIP awards, as these are subject to performance conditions.

Each executive Director had achieved the current shareholding targets as at 5 March 2019, based upon the mid-market closing share price on that date. At this share price, a 10% share price movement equates to a change in the value of these shareholdings of £401,000 for the Group Chief Executive and £172,000 for the Chief Financial Officer.

The charts below compare the value of each executive Director's shareholdings for these purposes as at 5 March 2019 with the shareholding required under the personal shareholding policy, as a percentage of salary.

Value of shareholding vs. shareholding policy (% of salary)



Directors' rights under fund and share awards, and Directors' share interests

This section outlines Directors' rights at 31 December 2018 from fund and share awards granted under the Group's deferred remuneration plans. It goes on to set out the total interests in shares of the Directors and their connected persons at 31 December 2018.

Directors' rights under fund awards (audited)

Directors had the following rights under fund awards, based on the award values at grant:

		Unvested DAP or ECP awards £'000	Vested DAP or ECP awards £'000	Total £'000
Peter Harrison	At 31 December 2017	3,275	–	3,275
	Granted	1,913	1,337	3,250
	Vested	(950)	950	–
	Exercised	–	(2,287)	(2,287)
	At 31 December 2018	**4,238**	**–**	**4,238**
Richard Keers	At 31 December 2017	1,700	–	1,700
	Granted	800	575	1,375
	Vested	(531)	531	–
	Exercised	–	(1,106)	(1,106)
	At 31 December 2018	**1,969**	**–**	**1,969**
Michael Dobson	At 31 December 2017	3,600	–	3,600
	Vested	(1,675)	1,675	–
	At 31 December 2018	**1,925**	**1,675**	**3,600**
Philip Mallinckrodt	At 31 December 2017	1,325	537	1,862
	Vested	(450)	450	–
	Exercised	–	(987)	(987)
	At 31 December 2018	**875**	**–**	**875**

Directors' rights under share awards (audited)

Directors had the following rights to shares under the Group's deferred remuneration plans, in the form of nil-cost options.

		Unvested LTIP awards[1]	Unvested DAP, ECP or EIP awards[2]	Vested DAP, ECP, EIP or LTIP awards	Total
Peter Harrison (Ordinary shares)	At 31 December 2017	60,168	141,697	32,566	234,431
	Granted	17,926	57,140	–	75,066
	Dividend-equivalent accrual	–	5,836	1,166	7,002
	Vested	–	(57,624)	57,624	–
	Exercised	–	–	(32,566)	(32,566)
	At 31 December 2018	**78,094**	**147,049**	**58,790**	**283,933**
Richard Keers (Ordinary shares)	At 31 December 2017	55,738	61,798	15,232	132,768
	Granted	11,951	23,902	–	35,853
	Dividend-equivalent accrual	–	2,364	652	3,016
	Vested	(9,293)	(18,515)	27,808	–
	Lapsed where LTIP conditions were not met	(9,294)	–	–	(9,294)
	Exercised	–	–	(24,525)	(24,525)
	At 31 December 2018	**49,102**	**69,549**	**19,167**	**137,818**
Michael Dobson (Ordinary shares)	At 31 December 2017	24,661	136,585	242,324	403,570
	Dividend-equivalent accrual	–	2,755	10,592	13,347
	Vested	(8,364)	(58,383)	66,747	–
	Lapsed where LTIP conditions were not met	(8,364)	–	–	(8,364)
	Exercised	–	–	(8,364)	(8,364)
	At 31 December 2018	**7,933**	**80,957**	**311,299**	**400,189**
Philip Mallinckrodt (Non-voting ordinary shares)	At 31 December 2017	32,578	64,791	221,948	319,317
	Dividend-equivalent accrual	–	2,094	1,005	3,099
	Vested	(9,683)	(21,011)	30,694	–
	Lapsed where LTIP conditions were not met	(9,683)	–	–	(9,683)
	Exercised	–	–	(221,948)	(221,948)
	At 31 December 2018	**13,212**	**45,874**	**31,699**	**90,785**

1. These awards will only vest to the extent that the relevant performance conditions are met. Includes LTIP awards granted on 9 March 2015, which were unvested as at 31 December 2018. These awards are expected to lapse on 7 March 2019 (see page 84).
2. No performance conditions apply for these awards. Although executive Directors are not eligible to receive EIP awards, Peter Harrison received an EIP award in December 2013, prior to his appointment as an executive Director in May 2014.

During 2018, the aggregate gain on nil-cost options for Peter Harrison was £1,123,000, for Richard Keers was £841,000, for Michael Dobson was £284,000 and for Philip Mallinckrodt was £5,253,000. These related to awards settled in shares, which were granted between 2008 and 2014.

Directors' share interests (audited)

The Directors and their connected persons had the following interests in shares in the Company.

	Number of shares at 31 December 2018	
	Ordinary shares	Non-voting ordinary shares
Executive Directors		
Peter Harrison	579	–
Richard Keers	570	–
Non-executive Directors		
Michael Dobson	144,612	193,416
Robin Buchanan	–	9,839
Sir Damon Buffini	–	5,000
Rhian Davies	–	1,000
Rakhi Goss-Custard	669	–
Ian King	–	2,641
Philip Mallinckrodt[1]	80,985,757	6,346,615
Nichola Pease	93	951
Bruno Schroder[2]	13,881,416	1,482,417

1. The interests of Philip Mallinckrodt set out above include his personal holdings and the beneficial interests held by him and his connected persons in their capacity as members of a class of potential beneficiaries under certain settlements made by members of the Schroder family.
2. The interests of Bruno Schroder set out above refer to the position prior to his death on 20 February 2019. They include his personal holdings and beneficial interests that were held by him and his connected persons in their capacity as members of a class of potential beneficiaries under certain settlements made by members of the Schroder family.

Between 31 December 2018 and 5 March 2019, the only movements in the Directors' share interests were the acquisition under the SIP of 19 ordinary shares by Peter Harrison, 20 ordinary shares by Richard Keers and 14 ordinary shares by a connected person of Nichola Pease who is an employee of Schroders.

Payments to former Directors (audited)

Massimo Tosato stepped down from the Board and ceased to be an employee of Schroders at the end of 2016. As disclosed in the 2016 remuneration report, the Committee exercised its discretion at that time to allow him to retain his unvested LTIP awards. The LTIP awards remained subject to performance conditions and in addition those awards have been reduced pro-rata for the proportion of the performance period that he remained an employee of the Group. The LTIP award granted to Massimo Tosato in March 2015 is expected to lapse without vesting on 7 March 2019. He was also granted an LTIP award in 2016, which is due to vest in 2020, subject to performance conditions.

Conduct, compliance and risk management in remuneration

Schroders' core values are excellence, innovation, teamwork, passion and integrity. We expand on these in our guiding principles to more clearly articulate the behaviours that we expect from our employees. Pages 32 and 33 provide more information on these and other key elements of our people strategy.

Performance management and remuneration are important tools to reinforce expected standards of behaviour. During the annual performance appraisal, line managers assess each employee's behaviours, to identify those whose behaviour exemplifies our values as well as any employees whose behaviour falls short of the standards that we expect. To drive positive change and reinforce those behavioural expectations, we also operate a global employee recognition scheme, which provides an opportunity to recognise those who champion our values.

The Group's control functions independently review potential conduct or cultural issues to identify any instances where performance or behaviours have fallen short of our expectations. Any issues identified in this way are fed into the performance appraisal and compensation review processes. This provides a further opportunity to reflect attitudes to risk and compliance and behaviours in line with our values in the determination or allocation of the bonus pool and in individual employee performance ratings and remuneration outcomes.

We identify employees whose professional activities can have a particular risk impact on the Group, or on certain regulated subsidiaries. Our approach to identifying these MRTs takes account of the different regulatory requirements and guidance that apply across the Group. Our MRTs are subject to enhanced scrutiny and oversight, including enhanced control function oversight of their activities and direct oversight of their remuneration by the Committee. Some MRTs, specifically those identified under the UCITS Directive or AIFMD, are subject to higher levels of bonus deferral and a higher proportion of remuneration in fund awards, creating greater alignment with clients and shareholders.

To ensure the Committee is adequately informed of risks facing the Group and the management of those risks, the Chairman of the Committee serves on the Audit and Risk Committee. The Committee also receives reports from the heads of Compliance, Legal, Risk and Internal Audit as part of its consideration of remuneration proposals.

The Committee reviewed the Group's regulatory disclosures in the context of the applicable FCA and PRA requirements. The remuneration disclosures required under the Capital Requirements Directive are incorporated into the Group's Pillar 3 disclosures and are available at schroders.com/ir. Other regulatory remuneration disclosures can be found at schroders.com/remuneration-disclosures.

Priorities for 2019

As well as considering the standing items of business, the Committee will also focus on the following areas during 2019:

- Regulatory developments and the potential impact on the structure of remuneration at Schroders
- Carried interest-sharing arrangements

Implementation of remuneration policy for 2019

Basis for determining executive Directors' annual bonus awards for performance in 2019

Executive Directors' annual bonus awards for performance in 2019 will be based on broadly the same performance factors as were considered for 2018 (see pages 82 and 83). The process to determine awards will be unchanged. Targets are commercially sensitive and so both the targets and performance against those targets will be disclosed retrospectively in the 2019 annual report on remuneration. The Committee is able to consider corporate performance on ESG issues when setting remuneration of the executive Directors and is satisfied that the Directors' remuneration policy and its implementation do not raise ESG risks by inadvertently motivating the wrong behaviours in the executive Directors.

The expectation is that the DAP will be used for deferred bonus awards to the executive Directors in respect of performance in 2019 and future years.

LTIP awards to be granted in 2019

In accordance with the Directors' remuneration policy, the Committee intends to grant LTIP awards over shares with the following values to the executive Directors in March 2019:

Director	LTIP face value at grant
Peter Harrison	£600,000
Richard Keers	£400,000

The vesting of these awards will be based on EPS and NNB performance conditions and targets as outlined on page 84. The Committee has reviewed the make-up of Schroders AUM at 31 December 2018 to determine the indices and weightings that will make up the composite index against which EPS performance will be measured, as a proxy for the market movement of Schroders AUM. For awards to be granted in March 2019, the following weighted basket of indices will be used:

Index	Weighting %
Morgan Stanley Capital International All Countries Asia Pacific	17.5
Morgan Stanley Capital International Emerging Markets	7.5
Morgan Stanley Capital International All Countries World	15.0
Morgan Stanley Capital International Europe	5.0
FTSE All Share	5.0
Barclays Capital Global Aggregate	50.0

By Order of the Board.

Nichola Pease
Chairman of the Remuneration Committee

6 March 2019

The information contained in the sections of this Annual Report and Accounts identified below forms part of this Directors' report:

- Strategic report
- Board of Directors
- Corporate governance report, including the Nominations Committee report and the Audit and Risk Committee report
- The Statement of Directors' responsibilities.

Share capital

Schroders has developed under stable ownership for more than 200 years and has been a public company whose ordinary shares have been listed on the London Stock Exchange since 1959. The Company's share capital is comprised of ordinary shares of £1 each and non-voting ordinary shares of £1 each. The ordinary shares have a premium listing on the London Stock Exchange and the non-voting ordinary shares have a standard listing on the London Stock Exchange.

226,022,400 ordinary shares (80% of the total issued share capital) were in issue throughout the year. The Company has no authority to issue or buy back any ordinary shares. Each ordinary share carries the right to attend and vote at general meetings of the Company. 56,505,600 non-voting ordinary shares (20% of the total issued share capital) were in issue throughout the year. No shares were held in treasury.

The non-voting ordinary shares were created in 1986 to facilitate the operation of an employee share plan without diluting the voting rights of ordinary shareholders. The non-voting ordinary shares carry the same rights as ordinary shares except that they do not provide the right to attend and vote at general meetings of the Company and that, on a capitalisation issue, they carry the right to receive non-voting ordinary shares rather than ordinary shares.

When the non-voting ordinary shares were created, the ratio of ordinary shares to non-voting ordinary shares was 4:1. The Company has at times issued non-voting ordinary shares, principally in connection with the Group's employee share plans or as consideration for an acquisition. The Company has not intended and does not intend to increase the issued non-voting ordinary share capital over the medium term and therefore has, at times, bought back non-voting ordinary shares to maintain the 4:1 ratio.

At the 2018 AGM, shareholders renewed the Directors' authority to issue 5,000,000 non-voting ordinary shares in order to provide the Directors with the flexibility to issue non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares. Shareholders also gave approval for the Company to buy back up to 14,100,000 non-voting ordinary shares, which will expire at the 2019 AGM. Renewal of these authorities will be sought at the 2019 AGM which will be held at 11.30 a.m. on 2 May 2019. At the 2019 AGM, the Directors will ask for shareholder authority for the dis-application of pre-emption rights in relation to the issue of up to 5,000,000 non-voting ordinary shares, to provide flexibility.

Under the terms of the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust, ordinary and non-voting ordinary shares are held on trust on behalf of employee share plan participants. The trustees of these trusts may exercise the voting rights in any way they think fit. In doing so, they may consider the financial and non-financial interests of the beneficiaries and their dependents. As at 5 March 2019, being the latest practicable date before the publication of this Annual Report and Accounts, the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust together held 8,842,901 ordinary shares and 97,369 non-voting ordinary shares.

Under the terms of the Share Incentive Plan, as at 5 March 2019, 710,436 ordinary shares were held in trust on behalf of plan participants. At the participants' direction, the trustees can exercise the voting rights over ordinary shares in respect of participant share entitlements.

There are no restrictions on the transfer of the Company's shares save for:

- Restrictions imposed by laws and regulations;
- Restrictions on the transfer of shares imposed under the Company's Articles of Association or under Part 22 of the UK Companies Act 2006, in either case after a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006; and
- Restrictions on the transfer of shares held under certain employee share plans while they remain subject to the plan.

The Company is not aware of any agreement between shareholders that may restrict the transfer of securities or voting rights.

Substantial shareholdings

As at 31 December 2018, the Company had received notifications, in accordance with rule 5.1.2R of the Disclosure Guidance and Transparency Rules, of interests in 3% or more of the voting rights attaching to the Company's issued share capital, as set out in the table below. There had been no changes to these notifications or additional notifications as at the date of this report.

Member	Class of shares	No. of voting rights held	% of voting rights held
Vincitas Limited[1]	Ordinary	60,724,609	26.87
Veritas Limited[1]	Ordinary	36,795,041	16.28
Flavida Limited[2]	Ordinary	60,951,886	26.97
Fervida Limited[2]	Ordinary	39,724,396	17.58
Harris Associates L.P.[3]	Ordinary	11,443,978	5.06
Lindsell Train Limited[3]	Ordinary	11,312,070	5.01

1. Vincitas Limited and Veritas Limited are trustee companies which act as trustees of certain settlements made by members of the Schroder family. Vincitas Limited and Veritas Limited are party to the Relationship Agreement.
2. Flavida Limited and Fervida Limited are protector companies which act as protectors of certain settlements made by members of the Schroder Family. Flavida Limited and Fervida Limited are parties to the Relationship Agreement. Their interests in shares are principally in respect of shares in which Vincitas Limited and Veritas Limited are also interested.
3. Harris Associates L.P. and Lindsell Train Limited are not party to the Relationship Agreement.

Relationship Agreement

Following changes made to the UK Listing Rules in May 2014, companies with a shareholder or shareholders who could, when acting in concert, exercise 30% or more of the voting rights of a company at a general meeting, are required to enter into a binding agreement with that shareholder or shareholders. This is intended to ensure that the parties to the agreement comply with certain independence provisions as set out in the Listing Rules. Accordingly, on 14 November 2014, the Company entered into such an agreement (the 'Relationship Agreement') with a number of shareholders who own or control the ordinary shares (and associated voting rights) referred to on page 91.

The Schroder family interests are in shares owned directly or indirectly by trustee companies which act as trustees of various trusts settled by family individuals, in shares owned by family individuals, and in shares owned by a family charity. The trustee holdings include the interests (43.15%) held by Vincitas Limited and Veritas Limited, as disclosed in the table on page 91, and further interests (1.6%) held by two other trustee companies which are not required to be disclosed under the Disclosure Guidance and Transparency Rules.

If aggregated, the total interests covered by the Relationship Agreement including shares held by the trustee companies, individuals and the family charity amount to 108,323,711 of the Company's ordinary shares (47.93%).

In accordance with Listing Rule 9.8.4(14), the Board confirms that for the year ended 31 December 2018:

- the Company has complied with the independence provisions included in the Relationship Agreement; and
- so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by the other parties to the Relationship Agreement and their associates.

Dividends

The Directors are recommending a final dividend of 79 pence per share which, if approved by shareholders at the AGM, will be paid on 9 May 2019 to shareholders on the register of members at close of business on 29 March 2019. Details on the Company's dividend policy are set out on page 29. Dividends payable in respect of the year, subject to this approval, along with prior year payments, are set out below.

Ordinary shares and non-voting ordinary shares	2018 pence	2018 £m	2017 pence	2017 £m
Interim	35.0	95.7	34.0	92.9
Final	79.0*	216.1	79.0	216.0
Total	114.0*	311.8	113.0	308.9

* Subject to approval by shareholders at the 2019 AGM.

The Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust have waived their rights to dividends paid on both the ordinary and non-voting ordinary shares in respect of 2018 and future periods. See notes 7 and 21 to the financial statements.

Corporate Responsibility

Details of the Company's employment practices, including diversity and employee involvement can be found in the Strategic report from page 31.

We are committed to minimising the environmental impact of our operations and to delivering continuous improvement in our environmental performance. See page 38 for more details on our total CO_2e emissions data.

Indemnities and Insurance

At the 2007 AGM, shareholders authorised the Company to provide indemnities to, and to fund defence costs for, Directors in certain circumstances. All Directors, at the time shareholder approval was received, were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that, on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third-party liabilities that they may incur as a result of their service on the Board. All Directors' indemnities were in place during the year and remain in force.

Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

As part of the integration of Cazenove Capital, the Cazenove Capital Management Limited Pension Scheme was merged with the Schroders Retirement Benefits Scheme, with effect from 31 December 2014. Pursuant to that merger, a qualifying pension scheme indemnity (as defined in section 235 of the Companies Act 2006) provided by Schroders plc for the benefit of the Directors of Cazenove Capital Management Pension Trustee Limited, a subsidiary of the Company, was put in place at that time and remains in force.

This indemnity covers, to the extent permitted by law, certain losses or liabilities incurred by the Directors of Cazenove Capital Management Pension Trustee Limited in connection with that company's activities as trustee of the Cazenove Capital Management Limited Pension Scheme.

Directors' conflicts of interest

The Company has procedures in place to identify, authorise and manage conflicts of interest, including of Directors of the Company, and they have operated effectively during the year. In circumstances where a potential conflict arises, the Board (excluding the Director concerned) will consider the situation and either authorise the arrangement in accordance with the Companies Act 2006 and the Company's Articles of Association, or take other appropriate action.

All potential conflicts authorised by the Board are recorded in a conflicts register, which is maintained by the Company Secretary and reviewed by the Board on an annual basis. Directors have a continuing duty to update the Board with any changes to their conflicts of interest.

Change of control

The Company does not consider that it has any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid that are required to be disclosed pursuant to paragraph 13(2) (j) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) other than as disclosed below:

Under the Group's Revolving Credit Facility Agreement, if a change of control of the Company occurs, the lenders are not obliged to provide further funding under the facility. The Company and lenders have up to 30 days to agree the continued use of the facility. If there is no agreement, repayment of the facility and accrued interest may be requested by the lenders with not less than 10 days' notice.

Under a Framework Agreement with Lloyds Banking Group plc (LBG) in relation to the strategic partnership announced on 23 October 2018, a change of control of the Company to: (1) either a major competitor of LBG or (2) an entity or person on, or controlled by an entity or person on, a recognised sanctions list or located in a specified jurisdiction, LBG may terminate the Framework Agreement. Such termination provisions provide for LBG and the Company to return to the status quo prior to establishing the strategic partnership in relation to shareholdings in subsidiary entities, with any transactions conducted at a specified valuation.

Directors' and employees' employment contracts do not normally provide for compensation for loss of office or employment as a result of a change of control. However, the provisions of the Company's employee share schemes may cause awards granted to employees under such schemes to vest on a change of control.

Political donations

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2017: nil) and there is no intention to make or incur any in the current year.

UK Listing Authority Listing Rules (LR) – compliance with LR 9.8.4C

The majority of the disclosures required under LR 9.8.4 are not applicable to Schroders. The table below sets out the location of the disclosures for those requirements that are applicable:

Applicable sub-paragraph within LR 9.8.4	Disclosure provided
(12) Details of any arrangements under which a shareholder has waived or agreed to waive any dividends.	See page 92
(13) Where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review.	See pages 92, 109, and 134
(14) A statement made by the Board that the Company has entered into an agreement under LR 9.2.2A, that the Company has, and, as far as it is aware, the other parties to the agreement have, complied with the provisions in the agreement.	See page 92

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. In addition, the financial statements include information on the Group's approach to managing its capital and financial risk; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group has considerable financial resources, a broad range of products and a geographically diversified business. As a consequence, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing the Annual Report and Accounts.

In addition, the Directors have assessed the Company's viability over a period of five years. The results of this assessment are set out on page 42.

By Order of the Board.

Graham Staples
Company Secretary

6 March 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated financial statements in accordance with applicable law and regulations.

The Companies Act 2006, being the applicable law in the UK, requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Under the Companies Act 2006, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make estimates and judgements that are reasonable and prudent.
- State that the financial statements comply with IFRS as adopted by the EU, subject to any material departure disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Disclosure and Transparency Rules of the FCA to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company and the Group.

The Directors are responsible for keeping proper books of accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement

Each of the Directors, whose name and functions are listed in the Board of Directors section of this Annual Report and Accounts, confirms that, to the best of each person's knowledge and belief:

The consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group.

The Directors' report contained in this Annual Report and Accounts which comprises the sections described on page 91, includes a fair review of the development and performance of the business and the position of the Company and the Group and a description of the principal risks and uncertainties that they face.

So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.

The Director has taken all the steps that ought to have been taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In addition, each of the Directors considers that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the audited financial information on the website at schroders.com.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Forward-looking statements

This Annual Report and Accounts and the Schroders website may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Company and the Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'believes', 'expects', 'confident', 'aims', 'will have', 'will be', 'will ensure', 'estimates' or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this Annual Report and Accounts. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts should be construed as a forecast, estimate or projection of future financial performance.

Financial statements contents

Consolidated income statement
for the year ended 31 December 2018

	Notes	2018 Before exceptional items £m	2018 Exceptional items[2] £m	2018 Total £m	2017 Before exceptional items £m	2017 Exceptional items[2] £m	2017 Total £m
Revenue		2,626.4	–	2,626.4	2,511.7	–	2,511.7
Cost of sales		(555.7)	–	(555.7)	(501.5)	–	(501.5)
Net operating revenue	2	**2,070.7**	**–**	**2,070.7**	**2,010.2**	**–**	**2,010.2**
Net gain on financial instruments and other income	3	33.3	(13.0)	20.3	35.2	(3.5)	31.7
Share of profit of associates and joint ventures	10	19.9	(0.8)	19.1	23.5	(1.8)	21.7
Net income		**2,123.9**	**(13.8)**	**2,110.1**	**2,068.9**	**(5.3)**	**2,063.6**
Operating expenses	4	(1,362.7)	(97.5)	(1,460.2)	(1,268.6)	(34.8)	(1,303.4)
Profit before tax		**761.2**	**(111.3)**	**649.9**	**800.3**	**(40.1)**	**760.2**
Tax	5(a)	(163.3)	18.1	(145.2)	(171.6)	5.8	(165.8)
Profit after tax[1]		**597.9**	**(93.2)**	**504.7**	**628.7**	**(34.3)**	**594.4**
Earnings per share							
Basic	6	**215.8p**	**(32.7)p**	**183.1p**	**226.9p**	**(11.6)p**	**215.3p**
Diluted	6	**211.8p**	**(32.1)p**	**179.7p**	**222.4p**	**(11.4)p**	**211.0p**
Total dividend per share	7			**114.0p**			**113.0p**

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Profit after tax		**504.7**	**594.4**
Items that may or have been reclassified to the income statement:			
Net exchange differences on translation of foreign operations after hedging		31.0	(34.4)
Net loss arising on available-for-sale financial assets	3	–	(12.2)
Net loss on available-for-sale financial assets held by associates	10	–	(3.0)
Net loss on financial assets at fair value through other comprehensive income	3	(5.9)	–
Tax on items taken directly to other comprehensive income	5(b)	(0.7)	0.7
		24.4	**(48.9)**
Items that will not be reclassified to the income statement:			
Net actuarial (loss)/gain on defined benefit pension schemes	24	(11.6)	42.3
Tax on items taken directly to other comprehensive income	5(b)	2.0	(7.4)
		(9.6)	**34.9**
Other comprehensive income for the year, net of tax[1]		**14.8**	**(14.0)**
Total comprehensive income for the year[1]		**519.5**	**580.4**

1. Non-controlling interest is presented in the Consolidated statement of changes in equity.
2. See note 1(b) for a definition and further details of exceptional items.

Consolidated statement of financial position
at 31 December 2018

	Notes	2018 £m	2017 £m
Assets			
Cash and cash equivalents		2,683.4	2,947.0
Trade and other receivables	8	748.9	739.0
Financial assets	9	3,354.9	3,480.8
Associates and joint ventures	10	175.2	143.9
Property, plant and equipment	11	249.4	162.8
Goodwill and intangible assets	12	968.2	825.8
Deferred tax	13	42.8	39.3
Retirement benefit scheme surplus	24	155.6	162.9
		8,378.4	**8,501.5**
Assets backing unit-linked liabilities			
Cash and cash equivalents		598.2	572.5
Financial assets		10,657.7	13,413.9
	14	**11,255.9**	**13,986.4**
Total assets		**19,634.3**	**22,487.9**
Liabilities			
Trade and other payables	15	988.6	937.7
Financial liabilities	16	3,660.6	3,955.3
Current tax		44.2	78.1
Provisions	17	31.4	44.0
Deferred tax	13	15.1	0.1
Retirement benefit scheme deficits		17.3	15.3
		4,757.2	**5,030.5**
Unit-linked liabilities	14	**11,255.9**	**13,986.4**
Total liabilities		**16,013.1**	**19,016.9**
Net assets		**3,621.2**	**3,471.0**
Total equity[1]		**3,621.2**	**3,471.0**

1. Non-controlling interest is presented in the Consolidated statement of changes in equity.

The financial statements were approved by the Board of Directors on 6 March 2019 and signed on its behalf by:

Richard Keers
Director

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m
		Attributable to owners of the parent								
At 1 January 2018		282.5	124.2	(162.3)	153.4	65.8	2,995.1	3,458.7	12.3	3,471.0
Restatement on adoption of IFRS 9 and IFRS 15[1]		–	–	–	–	–	(18.5)	(18.5)	–	(18.5)
At 1 January 2018 (restated)		**282.5**	**124.2**	**(162.3)**	**153.4**	**65.8**	**2,976.6**	**3,440.2**	**12.3**	**3,452.5**
Profit for the year		–	–	–	–	19.1	485.9	505.0	(0.3)	504.7
Other comprehensive income[2]		–	–	–	31.0	–	(16.2)	14.8	–	14.8
Total comprehensive income for the year		**–**	**–**	**–**	**31.0**	**19.1**	**469.7**	**519.8**	**(0.3)**	**519.5**
Own shares purchased	21	–	–	(74.9)	–	–	–	(74.9)	–	(74.9)
Share-based payments	25	–	–	–	–	–	63.9	63.9	–	63.9
Tax in respect of share schemes	5(c)	–	–	–	–	–	(3.3)	(3.3)	–	(3.3)
Other movements		–	–	–	–	0.5	(16.0)	(15.5)	(7.9)	(23.4)
Dividends	7	–	–	–	–	–	(311.7)	(311.7)	(1.4)	(313.1)
Transactions with shareholders		**–**	**–**	**(74.9)**	**–**	**0.5**	**(267.1)**	**(341.5)**	**(9.3)**	**(350.8)**
Transfers		**–**	**–**	**73.3**	**–**	**(2.3)**	**(71.0)**	**–**	**–**	**–**
At 31 December 2018		**282.5**	**124.2**	**(163.9)**	**184.4**	**83.1**	**3,108.2**	**3,618.5**	**2.7**	**3,621.2**

	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m
		Attributable to owners of the parent								
At 1 January 2017		282.7	124.2	(163.6)	187.7	50.1	2,657.3	3,138.4	14.4	3,152.8
Profit for the year		–	–	–	–	21.7	571.3	593.0	1.4	594.4
Other comprehensive income[2]		–	–	–	(34.3)	(3.0)	23.4	(13.9)	(0.1)	(14.0)
Total comprehensive income for the year		**–**	**–**	**–**	**(34.3)**	**18.7**	**594.7**	**579.1**	**1.3**	**580.4**
Shares cancelled	20	(0.2)	–	5.4	–	–	(5.2)	–	–	–
Own shares purchased	21	–	–	(56.6)	–	–	–	(56.6)	–	(56.6)
Share-based payments	25	–	–	–	–	–	60.5	60.5	–	60.5
Tax in respect of share schemes	5(c)	–	–	–	–	–	5.2	5.2	–	5.2
Other movements		–	–	–	–	(0.3)	–	(0.3)	0.1	(0.2)
Dividends	7	–	–	–	–	–	(267.6)	(267.6)	(3.5)	(271.1)
Transactions with shareholders		**(0.2)**	**–**	**(51.2)**	**–**	**(0.3)**	**(207.1)**	**(258.8)**	**(3.4)**	**(262.2)**
Transfers		**–**	**–**	**52.5**	**–**	**(2.7)**	**(49.8)**	**–**	**–**	**–**
At 31 December 2017		**282.5**	**124.2**	**(162.3)**	**153.4**	**65.8**	**2,995.1**	**3,458.7**	**12.3**	**3,471.0**

1. The adoption of IFRS 9 and IFRS 15 has reduced the Group's equity by £18.5 million, see Presentation of financial statements on page 149.
2. Other comprehensive income reported in the net exchange differences reserve comprises the foreign exchange gain/(loss) on the translation of foreign operations net of hedging. Other comprehensive income reported in the associates and joint ventures reserve for 2017 comprised post-tax fair value movements on available-for-sale financial assets. Other comprehensive income reported in the profit and loss reserve comprises the post-tax actuarial (loss)/gain and post-tax fair value movements on financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets).

Consolidated cash flow statement
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Net cash from operating activities	22	**513.9**	**585.1**
Cash flows from investing activities			
Net acquisition of businesses and associates		(131.8)	(185.1)
Net acquisition of property, plant and equipment and intangible assets		(204.1)	(172.6)
Acquisition of financial assets		(2,241.3)	(2,004.5)
Disposal of financial assets		2,143.7	1,853.5
Non-banking interest received		27.8	26.1
Distributions received from associates and joint ventures	10	3.1	2.7
Net cash used in investing activities		**(402.6)**	**(479.9)**
Cash flows from financing activities			
Acquisition of own shares	21	(74.9)	(56.6)
Dividends paid	7	(313.1)	(271.1)
Other flows		(0.7)	(0.9)
Net cash used in financing activities		**(388.7)**	**(328.6)**
Net decrease in cash and cash equivalents		**(277.4)**	**(223.4)**
Opening cash and cash equivalents		3,519.5	3,785.6
Net decrease in cash and cash equivalents		(277.4)	(223.4)
Effect of exchange rate changes		39.5	(42.7)
Closing cash and cash equivalents		**3,281.6**	**3,519.5**
Closing cash and cash equivalents consists of:			
Cash and cash equivalents available for use by the Group		2,650.3	2,909.8
Cash held in consolidated pooled investment vehicles		33.1	37.2
Cash and cash equivalents presented within assets		**2,683.4**	**2,947.0**
Cash and cash equivalents presented within assets backing unit-linked liabilities		598.2	572.5
Closing total cash and cash equivalents		**3,281.6**	**3,519.5**

Notes to the accounts

1. Segmental reporting
(a) Operating segments

The Group has three business segments: Asset Management, Wealth Management and the Group segment. The Asset Management segment principally comprises investment management including advisory services in respect of equity, fixed income, multi-asset solutions and private assets and alternatives products. The Wealth Management segment principally comprises investment management, wealth planning and banking services. The Group segment principally comprises the Group's investment capital and treasury management activities, corporate development and strategy activities and the management costs associated with governance and corporate management.

Segmental information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision maker, the Group Chief Executive.

Operating expenses include an allocation of costs between the individual business segments on a basis that aligns the charge with the resources employed by the Group in particular business areas. This allocation provides management information on the business performance to manage and control expenditure.

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
Revenue	2,317.6	308.8	–	2,626.4
Cost of sales	(528.8)	(26.9)	–	(555.7)
Net operating revenue	**1,788.8**	**281.9**	**–**	**2,070.7**
Net gain on financial instruments and other income	(3.3)	7.5	29.1	33.3
Share of profit of associates and joint ventures	15.7	0.4	3.8	19.9
Net income	**1,801.2**	**289.8**	**32.9**	**2,123.9**
Operating expenses	(1,130.4)	(196.4)	(35.9)	(1,362.7)
Profit before tax and exceptional items	**670.8**	**93.4**	**(3.0)**	**761.2**

Year ended 31 December 2017[1]	Asset Management £m	Wealth Management £m	Group £m	Total £m
Revenue	2,223.1	288.6	–	2,511.7
Cost of sales	(479.8)	(21.7)	–	(501.5)
Net operating revenue	**1,743.3**	**266.9**	**–**	**2,010.2**
Net gain on financial instruments and other income	(6.2)	6.3	35.1	35.2
Share of profit of associates and joint ventures	20.8	0.1	2.6	23.5
Net income	**1,757.9**	**273.3**	**37.7**	**2,068.9**
Operating expenses	(1,052.0)	(183.0)	(33.6)	(1,268.6)
Profit before tax and exceptional items	**705.9**	**90.3**	**4.1**	**800.3**

1. 2017 has been reformatted for consistency with the 2018 presentation following the adoption of IFRS 15, see Presentation of financial statements on page 149.

Segment assets and liabilities are not required to be presented as such information is not presented on a regular basis to the Group's chief operating decision maker.

Financial statements

1. Segmental reporting continued
(b) Exceptional items

Exceptional items are significant items of income and expenditure that have been separately presented by virtue of their nature to enable a better understanding of the Group's financial performance. Exceptional items relate principally to the cost reduction programme and items arising from acquisitions undertaken by the Group, including amortisation of acquired intangible assets.

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
Profit before tax and exceptional items	**670.8**	**93.4**	**(3.0)**	**761.2**
Exceptional items presented within net income:				
Net gain on financial instruments and other income	(12.9)	–	(0.1)	(13.0)
Amortisation of acquired intangible assets relating to associates and joint ventures	–	(0.8)	–	(0.8)
	(12.9)	**(0.8)**	**(0.1)**	**(13.8)**
Exceptional items presented within operating expenses:				
Cost reduction programme	(55.6)	(0.4)	–	(56.0)
Amortisation of acquired intangible assets	(8.6)	(20.2)	–	(28.8)
Other expenses	(5.5)	(4.0)	(3.2)	(12.7)
	(69.7)	**(24.6)**	**(3.2)**	**(97.5)**
Profit before tax and after exceptional items	**588.2**	**68.0**	**(6.3)**	**649.9**

Year ended 31 December 2017	Asset Management £m	Wealth Management £m	Group £m	Total £m
Profit before tax and exceptional items	705.9	90.3	4.1	800.3
Exceptional items presented within net income:				
Net gain on financial instruments and other income	(3.5)	–	–	(3.5)
Amortisation of acquired intangible assets relating to associates and joint ventures	(1.6)	(0.2)	–	(1.8)
	(5.1)	**(0.2)**	**–**	**(5.3)**
Exceptional items presented within operating expenses:				
Restructuring costs	–	(2.1)	–	(2.1)
Amortisation of acquired intangible assets	(9.4)	(18.3)	–	(27.7)
Other expenses	(2.7)	(2.3)	–	(5.0)
	(12.1)	**(22.7)**	**–**	**(34.8)**
Profit before tax and after exceptional items	688.7	67.4	4.1	760.2

(c) Geographical information

The Group's non-current assets[1] are located in the following countries:

Country	2018 £m	2017 £m
United Kingdom	852.7	726.3
Switzerland	168.2	166.8
China	104.4	87.3
France	82.3	0.3
United States	70.6	65.6
Singapore	33.0	19.1
Other	81.7	67.3
Total	**1,392.9**	**1,132.7**

1. Comprises the following non-current assets: property, plant and equipment, goodwill and intangible assets, associates and joint ventures and prepayments.

Notes to the accounts continued

1. Segmental reporting continued

(d) Non-cash items

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
Operating expenses include the following non-cash items:				
Share-based payments	(56.9)	(4.4)	(2.6)	(63.9)
Depreciation and amortisation	(57.2)	(23.1)	(0.5)	(80.8)

Year ended 31 December 2017	Asset Management £m	Wealth Management £m	Group £m	Total £m
Operating expenses include the following non-cash items:				
Share-based payments	(52.9)	(4.3)	(3.3)	(60.5)
Depreciation and amortisation	(44.7)	(18.7)	–	(63.4)

Where applicable, exceptional items are included in the non-cash items presented above.

2. Net operating revenue

Revenue

The Group's primary source of revenue is fee income from investment management activities performed within both the Asset Management and Wealth Management segments. Fee income includes management fees, performance fees, carried interest and other fees. Revenue also includes interest income earned within the Wealth Management segment.

Management fees are generated through investment management agreements and are generally based on an agreed percentage of the valuation of AUM. Management fees are recognised as the service is provided and it is probable that the fee will be collected.

Performance fees and carried interest are earned from some arrangements when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised where there is deemed to be a low probability of a significant reversal in future periods. Performance fees are typically earned over one year and are recognised at the end of the performance period. Carried interest is earned over a longer time frame and is recognised when the performance obligations are expected to be met and it is highly probable that a significant reversal will not occur. This may result in the recognition of revenue before the contractual crystallisation date.

Other fees principally comprises revenues for other services, which are typically driven by levels of AUM, along with revenues that vary according to the volume of transactions. Other fees are recognised as the relevant service is provided and it is probable that the fee will be collected.

Within Wealth Management, earning a net interest margin is a core activity. Interest income earned as a result of placing loans and deposits with other financial institutions, advancing loans and overdrafts to clients and holding debt and other fixed income securities is recognised within revenue. Interest income is recognised as it is earned using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

The Group has applied IFRS 15 Revenue from Contracts with Customers (IFRS 15) from 1 January 2018. The changes resulting from the adoption of IFRS 15 is disclosed in the Presentation of financial statements on page 149.

Cost of sales

Fee expenses incurred by the Group that relate directly to revenue are presented as cost of sales. These expenses include commissions, external fund manager fees and distribution fees payable to financial institutions, investment platform providers and financial advisers that distribute the Group's products.

Fee expense is generally based on an agreed percentage of the valuation of AUM and is recognised in the income statement as the service is received.

Cost of sales also includes amounts payable to third parties in respect of financial obligations arising from carried interest. Amounts payable in respect of carried interest are determined based on the current value of the amount that is expected to be paid when the carried interest crystallises at the end of the performance period. As a result, the cost of sales recognised in respect of carried interest payable may increase or decrease over time, dependent on the fair value of the obligation until it crystallises.

Wealth Management pays interest to clients on deposits taken. For Wealth Management, earning a net interest margin is a core activity. Interest payable in respect of these activities is therefore recorded separately from finance costs elsewhere in the business and is reported as part of cost of sales. Interest is recognised using the effective interest method (see above).

2. Net operating revenue continued

a) Net operating revenue by segment is presented below:

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
Management fees	2,224.3	227.3	–	2,451.6
Performance fees	26.2	0.4	–	26.6
Carried interest	55.7	–	–	55.7
Other fees	11.4	38.5	–	49.9
Wealth Management interest income earned	–	42.6	–	42.6
Revenue	**2,317.6**	**308.8**	**–**	**2,626.4**
Fee expense	(501.5)	(11.1)	–	(512.6)
Cost of financial obligations in respect of carried interest	(27.3)	–	–	(27.3)
Wealth Management interest expense incurred	–	(15.8)	–	(15.8)
Cost of sales	**(528.8)**	**(26.9)**	**–**	**(555.7)**
Net operating revenue[1]	**1,788.8**	**281.9**	**–**	**2,070.7**

Year ended 31 December 2017[2]	Asset Management £m	Wealth Management £m	Group £m	Total £m
Management fees[3]	2,131.6	214.6	–	2,346.2
Performance fees	77.5	0.9	–	78.4
Other fees[3]	14.0	40.8	–	54.8
Wealth Management interest income earned	–	32.3	–	32.3
Revenue	**2,223.1**	**288.6**	**–**	**2,511.7**
Fee expense	(479.8)	(10.8)	–	(490.6)
Wealth Management interest expense incurred	–	(10.9)	–	(10.9)
Cost of sales	**(479.8)**	**(21.7)**	**–**	**(501.5)**
Net operating revenue[1]	**1,743.3**	**266.9**	**–**	**2,010.2**

1. Asset Management net operating revenue comprises £851.3 million (2017: £814.0 million) from the Group's Institutional sales channel and £937.5 million (£929.3 million) from the Group's Intermediary sales channel.
2. 2017 has been reformatted for consistency with the 2018 presentation following the adoption of IFRS 15, see Presentation of financial statements on page 149.
3. Certain revenues that are earned as a percentage of the valuation of AUM, and previously presented within other income, are now presented within management fees. This change resulted in £190.6 million of other fees being reclassified to management fees for the year ended 31 December 2017.

Notes to the accounts continued

2. Net operating revenue continued

b) Net operating revenue is presented below by region based on the location of clients:

Year ended 31 December 2018	UK £m	Continental Europe & Middle East £m	Asia Pacific £m	Americas £m	Total £m
Management fees	720.3	820.6	622.8	287.9	2,451.6
Performance fees	2.1	4.7	12.5	7.3	26.6
Carried interest	–	55.7	–	–	55.7
Other fees	31.3	12.0	6.5	0.1	49.9
Wealth Management interest income earned	30.6	10.4	1.6	–	42.6
Revenue	**784.3**	**903.4**	**643.4**	**295.3**	**2,626.4**
Fee expense	(64.4)	(231.1)	(178.4)	(38.7)	(512.6)
Cost of financial obligations in respect of carried interest	–	(27.3)	–	–	(27.3)
Wealth Management interest expense incurred	(12.3)	(3.4)	(0.1)	–	(15.8)
Cost of sales	**(76.7)**	**(261.8)**	**(178.5)**	**(38.7)**	**(555.7)**
Net operating revenue	**707.6**	**641.6**	**464.9**	**256.6**	**2,070.7**

Year ended 31 December 2017[1]	UK £m	Continental Europe & Middle East £m	Asia Pacific £m	Americas £m	Total £m
Management fees[2]	698.8	770.2	623.8	253.4	2,346.2
Performance fees	24.0	22.6	22.2	9.6	78.4
Other fees[2]	31.8	15.0	7.6	0.4	54.8
Wealth Management interest income earned	19.0	12.2	1.1	–	32.3
Revenue	**773.6**	**820.0**	**654.7**	**263.4**	**2,511.7**
Fee expense	(64.6)	(231.4)	(167.1)	(27.5)	(490.6)
Wealth Management interest expense incurred	(6.1)	(4.6)	(0.2)	–	(10.9)
Cost of sales	**(70.7)**	**(236.0)**	**(167.3)**	**(27.5)**	**(501.5)**
Net operating revenue	**702.9**	**584.0**	**487.4**	**235.9**	**2,010.2**

1. 2017 has been reformatted for consistency with the 2018 presentation following the adoption of IFRS 15, see Presentation of financial statements on page 149.
2. Certain revenues that are earned as a percentage of the valuation of AUM, and previously presented within other income, are now presented within management fees. This change resulted in £190.6 million of other fees being reclassified to management fees for the year ended 31 December 2017.

Estimates and judgements – revenue

Carried interest is recognised when the relevant services have been provided and there is a low probability that a significant reversal will occur. It represents the Group's contractual right to share in the profits of around 74 private asset investment vehicles if certain performance hurdles are met when the underlying investments are realised and the capital returned to clients.

The Group applies judgement to determine certain assumptions that are used to estimate the amount of carried interest that is expected to be received. Those assumptions principally include the growth rates and realisation dates of the underlying investments that lead to capital payments being made to clients and crystallise any carried interest that may be received. These factors are used to estimate the cash flows and determine the present value of the carried interest that may be received by the Group at future crystallisation dates. The estimated cash flows are constrained, in accordance with accounting standards, to reduce the risk of significant reversal of revenue.

The Group estimates the cash flows that will be realised by the respective investment vehicles when the underlying securities are successfully disposed of. These estimates are based on the current fair value of the underlying investments. The resultant cash flows are assessed against the applicable performance hurdle, which is dependent on the capital invested and timing of distributions to clients in the individual vehicle. In order to reduce the risk of a significant reversal of carried interest, as required by accounting standards, each investment vehicle is assessed to determine whether it is sufficiently developed to be assured of carried interest returns and the fair value of all investment vehicles is discounted to limit the potential revenue recognition. Finally, it is assumed there is no further growth in the investment values to the realisation date. The distributions to clients are based on the expectations of the individual investment managers as to the realisation of a large volume of underlying individual securities.

2. Net operating revenue continued

Estimates and judgements – cost of sales

The cost of financial obligations in respect of carried interest (carried interest payable) is based on an assessment of the fair value of amounts that have been received or may be received in the future and the proportion that is payable to third parties. The Group applies similar judgements as those used to determine the present value of carried interest receivable, as set out on page 104, in determining the carried interest payable. However, accounting standards do not limit the liability that should be recognised before realisation to the amount that represents a low probability of a significant reversal occuring. As a result no constraints are applied in determining the value of the liability. In addition, a growth rate is assumed in order to determine the returns against which the investment hurdle should be applied. The amount payable at maturity will depend on the realised value of the related financial asset and may differ to the projected value. An increase in the growth rate of 3% would increase cost of sales by £12.5 million. Notwithstanding the differing accounting requirements for the recognition of carried interest and carried interest payable, any cost of sale paid to third parties in respect of carried interest will always be less than the carried interest generated and will not be settled until the income is received. An average acceleration/delay in crystallisation dates of one year would increase/reduce cost of sales by £6.9 million/£7.2 million.

3. Net gain on financial instruments and other income

The Group holds financial instruments to support its Group capital strategies, which comprise operating capital, seed and co-investment capital and other investible equity. Operating capital is retained in the Group's operating entities to meet minimum local regulatory capital requirements and other capital required for day-to-day operational purposes. Operating capital principally comprises cash and cash equivalents and other low-risk financial instruments, as well as financial instruments held to hedge fair value movements on certain deferred fund awards. Seed and co-investment capital represents strategic investments in the Group's products to develop new investment strategies and co-invest selectively alongside clients. Seed and co-investment capital is financed from investment capital and, where practical, the market risk on seed capital investments is hedged. Other investible equity held in excess of operating requirements is transferred to investment capital, which is managed centrally in accordance with limits approved by the Board.

A portion of the Group's financial instruments measured at fair value are classified as financial instruments at fair value through profit or loss (FVTPL). Net gains and losses on financial instruments at FVTPL principally comprise market returns on investments in debt securities, equities, pooled investment vehicles, gains and losses on derivatives (which mainly arise from hedging activities) and gains and losses on contingent consideration arising from business combinations (including amounts related to carried interest). Net gains and losses on financial instruments at FVTPL that are held to hedge deferred employee cash awards are presented separately and are included within operating expenses (see note 4). The cost of financial obligations in respect of carried interest (other than that relating to contingent consideration) is presented separately and is included within cost of sales (see note 2). In both instances, the presentation better reflects the substance of these transactions and provides more relevant information about the Group's net income and operating expenses.

The remainder of the Group's financial assets measured at fair value are classified as financial assets at fair value through other comprehensive income (FVOCI). Unrealised gains and losses on debt securities classified as financial assets at FVOCI are recorded in other comprehensive income, and the cumulative gains and losses are transferred to the income statement if the investment is sold or otherwise realised. This is the same accounting treatment as applied in the 2017 comparatives to the Group's financial assets classified as available-for-sale (AFS). An explanation of how the Group's financial assets and financial liabilities are classified and measured is included in notes 9 and 16.

Under IFRS 9, expected credit losses are calculated on financial assets measured at amortised cost and debt instruments measured at FVOCI and are recognised in the income statement.

The changes resulting from the adoption of IFRS 9 Financial Instruments (IFRS 9) are set out in the Presentation of the financial statements on page 149.

Net finance income is derived from interest on non-banking activities, principally generated from cash and deposits with banks, but also as a result of holding investments in debt securities. Debt securities and cash held outside of Wealth Management entities are managed mainly by Group Treasury to earn competitive rates of return and provide liquidity throughout the Group. Significant amounts of the Group's cash and interest-earning securities are held within Wealth Management and are managed by the Wealth Management treasury team. Interest earned on the assets held within Wealth Management is included in revenue and interest incurred on the liabilities assumed is included in cost of sales. Interest is recognised using the effective interest method (see note 2).

Other income includes amounts arising from AUA within Benchmark Capital, gains and losses on foreign exchange and rent receivable from subletting properties.

Notes to the accounts continued

3. Net gain on financial instruments and other income continued

Year ended 31 December	2018 Income statement £m	2018 Other comprehensive income £m	2018 Total £m	2017 Income statement £m	2017 Other comprehensive income £m	2017 Total £m
Net (loss)/gain on financial instruments at FVTPL[1]	**(13.9)**	**–**	**(13.9)**	**5.6**	**–**	**5.6**
Net loss arising from fair value movements	–	–	–	–	(8.9)	(8.9)
Net transfers on disposal	–	–	–	3.3	(3.3)	–
Net loss on AFS financial assets	**–**	**–**	**–**	**3.3**	**(12.2)**	**(8.9)**
Net loss arising from fair value movements	–	(5.7)	(5.7)	–	–	–
Net transfers on disposal	0.2	(0.2)	–	–	–	–
Net loss on financial assets at FVOCI	**0.2**	**(5.9)**	**(5.7)**	**–**	**–**	**–**
Net finance income	**8.4**	**–**	**8.4**	**9.7**	**–**	**9.7**
Other income	**25.6**	**–**	**25.6**	**13.1**	**–**	**13.1**
Net gain on financial instruments and other income	**20.3**	**(5.9)**	**14.4**	**31.7**	**(12.2)**	**19.5**
Net (loss)/gain on financial instruments held to hedge employee deferred cash awards – presented within operating expenses	**(11.3)**	**–**	**(11.3)**	**13.2**	**–**	**13.2**
Cost of financial obligations in respect of carried interest – presented within cost of sales	**(27.3)**	**–**	**(27.3)**	**–**	**–**	**–**
Net (loss)/gain on financial instruments and other income – net of hedging	**(18.3)**	**(5.9)**	**(24.2)**	**44.9**	**(12.2)**	**32.7**

1. Includes £13.0 million of exceptional items (2017: £3.5 million), of which £7.1 million is in respect of contingent consideration in relation to carried interest (2017: nil).

4. Operating expenses

Operating expenses represent the Group's administrative expenses and are recognised as the services are received. Certain costs, including leases and capitalised costs, are charged evenly over the life of the relevant contract or useful life of the asset. The biggest component of the Group's operating expenses is the cost of employee benefits, as shown below. Other costs include accommodation, information technology, marketing and outsourcing costs.

The control of total costs, including compensation costs, is a key performance objective of the Group. Compensation costs are managed to a target total compensation ratio of between 45% to 49%. Targeting a total compensation ratio range provides some flexibility to manage the overall cost base in response to market conditions. Total costs are managed to a target long-term key performance indicator (KPI) ratio of total costs to net income of 65%.

Employee benefits expense includes salaries and wages, together with the cost of other benefits provided to employees such as pension and bonuses. Employee benefits expense is presented net of gains and losses on financial instruments held to hedge deferred employee cash awards (see note 3). The Group makes some performance awards to employees that are deferred over a specified vesting period. Such awards are charged to the income statement over the performance period and the vesting period. The Group holds investments that are linked to these performance awards in order to hedge the related expense. Gains and losses on these investments are netted against the relevant costs in the income statement but are presented separately below.

Further detail on other types of employee benefit can be found elsewhere within these financial statements, see note 24 for pension costs and note 25 for more detail on compensation that is awarded in Schroders plc shares.

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(a) Employee benefits expense and number of employees

Year ended 31 December	2018 £m	2017 £m
Salaries, wages and other remuneration	839.7	784.0
Social security costs	66.5	71.3
Pension costs	45.6	41.5
Employee benefits expense	**951.8**	**896.8**
Net loss/(gain) on financial instruments held to hedge deferred cash awards	11.3	(13.2)
Employee benefits expense – net of hedging	**963.1**	**883.6**

The employee benefits expense net of hedging of £963.1 million (2017: £883.6 million) includes £59.8 million (2017: £2.3 million) that is presented within exceptional items, which comprises £56.0 million (2017: nil) of expenses in relation to the cost reduction programme and £3.8 million (2017: £0.2 million) arising from prior acquisitions completed by the Group. Additionally, in 2017 there were £2.1 million of exceptional items in relation to restructuring costs.

Information about the compensation of key management personnel can be found in note 26. Details of the amounts paid to or receivable from Directors along with the number of Directors who exercised share options in the year is provided in the Remuneration report on pages 68 to 90.

The monthly average number of employees of the Company and its subsidiary undertakings during the year was:

	2018 Number	2017 Number
Full-time employees	4,383	4,013
Contract and temporary employees	489	384
	4,872	**4,397**
Employed as follows:		
Asset Management	3,910	3,526
Wealth Management	924	831
Group	38	40
	4,872	**4,397**

(b) Audit and other services

Year ended 31 December	2018 £m	2017 £m
Fees payable to the auditor for the audit of the Company and Consolidated financial statements	0.6	0.6
Fees payable to the auditor and its associates for other services:		
Audit of the Company's subsidiaries	3.3	2.7
Audit-related assurance services	1.0	1.1
Other assurance services	0.5	–
Tax advisory services	–	0.1
Other non-audit services	0.1	1.2
	5.5	**5.7**

EY replaced PwC as the Group's principal auditor for the 2018 financial year.

Notes to the accounts continued

5. Tax expense

The Group is headquartered in the UK and pays taxes according to the rates applicable in the countries and states in which it operates. Most taxes are recorded in the income statement (see part (a)) and relate to taxes payable for the reporting period (current tax). The charge also includes benefits and charges relating to when income or expenses are recognised in a different period for tax and accounting purposes or specific treatment relating to acquisitions (deferred tax – see note 13). Some current and deferred taxes are recorded through other comprehensive income (see part (b)) or directly to equity, where the tax arises from changes in the value of remuneration settled as shares (see part (c)).

(a) Analysis of tax charge reported in the income statement

Year ended 31 December	2018 £m	2017 £m
UK current year charge	56.9	79.9
Rest of the world current year charge	78.6	84.2
Adjustments in respect of prior year estimates	1.7	(5.0)
Total current tax	**137.2**	**159.1**
Origination and reversal of temporary differences	7.9	(4.9)
Adjustments in respect of prior year estimates	0.1	0.9
Effect of changes in corporation tax rates	–	10.7
Total deferred tax	**8.0**	**6.7**
Tax charge reported in the income statement	**145.2**	**165.8**

(b) Analysis of tax (credit)/charge reported in other comprehensive income

Year ended 31 December	2018 £m	2017 £m
Current income tax on movements in available-for-sale financial assets	–	(0.7)
Current income tax on movements in financial assets at fair value through other comprehensive income	1.5	–
Deferred tax (credit)/charge on actuarial gains and losses on defined benefit pension schemes	(2.0)	7.1
Deferred tax (credit)/charge on other movements through other comprehensive income	(0.8)	0.3
Tax (credit)/charge reported in other comprehensive income	**(1.3)**	**6.7**

(c) Analysis of tax charge/(credit) reported in equity

Year ended 31 December	2018 £m	2017 £m
Current income tax credit on Equity Compensation Plan and other share-based remuneration	(2.6)	(4.2)
Deferred tax charge/(credit) on Equity Compensation Plan and other share-based remuneration	5.9	(1.6)
Deferred tax – effect of changes in corporation tax rates	–	0.6
Tax charge/(credit) reported in equity	**3.3**	**(5.2)**

(d) Factors affecting tax charge for the year

The UK standard rate of corporation tax for 2018 is 19% (2017: effective rate of 19.25%). The tax charge for the year is higher (2017: higher) than a charge based on the UK standard rate. The differences are explained below:

Year ended 31 December	2018 £m	2017 £m
Profit before tax	649.9	760.2
Less post-tax net profit of associates and joint ventures	(19.1)	(21.7)
Profit before tax of Group entities	**630.8**	**738.5**
Profit before tax of consolidated Group entities multiplied by corporation tax at the UK standard rate	**119.9**	**142.2**
Effects of:		
Different statutory tax rates of overseas jurisdictions	8.7	12.4
Permanent differences including non-taxable income and non-deductible expenses	11.1	3.5
Net movement in timing differences for which no deferred tax is recognised	3.7	1.1
Deferred tax adjustments in respect of changes in corporation tax rates	–	10.7
Prior year adjustments	1.8	(4.1)
Tax charge reported in the income statement	**145.2**	**165.8**

5. Tax expense continued

Estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. Liabilities relating to open and judgemental matters, including those in relation to deferred taxes, are based on the Group's assessment of the most likely outcome based on the information available. As a result, certain tax amounts are based on estimates using factors that are relevant to the specific judgement. The Group engages constructively and transparently with tax authorities with a view to early resolution of any uncertain tax matters. Where the final tax outcome of these matters is different from the amounts provided, such differences will impact the tax charge in a future period. Such estimates are based on assumptions made on the probability of potential challenge within certain jurisdictions and the possible outcome based on relevant facts and circumstances, including local tax laws. There was no individual judgemental component of the tax expense that was material to the Group results when taking into account the likely range of potential outcomes.

Amounts recorded within the 2018 tax charge relating to these judgements were not material (2017: same).

6. Earnings per share

This KPI shows the portion of the Group's profit after tax that is attributable to each share issued by the Company, excluding own shares held by the Group. The calculation is based on the weighted average number of shares in issue during the year. The diluted figure recalculates that number as if all share options that would be expected to be exercised, as they have value to the option holder, had been exercised in the year. Shares that may be issued are not taken into account if the impact does not reduce earnings per share.

Reconciliation of the figures used in calculating basic and diluted earnings per share:

Year ended 31 December	2018 Number Millions	2017 Number Millions
Weighted average number of shares used in the calculation of basic earnings per share	275.9	275.4
Effect of dilutive potential shares – share options	5.2	5.6
Effect of dilutive potential shares – contingently issuable shares	–	0.1
Weighted average number of shares used in the calculation of diluted earnings per share	**281.1**	**281.1**

The pre-exceptional earnings per share calculations are based on profit after tax excluding non-controlling interest of £2.6 million (2017: £3.7 million). After exceptional items, the loss after tax attributable to non-controlling interest was £0.3 million (2017: profit of £1.4 million).

7. Dividends

Dividends are distributions of profit to holders of the Group's share capital, usually announced with the Group's half-year and annual results. Dividends are recognised only when they are paid or approved by shareholders. The reduction in equity in the year therefore comprises the prior year final dividend and the current year interim dividend.

	2019		2018		2017	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Prior year final dividend paid			216.0	79.0	174.7	64.0
Interim dividend paid			95.7	35.0	92.9	34.0
Total dividends paid			**311.7**	**114.0**	**267.6**	**98.0**
Current year final dividend recommended	**216.1**	**79.0**				

Dividends of £10.5 million (2017: £9.3 million) on shares held by employee benefit trusts have been waived and dividends may not be paid on treasury shares. The Board has recommended a 2018 final dividend of 79.0 pence per share (2017 final dividend: 79.0 pence), amounting to £216.1 million (2017 final dividend: £216.0 million). The dividend will be paid on 9 May 2019 to shareholders on the register at 29 March 2019 and will be accounted for in 2019.

In addition, the Group paid £1.4 million of dividends to holders of non-controlling interests in subsidiaries of the Group during 2018 (2017: £3.5 million), resulting in total dividends paid of £313.1 million (2017: £271.1 million).

Notes to the accounts continued

8. Trade and other receivables

Trade and other receivables includes prepayments and deposits with banks in the form of bullion as well as amounts the Group is due to receive from third parties in the normal course of business. Trade and other receivables, other than deposits with banks in the form of bullion, are recorded initially at fair value and subsequently at amortised cost (see note 9), after the deduction of provisions for impairment. Prepayments arise where the Group pays cash in advance for services. As the service is provided, the prepayment is reduced and the operating expense is recognised in the income statement. Accrued income, other than amounts relating to carried interest, represents unbilled revenue and is not dependent on future performance. Amounts due from third parties also include settlement accounts for transactions undertaken on behalf of funds and investors. Deposits with banks in the form of bullion are recorded at fair value.

	2018			2017[1]		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other receivables held at amortised cost:						
Fee debtors	–	72.6	72.6	–	63.7	63.7
Settlement accounts	–	170.1	170.1	–	182.0	182.0
Accrued income	56.8	337.7	394.5	19.6	373.7	393.3
Prepayments	0.1	35.9	36.0	0.2	27.2	27.4
Other receivables	5.5	54.1	59.6	1.9	30.4	32.3
Current tax	–	7.0	7.0	–	13.8	13.8
	62.4	**677.4**	**739.8**	**21.7**	**690.8**	**712.5**
Trade and other receivables held at fair value:						
Deposits with banks in the form of bullion	–	9.1	9.1	–	26.5	26.5
	62.4	**686.5**	**748.9**	**21.7**	**717.3**	**739.0**

1. Comparative information has not been restated following the adoption of IFRS 15 on 1 January 2018, see Presentation of financial statements on page 149.

The fair value of trade and other receivables held at amortised cost approximates their carrying value. Deposits with banks in the form of bullion are categorised as level 1 in the fair value hierarchy (see note 9).

Estimates and judgements

Accrued income includes £74.7 million of receivables in respect of carried interest. This income is due over a number of years and only when contractually agreed performance levels are exceeded. The actual income received may vary as a result of future investment performance. Further information regarding the estimates and judgements applied is set out in note 2.

9. Financial assets

The Group holds financial assets including equities, debt securities, pooled investment vehicles and derivatives to support its Group capital strategies and its Wealth Management banking book, including loans to clients. The Group also enters into derivatives on behalf of Wealth Management clients, referred to as client facilitation (see note 18).

On 1 January 2018, the Group adopted IFRS 9 Financial Instruments (IFRS 9). IFRS 9 replaces the classification and measurement models previously contained in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39), see Presentation of financial statements on page 149. The classification and measurement of financial assets at 31 December 2018 is in accordance with IFRS 9 and the classification and measurement of financial assets at 31 December 2017 is in accordance with IAS 39 as the Group has not restated comparative information.

Classification and measurement in accordance with IFRS 9

The Group initially records all financial assets at fair value. The Group subsequently holds each financial asset at fair value ('fair value through profit or loss' (FVTPL) or 'fair value through other comprehensive income' (FVOCI)) or at amortised cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants. Amortised cost is the amount determined based on moving the initial amount recognised for the financial instrument to the maturity value on a systematic basis using a fixed interest rate (effective interest rate), taking account of repayment dates and initial premiums or discounts.

Financial assets at amortised cost

Financial assets are measured at amortised cost when their contractual cash flows represent solely payments of principal and interest and they are held within a business model designed to collect cash flows. This classification typically applies to the Group's loans and advances, trade receivables and some debt securities held by the Group's Wealth Management entities. The carrying value of amortised cost financial assets is adjusted for impairment under the expected loss model (see note 3 and 19).

Financial assets at fair value through other comprehensive income

Financial assets are held at FVOCI when their contractual cash flows represent solely payments of principal and interest and they are held within a business model designed to collect cash flows and to sell assets. This classification applies to certain debt securities within the Group's Wealth Management entities and to debt securities held as part of the Group's investment capital portfolio. Impairment is recognised for debt securities classified as FVOCI under the expected loss model (see note 3 and 19).

Financial assets at fair value through profit or loss

All other financial assets are held at FVTPL. The Group's financial assets at FVTPL principally comprise investments in debt securities, equities, pooled investment vehicles and derivatives.

Classification and measurement in accordance with IAS 39 in respect of prior periods

The Group initially recorded all financial assets at fair value. The Group subsequently held each financial asset at fair value ('fair value through profit or loss' (FVTPL) or 'available-for-sale' (AFS)) or at amortised cost ('held to maturity' or 'loans and receivables'). Fair value and amortised cost are explained above.

Financial assets at amortised cost ('held to maturity' and 'loans and receivables')

Financial assets at amortised cost are the same as those within IFRS 9. The main difference is that adjustments for impairment were made in accordance with the incurred loss model. This was normally determined based on an assessment of the estimated future cash flows on a discounted basis using the original effective interest rate compared with contractual amounts (see note 3 and 19).

Financial assets at fair value through profit or loss

A portion of the Group's financial assets were held at FVTPL and comprised assets that were initially designated as such and those that were held for regular trading.

Available-for-sale financial assets

The remainder of the Group's investments held at fair value were classified as AFS financial assets. This classification was typically selected when the investment was expected to be held for the long term but not necessarily to maturity and where short-term volatility did not reflect long-term expected returns. AFS financial assets were reviewed for impairment at the end of each reporting period. The carrying value of these financial assets was not necessarily adjusted, but any impairment loss was transferred from other comprehensive income to the income statement.

Notes to the accounts continued

9. Financial assets continued

Estimates and judgements – fair value measurements

The Group holds financial instruments that are measured at fair value. The fair value of financial instruments may require some estimation or may be derived from readily available sources. The degree of estimation involved depends on the individual financial instrument and is reflected in the fair value hierarchy below. The hierarchy also reflects the extent of judgements used in the valuation but this does not necessarily indicate that the fair value is more or less likely to be realised. Judgements may include determining which valuation approach to apply as well as determining appropriate assumptions. For level 2 and 3 financial instruments, the judgement applied by the Group gives rise to an estimate of fair value. The approach to determining the fair value estimate of level 2 and 3 financial instruments is set out below, with no individual input giving rise to a material component of the carrying value for the Group. The fair value levels are based on the degree to which the fair value is observable and are defined as follows:

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in pooled investment vehicles, quoted equities and government debt, daily-priced funds and exchange-traded derivatives;

– Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data. The Group's level 2 financial instruments principally comprise foreign exchange contracts, certain debt securities, asset and mortgage backed securities, and loans held at fair value. Valuation techniques may include using a broker quote in an inactive market or an evaluated price based on a compilation of primarily observable market information utilising information readily available via external sources. For funds not priced on a daily basis, the net asset value which is issued monthly or quarterly is used; and

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. The Group's level 3 financial assets principally comprise investments in private equity funds that are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Valuation Guidelines 2015. Following the Group's acquisition of Algonquin Management Partners S.A. (see note 28), level 3 financial assets now include investments in property investment vehicles that operate hotel businesses. These are valued based on the expected future cash flows that could be generated from the hotel business.

	2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Financial assets at amortised cost:					
Loans and advances to banks	–	–	–	384.2	384.2
Loans and advances to clients	–	–	–	572.6	572.6
Debt securities	–	–	–	139.1	139.1
	–	**–**	**–**	**1,095.9**	**1,095.9**
Financial assets at fair value through other comprehensive income:					
Debt securities	487.3	442.0	–	–	929.3
	487.3	**442.0**	**–**	**–**	**929.3**
Financial assets at fair value through profit or loss:					
Pooled investment vehicles	614.5	5.0	80.9	–	700.4
Debt securities	260.7	103.3	5.0	–	369.0
Equities	197.4	0.7	21.5	–	219.6
Derivative contracts	5.2	24.1	9.0	–	38.3
Loans and advances to clients	–	2.4	–	–	2.4
	1,077.8	**135.5**	**116.4**	**–**	**1,329.7**
	1,565.1	**577.5**	**116.4**	**1,095.9**	**3,354.9**

9. Financial assets continued

	2017				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Financial assets at amortised cost – held to maturity:					
Debt securities	–	–	–	10.2	10.2
	–	**–**	**–**	**10.2**	**10.2**
Financial assets at amortised cost – loans and receivables:					
Loans and advances to banks	–	–	–	783.2	783.2
Loans and advances to clients	–	–	–	557.3	557.3
Debt securities	–	–	–	141.5	141.5
	–	**–**	**–**	**1,482.0**	**1,482.0**
Available-for-sale financial assets:					
Pooled investment vehicles	30.9	4.0	14.7	–	49.6
Debt securities	384.3	548.3	–	–	932.6
Equities	0.2	0.1	12.4	–	12.7
	415.4	**552.4**	**27.1**	**–**	**994.9**
Financial assets at fair value through profit or loss:					
Pooled investment vehicles	627.0	4.5	31.4	–	662.9
Debt securities	66.2	83.6	–	–	149.8
Equities	134.9	0.1	–	–	135.0
Derivative contracts	2.6	29.3	13.4	–	45.3
Loans and advances to clients	–	0.7	–	–	0.7
	830.7	**118.2**	**44.8**	**–**	**993.7**
	1,246.1	**670.6**	**71.9**	**1,492.2**	**3,480.8**

	2018 £m	2017 £m
Current	2,822.9	3,047.2
Non-current	532.0	433.6
	3,354.9	**3,480.8**

The fair value of financial assets at amortised cost approximates to their carrying value. No financial assets were transferred between levels during 2018 (2017: none).

Movements in financial assets categorised as Level 3 during the year were:

	2018 £m	2017 £m
At 1 January	71.9	56.8
Exchange translation adjustments	1.9	(0.1)
Net gain/(loss) recognised in the income statement	6.3	(3.0)
Net loss recognised in other comprehensive income[1]	–	(6.8)
Additions[2]	48.4	36.0
Disposals	(12.1)	(11.0)
At 31 December	**116.4**	**71.9**

1. Reported within net loss on available-for-sale financial assets.
2. Additions during the year include amounts relating to the acquisition of Algonquin Management Partners S.A. (see note 28).

Notes to the accounts continued

10. Associates and joint ventures

Associates are entities in which the Group has an investment and over which it has significant influence, but not control, through participation in the financial and operating policy decisions. Joint ventures are entities in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the major decisions require the unanimous consent of the joint partners. In both cases, the Group initially records the investment at the fair value of the purchase consideration, including purchase related costs. The Group's income statement reflects its share of the entity's profit or loss after tax and amortisation of intangible assets. The statement of other comprehensive income records the Group's share of gains and losses arising from the entity's financial assets at FVOCI (2017: AFS financial assets) (see note 9). The statement of financial position subsequently records the Group's share of the net assets of the entity plus any goodwill and intangible assets that arose on purchase less subsequent amortisation. The statement of changes in equity records the Group's share of other equity movements of the entity. Goodwill and intangible assets are assessed regularly for impairment.

The associates and joint ventures reserve in the statement of changes in equity represents the Group's share of profits in its investments yet to be received (for example, in the form of dividends or distributions), less any amortisation of intangible assets. Certain associates are held at fair value where permitted by accounting standards and are recorded within financial assets (see note 9). Information about the Group's principal associates measured at fair value are disclosed within this note.

(a) Investments in associates and joint ventures accounted for using the equity method

	2018			2017		
	Associates £m	Joint ventures £m	Total £m	Associates £m	Joint ventures £m	Total £m
At 1 January	141.8	2.1	143.9	123.1	1.9	125.0
Exchange translation adjustments	1.0	–	1.0	(2.7)	–	(2.7)
Additions[1]	22.7	–	22.7	5.9	–	5.9
Disposals[2]	(8.9)	–	(8.9)	–	–	–
Profit for the year after tax	18.4	0.7	19.1	20.9	0.8	21.7
Net loss recognised in other comprehensive income	–	–	–	(3.0)	–	(3.0)
Other movements in reserves of associates and joint ventures	0.5	–	0.5	(0.3)	–	(0.3)
Distributions of profit	(2.4)	(0.7)	(3.1)	(2.1)	(0.6)	(2.7)
At 31 December	**173.1**	**2.1**	**175.2**	**141.8**	**2.1**	**143.9**

1. On 1 May 2018, the Group acquired a 20% equity interest in A10 Capital Parent Company LLC (A10), a US-based full-service commercial real estate lending platform, for a consideration of £10.2 million. On the same date, the Group also purchased £22.7 million of redeemable preference shares issued by A10. The redeemable preference shares are included within financial assets at amortised cost (see note 9). On 11 June 2018, the Group purchased a 26% interest in Planar Investments Private Ltd, a Singapore-based digital wealth services business that trades as 'WeInvest', for a consideration of £7.5 million. The Group invested in three other associate undertakings during the period for a total consideration of £5.0 million.
2. The Group disposed of two associates during the year with a combined carrying value of £8.9 million.

Information about the significant associates held by the Group at 31 December 2018 is shown below. The companies are unlisted.

Name of associate	Nature of its business	Principal place of business	Class of share	Percentage owned by the Group
RWC Partners Limited (RWC)	Investment management	England	Ordinary shares	41%
Bank of Communications Schroder Fund Management Co. Ltd. (BoCom)	Investment management	China	Ordinary shares	30%
Axis Asset Management Company Limited (Axis)	Investment management	India	Ordinary shares	25%
A10 Capital Parent Company LLC (A10)	Real estate lending	USA	Common units	20%

10. Associates and joint ventures continued

	2018						2017				
	RWC £m	**BoCom £m**	**Axis £m**	**A10 £m**	**Other £m**	**Total £m**	RWC £m	BoCom £m	Axis £m	Other £m	Total £m
Non-current assets	5.9	29.1	20.5	868.3	2.2	926.0	5.0	108.5	14.9	2.7	131.1
Current assets	76.0	399.8	54.2	129.4	12.0	671.4	53.6	295.9	39.9	7.3	396.7
Non-current liabilities	(0.1)	–	(4.0)	(903.5)	(2.2)	(909.8)	–	–	(9.9)	(7.2)	(17.1)
Current liabilities	(40.1)	(81.1)	(39.3)	(55.0)	(0.8)	(216.3)	(25.1)	(113.6)	(15.3)	(1.6)	(155.6)
Total equity	**41.7**	**347.8**	**31.4**	**39.2**	**11.2**	**471.3**	**33.5**	**290.8**	**29.6**	**1.2**	**355.1**
Group's share of net assets	17.3	104.3	7.8	7.9	3.4	140.7	14.4	87.3	7.4	1.3	110.4
Goodwill and intangible assets	9.7	–	11.7	1.4	9.6	32.4	10.2	–	12.1	9.1	31.4
Carrying value held by the Group	**27.0**	**104.3**	**19.5**	**9.3**	**13.0**	**173.1**	**24.6**	**87.3**	**19.5**	**10.4**	**141.8**
Net income	52.4	158.8	82.3	11.7	6.3	311.5	38.8	154.9	81.0	1.4	276.1
Profit/(loss) for the year	10.1	54.4	2.1	(5.3)	(2.1)	59.2	4.9	61.5	8.6	–	75.0
Other comprehensive loss	–	–	–	–	–	–	–	(10.1)	–	–	(10.1)
Total comprehensive income	**10.1**	**54.4**	**2.1**	**(5.3)**	**(2.1)**	**59.2**	**4.9**	**51.4**	**8.6**	**–**	**64.9**
Group's share of profit for the year before amortisation	**4.2**	**16.3**	**0.5**	**(1.1)**	**(0.7)**	**19.2**	**2.1**	**18.4**	**2.2**	**–**	**22.7**
Amortisation charge	–	–	–	–	(0.8)	(0.8)	–	–	(1.6)	(0.2)	(1.8)
Group's share of profit for the year	**4.2**	**16.3**	**0.5**	**(1.1)**	**(1.5)**	**18.4**	**2.1**	**18.4**	**0.6**	**(0.2)**	**20.9**
Group's share of other comprehensive income	–	–	–	–	–	–	–	(3.0)	–	–	(3.0)
Group's share of total comprehensive income	**4.2**	**16.3**	**0.5**	**(1.1)**	**(1.5)**	**18.4**	**2.1**	**15.4**	**0.6**	**(0.2)**	**17.9**

(b) Investments in associates measured at fair value

Where the Group holds units in pooled investment vehicles that give the Group significant influence, but not control, through participation in the financial and operating policy decisions, the Group records such investments at fair value. Information about the Group's principal associates measured at fair value is shown below. The investments are recorded as financial assets within the Group's statement of financial position.

	2018					
	Schroder Global Multi-Factor Equity Fund £m	**Schroder ISF European Alpha Focus £m**	**Schroder Fusion Portfolio 3 £m**	**Schroder YEN Target (Annual) £m**	**Sicredi – FI Multimercado Elite Credito Privado LP £m**	**Schroder Absolute Return Emerging Markets Debt Portfolio LP £m**
Current assets	841.7	86.8	25.3	7.3	6.9	7.1
Current liabilities	(1.3)	–	(4.4)	–	–	–
Total equity	**840.4**	**86.8**	**20.9**	**7.3**	**6.9**	**7.1**
Net income	19.5	(9.0)	(0.2)	0.4	0.3	0.1
Profit for the year	16.8	(9.0)	(0.2)	0.4	0.3	0.1
Total comprehensive income	**16.8**	**(9.0)**	**(0.2)**	**0.4**	**0.3**	**0.1**
Country of incorporation	UK	Luxembourg	UK	Japan	Brazil	US
Percentage owned by the Group	37%	19%	29%	33%	31%	22%

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10. Associates and joint ventures continued

	2017				
	Hartford Schroder Emerging Markets Multi-Sector Bond Fund £m	Schroder Global Equity Fund £m	Schroder US Equity Income Maximiser Fund £m	Schroder Liquid Alternatives Investimento No Exterior Fundo De Investimento £m	Schroder Advanced Beta Global Equity Value Fund £m
Current assets	76.1	362.7	75.5	12.0	334.5
Current liabilities	(0.1)	(0.5)	–	(0.2)	(3.0)
Total equity	**76.0**	**362.2**	**75.5**	**11.8**	**331.5**
Net income	6.5	5.4	1.1	0.1	17.4
Profit for the year	6.1	5.3	1.0	0.1	17.4
Total comprehensive income	**6.1**	**5.3**	**1.0**	**0.1**	**17.4**
Country of incorporation	USA	UK	UK	Brazil	UK
Percentage owned by the Group	24%	23%	23%	22%	27%

11. Property, plant and equipment

The Group's property, plant and equipment provides the infrastructure to enable the Group to operate and principally comprises leasehold improvements, freehold land and buildings, fixtures and fittings and computer equipment. Assets are initially stated at cost, which includes expenditure associated with acquisition. The cost of the asset is recognised in the income statement as a depreciation charge on a straight line basis over the estimated useful life, with the exception of land as it is assumed to have an indefinite useful life.

	2018				2017			
	Leasehold improvements £m	**Land and buildings £m**	**Other assets £m**	**Total £m**	Leasehold improvements £m	Land and buildings £m	Other assets £m	Total £m
Cost								
At 1 January	166.0	23.1	72.4	261.5	89.7	3.9	61.2	154.8
Exchange translation adjustments	2.0	–	1.9	3.9	(1.1)	0.2	(0.8)	(1.7)
Additions	76.8	0.6	33.7	111.1	81.4	19.0	13.0	113.4
Disposals	(37.6)	(4.0)	(15.3)	(56.9)	(4.0)	–	(1.0)	(5.0)
At 31 December	**207.2**	**19.7**	**92.7**	**319.6**	**166.0**	**23.1**	**72.4**	**261.5**
Accumulated depreciation								
At 1 January	(50.5)	(0.1)	(48.1)	(98.7)	(50.5)	–	(37.9)	(88.4)
Exchange translation adjustments	(1.3)	–	(1.1)	(2.4)	0.5	–	0.5	1.0
Depreciation charge for the year	(8.1)	(0.5)	(13.2)	(21.8)	(4.5)	(0.1)	(11.7)	(16.3)
Disposals	37.6	–	15.1	52.7	4.0	–	1.0	5.0
At 31 December	**(22.3)**	**(0.6)**	**(47.3)**	**(70.2)**	**(50.5)**	**(0.1)**	**(48.1)**	**(98.7)**
Net book value at 31 December	**184.9**	**19.1**	**45.4**	**249.4**	**115.5**	**23.0**	**24.3**	**162.8**

12. Goodwill and intangible assets

Intangible assets (other than software) arise when the Group acquires a business and the fair value paid exceeds the fair value of the net tangible assets acquired. This premium reflects additional value that the Group determines to be attached to the business. Identifiable acquired intangible assets relating to business combinations include technology, contractual agreements to manage client funds and gain additional access to new or existing clients, geographies and brand names. Where such assets can be identified, they are classified as acquired intangible assets and charged to the income statement over time.

Consideration paid to acquire the business in excess of the acquisition date fair value of net tangible and identifiable intangible assets is known as goodwill. Goodwill is not charged to the income statement unless its value has diminished. Assessment of whether goodwill has become impaired is based on the expected future returns of the relevant cash-generating unit (CGU) as a whole.

Software purchased and developed for use in the business is also classified as an intangible asset. The cost of purchasing and developing software is taken to the income statement over time as an amortisation charge within operating expenses. The treatment is similar to property, plant and equipment and the asset is normally amortised on a straight line basis over three to five years, but can have estimated useful lives of up to 10 years.

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	2018				2017			
	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost								
At 1 January	595.1	247.3	177.4	1,019.8	454.9	186.6	116.2	757.7
Exchange translation adjustments	10.6	4.0	1.6	16.2	(8.2)	(3.6)	(1.0)	(12.8)
Additions	70.8	27.1	90.8	188.7	148.4	64.3	63.7	276.4
Disposals	–	–	(18.4)	(18.4)	–	–	(1.5)	(1.5)
At 31 December	**676.5**	**278.4**	**251.4**	**1,206.3**	**595.1**	**247.3**	**177.4**	**1,019.8**
Accumulated amortisation								
At 1 January	–	(123.3)	(70.7)	(194.0)	–	(97.3)	(53.3)	(150.6)
Exchange translation adjustments	–	(2.0)	(1.5)	(3.5)	–	1.7	0.5	2.2
Amortisation charge for the year	–	(28.8)	(30.2)	(59.0)	–	(27.7)	(19.4)	(47.1)
Disposals	–	–	18.4	18.4	–	–	1.5	1.5
At 31 December	**–**	**(154.1)**	**(84.0)**	**(238.1)**	–	**(123.3)**	**(70.7)**	**(194.0)**
Carrying amount at 31 December	**676.5**	**124.3**	**167.4**	**968.2**	**595.1**	**124.0**	**106.7**	**825.8**

Of the total goodwill, £492.0 million (2017: £410.8 million) is allocated to Asset Management. Wealth Management goodwill is allocated £119.5 million (2017: £119.3 million) to Schroder Wealth and £65.0 million (2017: £65.0 million) to Benchmark Capital.

The Group acquired £24.9 million (2017: £64.3 million) of intangible assets as a result of business combinations completed in 2018, £20.1 million of which related to the acquisition of Algonquin Management Partners S.A. in the Asset Management segment and £4.8 million related to business combinations completed during the year by Benchmark Capital in the Wealth Management segment. The Group also acquired £2.2 million (2017: nil) of customer contracts through Benchmark Capital that were not considered to be business combinations.

Estimates and judgements

The Group estimates the fair value of intangible assets acquired at the acquisition date based on forecast profits, taking account of synergies, derived from existing contractual arrangements. This assessment involves judgement in determining assumptions relating to potential future revenues, profit margins, appropriate discount rates and the expected duration of client relationships. The Group also made estimates to determine the fair value of certain other identifiable assets and liabilities, which included judgement principally with respect to the determination of carried interest receivable and related liabilities and specifically the assumed growth rates, realisation dates and appropriate discount rates (see note 2). The difference between the fair value of the consideration and the value of the identifiable assets and liabilities acquired, including intangible assets, is accounted for as goodwill.

At each reporting date, the Group applies judgement to determine whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and a full assessment determines that the carrying value exceeds the estimated recoverable amount at that time, the assets are written down to their recoverable amount.

The recoverable amount of goodwill is determined using a discounted cash flow model. Any impairment is recognised immediately in the income statement and cannot be reversed. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from that business combination. For all relevant acquisitions, it is the Group's judgement that the lowest level of CGU used to determine impairment is segment level for Asset Management. The Benchmark Capital business within Wealth Management is assessed separately from the rest of Wealth Management.

Notes to the accounts continued

12. Goodwill and intangible assets continued

The recoverable amount of acquired intangible assets is the greater of fair value less costs to sell and the updated discounted valuation of the remaining net residual income stream. Any impairment is recognised immediately in the income statement but may be reversed if relevant conditions improve.

The recoverable amounts of the CGUs are determined from value-in-use calculations applying a discounted cash flow model. The key assumptions on which the Group's cash flow projections are based include long-term market growth rates of 2% per annum (2017: 2%), a pre-tax discount rate of 11% (2017: 11%), expected fund flows and expected changes to margins. The results of the calculation indicate that goodwill is not impaired.

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in estimating the recoverable amounts of the CGUs is small. This is due to the amount of goodwill allocated to the relevant CGU relative to the size of the relevant future profitability estimate.

Movements in the growth rate and/or the discount rate of 1% would not lead to any impairment. A comparison of actual results to the projected results used to assess goodwill impairment in prior years reveals that the Group would have recognised no changes (2017: nil) to its goodwill asset in the year as a result of inaccurate projections.

13. Deferred tax

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable in future accounting periods. They arise as a result of temporary differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded. A deferred tax asset represents a tax reduction that is expected to arise in a future period based on past transactions. A deferred tax liability represents taxes that will become payable in a future period as a result of current or prior year transactions.

Deferred tax liabilities also arise on certain acquisitions where the amortisation of the acquired intangible asset does not result in a tax deduction. The deferred tax liability is established on acquisition and is released to the income statement to match the intangible asset amortisation.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the year end date.

	2018					2017				
	Accelerated capital allowances £m	Deferred employee awards £m	Pension schemes £m	Other net temporary differences £m	Total £m	Accelerated capital allowances £m	Deferred employee awards £m	Pension schemes £m	Other net temporary differences £m	Total £m
At 1 January	0.1	83.7	(27.4)	(17.2)	39.2	3.5	92.7	(20.1)	(10.3)	65.8
Restatement on adoption of IFRS 15[1]	–	–	–	1.7	1.7	–	–	–	–	–
Income statement (charge)/credit	(2.0)	(3.7)	(0.7)	(1.6)	(8.0)	(4.7)	3.7	(0.3)	5.3	4.0
Income statement credit/(charge) due to changes in tax rates	–	–	–	–	–	1.1	(11.2)	0.1	(0.7)	(10.7)
Credit/(charge) to other comprehensive income	–	–	2.0	0.8	2.8	–	–	(7.1)	(0.3)	(7.4)
(Charge)/credit taken to equity	–	(5.9)	–	–	(5.9)	–	1.6	–	–	1.6
Charge to equity due to changes in tax rates	–	–	–	–	–	–	(0.6)	–	–	(0.6)
Business combinations (see note 28)	–	–	–	(3.8)	(3.8)	–	–	–	(10.9)	(10.9)
Exchange translation adjustments	(0.2)	1.5	–	0.4	1.7	0.2	(2.5)	–	(0.3)	(2.6)
At 31 December	**(2.1)**	**75.6**	**(26.1)**	**(19.7)**	**27.7**	**0.1**	**83.7**	**(27.4)**	**(17.2)**	**39.2**

1. Restated following the adoption of IFRS 15, see Presentation of financial statements on page 149.

A deferred tax asset of £18.8 million (2017: £19.7 million) relating to realised and unrealised capital losses has not been recognised as there is insufficient evidence that there will be sufficient taxable gains in the future against which the deferred tax asset could be utilised.

Deferred tax assets of £8.0 million (2017: £7.2 million) relating to other losses and other temporary differences have not been recognised as there is insufficient evidence that there will be sufficient taxable profits in the future against which these deferred tax assets could be utilised.

The aggregate amount of gross temporary differences regarding investments in subsidiaries is £2.7 million (2017: £3.4 million). Deferred tax has not been provided as the relevant parent company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

13. Deferred tax continued

After offsetting deferred tax assets and liabilities where appropriate within territories, the net deferred tax asset comprises:

	2018 £m	2017 £m
Deferred tax assets	42.8	39.3
Deferred tax liabilities	(15.1)	(0.1)
	27.7	**39.2**

14. Unit-linked liabilities and assets backing unit-linked liabilities

The Group operates a unit-linked life assurance business through the wholly-owned subsidiary Schroder Pension Management Limited (Life Company). The Life Company provides investment products through a life assurance wrapper. The investment products do not provide cover for any insurance risk and are therefore recognised and accounted for as financial instruments and presented as financial liabilities due to Life Company investors (policyholders) within unit-linked liabilities.

The investment product is almost identical to a unit trust. As it is a life assurance product, the contractual rights and obligations of the investments remain with the Group and the AUM is therefore included on the Group's statement of financial position, together with the liability to investors. The Group earns fee income from managing the investment, which is included in revenue.

Financial assets and liabilities held by the Life Company are measured at FVTPL and this is unchanged following the adoption of IFRS 9. Other balances include cash and receivables, which are measured at amortised cost (see note 9). The Life Company's assets are regarded as current assets as they represent the amount available to Life Company investors (or third party investors in other funds) who are able to withdraw their funds on call, subject to certain restrictions in the case of illiquidity. Gains and losses from assets and liabilities held to cover investor obligations are attributable to investors in the Life Company or third party investors in the funds. As a result, any gain or loss is offset by a change in the obligation to investors.

	2018 £m	2017 £m
Financial liabilities due to Life Company investors	8,811.3	10,518.2
Financial liabilities due to third parties[1]	2,444.6	3,468.2
	11,255.9	**13,986.4**

1. In accordance with accounting standards, the Group is deemed to hold a controlling interest in certain funds as a result of the investments held by the Life Company. This results in all of the assets and liabilities of those funds being consolidated within the Group's statement of financial position and the third party interest in the fund being recorded as a financial liability due to third party investors.

The Group has no primary exposure to market risk, credit risk or liquidity risk in relation to the investments due to Life Company investors. The risks and rewards associated with its investments are normally borne by the investors in the Life Company's investment products or third party investors in the funds and not by the Life Company itself.

Fair value measurements of Life Company financial assets and liabilities

Each of the Life Company's financial assets and liabilities have been categorised using a fair value hierarchy as shown below. These levels are based on the degree to which the fair value is observable and are defined in note 9.

	2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Assets backing unit-linked liabilities	6,832.0	3,573.4	37.3	813.2	11,255.9
Unit-linked liabilities	10,992.4	64.4	–	199.1	11,255.9

	2017				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Assets backing unit-linked liabilities	9,576.3	3,704.5	54.6	651.0	13,986.4
Unit-linked liabilities	13,906.1	42.8	–	37.5	13,986.4

The fair value of financial instruments not held at fair value approximates to their carrying value in 2017 and 2018.

Notes to the accounts continued

14. Unit-linked liabilities and assets backing unit-linked liabilities continued

The types of investments found in each of the levels 1 and 3 for the Life Company are the same as those listed for the non-Life Company instruments in note 9. Level 2 investments principally comprise commercial papers, certificates of deposit, forward foreign exchange contracts and certain debt securities. No financial assets were transferred from level 1 to level 2 during the year.

Movements in financial assets categorised as level 3 during the year were:

	2018 £m	2017 £m
At 1 January	54.6	44.5
Exchange translation adjustments	0.3	1.5
Gains recognised in the income statement	10.7	4.8
Additions	–	14.1
Disposals	(28.3)	(10.3)
At 31 December	**37.3**	**54.6**

15. Trade and other payables

Trade and other payables includes amounts the Group is due to pay in the normal course of business, accruals and deferred income, being fees received in advance of services provided as well as deferred cash awards and bullion deposits by customers. Trade and other payables, other than deferred cash awards and bullion deposits, are recorded initially at fair value and subsequently at amortised cost (see note 9). Amounts due to the Group in the normal course of business are made up of creditors and accruals. Accruals represent costs, including remuneration, that are not yet billed or due for payment, but for which the goods or services have been received. Deferred cash awards, being deferred employee remuneration payable in cash, and bullion deposits by customers are recorded at fair value.

	2018			2017		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other payables at amortised cost:						
Settlement accounts	–	177.7	177.7	–	186.8	186.8
Trade creditors	–	17.3	17.3	–	10.6	10.6
Social security	17.6	58.3	75.9	26.0	59.6	85.6
Accruals and deferred income	26.9	512.8	539.7	10.7	457.4	468.1
Other payables	13.2	20.2	33.4	2.5	20.0	22.5
	57.7	**786.3**	**844.0**	**39.2**	**734.4**	**773.6**
Trade and other payables at fair value:						
Deferred cash awards	73.2	62.3	135.5	73.7	63.9	137.6
Bullion deposits by customers	–	9.1	9.1	–	26.5	26.5
	73.2	**71.4**	**144.6**	**73.7**	**90.4**	**164.1**
	130.9	**857.7**	**988.6**	**112.9**	**824.8**	**937.7**

The fair value of trade and other payables held at amortised cost approximates to their carrying value. The fair value of bullion deposits by customers is derived from level 1 inputs (see note 9). The fair value of deferred cash awards is derived from level 1 inputs, being equal to the fair value of the units in funds to which the employee award is linked.

The Group's trade and other payables contractually mature in the following time periods:

	2018 £m	2017 £m
Less than 1 year[1]	857.7	824.8
1 – 2 years	48.7	58.9
2 – 5 years	68.5	51.3
More than 5 years	13.7	2.7
	130.9	**112.9**
	988.6	**937.7**

1. Settlement accounts are generally settled within four working days and trade creditors have an average settlement period of 22 working days (2017: 20 working days).

16. Financial liabilities

The Group's financial liabilities principally comprise deposits by Wealth Management clients and banking counterparties. They also include derivatives held for client facilitation or interest rate matching in Wealth Management (see note 18), and the hedging of risk exposures within investment capital. Other financial liabilities at fair value mainly comprise liabilities that arise from financial obligations in respect of carried interest, third party interests in consolidated funds, and contingent consideration and other financial liabilities arising from prior acquisitions completed by the Group. Consolidation occurs when the Group is deemed to control a fund, usually in respect of Life Company or seed capital investments. When a fund is consolidated, the Group accounts for the fund in its statement of financial position as if it were wholly-owned by the Group, but records an additional liability representing the fair value of the proportion of the fund owned by third party investors. Where the investment is held by the Life Company, the fair value of the proportion of the fund owned by third party investors is shown as part of unit-linked liabilities (see note 14). Each instrument has been categorised within one of three levels using a fair value hierarchy (see note 9).

	2018				
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Not at fair value £m**	**Total £m**
Financial liabilities at amortised cost:					
Client accounts	–	–	–	3,235.5	3,235.5
Deposits by banks	–	–	–	19.8	19.8
Other financial liabilities	–	–	–	6.2	6.2
	–	**–**	**–**	**3,261.5**	**3,261.5**
Financial liabilities at fair value through profit or loss:					
Derivative contracts (see note 18)	3.2	18.9	–	–	22.1
Other financial liabilities	222.6	–	154.4	–	377.0
	225.8	**18.9**	**154.4**	**–**	**399.1**
	225.8	**18.9**	**154.4**	**3,261.5**	**3,660.6**

	2017				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Financial liabilities at amortised cost:					
Client accounts	–	–	–	3,685.7	3,685.7
Deposits by banks	–	–	–	59.3	59.3
Other financial liabilities	–	–	–	26.4	26.4
	–	**–**	**–**	**3,771.4**	**3,771.4**
Financial liabilities at fair value through profit or loss:					
Derivative contracts (see note 18)	4.9	19.3	–	–	24.2
Other financial liabilities	87.3	–	72.4	–	159.7
	92.2	**19.3**	**72.4**	**–**	**183.9**
	92.2	**19.3**	**72.4**	**3,771.4**	**3,955.3**

For the maturity profiles of client accounts, deposits by banks and derivative contracts see notes 18 and 19.

The fair value of financial liabilities held at amortised cost approximates to their carrying value.

	2018 £m	2017 £m
Current	3,527.0	3,809.2
Non-current	133.6	146.1
	3,660.6	**3,955.3**

Notes to the accounts continued

16. Financial liabilities continued

Estimates and judgements

The carrying value of financial liabilities may involve estimation or be derived from readily available sources. Financial liabilities have been categorised using a fair value hierarchy that reflects the extent of estimates and judgements used in the valuation (see note 9). The Group's financial liabilities categorised as level 3 principally consist of obligations arising from contingent consideration related to carried interest arrangements and other financial liabilities arising from prior acquisitions completed by the Group. Information about the estimates and judgements made in determining the fair value of carried interest payable is set out in note 2.

The carrying values of level 3 financial liabilities are typically derived from an estimate of the expected future cash flows required to settle the liability. These estimates reflect the projected performance of the acquired businesses for a number of years into the future.

Movements in financial liabilities categorised as Level 3 during the year were:

	2018 £m	2017 £m
At 1 January	72.4	44.2
Exchange translation adjustments	4.4	0.1
Net loss/(gain) recognised in the income statement	38.1	(4.1)
Additions[1]	47.4	32.2
Disposals and settlements	(7.9)	–
At 31 December	**154.4**	**72.4**

1. Additions during the year include amounts relating to the acquisition of Algonquin Management Partners S.A. (see note 28).

17. Provisions and contingent liabilities

Provisions are liabilities where there is uncertainty over the timing or amount of settlement and therefore usually require the use of estimates. They are recognised when three conditions are fulfilled: when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will incur a loss in order to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. They are recorded at the Group's best estimate of the cost of settling the obligation. Any differences between those estimates and the amounts for which the Group actually becomes liable are taken to the income statement as additional charges where the Group has underestimated and credits where the Group has overestimated. Where the estimated timing and settlement is longer-term, the amount is discounted using a rate reflecting specific risks associated with the provision.

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed where significant and are not included within the statement of financial position.

	Dilapidations and onerous leases £m	Legal, regulatory and other £m	Total £m
At 1 January 2018	18.6	25.4	44.0
Exchange translation adjustments	–	(0.5)	(0.5)
Provisions utilised	(9.1)	(2.4)	(11.5)
Additional provisions charged in the year	0.4	5.2	5.6
Unused amounts reversed in the year	(4.2)	(2.0)	(6.2)
At 31 December 2018	**5.7**	**25.7**	**31.4**

17. Provisions and contingent liabilities continued

	Dilapidations and onerous leases £m	Legal, regulatory and other £m	Total £m
Current – 2018	2.6	9.6	12.2
Non-current – 2018	3.1	16.1	19.2
	5.7	**25.7**	**31.4**
Current – 2017	16.2	9.0	25.2
Non-current – 2017	2.4	16.4	18.8
	18.6	**25.4**	**44.0**

The Group's provisions are expected to mature in the following time periods:

	2018 £m	2017 £m
Less than 1 year	12.2	25.2
1 – 2 years	17.1	16.8
2 – 3 years	0.4	0.6
3 – 4 years	–	0.6
4 – 5 years	0.2	0.2
More than 5 years	1.5	0.6
	19.2	**18.8**
	31.4	**44.0**

The provision for dilapidations and onerous leases covers lease commitments with a weighted average maturity of two years (2017: one year).

Legal and regulatory obligations associated with the Group's business arise from past events that are estimated to crystallise mainly within two years (2017: two years). These matters are ongoing.

Estimates and judgements

The timing and amount of settlement of each legal claim or potential claim, regulatory matter and constructive obligation is uncertain. The Group applies judgement to determine whether a provision is required. The Group performs an assessment of the timing and amount of each event and reviews this assessment periodically. For some provisions, including the provision for onerous leases, there is greater certainty as the cash flows have largely been determined. Potential legal claims, regulatory related costs and other obligations to third parties arise as a consequence of normal business activity. They can arise from actual or alleged breaches of obligations and may be covered by the Group's insurance arrangements, but subject to insurance excess. In certain circumstances, legal and regulatory claims can arise despite there being no error or breach. The Group's risk management and compliance procedures are designed to mitigate, but are not able to eliminate, the risk of losses occurring. Where such claims and costs arise there is often uncertainty over whether a payment will be required and estimation is required in determining the quantum and timing of that payment. As a result, there is also uncertainty over the timing and amount of any insurance recovery, although this does not change the likelihood of insurance cover being available, where applicable. The Group makes periodic assessments of all cash flows, including taking external advice where appropriate, to determine an appropriate provision. Some matters may be settled through commercial negotiation as well as being covered in whole or in part by the Group's insurance arrangements. The Group has made provisions based on the reasonable expectation of likely outflows. The inherent uncertainty in such matters and the results of negotiations and insurance cover may result in different outcomes.

At 31 December 2018, there are no key judgements or estimates that would result in any additional material provisions being recognised or any material contingent liabilities being disclosed in the financial statements (31 December 2017: none). The provisions included in the financial statements at 31 December 2018 are based on estimates of reasonable ranges of likely outcomes, applying assumptions regarding the probability of payments being due and the settlement value. The aggregate reasonable ranges have been assessed as not materially different to the carrying values.

Notes to the accounts continued

18. Derivative contracts
(a) The Group's use of derivatives

The Group holds derivatives for risk management, client facilitation, and within its investment portfolios to provide exposure to market returns. The Group most commonly uses forward foreign exchange contracts where it agrees to buy or sell specified amounts of a named currency at a future date, allowing the Group effectively to fix exchange rates so that it can avoid unpredictable gains and losses on financial instruments in foreign currencies. The Group uses equity contracts to hedge market-related gains and losses on its seed capital investments where the purpose of investing is to help establish a new product rather than gain additional market exposure. Interest rate contracts are used to hedge exposures to fixed or floating rates of interest.

Where derivatives are held for risk management purposes, the Group designates certain derivatives as hedges of a net investment in a foreign operation. In these scenarios, and where relevant conditions are met, hedge accounting is applied and the Group formally documents the relationship between the derivative and any hedged item, its risk management objectives and its strategy for undertaking the various hedging transactions. It also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value of hedged items. In respect of hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. The Group's net investment hedges are generally fully effective, but any ineffective portion that may arise is recognised in the income statement. On disposal of the foreign operation, the cumulative gain or loss on the hedging instrument recognised directly in other comprehensive income is transferred to the income statement.

Risk management: the Group actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Group. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By entering into derivative contracts, the Group is able to mitigate or eliminate such exposures. The principal risk that the Group faces through such use of derivative contracts is credit risk.

Client facilitation: the Group's Wealth Management entities are involved in providing portfolio management, banking and investment advisory services, primarily to private clients. In carrying out this business, they transact as agent or as principal in financial assets and liabilities (including derivatives) in order to facilitate client portfolio requirements. Wealth Management's policy is to hedge, as appropriate, exchange rate and interest rate risk on its client facilitation positions. This does not eliminate credit risk.

For details of how the Group manages its exposure to credit risk, see below and note 19.

(b) Derivatives used by the Group

Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except in the case of certain currency swaps. The Group's credit risk represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts, and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties in accordance with its internal policies and procedures.

Foreign exchange, equity and interest rate options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser and assumes foreign exchange, equity or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer or market counterparty.

The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

Futures contracts are standardised contracts to buy or sell specified assets for an agreed price at a specified future date. Contracts are negotiated at a futures exchange, which acts as an intermediary between the two parties. For futures contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

18. Derivative contracts continued

(b) Derivatives used by the Group continued

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices, foreign exchange rates and other relevant variables relative to their terms. The aggregate contractual amount of derivative financial instruments held, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values are set out below:

	2018		2017	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Forward foreign exchange contracts	9.0	(13.0)	22.1	(11.8)
Equity contracts	29.3	(9.1)	23.2	(12.4)
	38.3	**(22.1)**	**45.3**	**(24.2)**

	2018		2017	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Net-settled derivative contracts[1] maturing/repricing[2] in:				
Less than 1 year	20.3	(9.1)	9.8	(12.4)
1 – 3 years	9.0	–	–	–
3 – 5 years	–	–	13.4	–
More than 5 years	–	–	–	–
	29.3	**(9.1)**	**23.2**	**(12.4)**
Gross-settled derivatives[3] maturing/repricing[2] in less than 1 year:				
Gross inflows	852.7	624.0	1,283.8	813.5
Gross outflows	(846.9)	(627.5)	(1,273.2)	(817.9)
Difference between future contractual cash flows and fair value	3.2	(9.5)	11.5	(7.4)
	9.0	**(13.0)**	**22.1**	**(11.8)**
	38.3	**(22.1)**	**45.3**	**(24.2)**

1. Interest rate and equity contracts.
2. Whichever is earlier.
3. Forward foreign exchange contracts.

Notes to the accounts continued

19. Financial instrument risk management

The Group Capital Committee (GCC) is responsible for the management of the Group's capital and sets objectives for how it is deployed. This note explains how the Group manages its capital, setting out the nature of the risks the Group faces as a result of its operations, and how these risks are quantified and managed.

The Group is exposed to different forms of financial instrument risk including: (i) the risk that money owed to the Group will not be received (credit risk); (ii) the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (liquidity risk); and (iii) the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (market risk). The management of such risks is embedded in managerial responsibilities fundamental to the wellbeing of the Group.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined on the basis of a percentage of AUM and are therefore impacted by financial instrument risk exposure of our clients – the secondary exposure. This note deals only with the direct or primary exposure of the risks from the Group's holding of financial instruments (see the Key Risks and Mitigations report on page 40).

The Life Company provides investment products through a life assurance wrapper. The financial risks of these products are largely borne by the third party investors, consistent with other investment products managed by the Group. However, since the Life Company, which is a subsidiary, issues the investment instrument and holds the relevant financial assets, both the investments and the third party obligations are recorded in the statement of financial position. Financial instrument risk management disclosures in respect of the Life Company's financial instruments are set out in note 14.

(a) Capital

The Group's approach to capital management is to maintain a strong capital position to enable us to invest in the future of the Group, in line with our strategy, and to support the risks inherent in conducting our business. Capital management is an important part of our risk management framework and is underpinned by our Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP considers the relevant current and future risks to the business and the capital we consider necessary to support these risks. We actively monitor our capital base to ensure we maintain sufficient and appropriate capital resources to cover the relevant risks to the business and to meet consolidated and local regulatory and working capital requirements.

Our lead regulator is the Prudential Regulation Authority (PRA) as the Group includes an entity with a UK banking license. We are required to maintain adequate capital resources to meet our Total Capital Requirement (TCR) of £827 million (2017: £799 million). The TCR incorporates our Pillar 1 regulatory capital requirement of £605 million (2017: £583 million). In addition to the Total Capital Requirement of our banking group, we are required to hold additional capital of £194 million (2017: £145 million) in respect of our insurance companies and EU regulatory buffers. The Group's overall regulatory capital requirement was £1,021 million at 31 December 2018 (2017: £899 million). This requirement increased to £1,126 million on 1 January 2019 (1 January 2018: £944 million) as a result of the final increase in the capital conversation buffer following the regulatory transition period together with the impact of IFRS 16 Leases (see Presentation of financial statements on page 149). Following these changes, the Group's regulatory surplus capital at 1 January 2019 was £1.2 billion (1 January 2018: £1.4 billion).

In managing our capital position, we consider the composition of our capital base, which consists of: Working capital deployed to support the Group's general operating activities and regulatory requirements; Investment capital held in excess of these operating requirements; and other items that are not investible or otherwise available to meet our operating or regulatory requirements.

The table below shows the components of our capital position.

	2018 £m	2017 £m
Working capital – regulatory and other	1,341	1,090
Working capital – seed and co-investment	535	392
Investment capital – liquid	465	696
Investment capital – illiquid	165	147
Other items[1]	1,115	1,146
Total equity	**3,621**	**3,471**

1. Comprises regulatory deductions, principally goodwill, intangible assets and pension scheme surplus.

(i) Working capital

The Group's policy is for subsidiaries to hold sufficient working capital to meet their regulatory and other operating requirements. Local regulators oversee the activities of, and impose minimum capital and liquidity requirements on, the Group's operating entities. At 31 December 2018, the Group, and all regulated entities within the Group, complied with minimum regulatory capital requirements.

Working capital is also deployed through certain subsidiaries to support new investment strategies and growth opportunities and to co-invest alongside the Group's clients.

19. Financial instrument risk management continued

(a) Capital continued

(ii) Investment capital

Available capital held in excess of working capital requirements is transferred to investment capital. Investment capital is managed with the aim of achieving a low-volatility return. It is mainly held in investment grade corporate bonds and funds managed by the Group. These liquid investments are available to support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions. Investment capital also includes certain commercial private equity investments and illiquid legacy investments.

(iii) Other items

Other items comprises assets that are not investible or available to meet the Group's general operating or regulatory requirements. It includes assets that are actually or potentially inadmissible for regulatory capital purposes such as goodwill and intangible assets.

The table below provides a detailed breakdown of the Group's capital in accordance with IFRS 9:

	2018				
	Financial instruments at amortised cost £m	Financial assets at fair value through other comprehensive income £m	Financial instruments at fair value through profit or loss[1] £m	Non-financial instruments £m	Total £m
Assets					
Cash and cash equivalents	2,683.4	–	–	–	2,683.4
Trade and other receivables	696.8	–	–	52.1	748.9
Financial assets:					
Loans and advances to banks	384.2	–	–	–	384.2
Loans and advances to clients	572.6	–	2.4	–	575.0
Debt securities	139.1	929.3	369.0	–	1,437.4
Pooled investment vehicles	–	–	700.4	–	700.4
Equities	–	–	219.6	–	219.6
Derivatives	–	–	38.3	–	38.3
Associates and joint ventures	–	–	–	175.2	175.2
Property, plant and equipment	–	–	–	249.4	249.4
Goodwill and intangible assets	–	–	–	968.2	968.2
Deferred tax	–	–	–	42.8	42.8
Retirement benefit scheme surplus	–	–	–	155.6	155.6
Assets backing unit-linked liabilities	813.2	–	10,442.7	–	11,255.9
Total assets	**5,289.3**	**929.3**	**11,772.4**	**1,643.3**	**19,634.3**
Liabilities					
Trade and other payables	768.1	–	135.5	85.0	988.6
Financial liabilities	3,261.5	–	399.1	–	3,660.6
Current tax	–	–	–	44.2	44.2
Provisions	–	–	–	31.4	31.4
Deferred tax	–	–	–	15.1	15.1
Retirement benefit scheme deficits	–	–	–	17.3	17.3
Unit-linked liabilities	199.1	–	11,056.8	–	11,255.9
Total liabilities	**4,228.7**	**–**	**11,591.4**	**193.0**	**16,013.1**
Capital					**3,621.2**

1. Financial assets at fair value through profit or loss includes £10,475.6 million of assets that are designated at fair value through profit or loss and £1,296.8 million that are mandatorily measured at fair value through profit or loss. Financial liabilities at fair value through profit or loss includes £11,501.9 million of liabilities that are designated at fair value through profit or loss and £89.5 million that are mandatorily measured at fair value through profit or loss.

Notes to the accounts continued

19. Financial instrument risk management continued

(a) Capital continued

The table below provides a detailed breakdown of the Group's capital in accordance with IAS 39:

	2017					
	Loans and receivables/ liabilities at amortised cost £m	Financial assets held to maturity £m	Financial instruments at fair value through profit or loss[1] £m	Available-for-sale financial assets £m	Non-financial instruments £m	Total £m
Assets						
Cash and cash equivalents	2,947.0	–	–	–	–	2,947.0
Trade and other receivables	671.3	–	–	–	67.7	739.0
Financial assets:						
Loans and advances to banks	783.2	–	–	–	–	783.2
Loans and advances to clients	557.3	–	0.7	–	–	558.0
Debt securities	141.5	10.2	149.8	932.6	–	1,234.1
Pooled investment vehicles	–	–	662.9	49.6	–	712.5
Equities	–	–	135.0	12.7	–	147.7
Derivatives	–	–	45.3	–	–	45.3
Associates and joint ventures	–	–	–	–	143.9	143.9
Property, plant and equipment	–	–	–	–	162.8	162.8
Goodwill and intangible assets	–	–	–	–	825.8	825.8
Deferred tax	–	–	–	–	39.3	39.3
Retirement benefit scheme surplus	–	–	–	–	162.9	162.9
Assets backing unit-linked liabilities	651.0	–	13,335.4	–	–	13,986.4
Total assets	**5,751.3**	**10.2**	**14,329.1**	**994.9**	**1,402.4**	**22,487.9**
Liabilities						
Trade and other payables	688.0	–	137.6	–	112.1	937.7
Financial liabilities	3,771.4	–	183.9	–	–	3,955.3
Current tax	–	–	–	–	78.1	78.1
Provisions	–	–	–	–	44.0	44.0
Deferred tax	–	–	–	–	0.1	0.1
Retirement benefit scheme deficits	–	–	–	–	15.3	15.3
Unit-linked liabilities	37.5	–	13,948.9	–	–	13,986.4
Total liabilities	**4,496.9**	**–**	**14,270.4**	–	**249.6**	**19,016.9**
Capital						**3,471.0**

1. Financial assets at fair value through profit or loss includes £13,367.4 million of assets that are designated at fair value trough profit or loss and £961.7 million that are held for trading. Financial liabilities at fair value through profit or loss includes £14,211.0 million of liabilities that are designated at fair value through profit or loss and £59.4 million that are mandatorily measured at fair value through profit or loss.

(b) Credit risk, liquidity risk and market risk

The Group is exposed to credit, liquidity and market risk as a result of the financial instruments it holds. Settlement of financial instruments (on both a principal and agency basis) also gives rise to operational risk. The Group's risk management framework is critical to effective management of these risks and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Board, with responsibility for oversight delegated to the Audit and Risk Committee. The Group applies the three lines of defence model to risk management, which includes financial instrument risk. More details on the risk management framework and approach are set out in the Key Risks and Mitigations report and the Audit and Risk Committee report on pages 40 and 62 respectively.

(i) Credit risk

Credit risk is the risk that a counterparty to a financial instrument, loan or commitment will cause the Group financial loss by failing to discharge their obligations. For this purpose, the impact on fair value of a credit loss arising from credit spread price changes in a portfolio of investments is excluded. This risk is addressed within Pricing risk.

19. Financial instrument risk management continued

(b) Credit risk, liquidity risk and market risk continued

(i) Credit risk continued

The Group has exposure to credit risk from its normal activities where it is exposed to the risk that a counterparty will be unable to pay, in full, amounts when due. The Group carefully manages its exposure to credit risk by: approving lending policies that specify the type of acceptable collateral and minimum lending margins; setting limits for exposures to individual counterparties and sectors; and by taking security. The Group's maximum exposure to credit risk is represented by the gross carrying value of its financial assets.

Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. A breakdown of the Group's relevant financial assets held with rated and unrated counterparties is set out below:

	Cash and cash equivalents		Loans and advances to banks		Debt securities	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Credit rating:						
AAA	374.3	495.0	–	41.1	356.5	201.2
AA+	0.9	39.5	–	33.5	12.6	10.3
AA	1,148.0	1,051.4	27.0	54.5	209.6	195.3
AA-	247.6	341.4	36.8	41.4	214.0	97.4
A+	489.6	453.9	256.6	283.5	95.6	150.7
A	249.8	410.6	42.9	148.7	142.7	129.3
A-	161.7	54.9	20.9	118.9	78.8	107.6
BBB+ and lower	7.1	89.2	–	61.6	270.3	318.2
Not rated[1]	4.4	11.1	–	–	57.3	24.1
	2,683.4	**2,947.0**	**384.2**	**783.2**	**1,437.4**	**1,234.1**

1. Not rated debt securities include redeemable preference shares issued by A10 Capital Parent Company LLC (see note 10).

The Group adopted IFRS 9 Financial Instruments on 1 January 2018. Prior to adoption of IFRS 9, impairment was only recognised when a default occurred. Under IFRS 9, expected credit losses are calculated on all of the Group's financial assets that are measured at amortised cost and all debt instruments that are measured at fair value through other comprehensive income. Factors considered in determining whether a default has taken place include how many days past the due date a payment is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a counterparty's ability to pay. In accordance with the transition provisions of IFRS 9, comparative information has not been restated.

A three stage model is used for calculating expected credit losses, which requires financial assets to be assessed as:

- Performing (stage 1) – Financial assets where there has been no significant increase in credit risk since original recognition; or
- Under-performing (stage 2) – Financial assets where there has been a significant increase in credit risk since initial recognition, but no default; or,
- Non-performing (stage 3) – Financial assets that are in default.

For financial assets in stage 1, expected credit losses are calculated based on the credit losses that are expected to be incurred over the following twelve-month period. For financial assets in stage 2 and 3, expected credit losses are calculated based on expected credit losses expected to be incurred over the life of the instrument. The Group applies the simplified approach to calculate expected credit losses for trade and other receivables. Under this approach, instruments are not categorised into three stages and expected credit losses are calculated based on the life of the instrument.

Wealth Management activities

All client credit requests are presented to the relevant Wealth Management approval authorities and counterparty exposures are monitored daily against limits. Loans, overdrafts and advances to clients as well as certain derivative positions are secured on a range of assets including real estate (both residential and commercial), cash, client portfolios and life insurance policies.

The Group does not usually provide loans, overdrafts or advances to clients on an unsecured basis. Where disposal of non-cash collateral is required, in the event of default, the terms and conditions relevant to the specific contract and country will apply. Portfolios held as collateral are marked to market daily and positions compared to clients' exposures. Credit limits are set following an assessment of the market value and lending value of each type of collateral, depending on the perceived risk associated with the collateral. Clients are contacted if these limits are breached, or if collateral is not sufficient to cover the outstanding exposure.

The collateral accepted by the Group includes certain investment-grade securities that can be sold or repledged without default of the provider. At 31 December 2018 the fair value of collateral that could be sold or repledged but had not been, relating solely to these arrangements, was £497.4 million (2017: £591.4 million).

Debt securities held within the Wealth Management treasury book are mainly unsecured. Policies covering various counterparty and market risk limits are set and monitored by the relevant Wealth Management asset and liability management committees. All instruments held within the Wealth Management treasury book have an investment grade credit rating.

Notes to the accounts continued

19. Financial instrument risk management continued

(b) Credit risk, liquidity risk and market risk continued

(i) Credit risk continued

Wealth Management takes a conservative approach to its treasury investments placing them with, or purchasing debt securities issued by, UK and overseas banks and corporates, central banks, supranational banks and sovereigns.

Expected credit losses on financial assets at amortised cost within the Wealth Management entities at 31 December 2018 were £0.4 million. Loans and advances to clients includes £1.8 million of under-performing (stage 2) loans and £0.2 million of non-performing (stage 3) loans giving rise to £0.1 million and £0.2 million of expected credit losses respectively. All other financial assets at amortised cost (excluding trade and other receivables to which the three stage model is not applied) were performing (stage 1).

Expected credit losses on financial assets at fair value through other comprehensive income within the Wealth Management entities at 31 December 2018 were £0.1 million. All financial assets at fair value through other comprehensive income were performing (stage 1).

Other activities

Fee debtors and other receivables arise as a result of the Group's asset management activities and amounts are monitored regularly. Historically, default levels have been insignificant and unless a client has withdrawn its funds, there is an ongoing relationship between the Group and the client.

Fee debtors past due but not in default as at 31 December 2018 were £20.0 million (31 December 2017: £21.9 million), the majority of which is less than 90 days past due (31 December 2017: less than 90 days).

The Group seeks to manage its exposure to credit risk arising from debt securities and derivatives within the investment portfolio by adopting a conservative approach and through ongoing credit analysis. Corporate bond portfolios have an investment grade mandate, and exposure to sub-investment grade debt is low.

Derivative positions, other than forward foreign exchange contracts, are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month.

The Group's cash and cash equivalents in the non-Wealth Management entities are held primarily in current accounts, on deposit with well-rated banks, or invested in money market funds.

Expected credit losses on financial assets at amortised cost within non-Wealth Management entities at 31 December 2018 were £0.7 million. All financial assets at amortised cost (excluding trade and other receivables to which the three stage model is not applied) were performing (stage 1).

Expected credit losses on financial assets at fair value through other comprehensive income within non-Wealth Management entities at 31 December 2018 were £0.6 million. Debt securities includes £11.3 million of under-performing (stage 2) securities giving rise to £0.2 million of expected credit losses respectively. All other financial assets at fair value through other comprehensive income were performing (stage 1).

(ii) Liquidity risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due or can only do so at a cost. The Group has a clearly defined liquidity risk management framework in place in the form of a Consolidated Group Internal Liquidity Adequacy Assessment Process (ILAAP). The Group policy is that its subsidiaries should trade solvently, comply with regulatory liquidity requirements, and have access to adequate liquidity for all activities undertaken in the normal course of business. As part of its ILAAP, the Group performs stress testing to ensure sufficient liquidity is available to cover severe but plausible stress events. In particular, all companies should maintain sufficient liquid funds to meet peak working capital requirements.

Wealth Management activities

The principal liquidity risk in the Group's Wealth Management business arises as a result of its banking activities, where the timing of cash flows from liabilities relating to client accounts can be impacted by client action. The objective of the Group's liquidity policy is to maintain sufficient liquidity within the relevant entities to meet regulatory and prudential requirements, to cover cash flow imbalances and fluctuations in funding, and to ensure the timely repayment of funds to depositors.

Liquidity positions are actively monitored and cash flows are managed to ensure sufficient liquidity is available to cover potential liquidity risks in individual currencies and in aggregate.

19. Financial instrument risk management continued

(b) Credit risk, liquidity risk and market risk continued

(ii) Liquidity risk continued

The contractual maturity of Wealth Management financial assets and liabilities is set out below:

	2018						
	Less than 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m	Total £m
Assets							
Cash and cash equivalents	2,097.7	–	–	–	–	–	2,097.7
Loans and advances to banks	368.8	–	–	–	–	–	368.8
Loans and advances to clients	393.7	54.6	54.3	17.0	55.4	–	575.0
Debt securities	404.7	198.6	–	–	–	–	603.3
Other financial assets	4.2	–	–	–	–	–	4.2
Total financial assets	**3,269.1**	**253.2**	**54.3**	**17.0**	**55.4**	**–**	**3,649.0**
Liabilities							
Client accounts	3,232.8	1.1	1.6	–	–	–	3,235.5
Deposits by banks	19.8	–	–	–	–	–	19.8
Other financial liabilities	11.8	2.9	–	–	–	–	14.7
Total financial liabilities	**3,264.4**	**4.0**	**1.6**	**–**	**–**	**–**	**3,270.0**
Cumulative gap	**4.7**	**253.9**	**306.6**	**323.6**	**379.0**	**379.0**	**379.0**

	2017						
	Less than 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m	Total £m
Assets							
Cash and cash equivalents	2,269.2	–	–	–	–	–	2,269.2
Loans and advances to banks	765.5	–	–	–	–	–	765.5
Loans and advances to clients	339.5	121.1	30.6	45.4	15.9	–	552.5
Debt securities	399.9	124.8	–	–	–	–	524.7
Other financial assets	11.4	–	–	–	–	–	11.4
Total financial assets	**3,785.5**	**245.9**	**30.6**	**45.4**	**15.9**	**–**	**4,123.3**
Liabilities							
Client accounts	3,635.3	39.0	1.1	10.3	–	–	3,685.7
Deposits by banks	57.7	–	–	–	–	–	57.7
Other financial liabilities	11.1	–	–	–	–	–	11.1
Total financial liabilities	**3,704.1**	**39.0**	**1.1**	**10.3**	**–**	**–**	**3,754.5**
Cumulative gap	**81.4**	**288.3**	**317.8**	**352.9**	**368.8**	**368.8**	**368.8**

Other activities

The Group's exposure to liquidity risk outside of its Wealth management activities is low. Excluding the Life Company and consolidated funds, the Asset Management and Group segment together hold cash and cash equivalents of £552.6 million (2017: £640.6 million). Financial liabilities relating to other operating entities are £390.6 million (2017: £200.8 million).

The Group has a committed loan facility of £510.0 million (2017: £510.0 million) that expires on 4 October 2023, which was undrawn at 31 December 2018 (31 December 2017: undrawn).

(iii) Market risk

Market risk is the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates.

Pricing risk

Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

In respect of financial instrument risk, the Group's exposure to pricing risk is principally through investments held in investment capital, seed and co-investment capital, deferred employee compensation in the form of fund awards and some investments held for regulatory capital purposes.

19. Financial instrument risk management continued

(b) Credit risk, liquidity risk and market risk continued

(iii) Market risk continued

Pricing risk continued

The Group does not hedge exposures to pricing risk except in relation to seed capital, where it is practical to do so, and in respect of deferred employee compensation awards, where these can be matched by interests in funds managed by the Group. Where financial instruments are held to hedge deferred compensation awards, movements in the fair value of the asset are normally offset by changes in the amounts payable to employees (see note 4).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

Wealth Management activities

In Wealth Management, interest rate risk is monitored against policies and limits set by the relevant risk committee on a daily basis. Interest rate risk is managed within set limits by matching asset and liability positions and through the use of interest rate swaps.

Sensitivity-based and stress-based models are used for monitoring interest rate risk. These models assess the impact of a prescribed basis point rise in interest rates, and potential impact of severe but plausible stress scenarios. The impact is calculated regularly for individual currency exposures and in aggregate.

Other activities

Cash held by the other operating companies is not normally expected to be placed on deposit for longer than three months and is not exposed to significant interest rate risk.

The Group's capital includes investments in corporate investment-grade bonds managed by the Group's fixed income fund managers. The market risk (including interest rate risk) exposure of these investments is actively monitored against limits set by the Board.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

Wealth Management activities

In Wealth Management, some loans and advances to clients, client deposits and a proportion of the treasury activities are undertaken in foreign currencies. This is managed by the treasury departments within agreed limits that are set and monitored by the relevant risk committees.

Other activities

The Group's policy in relation to foreign exchange risks arising from revenue, expenditure and capital currency exposure from its Asset Management activities is generally not to hedge. The Group's revenue is earned and expenditure incurred in many currencies and the resulting exposure is considered to be a normal part of the Group's business activities.

The Group also has exposure to foreign currency through investments in currencies other than sterling. The Group uses forward foreign exchange contracts with third parties to mitigate this exposure. The gain or loss on the hedging instruments is included in the statement of other comprehensive income or the income statement, as appropriate. The use of such instruments is subject to approval by the GCC.

The sensitivities to market risk are estimated as follows:

		31 December 2018			31 December 2017		
Variable[1]		A reasonable change in the variable within the next calendar year %	Increase/ (decrease) in post-tax profit £m	Increase/ (decrease) in other components of equity £m	A reasonable change in the variable within the next calendar year %	Increase/ (decrease) in post-tax profit £m	Increase/ (decrease) in other components of equity £m
Interest rates[2]	-increase	1.0	4	–	0.5	3	–
	-decrease	(0.5)	(2)	–	(0.5)	(3)	–
US dollar against sterling[3]	-strengthen	15	2	–	10	3	–
	-weaken	(20)	(2)	–	(8)	(2)	–
Euro against sterling[3]	-strengthen	7	1	–	10	2	–
	-weaken	(10)	(1)	–	(6)	(1)	–
US dollar against Euro[3]	-increase	7	2	–	10	4	–
	-decrease	(10)	(2)	–	(10)	(4)	–
FTSE-All Share Index[4]	-strengthen	20	42	–	20	14	1
	-weaken	(20)	(42)	–	(20)	(14)	(1)

1. The underlying assumption is that there is one variable increase/decrease with all other variables held constant.
2. Assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.
3. The 2017 sensitivities for changes in foreign exchange rates have been re-presented following a change in methodology.
4. Assumes that changes in the FTSE-All Share Index correlate to changes in the fair value of the Group's equity investments.

These sensitivities concern only the direct impact on financial instruments and exclude indirect impacts on fee income and certain costs that may be affected by changes in the variable. The changes used in the sensitivity analysis were provided by the Group's Global Economics team who determine reasonable assumptions.

20. Share capital and share premium

Share capital represents the number of issued ordinary and non-voting ordinary shares in Schroders plc multiplied by their nominal value of £1 each. Share premium substantially represents the aggregate of all amounts that have ever been paid above nominal value to Schroders plc when it has issued ordinary and non-voting ordinary shares. There are certain circumstances in which the share premium can be reduced but these have not arisen in 2017 or 2018. The Company has no authority to issue, buy back, or cancel ordinary shares in issue (including those held in trust) and has authority limited by shareholder resolution to issue or purchase non-voting ordinary shares, which may either be cancelled or held in treasury.

	Number of shares Millions	**Ordinary shares £m**	**Non-voting ordinary shares £m**	**Total shares £m**	**Share premium £m**
At 1 January 2018	282.5	226.0	56.5	282.5	124.2
At 31 December 2018	**282.5**	**226.0**	**56.5**	**282.5**	**124.2**

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2017	282.7	226.0	56.7	282.7	124.2
Shares cancelled	(0.2)	–	(0.2)	(0.2)	–
At 31 December 2017	**282.5**	**226.0**	**56.5**	**282.5**	**124.2**

During the year ended 31 December 2017, 233,623 non-voting ordinary shares were bought back by the Group for a value of £5.4 million and cancelled.

	2018 Number of shares Millions	2017 Number of shares Millions
Issued and fully paid:		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.5	56.5
	282.5	**282.5**

The difference between the share classes

The non-voting ordinary shares carry the same rights as ordinary shares except that they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

Notes to the accounts continued

21. Own shares

Own shares are recorded by the Group when non-voting ordinary shares are acquired by the Company, or ordinary or non-voting ordinary shares are acquired through employee benefit trusts. This enables the Group to hold some of its shares in treasury to settle option exercises or for other permitted purposes. Own shares are held at cost and their purchase reduces the Group's net assets by the amount spent. When shares vest unconditionally or are cancelled, they are transferred from own shares to the profit and loss reserve at their weighted average cost.

Movements in own shares during the year were as follows:

	2018 £m	2017 £m
At 1 January	(162.3)	(163.6)
Own shares purchased	(74.9)	(56.6)
Own shares cancelled	–	5.4
Awards vested	73.3	52.5
At 31 December	**(163.9)**	**(162.3)**

During the year 2.2 million own shares (2017: 1.8 million own shares) were purchased and held for hedging share-based awards. 2.8 million shares (2017: 2.4 million shares) awarded to employees vested in the period and were transferred out of own shares.

The total number of shares in the Company held within the Group's employee benefit trusts comprise:

	2018			2017		
	Number of vested shares Millions	Number of unvested shares Millions	Total Millions	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares	2.7	6.3	9.0	2.0	6.9	8.9
Non-voting ordinary shares	–	0.1	0.1	0.2	0.1	0.3
	2.7	**6.4**	**9.1**	**2.2**	**7.0**	**9.2**

	2018			2017		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	57.1	162.8	219.9	32.4	160.6	193.0
Fair value	65.0	153.8	218.8	67.2	243.2	310.4
Non-voting ordinary shares:						
Cost	0.1	1.1	1.2	2.6	1.7	4.3
Fair value	0.6	1.4	2.0	5.6	2.4	8.0
Total:						
Cost	**57.2**	**163.9**	**221.1**	**35.0**	**162.3**	**197.3**
Fair value	**65.6**	**155.2**	**220.8**	**72.8**	**245.6**	**318.4**

22. Reconciliation of net cash from operating activities

This note should be read in conjunction with the Consolidated cash flow statement. It provides a reconciliation to show how profit before tax, which is based on accounting rules, translates to cash flows.

	2018 £m	2017 £m
Profit before tax	**649.9**	**760.2**
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	80.8	63.4
Net loss/(gain) on financial instruments	52.3	(22.1)
Share-based payments	63.9	60.5
Net (release)/charge for provisions	(0.6)	12.6
Other non-cash movements	(20.3)	(9.6)
	176.1	**104.8**
Adjustments for which the cash effects are investing activities:		
Net finance income	(8.4)	(9.7)
Share of profit of associates and joint ventures	(19.1)	(21.7)
	(27.5)	**(31.4)**
Adjustments for statement of financial position movements:		
Decrease/(increase) in loans and advances within Wealth Management	406.2	(236.4)
Increase in trade and other receivables	(40.3)	(43.2)
(Decrease)/increase in deposits and client accounts within Wealth Management	(545.2)	38.9
Increase in trade and other payables, other financial liabilities and provisions	12.0	35.2
	(167.3)	**(205.5)**
Adjustments for Life Company movements:		
Net decrease/(increase) in financial assets backing unit-linked liabilities	2,756.2	(953.0)
Net (decrease)/increase in unit-linked liabilities	(2,730.5)	1,058.8
	25.7	**105.8**
Tax paid	**(143.0)**	**(148.8)**
Net cash from operating activities	**513.9**	**585.1**

Notes to the accounts continued

23. Commitments

Commitments represent amounts the Group has contractually committed to pay to third parties but do not yet represent a liability. Commitments at the year end do not impact on the Group's financial results for the year.

The Group leases office space and equipment. Lease agreements can commit the Group to significant future expenditure and the table below discloses the Group's commitments to make such payments. Such commitments are not recorded on the Group's statement of financial position in advance of the period to which they relate.

The Group sublets a small number of its owned and leased properties where such properties, or parts of such properties, are not required for use by the Group. The table below discloses the commitments sub-lessees have made in respect of such arrangements. These commitments are not recorded on the statement of financial position in advance of the period to which they relate. However, they may be used to determine the onerous lease provision if the rental income does not equal or exceed the Group's own rental obligation (see note 17).

	2018			
	No later than 1 year £m	**Later than 1 year and no later than 5 years £m**	**Later than 5 years £m**	**Total £m**
Operating leases as lessee	30.0	160.5	309.6	500.1
Undrawn loan facilities	14.6	18.0	–	32.6
Investment call commitments	29.4	13.8	1.1	44.3
Commitments for purchase of property, plant and equipment	18.0	0.3	–	18.3
Commitments under IT service agreements	25.4	50.5	–	75.9
Total commitments	**117.4**	**243.1**	**310.7**	**671.2**
Operating leases receivable as lessor	(1.5)	(3.6)	(0.2)	(5.3)
Net commitments payable	**115.9**	**239.5**	**310.5**	**665.9**

	2017			
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	Total £m
Operating leases as lessee	37.9	127.5	337.4	502.8
Undrawn loan facilities	5.4	7.9	27.4	40.7
Investment call commitments	23.2	12.7	1.3	37.2
Commitments for purchase of property, plant and equipment	48.6	–	–	48.6
Commitments under IT service agreements	22.7	62.0	7.0	91.7
Total commitments	**137.8**	**210.1**	**373.1**	**721.0**
Operating leases receivable as lessor	(2.1)	(4.5)	(0.6)	(7.2)
Net commitments payable	**135.7**	**205.6**	**372.5**	**713.8**

Leases in respect of office properties are negotiated for a weighted average term of 14.0 years (2017: 14.3 years) and rentals are fixed for a weighted average term of 5.1 years (2017: 5.8 years). Leases in respect of office equipment are negotiated for a weighted average term of 1.6 years (2017: 1.6 years) and rentals are fixed for a weighted average term of 1.6 years (2017: 1.6 years).

Office property sub-leases have a weighted average term of 3.6 years (2017: 4.2 years) and rentals are fixed for a weighted average term of 3.6 years (2017: 4.2 years). Lease payments recognised as an expense during the year were £37.3 million (2017: £43.6 million).

24. Retirement benefit obligations

The Group has two principle types of pension benefit for employees: defined benefit (DB) where the Group has an obligation to provide participating employees with pension payments that represent a specified percentage of their final salary for each year of service, and defined contribution (DC), where the Group's contribution to an employee's pension is measured as, and limited to, a specified percentage of salary.

Accounting for DB schemes requires an assessment of the likely quantum of future pension payments to be made. If ring-fenced assets are held specifically to meet this cost, the scheme is funded, and if not, it is unfunded. The Group periodically reviews its funded DB schemes using actuarial specialists to assess whether it is on course to meet the expected pension payments that current and former employees are or will be entitled to. In the case of a projected shortfall, a plan must be formulated to reverse the deficit.

The income statement charge or credit represents the sum of pension entitlements earned by employees in the period, plus a notional net interest charge (if the scheme is in deficit) or income (if it is in surplus) based on the market yields on high quality corporate bonds. Experience differences, principally the difference between actual investment returns and the notional interest amount, as well as actuarial changes in estimating the present value of future liabilities, are recorded in other comprehensive income.

Assets or liabilities recognised in the statement of financial position represent the differences between the fair value of plan assets (if any) and the actuarially-determined estimates of the present value of future liabilities. The Group closed its largest DB scheme to future accrual on 30 April 2011, although it still operates some small unfunded schemes overseas. This means that no future service will contribute to the closed scheme member benefits but those members continue to have the benefits determined by the Scheme rules as at 30 April 2011.

The Group's exposure to funding DC pension schemes is limited to the contributions it has agreed to make. These contributions generally stop when employment ceases. The income statement charge represents the contributions the Group has agreed to make into employees' pension schemes in that period.

The disclosures within this note are provided mainly in respect of the principal DB scheme, which is the DB section of the funded Schroders Retirement Benefits Scheme (the Scheme).

The income statement charge for retirement benefit costs is as follows:

	2018 £m	2017 £m
Pension costs – defined contribution plans	47.9	42.8
Pension credit – defined benefit plans	(2.5)	(1.5)
Other post-employment benefits	0.2	0.2
	45.6	**41.5**

(i) Profile of the Scheme

The Scheme is administered by a Trustee company, Schroder Pension Trustee Limited. The board of the Trustee company comprises an independent chairman, three directors appointed by the employer and two directors elected by the Scheme members. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for setting the investment strategy and for the day-to-day administration of the benefits. The Trustee's investment committee comprises four of the Trustee directors and two representatives of the Group. This committee, which reports to the Trustee board, is responsible for making investment strategy recommendations to the board of the Trustee and for monitoring the performance of the investment manager.

Under the Scheme, employees are entitled to annual pensions on retirement based on a specified percentage of their final pensionable salary or, in the case of active members at 30 April 2011 (the date the DB section of the Scheme closed for future accrual), actual pensionable salaries at that date, for each year of service. These benefits are adjusted for the effects of inflation, subject to a cap of 2.5% for pensions accrued after 12 August 2007 and 5.0% for pensions accrued before that date.

As at 31 December 2018, there were no active members in the DB section (2017: nil) and 1,973 active members in the DC section (2017: 1,828). The weighted average duration of the Scheme's DB obligation is 18 years (2017: 21 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2018	2017
Number of deferred members	1,327	1,418
Total deferred pensions (at date of leaving Scheme)	£10.0m per annum	£10.9m per annum
Average age (deferred)	52	52
Number of pensioners	849	829
Average age (pensioners)	70	69
Total pensions in payment	£19.6m per annum	£18.9m per annum

(ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2017. The funding level at that date was 115% on the technical provisions basis and no contribution to the Scheme was required (2017: nil). The next triennial valuation is due as at 31 December 2020 and will be performed in 2021.

Notes to the accounts continued

24. Retirement benefit obligations continued

(iii) Risks of the Scheme

The Company and the Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy that aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme.

The most significant risks that the Scheme exposes the Group to are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will reduce the surplus or may create a deficit. The Group manages this risk by holding 51.6% (2017: 50.7%) of Scheme assets in an LDI portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund and a Strategic Beta portfolio. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but that can create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Credit risk

The assets of the Scheme include LDI and other fixed income instruments that expose the Group to credit risk. A significant amount of this exposure is to the UK Government as a result of holding gilts and bonds guaranteed by the UK Government. Other instruments held include derivatives, which are collateralised daily to cover unrealised gains or losses. The minimum rating for any derivatives counterparty is BBB.

Interest rate risk

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this should be partially offset by an increase in the value of the Scheme's LDI portfolio, which comprises gilts and other LDI instruments. The LDI portfolio has been designed to mitigate interest rate exposures measured on a funding rather than an accounting basis. One of the principal differences between these bases is that the liability under the funding basis is calculated using a discount rate set with reference to gilt yields; the latter uses corporate bond yields. As a result, the LDI portfolio hedges against interest rate risk by purchasing instruments that seek to replicate movements in gilt yields rather than corporate bond yields. Movements in the different types of instrument are not exactly correlated, and it is therefore likely that a tracking error can arise when assessing whether the LDI portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2018, the LDI portfolio was designed to mitigate 77% (2017: 73%) of the Scheme's exposure to changes in gilt yields.

Inflation risk

A significant proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. However, in most cases, caps on the level of inflationary increases are in place. The majority of the growth assets are either unaffected by or not closely correlated with inflation, which means that an increase in inflation will also decrease any Scheme surplus. The LDI portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2018, the LDI portfolio was designed to mitigate 77% (2017: 73%) of the Scheme's exposure to inflation risk.

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liability.

(iv) Reporting at 31 December

The principal financial assumptions used for the Scheme are:

	2018 %	2017 %
Discount rate	2.9	2.6
RPI inflation rate	3.3	3.3
CPI inflation rate	2.2	2.2
Future pension increases (for benefits earned before 13 August 2007)	3.2	3.1
Future pension increases (for benefits earned after 13 August 2007)	2.2	2.2

Average number of years a current pensioner is expected to live beyond age 60:	Years	Years
Men	28	28
Women	29	30

Average number of years future pensioners currently aged 45 are expected to live beyond age 60:	Years	Years
Men	29	29
Women	30	31

Net interest income is determined by applying the discount rate to the opening net surplus in the Scheme. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality, long dated corporate bonds that are denominated in the currency in which the benefits will be paid.

24. Retirement benefit obligations continued

Estimates and judgements

The Group estimates the carrying value of the Scheme by applying judgement to determine the assumptions as set out on page 138 to determine the valuation of the pension obligation using member data and applying the Scheme rules. The Scheme assets are mainly quoted in an active market. The sensitivity to those assumptions is set out below. The most significant judgemental assumption relates to mortality rates which are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.0% (2017: 1.0%) per annum.

Mortality tables for male pensioners are scaled back by 5% and female pensioners are scaled back by 10% to reflect the history of longer life expectancy of the Group's employees. The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The financial impact of the Scheme on the Group has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2018.

The amounts recognised in the income statement are:

	2018 £m	2017 £m
Interest income on Scheme assets	(26.1)	(28.0)
Interest cost on Scheme liabilities	21.9	24.8
Net interest income recognised in the income statement in respect of the Scheme	**(4.2)**	**(3.2)**
Income statement charge in respect of other defined benefit schemes	1.7	1.7
Total defined benefit schemes income statement credit	**(2.5)**	**(1.5)**

The amounts recognised in the statement of comprehensive income are:

	2018 £m	2017 £m
Loss/(return) on Scheme assets in excess of that recognised in interest income	56.8	(20.6)
Actuarial gains due to change in demographic assumptions	(18.3)	(27.2)
Actuarial (gains)/losses due to change in financial assumptions	(36.3)	1.7
Actuarial losses due to experience	9.3	4.6
Total other comprehensive loss in respect of the Scheme	**11.5**	**(41.5)**
Other comprehensive loss in respect of other defined benefit schemes	0.1	(0.8)
Total other comprehensive loss in respect of defined benefit schemes	**11.6**	**(42.3)**

The sensitivity of the Scheme pension liabilities to changes in assumptions are:

		2018		2017	
Assumption	**Assumption change**	**Estimated (increase)/ reduction in pension liabilities £m**	**Estimated (increase)/ reduction in pension liabilities %**	Estimated (increase)/ reduction in pension liabilities £m	Estimated (increase)/ reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	65.8	8.3	93.6	10.8
Discount rate	Decrease by 0.5% per annum	(72.1)	(9.1)	(102.1)	(11.8)
Expected rate of pension increases	Increase by 0.5% per annum	(56.3)	(7.1)	(79.7)	(9.2)
Expected rate of pension increases	Decrease by 0.5% per annum	52.6	6.6	74.9	8.6
Life expectancy	Increase by one year	(32.3)	(4.1)	(33.6)	(3.9)
Life expectancy	Reduce by one year	33.5	4.2	33.4	3.9

Notes to the accounts continued

24. Retirement benefit obligations continued

Movements in respect of the assets and liabilities of the Scheme are:

	2018 £m	2017 £m
At 1 January	1,029.2	1,093.2
Interest on assets	26.1	28.0
Remeasurement of assets	(56.8)	20.6
Benefits paid	(47.3)	(112.6)
Fair value of plan assets	**951.2**	**1,029.2**
At 1 January	(866.3)	(975.0)
Interest cost	(21.9)	(24.8)
Actuarial gains due to change in demographic assumptions	18.3	27.2
Actuarial gains/(losses) due to change in financial assumptions	36.3	(1.7)
Actuarial losses due to experience	(9.3)	(4.6)
Benefits paid	47.3	112.6
Present value of funded obligations	**(795.6)**	**(866.3)**
Net assets	**155.6**	**162.9**

The Group has not materially changed the basis of any of the principal financial assumptions underlying the calculation of the Scheme's net financial position during 2018, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

Administration expenses and the levy payable to the Pension Protection Fund are met directly by the Group.

The fair value of the Scheme's plan assets at the year end date are:

	2018		2017	
	Value £m	Of which not quoted in an active market £m	Value £m	Of which not quoted in an active market £m
Liability-driven investments	491.3	12.9	521.8	1.6
Bonds (excluding those held as part of the liability-driven investment portfolio)	78.8	–	99.1	–
Portfolio funds	348.0	7.8	369.1	10.9
Exchange-traded futures and over-the-counter derivatives	(5.7)	(4.2)	2.1	1.5
Cash	38.8	–	37.1	–
	951.2	**16.5**	**1,029.2**	**14.0**

25. Share-based payments

Share-based payments are remuneration payments to selected employees that take the form of an award of shares in Schroders plc. Employees are generally not able to exercise such awards in full until three years after the award has been made, although conditions vary between different types of award. The accounting for share-based awards settled by transferring shares to the employees (equity-settled) differs from the accounting for similar awards settled in cash (cash-settled). The charge for equity-settled share-based payments is determined based on the fair value of the award on the grant date or, in the case of grandfathered awards arising on business combinations, the fair value of the share awards at the acquisition date. Such awards can include share options or share awards that may or may not have performance criteria. The initial fair value of the award takes into account the current value of shares expected to be issued (i.e. estimates of the likely levels of forfeiture and achievement of performance criteria), the contribution, if required, by the employee and the time value of money. This initial fair value is charged to the income statement reflecting benefits received from employment, where relevant, in the performance period and over the vesting period. The income statement charge is offset by a credit to the statement of changes in equity, where the award is expected to be settled through the issue of shares. Such awards constituted 7.6% (2017: 7.7%) of salaries, wages and other remuneration (see note 4).

The Group may make share-based payments to employees through awards over or linked to the value of ordinary and non-voting ordinary shares and by the grant of market value share options over ordinary or non-voting ordinary shares. These arrangements involve a maximum term of 10 years.

It is the Group's practice to hedge all awards to eliminate the impact of changes in the market value of shares between the grant date and the exercise date.

Awards that lapse or are forfeited during the vesting period result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

The Group recognised total expenses of £63.8 million (2017: £62.0 million) arising from share-based payment transactions during the year, of which £63.9 million (2017: £60.5 million) were equity-settled share-based payment transactions. In 2018 there were total exceptional costs of £10.6 million included within equity-settled share-based payments (2017: nil).

The Group has the following share-based payment arrangements (further details of the current schemes may be found in the Remuneration report):

(a) 2000 Equity Compensation Plan and 2011 Equity Compensation Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plans are charged at fair value as 'Operating expenses' in the income statement. There are no performance conditions attached to the awards. For the 2000 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares at the date of grant, discounted for the dividends forgone over the average holding period of the award. For the 2011 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the three-year vesting period of the awards. The award is structured as a nil-cost option.

	2018		2017	
	Number of ordinary shares Millions	**Number of non-voting ordinary shares Millions**	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	6.5	0.3	6.9	0.3
Granted	0.9	–	1.7	–
Forfeited	(0.1)	–	(0.1)	–
Exercised	(1.8)	(0.2)	(2.0)	–
Rights outstanding at 31 December	**5.5**	**0.1**	**6.5**	**0.3**
Vested	2.2	–	1.7	0.2
Unvested	3.3	0.1	4.8	0.1
Weighted average fair value of shares granted (£)	33.22	–	30.97	22.54
Weighted average share price at dates of exercise (£)	33.08	23.72	32.05	22.91

The weighted average exercise price per share is nil.

A charge of £25.6 million (2017: £35.8 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Equity Compensation Plan to be expensed in future years:

	£m
2019	8.2
2020	2.2
2021	0.1
	10.5

Notes to the accounts continued

25. Share-based payments continued

(b) Deferred Award Plan

Awards over ordinary shares made under the Group's Deferred Award Plan are charged at fair value as 'Operating expenses' in the income statement. There are no performance conditions attached to the awards. Fair value is determined at the date of grant and is equal to the market value of the shares at that time. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting periods of the awards. Typically, one third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date. The award is structured as a nil-cost option.

	2018 Number of ordinary shares Millions	2017 Number of ordinary shares Millions
Rights outstanding at 1 January	–	–
Granted	1.3	–
Forfeited	(0.1)	–
Rights outstanding at 31 December – unvested	**1.2**	–
Weighted average fair value of shares granted (£)	33.41	–

A charge of £29.6 million (2017: £14.2 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Deferred Award Plan to be expensed in future years:

	£m
2019	6.7
2020	2.9
	9.6

(c) Equity Incentive Plan

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value as 'Operating expenses' to the income statement, over a five-year vesting period. Fair value is determined at the date of grant and is equal to the market value of the shares at that time. The award is structured as a nil-cost option.

	2018 Number of ordinary shares Millions	2017 Number of ordinary shares Millions
Rights outstanding at 1 January	2.1	2.1
Granted	0.2	0.2
Forfeited	(0.1)	(0.1)
Exercised	(0.2)	(0.1)
Rights outstanding at 31 December	**2.0**	**2.1**
Vested	0.5	0.2
Unvested	1.5	1.9
Weighted average fair value of shares granted (£)	26.81	34.52
Weighted average share price at dates of exercise (£)	25.06	33.44

The weighted average exercise price per share is nil.

A charge of £7.4 million (2017: £8.5 million) was recognised during the financial year.

25. Share-based payments continued
(c) Equity Incentive Plan continued

The table below shows the expected charges for awards issued under the Equity Incentive Plan to be expensed in future years:

	£m
2019	6.9
2020	4.4
2021	2.9
2022	1.5
2023	0.7
	16.4

(d) Long Term Incentive Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Long Term Incentive Plan are charged at fair value to the income statement over a four-year vesting period. Fair value is calculated using the market value of the shares at the grant date, discounted for dividends forgone over the vesting period of the award and adjusted based on an estimate at the year end date of the extent to which the performance conditions are expected to be met. The award is structured as a nil-cost option.

	2018		2017	
	Number of ordinary shares Millions	**Number of non-voting ordinary shares Millions**	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	0.2	0.1	0.4	0.1
Granted	–	–	–	–
Forfeited	(0.1)	–	(0.1)	–
Exercised	–	–	(0.1)	–
Rights outstanding at 31 December – unvested	**0.1**	**0.1**	**0.2**	**0.1**
Weighted average fair value of shares granted (£)	29.31	–	27.26	–
Weighted average share price at dates of exercise (£)	34.25	23.72	31.11	–

The weighted average exercise price per share is nil.

A credit of £0.4 million (2017: £0.4 million charge) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Long Term Incentive Plan to be expensed in future years:

	£m
2019	0.3
2020	0.2
2021	0.1
	0.6

(e) Share Incentive Plan

The employee monthly share purchase plan is open to UK permanent employees and provides free shares from the Group to match the employee purchase up to a maximum of £100 per month. The shares vest after one year.

Pursuant to this plan, the Group purchased 61,046 ordinary shares in 2018 (2017: 52,796) at a weighted average share price of £30.84 (2017: £32.51). A charge of £1.7 million (2017: £1.6 million) was recognised during the financial year.

Notes to the accounts continued

25. Share-based payments continued

(f) Cash-settled share-based awards

Certain employees have been awarded cash-settled equivalents to these share-based awards. The fair value of these awards is determined using the same methods and models used to value the equivalent equity-settled awards. The fair value of the liability is remeasured at each balance sheet date and at settlement date.

At 31 December 2018, the total carrying value amount of liabilities arising from cash-settled share-based awards was £2.6 million (2017: £3.1 million). The total intrinsic value at 31 December 2018 of liabilities for which the employee's right to cash or other assets had vested by that date was £0.6 million (2017: £0.7 million).

A credit of £0.1 million (2017: £1.5 million charge) was recognised during the financial year. This credit has arisen as the liability was remeasured at the balance sheet date at a share price of £24.43 (31 December 2017: £35.16).

26. Related party transactions

Transactions between the Group and parties related to the Group are required to be disclosed to the extent that they are necessary for an understanding of the potential effect of the relationship on the financial statements. Other disclosures, such as key management personnel compensation, are also required.

The Group is not deemed to be controlled or jointly controlled by a party directly or through intermediaries under accounting standards.

As a result the related parties of the Group are members of the Group, including associates and joint ventures, key management personnel, close family members of key management personnel and any entity controlled by those parties.

Cash transactions with associates or joint ventures are reported in the Consolidated cash flow statement and in note 10.

£55.7 million (2017: £66.9 million) was held in customer accounts in respect of amounts payable to key management personnel or their related parties.

Included within loans and advances to clients are amounts owed from related parties of £4.3 million (2017: nil). All related party loans and advances were at normal commercial rates.

Some of the plan assets of the Schroders Retirement Benefit Scheme are invested within Life funds controlled by the Group. At 31 December 2018, the fair value of these assets was £219.5 million (2017: £244.4 million).

Peter Harrison has an interest in 100,252 shares (2017: 100,252) in an associate of the Group, RWC Partners Limited, representing 5.4% (2017: 5.4%) of its issued share capital.

Transactions between the Group and its related parties were made at market rates. Any amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Key management personnel compensation

Key management personnel are defined as members of the Board or the Group Management Committee. The remuneration of key management personnel during the year was as follows:

Type of remuneration	Typical composition of this type of benefit	2018 £m	2017 £m
Short-term employee benefits	Salary and upfront bonus	21.6	21.8
Share-based payments	Deferred share awards	13.0	10.7
Other long-term benefits	Deferred cash awards	14.1	11.3
Termination benefits	Termination benefits	–	0.5
Post-employment benefits	Pension plans	0.1	0.1
		48.8	**44.4**

The remuneration of key management personnel is based on individual performance and market rates. The remuneration policy (which applies to Directors and management) is described in more detail at schroders.com/directors-remuneration-policy.

27. Interests in structured entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Group's interests in consolidated and unconsolidated structured entities are described below.

The Group has interests in structured entities as a result of contractual arrangements arising from its principal activity, the management of assets on behalf of its clients. AUM, excluding deposits by Wealth Management clients and some segregated client portfolios held within the Institutional channel of the Group's Asset Management business, are managed within structured entities. These structured entities typically consist of investment vehicles such as Open Ended Investment Companies, Authorised Unit Trusts, Limited Partnerships and Sociétés d'Investissement à Capital Variable, which entitle investors to a percentage of the vehicle's net asset value. The vehicles are financed by the purchase of units or shares by investors. The Group also has interests in structured entities through proprietary investments. These are mainly into vehicles that help facilitate the Group's stated aim of generating a return on investment capital and when it deploys seed and co-investment capital in developing new investment strategies. The Group does not have any contractual relationships with, or interests in, structured entities related to AUA. Additionally, the Group holds interests in structured entities for liquidity management purposes, for example via investments in money market funds.

The Group does not guarantee returns on the investments it manages or commit to financially support its structured entities. A small proportion of the Group's AUM, principally real estate funds, are permitted to raise finance through loans from banks and other financial institutions. Where external finance is raised, the Group does not provide a guarantee for the repayment of any borrowings.

The business activity of all structured entities in which the Group has an interest, is the management of assets in order to generate investment returns for investors from capital appreciation and/or investment income. The Group earns a management fee from its structured entities, normally based on a percentage of the entity's net asset value, committed capital value or gross asset value and, where contractually agreed, a performance fee or carried interest, based on outperformance against predetermined benchmarks. In addition, where the Group owns a proportion of the structured entity it is entitled to receive investment returns.

(a) Interests arising from managing assets

The Group's interests in structured entities arising as a result of contractual relationships from its principal activity, the management of assets on behalf of its clients, are reflected in the Group's AUM.

	2018			
	AUM outside of structured entities £bn	**AUM within consolidated structured entities £bn**	**AUM within unconsolidated structured entities £bn**	**Total £bn**
Asset Management	167.8	9.4	186.3	363.5
Wealth Management	37.6	–	6.1	43.7
	205.4	**9.4**	**192.4**	**407.2**

	2017			
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn	Total £bn
Asset Management	180.4	12.3	197.1	389.8
Wealth Management	39.7	–	6.2	45.9
	220.1	**12.3**	**203.3**	**435.7**

Certain AUM is managed in pooled vehicles that are not considered to be structured entities. Within Asset Management, this occurs either because it is formed of segregated investment portfolios for Institutional clients comprising directly-held investments in individual financial instruments, or because the voting structures of the vehicles themselves allow the investment manager to be removed without cause. Within Wealth Management, AUM is not considered to be within structured entities due to contractual relationships existing with clients rather than structured entities, for example discretionary and advisory asset management and banking services. In addition, Wealth Management AUM in the form of loans and advances to customers is conducted outside of structured entities.

Certain structured entities are deemed to be controlled by the Group and are accounted for as subsidiaries and consolidated in accordance with IFRS 10. AUM within consolidated structured entities represents the net assets of the beneficial interest in the consolidated structured entity owned by third parties.

AUM within unconsolidated structured entities constitutes the remaining balance, represented principally by the net asset value of pooled vehicles managed for Intermediary clients, as well as some assets invested in pooled vehicles on behalf of Institutional and Wealth Management clients. The Group's beneficial interest in structured entities is not included within AUM and is described separately overleaf.

The Group has no direct exposure to losses in relation to the AUM reported above, as the investment risk is borne by clients. The main risk the Group faces from its interest in AUM managed on behalf of clients is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations.

Notes to the accounts continued

27. Interests in structured entities continued

(a) Interests arising from managing assets

Fee income includes £1,445.6 million (2017: £1,367.6 million) of fees from structured entities managed by the Group. The table below shows the carrying value of the Group's interests in structured entities as a result of its management of assets, where income is accrued over the period for which assets are managed before being invoiced. The carrying value represents the Group's maximum exposure to loss from these interests.

	2018 £m	2017 £m
Fee debtors[1]	16.7	16.5
Accrued income[1]	213.1	192.5
Total exposure due to asset management activities	**229.8**	**209.0**

1. Recognised in trade and other receivables.

(b) Interest arising from the Group's investment in unconsolidated structured entities

The table below shows the carrying values of the Group's proprietary investments in unconsolidated structured entities, which resulted in a net loss on financial instruments and other income of £3.8 million (2017: gain of £9.4 million). The carrying values represent the Group's maximum exposure to loss from these interests.

	2018 £m	2017 £m
Cash and cash equivalents	61.9	103.0
Financial assets	575.4	588.1
Total exposure due to the Group's investments	**637.3**	**691.1**

The Group's proprietary investments include interests in unconsolidated structured entities in the form of cash and cash equivalents and financial assets. Cash and cash equivalents comprise investments in money market funds, of which £3.0 million (2017: £26.5 million) is managed by the Group. Financial assets comprise investments in pooled vehicles and legacy private equity investments and include seed and co-investment capital and hedges of deferred cash awards. Of the financial assets, £574.2 million (2017: £583.6 million) is invested in funds managed by the Group. The Group has no interest apart from its role as investor in those funds for which it does not act as manager. The main risk the Group faces from its interests in unconsolidated structured entities arising from proprietary investments is that the investments will decrease in value. Note 19 includes further information on the Group's exposure to market risk arising from proprietary investments.

Following the Group's acquisition of Adveq Holding AG in 2017, the Group has a contractual obligation to provide 1% (2017: 1%) of committed capital to certain structured entities of the acquired business. See note 23 for the Group's investment call commitments at 31 December 2018.

The Group's statement of financial position also includes the Life Company assets of £11,255.9 million (2017: £13,986.4 million), which are included in the AUM information presented on page 24. The exposure to the risks and rewards associated with these assets is borne by unit-linked policyholders, or, where Life Company funds are consolidated, third-party investors in those funds.

Financial support for consolidated structured entities where there is no contractual obligation to do so

The Group supports some of its funds through the injection of seed capital in order to enable the funds to establish a track record before they are more widely marketed. During the year, the Group purchased units at a cost of £173.0 million (2017: £189.4 million) to provide seed capital to investment funds managed by the Group, of which £112.6 million (2017: £162.2 million) resulted in the consolidation of those funds, and £60.4 million (2017: £27.2 million) did not.

28. Business combinations

The Group applies the acquisition method to account for business combinations. The consideration for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and any equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from contingent or deferred consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest (NCI) in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the NCI proportionate share of the recognised amounts of the acquiree's identifiable net assets.

The Group completed six business combinations during the year.

The most significant of these transactions completed on 2 May 2018 when the Group acquired 100% of the issued share capital of Algonquin Management Partners S.A. (Algonquin), a specialist pan-European hotels investments and management business, for a total consideration of £118.5 million. The acquisition contributed £1.6 billion of Asset Management AUM and strengthens the Group's real estate capabilities.

On 28 February 2018, the Group increased its interest in NEOS Finance Group B.V. (NEOS) from 25% to 49% of issued share capital for a cash consideration of £4.7 million which, combined with the fair value of the Group's holding, resulted in the fair value consideration of £9.5 million. NEOS was previously held as an associate but the Group has determined that it is now a subsidiary.

The Group completed four other business combinations during the year for a combined consideration of £5.1 million.

Net assets acquired

The fair values of the net assets acquired in the transactions together with the goodwill and intangible assets arising are as follows:

Net assets acquired:	Algonquin £m	NEOS £m	Other £m	Total £m
Cash	1.4	1.8	0.7	3.9
Financial assets	23.6	–	–	23.6
Trade and other receivables	19.9	–	–	19.9
Other assets	0.2	1.5	1.4	3.1
Trade and other payables	(4.3)	(0.4)	–	(4.7)
Other liabilities	–	(2.6)	(6.8)	(9.4)
Tangible net assets	**40.8**	**0.3**	**(4.7)**	**36.4**
Goodwill	61.4	9.4	–	70.8
Intangible assets arising on acquisition	20.1	–	4.8	24.9
Deferred tax arising on acquisition	(3.8)	–	–	(3.8)
Non-controlling interest	–	(0.2)	5.0	4.8
Total	**118.5**	**9.5**	**5.1**	**133.1**

Satisfied by:	Algonquin £m	NEOS £m	Other £m	Total £m
Cash	94.7	4.7	3.6	103.0
Contingent consideration[1]	23.8	–	–	23.8
Deferred consideration	–	–	1.5	1.5
Fair value of Group's pre-existing 25% interest	–	4.8	–	4.8
Total	**118.5**	**9.5**	**5.1**	**133.1**

1. Contingent consideration of £23.8 million is payable under the terms of the share purchase agreement for Algonquin. This amount is contingent upon the receipt of future revenues over a three year period post acquisition. The estimated range of amounts that will ultimately be payable is between £14.4 million and £27.8 million.

Financial statements

Notes to the accounts continued

28. Business combinations continued

Algonquin

Goodwill arising on the acquisition of Algonquin represents the value of the acquired business arising from:

- A broader platform for business growth;
- Talented management and employees; and
- Opportunities for synergies from combining certain activities.

Goodwill arising on the acquisition of Algonquin will not be deductible for tax purposes.

In the period between the acquisition date on 2 May 2018 and 31 December 2018, Algonquin contributed £8.3 million to the Group's net income. The contribution to profit before tax and exceptional items was £4.4 million and exceptional costs of £2.1 million were incurred mainly in respect of amortisation of the acquired intangible assets. Additionally, acquisition costs of £3.1 million were recorded within 'Operating expenses' and classified as exceptional in the Consolidated income statement.

If the acquisition had been completed on 1 January 2018, the Group's pre-exceptional net income for the year would have been £2,128.1 million, and the profit before tax and exceptional items for the year on the same basis would have been £763.4 million.

NEOS

The goodwill arising on the acquisition is attributable to the value of the additional investment capabilities acquired. The £0.2 million of non-controlling interest recognised at the acquisition date was determined as a proportion of the identifiable net assets at the date of acquisition attributable to third parties.

At 28 February 2018, the fair value of the 25% equity interest in NEOS was £4.8 million. As a result of remeasuring the equity interest to fair value at the acquisition date, a gain of £1.5 million was recognised through net gain on financial instruments and other income in the Group's income statement.

Estimates and judgements

The fair value of certain items of consideration, assets acquired and liabilities assumed requires some estimation. For contingent consideration payable on the acquisition of Algonquin, this estimation required assumptions regarding the level of management fees that will be earned over the relevant period and carried interest revenue that will be generated.

Certain assets acquired, including intangible assets arising on acquisition, as well as liabilities assumed also required some estimation. The key assumptions included those in respect of management fees earned over the relevant period and carried interest revenue as set out above.

The net impact of changes to these assumptions would be to change the carrying value of individual assets and liabilities with a corresponding change to goodwill. The reasonable range of potential outcomes of contingent consideration (undiscounted) is between £14.4 million and £27.8 million, compared with the Group's estimate of the amount payable of £23.8 million.

Presentation of the financial statements

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union, which comprise Standards and Interpretations approved by either the IASB or the IFRS Interpretations Committee or their predecessors, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and liabilities that are held at fair value through profit or loss or at fair value through other comprehensive income, liabilities in respect of deferred cash awards and certain deposits both with banks and by customers and banks (including those that relate to bullion).

The statement of financial position is shown in order of liquidity. The classification between current and non-current is set out in the notes. The Group's Life Company business is reported separately. If the assets and liabilities of the Group's Life Company business were to be included within existing captions on the Group's statement of financial position, the effect would be to gross up a number of individual line items to a material extent. By not doing this, the Group can provide a more transparent presentation that shows the assets of the Life Company and the related unit-linked liabilities as separate and distinct from the remainder of the Group's statement of financial position.

The Group's principal accounting policies have been consistently applied. Further information is provided below and highlighted in the notes to the accounts.

(b) New accounting standards and interpretations

The Group has applied IFRS 9 Financial Instruments (IFRS 9) and IFRS 15 Revenue from Contracts with Customers (IFRS 15) from 1 January 2018. The nature and effect of these changes are disclosed below.

IFRS 9 Financial Instruments

IFRS 9 replaces the classification and measurement models previously contained in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). In accordance with IFRS 9, the Group's financial assets have been reclassified at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

The Group has applied IFRS 9 retrospectively, with the cumulative effect of initially applying the standard recorded as an adjustment to the opening profit and loss reserve at 1 January 2018. Comparative information has not been restated.

The Group's accounting policies in respect of the classification and measurement of financial instruments in accordance with IFRS 9 are set out in notes 3 and 9.

The table below sets out the impact of reclassifying the Group's financial assets in accordance with IFRS 9 following its adoption on 1 January 2018. For the Group, the adoption of IFRS 9 resulted in certain investments in debt instruments being reclassified from available-for-sale financial asssets in accordance with IAS 39 to financial assets at fair value through profit or loss under IFRS 9.

IAS 39 classifications:	£m
Financial assets at amortised cost	1,492.2
Available-for-sale financial assets	994.9
Financial assets at fair value through profit or loss	993.7
Total financial assets	**3,480.8**

IFRS 9 classifications:	£m
Financial assets at amortised cost	1,492.2
Financial assets at fair value through other comprehensive income	925.4
Financial assets at fair value through profit or loss	1,063.2
Total financial assets	**3,480.8**

IFRS 9 introduces an expected loss model for the assessment of impairment and replaces the incurred loss model in IAS 39. This change has reduced the Group's net assets at 1 January 2018 by £0.6 million. The reduction in net assets is driven by the impairment requirements on financial assets measured at amortised cost (see note 19).

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard introduces a five step model for recognising revenue, which consists of identifying the contract with the customer; identifying the relevant performance obligations; determining the amount of consideration to be received under the contract; allocating the consideration to each performance obligation; and earning the revenue as the performance obligations are satisfied.

The Group has applied IFRS 15 retrospectively, with the cumulative effect of initially applying the standard recorded as an adjustment to the opening profit and loss reserve at 1 January 2018. Comparative information has not been restated. The Group did not apply any of the practical expedients available under the full retrospective method.

The Group has undertaken a comprehensive review of its contracts with customers and concluded that, excluding carried interest, there is no impact on the way in which the Group recognises its revenues. IFRS 15 constrains the amount of revenue that is recognised when estimating variable consideration. As carried interest is earned over a longer period of time, the Group has constrained the amount of revenue that is recognised to reduce the risk of significant reversal. This change has reduced the Group's net assets on 1 January 2018 by £17.9 million. This comprises a £19.6 million reduction to accrued income relating to carried interest, and a £1.7 million reduction to related deferred tax liabilities.

In addition to the above, the net operating revenue note (note 2) has been re-presented to further disaggregate revenue into categories that better depict the nature of the revenues. 2017 has been reformatted for consistency with the 2018 presentation.

The Group's accounting policy in respect of IFRS 15 is set out in note 2.

(c) Future accounting developments

The Group did not implement the requirements of any other Standards or Interpretations that were in issue but were not required to be adopted by the Group at the year end date. The Standards and Interpretations relevant to the Group that had been issued but not yet adopted at the year end were IFRS 16 Leases (IFRS 16) and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23).

The expected impact of these standards on the Group is set out below. No other Standards or Interpretations have been issued that are expected to have an impact on the Group's financial statements.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and is effective for reporting periods beginning on or after 1 January 2019. Where the Group is a lessee, IFRS 16 requires operating leases to be recorded in the Group's statement of financial position. A right-of-use (ROU) asset will be recognised within property, plant and equipment and a lease liability will be recorded.

Notes to the accounts continued

Presentation of the financial statements continued

The ROU asset and lease liability will be calculated based on the expected payments, requiring an assessment as to the likely effect of renewal options, and are discounted using the relevant incremental borrowing rate.

The ROU asset will be depreciated on a straight-line basis over the expected life of the lease. The lease liability will be reduced as lease payments are made with an interest expense recognised using the effective interest method (see note 2) as a component of finance costs. This will result in a higher proportion of the lease expense being recognised earlier in the life of the lease.

In preparation for transition to IFRS 16, the Group has reviewed all its leasing arrangements and assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements. The Group intends to adopt IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening profit and loss reserve at 1 January 2019.

Under this approach, the ROU asset will be measured on transition as if the new rules had always been applied, using the appropriate discount rate at 1 January 2019. Comparative information will not be restated. The Group expects to apply the optional exemption contained within IFRS 16, which permits the cost of short-term (less than 12 months) leases to be expensed on a straight-line basis over the lease term. These lease arrangements are not material to the Group.

At 31 December 2018, the Group had non-cancellable operating lease commitments of £500 million, see note 23. Consequently, on 1 January 2019 the Group expects to recognise ROU assets and lease liabilities of approximately £411 million and £419 million respectively. This change will reduce the Group's net assets by approximately £8 million (before tax). As the Group has recently renewed a number of lease arrangements, the adoption of IFRS 16 will reduce the Group's profit before tax with respect to these leases. However, IFRS 16 is not expected to have a material impact on the Group's profit before tax.

IFRIC 23 Uncertainty over Income Tax Treatments

On 7 June 2017, the IASB issued IFRIC 23. The interpretation provides clarification as to how the recognition and measurement requirements of IAS 12 Income Tax should be applied. The Group has assessed the impact of IFRIC 23 and does not expect it to have a material impact when it becomes effective on 1 January 2019.

(d) Basis of consolidation

The consolidated financial information includes the total comprehensive gains or losses, the financial position and the cash flows of the Company and its subsidiaries, associates and joint ventures. Details of the Company's related undertakings are presented in note 37. This includes share ownership trusts established for certain share-based awards. In the case of associates and joint ventures, those entities are presented as single line items in the Income statement and Statement of financial position (see note 10). Intercompany transactions and balances are eliminated on consolidation. Consistent accounting policies have been applied across the Group in the preparation of the consolidated financial statements.

The entities included in the consolidation may vary year on year due to both the restructuring of the Group (including acquisitions and disposals) and changes to the number and net assets of pooled investment vehicles managed by the Group where the shareholding in the year results in control, as defined by IFRS.

In such cases, the investment vehicle is consolidated and the third party interest is normally recorded as a financial liability. This consolidation has no net effect on the Income statement.

This treatment continues until the Group loses control, as defined by IFRS.

(e) Net gains and losses on foreign exchange

Many subsidiaries are denominated in currencies other than sterling. The results of these subsidiaries are translated at the average rate of exchange. At the year end, the assets and liabilities are translated at the closing rate of exchange. Gains or losses on translation are recorded in the Statement of comprehensive income and as a separate component of equity together with gains or losses on any hedges of overseas operations. Such gains or losses are transferred to the Income statement on disposal or liquidation of the relevant subsidiary.

Transactions undertaken in foreign currencies are translated into the functional currency of the subsidiary at the exchange rate prevailing on the date of the transaction. Foreign currency assets and liabilities are translated into the functional currency at the rates of exchange ruling at the year end date. Any exchange differences arising are included within 'Net gain on financial instruments and other income' in the Income statement unless they relate to non-monetary items where such gains or losses are recognised directly in other comprehensive income.

(f) Estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies and in determining whether certain assets and liabilities should be recorded or an impairment recognised. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes and identified under the title estimates and judgements. Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates may not equal the related actual results.

The estimates and judgements that could have a significant effect on the carrying amounts of assets and liabilities are set out in the following notes:

Note 5	Tax expense
Note 8	Trade and other receivables
Note 9	Financial assets
Note 12	Goodwill and intangible assets
Note 16	Financial liabilities
Note 17	Provisions and contingent liabilities
Note 24	Retirement benefit obligations
Note 28	Business combinations

In applying IFRS 10 Consolidated Financial Statements, the Group uses judgement to determine whether its interests in funds (and other entities), including those held by the Group's Life Company, constitute controlling interests. The Group has interests in funds through its role as fund manager and through its proprietary investments in funds. The Group considers all relevant facts and circumstances in assessing whether it has power over specific funds or other entities. This includes consideration of the purpose and design of an investee, the extent of the Group's exposure to variability of returns as an investor and, where appropriate, as a fund manager, and the Group's ability to direct the relevant activities, including whether it has substantive or protective rights through voting rights and potential voting rights. These considerations are reassessed if there are indications that circumstances have changed since the original assessment.

Schroders plc – Statement of financial position
at 31 December 2018

	Notes	2018 £m	2017 £m
Assets			
Trade and other receivables	31	1,435.7	1,357.6
Retirement benefit scheme surplus	24	155.6	162.9
Investments in subsidiaries	37	3,092.6	3,092.6
Total assets		**4,683.9**	**4,613.1**
Liabilities			
Trade and other payables	32	30.4	54.9
Deferred tax	33	20.9	19.9
Total liabilities		**51.3**	**74.8**
Net assets		**4,632.6**	**4,538.3**
Equity at 1 January		4,538.3	4,313.0
Profit for the year		423.7	458.2
Dividends		(311.7)	(267.6)
Other changes in equity		(17.7)	34.7
Equity at 31 December		**4,632.6**	**4,538.3**

The financial statements were approved by the Board of Directors on 6 March 2019 and signed on its behalf by:

Richard Keers
Director

Financial statements

Schroders plc – Statement of changes in equity
for the year ended 31 December 2018

	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2018		282.5	124.2	(150.0)	4,281.6	4,538.3
Restatement on adoption of IFRS 9		–	–	–	(1.1)	(1.1)
At 1 January 2018 (restated)		**282.5**	**124.2**	**(150.0)**	**4,280.5**	**4,537.2**
Profit for the year		**–**	**–**	**–**	**423.7**	**423.7**
Items that will not be reclassified to the income statement:						
Actuarial loss on defined benefit pension scheme	24	–	–	–	(11.5)	(11.5)
Tax on items taken directly to other comprehensive income		–	–	–	2.0	2.0
Other comprehensive income		**–**	**–**	**–**	**(9.5)**	**(9.5)**
Total comprehensive income for the year		**–**	**–**	**–**	**414.2**	**414.2**
Own shares purchased	35	–	–	(66.7)	–	(66.7)
Share-based payments		–	–	–	60.3	60.3
Tax in respect of share schemes		–	–	–	(0.7)	(0.7)
Dividends	7	–	–	–	(311.7)	(311.7)
Transactions with shareholders		**–**	**–**	**(66.7)**	**(252.1)**	**(318.8)**
Transfers		**–**	**–**	**70.6**	**(70.6)**	**–**
At 31 December 2018		**282.5**	**124.2**	**(146.1)**	**4,372.0**	**4,632.6**

	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2017		282.7	124.2	(148.9)	4,055.0	4,313.0
Profit for the year		–	–	–	**458.2**	**458.2**
Items that will not be reclassified to the income statement:						
Actuarial gain on defined benefit pension scheme	24	–	–	–	41.5	41.5
Tax on items taken directly to other comprehensive income		–	–	–	(7.0)	(7.0)
Other comprehensive income		–	–	–	**34.5**	**34.5**
Total comprehensive income for the year		–	–	–	**492.7**	**492.7**
Shares cancelled	20	(0.2)	–	5.4	(5.2)	–
Own shares purchased	35	–	–	(53.7)	–	(53.7)
Share-based payments		–	–	–	53.3	53.3
Tax in respect of share schemes		–	–	–	0.6	0.6
Dividends	7	–	–	–	(267.6)	(267.6)
Transactions with shareholders		**(0.2)**	–	**(48.3)**	**(218.9)**	**(267.4)**
Transfers		–	–	**47.2**	**(47.2)**	–
At 31 December 2017		**282.5**	**124.2**	**(150.0)**	**4,281.6**	**4,538.3**

The distributable profits of Schroders plc are £2.8 billion (2017: £2.7 billion) and comprise distributable retained profits of £2.9 billion (2017: £2.8 billion), included within the 'Profit and loss reserve', less amounts held within the own shares reserve.

The Group's ability to pay dividends is however restricted by the need to hold regulatory capital and to maintain sufficient other operating capital to support its ongoing business activities. In addition, the Group invests in its own funds as seed capital for the purposes of supporting new investment strategies. An analysis of the Group's capital position is provided in note 19.

Schroders plc – Cash flow statement
for the year ended 31 December 2018

	2018 £m	2017 £m
Profit before tax	418.2	453.9
Adjustments for:		
Increase in trade and other receivables	(76.8)	(182.0)
Decrease in trade and other payables	(10.0)	(6.6)
Net credit taken in respect of the defined benefit pension scheme	(4.2)	(3.2)
Share-based payments	60.3	53.3
Amounts received in respect of Group tax relief	5.4	6.2
Net finance income	–	(0.3)
Net cash from operating activities	**392.9**	**321.3**
Cash flows from financing activities		
Repayment of loan received from a Group company	(14.5)	–
Acquisition of own shares	(66.7)	(53.7)
Dividends paid	(311.7)	(267.6)
Net cash used in financing activities	**(392.9)**	**(321.3)**
Net decrease in cash and cash equivalents	**–**	**–**
Opening cash and cash equivalents	–	–
Net decrease in cash and cash equivalents	–	–
Closing cash and cash equivalents	**–**	**–**

29. Significant accounting policies

The separate financial statements of Schroders plc (Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 (Act) applicable to companies reporting under IFRS, and accounting policies that have been applied consistently. As permitted by the Act, the separate financial statements have been prepared in accordance with IFRS (as adopted by the European Union), which comprise standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as at 31 December 2018. The Company has taken advantage of the exemption in section 408 of the Act not to present its own income statement and statement of comprehensive income.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures, where applicable. In addition note 37 sets out the accounting policy in respect of investments in subsidiary undertakings.

Schroders plc – Notes to the accounts

30. Expenses and other disclosures

The auditor's remuneration for audit services to the Company was £0.6 million (2017: £0.6 million). There were no fees relating to further assurance services in the year (2017: nil).

EY replaced PwC as the Group's principal auditor for the 2018 financial year.

Key management personnel compensation

The remuneration policy is described in more detail at schroders.com/directors-remuneration-policy. The Company has no employees. The key management personnel of the Company are defined as the Board of Directors. The remuneration of key management personnel during the year was as follows:

Type of remuneration	Typical composition of this type of benefit	2018 £m	2017 £m
Short-term employee benefits	Salary and upfront bonus	6.8	7.0
Share-based payments	Deferred share awards	1.7	3.3
Other long-term benefits	Deferred cash awards	2.3	3.8
		10.8	**14.1**

31. Trade and other receivables

	2018 £m	2017 £m
Amounts due from subsidiaries	1,427.9	1,357.2
Other receivables	7.8	0.4
	1,435.7	**1,357.6**

Trade and other receivables are initially recorded at fair value and subsequently at amortised cost. All trade and other receivables are due within one year or repayable on demand.

Expected credit losses on trade and other receivables at 31 December 2018 were £1.1 million (1 January 2018: £1.1 million). Note 19 sets out the details of the expected credit loss calculation.

32. Trade and other payables

	2018			2017		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other payables held at amortised cost:						
Social security	3.0	2.2	5.2	3.8	3.3	7.1
Accruals	4.5	13.2	17.7	8.8	11.4	20.2
Other payables	–	–	–	–	1.0	1.0
Amounts owed to subsidiaries	–	7.5	7.5	–	26.6	26.6
	7.5	**22.9**	**30.4**	**12.6**	**42.3**	**54.9**

The Company's trade and other payables mature in the following time periods:

	2018 £m	2017 £m
Less than one year	22.9	42.3
1 – 2 years	4.6	9.4
2 – 3 years	2.0	2.4
3 – 4 years	0.9	0.8
	7.5	**12.6**
	30.4	**54.9**

Amounts owed to subsidiaries include an interest-bearing loan of £7.0 million (2017: £21.5 million) that is repayable on demand.

33. Deferred tax

	2018			2017		
	Deferred employee awards £m	**Pension surplus £m**	**Total £m**	Deferred employee awards £m	Pension surplus £m	Total £m
At 1 January	(7.8)	27.7	19.9	(7.4)	20.1	12.7
Income statement charge	1.3	0.7	2.0	0.1	0.7	0.8
Income statement charge/(credit) due to changes in tax rates	–	–	–	0.1	(0.1)	–
(Credit)/charge to statement of other comprehensive income	–	(2.0)	(2.0)	–	7.0	7.0
Charge/(credit) taken to equity	1.0	–	1.0	(0.6)	–	(0.6)
At 31 December	**(5.5)**	**26.4**	**20.9**	**(7.8)**	**27.7**	**19.9**

34. Financial instrument risk management

The Company's policy is to have adequate capital for all activities undertaken in the normal course of business. In particular, it should have adequate capital to maintain sufficient liquid funds to meet peak working capital requirements. Generally, surplus capital is loaned back to the Group's investment capital management entities.

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the 'Key risks and mitigations' section within the Strategic report and the 'Risk and internal controls' section within the Audit and Risk Committee report as well as in note 19. The Company's specific risk exposures are explained below.

Credit risk

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Company's counterparties are predominantly its subsidiaries and therefore there is minimal external credit risk exposure.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency. The Company holds sufficient liquid funds to cover its needs in the normal course of business. The Company can recall intercompany loans to subsidiaries or utilise the Group loan facility to maintain sufficient liquidity.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates.

At 31 December 2018, if interest rates had been 100 bps higher (2017: 50 bps higher) or 50 bps lower (2017: 50 bps lower) with all other variables held constant, the Company estimates that post-tax profit for the year would have increased by £11.0 million (2017: increased by £5.2 million) or decreased by £5.5 million (2017: decreased by £5.2 million) respectively. These changes are mainly as a result of net interest income on the Company's interest-bearing intercompany receivables and payables and cash. Other components of equity are not directly affected by interest rate movements.

The model used to calculate the effect on post-tax profits does not take into account the indirect effect of interest rates on the fair value of other assets and liabilities.

Foreign exchange and pricing risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. The Company is not directly exposed to foreign exchange or pricing risk. The Company's investments in its directly-held subsidiaries are in sterling and are held at historic cost. It has indirect exposure to foreign exchange and pricing risk in the Group, which could result in the impairment of these subsidiaries. There are currently sufficient resources in subsidiaries to absorb any normal market events.

35. Own shares

Movements in own shares during the year were as follows:

	2018 £m	2017 £m
At 1 January	(150.0)	(148.9)
Own shares purchased	(66.7)	(53.7)
Own shares cancelled	–	5.4
Awards vested	70.6	47.2
At 31 December	**(146.1)**	**(150.0)**

During the year 2.1 million own shares (2017: 1.7 million own shares) were purchased and held for hedging share-based awards. 2.6 million shares (2017: 2.2 million shares) awarded to employees vested in the period and were transferred out of own shares.

Schroders plc – Notes to the accounts continued

35. Own shares continued

The total number of shares in the Company held within the Company's employee benefit trusts comprise:

	2018			2017		
	Number of vested shares Millions	Number of unvested shares Millions	Total Millions	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares	2.6	5.5	8.1	2.0	6.0	8.0
Non-voting ordinary shares	–	0.1	0.1	0.2	0.1	0.3
	2.6	**5.6**	**8.2**	**2.2**	**6.1**	**8.3**

	2018			2017		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	57.5	144.9	202.4	32.4	148.4	180.8
Fair value	65.0	133.9	198.9	67.2	216.7	283.9
Non-voting ordinary shares:						
Cost	0.2	1.2	1.4	2.6	1.6	4.2
Fair value	0.7	1.4	2.1	5.6	2.4	8.0
Total:						
Cost	**57.7**	**146.1**	**203.8**	**35.0**	**150.0**	**185.0**
Fair value	**65.7**	**135.3**	**201.0**	**72.8**	**219.1**	**291.9**

36. Related party transactions

The Company is not deemed to be controlled or jointly controlled by a party directly or through intermediaries under IFRS. As a result the related parties of the Company comprise principally subsidiaries, joint ventures and associates, key management personnel, close family members of key management personnel and any entity controlled by those parties.

The Company has determined that key management personnel comprises only the Board of Directors.

Transactions between related parties

Details of transactions between the Company and its subsidiaries, which are related parties of the Company, and transactions between the Company and other related parties, excluding compensation (which is set out in note 30), are disclosed below:

	2018					
	Revenue £m	Expenses £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	447.0	22.4	5.6	0.2	1,427.9	(7.5)
Key management personnel	0.4	–	–	0.1	3.8	(42.5)

	2017					
	Revenue £m	Expenses £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	479.3	11.3	2.1	0.3	1,357.2	(26.6)
Key management personnel	0.2	–	–	–	–	(54.1)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash.

37. Subsidiaries and other related undertakings

The Group operates globally, which results in the Company having a corporate structure consisting of a number of related undertakings, comprising subsidiaries, joint ventures, associates and other qualifying undertakings. A full list of these undertakings, the country of incorporation, registered office, classes of shares held and the effective percentage of equity owned at 31 December 2018 is disclosed below.

Additionally, related undertakings include entities where the Company has a significant holding of a share class or unit class of a pooled vehicle. These holdings can arise through the Group's investment management activities on behalf of clients or as part of the stated aim of generating a return on investment capital. Additionally, the seeding of structured entities in order to develop new investment strategies can give rise to these holdings. A listing of related undertakings arising from the Company's interest in structured entities along with registered offices is included on pages 164 to 167.

(a) Related undertakings arising from the Company's corporate structure

Principal subsidiaries

The principal subsidiaries listed below are those that, in the opinion of the Directors, principally affect the consolidated profits or net assets of the Company, or are regulated. The principal subsidiary entities are wholly-owned subsidiary undertakings of the Company, unless otherwise stated. All undertakings operate in the countries where they are registered or incorporated and are stated at cost less, where appropriate, provisions for impairment.

Name	Share class	%	Address
UK			
Aspect8 Limited[f]	OS	77%	Sussex House, North Street, Horsham, West Sussex, RH12 1RQ, England
Best Practice IFA Group Limited[f]	OS	77%	
Evolution Wealth Network Limited[f]	OS	77%	
Fusion Funds Limited[f]	OS	77%	
Fusion Wealth Limited[f]	OS	77%	
Leadenhall Securities Corporation Limited	OS	100%	1 London Wall Place, London, EC2Y 5AU, England
Schroder & Co. Limited	OS	100%	
Schroder Administration Limited[a]	OS	100%	
Schroder Corporate Services Limited	OS	100%	
Schroder Financial Services Limited	OS	100%	
Schroder Investment Company Limited	OS	100%	
Schroder Investment Management Limited	OS	100%	
Schroder Investment Management North America Limited	OS	100%	
Schroder Pension Management Limited	OS	100%	
Schroder Real Estate Investment Management Limited	OS	100%	
Schroder Unit Trusts Limited	OS	100%	
Schroder Wealth Management (US) Limited	OS	100%	
Argentina			
Schroder Investment Management S.A.	OS	95%	Ing.Enrique Butty 220, Piso 12, Buenos Aires, C1001AFB, Argentina
Australia			
Schroder Investment Management Australia Limited	OS, CPS	100%	Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia
Bermuda			
Schroders (Bermuda) Limited	OS	100%	Wellesley House, 2nd Floor, 90 Pitts Bay Road, Pembroke HM 08, Bermuda
Brazil			
Schroder Investment Management Brasil Ltda	OS	100%	100 Joaquim Floriano, 14th Floor, Suite 142, Itaim Bibi, São Paulo, São Paulo, 04534000, Brazil
Canada			
Schroder Canada Inc.	OS	100%	7 Bryant Park, New York, New York, 10018, USA
France			
Algonquin Management Partners France	OS	100%	60 rue Pierre Charron, 75008, Paris, France
Schroder AIDA SAS	OS	70%	8-10 rue Lamennais, 75008, Paris, France
Germany			
Schroder Investment Management GmbH	CS	100%	Taunustor 1, 60310, Frankfurt, Germany
Schroder Real Estate Investment Management GmbH	OS	100%	
Schroder Real Estate Kapitalverwaltungsgesellschaft mbH	OS	100%	

Financial statements

Schroders plc – Notes to the accounts continued

37. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Principal subsidiaries continued

Name	Share class	%	Address
Guernsey			
Burnaby Insurance (Guernsey) Limited	OS	100%	Heritage Hall, Le Marchant Street, St Peter Port, Guernsey, GY1 4JH, Channel Islands
Schroders (C.I.) Limited	OS	100%	PO Box 334, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands
Schroder Investment Company (Guernsey) Limited	OS	100%	
Schroder Venture Managers (Guernsey) Limited	OS, NCRPS	100%	
Hong Kong			
Schroder Adveq Management (Hong Kong) Limited	OS	100%	Sutie 616, 100 Queen's Road Central, Central, Hong Kong, Hong Kong
Schroder & Co. (Hong Kong) Limited	OS	100%	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, Hong Kong
Schroder Investment Management (Hong Kong) Limited	OS	100%	Level 33, Two Pacific Place, 88 Queensway, Hong Kong, Hong Kong
Indonesia			
PT Schroder Investment Management Indonesia	OS	99%	30th Floor, Indonesia Stock Exchange Building, Tower 1, Jl Jendral Sudirman Kav 52-53, Jakarta, 12190, Indonesia
Ireland			
Schroder Investment Management (Ireland) Limited	OS	100%	George's Court, 54-62 Townsend Street, Dublin 2, Ireland
Italy			
Schroders Italy SIM S.p.A.	OS	100%	Via Della Spiga, 30-20121, Milan, Italy
Japan			
Schroder Investment Management (Japan) Limited	OS	100%	8-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-0005, Japan
Jersey			
Schroder Real Estate Managers (Jersey) Limited	OS	100%	40 Esplanade, St Helier, Jersey, JE4 9WB, Channel Islands
Luxembourg			
Schroder Investment Management (Europe) S.A.	OS	100%	5 rue Höhenhof, L-1736 Senningerberg, Luxembourg
Schroder Real Estate Investment Management (Luxembourg) S.à.r.l.	OS	100%	
Mexico			
Consultora Schroders, S.A. de C.V.[d e]	OS	99%	Montes Urales 760 Desp. 101, Col. Lomas de Chapultepec, Mexico, DF, 11000, Mexico
Singapore			
Schroder & Co (Asia) Limited	OS	100%	138 Market Street, #23-02, CapitaGreen, Singapore, 048946, Singapore
Schroder Investment Management (Singapore) Ltd.	OS	100%	
South Korea			
Schroders Korea Limited	OS	100%	26th fl., 136, Sejong-daero, Jung-gu, Seoul 100-768, Korea
Switzerland			
Schroder Adveq Management AG	OS	100%	Affolternstrasse 56, 8050, Zurich, Switzerland
Schroder & Co Bank AG	OS	100%	Central 2, 8001, Zurich, Switzerland
Schroder Investment Management (Switzerland) AG	OS	100%	
Secquaero Advisors AG	OS	50%	
Taiwan			
Schroder Investment Management (Taiwan) Limited	OS	100%	9/F, 108 Sec.5, Hsin-Yi Road, Hsin-Yi District, Taipei 11047, Taiwan
United States			
Schroder Adveq Management US Inc.	OS	100%	Corporate Trust Center, 1209 OrangeStret, Wilmington, Delaware, 19801, USA
Schroder Fund Advisors LLC	COS	100%	7 Bryant Park, New York, New York, 10018, USA
Schroder Investment Management North America Inc.	COS	100%	
Schroder US Holdings Inc.	COS	100%	National Registered Agents, Inc., 160 Greentree Drive, Suite 101, Dover, Delaware, 19904, USA

37. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Fully owned subsidiaries

Name	Share class	%	Address
UK			
Adveq Founder Partner (GP) Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
Adveq Founder Partner Limited	OS	100%	
Adveq GP LLP	PI	100%	
Algonquin Management Partners (UK) Ltd	OS	100%	5 Elstree Gate, Elstree Way, Borehamwood, Hertfordshire, WD6 1JD, England
Cazenove Capital Management Limited	OS	100%	1 London Wall Place, London, EC2Y 5AU, England
Cazenove New Europe (CFM1) Limited[b]	OS	100%	
Cazenove New Europe (PPI) Limited[b]	OS	100%	
Cazenove New Europe Staff Interest Limited[b]	OS	100%	
CCM Nominees Limited[b]	OS	100%	
Chilcomb Wealth Ltd	OS	100%	
Croydon Gateway Nominee 1 Limited	OS	100%	
Croydon Gateway Nominee 2 Limited	OS	100%	
J. Henry Schroder Wagg & Co. Limited[b]	OS	100%	
Schroder Adveq Management (UK) Limited	OS	100%	
Schroder & Co Nominees Limited[b]	OS	100%	
Schroder Financial Holdings Limited	OS	100%	
Schroder Infra Debt GP LLP	PI	100%	
Schroder International Holdings Limited	OS	100%	
Schroder Nominees Limited[b]	OS	100%	
Schroder Pension Trustee Limited	OS	100%	
Schroder Private Assets Holdings Limited	OS	100%	
Schroder Wealth Holdings Limited	OS	100%	
Schroder Wealth International Holdings Limited	OS	100%	
The Lexicon Management Company Limited	OS	100%	
UK PEM Partners Limited	OS	100%	
Schroder Investments Limited (In Liquidation)	OS	100%	c/o CVR Global LLP, Town Wall House, Balkerne Hill, Colchester, Essex, CO3 3AD, England
Australia			
Schroder Australia Holdings Pty Limited	OS	100%	Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia
Belgium			
Algonquin Management Partners S.A.	OS	100%	Avenue Louise, 523 – 1050 Bruxelles, Belgium
Bermuda			
Schroder General Partner (Bermuda) Limited	OS	100%	Wellesley House, 2nd Floor, 90 Pitts Bay Road, Pembroke HM 08, Bermuda
Schroder Management Company (Bermuda) Limited	OS	100%	
Schroder Venture Managers Limited	COS	100%	
SITCO Nominees Limited	OS	100%	
Canada			
Schroder Canada Investments Inc	COS	100%	c/o Cidel Financial Group, 60 Bloor Street West, 9th Floor, Toronto, Ontario, M4W 3B8, Canada
Cayman Islands			
AEROW SMA Management I L.P.	PI	100%	Maples & Calder, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands
PEM Partners Ltd	OS	100%	
Schroder Adveq cPl Global Management III L.P.	PI	100%	
Chile			
Schroders Chile SpA	OS	100%	Avenida Cerro El Plomo 5420 Oficina 1104, Les Condes, Santiago, Chile
China			
Schroder Investment Management (Shanghai) Co., Ltd.	OS	100%	Unit 1101, 11/F, Shanghai IFC Phase 1 (HSBC Building), No. 8 Century Avenue, Pudong, Shanghai, 200120, China
Schroder Adveq Investment Management (Beijing) Co., Ltd.	OS	100%	Room 1929-1932, Winland International Finance Centre, 7 Finance Street, Xicheng District, Beijing, 100033, China

Schroders plc – Notes to the accounts continued

37. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Fully owned subsidiaries continued

Name	Share class	%	Address
Curaçao			
Schroder Adveq Investors B.V.	OS	100%	Johan van, Walbeeckplein 11, Willemstad, Curaçao
cPl Schroder Adveq Investments Management B.V	OS	100%	
Schroder Adveq Management N.V	OS	100%	
France			
Holdco LC Paris Blomet SAS	OS	100%	60 rue Pierre Charron, 75008, Paris, France
Schroder Real Estate Investment Management (France)	OS	100%	8-10 rue Lamennais, 75008, Paris, France
Terre et Mer Hotels	OS	100%	22 rue Jean-Louis Barrault, 26000, Valence, France
Germany			
Blitz 06-953 GmbH	OS	100%	Taunustor 1, 60310, Frankfurt, Germany
Real Neunzehnte Verwaltungsgesellschaft mbH	OS	100%	
Schroder Adveq Management Deutschland GmbH	OS	100%	
Schroder Eurologistik Fonds Verwaltungs GmbH	OS	100%	
Schroder Holdings (Deutschland) GmbH	CS	100%	
Schroder Italien Fonds Verwaltungs GmbH	OS	100%	
SPrIM Holdings GmbH	OS	100%	
SIMA 5 Verwaltungsgesellschaft mbH	OS	100%	
Guernsey			
Schroder Investments (Guernsey) Limited	OS	100%	PO Box 334, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands
Schroder Investment Management (Guernsey) Limited	OS	100%	
Schroder Nominees (Guernsey) Limited	OS	100%	
Secquaero Re (Guernsey) ICC Ltd	OS	100%	Maison Trinity, Trinity Square, St Peter Port, Guernsey, GY1 4AT, Channel Islands
Schroder Ventures European Fund Managers Limited (In Liquidation)	OS	100%	PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands
Hong Kong			
Schroders Asia Nominees Limited	OS	100%	Level 33, Two Pacific Place, 88 Queensway, Hong Kong, Hong Kong
S & C Nominees Limited	OS	100%	
Jersey			
AAF Management II L.P.	PI	100%	26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands
AAF Management III L.P.	PI	100%	
BKMS Management L.P.	PI	100%	
BKMS Management II L.P.	PI	100%	
Cresta Management L.P.	PI	100%	
Cresta Management II L.P.	PI	100%	
EEM Management II L.P.	PI	100%	
EEM Opportunities Management L.P.	PI	100%	
Gemini Management L.P.	PI	100%	
IST3 Manesse PE Management L.P.	PI	100%	
SA-EL Asia Partners I L.P.	PI	100%	
Salève 2017 Management L.P.	PI	100%	
Schroder Adveq Asia Partners V L.P.	PI	100%	
Schroder Adveq EEM Management I L.P.	PI	100%	
Schroder Adveq Europe Direct Partners II L.P.	PI	100%	
Schroder Adveq Europe Partners VII L.P.	PI	100%	
Schroder Adveq Global Partners II L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management II L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management III L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management IV L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management L.P.	PI	100%	
Schroder Adveq Secondaries Management III L.P.	PI	100%	
Schroder Adveq Technology Partners IX L.P.	PI	100%	
Schroder Adveq US Partners V L.P.	PI	100%	
SC-SA Co-Invest Opportunities 2018 Management L.P.	PI	100%	

37. Subsidiaries and other related undertakings continued
(a) Related undertakings arising from the Company's corporate structure continued
Fully owned subsidiaries continued

Name	Share class	%	Address
Jersey (continued)			
TMC Management III L.P.	PI	100%	26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands
TMC Management IV L.P.	PI	100%	
TMCO Management I L.P.	PI	100%	
Wilmersdorf Secondary Management II L.P.	PI	100%	
Cazenove Capital Holdings Limited	OS	100%	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
Croydon Gateway GP Limited	OS	100%	40 Esplanade, St Helier, Jersey, JE2 9WB, Channel Islands
Croydon Gateway Investments Limited	OS	100%	
Income Plus Real Estate Debt GP Limited	OS	100%	
Lerisson Nominees Limited	OS	100%	
Schroder Adveq Management Jersey Ltd	OS	100%	
Luxembourg			
SNI Management S.à r.l.	OS	100%	5 rue Höhenhof, L-1736 Senningerberg, Luxembourg
SRE Invest SCSp	PI	100%	
Schroder Adveq Management Luxembourg S.à r.l.	OS	100%	6C rue Gabriel Lippmann, Munsbach, L-5365, Luxembourg
Schroder Adveq US Management V S.à r.l.	OS	100%	
Schroder Adveq US Partners V S.C.S	PI	100%	
Schroder Adveq Asia Management V S.à r.l.	OS	100%	
Netherlands			
Schroder International Finance B.V.	OS	100%	1 London Wall Place, London, EC2Y 5AU, England
Singapore			
Schroder Singapore Holdings Private Limited	OS	100%	138 Market Street, #23-02, CapitaGreen, Singapore, 048946, Singapore
SIMBL Nominees Private Limited	OS	100%	
Switzerland			
Schroder Adveq Holding AG	OS	100%	Affolternstrasse 56, 8050, Zurich , Switzerland
Schroder Trust AG (In Liquidation)	OS	100%	8 rue d'italie, P.O. Box 3655, 41211, Geneva, Switzerland
United States			
Schroders Incorporated	COS	100%	9 East Loockerman Street, Dover, Delaware, 19901, USA
Schroder Venture Managers Inc.	COS	100%	7 Bryant Park, New York, New York, 10018, USA

Other corporate related undertakings
Subsidiaries where the ownership is less than 100%

Name	Share class	%	Address
UK			
Alderbrook Financial Planning Limited[f]	OS	77%	Sussex House, North Street, Horsham, West Sussex, RH12 1RQ, England
Benchmark Capital Limited[d]	OS	77%	
Brian Potter Consultants Limited[f]	OS	77%	
Bright Square Pensions Limited[f]	OS	77%	
City Capital Analysis Limited[f]	OS	77%	
City Capital Analysis (JCB) Limited[f]	OS	77%	
Creative Technologies Limited[f]	OS	77%	
CT Connect[f]	OS	77%	
Invicta Independent Financial Advisers Limited[f]	OS	77%	
PP Nominees Limited[f]	OS	77%	
PP Trustees Limited[f]	OS	77%	
RIA Pension Trustees Limited[f]	OS	77%	
Richard Martin Financial Solutions Limited[f]	OS	77%	
Redbourne Wealth Management Ltd[f]	OS	52%	Belmont House, Shrewsbury Business Park, Shrewsbury, SY2 SLG, England
Residential Land Development (GP) LLP	PI	67%	1 London Wall Place, London, EC2Y 5AU, England
Argentina			
Schroder S.A. Sociedad Gerente de Fondos Comunes de Inversion	OS	95%	Ing.Enrique Butty 220, Piso 12, Buenos Aires, C1001AFB, Argentina

Schroders plc – Notes to the accounts continued

37. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Other corporate related undertakings continued

Subsidiaries where the ownership is less than 100%

Name	Share class	%	Address
Bermuda			
Safe Harbor Holdings Ltd.[h]	COS	9%	Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda
Cayman Islands			
Schroder Adveq Asia Management I L.P.	PI	75%	Maples & Calder, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands
Schroder Adveq Asia Management II L.P.	PI	65%	
Schroder Adveq cPl Global Management L.P.	PI	63%	
Schroder Adveq cPl Global Management II L.P.	PI	88%	
Schroder Adveq Europe Management II L.P.	PI	20%	
Schroder Adveq Europe Management III L.P.	PI	88%	
Schroder Adveq Europe Management IV A L.P.	PI	59%	
Schroder Adveq Europe Management IV B L.P.	PI	70%	
Schroder Adveq Technology Management III L.P.	PI	20%	
Schroder Adveq Technology Management IV L.P.	PI	30%	
Schroder Adveq Technology Management V L.P.	PI	89%	
Schroder Adveq Technology Management VI L.P.	PI	65%	
Schroder Adveq US Management I L.P	PI	76%	
Schroder Adveq US Management II L.P.	PI	87%	
Germany			
CM Komplementr 06-379 GmbH & Co KG	OS	95%	Taunustor 1, 60310, Frankfurt, Germany
Guernsey			
SQ Revita I Limited[g]	OS	50%	PO Box 334, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands
France			
Terre et Mer Holding SAS	OS	80%	60 rue Pierre Charron, 75008, Paris, France
Schroders IDF IV UP	OS	70%	8-10 rue Lamennais, 75008, Paris, France
Jersey			
AAF Management I L.P.	PI	48%	26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands
GPEP Management II L.P.	PI	70%	
GPEP Management III L.P.	PI	70%	
Schroder Adveq Asia Management III L.P.	PI	53%	
Schroder Adveq Asia Management IV L.P.	PI	70%	
Schroder Adveq Europe Co-Investments Mangement L.P.	PI	73%	
Schroder Adveq Europe Management V L.P.	PI	73%	
Schroder Adveq Europe Management VI L.P.	PI	74%	
Schroder Adveq Global Management L.P.	PI	71%	
Schroder Adveq Real Assets Harvested Resources Management L.P.	PI	73%	
Schroder Adveq Secondaries Management II L.P.	PI	53%	
Schroder Adveq Technology Management VII L.P.	PI	46%	
Schroder Adveq Technology Management VIII L.P.	PI	78%	
Schroder Adveq US Management III L.P	PI	51%	
Schroder Adveq US Management IV L.P.	PI	73%	
TMC Management I L.P.	PI	54%	
TMC Management II L.P.	PI	49%	
Wilmersdorf Secondary Management L.P.	PI	71%	
Luxembourg			
Schroder Property Services B.V.	OS	70%	5 rue Höhenhof, L-1736 Senningerberg, Luxembourg
Netherlands			
NEOS Finance Group B.V.	OS	49%	The Hofpoort Building, Hofplein 20, 21st Floor, 3032 AC Rotterdam, Netherlands
United States			
Safe Harbor Re Holdings LLC[c]	Class S, CPS	9%	National Registered Agents, Inc., 160 Greentree Dr.Suite 101 Dover, Delaware, 19904, USA

37. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Other corporate related undertakings continued

Associates and joint ventures

Name	Share class	%	Address
UK			
Algonquin (Liverpool) Limited	OS	20%	5 Elstree Gate, Elstree Way, Borehamwood, Hertfordshire, WD6 1JD, England
Algonquin (York) Limited (In Liquidation)	OS	36%	6 Snow Hill, London, EC1A 2AY, England
Kellands (Bristol) Limited[f]	OS	18%	Quays Office Park, Conference Avenue, Portishead, Bristol, BS20 7LZ, England
Regrowth Holdings Limited[f]	OS	18%	New Barn Manor Farm Courtyard, Southam Lane Southam, Cheltenham, Gloucestershire, GL52 3PB, England
Nippon Life Schroders Asset Management Europe Limited[d]	OS	33%	1 London Wall Place, London, EC2Y 5AU, England
Robertson Baxter Limited[f]	OS	18%	Beck House, Abbey Road, Shepley, Huddersfield, HD8 8EP, England
RWC Partners Limited[d]	OS	41%	Verde 4th Floor, 10 Bressenden Place, London, SW1E 5DH, England
Whelan Wealth Management Limited[f]	OS	38%	Wilkins Kennedy Llp, 5 Yeomans Court, Ware Road, Hertford, Herts, SG13 7HJ, England
Belgium			
Algonquin Astrid	PS	33%	Avenue Louise, 523 – 1050 Bruxelles, Belgium
Algonquin BB	OS	33%	
China			
Bank of Communications Schroder Fund Management Company Limited	OS	30%	2nd Floor Bank of Communications Tower, 188 Middle Yincheng Road, Pudong New Area, Shanghai, 200120, China
France			
Algonquin France Hotels Services	OS	36%	60 rue Pierre Charron, 75008, Paris, France
JV Hotel La Villette SAS	OS	50%	
Guernsey			
Schroder Ventures Investments Limited	OS, R, D	50%	PO Box 255, Trafalgar Court Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands
India			
Axis Asset Management Company Limited[i]	OS	25%	1st Floor, Axis House C-2 Wadia International Centre, Pandurang Budhkar Marg, Worli-Mumbai, 400025, India
Jersey			
Bracknell General Partner Limited[e]	OS	50%	PO Box 490, 40 Esplanade, St Helier, Jersey, JE4 9WB, Channel Islands
Singapore			
Nippon Life Global Investors Singapore Limited	OS	33%	138 Market Street, #22-03, CapitaGreen, Singapore, 048946, Singapore
Planar Investments Private Ltd	OS	26%	1 Phillip Street, #03-02 Royal One Phillip, 048692, Singapore
United States			
A10 Capital Parent Company LLC	COS	20%	1209 Orange Street, Wilmington, Delaware, 19801, USA

Share class abbreviations

CS	Capital shares.
COS	Common stock.
NCRPS	Non-cumulative redeemable preference shares.
CPS	Convertible preference shares.
D	Deferred shares.
OS	Ordinary shares.
PI	Partnership interest.
PS	Promote shares.
R	Redeemable preference shares.

Footnotes

[a] Held directly by the Company.
[b] Dormant company.
[c] The Company also holds convertible loan notes, taking the Group's effective holding to 65%.
[d] The Company holds ordinary B shares.
[e] The Company holds ordinary A shares.
[f] Owned through Benchmark Capital Limited.
[g] Owned through Secquaero Advisors AG.
[h] Owned through Safe Harbor Re Holdings LLC.
[i] Financial year end 31 March.

Schroders plc – Notes to the accounts continued

37. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities

The Company's related undertakings also include funds in which it holds investments. These include fully and partially owned funds that are classified as subsidiaries. Due to the number of share classes or unit classes that can exist in these vehicles, a significant holding in a single share class or unit class is possible, without that undertaking being classified as a subsidiary or associate.

Fully owned subsidiaries

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
UK			
Schroder Flexible Retirement Benefit Fund	X Accumulation	100%	100%
Brazil			
Schroder Fundo de Investimento Multimercado Low Vol	–	100%	100%
Canada			
Schroder MyRetirement 2015 Fund	–	100%	100%
Schroder MyRetirement 2020 Fund	–	100%	100%
Schroder MyRetirement 2025 Fund	–	100%	100%
Schroder MyRetirement 2030 Fund	–	100%	100%
Schroder MyRetirement 2035 Fund	–	100%	100%
Schroder MyRetirement 2040 Fund	–	100%	100%
Schroder MyRetirement 2045 Fund	–	100%	100%
Schroder MyRetirement 2050 Fund	–	100%	100%
Schroder MyRetirement 2055 Fund	–	100%	100%
Schroder MyRetirement 2060 Fund	–	100%	100%
Schroder Target Date Transition Fund	–	100%	100%
Luxembourg			
Schroder GAIA Helix	I Accumulation	100%	100%
Schroder ISF Emerging Markets Equity Alpha	I Accumulation	100%	100%
Schroder ISF European Sustainable Equity	I Accumulation	100%	100%
Schroder ISF Global Disruption	I Accumulation	100%	100%
Schroder Property FCP –FIS –Schroder Property German Residential Fund	B	100%	100%

Subsidiaries where the ownership is less than 100%

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
UK			
Schroder Advanced Beta Global Equity Small and Mid Cap Fund	X Accumulation	86%	44%
Schroder Advanced Beta Global Equity Value Fund	X Accumulation	50%	50%
Schroder Diversified Growth Fund	I Accumulation	96%	96%
Schroder Dynamic Multi-Asset Fund	Z Accumulation	61%	53%
Schroder Dynamic Planner Portfolio 3	Z Accumulation	93%	93%
Schroder Dynamic Planner Portfolio 4	Z Accumulation	65%	62%
Schroder Dynamic Planner Portfolio 5	Z Accumulation	68%	68%
Schroder Dynamic Planner Portfolio 6	Z Accumulation	82%	82%
Schroder Dynamic Planner Portfolio 7	Z Accumulation	88%	88%
Schroder Fusion Managed Defensive Fund	F Accumulation	57%	57%
Schroder Global Emerging Markets Fund	A Accumulation	66%	47%
Schroder Long Dated Corporate Bond Fund	I Accumulation	76%	47%
Schroder Multi-Asset Total Return Fund	X Accumulation	100%	66%
Schroder QEP Global Active Value Fund	I Accumulation	92%	39%
Schroder QEP Global Emerging Markets Fund	I Accumulation	93%	27%
Schroder QEP Global Emerging Markets Fund	X Accumulation	89%	62%
Schroder Responsible Value UK Equity Fund	I Accumulation	91%	75%
Schroder Responsible Value UK Equity Fund	I Accumulation	91%	75%
Schroder Securitized Credit Fund Limited	–	99%	99%
Schroder Sustainable Multi-Factor Equity Fund	X Accumulation	70%	70%

37. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities continued

Subsidiaries where the ownership is less than 100%

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
Australia			
Schroder Real Return Fund	W Distribution	33%	33%
Brazil			
Schroder Best Ideas FIA	–	98%	98%
Japan			
Schroder YEN Target (Semi-Annual)	–	70%	70%
Luxembourg			
Schroder Alternative Solutions Asian Long Term Value Fund	I Accumulation	83%	81%
Schroder Alternative Solutions Argentine Bond Fund	C Accumulation	98%	95%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation	99%	89%
Schroder GAIA II NGA Turnaround	I Accumulation	100%	52%
Schroder ISF Dynamic Indian Income Bond	I Accumulation	45%	42%
Schroder ISF European Large Cap Fund	I Accumulation	67%	52%
Schroder ISF Global Credit Value	I Accumulation	94%	93%
Schroder ISF Global Target Return	I Accumulation	72%	37%
Schroder ISF Multi-Asset PIR Italia	C Accumulation	90%	90%
Schroder ISF Multi-Asset Total Return	I Accumulation	85%	35%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation GBP Hedge	100%	59%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation	100%	4%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation EUR Hedge	73%	0%
United States			
Hartford Schroders Tax-Aware Bond ETF	I Distribution	46%	46%
Schroder Emerging Markets Small Cap Fund	Investor Distribution	98%	1%
Schroder Emerging Markets Small Cap Fund	R6 Distribution	94%	93%
Schroder Short Duration Bond Fund	Investor Distribution	100%	1%
Schroder Short Duration Bond Fund	R6 Distribution	98%	97%

Associates

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
UK			
Schroder Fusion Portfolio 3	F Accumulation	29%	29%
Schroder Global Multi-Factor Equity Fund	X Accumulation	58%	37%
Brazil			
Sicredi – FI Multimercado Elite Credito Privado LP	–	31%	31%
Japan			
Schroder YEN Target (Annual)	–	33%	33%
Luxembourg			
Schroder ISF European Alpha Focus	I Accumulation	100%	19%
United States			
Schroder Absolute Return Emerging Markets Debt Portfolio LP	Institutional Distribution	22%	22%

Schroders plc – Notes to the accounts continued

37. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities continued

Significant holdings in structured entities not classified as subsidiaries or associates

Fund Name	Share/unit class	Holding in undertaking share/ unit class	Total holding in undertaking via share/unit class
UK			
Schroder Absolute Return Bond Fund	X Income	100%	15%
Schroder Advanced Beta Global Corporate Bond Fund	X Accumulation	29%	11%
Schroder Advanced Beta Global Sovereign Bond Fund	X Accumulation	49%	19%
Schroder All Maturities Corporate Bond Fund	I Accumulation	50%	17%
Schroder European Fund	I Income	35%	3%
Schroder Global Equity Fund	I Accumulation	47%	19%
Schroder Institutional Developing Markets Fund	B Income	95%	11%
Schroder Institutional Pacific Fund	I Accumulation	39%	13%
Schroder Institutional UK Smaller Companies Fund	X Income	27%	13%
Schroder QEP Global Core Fund	I Accumulation	36%	9%
Schroder QEP Global Core Fund	X Accumulation	22%	4%
Schroder Sterling Broad Market Bond Fund	I Accumulation	70%	8%
Schroder UK Mid 250 Fund	L Accumulation	38%	6%
Schroder US Equity Income Maximiser	L Accumulation	98%	13%
Cayman Islands			
Musashi Smart Premia Fund (Exclusively for Qualified Institutional Investors with Re-Sale Restriction for the Japanese Investors)	B	100%	1%
Musashi Smart Premia Fund (Exclusively for Qualified Institutional Investors with Re-Sale Restriction for the Japanese Investors)	C	100%	0%
Schroder Advanced ILS Fund (Cayman) Limited	Management shares	100%	0%
Luxembourg			
Schroder Alternative Solutions Agriculture Fund	I Accumulation	100%	1%
Schroder Alternative Solutions Agriculture Fund	I Accumulation GBP Hedged	97%	0%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation EUR Hedged	75%	0%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation GBP Hedged	99%	8%
Schroder GAIA BlueTrend	C Accumulation CHF Hedged	43%	0%
Schroder GAIA Contour Tech Equity	C Accumulation GBP Hedged	41%	0%
Schroder ISF China A	I Accumulation	36%	17%
Schroder ISF Emerging Europe	I Accumulation	100%	0%
Schroder ISF Emerging Markets Debt Absolute Return	I Accumulation EUR Hedged	100%	0%
Schroder ISF Emerging Markets Debt Absolute Return	I Accumulation	32%	9%
Schroder ISF EURO High Yield	I Accumulation	100%	0%
Schroder ISF Global Corporate Bond	I Accumulation	28%	7%
Schroder ISF Global Credit Income	I Accumulation	100%	0%
Schroder ISF Global Diversified Growth	I Accumulation GBP Hedged	40%	1%
Schroder ISF Global Energy	I Accumulation	100%	0%
Schroder ISF Global Gold	I Accumulation	100%	1%
Schroder ISF Global Gold	I Accumulation EUR Hedged	99%	0%
Schroder ISF Global Multi-Asset Balanced	I Accumulation CHF Hedged	89%	0%
Schroder ISF Global Recovery	I Accumulation	31%	3%
Schroder ISF Middle East	I Accumulation	100%	0%
Schroder ISF Multi-Asset Total Return	I Accumulation EUR Hedged	99%	2%
Schroder ISF QEP Global Value Plus	I Accumulation	100%	3%
Schroder ISF Securitised Credit	I Accumulation	100%	1%
Schroder ISF Strategic Beta	I Accumulation	100%	3%
Schroder ISF Swiss Equity Opportunities	I Accumulation	100%	1%
Schroder Property FCP-FIS – Schroder Property Eurologistics Fund No.1 (A)	B	100%	1%
Schroder Property FCP-FIS – Schroder Property Eurologistics Fund No.1 (B)	B	100%	3%

37. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities continued

The registered offices for each of the related undertakings listed on page 164 to 166 and in the table above are reflected by country below:

UK
1 London Wall Place, London, EC2Y 5AU, England

Australia
Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia

Brazil
The registered office for the following related undertakings is Av. Presidente Wilson, nº 231, 11º andar, Rio de Janeiro, Brazil

Schroder Fundo de Investimento Multimercado Low Vol
Schroder Best Ideas FIA

The registered office for the following related undertaking is Avenida Assis Brasil, 3940, Porto Alegre, RS, Brazil

Sicredi – FI Multimercado Elite Credito Privado LP

Canada
30 Adelaide Street, East Suite 1100, Toronto, Ontario, M5C 3G6, Canada

Cayman Islands
Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY11-1104, Cayman Islands

Japan
1-1 Chuo-ku, Saitama City, Saitama Shintoshin Godo Choushya 1st Building, Saitama Prefecture, 330-9716, Japan

Luxembourg
The registered office for the Luxembourg related undertakings is 5 rue Höhenhof, L-1736 Senningerberg, Luxembourg, except for the following:

The registered office for the following related undertakings is 80, route d'Esch, L-1470 Luxembourg:

Schroder Property FCP-FIS – Schroder Property German Residential Fund

Schroder Property FCP-FIS – Schroder Property EuroLogistics Fund No.1 (A)

Schroder Property FCP-FIS – Schroder Property EuroLogistics Fund No.1 (B)

United States
The registered office for the United States related undertakings is 7 Bryant Park, New York, New York, 10018, USA, except for the following:

The registered office for the following related undertaking is 690 Lee Road, Wayne, Pennsylvania, 19087, USA

Hartford Schroders Tax-Aware Bond ETF

Independent auditor's report to the members of Schroders plc

Opinion

In our opinion, the financial statements of Schroders plc (the 'Parent company') and its subsidiaries (collectively, the 'Group'):

- give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU'); and
- have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the financial statements of Schroders plc which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2018	Schroders plc – Statement of financial position at 31 December 2018
Consolidated statement of comprehensive income for the year ended 31 December 2018	Schroders plc – Statement of changes in equity for the year ended 31 December 2018
Consolidated statement of financial position at 31 December 2018	Schroders plc – Cash flow statement for the year ended 31 December 2018
Consolidated statement of changes in equity for the year ended 31 December 2018	Schroders plc – Notes to the accounts 29 to 37
Consolidated cash flow statement for the year ended 31 December 2018	
Notes to the accounts 1 to 28 and Presentation of the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the EU and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ('FRC') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 40 to 47 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 42 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 93 in the Annual Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules of the UK Listing Authority ('Listing Rules') in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 42 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

First year audit considerations

In preparation for our first year audit of the 31 December 2018 financial statements, we prepared a detailed transition plan. Our audit planning and transition commenced in May 2017 after we had confirmed our independence of the Group to the Audit and Risk Committee. Our transition activities included shadowing the former auditor PricewaterhouseCoopers LLP ('PwC') at key meetings with management, including meetings of the Audit and Risk Committee. We reviewed PwC's 2017 audit work papers and gained an understanding of their risk assessment and key judgments.

In April 2018 we held an audit planning meeting with senior members of our key location teams in order to agree our first year audit approach. Members of Schroders management directly relevant to our audit also participated in parts of the meeting.

Our global audit team has deep knowledge of the wealth and asset management industry and has been involved in the audits of large international financial services companies. We obtained a specific understanding of the Group's business, culture and operations, through review, enquiry, observation and visiting a number of the Group's locations.

This transition activity allowed us to gain an understanding of the Group's key processes and controls over financial reporting. We then established our audit base and formalised our audit strategy for the 2018 Group audit.

Key audit matters	– Improper recognition of revenue – Improper recognition of cost of sales
Audit scope	– The Group is comprised of over 200 legal entities domiciled in 30 countries. – We performed an audit of the complete financial information of six legal entities and audit procedures on specific balances for a further 24 legal entities. – The legal entities where we performed full or specific audit procedures accounted for 99% of profit before tax and exceptional items, 91% of revenue and 99% of total assets. – Certain of the Group's processes over financial reporting are centralised in the finance operations hubs of London, Luxembourg, Singapore and Zurich and as a result, the majority of our testing was performed in these locations.
Materiality	– Overall Group materiality of £38 million, which represents 5% of profit before tax and exceptional items.

Independent auditor's report to the members of Schroders plc continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Group only risk: **Improper recognition of revenue (£2,626.4 million, 2017: £2,511.7 million)** *Refer to the Audit and Risk Committee report (page 62) and Note 2 of the Consolidated financial statements (page 102)* Schroders manages funds in numerous domiciles, which consist of many share classes. Schroders also manages segregated portfolios for a range of institutions and provides wealth management services. The inputs and calculation methodologies that drive the fees vary significantly across this population. In particular, performance fees and segregated accounts have a range of calculation methodologies due to the significant number of bespoke arrangements. For the carried interest arrangements, revenue is calculated manually. The following are identified as the key risks or subjective areas of revenue recognition: – not all agreements in place have been identified and accounted for; – fee terms have not been correctly interpreted or entered into the fee calculation and billing systems; – assets under management ('AUM') has not been properly attributed to fee agreements; – errors in manually calculated revenues; and – inappropriate judgments are made by management in the calculation of carried interest. There is also the risk that management may influence the recognition of revenue in order to meet market expectations or net operating revenue based targets. The Group applied IFRS 15 – *Revenue from contracts with customers* ('IFRS 15') from 1 January 2018 and determined that there is no material impact on the way in which the Group recognises its revenues, with the exception of carried interest. The risk has neither increased nor decreased in the current year.	We have: – gained an understanding of the procedures and controls in place throughout the revenue process, both at Schroders, through walkthrough procedures, and at third party administrators, through review of independent controls assurance reports; – IT systems: tested the controls over the access to, and changes to, the systems underpinning the revenue process, including testing controls over the flow of data between systems for completeness and accuracy; – fee agreements: tested the controls over new and amended fee agreements. For a sample of fees, agreed the fee terms used in the calculation to investment management agreements ('IMAs'), fee letters or fund prospectuses. Verified management's interpretation of the calculation methodology as set out in the agreement and applied in the revenue systems; – calculation: tested automated controls over the arithmetical accuracy of a sample of fee calculations within the relevant systems; – AUM: tested the controls in place for the calculation and verification of AUM used in the fee calculations. For a sample of fees, tested the completeness and accuracy of AUM included in the fee calculation systems to administrator reports or Schroders' investment management systems; – billing: tested controls over the billing and cash management process. For a sample of fees, agreed the amounts recorded to the invoice sent to the client, as well as assessing the recoverability of debtors through subsequent cash receipt and inspection of the aged debtors report; – carried interest: challenged management over the judgments and estimates used in the valuation of the carried interest receivable. For a sample of Schroder Adveq funds: agreed the inputs used in the carried interest calculations to third party sources and legal agreements; recalculated the value of the carried interest receivable; and traced the discounted carried interest income to the revenue recorded; – review of other information: inspected the global complaints register and operational incident log to identify errors in revenue; and – management override: in order to address the residual risk of management override we have performed enquiries of management, read minutes throughout the year and performed journal entry testing. We performed full and specific scope audit procedures over this risk area in five locations, which covered 91% of the total revenue. Due to the centralised nature of the revenue process, the majority of our testing was performed in London and Luxembourg for Asset Management revenue and Zurich for Wealth Management revenue.

Key observations communicated to the Schroders Audit and Risk Committee

All transactions tested have been recognised in accordance with the underlying agreements or other supporting documentation. Revenue has been materially recorded in accordance with IFRS 15. Based on the procedures performed, we have no matters to report in respect of revenue recognition.

Risk	Our response to the risk
Group only risk: **Improper recognition of cost of sales (£555.7 million, 2017: £501.5 million)** *Refer to the Audit and Risk Committee report (page 62) and Note 2 of the Consolidated financial statements (page 102)* Schroders has fee expense agreements in place with many parties. These expenses include; commissions, carried interest, external fund manager fees, and distribution fees payable to financial institutions, investment platform providers and financial advisers. The expenses are generally based on AUM. The following are identified as the key risks or subjective areas in correctly recognising fee expense: – not all agreements in place have been identified and accounted for; – fee expense terms have not been correctly interpreted; – AUM has not been properly identified or attributed to clients or third parties with fee expense arrangements; and – inappropriate judgments are made by management in the calculation of carried interest. There is also the risk that management may influence the recognition of cost of sales in order to meet market expectations or net operating revenue based targets. The risk has neither increased nor decreased in the current year.	We have: – gained an understanding of the procedures and controls in place throughout the cost of sales process, both at Schroders, through walkthrough procedures, and at third party administrators through review of independent controls assurance reports; – IT systems: tested the controls over the access to, and changes to, the systems underpinning the fee expense process, including testing controls over the flow of data between systems to test completeness and accuracy; – fee expense agreements: tested the controls over new agreements and amended fee expense agreements. For a sample of fee expenses, agreed the fee expense terms used in the calculation to IMAs, fee letters or rebate agreements. Verified management's interpretation of the calculation methodology as set out in the agreement and applied in the fee expense systems; – calculation: tested automated controls over the arithmetical accuracy of a sample of fee expense calculations within the relevant systems; – AUM: tested the controls in place for the calculation and verification of AUM used in the fee expense calculations. For a sample of fee expenses, tested the completeness and accuracy of the AUM included in the calculation to Schroders' transfer agency or investment management systems; – billing: tested controls over the cash management process. For a sample of fee expenses, agreed the amount recorded to the rebate statement sent to the client; – carried interest: challenged management over the judgments used in the valuation of the carried interest liability. For a sample of Schroder Adveq funds, agreed the inputs used in the carried interest calculations to third party sources and legal agreements; recalculated the value of the carried interest liability; and traced the discounted carried interest expense to the cost of sales recorded; – review of other information: inspected the global complaints register and operational incident log to identify errors in fee expense and verify that fee expense errors have been appropriately addressed; and – management override: in order to address the residual risk of management override we have performed enquiries of management, read minutes throughout the year and performed journal entry testing. We performed full and specific scope audit procedures over this risk area in London and Luxembourg, which covered 90% of total cost of sales.

Key observations communicated to the Schroders Audit and Risk Committee
All transactions tested have been recognised in accordance with the underlying agreements or other supporting documentation. Cost of sales has been materially recorded in accordance with IAS 1 – *Presentation of Financial Statements* ('IAS 1'). Based on the procedures performed, we have no matters to report in respect of cost of sales.

Prior year comparison

In the prior year, PwC identified 'acquisitions accounting' and 'valuation and completeness of uncertain tax positions' as key audit matters. We did not consider acquisitions accounting to be a key audit matter because the value of transactions entered into in 2018 was lower than in 2017. Based on our risk assessment procedures, we did not consider valuation and completeness of uncertain tax positions to be a key audit matter.

Independent auditor’s report to the members of Schroders plc continued

Audit scope

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. When assessing the level of work to be performed at each legal entity, we take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors, such as recent Internal Audit results.

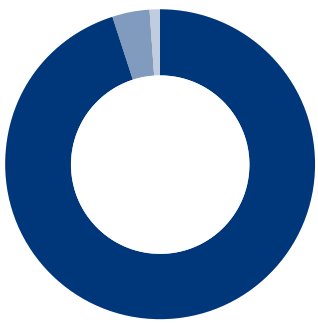
In assessing the risk of material misstatement to the Group financial statements, and to ensure we have adequate quantitative coverage of the significant accounts in the financial statements, we selected 30 legal entities within the following countries: UK, Channel Islands, Switzerland, Luxembourg, Singapore, USA, Hong Kong, Italy, Japan, Australia and Indonesia.

Of the 30 legal entities selected, we performed an audit of the complete financial information of six legal entities (full scope entities), which were selected based on their size or risk characteristics. For the remaining 24 legal entities (specific scope entities), we performed audit procedures on specific accounts within that legal entity that we considered had the potential for the greatest impact on the significant accounts in the Group financial statements, either because of the size of these accounts or their risk profile.

For the remaining entities, that together represent 1% of the Group’s profit before tax and exceptional items, we performed other Group procedures, including: analytical review, testing of consolidation journals and intercompany eliminations, tests of financial systems, centralised processes and controls, and foreign currency translation recalculations, to respond to any potential risks of material misstatement to the Group financial statements.

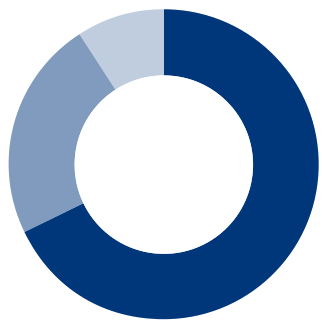
Our final coverage is summarised below:

Profit before tax and exceptional items



Full scope components	95%
Specific scope components	4%
Other procedures	1%

Revenue



Full scope components	68%
Specific scope components	23%
Other procedures	9%

Involvement with overseas teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the legal entities by the Group audit team or by local auditors from other EY global network firms operating under our instruction.

Schroders has centralised processes and controls over financial reporting within the finance operations hubs of London, Luxembourg, Singapore and Zurich. Our teams performed centralised testing in the finance hubs for certain accounts including revenue, costs of sales, administrative expenses, variable compensation, provisions and intercompany transactions.

For non-centralised processes, the audit work was performed by legal entity auditors. The Group audit team was responsible for the scope and direction of the audit process in each entity, interacted regularly with the local EY teams during each stage of the audit and reviewed key working papers. This, together with the additional procedures performed at Group level, and the centralised testing, gave us appropriate evidence for our opinion on the Group financial statements.

During 2018, the Senior Statutory Auditor, Julian Young, and other Group audit team members visited legal entities across seven countries, including each of the finance operations hubs. This allowed the Group team to gain a greater understanding of the business issues faced in each location, discuss the audit approach with the local team and any issues arising from their work, meet with local management, attend key meetings and review key audit working papers. The visits also promoted deeper engagement with our EY audit teams, ensuring that a consistent audit approach was adopted and that a high quality audit was executed. The countries visited were: Luxembourg, Switzerland, Singapore, Indonesia, Hong Kong, USA and Channel Islands.

Prior year comparison

It is normal practice to set a lower performance materiality for a first year audit. This performance materiality was used in determining our scoping for each legal entity.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £38 million, which is 5% of profit before tax and exceptional items. We believe that profit before tax and exceptional items is the most relevant performance measure to the stakeholders of the entity.

We determined materiality for the Parent company to be £46 million, which is 1% of net assets. The Parent company primarily holds the investments in Group entities and, therefore, net assets is considered to be the key focus for users of the financial statements.

We calculated materiality at the planning stage of the audit and then during the course of our audit, we reassessed initial materiality based on 31 December 2018 profit before tax and exceptional items, and adjusted our audit procedures accordingly.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We have set performance materiality at 50% of our planning materiality, namely £19 million; this percentage is our normal practice for a first year audit.

Audit work at entity level, for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative scale and risk of the entity to the Group as a whole and our assessment of the risk of misstatement at that entity. In the current year, the range of performance materiality allocated to individual entities was £3.9 million to £10.8 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £1.9 million, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Prior year comparison

In 2017, the overall materiality for the Group was set at £40 million by PwC, which was 5% of profit before tax and exceptional items.

Our responsibility for other information in the annual report

The other information comprises the information included in the annual report set out on pages 1 to 94 and 176 to 180, including the Strategic report, Governance and Shareholder information sections, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 94** – the statement given by the Directors that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting set out on pages 62 to 67** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee or is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 55** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent auditor's report to the members of Schroders plc continued

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 94, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements. We determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS as adopted by the EU, the Companies Act 2006 and UK Corporate Governance Code) and relevant tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules and relevant Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') rules and regulations.
- We understood how Schroders plc is complying with those frameworks by making enquiries of senior management, including the Chief Financial Officer, General Counsel, Company Secretary, Head of Compliance, Head of Risk, Head of Internal Audit and the Chairman of the Audit and Risk Committee. We corroborated our understanding through our review of Board and Committee meeting minutes, papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by management to manage or influence the perceptions of analysts. We considered the controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management, including those at full and specific scope entities; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Parent company on 9 March 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. Our appointment as auditor was approved by shareholders at the Annual General Meeting on 26 April 2018.
- The period of total uninterrupted engagement including previous renewals and reappointments is one year.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company and we remain independent of the Group and the Parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Julian Young (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

6 March 2019

Notes
1. The maintenance and integrity of the Schroders plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shareholder information

Schroders plc

Registered in England and Wales Company No. 3909886

Registered office
1 London Wall Place London EC2Y 5AU
Tel: +44 (0) 20 7658 6000
Fax: +44 (0) 20 7658 6965
Email: companysecretary@schroders.com
schroders.com

Share Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

UK Shareholder helpline:
Freephone (UK callers only): 0800 923 1530
International: +44 117 378 8170
Fax: +44 (0) 370 703 6101
investorcentre.co.uk

Financial calendar

Ex-dividend date	28 March 2019
Record date	29 March 2019
DRIP election date deadline	15 April 2019
Annual General Meeting	2 May 2019
Final dividend payment date	9 May 2019
Half-yearly results announcement	1 August 2019
Interim dividend paid*	September 2019

* Date to be confirmed.

Annual General Meeting

Our AGM will be held at 11.30 a.m. on 2 May 2019 at 1 London Wall Place, London EC2Y 5AU.

Investor Centre

Computershare is the Company's share registrar. Investor Centre is Computershare's free, secure, self-service website where shareholders can manage their interests online.

The website enables shareholders to:

- View share balances
- Change address details
- View payment and tax information
- Update payment instructions
- Update communication instructions

Shareholders can register their email address at investorcentre.co.uk to be notified electronically of events such as AGMs, and can receive shareholder communications such as the Annual Report and Accounts and the Notice of Meeting online.

Enquiries and notifications concerning dividends, share certificates or transfers and address changes should be sent to the Registrar.

Dividends

Paying dividends into a bank or building society account helps reduce the risk of fraud and will provide you with immediate access to your funds. Applications for an electronic mandate can be made by contacting the Registrar.

If your dividend is paid directly into your bank or building society account, you will receive an annual consolidated dividend confirmation, which will be sent to you in September each year at the time the interim dividend is paid.

Dividend confirmations are available electronically at investorcentre.co.uk to those holders who have their payments mandated to their bank or building society accounts and who have expressed a preference for electronic communications.

The Company operates a Dividend Reinvestment Plan (DRIP), which provides shareholders with a way of increasing their shareholding in the Company by reinvesting their dividends. A copy of the DRIP terms and conditions and application form can be obtained from the Registrar.

Details of dividend payments can be found in the Directors' report on page 92.

Schroders offers a service to shareholders in participating countries that enables dividends to be received in local currencies. You can check your eligibility and/or request a mandate form by contacting the Registrar.

Warning to shareholders

Companies are aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FCA before getting involved by visiting register.fca.org.uk
- Report the matter to the FCA by calling 0800 111 6768 or visiting fca.org.uk/consumers/report-scam-unauthorised-firm
- Do not deal with any firm that you are unsure about

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA provides a list of unauthorised firms of which it is aware, which can be accessed at fca.org.uk/consumers/unauthorised-firms-individuals#list.

More detailed information on this or similar activity can be found on the FCA website at fca.org.uk/consumers/protect-yourself-scams

Capital gains tax

Capital gains tax values for the Company's shares as at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found on the Company's website.

Five year consolidated financial summary

Before exceptional items	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Profit before tax	**761.2**	800.3	644.7	609.7	565.2
Tax	**(163.3)**	(171.6)	(132.4)	(126.3)	(113.9)
Profit after tax	**597.9**	628.7	512.3	483.4	451.3

After exceptional items	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Profit before tax	**649.9**	760.2	618.1	589.0	517.1
Tax	**(145.2)**	(165.8)	(127.9)	(121.6)	(103.9)
Profit after tax	**504.7**	594.4	490.2	467.4	413.2

Pre-exceptional earnings per share:	2018 Pence	2017 Pence	2016 Pence	2015 Pence	2014 Pence
Basic earnings per share[1]	**215.8**	226.9	186.3	176.9	166.8
Diluted earnings per share[1]	**211.8**	222.4	182.4	172.2	161.5

Post-exceptional earnings per share:	2018 Pence	2017 Pence	2016 Pence	2015 Pence	2014 Pence
Basic earnings per share[1]	**183.1**	215.3	178.3	171.1	152.7
Diluted earnings per share[1]	**179.7**	211.0	174.5	166.5	147.8

Dividends:	2018	2017	2016	2015	2014
Cost (£m)	**311.7**	267.6	236.6	226.3	177.7
Pence per share[2]	**114.0**	98.0	87.0	83.0	66.0

Total equity (£m)	**3,621.2**	3,471.0	3,152.8	2,795.6	2,537.8
Net assets per share (pence)[3]	**1,282**	1,229	1,115	990	898

Group employees at year end 31 December	2018 Number	2017 Number	2016 Number	2015 Number	2014 Number
United Kingdom	**2,798**	2,535	2,264	1,988	1,889
Europe, Middle East and Africa	**873**	822	716	686	628
Americas	**369**	353	331	321	278
Asia Pacific	**999**	909	834	789	761
	5,039	4,619	4,145	3,784	3,556

1. See note 6 for the basis of this calculation.
2. Dividends per share are those amounts approved by the shareholders to be paid within the year on a per share basis to the shareholders on the register at the specified dates.
3. Net assets per share are calculated by using the actual number of shares in issue at the year end date (see note 20).

Exchange rates – closing 31 December	2018	2017	2016	2015	2014
Sterling:					
Euro	**1.11**	1.13	1.17	1.36	1.29
US dollar	**1.27**	1.35	1.24	1.47	1.56
Swiss franc	**1.26**	1.32	1.26	1.48	1.55
Australian dollar	**1.81**	1.73	1.71	2.03	1.91
Hong Kong dollar	**9.97**	10.57	9.58	11.42	12.09
Japanese yen	**139.73**	152.39	144.12	177.30	186.95
Singaporean dollar	**1.74**	1.81	1.79	2.09	2.07

Exchange rates – average	2018	2017	2016	2015	2014
Sterling:					
Euro	**1.13**	1.15	1.23	1.38	1.24
US dollar	**1.33**	1.30	1.36	1.53	1.65
Swiss franc	**1.30**	1.27	1.34	1.48	1.51
Australian dollar	**1.78**	1.69	1.83	2.04	1.83
Hong Kong dollar	**10.44**	10.10	10.52	11.84	12.78
Japanese yen	**147.17**	145.42	149.31	184.79	175.15
Singaporean dollar	**1.80**	1.79	1.88	2.10	2.09

Glossary

Alternative performance measures

An alternative performance measure (APM) is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Certain of the Group's APMs exclude exceptional items which are defined in note 1(b) and presented separately in the Consolidated income statement. The Group's APMs are defined below.

Annualised net new revenue
The net operating revenue that would be earned over a one year timeframe if the net new business was all transacted on the same day and there were no market movements or other changes to assets under management or fee rates over that year. It is calculated as gross new funds from clients multiplied by the applicable net operating revenue margin for each flow, less gross funds withdrawn multiplied by the applicable net operating revenue margin for each flow. This measure provides additional information to better assess the impact of net new business on the Group's net operating revenue.

Basic or diluted earnings per share before exceptional items
Profit after tax but before exceptional items divided by the relevant weighted average number of shares (see note 6). The presentation of earnings per share before exceptional items provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

Payout ratio
The total dividend per share in respect of the year (see note 7) divided by the pre-exceptional basic earnings per share.

Profit before tax and exceptional items
Profit before tax but excluding exceptional items. This presentation provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

Ratio of total costs to net income
Total Group costs before exceptional items divided by net income before exceptional items. A 65% ratio is targeted to ensure costs are aligned with net income, although we recognise that in weaker markets the ratio may be higher than our long-term target.

Total compensation ratio
Pre-exceptional compensation costs (see note 4) divided by pre-exceptional net income. By targeting a total compensation ratio of 45 to 49%, depending upon market conditions, we align the interests of shareholders and employees.

Active management
The management of investments based on active decision-making rather than with the objective of replicating the return of an index.

AIFMD
The Alternative Investment Fund Managers Directive was implemented in the UK in July 2013 and is a regulatory framework for alternative investment fund managers, including managers of hedge funds, private equity firms and investment trusts.

Alpha
Excess return over market returns relative to a market benchmark.

Assets under administration (AUA)
Assets advised by the Best Practice and Evolution Wealth Independent Financial Adviser (IFA) networks where Schroders solely provides administrative support, including the Enable Client Relationship System and regulatory compliance services, but where the IFAs are independent from the Schroders Group.

Assets under management (AUM)
The aggregate value of assets managed on behalf of clients. In Wealth Management this includes assets where Schroders provides advisory services but the investment decisions are made by the client. AUM also includes assets held in custody where the client independently makes investment decisions, whether it is through direct contact with Schroders or via the Fusion wealth platform.

For Schroder Adveq, the aggregate value of assets managed is based on committed funds by clients. This is changed to the lower of committed funds and net asset value, typically after seven years from the initial investment, in line with the fee basis.

Assets under management and administration (AUMA)
The combined value of AUA and AUM.

Basis point (bps)
One one-hundredth of a percentage point (0.01%).

BEAR
Banking Executive Accountability Regime. New regulations in Australia designed to make senior executives more accountable for the actions and outcomes of their organisation.

Beta
Market returns.

Carbon dioxide equivalent (CO_2e)
A standard unit for measuring carbon footprints. It enables the impact of different greenhouse gas emissions on global warming to be expressed using an equivalent amount of carbon dioxide (CO_2) as a reference.

CDP
Formerly known as the Carbon Disclosure Project.

Carried interest
Carried interest is similar to the performance fees we earn on our core business, but is part of private asset and alternative fee structures.

Client investment performance
Client investment performance is a measure of how investments are performing relative to a benchmark or other comparator. It is calculated internally by Schroders to give shareholders and financial analysts general guidance on how our AUM is performing. The data is aggregated and is intended to provide information for comparison to prior reporting periods only. It is not intended for clients or potential clients investing in our products. All calculations for investment performance are made gross of fees with the exception of those for which the stated comparator is a net of fees competitor ranking. When a product's investment performance is disclosed in product or client documentation it is specific to the strategy or product: for Intermediary clients, performance will be shown net of fees at the relevant fund share-class level; for Institutional clients, it will typically be shown gross of fees with a fee schedule for the strategy supplied.

The calculation includes 100% of internally-managed Asset Management assets, excluding Liability-Driven Investments (LDI) strategies, that have a complete track record over the respective reporting period. Assets held in LDI strategies, which currently amount to £26.1 billion, are excluded as these are not seeking to outperform a stated objective but to match the liability profile of pension funds. Assets managed by third parties are excluded and primarily comprise the Luxembourg-domiciled GAIA fund range of £3.4 billion and legacy private equity assets of £1.7 billion. We do not calculate investment performance of hotels managed by Algonquin (AUM of £1.7 billion).

Performance is calculated relative to the relevant stated comparator for each strategy as below. These fall into one of four categories, the percentages for each of which refer to the three year calculation:

- For 78% of assets included in the calculation, the comparator is the stated benchmark.

– If the stated comparator is to competitor rankings, the relative position of the fund to its peer group on a like-for-like basis is used to calculate performance. This applies to 5% of assets in the calculation.
– Assets for which the stated comparator is an absolute return target are measured against that absolute target. This applies to 10% of assets in the calculation.
– Assets with no stated objective are measured against a cash return, if applicable. This applies to 7% of assets in the calculation.

Clients
Within our asset management business we work with institutional clients, including pensions funds, insurance companies and sovereign wealth funds, as well as intermediaries, including financial advisers, private wealth managers, distributors and online platforms.

We also provide a range of wealth management services to private clients, family offices and charities.

We are increasingly focused on building closer relationships with the end client, whose money is invested with us, often via an intermediary or institution.

CMA
Competition and Markets Authority.

Compensation cost
Total cost of employee benefits.

Defined benefit (DB) pension scheme
A pension benefit where the employer has an obligation to provide participating employees with pension payments that represent a specified percentage of their salary for each year of service.

Defined contribution (DC) pension scheme
A pension benefit where the employer's contribution to an employee's pension is measured as, and limited to, a specified amount, usually a percentage of salary. The value of the pension pot can go up or down depending on how the investments perform.

DEFRA
Department for Environment, Food and Rural Affairs.

Employee benefit trust
A type of discretionary trust established to hold cash or other assets for the benefit of employees, such as to satisfy share awards.

EPS
Earnings per share.

ESG
Environmental, social and governance.

EU27
The 27 countries within the European Union involved with negotiating with the UK on Brexit.

Family offices
These manage the financial and investment side of ultra high net worth individuals or families.

FCA
Financial Conduct Authority of the United Kingdom.

Fitch Investment Management Quality Rating
A forward-looking, relative assessment of an investment manager's investment capabilities and the strength of its operational platform. Ratings have five key pillars: investment process; investment resources; risk management; investment performance and the company, including client servicing. Ratings are assigned on a five tiered scale from 'Excellent' to 'Weak'. Excellent indicates that the investment manager has extremely strong investment capabilities and operational characteristics.

FRC
Financial Reporting Council.

GAIA
Global Alternative Investor Access.

GDPR
General Data Protection Regulation. A legal framework that sets guidelines for the collection and procession of personal information of individuals within the EU.

GHG Protocol
Greenhouse gas protocol, a comprehensive global standardised frameworks to measure and manage greenhouse gas emissions.

GCC
Group Capital Committee.

GMC
Group Management Committee.

GOC
Global Operations Committee.

GRC
Group Risk Committee.

ICAAP
Internal Capital Adequacy Assessment Process.

IFRS
International Financial Reporting Standards.

ILAAP
Internal Liquidity Adequacy Assessment Process.

Institutional sales channel and clients
Institutional clients, such as pension funds, insurance companies and government funds, come to Schroders through their own adviser or consultant. Assignments are typically highly specific and may be combined with their other investments in a range of asset classes and with other managers they employ.

Intermediary sales channel and clients
Schroders works with intermediaries such as banks, insurance companies, platforms and independent financial advisers. Intermediary assets under management included branded funds and sub-advisory mandates.

Investment capital
Investible equity from shareholders held in excess of operating requirements. It is managed with the aim of achieving a low volatility return. It is mainly held in cash, government and government-guaranteed bonds, investment grade corporate bonds and Schroders' funds. Investment capital is also used to help support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions that will accelerate the development of the business.

Investment returns
The increase in AUM attributable to investment performance, market movements and foreign exchange.

LGBT+
Lesbian, Gay, Bisexual and Transgender and other groups of sexual and gender minorities.

Liability-driven investment (LDI)
A form of investing where the main goal is to gain and maintain sufficient assets to meet known liabilities, both current and future. This form of investment is most prominent for defined benefit pension schemes.

Life Company
Schroder Pension Management Limited, a wholly-owned subsidiary, which provides investment products through a life assurance wrapper.

Glossary

MiFID II
The second iteration of the Markets in Financial Instruments Directive. MiFID II is an EU directive which standardises regulation for investment services throughout the European Economic Area.

MRTs
Material risk takers. Employees deemed to be material risk takers under one or more of the regulatory regimes that applies to the Group and its subsidiaries, such as the UCITS Directive or AIFMD.

Net income
A sub-total comprising net operating revenue, net gains on financial instruments and other income and share of profit of associates and joint ventures.

Net new business
New funds from clients less funds withdrawn by clients. This is also described as net inflows (when positive) or net outflows (when negative). New funds and funds withdrawn are calculated as at 31 December 2018 on the basis of actual funding provided or withdrawn.

Net operating revenue
A sub-total consisting of revenue less cost of sales as defined in note 2 of the financial statements.

Net operating revenue margins
Asset Management and/or Wealth Management net operating revenue divided by the relevant average AUM.

Passive products
Products whose stated objective is to replicate the return of an index.

Pillar 1
The minimum capital requirements in relation to credit risk, operational risk and market risk taken by the Group as principal.

Pillar 2
The requirement for companies to assess the level of additional capital held against risks not covered in Pillar 1.

Pillar 3
This complements Pillar 1 and Pillar 2 with the aim of improving market discipline by requiring companies to publish certain details of their risks, capital and risk management. Schroders' Pillar 3 disclosures are available at schroders.com/ir.

Platforms
Platforms in the UK savings market offer a range of investment products such as unit trusts, Individual Saving Accounts (ISAs), unit-linked life and pension bonds and Self-Invested Personal Pensions (SIPPs) to facilitate investment in many funds from different managers through one portal.

PRA
Prudential Regulation Authority.

PRIIPs
Packaged Retail Investment and Insurance-based Products. PRIIPs make up a broad category of financial assets that are regularly provided to consumers in the EU. It covers all packaged, publicly marketed financial products that have exposure to underlying assets, provide a return over time and have an element of risk.

Principal shareholder group
Four private trustee companies, a number of individuals and a charity which, directly or indirectly, are shareholders in Schroders plc and are parties to the Relationship Agreement. In aggregate these parties own 47.93% of the ordinary shares of Schroders plc.

RCA
Risk and Control Assessment.

Regulatory capital
The amount of risk capital set by legislation or local regulators, which companies must hold against any difficulties such as market or credit risks.

Regulatory surplus capital
Total equity less the Group's overall regulatory capital requirement and regulatory deductions, in accordance with the EU Capital Requirements Regulation as set out in the Group's Pillar 3 disclosures.

Seed and co-investment capital
Seed capital comprises initial investment put into a fund by the business to allow it to develop a performance track record before it is marketed to potential clients. Co-investment comprises investment made alongside our clients.

SM&CR
Senior Managers and Certification Regime. New FCA regulation which aims to strengthen market integrity by making senior individuals more accountable for their conduct and competence.

Total Capital Requirement
The requirement to hold the sum of Pillar 1 and Pillar 2A capital requirements. Pillar 2A capital requirements are supplementary requirements for those risk categories not captured by Pillar 1, depending on specific circumstances of a company, as set out by the PRA.

Total dividend per share
Unless otherwise stated, this is the total dividend in respect of the year, comprised of the interim dividend and the proposed final dividend. This differs from the IFRS dividend which is comprised of the prior year final and current year interim dividends declared and paid during the year.

Total equity
Total assets less total liabilities.

UCITS
Undertakings for the Collective Investment in Transferable Securities. UCITS is a regulatory framework of the European Commission that creates a harmonised regime throughout Europe for the management and sale of investment funds.

UCITS / AIF MRTs
Employees deemed to be material risk takers under the UCITS Directive or AIFMD.

UK Stewardship Code
A set of principles or guidelines released in 2010 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies.

UN PRI
The United Nations-supported Principles for Responsible Investment Initiative is an international network of investors working together to implement the six Principles for Responsible Investment. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices.

FSC
www.fsc.org
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