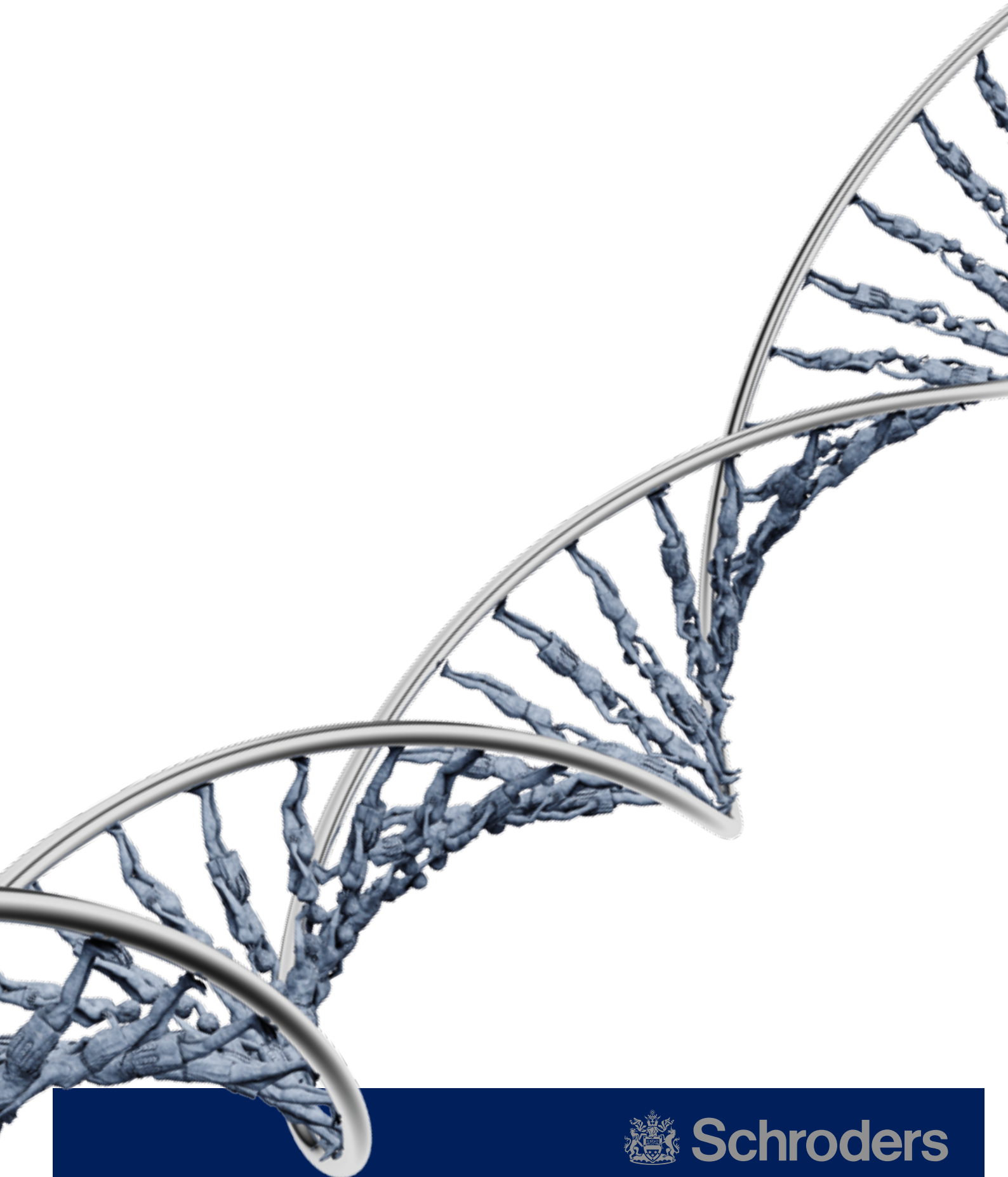


**Schroders plc**  
Annual Report  
and Accounts 2015



**Schroders**

## About us

At Schroders, asset management is our only business and our goals are completely aligned with those of our clients – the creation of long-term value to assist them in meeting their future financial requirements.

We manage £313.5 billion on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of active strategies across equities, fixed income, multi-asset, alternatives and real estate.

We employ more than 3,700 talented people worldwide operating from 38 offices in 28 countries across Europe, Asia, the Americas, the Middle East and Africa, close to the markets in which we invest and close to our clients.

Schroders has developed under stable ownership for over 200 years and long-term thinking drives our approach to investing, building client relationships and growing our business.



### Annual General Meeting

Our Annual General Meeting will be held at 11.30 a.m. on 28 April 2016 at 31 Gresham Street, London EC2V 7QA.

### Dividend

The Board is recommending a final dividend of 58.0 pence, payable on 5 May 2016. This brings the total dividend payable for the year to 87.0 pence.

### Cover image

This has been taken from a Schroders marketing campaign that denotes our trusted heritage and advanced thinking.

## Highlights

### Assets under management

£313.5bn

(2014: £300.0 billion)

### Shareholders' equity

£2.8bn

(2014: £2.5 billion)

### Net new business

£13.0bn

(2014: £24.8 billion)

### Basic earnings per share

171.1p

(2014: 152.7 pence)

### Profit before tax and exceptional items\*

£609.7m

(2014: £565.2 million)

### Total dividend per share

87.0p

(2014: 78.0 pence)

### Profit before tax

£589.0m

(2014: £517.1 million)

\* See note 1(b) on page 103 for details of exceptional items.



# Contents

## Strategic report

The Company's Strategic report is set out within the Strategy & Business review on pages 2 to 43 and the Financial review on pages 91 to 101.

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You can find more information about Schroders on our website [www.schroders.com/ir](http://www.schroders.com/ir) or by downloading our investor relations app.



## We have built a diversified business across client channels, asset classes and regions.

### We are diverse by:

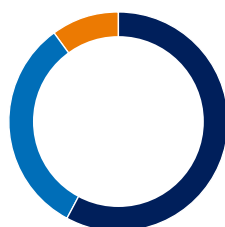
#### Clients

We manage assets on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world. No single client accounts for more than 2 per cent. of revenues.

#### Assets

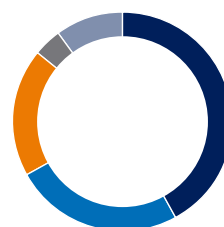
We invest in a broad range of asset classes across equities, fixed income, multi-asset, alternatives and real estate. In addition to institutional segregated mandates, we manage more than 590 funds in 19 countries.

#### Assets under management



● Institutional **58%**  
● Intermediary **32%**  
● Wealth Management **10%**

#### Assets under management



● Equities **42%**  
● Multi-asset **25%**  
● Fixed Income **19%**  
● Emerging Market Debt  
Commodities and Real Estate **4%**  
● Wealth Management **10%**

### We have a long-term focus

We take a long-term view as we seek to meet the firm's strategic objectives, whether that is through strengthening client relationships, investing for organic and inorganic growth, or finding new ways to innovate to meet the demands of the future.

#### Creating enduring client relationships

We seek to build long-term relationships with our clients and to gain a deep understanding of their investment objectives.

### We have a strong financial position

At 31 December 2015, shareholders' equity was £2.8 billion. Maintaining a strong financial position enables us to take a long-term view of growth opportunities. We have no debt and hold capital significantly in excess of regulatory requirements.

Investment capital is the capital held in excess of operating and regulatory requirements. It allows us to invest in both organic and inorganic growth opportunities. Investment capital increased from £725 million in 2014 to £942 million in 2015.



## Award highlights of 2015



Britain's Most Admired Companies 2015/16, *Management Today*



CEO of the Decade 2015 Awards for Excellence in Asset Management, *Financial News*



Best International Fund Group, International Fund and Product Awards 2015, *Professional Adviser*



Domestic clients team Winner, European Awards 2015, *WealthBriefing*



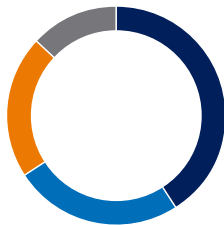
Asset Manager of the Year 2015, Better Society Awards, *Charity Times*

## Geography

We operate from 38 offices in 28 countries, managing local and international investment strategies and solutions on behalf of local and international clients.

## Assets under management

By client domicile



- UK **41%**
- Asia Pacific **25%**
- Europe, Middle East and Africa **21%**
- Americas **13%**

## Asia Pacific

We generated net inflows in Institutional and Intermediary of £8.6 billion (2014: £5.4 billion), across a broad range of fixed income, multi-asset and equity strategies.

**i** For more information on Asia Pacific, see page 7.

## Americas

Growing our presence in the US is a strategic priority. Challenging market conditions led to net outflows of £1.3 billion (2014: outflows of £0.3 billion) in the US, Canada and Latin America in 2015.

**i** For more information on the Americas, see page 45.

## UK

Strong demand from institutional clients for fixed income and multi-asset strategies drove net new business of £1.9 billion in the UK (2014: £13.8 billion). Our Wealth Management business in the UK generated net new business of £0.2 billion (2014: £0.5 billion).

**i** For more information on the UK, see page 88.

## Europe, Middle East and Africa

Demand from intermediary investors for fixed income, multi-asset and equity products led to net inflows in Asset Management in the region of £3.9 billion (2014: £5.9 billion). In 2015 we established a presence in South Africa.

**i** For more information on Europe, Middle East and Africa, see page 158.

## Investing in innovation

We develop investment products and solutions to meet the changing needs of our clients. We also invest our own capital in building a track record in new investment strategies.

## Growing our business

Our focus remains on the long term and we continue to invest in organic growth opportunities across the business, while remaining vigilant of inorganic opportunities.

**i** For more information about our structure see page 16.

## Investment capital

	£m
2013	515
2014	725
2015	942

We have a 'Highest Standards' Asset Manager Rating from the independent ratings agency, Fitch. This is the highest possible rating for an asset manager and recognises our long history, diversified business model and financial stability.

**i** For more information about our business model see page 14.



## We are focused on delivering for our clients and shareholders over the long term.

### Profit before tax and exceptional items

£609.7m  
(2014: £565.2 million)

### Total dividend per share

	pence per share
2011	39
2012	43
2013	58
2014	78
2015	87

### Results

2015 was a year of uncertainty for global markets, which saw the first interest rate rises in the US since 2006, fears of a Chinese hard landing and continued pressure on commodity prices. Despite this, Schroders delivered record results. Profit before tax and exceptional items increased 8 per cent. to £609.7 million (2014: £565.2 million). Our highly diversified business model led to our winning net new business of £13.0 billion (2014: £24.8 billion) and assets under management ended the year at £313.5 billion (2014: £300.0 billion).

Our policy is to increase dividends progressively in line with the trend in profitability. In accordance with our policy, the Board will recommend to shareholders at the Annual General Meeting a final dividend of 58.0 pence (2014: 54.0 pence). This will bring the total dividend for the year to 87.0 pence (2014: 78.0 pence), an increase of 12 per cent. The final dividend will be paid on 5 May 2016 to shareholders on the register at 29 March 2016.

### Board succession

Succession planning has been a long-term priority for the Board, particularly for the role of Chief Executive. Michael Dobson will be succeeded as Chief Executive by Peter Harrison on 4 April 2016.

In Michael Dobson we have been fortunate to have a truly exceptional Chief Executive lead the Group for over 14 years. During this time the Group has weathered financial crises, turmoil in global markets, increased competition and an increase in regulatory scrutiny of culture and conduct within financial services. Against this backdrop Michael has developed and maintained a strong, client-focused culture that is core to Schroders. Under his leadership, the firm has delivered record results and assets under management have more than tripled, generating significant value for shareholders. On behalf of the Board, I would like to thank Michael for his enormous contribution to our success.

Massimo Tosato will retire from the Board and leave the firm at the end of 2016. Massimo has also made a significant contribution to the Group over the past 21 years as head of our successful Distribution business. He leaves at the end of the year with our thanks and best wishes for the future.

We have also had change in our non-executive Directors. Luc Bertrand retired as Senior Independent Director following the 2015 Annual General Meeting and was succeeded by Philip Howard. Luc had been a member of the Board since 2006 and we benefited greatly from his experience and expertise. In July 2015, we announced the appointment of Rhian Davies as a non-executive Director and member of the Audit and Risk Committee. Rhian will take over from Ashley Almanza as Chair of this Committee at the conclusion of the 2016 Annual General Meeting when Ashley leaves the Board. We are sorry to see Ashley leave, but we understand that his commitments at G4S have made it increasingly difficult for him to continue with us.



Our people are our most important asset and retaining talent is a key strategic objective. For more details on how we train and develop our employees and our approach to diversity, see page 22.

Whilst change is inevitable, Schroders thrives on continuity and stability. The appointment of Peter Harrison is evidence of our long-term succession planning and the Board's desire to promote someone from within who understands Schroders' unique culture. Peter was the Board's unanimous choice and we wish him well as he takes the firm forward.

I will retire from the Board on 4 April 2016 when Michael Dobson will become Chairman. A Chief Executive becoming Chairman is unusual in corporate governance terms and we have consulted with shareholders and considered the provisions of the UK Corporate Governance Code in making this decision. The Board unanimously believes this is in the best interests of the Company and its shareholders, with his appointment ensuring stability and continuity with clients, shareholders, strategic and commercial partners and regulators. Philip Howard, our Senior Independent Director, led the Board's deliberations over my successor and Philip Howard provides more detail on those deliberations on page 57. I played no part in choosing my successor, but I am fully supportive of the decision to appoint Michael.

I have greatly enjoyed being part of Schroders and it has been a privilege to have led the Board and to have worked with such a talented management team. Over the years I have met many employees across the world and I have always been struck by their enthusiasm, talent and, most importantly, the pride they have in working for Schroders and doing the right thing for clients, the firm and shareholders. At a time when regulators and commentators are questioning corporate culture and how boards can embed an appropriate culture across a diverse business, I can say with confidence that the right culture is well and truly embedded within this firm. This is a unique organisation that always strives to do the right thing. I am sure our clients, employees and shareholders will be reassured that this approach will continue.

**Andrew Beeson**  
Chairman



Working with almost 800 charities, foundations and endowments, we are the largest investment manager of charity assets in the UK. For more on our work in this sector, see page 35.



Our newly-formed Data Insights team focuses on developments in data analytics to complement the traditional research of our investment professionals. For more on the team's work, see page 27.



Our Board has continued to evolve through 2015. For more details on our Board members, see page 46.



# Strategy & Business review

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Schroders has had a presence across Asia Pacific for over 40 years, operating from 10 offices across the region.

We manage £80 billion of assets on behalf of clients from Asia Pacific and we have associate and joint venture partnerships in China, India and Singapore.

We generated net inflows across the region of £8.6 billion in Institutional, Intermediary and Wealth Management.



#### In focus: Singapore

We have investment and distribution capabilities in Singapore, and the office is our technology and operations centre for the region. This year we celebrated the 40<sup>th</sup> anniversary of the establishment of our office in Singapore.



#### Asia Pacific offices

Beijing, Hong Kong<sup>†</sup>, Jakarta\*, Mumbai\*, Seoul\*, Shanghai\*, Singapore<sup>†</sup>, Sydney\*, Taipei\*, Tokyo\*

\* Investment offices.

† Wealth Management offices.



## 2015 was another good year for Schroders and we are well placed for a more challenging environment.

**Assets under management outperforming over three years\***

**72%**  
(2014: 78%)

2015 was another good year for Schroders despite a more challenging environment in financial markets, particularly in the second half. Revenues, profit and assets under management reached record levels and we made further moves to diversify our business and build growth opportunities for the future.

Net revenue before exceptional items increased by 7 per cent. to £1,658.5 million (2014: £1,549.5 million), profit before tax and exceptional items increased by 8 per cent. to £609.7 million (2014: £565.2 million) and profit before tax increased by 14 per cent. to £589.0 million (2014: £517.1 million).

We won net new business of £13.0 billion (2014: £24.8 billion) and assets under management ended the year at £313.5 billion (2014: £300.0 billion).

### Asset Management

Asset Management net revenue increased 8 per cent. to £1,412.5 million (2014: £1,308.3 million), including performance fees of £35.7 million (2014: £34.2 million). Net operating revenue margins, excluding performance fees, were 49 basis points (2014: 51 basis points) as we generated significant inflows in Institutional and we had the full year effect of a very large mandate win in the UK at the end of 2014. Our net operating revenue margins have declined over recent years, reflecting both fee pressures across the industry and changes to our business mix.

### Earnings per share

	pence per share
2011	115.9
2012	104.7
2013*	130.6
2014*	152.7
<b>2015*</b>	<b>171.1</b>

\* After exceptional items

### Assets under management

	£bn
2011	187.3
2012	212.0
2013	262.9
2014	300.0
<b>2015</b>	<b>313.5</b>

■ Asset management ■ Wealth management

Growing our business in lower margin areas such as Institutional, Multi-asset and Fixed Income remains core to our strategy as we see good diversification benefits in these areas which often comprise large mandates with higher than average longevity.

Profit before tax and exceptional items was up 8 per cent. to £540.5 million (2014: £499.3 million). Exceptional items of £12.1 million (2014: £17.6 million) related principally to the amortisation of the value of client relationships arising from acquisitions. Profit before tax increased 10 per cent. to £528.4 million (2014: £481.7 million).

We generated £13.1 billion of net new business in 2015, as a result of competitive investment performance for clients with 72 per cent. of assets under management outperforming benchmark or peer group over the three years to the end of 2015, a broad product range and a global distribution capability.

Institutional had a very strong year with £8.8 billion of net new business, concentrated in Fixed Income and Multi-asset and, by region, Asia Pacific and the UK. Assets under management in Institutional at the end of the year were £181.0 billion (2014: £171.1 billion).

Intermediary generated £4.3 billion of net new business, diversified across Fixed Income, Multi-asset and Equities, with a strong performance in continental Europe and

\* See Glossary

Asia Pacific, continuing the trend of 2014. After a very strong first half, we saw small net outflows in the second half as weak markets affected retail investor demand. Assets under management in Intermediary at the end of the year were £100.9 billion (2014: £97.8 billion).

Our associates and joint ventures made good progress in 2015. In China, Bank of Communications Schroders, where we have a 30 per cent. shareholding, serves Chinese investors and saw assets under management increase to £45.4 billion<sup>†</sup> and our share of after tax profit increased to £11.1 million (2014: £4.5 million). Our partnership with Nippon Life in Japan continues to develop through demand from Japanese clients as well as through our two joint ventures in London and Singapore. Our more recent partnership in India with Axis Bank, serving Indian investors, is developing well. Investment performance is strong, the business is profitable and its growing market share now places Axis Asset Management, where we have a 25 per cent. shareholding, just outside the top ten with assets under management of £3.6 billion<sup>†</sup>. Our joint venture with Secquaero in Switzerland in insurance linked securities has also performed well. Assets under management have reached £1.3 billion and we recently increased our shareholding to 50.1 per cent.

### Wealth Management

Wealth Management net revenue was £207.2 million (2014: £213.5 million). Underlying revenues increased in 2015 as revenue in 2014 included £9.0 million from performance fees and the release of a loan loss provision. Profit before tax and exceptional items was £61.3 million (2014: £61.7 million). Profit before tax increased 46 per cent. to £60.5 million (2014: £41.3 million).

New business was slower in 2015, particularly in the second half, reflecting weaker market conditions. We generated £0.2 billion of net inflows in the UK, comprising significant levels of new client wins offset by outflows from private clients and charities drawing down income returns to fund their outgoings. We had net outflows of £0.3 billion in Switzerland, as we continue to reshape our business. We generated small net inflows in Asia Pacific. Total net outflows were £0.1 billion (2014: net inflows £0.5 billion) and assets under management ended the year at £31.6 billion (2014: £31.1 billion).

We see long-term opportunities in Wealth Management based on our leading client offering and market position in the UK and growth potential in continental Europe and Asia Pacific.

### Group

The Group segment comprises returns on investment capital, including seed capital deployed in building a track record in new investment strategies, and central costs. Investment returns also include our share of the after tax profit arising from our 45 per cent. shareholding in RWC which increased to £5.9 million (2014: £3.8 million) as assets under management reached £7.9 billion<sup>†</sup> (2014: £5.8 billion<sup>†</sup>). Overall profit before tax and exceptional items was £7.9 million (2014: £4.2 million) and exceptional items were £7.8 million (2014: £10.1 million), comprising costs relating to acquisitions completed in 2013. Shareholders' equity at the end of December was £2.8 billion (2014: £2.5 billion).

### Outlook

A combination of an interest rate rise in the US, deteriorating economic indicators in China, a weak oil price and fears of slowing economic growth or even recession in the US and Europe, has led to sharp falls in equities and some fixed income markets. Markets will remain volatile in the face of these uncertainties with an inevitable impact on retail investor demand in the short term. To date in 2016 we have seen continuing good inflows in Institutional, partially offset by outflows in Intermediary.

Schroders is well placed for this more challenging environment with a highly diversified business and a strong financial position. We see many interesting long-term growth opportunities and we will again be taking advantage of a period of dislocation to invest behind them.

It has been a privilege to have been Chief Executive of Schroders for more than 14 years and to have had the opportunity to work with so many talented and committed colleagues. As Chairman, I look forward to supporting Peter Harrison and Schroders' continued progress.

**Michael Dobson**  
Chief Executive

### Assets under management

**£313.5bn**  
(2014: £300.0 billion)

### Net inflows

**£13.0bn**  
(2014: £24.8 billion)

<sup>†</sup> Not included in total reported assets under management



Our objectives are aligned with those of our clients and shareholders – to create sustainable value over the long term.

We deliver long-term value by:

## Delivering consistent and above-average performance

## Building close relationships with clients

**Measurable by:**

Targeting at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.

Levels of gross sales; and levels of net new business.

**Benefits:**

Superior investment performance\* creates value for our clients and is a driver of growth in new business.

Developing the investment products and solutions which meet our clients' needs will lead to increased new business opportunities and greater longevity of client relationships.

**Risks:**

Performance can fall short of targets.

Products that do not meet their objectives can put client relationships at risk.

**Results:**

**72%**  
The percentage of assets under management that outperformed over three years to 31 December\* (2014: 78%) (see 1, page 12)

**£84.1bn**  
Gross sales  
(2014: £92.0bn)

**£13.0bn**  
Net new business  
(2014: £24.8bn)  
(see 2, page 12)

**Our expectations for 2016:**

Markets were challenging in 2015 with macro factors driving volatility, particularly in the second half of the year.

Over the 12 months to 31 December 2015, 53 per cent. of assets (2014: 59 per cent.) outperformed benchmark or peer group. This may impact our performance statistics for the three years to 31 December 2016.

In 2016, net new business may be impacted by market conditions. Volatility can weigh upon sentiment, particularly in the Intermediary channel.

However, with a broad product set and highly diversified global business, we expect to continue to grow our business in a more challenging environment.

\* See Glossary.

## Ensuring operational efficiency

Targeting a cost:net revenue ratio of 65 per cent. and a compensation cost:net revenue ratio of between 45 and 49 per cent. depending on market conditions.

We will generate high levels of profit after tax enabling increased dividends and continued organic investment in our business.

In weaker markets, the ratios may be higher than our long-term target.

**63%**

Cost:net revenue ratio  
(2014: 64%)  
(see 5, page 13)

**44%**

Compensation cost:net revenue ratio  
(2014: 44%)  
(see 6, page 13)

We are budgeting a 45 per cent. compensation to net revenue ratio in 2016.

## Retaining and developing a deep pool of talent

Developing our employees and retaining talent.

Retaining and developing talent is key to organisational stability and long term success.

Talented people are frequently targeted by competitors seeking to build their business.

**94%**

Employee retention  
(highly rated)  
(2014: 94%)

Retention rates have been high in recent years but could be affected if competitors recruit more actively.

**93%**

Employees who are proud to be associated with Schroders  
(Employee Opinion Survey)  
(2014: n/a)

## Investing in future growth opportunities

Investment in both organic growth and acquisition opportunities; and seed capital deployed to support the development of new investment strategies.

Building shareholder value over the long term.

In the short term, particularly during periods of market weakness, profitability can be adversely affected.

**£942m**

Investment capital  
(2014: £725m)

**£229m**

Seed capital investments  
(2014: £163m)

Capital deployed in seeding new investment strategies increased to £229 million in 2015.

Weak markets could lead to short term losses on investment capital, although we are well positioned for the long term.

## We use a number of key performance indicators to measure our performance.

### Our objective:

#### 1. Investment performance\*

We target at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.

### How we performed:

Three-year investment performance was strong in 2015 and has been above our target over the last five years.

One-year investment performance fell to 53 per cent. due to challenging market conditions.

### Long-term performance:

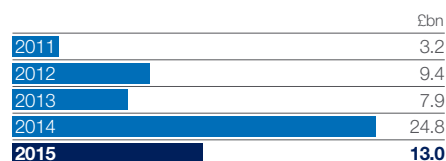


#### 2. Net new business

We seek to generate positive net new business in Institutional, Intermediary and Wealth Management.

We generated net new business in 2015 of £13.0 billion, £8.8 billion in Institutional, £4.3 billion in Intermediary and small outflows of £0.1 billion in Wealth Management.

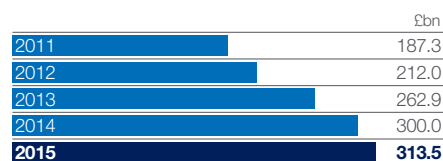
Inflows in 2014 included one £12 billion mandate.



#### 3. Assets under management (at 31 December)

An important influence on assets under management is the level of markets, but we aim to grow assets under management over time in excess of market growth, through positive investment performance and net new business.

Despite market conditions, assets under management increased by 5 per cent. through 2015 due to positive investment returns and net inflows.



#### 4. Net operating revenue margins† (excluding performance fees)

As a key driver of revenue, we focus on net operating revenue margins by product and by channel. As Institutional, Multi-asset and Fixed Income have grown, net operating revenue margins have declined but we benefit from the greater diversity of our business.

In 2015, net operating revenue margins declined to 51 basis points, in line with our expectations.

In the future, net operating revenue margins may continue to decline, reflecting changes to the business mix and pressure on fees.



\* See Glossary.



**Our objective:****5. Cost:net revenue ratio<sup>†</sup>**

We target a 65 per cent. cost:net revenue ratio, recognising that in weaker markets the ratio may be higher than our long term target.

**How we performed:**

In 2015 this ratio was better than our target.

**Long-term performance:**

<sup>†</sup> Before exceptional items

**6. Compensation cost:net revenue ratio<sup>†</sup>**

By targeting a compensation cost:net revenue ratio over a market cycle we align the interests of shareholders and employees.

We aim for a compensation cost:net revenue ratio of between 45 and 49 per cent. depending on market conditions.

This ratio was better than our target range in 2015.

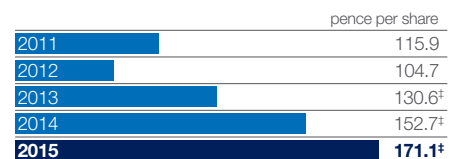


<sup>†</sup> Before exceptional items

**7. Basic earnings per share**

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

In 2015, earnings per share increased by 12 per cent.

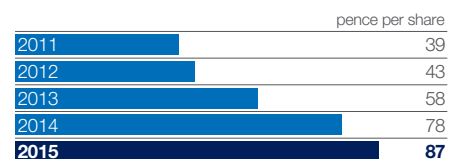


<sup>‡</sup> After exceptional items

**8. Dividend per share**  
(in respect of the year)

Our policy is to increase the dividend progressively, in line with the trend in profitability. We target a dividend payout ratio of 45 to 50 per cent. For more information, see page 96.

The Board is recommending a final dividend of 58.0 pence per share, bringing the total dividend for the year to 87.0 pence per share, an increase of 12 per cent. This represents a payout ratio of 49 per cent.



<sup>†</sup> Information has been re-presented to reflect a new definition of net revenue and the introduction of net operating revenue, see Glossary.

# At Schroders, asset management is our only business.

### Client need

In today's environment of low interest rates and changing demographics, which require greater long term savings, our ability to create value for clients is vital in helping them meet their future financial needs.

As one of the largest investment firms in Europe, we play an important role in helping our clients meet their financial goals as they seek to:

- Provide for retirement
- Offset future liabilities
- Build pools of capital

We help a broad range of clients across three channels:

- Institutional – pension schemes, sovereign wealth funds and insurance companies
- Intermediary – banks, independent financial advisers and investment platforms
- Wealth Management – high net worth individuals, charities and family offices

**i** See page 16 for more on our structure.

### Building long-term relationships

Our success is linked to the success of our clients. It is only by meeting or exceeding their objectives that we can grow our business.

By understanding and addressing our clients' needs and expectations, we can help them achieve their investment aims. We are proud to have client relationships which in some cases exceed 40 years.



#### Trustee training

We run training sessions for pension scheme trustees to support trustees and scheme managers in understanding their duties.

### Gross sales in 2015

£84.1bn

### Net sales in 2015

£13.0bn

\* See Glossary.

## Creating long-term value for our clients

We believe that active management can generate significant incremental value over the long term by compounding returns in excess of what can be achieved by matching a benchmark index.

**Investment gains for our clients since 2009**

£75.7<sub>bn</sub>

We design innovative products to meet specific client needs and outcomes across the economic and market cycle. See page 28 for more on our product development.

### Consistent and above average investment performance\*

- Consistent performance is key to helping our clients achieve their aims and to generate new business
- 72 per cent. of our assets outperformed their benchmark or peer group over three years to the end of 2015

**Percentage of assets outperforming over three years**

72%

**Seed capital employed in new strategies**

£229<sub>m</sub>

### Investing in future growth

- Investment capital of £942 million was available for organic and inorganic growth opportunities at the end of 2015
- £229 million of seed capital was deployed to support the development of new investment strategies

**i** See page 21 for more on our Group operations.



### Outcome oriented solutions

Client demand is shifting towards outcome oriented strategies that address specific client needs, for example income, inflation protection, wealth preservation or absolute return. This shift requires us to engage with our clients, understand their requirements and build the right solutions.

## Delivering returns for all stakeholders

We are committed to acting responsibly, supporting our clients, delivering value for our shareholders and making a wider contribution to society.

We earn management fees charged as a percentage of assets under management. We may also earn performance fees and transaction related fees on certain products. In Wealth Management, we may also generate net interest income and fees for specialist banking services.

### For shareholders

- Our progressive dividend policy in line with profitability has seen a 12 per cent. increase to 87.0 pence and a payout ratio of 49 per cent.

### For clients

- Strong investment performance
- Exemplary client service

### For our people

- More than 3,700 people employed
- 93 per cent. of employees proud to be associated with Schrodors
- 94 per cent. of highly-rated employees retained

**i** See pages 22 and 23 for more on our approach to retaining and developing our people and details on our Employee Opinion Survey.

### For society

- We create value for society by acting as good stewards of capital and using our influence as a shareholder to encourage businesses to act responsibly
- Engagement with company management is an integral part of our role as an active investor in managing, protecting and enhancing the value of our clients' investments

**i** See page 19 for information on our approach to ESG investing and page 24 for information on our community impact.



# Business model

## Our structure

As one of the largest investment firms in Europe, we play an important role in helping a broad range of investors meet their financial goals as they provide for retirement, seek to offset future liabilities or build pools of capital to fund their investment needs of the future.

### Asset Management

We offer a broad range of products and solutions that meet the demands of Institutional and Retail investors throughout the economic and market cycle. Our clients include:

#### Institutional clients:

- Corporate pension plans
- Local government pension schemes
- Defined contribution pension plans
- Endowments
- Insurance companies
- Sovereign wealth funds

#### Intermediary clients:

- Banks
- Independent financial advisers
- Insurance companies
- Online platforms
- Private banks
- Private wealth managers

We provide client service through offices in 33 locations globally.

Asset Management has two divisions:

#### Investment

Comprises portfolio management, research and dealing functions across:

- Equities
- Fixed Income
- Multi-asset
- Emerging Market Debt, Commodities and Real Estate

#### Distribution

Comprises:

- Product development
- Sales
- Client service
- Marketing and communications

#### Employees

3,146

#### Assets under management

£281.9bn

### Wealth Management

We offer private clients a complete wealth management service, including wealth planning, portfolio management and banking and treasury services. We are the leading manager of charities portfolios in the UK. Wealth Management clients include:

- High net worth individuals
- Family offices
- Charities
- Intermediaries

We have a Wealth Management presence in 15 locations.

#### Employees

626

#### Assets under management

£31.6bn

### Group

The Group segment includes the offices of the Chairman, Chief Executive and Chief Financial Officer and employees involved in the management of the Group's investment capital and liquidity.

#### Investment capital

£942m

#### Seed capital

£229m

### Infrastructure

1,600 people in Infrastructure provide critical support to the business across a number of functions:

Information technology, operations, finance, risk management, human resources, legal, compliance, governance and internal audit.

## Asset Management

### Investment

All our investment strategies are actively managed with the objective of outperforming a benchmark or target agreed with the client.

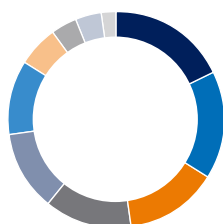
We believe that active management can generate significant incremental value over the long term by compounding returns in excess of what can be achieved by matching a benchmark index. In making investment

decisions, our starting point is to think long term, to gain a deep understanding of a company's strategy and to support management, where possible, in the delivery of their strategy.

#### Equities

Equities includes single country, regional and global funds, small and mid-cap funds, growth, value and quantitative strategies, and defensive strategies to reduce market risk.

£129.9bn  
(2014: £129.6 billion)

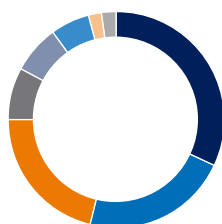


- Asia Pacific 18%
- Quantitative equities 16%
- UK 14%
- Global 13%
- Emerging markets 12%
- Europe 11%
- Japan 6%
- US 4%
- Australia 4%
- Other 2%

#### Fixed Income

Fixed Income employs fundamental and quantitative approaches and is based on research intensive, globally integrated credit and macro capabilities.

£60.3bn  
(2014: £51.1 billion)

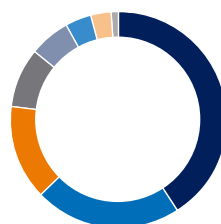


- US 32%
- Global 22%
- Europe 21%
- UK 8%
- Asia Pacific 7%
- Australia 6%
- Convertibles 2%
- Insurance linked 2%

#### Multi-asset

Multi-asset offers a comprehensive range of customised solutions, pooled products and advisory services. We specialise in providing a consultative, solutions based approach for clients.

£78.0bn  
(2014: £72.0 billion)

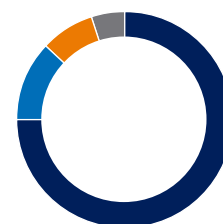


- Risk-controlled growth 41%
- LDI 22%
- UK traditional balanced 14%
- Income 9%
- Inflation protection 6%
- GAIA 4%
- Risk mitigation 3%
- Wealth preservation 1%

#### Emerging Market Debt, Commodities and Real Estate

We manage Absolute Return Emerging Market Debt, Commodities and Agriculture funds. Our Real Estate business manages a wide range of open and closed end funds.

£13.7bn  
(2014: £16.2 billion)



- Real estate 75%
- Emerging market debt 12%
- Agriculture and commodities 8%
- Private equity 5%



#### Fixed Income

Fixed Income attracted the greatest share of net inflows with net new business of £9.1 billion. Flows were driven by client demand for European credit in Intermediary and Global, European and US bond strategies in Institutional.

# Business model

## Our structure (continued)

### Countries

19

operate fund ranges

### More than

590

funds

### Distribution

Distribution employs more than 640 people globally, specialising in sales, client service, marketing, product development and product management, serving both the Institutional and Intermediary sales channels.

Distribution works closely with Investment and is responsible for the development of our investment products, focusing particularly on the risk and reward features that deliver the intended results and meet the needs

of our clients. We monitor gaps in our product range, work with Investment to launch new products and retire products that are no longer in demand.

The majority of our assets in fund ranges are in Luxembourg and UK domiciled funds. Domestic ranges in other countries are designed to address local tax, regulatory or client requirements.

**i** For more information on the financial performance of Asset Management, see page 100.

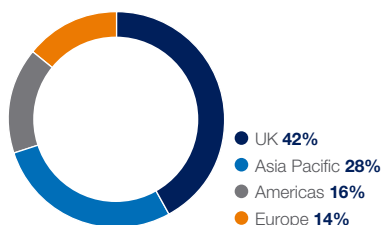
### Institutional clients

We manage segregated accounts and assets in pooled vehicles for a range of institutional clients, including local authorities, corporate pension plans, defined contribution pension schemes, insurance companies and sovereign wealth funds.

£181.0bn

(2014: £171.1 billion)

### Location by client domicile



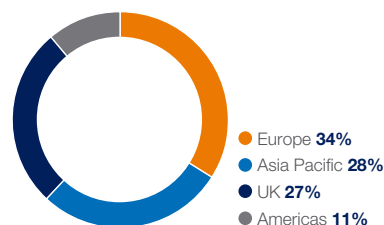
### Intermediary clients

We manage collective investment vehicles across a wide range of investment strategies on behalf of a variety of intermediary clients including financial advisers, discretionary managers, private wealth managers and online platforms.

£100.9bn

(2014: £97.8 billion)

### Location by client domicile



### Strategic Solutions

Institutional clients are increasingly looking to invest in solutions to meet a particular investment outcome, rather than selecting investments in individual component products. They expect their fund managers to provide strategic input and, in some cases, advice to help inform their strategy. To be successful in this changing environment, it is important that we build and maintain close relationships with our clients to fully understand their investment objectives.

The Strategic Solutions team consists of former investment consultants and actuaries with specialist skills in long-term strategic investment. The team works closely with institutional clients to understand their needs, build tailored investment solutions and to help foster long term trusted partnerships.

Specific challenges which the team has helped pension scheme clients solve include the

management of liability risks, setting long term de-risking plans (or 'Flight Paths') and assisting institutions to implement specialist strategies, such as insurance linked securities. The team carries out sophisticated modelling of clients' assets and liabilities and also provides tailored training sessions for key stakeholders.

The Strategic Solutions team has been at the forefront of a number of important product development initiatives. One example is Flight Path Swift, which is designed to help smaller UK defined benefit pension funds achieve full funding with a de-risked investment strategy. Flight Path Swift provides access to a range of Schroders' investment strategies, a tailored liability risk management strategy, daily funding level monitoring and trigger based de-risking in an accessible and affordable package.





# Delivering added value through analysis of Environmental, Social and Governance factors.

## Environmental, Social and Governance

High standards of governance and corporate and social responsibility are important to us and we believe they are likely to lead to outperformance in the long term. We therefore engage actively with the companies in which we invest and in 2015 we voted on resolutions at more than 5,000 company meetings.

Responsible Investment has also become increasingly important to many of our clients. We believe that integrating Environmental, Social and Governance (ESG) analysis into our decision-making processes and considering how these longer term trends impact financials will help us make better investment decisions.

We have a long and successful track record of managing exclusion mandates against clients' ethical criteria and manage £30 billion of assets in this area. Clients are also increasingly asking us to provide education around ESG. We welcome this ongoing dialogue as this area of investment continues to evolve.

Research shows that companies with good ESG management benefit from a lower cost of capital. It is essential to establish a dialogue with companies to assess how they are managing ESG risks and responding to change. We encourage open discussions on best practice. During 2015 our fund managers and analysts – across Equities and Fixed Income – held more than 16,500 company meetings which provided a platform to discuss ESG topics. Specifically, our ESG team engaged with more than 400 companies on ESG issues.

Increasingly we are able to use data as a tool to understand ESG risk. For example, we are developing a capability to monitor the carbon footprint and asset exposure of portfolios and the climate change risk management strategies of portfolio constituents.

## Company resolutions voted on

	%
2011	85
2012	90
2013	96
2014	97
<b>2015</b>	<b>92</b>

Producing thematic reports is an important part of integrating ESG and educating investors. We published a joint thought leadership piece, 'Intentional Investing', with the Association of Charitable Foundations in May 2015.

The United Nations Principles for Responsible Investment (UN PRI) annual assessment rates and ranks investment managers of a similar size and comprehensively assesses their practices across asset classes. Schroders achieved the highest possible ESG score of A+ this year for our overarching ESG practices.

# Business model

## Our structure (continued)

### Wealth Management assets under management

£31.6bn  
(2014: £31.1 billion)

### Wealth Management

We provide wealth planning, portfolio management and banking and treasury services to a range of clients including high net worth individuals, family offices and their advisers. We also have a market leading offering in investment management for charities. For more information on our proposition for charities and charitable trusts, see page 35.

Our largest business is in the UK, with significant businesses in the Channel Islands and Switzerland. We also have a Wealth Management presence in Frankfurt, Gibraltar, Milan, Madrid, Hong Kong and Singapore.

#### Client service proposition

Understanding our clients' specific needs and building solutions for them through dedicated relationship management is at the heart of our offering. Our experienced team aims to deliver an uncompromising quality of service to our clients, all of whom have dedicated portfolio managers and, where appropriate, wealth planning advisers. This allows us to develop and maintain close client relationships, ensuring that the solutions that we offer represent the best possible fit for their investment objectives.

Our approach to portfolio management is an active one that focuses on the long term. We are aware that our clients' objectives will change through time as their personal and financial circumstances develop, which is reflected in our portfolio construction. Our banking and treasury services enable us to provide a range of deposit taking and lending services to clients to assist in the overall management of their financial affairs.

#### Our approach

Our clients benefit from the investment capabilities of over 680 investment professionals globally across the Group, wealth planning advice and banking services.

Our investment proposition remains focused on delivering strong risk adjusted returns, tailored to meet our clients' specific investment objectives. We select best of breed products from across the whole of the market, with both Schroders and third party funds subjected to the same level of scrutiny and rigorous selection process.

**i** For more information on the financial performance of Wealth Management, see pages 100 and 101.



#### Wealth Management

Operating from 15 locations globally, our Wealth Management teams work with high net worth individuals, family offices and charities to provide high quality client service across wealth planning, portfolio management and banking and treasury services.

### Information Security

The threat from hacking, viruses, technical failures and fraud creates a growing risk that has the potential to cause significant operational and reputational damage to the firm. Led by the Information Security team and with Board level review, we have invested considerable resources into ensuring that we have an effective governance structure and oversight process to minimise this risk. We have reviewed our security culture and introduced training for all employees. This is an area of growing activity and our increased investment will ensure that we remain vigilant and focused on minimising risk. The Audit and Risk Committee report provides more information on this on page 63.



## Group

The Group segment includes the offices of the Chairman, Chief Executive and Chief Financial Officer, and employees involved in the management of the Group's investment capital and liquidity.

Group capital comprises operating capital required for regulatory and operating purposes and investment capital surplus to operating requirements.

Investment capital is managed consistent with the objective of a low risk, low volatility, cash plus return, implemented across a range of principally internally managed portfolios. Individual investments are diversified across asset classes and are subject to limits approved by the Board.

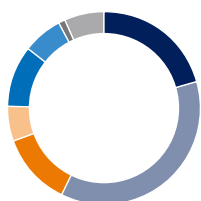
**i** For more information on the financial performance of the Group segment, see page 101.

## Infrastructure

Infrastructure comprises 1,600 people across information technology, operations, finance, risk management, human resources, legal, compliance, governance and internal audit, supporting our activities in Investment, Distribution and Wealth Management. We are investing to support our investors' evolving needs, enhance our client service capabilities, advance our risk management processes, meet new regulatory requirements and increase the effectiveness and efficiency of our processes.

### Total global taxes incurred and collected

£430.2m



- UK taxes incurred **£89.1m**
- UK taxes collected **£157.7m**
- Europe taxes incurred **£52.2m**
- Europe taxes collected **£25.5m**
- Asia Pacific taxes incurred **£44.1m**
- Asia Pacific taxes collected **£28.9m**
- Americas taxes incurred **£4.7m**
- Americas taxes collected **£28.0m**

### Our economic contribution

At Schrodgers we are committed to conducting our tax affairs in an open and transparent way.

We are committed to complying with our tax obligations and maintaining good relationships with the tax authorities in the jurisdictions in which we operate. To do this we only engage in reasonable tax planning that is aligned with our commercial, economic and reputational goals. We keep HM Revenue & Customs informed of business activities, results and key developments and proactively disclose and resolve significant issues, risks and uncertain tax positions. We follow a similar approach with other tax authorities.

We continually assess our tax obligations against a backdrop of increasing global complexity by monitoring changes to applicable tax laws, double tax treaties, regulations and OECD guidance. We have committed to complying with the UK's Code of Practice on Taxation for Banks and we will follow the CBI's Seven Tax Principles for UK business. Our tax strategy is reviewed annually by the Audit and

Risk Committee. The Chief Financial Officer is responsible for management of the tax affairs of the Group with oversight from the Audit and Risk Committee.

Our global footprint is driven by the locations of our clients. Corporate tax rates in these locations vary significantly and we apply a consistent global approach to allocate profit to the territories in which it is earned, in line with OECD principles.

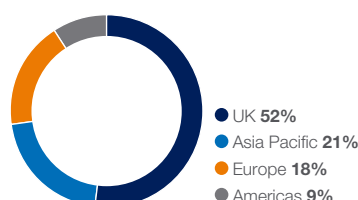
Our economic contribution includes corporate taxes paid as well as the taxes we collect on behalf of, and pay to, tax authorities. Our total tax contribution shows our overall contribution to society in the regions in which we operate.

In 2015 our total tax contributions from global activities was £430.2 million, of which £190.1 million relates to taxes incurred by the Group. An additional £240.1 million relates to taxes we have collected on behalf of tax authorities, primarily through our employee payroll. Further information on the taxes we pay can be found on our website at [www.schrodgers.com/taxtransparency](http://www.schrodgers.com/taxtransparency) and on page 108.

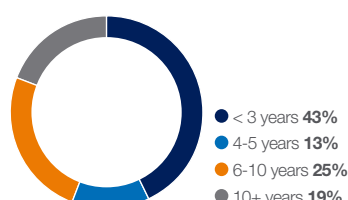


### Attracting, retaining and developing a deep pool of talent is key to our strategy.

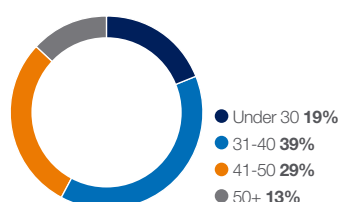
#### Employees by region



#### Employees by length of service



#### Age profile of employees



#### People

Our people are our most important asset. As at 31 December 2015, we employed over 3,700 talented individuals who are committed to putting clients first and delivering the right outcome for their financial needs.

Attracting, retaining and developing a deep pool of talent is key to our strategy. We are dedicated to providing our employees with the opportunities and fulfilling work experience they need to achieve their potential, whilst developing their knowledge, skills and capabilities. Competitive remuneration is important in delivering this and our approach is explained in the Remuneration report on page 68 to 86.

The diversity of our people globally is a key strength, reflects the background of our clients and the communities in which we operate and strengthens our local market knowledge.

We have an experienced and stable workforce, with overall turnover unchanged at 11 per cent. in 2015. We focus on retaining our most talented employees and as shown on page 11 our retention of high performing employees is 94 per cent. (2014: 94 per cent.).

Assets under management have tripled since 2008 and our headcount has grown by 31 per cent. As a result, 43 per cent. of employees have been at Schroders for less than three years. However, this is complemented by a depth of experience and knowledge with 44 per cent. of employees having over six years service, up from 33 per cent. in 2010. This demonstrates the stability of our workforce since the financial crisis.

#### Our culture and values

We are proud of our reputation as an employer of choice. We encourage an open, collaborative and meritocratic working environment in which everyone has the opportunity to deliver their best.

Our approach to business is defined in our guiding principles, which we share with all employees and external parties including clients, combined with our values of integrity, passion, teamwork, innovation and excellence. They are a key part of Schroders' culture and define the high standards of behaviour we expect from our people.

#### Highest ethical standards

We promote high ethical standards and have an internal whistleblowing policy, whereby employees can raise concerns about behaviour or decisions that could indicate potential wrongdoing. A 24-hour hotline is available to employees to anonymously report any concerns and this is publicised widely to employees. Personal securities trading by employees is subject to clearly defined internal policies.

Employees are not permitted to solicit or accept any inducements that are likely to conflict with their duties. We have policies in place and ensure all employees are trained in relation to anti-bribery, anti-money laundering, terrorist finance, market integrity, data protection and treating customers fairly. Due diligence is undertaken before entering a new client relationship and this is enhanced in high-risk countries.

#### Developing our people

Appointments to roles are based on merit, experience and performance. We are committed to recruiting, retaining and developing a deep pool of talent that shares our core values. We promote internal career progression to motivate and retain our most talented people and help them achieve their potential.

Employees have access to a range of learning and development programmes in order to maintain and increase technical competence in their roles and align behaviours with our values.

#### Our values

##### We strive for

##### Excellence

We want to excel at what we do. We continually strive for better.

##### We work with

##### Innovation

We challenge how things are done and anticipate future opportunities.

##### Teamwork

We work as one team for our clients. We value the contribution of individuals and encourage healthy debate.

##### We have

##### Passion

We share a deep rooted enthusiasm for what we do. We demonstrate this through the dedication and energy we bring to servicing our clients.

##### Integrity

We build strong relationships based on trust and confidentiality.

### Gender diversity

Appointments to roles are based on merit, experience and performance and we do not support quotas. The gender diversity within the Group is shown below.

2015 (2014)	Female	Male
<b>Directors</b>	<b>2 (1)</b>	<b>11 (11)</b>
Senior managers	176 (167)	523 (459)
Subsidiary directors	9 (9)	26 (26)
<b>Total senior management</b>	<b>185 (176)</b>	<b>549 (485)</b>
<b>All employees</b>	<b>1,530 (1,473)</b>	<b>2,254 (2,083)</b>

### Employee Opinion Survey results

#### Recommend Schroders as a good place to work

90%

#### Proud to be associated with Schroders

93%

#### Believe Schroders behaves responsibly towards our clients

93%

#### Believe their colleagues uphold our values

95%

### Engaged and highly-motivated employees

In 2015 we conducted a firm-wide Employee Opinion Survey. The results were encouraging, clearly demonstrating that our employees are engaged with the firm, understand our values and believe that we have a culture of behaving responsibly towards our clients. There are also areas for improvement, including reducing complexity and streamlining processes.

Good communication is key to delivering high levels of engagement and to ensuring that employees are committed to our strategic objectives. We communicate regularly through a variety of channels, including management briefings, an internal magazine, video channels and a social intranet. Annual employee townhall meetings are held with senior management to discuss the progress made by the Group. In the UK, an Employee Forum provides an additional channel for representing employee views to management.

### Diversity

We take a proactive and coordinated approach to attracting, retaining and developing a diverse workforce. Schroders is highly diverse in terms of the nationalities employed in our local offices globally. This is a key strength that provides us with local market knowledge and a deep understanding of our clients' needs.

Training is provided to managers on diversity issues and unconscious bias. We also provide internal and external mentoring programmes to encourage diversity. This includes maternity and paternity coaching and shared parental leave, and flexible working policies to help ensure that we support employees who return to work after having children.

We also have a Diversity and Inclusion group, with employee representatives from a range of backgrounds. This group, together

with the Company, promoted a range of initiatives throughout the year, covering LGBT, gender and mental health, and offered a networking opportunity for minority groups.

### Equal opportunities

We are committed to providing equal employment opportunities and avoiding unlawful discrimination. We expect our workforce to reflect the diversity of the many communities in which we operate. Where possible, we monitor the ethnicity, age and gender composition of our existing workforce and those applying for jobs.

Our policy is to 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.

We are committed to creating a work environment free of harassment and bullying, where everyone is treated with dignity and respect. We have a policy in place to assist in treating everyone fairly regardless of their age, gender, race, sexual orientation, disability, religion or beliefs. The effectiveness of this policy is monitored periodically.

Our London based employees, including contractors, are paid above the London Living Wage and we are an accredited London Living Wage Employer.

### Human rights

Our business model is intended to be fully compliant with appropriate human rights legislation in the countries in which we operate. Our business is undertaken predominantly in countries with a clear commitment in this area. We also encourage our business partners to adopt the same standards.



### Human Resources team

Our Human Resources team supports the business in attracting, retaining and developing a diverse workforce. We expect our workforce to reflect the diversity of the many communities in which we operate and we employ people in 38 locations worldwide.

# Business model

## Community and environmental impact



Received Payroll Giving Quality Mark Platinum Award.



Member of the London Benchmarking Group (LBG).



Included in the Dow Jones Sustainability Indices (DJSI).



Included in the FTSE4GOOD Index series.



Member of Heart of the City's alumni programme.



Participates in the Carbon Disclosure Project (CDP).



Accredited London Living Wage Employer.



Asset Manager of the Year 2015 at Charity Times Better Society Awards.

### Community

In 2015, we donated £1.3 million (2014: £1.1 million) to charitable causes around the world. Our focus remains on employee led charitable giving, supporting our people in their charitable efforts through our matching programmes, and we increased our employee matching donations in 2015 to reflect this.

Where possible, we promote payroll giving schemes and encourage our people to support the charities that matter to them. In the UK, 26 per cent. (2014: 25 per cent.) of employees donated through payroll giving, and the firm's payroll matching donations increased to £538,000 (2014: £372,000), reflecting an increase in the rate of employee matching. We received the Payroll Giving Quality Mark Platinum Award from the Charities Aid Foundation for the fourth year running, recognising our efforts in this area.

We encourage our employees to share their knowledge, skills and capabilities with charitable organisations through volunteering, as well as financial donations, as we recognise the benefits that it offers to both parties. Through our volunteering policy, we offer up to 15 hours of paid volunteering leave each year, and provide a volunteer 'time matching' charitable donation for volunteering which takes place outside of working hours.

### Environmental impact

We are committed to minimising the environmental impact of our operations and to delivering continuous improvements in our environmental performance.

For the first time, we have set targets to purchase electricity from renewable sources. We will target 60 per cent. of our global electricity supply to be from renewable sources by the end of 2016 and aim to reach 75 per cent. by the end of 2020.

We use DEFRA's conversion factors each year to calculate our CO<sub>2</sub>e emissions for all office locations. Our data has been externally verified and will be consistent with our Carbon Disclosure Project submission later in 2016 which will undergo a AA1000 assurance review. Our total recorded carbon output has increased by 17 per cent. this year, reflecting enhancements to the data capture methodology and significant growth in our business.

For 2015 we have used the internationally accepted GHG Protocol Corporate Standard for reporting. Previous years have been restated accordingly, although 2013 does not include CO<sub>2</sub>e emissions for employees using their own vehicles for business purposes, as this data was not captured in that year.

### Total CO<sub>2</sub>e emissions

				tonnes
2013	7,515	6,522	659	14,696
2014	9,055	7,229	659	16,943
2015	12,798	6,496	539	19,833

- Scope 1: Natural gas, oil and company owned vehicles
- Scope 2: Electricity
- Scope 3: Business travel

### CO<sub>2</sub>e emissions per employee

	tonnes
2013	4.4
2014	4.9
2015	5.5

More information on People, Community and Environmental impact can be found on our website [www.schroders.com/cr](http://www.schroders.com/cr).

### Investment 2020

Schroders supports Investment 2020, a programme that provides opportunities for school leavers and graduates in asset management. As part of this programme, we recruited across all areas of the business in 2015. Nichola Pease, a non-executive Director of the Group, is the chairman of Investment 2020.





## Business review

### 2015 markets in review



**Peter Harrison**  
Head of Investment

## We are well positioned to deliver for clients, despite volatile markets.

Overall, 2015 was a year of uncertainty for markets. A number of issues caused volatility throughout the year: slowing growth in China, continued weakness in commodity prices, mixed economic data in developed markets and anticipation of a US interest rate rise all impacted investor sentiment. Clients' risk appetites were understandably subdued, with global equity markets dragged down by lacklustre returns from the US and significant underperformance in emerging markets.

The Japanese Topix and MSCI Europe ex-UK were the best performing major indices over the year with local currency total returns of 11 per cent. and 9 per cent. respectively. These returns were achieved despite both seeing negative returns in the second half of the year. Emerging markets indices were the worst performing with the MSCI Emerging Markets index returning -5.4 per cent.

Both US and UK government bonds made positive returns for the year. Credit indices had a more challenging period with Global Investment Grade down 3.8 per cent. and Global High Yield falling 4.2 per cent. in US dollar terms, led by weakness in US dollar

credit. Emerging market debt made positive returns in dollar terms over the 12 months, with the EMBI Global Index rising 1.2 per cent.

There were significant movements in currencies throughout the year. The Chinese yuan was devalued in the second half of the year and currencies in a number of other emerging markets fell sharply against the US dollar, including Turkey, Russia, Brazil and Malaysia. The euro also fell as the European Central Bank instigated their quantitative easing programme in March.

### Desynchronised cycle of central bank policy

One of the most important themes throughout the year was that of divergent central bank policies across the world.

In the US, we saw policy tightening as QE came to an end and the Federal Reserve raised interest rates for the first time since 2006. The move was long anticipated and well telegraphed and so came as little surprise to investors. Markets have currently priced little in the way of further interest rate rises in 2016, suggesting a much more benign timetable for rate rises than in previous market cycles. Whilst it is possible we will see some short-term dislocation in appetite for fixed income assets, we believe institutional investors' demand for longer duration bonds may increase as higher yields increase income returns.

Elsewhere, the Bank of England and Bank of Japan maintained their QE programmes, with some investors in Japan calling for additional stimulus. In continental Europe, as deflationary concerns escalated, the ECB announced monthly asset purchases of

€60 billion until Q3 2016 – its first use of QE as a tool to ease monetary policy. By December, further deflationary fears followed an appreciation of the euro prompting an extension of QE until the second quarter of 2017.

Monetary easing acted as a catalyst for growth in European equity markets, which performed well over the year, although some of the underlying fundamentals in the eurozone remain fragile. There could be further easing in 2016 as Mario Draghi, President of the ECB, has hinted that additional measures could be implemented if global forces negatively impact economic growth.

Emerging market economies saw capital outflows, resulting in significant declines in reserves as central banks intervened to support their currencies. We also saw weakness in China, prompting monetary easing and additional fiscal stimulus.

### Growth in China

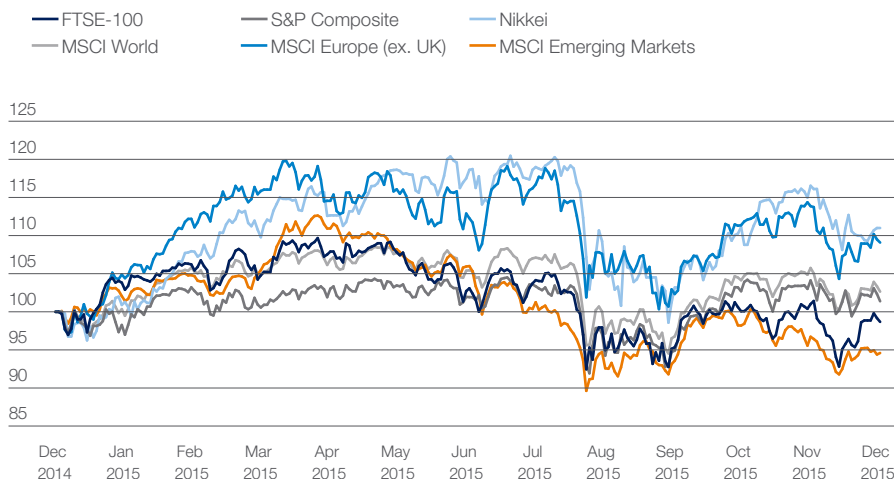
The rise and subsequent dramatic decline in the Chinese equity markets were another theme for 2015, as fears of a sharp correction returned in the second half of the year. This impacted investor demand across the whole region, with record outflows for emerging markets across the industry.

The China A-share market had witnessed an extraordinary run that began in the fourth quarter of 2014, driven by record margin lending and expectations of continued government and central bank support. We had been concerned for some time over valuations and our portfolios were defensively positioned in the lead up to the significant sell

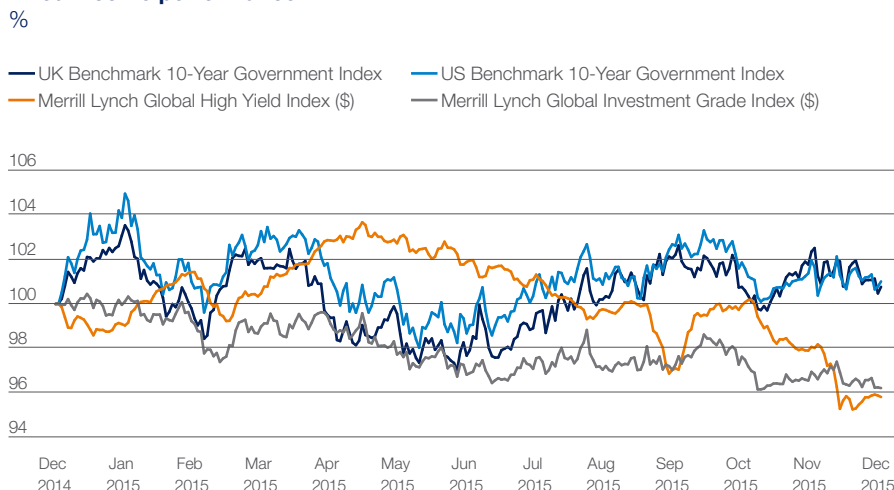
# Business review

## 2015 markets in review (continued)

### Equities – world indices performance



### Fixed income performance



off in August. The volatility was exacerbated by the decision of the People's Bank of China to devalue the currency, prompting fears that China was on the brink of a much larger devaluation.

As these risks continue to linger and as growth continues to slow, policymakers have sought to move the economy away from its traditional base of manufacturing, towards consumer and technology oriented sectors, in a transition comparable to that experienced in the past by countries such as Singapore and South Korea.

Chinese economic growth slowed to 6.9 per cent. in 2015 and is unlikely to continue at the elevated levels of recent years. The Chinese authorities have the tools to support the economy where necessary and have already implemented both monetary and fiscal stimuli.

We do not expect concerns over declining growth rates in China to disappear in 2016 and we expect to see further market volatility. When investor confidence does return to the region, there will be opportunities to find value. Investing in the region will, more than ever, rely on bottom up stock selection and finding quality companies that will not only provide consistent shareholder returns but do so at reasonable valuations.

### Further slump in commodities

Commodity prices have been through a challenging period for a number of years, with oil prices beginning to decline towards the end of 2014. This continued through 2015 as commodities became the worst performing asset class for the third consecutive year. The Dow Jones/UBS Commodities index returned -24.7 per cent. through the year and oil was particularly badly hit with the price of Brent crude falling 36.1 per cent. since the start of 2015 and 68 per cent. since 2013.

The global supply of oil has continued to rise putting additional downward pressure on prices. The Organisation of the Petroleum Exporting Countries, led by Saudi Arabia, increased production to win back market share at the same time as non-OPEC production was rising, while a deal to lift sanctions on Iranian oil exports was reached. Although demand for oil continues to rise, this is not enough to absorb the additional supply. The effect of collapsing prices on commodity producers and exporters has been dramatic, with both their equity markets and currencies seeing sharp declines. In particular, Russia, the Middle East and Latin America have seen a significant impact on their markets and economies.

Looking ahead, many of these challenges remain in the near term. Persistent over supply and further weakness in China could continue to depress prices. However, we believe that much of this may already be priced in and investors will begin to identify pockets of value, especially as falling commodity prices are ultimately supportive of global growth.

### Outlook

There remains a great deal of uncertainty around markets as we enter 2016 and central bank policy will have a large role to play.

Desynchronised global growth, a stronger US dollar and further intervention from the Chinese authorities could all impact markets this year. Political uncertainty is also a risk in 2016, not least from the US presidential election and a referendum on a potential UK exit from the European Union.

Our broad range of innovative product solutions is well positioned to help investors navigate these challenges. In an environment of increased uncertainty and volatility, it is ever more important to be active in asset allocation and stock selection, whilst engaging closely with the companies in which we invest.

## Analysis of 'big data' could become a key differentiator.

### Data Insights team

This year we set up a Data Insights team, representing a significant new initiative for the Group. The team are focused on developments in data analytics for investment and research, to enhance and complement the existing skills of our fund managers and analysts.

The quantity of information available for investment research purposes is increasing at such a rate that traditional industry practices and skillsets are unable to absorb and process it. Global trends in digitalisation, social media, open data and technology are all creating vast streams of alternative data that are often highly unstructured and extremely obscure. However, they contain valuable and often unique insights.

The Data Insights team aims to find these new and potentially unorthodox big datasets, extract the rich, hidden information they contain and use their expertise to enhance traditional fundamental research.

By using the latest in data science technology to interpret the data, it can be shared with our investment teams, enabling them to find answers to questions that investors would be unable to solve using traditional financial analysis techniques and financial market information sources.

Working collaboratively across all investment classes and regions, the team enhances the existing skills and investment processes of our fund managers and analysts. By recruiting experts from outside the asset management sector, we have gained extensive experience in data analytics and advanced statistics and machine learning, as well as a fresh perspective, and this represents an exciting step for Schroders.

## 2015 was a good year for Schroders, despite market uncertainty.

### Net inflows

£13.0bn  
(2014: £24.8 billion)

### 2015 overview

Schroders performed well in 2015 with net new business of £13.0 billion and record profit before tax and exceptional items of £609.7 million. After a strong start to the year, markets fell back on concerns over the impact of a hard landing in China, an interest rate rise in the US and slowing economic growth in developed markets. Against this backdrop, our results are testament to the strength of our diversified business and our long term approach.

### Client focused

Our business model is built around our clients. It is only by continuing to generate value for clients through meeting and exceeding their investment objectives that we are able to continue to grow our business. We play an important role in society helping a broad range of investors meet their financial goals as they provide for retirement, seek to offset future liabilities or build pools of capital. We also contribute to the growth of the wider economy as we play a role in channelling capital to support the future growth plans of the companies in which we invest.

### Product development

Responding to the changing needs of our clients is important to our business. In 2015 we continued to see increased demand for outcome oriented solutions and this trend was reflected in several of our product launches where we developed solutions to meet clients' investment objectives.

New launches included a Multi-asset product focused on generating income (Schroder ISF Emerging Multi-Asset Income), an addition to our product range aimed at achieving absolute returns in fixed income markets (Schroder ISF Euro Credit Absolute Return) and a new vehicle in the UK with the Flexible Retirement fund. This solution targets the defined contribution pension market, offering clients a lower risk, capital growth, pre-retirement product.

### Alternatives

We launched a number of products in alternatives space including two new funds in our GAIA range of UCITS-compliant hedge funds. These were the Schroder GAIA BlueTrend, a systematic trend-following strategy and Schroder GAIA BSP Credit, a long/short global credit fund. We also launched a new vehicle giving clients access to catastrophe bonds. We also further diversified our product offering, establishing an Infrastructure debt capability based in Paris.

### Other product development

We are committed to investing responsibly and we recognise the importance of this to both our clients and shareholders. As a result, we have continued to invest in our ESG activities.

We have also broadened our ESG-focused investment proposition with the launch of a quantitative global ESG fund, Schroder ISF QEP Global ESG. This gives clients access to the successful QEP range in a fund that is active in all three areas of ESG: exclusions, integration and shareholder engagement. See page 19 for details on our approach to ESG.

### Building scale

Product developments in 2015 reflect our strategy of building scale and growing organically. Our assets under management increased 5 per cent. to £313.5 billion as at 31 December 2015.

Considerable resource has been invested in recent years in diversifying our business by increasing scale in our Multi-asset and Fixed Income capabilities. Both areas now have an extensive product range and world class investment talent. Multi-asset accounts for a quarter of the Group's assets under management at £78.0 billion. Net inflows continue to be strong with £6.1 billion in 2015 and more than £44.0 billion since 2010. Fixed Income products attracted the highest level of net flows this year, with £9.1 billion of new business. Assets under management now exceed £60 billion.



### Liability driven investment

As defined benefit pension schemes have continued to mature, trustees are looking to maintain and improve funding levels at relatively low risk, with many employing liability driven investment (LDI) strategies. We have seen significant institutional client demand in LDI in 2015, with net new business of £2.6 billion. Multi-asset continues to see strong demand across Institutional and Intermediary with net inflows of £6.1 billion.



### Assets under management outperforming benchmark or peer group over three years\*

72%

(2014: 78%)

The Group's strong financial position and ability to invest seed capital in new strategies is a key strength. At the end of December 2015, £229 million of seed capital was deployed globally. During 2015, seed capital was invested across a number of new strategies in equities, fixed income, multi-asset and real estate. See pages 32 to 34 for more details on key trends in Asset Management and Wealth Management respectively.

### Associates and joint ventures

In addition to our core Asset Management business, we have built successful partnerships in several regions which complement our own business and diversify our global offering.

In 2015, these investments contributed profit after tax and before exceptional items of £21.5 million (2014: £10.6 million) and returned £9.1 million of capital to the Group in the form of dividends and capital redemptions (2014: £5.9 million). In total, we have invested £60 million in these partnerships and, excluding legacy private equity investments, have earned post tax profits before exceptional items of £81.0 million, of which £34.7 million has been received in dividends.

In 2015 our associate investment in Bank of Communications Schroder in China contributed £11.1 million to profit after tax and exceptional items (2014: £4.5 million). This business complements our own onshore presence in the country and enables us to access one of the largest retail markets in the world. We established the partnership in 2005 and since then we have recognised £64.2 million of profits after tax and received dividends of £25.7 million through our 30 per cent. shareholding.

In 2009, we entered into partnership with Nippon Life in Japan which continues to develop through demand from Japanese clients as well as through our two joint ventures in London and Singapore.

In 2012 we acquired 25 per cent. of Axis Asset Management Company in partnership with India's third largest private sector bank, Axis Bank. This investment gives us access to Indian investors, brings an established distribution network in a rapidly developing market and strengthens our Indian investment capabilities. The business is profitable and is growing market share with assets under management of £3.6 billion.

Also in 2012 we entered into a joint venture relationship with Secquaero, a Swiss-based insurance linked securities and catastrophe bond business. The business has seen strong growth with assets under management reaching £1.3 billion in 2015. In February 2016 we increased our stake to 50.1 per cent.

The Group segment includes our financial investment in RWC Partners Limited. In 2015 assets under management increased to £7.9 billion (2014: £5.8 billion) and our share of profits grew to £5.9 million (2014: £3.8 million).

\* See Glossary

# Business review

## Schroders' 2015 in review (continued)

### Assets under management

£313.5bn  
(2014: £300.0 billion)

### Regulation

We are strong supporters of good regulation, but believe that the primary responsibility for effective governance must rest with companies themselves. This is reflected in our approach to risk management, details of which are on page 36.

We welcome regulation that increases transparency, improves trust, enhances market stability and results in better outcomes for clients. Led by our Head of Public Policy, we seek to actively engage with policymakers at all stages of regulatory development to help promote the best outcomes for our clients and our business.

In 2015 we have seen important developments in relation to a number of regulatory issues, specifically on investor protection, liquidity and systemic risk. We are actively engaged with the Financial Conduct Authority, the UK regulator, with regards to their Asset Management Market Study.

Public confidence in financial services has declined over recent years and, as asset managers, we have a responsibility to promote effective governance in the companies in which we invest and to maintain the highest standards ourselves. Client-centric behaviour is inherent in our values and culture and we expect our people to act with integrity and recognise the importance of this to our clients, who trust us with the management of their assets.

### Investment performance

Delivering consistent and above average investment performance is a key strategic objective. Consistent with our long-term view, we focus on investment performance over a three year period. Over three years to 31 December 2015, 72 per cent. of assets under management outperformed their benchmark or peer group.

### New business

Competitive investment performance, strong distribution capabilities and a global, diversified product range enabled us to generate net inflows of £13.0 billion in 2015 (2014: £24.8 billion). Fixed income strategies attracted the largest net inflows in 2015 at £9.1 billion, driven particularly by demand for European credit in Intermediary, US bonds in Institutional and global bond strategies across both channels.

Multi-asset also performed well, with net inflows of £6.1 billion. We saw continued demand from institutional clients for LDI strategies and from intermediary clients for income and risk-controlled growth products. In Equities, demand for European, Japanese and global equity funds was offset by redemptions from our QEP range. These outflows were driven by institutional clients diversifying their portfolios and in most cases we have maintained significant client relationships. We also saw redemptions from commodities as the asset class continued to be out of favour with investors.



### Market intelligence

In the rapidly evolving landscape for asset management, we continue to believe that firms who design their product offerings to meet ongoing shifts in client demand will have a key strategic advantage over the next decade. To help achieve this, we established a Market Intelligence team in 2015 to integrate our analysis of global market trends and client insights. The team comprises individuals with data science, investment and product development expertise to ensure a robust, research based approach to product development and marketing activities.

### European equities

European equities saw strong demand from intermediary clients through 2015, attracting net new business of £2.1 billion.



### Asset Management

Total net new business in Asset Management was £13.1 billion (2014: £24.3 billion), comprising £8.8 billion in Institutional and £4.3 billion in Intermediary.

Institutional saw good levels of gross flows at £32.0 billion. Net new business was concentrated in Fixed Income and Multi-asset and, by region, in Asia Pacific and the UK. Total assets under management in Institutional increased 6 per cent. to £181.0 billion.

Intermediary also generated good levels of gross flows in 2015 at £46.6 billion. We generated net inflows across Fixed Income, Equities and Multi-asset, despite challenging market conditions weighing on investor sentiment across the industry in the second half of the year. Assets under management in Intermediary increased 3 per cent. to £100.9 billion.

Asset Management generated net revenue of £1,412.5 million in 2015 (2014: £1,308.3 million), including performance fees of £35.7 million (2014: £34.2 million). Asset Management profit before tax and exceptional items was £540.5 million (2014: £499.3 million).

### Wealth Management

Wealth Management assets under management increased to £31.6 billion (2014: £31.1 billion). Despite positive net new business in the UK and Asia Pacific, net outflows were £0.1 billion (2014: £0.5 billion inflows), principally due to redemptions from cash administration and custody mandates in Switzerland.

Net revenue in Wealth Management was £207.2 million (2014: £213.5 million), including performance fees of £0.6 million (2014: £2.9 million). Underlying revenues were up in 2015 as revenue in 2014 included £9.0 million from performance fees and the release of a loan loss provision. Profit before tax and exceptional items was £61.3 million (2014: £61.7 million).

### Group

The Group segment comprises returns on investment capital, including seed capital deployed in building a track record in new investment strategies, and central costs. Net revenue in 2015 was £38.8 million (2014: £27.7 million) and costs were £30.9 million (2014: £23.5 million). The Group segment generated profit before tax and exceptional items of £7.9 million (2014: £4.2 million).

### 2016 outlook and priorities

We will continue to focus on providing investment solutions to meet the requirements of our institutional, intermediary and private clients.

In an environment of declining fees for asset managers we will seek to build scale in major asset classes, while continuing to diversify sources of revenue by region and asset class.

	Total £bn	Institutional £bn	Intermediary £bn	Wealth Management £bn
<b>1 January 2015</b>	<b>300.0</b>	<b>171.1</b>	<b>97.8</b>	<b>31.1</b>
Gross inflows	84.1	32.0	46.6	5.5
Gross outflows	(71.1)	(23.2)	(42.3)	(5.6)
<b>Net flows</b>	<b>13.0</b>	<b>8.8</b>	<b>4.3</b>	<b>(0.1)</b>
Investment returns	0.5	1.1	(1.2)	0.6
<b>31 December 2015</b>	<b>313.5</b>	<b>181.0</b>	<b>100.9</b>	<b>31.6</b>

## Market developments

### Long-term trends in Asset Management



**Massimo Tosato**  
Executive Vice-Chairman

**We have seen a number of long-term trends through 2015 which we expect to continue to grow in importance.**

#### **Changing client demand**

As clients look to provide for retirement, offset liabilities or build capital, we have continued to see a material shift in client demand, away from funds aiming to outperform a benchmark and towards products designed to meet a specific outcome.

This change requires asset managers to build closer relationships with their clients, to fully understand their changing investment objectives and to construct products which are best suited to achieving these. We have achieved success in recent years with outcome oriented solutions across all asset classes but most notably in Multi-asset, where our product range is specifically designed by outcome.

#### **Opportunities in evolving sub-channels**

As global pools of assets continue to grow, opportunities for growth in specific sub-channels have developed.

The pre and post-retirement space remains one of the largest opportunities for Schroders. We have already developed a number of strategic partnerships with insurance companies across the globe as they have become increasingly important distribution partners. More information on our team dedicated to client service and sales in the insurance sector, and how it is focused on further developing partnerships and expanding our presence, can be found overleaf.



#### **Public policy and regulation**

We welcome regulation that increases transparency, improves trust, enhances market stability and results in better outcomes for clients. Led by our Head of Public Policy, we seek to actively engage with policymakers at all stages of regulatory development to help promote the best outcome both for our clients and for the Group. We have been actively engaging with the Financial Conduct Authority in respect of the Asset Management Market Study, which is taking place in 2016.



Defined benefit (DB) schemes have continued to mature. Trustees are seeking to improve funding levels at relatively low risk, with many employing liability driven investment (LDI) strategies. This is a growing area and we have seen £2.6 billion of net inflows into LDI mandates in 2015.

As corporate pensions move away from DB schemes, the industry has seen a growth in defined contribution (DC) plans. The vast majority of assets under management in DC schemes are invested in the default option provided. The opportunity for asset managers is in working with scheme providers, platforms and consultants to provide appropriate solutions. The UK market has seen a charge cap imposed on DC workplace schemes of 75 basis points, so the challenge for asset managers is to develop innovative, outcome focused, competitively priced solutions in an increasingly fee sensitive channel. Details on our product launches in this space can be found on page 28.

The shift of responsibility for savings to the individual, and the inadequacy of DC saving levels, has also led to growth in the complementary savings market, with a growing trend of clients wishing to invest in products directly provided by the asset manager.

In order to access this portion of the market, a number of asset managers are adapting their business models to one of vertical integration. This allows a closer relationship with the end client and greater control throughout the value chain, but may pose regulatory questions over potential conflicts of interest as the lines between investment and advice can be unclear.

### Changing relationships with clients

These changes, and increasing competition from passive providers, mean that active asset managers must demonstrate the value they are providing to their clients, whether through investment performance or innovative product design, such as outcome oriented solutions or developing areas like liquid alternatives.

Our relationships with our clients are also changing. Our value added is not just in the provision of investment products, but in sharing information and producing insightful content to support, educate and inform our clients. This year we launched the Schroders IncomeIQ tool, which educates both advisers and end clients on behavioural biases exhibited when investing.

### Digital innovation and improving client experience

Adoption of new technology could have a significant impact on the industry, having already changed how we interact with clients and construct portfolios.

The improvement of the client experience lies at the heart of many of our digital projects. This year saw the roll out of our new web platform globally which has been optimised for smart phones and tablets and includes personalised content.

Our approach towards product development has also evolved this year. We established the Market Intelligence team which consists of individuals experienced in data science, investment and product development. They analyse global trends and changes in client demand to ensure new solutions are developed to meet clients' evolving investment objectives. More information on this team can be found on page 30.

Within Investment, we also looked for innovative ways to analyse new and unstructured data points. There are huge pools of data being produced every second of every day and the real winners in active management will be those that can structure and use data to generate alpha, complementing our fundamental research. More information on the work of our Data Insights team can be found on page 27.

While there are many internal initiatives ongoing throughout Schroders, we are also engaging with financial technology (Fintech) externally. Through our shareholding in Nutmeg and our seat on the board, we continue to learn about the millennial generation, their expectations of client service and their approach to investing. This year has been marked by an explosion in robo advisors with challengers appearing in the US and throughout Europe. We believe the winners in this space are going to be those that build a hybrid model, combining digital service with traditional face to face advice.



### Insurance

A focus within Distribution has been to develop our business and strategic partnerships with insurance companies around the world. We have a number of key relationships, including with Prudential and MetLife Advisors, LLC in the US, Zurich Financial Services in the UK and Nippon Life in Japan.

Our specialist Insurance Asset Management team is focused on expanding our presence in this channel and have had a successful year.

In the UK many insurance companies are looking to outsource their core asset management function, driven by the need to modernise the investment proposition for policyholders and to manage capital efficiently.

New solutions we have developed using our innovative Advanced Beta Multi-asset and Fixed Income investment capabilities had particular appeal and we have been appointed on a number of significant new mandates this year.

## Market developments

### Long-term trends in Wealth Management



**Philip Mallinckrodt**

Group Head of Wealth Management

## We offer a combination of investment expertise, wealth planning and banking services.

There are a number of developments in the Wealth Management sector which we see as important and which will influence the future direction of our business. As a result of demographic changes, pools of assets globally are growing, but the investment environment remains challenging. Client expectations are increasing, asset class returns have been at the lower end of historical norms and regulation continues to develop.

### Investment

Although we have recently seen a rise in interest rates in the US, we still remain at historically low levels which, along with subdued global growth and heightened market volatility, have led to a gradual shift in client demand. Many of our clients have moved away from focusing on a benchmark relative return and towards specific, tailored, outcome oriented solutions which reflect their own circumstances.

Our focus on maintaining and developing strong client relationships allows us to understand their investment aims and to construct portfolios best suited to them. To help us in this process, we have access to Schroders' global investment expertise, not only in Equities, Fixed Income and Multi-asset, but also in growing areas such as Alternatives and constructing ESG portfolios.

### Technology

Evolutions in technology mean that expectations of client service have greatly increased over recent years. Our clients demand greater transparency, increased personalisation and improved speed and ease of access to online services.

We have continued to develop our online portal, which allows clients access to their portfolio information at any time and on any device. We continue to invest in technology to complement, but not to replace, our personalised market leading client relationship management.

### Regulation

As we continue to see regulatory developments across the industry, we seek to engage with regulators globally and to develop open and cooperative relationships. We aim to conduct our business in an ethical, compliant and controlled manner. In 2015, a conduct risk framework was fully implemented and all regulatory change initiatives were either implemented on time or are at an appropriate stage of preparation.

In this rapidly changing environment, Schroders is well placed to continue to grow due to our global resources, investment in technology and, most importantly, our continued focus on client service across wealth planning, investment management and banking and treasury services.

## 2015 Charity Investment Manager of the year.



### Charities Investment Management

Cazenove Capital Charities, our specialist team that manages assets on behalf of UK registered charities, foundations and endowments, is the largest investment manager of charity assets in the UK. A dedicated team of 25 manage £7.9 billion of assets across the sector.

We have been working with charities since the 1930s, and are delighted that we still look after a number of clients who have been with us since we started to build our expertise. We offer one of the broadest range of investment management services to the charity sector and are pleased to work with almost 800 charities, which range in size, investment approach and charitable purpose.

Our success is dependent on continued strong investment performance for our clients and the team is able to access a broad range of investment resource from across Schroders. Investment strategy is tailored to the individual charity's investment objectives, and we offer both segregated and pooled approaches.

Clients can choose to have a portfolio consisting of entirely Schroders funds or adopt a broader open architecture approach which allows the Multi-Manager team to select funds across the market, whether from Schroders or third party managers. In addition to our segregated portfolio service we also manage five Common Investment Funds (CIFs) across a range of asset classes which further reflects our commitment to the sector.

We offer investment management services to the full range of potential charity investors, from smaller charities to large foundations, and from those charities focused on holding reserves against any income shortfalls to those grant making charities with a multi-generational time horizon.

Our charity investment specialists understand the sector, the regulation and the fiduciary duty of trustees, and many are trustees themselves. We regularly collaborate with industry bodies, such as the Association of Charitable Foundations, to produce original research to promote and enhance best practice in charity investment management. Our most recent publication drew on the largest survey of UK charity investors and considered the increasing popularity of responsible investment (RI) approaches in the sector.

Our expertise in both the governance and implementation of RI approaches has been widely recognised, as has our RI team's engagement in the fossil free and living wage campaigns.

We are proud to have won the 2015 Charity Investment Manager of the year award from Charity Times and were commended for our 'leadership over many years through various forums, sponsorships and policy development'. We look forward to building on that success in 2016 and beyond.



### Integrity and good conduct are central to our culture and approach to risk management.

The Group is exposed to a variety of risks as a result of its business activities. As such active and effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. The Group places significant focus on the integrity and good conduct of employees and the risk management framework is underpinned by a strong ethical culture. This section explains how we control and manage the risks in our business. It outlines key risks, how we mitigate them and our assessment of their potential impact on our business in the context of the current environment.

#### Managing risk

The Board is accountable for risk and the oversight of the risk management process. It considers the most significant risks facing the Group and uses quantitative exposure measures, such as stress tests, where appropriate. Non-executive oversight of the risk management process is exercised through the Audit and Risk Committee with respect to standards of integrity, risk management and internal control.

It is the responsibility of all employees to uphold the control culture of Schroders and risk management is embedded within all areas of the business. Members of the GMC have risk management responsibility for their respective business areas and we expect individual behaviours to mirror the culture and core values of the Group.

The Chief Executive and GMC, as the principal executive committee with responsibility for the monitoring and reporting of risks and controls, regularly review the key risks facing the Group.

The executive oversight of risk is delegated by the Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and the independent monitoring and reporting of risks and controls is supported by the Group Head of Risk.

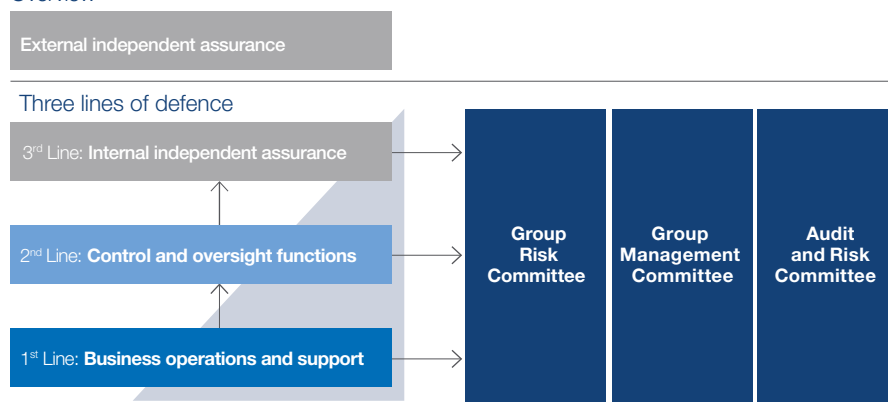
The Chief Financial Officer chairs the Group Risk Committee (GRC). This meets 10 times a year, and more frequently if required, and is attended by the heads of the control functions, being Group Risk, Compliance, Legal and Internal Audit, the Chief Operating Officer, the Head of Investment and senior managers from Distribution and Wealth Management. The GRC supports the Chief Financial Officer and the GMC in discharging their risk management responsibilities. 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 exceptions in the most significant risk exposures. The GRC and the Wealth Management Audit and Risk Committee receive reports in respect of risk from the Wealth Management Executive Committee.

#### Lines of defence

The first line of defence against undesirable outcomes is the business function and the respective line managers, across Investment, Distribution, Wealth Management and Infrastructure. Business heads take the lead role with respect to identifying potential risks and implementing and maintaining appropriate controls.

#### Lines of defence

##### Overview





### Compliance

Our Compliance team forms part of our second line of defence against undesirable outcomes. The compliance monitoring programme reviews the effective operation of our processes in meeting regulatory requirements.



Line management is supplemented by oversight functions, such as Group risk, finance, human resources, compliance, legal and governance, which constitute the second line of defence. The compliance monitoring programme reviews the effective operation of our processes in meeting regulatory requirements.

Group Internal Audit provides retrospective, independent assurance over the operation of controls and is 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.

Schroders also maintains insurance cover.

### 2015 developments

The Group Risk operating model has been reviewed and we have further strengthened our risk framework.

We have continued to implement and embed our UK Conduct framework through the identification, mitigation and reporting of risks of poor client outcomes and other Conduct

risks across our UK businesses. We have enhanced the communications of our expectations of the behaviour of employees. The Employee Opinion Survey showed a high degree of employee alignment with, and support for, our culture and values. We are continuing to strengthen our management information and reporting in this key area and developing a proportionate application of the framework to our overseas businesses.

The Group's operational risk capabilities were enhanced by adding a risk library to our risk system, which links instances of operational risk across the firm and highlight areas requiring additional focus. In addition, the risk and control assessment (RCA) process was strengthened.

Recognising the increased incidence of cyber crime within the industry, we conducted a review of our information security framework and continue to invest in this area. An Information Security Risk Oversight Committee was established, chaired by the Group Head of Risk, and both the first and second lines of defence were enhanced through the recruitment of specialists.



### Group Risk

Group Risk is a critical second line of defence that helps to manage and mitigate risks across our business.

### 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 the Group will continue to be viable for the next five years. This assessment has been made in consideration of the business model, future performance, solvency and liquidity.

The Directors review financial forecasts and key risks regularly. Key risks, including mitigation of these risks, are detailed in this 'Key risks and mitigations' section. The business strategy on pages 10 and 11 also highlights how the key risks are aligned to the delivery of our strategic objectives.

The prospects of Schroders plc have been assessed in line with its strategic business planning and forecasting period which has a five year horizon. Stress testing from a capital and liquidity perspective has been performed on the Group's business plan and this is also used in the Group's Internal Capital Adequacy Assessment Process (ICAAP) and the liquidity stress test programme. As part of its stress testing approach, the Group considered a number of scenarios with a range of factors that model outflows of our assets under management and valuations of our assets under management which may fall due to a market downturn. The Group also considers the impacts of an environment where margins are compressed. The Group considers a range of large operational risk events to ensure we are appropriately capitalised if those circumstances were to arise.

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 five years.

# Key risks and mitigations

## continued

### Key risks

We have identified the following as the key risks to Schrodgers.

### Reputational risk

The reputation of Schrodgers is of paramount importance. Our reputation can be impacted by an adverse risk event arising from any of our key risks.

Reputational risk impacts Schrodgers' brand, reliability and relationship with clients and shareholders. This may arise from poor conduct or judgements, or from negative financial or operational events

as a result of weaknesses in systems and controls.

Reputational risk may also arise from engaging in inappropriate client relationships or mandates which may have adverse implications for the Group.

High standards of conduct and a principled approach to regulatory compliance are

integral to our culture and values. We consider key reputational risks when initiating changes in strategy or operating model.

In addition, we have a number of controls and frameworks to address other risks that could affect our reputation including: financial crime, investment risk and client take-on and product development.

### Assessment of key risks

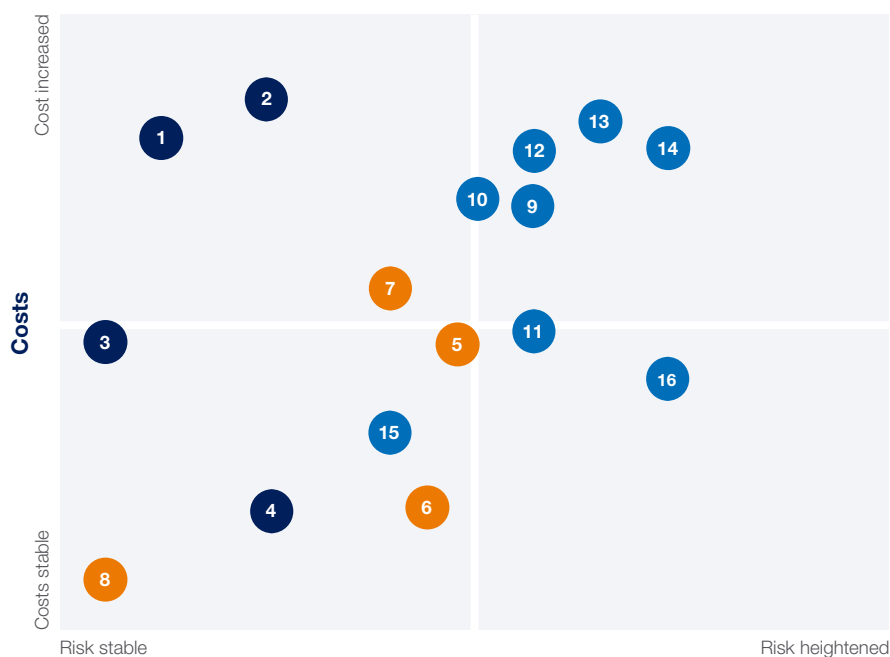
The key risks outlined on pages 39 to 42 have been assessed in light of the current environment and are summarised in the adjacent diagram.

This year we have made the following changes to the presentation of our key risks:

- International business risk has been renamed global business risk
- A new category for the risk of insufficient capital has been included under market, credit, liquidity and capital risks
- A new category for tax risk has been included under operational risks

The horizontal axis shows whether the likelihood of the risk is stable or heightened, reflecting the current conditions. The vertical axis shows the potential financial impact to the firm if that risk materialised. The Group undertakes additional work to address those risks that it considers to be potentially heightened, more costly or in excess of our risk appetite. Reputational risk is not included in the chart because this could arise as a result of other risk events occurring.

In some areas we have seen increased levels of risk, which we continue to actively manage and an increase in financial impact. In particular, the outlook for markets remains uncertain and regulatory scrutiny is increasing.



#### Business risks

1. Investment performance risk
2. Product risk
3. Business concentration risk
4. Global business risk

#### Market, credit, liquidity and capital risks

5. Market risk
6. Credit risk
7. Liquidity risk
8. Risk of insufficient capital

#### Operational risks

9. Conduct and regulatory risk
10. Legal risk
11. Tax risk
12. Process risk
13. Fraud risk
14. Technology and information security risk
15. People and employment practices risk
16. Third party service provider risk

## Business risks

Business risk can be influenced by both internal and external factors. A risk can materialise due to poor business execution or a failure to respond appropriately to internal or external factors. Business risk can impact our earnings.

Key risk	Description	How we manage risk
<b>1. Investment performance risk</b>	The management of investment performance risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives or that there is a failure to deliver consistent and above-average performance.	<p>We have in place clearly defined investment processes designed to meet investment targets within stated risk parameters.</p> <p>The Group's Investment Risk Framework provides review and challenge of investment risks, independent of our fund managers, across all asset classes. Individual portfolio performance, valuations and risk profiles are monitored by fund managers and asset class heads on a regular basis, as well as by Pricing and Valuation Committees, Asset Class Risk Committees and the GMC.</p> <p>Recognising that products will not outperform all of the time, we offer clients a diversified product set.</p> <p>Key to investment performance is our ability to attract and retain talented people (see people and employment practices risk for further information).</p>
<b>2. Product risk</b>	<p>Product risk arises from product or service viability and the risk that products or services do not meet their objectives and product and service complexity.</p> <p>Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class or strategy makes it more difficult to trade efficiently in the market.</p>	<p>To manage product risk we conduct quantitative analysis on a product by product basis to confirm that products are performing to the expectation of our clients in accordance with our mandate. If the results do not meet our standards, we assess the qualitative aspects and, if appropriate, the product strategy is reassessed.</p> <p>Commercial viability and distribution channels are assessed by the Product Development Committee when they consider new fund proposals. New investment propositions and strategies are reviewed by the Product Strategy Committee.</p> <p>We monitor potential capacity constraints in funds on a regular basis. Risk mitigation may include closing products to new investment. The Product Development Committee considers the interests and needs of potential investors in our funds.</p>
<b>3. Business concentration risk</b>	<p>Business concentration risk arises from concentration in a small number of distribution channels or products or when a small number of clients are concentrated in a specific product or market.</p> <p>Pressure on revenue margins continues to be a risk due to the rise of passive strategies, competition, transparency and regulatory change.</p>	<p>The broad range and scale of products and of distribution and investment channels that we have established mitigates our concentration risk and the dependency on any single sales channel.</p> <p>We aim to avoid client concentrations in any particular market or channel becoming excessive.</p> <p>We continue to offer competitive solutions. We review the scalability of our business and continue to invest in infrastructure.</p>
<b>4. Global business risk</b>	Our business is broadly diversified by region. Whilst this mitigates our aggregate risk profile it introduces additional risks in terms of operating cross-border and in multiple environments as a result of business practices, customs and traditions.	<p>We employ people with relevant expertise to manage our business and operations in accordance with local requirements as well as Group standards.</p> <p>New global markets are not accessed without appropriate due diligence.</p> <p>Local risk committees are established where appropriate and Compliance, Group Risk and other second line functions provide local oversight in all regions in which we operate. The GRC receives reports from line management regarding matters that give cause for concern and recommendations for appropriate remedial action.</p> <p>Our global operations are regularly reviewed by Group Internal Audit.</p>

# Key risks and mitigations

## continued

### Market, credit, liquidity and capital risks

We face market, credit, liquidity and capital risks from movements in the financial markets in which we operate, arising from holding investments both as principal and agent. Notes 19 and 20 to the accounts on pages 122 to 128 set out the Group's approach to the management of financial instrument risk, where we act as principal together with the Group's approach to hedging.

Key risk	Description	How we manage risk
5. Market risk	<p>Operating capital, net revenue and expenses related to the Group's overseas subsidiaries are denominated in local currencies and are therefore subject to exchange rate risk.</p> <p>Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management.</p>	<p>The Group Capital Committee, chaired by the Chief Financial Officer, 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.</p> <p>We use forward foreign exchange contracts to mitigate transactional and investment exposure to currency movements.</p> <p>The Wealth Management Executive Committee monitors and manages market risk in the Group's banking businesses, which is primarily interest rate risk in the banking book.</p> <p>Our geographically-diversified, broad product range helps to mitigate market risk in a variety of market conditions and serves to diversify individual market dependencies. In addition, the Group's Investment Risk Framework provides review and challenge of market risks.</p>
6. Credit risk	<p>We face credit risk as a result of counterparty exposure with respect to client and principal investment holdings including derivative exposures. The assets we manage are also exposed to counterparty risk.</p> <p>We also face credit risk through Wealth Management lending activities, in addition to client transactional counterparty risk.</p>	<p>We assess counterparty creditworthiness and set limits for both our principal and agency counterparties.</p> <p>We seek to diversify our exposure across different counterparties. The creditworthiness of counterparties and borrowers are monitored, as is usage against the relevant credit limits.</p> <p>In Wealth Management, we seek to mitigate credit risk within the lending activities, as appropriate, through collateralisation in the form of cash, portfolio investments or real estate. Credit risk is monitored and managed against limits and collateral.</p>
7. Liquidity risk	<p>Liquidity risk is the risk that the Group or any of its subsidiaries cannot meet its contractual or payment obligations in a timely manner.</p> <p>Liquidity risk in relation to client portfolios may arise in difficult market conditions from the inability to sell the portfolio's underlying investments for full value, or at all. This could affect performance and also prevent cash or other assets from being readily available to meet redemptions or other obligations.</p>	<p>We maintain liquidity for our anticipated needs and regulatory requirements, taking account of the risks we face.</p> <p>The Group Capital Committee regularly reviews the Group's liquidity needs considering the current liquidity position, future cash flows, regulatory requirements and potential stress scenarios.</p> <p>Liquidity is also considered at a legal entity level with consideration of specific circumstances and regulatory requirements of each company. The Wealth Management Executive Committee monitors and manages liquidity risk in the Group's banking businesses.</p> <p>To mitigate this risk, we seek to match the liquidity of the underlying investments with the anticipated redemption requirements when we construct portfolios.</p> <p>We have established a process to assess and monitor the liquidity risk profile of funds on an ongoing basis. The process relies on a set of quantitative indicators which provide information on the evolution of the liquidity of funds over time and under various scenarios. This helps us to identify and investigate possible issues, and implement an appropriate plan of action as necessary.</p> <p>We also review products and portfolios on a regular basis to identify and manage possible capacity constraints.</p>
8. Risk of insufficient capital	<p>The risk of insufficient capital would materialise if the Group was unable to support its strategic business objectives beyond its minimum regulatory capital requirements.</p>	<p>Maintaining a strong capital base is important to our business and is a core part of our strategy. We ensure each of our regulated subsidiaries, and the Group as a whole, meet their minimum regulatory capital requirements. The Group sets and maintains a prudent level of capital, that includes a buffer over the minimum regulatory capital requirement that allows us to effectively conduct our business in the markets in which we operate and to invest in new business opportunities that may arise.</p> <p>The Group Capital Committee supports the Chief Financial Officer in exercising responsibility for the management of the Group's capital.</p> <p>The Group performs a thorough assessment of the adequacy of its capital through the Internal Capital Adequacy Assessment Process (ICAAP). In addition, Wealth Management in London and the Channel Islands also perform an ICAAP.</p>



## Operational risks

Operational risk is inherent globally in all activities and processes we perform within the Group. To manage and mitigate these risks, the second line of defence provides oversight and challenge to the business through an operational risk framework. Tools to manage this include risk and control assessments, risk event management processes and new product approval processes. We manage risk events through identification, reporting and resolution with the aim of preventing risk events from recurring.

Key risk	Description	How we manage risk
<b>9. Conduct and regulatory risk</b>	<p>Conduct and regulatory risks include the risks identified below.</p> <p>The risks of client detriment arising from inappropriate conduct, conflicts management, practice or behaviour or failing to meet client needs, interests or expected outcomes.</p> <p>The risks of money laundering, bribery or market abuse shortcomings on the part of fund investors, clients or our employees.</p> <p>The risk of fines, penalties, censure or other sanctions arising from failure to identify or meet regulatory requirements.</p> <p>The risk that new regulations or changes to existing interpretations have a material effect on the Group's operations, risk profile or cost base.</p>	<p>We promote a strong compliance culture and we value good relationships with our regulators. Our Compliance function supports management in identifying our regulatory obligations and enabling these to be met through relevant training and procedures. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.</p> <p>Our approach to encouraging appropriate conduct and minimising the risk of client detriment is set out in our conduct risk framework, and is built on our culture and values, supported by appropriate governance and reporting. This includes:</p> <ul style="list-style-type: none"> <li>– A culture in which all employees are encouraged and supported to 'do the right thing';</li> <li>– A long-term approach to creating value and good outcomes for our clients, fund investors and shareholders;</li> <li>– A focus on suitability of advice and of discretionary management and on products that meet the needs of our clients and investors; and</li> <li>– Strong controls, governance, training and risk management processes.</li> </ul> <p>Risk based client take-on and review processes are among our key controls to address the risks of money laundering. Trading is subject to clear policies and to transaction surveillance processes, which are being increasingly enhanced. Financial crime oversight is provided by the Financial Crime Committee.</p> <p>Regulatory and legal change is monitored by the Compliance, Legal and Public Policy teams. Key regulatory and tax risks are identified on page 43. We engage with our regulators where appropriate in relation to potential and planned changes.</p>
<b>10. Legal risk</b>	<p>The risk that Schrodgers or its counterparties, clients or suppliers with whom we contract fail to meet their legal obligations, that Schrodgers takes on obligations that it did not intend to assume and the risk of legal proceedings and loss.</p> <p>The risk that client expectations and obligations with respect to our own and third party responsibilities under investment management and other agreements will not be met, with a revenue or contingent liability impact.</p>	<p>We rely on our employees, with support from our Legal function, to consider the obligations we assume across the Group and our compliance with them. Our policies and procedures across the Group are developed having regard to recognised legal risks.</p> <p>Confirmations are obtained from representatives around the Group that actual or potential disputes and claims have been brought promptly to the attention of the General Counsel.</p> <p>We have an escalation process for areas of identified material risk.</p>
<b>11. Tax risk</b>	<p>The risk that the Group or its managed funds face additional liabilities or penalties arising through non-compliance or failures in the tax return process.</p> <p>Tax risk may also arise through a failure to understand how the law applies in specific circumstances or where there exists inherent uncertainty as to how the relevant law will apply.</p>	<p>Our approach to managing tax risk is set out in our tax governance framework. This identifies key tax activities across the Group and defines responsibilities in respect of those activities.</p> <p>We have a dedicated Tax function that works with management and our advisers to monitor the tax compliance obligations of the Group. Local management, with support from our Tax function, is generally responsible for identifying and managing compliance obligations arising in respect of managed funds, with the assistance of third party service providers.</p> <p>Developments in taxation are monitored by the Tax function and local management. We engage with representative industry organisations and advisors to ensure we are kept abreast of relevant changes, impacting the Group, our managed funds and our clients.</p>

# Key risks and mitigations

## continued

### Operational risks continued

Key risk	Description	How we manage risk
<b>12. Process risk</b>	The risk of failure of significant business processes, including, for example, mandate compliance, client suitability checks and asset pricing.	<p>Our key business processes have been identified and the risks assessed by first line of defence owners. Associated controls are assessed with regard to their design and performance.</p> <p>Business owners perform RCAs to determine the adequacy and effectiveness of key controls.</p> <p>Second line oversight and challenge is provided on the outputs of the RCAs. Significant risks and gaps are reported to the GRC and remediation plans are developed and agreed.</p>
<b>13. Fraud risk</b>	Fraud could arise from either internal or external parties who attempt to defraud the firm or our clients by circumventing our processes and controls.	<p>Policies and procedures are in place to manage fraud risk. Tailored risk assessments for fraud risk are conducted to identify potential risks and to ensure appropriate controls are in place.</p> <p>There is a specialist team in the second line of defence that provides challenge and oversight of the fraud risk framework.</p> <p>The Financial Crime Committee reports to the GRC.</p>
<b>14. Technology and information security risk</b>	Technology and information security risk relates to the risk that our technology systems and support are inadequate or fail to adapt to changing requirements; that our systems are penetrated by third parties; and that data is held insecurely.	<p>Schroders actively engages with regulators and intelligence services to understand and take action against potential cyber threats.</p> <p>A technology and information security strategy has been approved by the Board.</p> <p>Formal governance over information risks has been established across the three lines of defence through the information security risk oversight committee. The Group holds insurance to cover cyber risks including: electronic computer crime, professional indemnity for breach of confidentiality and network interruption for unavailability of IT services due to unauthorised access.</p> <p>A suite of policies and technical standards, including security awareness training, has been deployed across the Group.</p>
<b>15. People and employment practices risk</b>	<p>Talented employees may be targeted by competitors seeking to build their businesses.</p> <p>In addition, people and employment practices risk incorporates the risk that our employment practices do not comply with local legislation, such as equal opportunities, human rights or the safety and wellbeing of employees when at work.</p>	<p>We have competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. We seek to build strength in depth through sustainable succession and development plans. We operate a global model, which reduces our reliance on single pools of talent. Clear objectives are set for employees and success is measured in an annual review process, allowing us to identify motivational development initiatives.</p> <p>We have policies and procedures in place to encourage diversity and to manage employment issues appropriately and handle them consistently, fairly and in compliance with local legislation.</p>
<b>16. Third party service provider risk</b>	<p>We have a number of outsourced supplier relationships as part of our business model, particularly in respect of information technology, fund administration and transfer agency services.</p> <p>Third party service provider risk relates to the risk that suppliers may not be able to meet their agreed service level terms.</p>	<p>On an annual basis, the Audit and Risk Committee reviews all outsourced relationships covered by the Group policy, focusing on significant aspects such as service quality and risk management.</p> <p>Our outsourcing policy sets out key considerations when appointing and managing a third party service provider, including due diligence and regular reviews of providers' performance against agreed service levels.</p> <p>Exit plans are considered prior to appointment and provide a framework for transitioning business from one service provider to another should the quality fall below the agreed service level.</p>

The sections below show forward looking key external threats, regulatory risks and tax risks that may have an impact on our business. The Group's perceived time frames and potential impacts of these risks have been mapped on the charts.

### Mapping key threats to our risk profile

Threats with uncertain impact, probability and time frame 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 external threats that are currently our focus of attention are set out below. The chart indicates our assessment of the likelihood and potential timing of these risks. The estimated likelihood may change as circumstances evolve and mitigation plans are developed.

1. Eurozone crisis
2. Emerging market economy collapse, notably China
3. Market liquidity crisis
4. Geopolitical events (e.g. continuing Middle East crisis, mass migration, Russia conflict)
5. Clearing house failure
6. Cyber attacks
7. Terrorism
8. UK exit from the European Union (Brexit)



### Mapping key regulatory and tax related risks

The extent of regulatory and tax change facing our industry has increased significantly. This poses both risks and opportunities for our business. The chart opposite combines known and emerging regulatory and tax change initiatives, to identify both the likely timing and estimated impact of regulatory change on our business. New initiatives which arose during 2015 are highlighted in orange.

#### Regulatory related risks /opportunities

1. Markets in Financial Instruments Directive II (MiFID II) and Regulation (MiFIR) implementation
2. Market Abuse Regulation (MAR) implementation
3. Remuneration and employee incentivisation reform
4. Derivatives clearing and reporting globally
5. EU Packaged Retail and Insurance based Investment Products (PRIIPS) Regulation
6. EU Capital Markets Union proposals
7. Asian mutual fund recognition initiatives
8. UK Fair and Effective Markets Review (FEMR)
9. Regulatory scrutiny of systemic risks in asset management

10. Local Authority Pension Fund reform
11. UK Financial Advice Market Review (FAMR)
12. Extension of the Senior Managers Regime to all regulated financial services firms in the UK
13. Fourth EU Money Laundering Directive (MLD IV)
14. EU General Data Protection Regulation (GDPR)
15. FCA asset management competition market study

#### Tax related risks /opportunities

- A. OECD common tax reporting standard (CRS)
- B. OECD and EU initiatives and related actions on base erosion and profit shifting (BEPS)
- C. EU VAT changes
- D. EU Financial Transaction Tax (FTT)



The Strategic report was approved by the Board on 2 March 2016 and signed on its behalf by:

**Michael Dobson**, Chief Executive



# Governance

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We manage £41 billion of clients' assets from nine offices across the Americas. As the largest asset management market in the world, North America is a key area of strategic growth for the firm.

Our business in Latin America operates from four offices and we manage £7 billion of clients' assets. We expect to see growth in the region as a number of pension markets, such as in Brazil and Mexico, are opened to international investment.



#### In focus: North America

We manage £34 billion on behalf of North American clients. We have invested to grow our presence in the region through additions to our sales force and consultant relations team. We have also deployed seed capital in locally domiciled products across a broad range of strategies to offer our clients a range of products to meet their investment objectives.



#### Americas offices

Bermuda, Buenos Aires\*, Cayman Islands†, Mexico City, New York\*, Philadelphia\*, Santiago, São Paulo\*

\* Investment offices.

† Wealth Management offices.

# Board of Directors

## Chairman and executive Directors

The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. It is responsible for the oversight of the management of the business and for ensuring high standards of corporate governance.



**Andrew Beeson**  
Chairman (71)

Appointed Chairman in May 2012, having been a non-executive Director since October 2004 and the Senior Independent Director from May 2010 to May 2012. He will retire from the Board on 4 April 2016.

**Experience:** He was the founder and Chief Executive of the Beeson Gregory Group and subsequently Chairman of Evolution Group plc, following its merger with Beeson Gregory. He was a founder Director of IP Group plc, and also founded what is now known as the Quoted Companies Alliance.

**External appointments:** Trustee of the MCC.

**Committee membership:** Chairman of the Nominations Committee.



**Michael Dobson**  
Chief Executive (63)

Chief Executive since November 2001, having joined the Board as a non-executive Director in April 2001. He will stand down as Chief Executive on 4 April 2016 when he will become Chairman.

**Experience:** He was previously Chief Executive of Morgan Grenfell Group and a member of the Board of Managing Directors of Deutsche Bank AG.

**External appointments:** Member of the FCA Practitioner Panel and the President's Committee of the Confederation of British Industry.



**Richard Keers**  
Chief Financial Officer (52)

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:** He will become a non-executive member of Lloyd's Franchise Board in May 2016.



**Peter Harrison**  
Head of Investment (49)

Appointed a Director and Head of Investment in May 2014. He will become Chief Executive on 4 April 2016.

**Experience:** He began his career at Schroders in 1988 and subsequently held roles at Newton Investment Management as Portfolio Manager, 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:** Non-executive Chairman of RWC Partners and Director of the Investment Association.



**Philip Mallinckrodt**  
Group Head of Wealth Management (53)

Appointed a Director in January 2009.

**Experience:** He started his career with Credit Suisse First Boston. He joined Schroders in 1994, and then worked for Citigroup from 2000 to 2002. He rejoined Schroders in 2002.

**External appointments:** Member of the International Advisory Council of the Brookings Institution.



**Massimo Tosato**  
Executive Vice-Chairman and Global Head of Distribution (61)

Appointed a Director in August 2001, having joined Schroders in 1995. He will retire from the Board at the end of 2016.

**Experience:** He was a founding partner and Chief Executive Officer of Cominvest SpA, and a partner and Managing Director of Euromercantile SpA. He was Vice President of the European Fund and Asset Management Association from 2011 until 2013.

**External appointments:** Member of the Board of Overseers at Columbia Business School, Trustee of the Parasol Unit Foundation for Contemporary Art, London and a non-executive Director of Nutmeg Saving and Investment Limited. He is also a member of the Forum of European Asset Managers.

## Non-executive Directors



**Lord Howard of Penrith**  
Senior Independent Director (70)

Appointed Senior Independent Director in April 2015, having been a non-executive Director since November 2008.

**Experience:** He was previously Deputy to the Chairman of Lehman in Europe until 1998 and was the Partner in charge of international fixed income at Phillips & Drew. He was also Chairman of Tarchon Capital Management LLP from 1998 until March 2013.

**External appointments:** Senior Advisor at Beazley plc having previously held the position of Chief Investment Officer until the end of 2015.

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



**Ashley Almanza**  
Independent non-executive Director (52)

Appointed a non-executive Director in August 2011. He will stand down from the Board at the conclusion of the 2016 Annual General Meeting.

**Experience:** He held a number of executive positions at BG Group including Executive Vice President UK, Europe and Central Asia and Chief Financial Officer from 2002 to 2011. He is a chartered accountant and holds an MBA (London Business School).

**External appointments:** He is Chief Executive Officer of G4S plc and a non-executive Director of Noble Corporation.

**Committee membership:** Chairman of the Audit and Risk Committee and a member of the Nominations Committee. He was a member of the Remuneration Committee from May 2012 until October 2014.



**Robin Buchanan**  
Independent non-executive Director (63)

Appointed a non-executive Director 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 (Harvard Business School).

**External appointments:** Non-executive Director of LyondellBasell Industries N.V. He is Chairman of the Investment Committee of Access Industries, and a Senior Adviser to Collier Capital Ltd.

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



**Rhian Davies**  
Independent non-executive Director (51)

Appointed a non-executive Director in July 2015. She will stand for election at the 2016 Annual General Meeting.

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

**External appointments:** Senior Adviser of Electra Partners.

**Committee membership:** Member of the Nominations and Audit and Risk Committee. She will become Chairman of the Audit and Risk Committee at the conclusion of the 2016 Annual General Meeting.



**Nichola Pease**  
Independent non-executive Director (54)

Appointed a non-executive Director 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. She was a trustee and Chairman of the Investment Committee and Member of the Audit Committee of Guy's and St. Thomas' Charity until June 2013 and a non-executive Member of the Executive Committee of the Army Board and Chairman of the Army independent Assurance Committee until March 2015.

**External appointments:** Founder and Chairman of Investment 2020 and a Member of the Eton College Investment Committee.

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



**Bruno Schroder**  
Non-executive Director (83)

Appointed a Director in January 1963.

**Experience:** He is 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:** Director of a number of private limited companies.

**Committee membership:** Member of the Nominations Committee.



# Group Management Committee and Company Secretary

## Executive Directors



**Michael Dobson**  
Chief Executive (63)

Responsible for the management of the overall business and the strategic development of the Group.



**Richard Keers**  
Chief Financial Officer (52)

Responsible for financial management, risk management, tax, capital and treasury, corporate development, human resources and corporate services.



**Peter Harrison**  
Head of Investment (49)

Responsible for the Group's global Investment division.

## Other GMC members



**Geoff Blanning**  
Head of Emerging Market Debt and Commodities (53)

**Experience:** He joined Schroders in 1998 and developed the Commodity and Currency investment teams. He previously managed Global Bond Funds at N M Rothschild and Bankers Trust before developing and managing Morgan Grenfell's first Emerging Market Debt Fund in 1993.

**Responsibilities:** He is responsible for the investment performance of the Emerging Market Debt, Commodities and Currencies team within the Investment division.



**Karl Dasher**  
Head of North America and Co-Head of Fixed Income (46)

**Experience:** He joined Schroders in 2007 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 between 2004 and 2007.

**Responsibilities:** He is responsible for the Group's operations in North America and is also Co-Head of Fixed Income.



**Philippe Lespinard**  
Co-Head of Fixed Income (52)

**Experience:** 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.

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



**Andrew Ross**  
Deputy Head of Wealth Management (56)

**Experience:** He joined Schroders in 2013 having been Chief Executive of Cazenove Capital Management since 2001. Prior to that he was Chief Executive of HSBC Asset Management (Europe) Limited between 1998 and 2001.

**Responsibilities:** He is responsible for the UK, Channel Islands and Asia within Wealth Management.



**Markus Ruetimann**  
Chief Operating Officer (57)

**Experience:** He joined Schroders in 2004 from UBS Global Asset Management where he was Global Head of Technology and Portfolio Services. Prior to that he was Chief Operating Officer for Phillips & Drew in London from 1988 to 1998.

**Responsibilities:** He has global responsibility for the strategy and management of information technology, information security, institutional portfolio services, fund services, enterprise data services as well as change and project management.



**John Troiano**  
Global Head of Institutional (57)

**Experience:** He joined Schroders in 1981 as an investment analyst and became Head of the US equity team in 1988. He established Schroders' emerging market equity capability in 1991. He was appointed Global Head of Institutional Business in 2003 and became Deputy Head of Distribution in September 2012.

**Responsibilities:** He is responsible for the Group's global Institutional business within Distribution. As Deputy Head of Distribution, he shares responsibility for the Distribution division, including sales, marketing, product development and product management.





**Philip Mallinckrodt**  
Group Head of Wealth Management (53)

Responsible for the Group's Wealth Management business, Real Estate Investment team and corporate responsibility.



**Massimo Tosato**  
Executive Vice-Chairman and Global Head of Distribution (61)

Responsible for the Group's global Distribution function, including sales, marketing, product development and product management.



**Nico Marais**  
Head of Multi-asset (52)

**Experience:** He joined Schroders in March 2011 from BlackRock, where he was Head of Global Active Portfolio Management in the Multi-asset client solutions group in London. His investment career began in 1989 at the South African Reserve Bank before joining the World Bank in 1994. He joined Barclays Global Investors in 2000 and held various investment roles.

**Responsibilities:** He is responsible for the Multi-asset business within the Investment division.



**Richard Mountford**  
Head of Asia Pacific (57)

**Experience:** He joined Schroders in 1980 as a UK equities analyst and held a number of investment roles before becoming Regional Managing Director for South East Asia in 1991. In 2004, he was appointed Head of UK Distribution and in 2008 became Global Head of Intermediary Sales.

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



**Nicky Richards**  
Global Head of Equities (49)

**Experience:** She began her investment career at Schroders in 1987 as an assistant fund manager. She went on to hold a number of senior roles in the firm including Head of Australia and Head of Hong Kong. She was subsequently appointed Group Investment Officer of Fidelity International and Chief Executive and Chief Investment Officer of MLC Investment Management in Australia. She re-joined Schroders in 2014 as Global Head of Equities and was appointed to the GMC.

**Responsibilities:** She is responsible for the Equities business within the Investment division.



**Howard Trust**  
General Counsel (61)

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

**Responsibilities:** He is responsible for the Group's Compliance, Legal and Governance functions.



**Graham Staples**  
Group Company Secretary (54)

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

**Responsibilities:** Secretary to the Board of Schroders plc and the GMC. He is responsible for the Group's governance framework and advising the Board and GMC on all governance matters.

## Schroders is a firm that focuses on the long term.



On behalf of the Board, I am pleased to introduce this Corporate Governance report in which we describe the Company's compliance with the 2014 UK Corporate Governance Code (UK Code), the operation of the Board and its Committees, and how the Board has discharged its responsibilities over the year.

### **Culture and succession planning**

As I said in last year's report, we have a robust and effective governance framework. This was validated by our Internal Audit team, who following their audit reaffirmed the strength of our framework. As vital as an effective governance framework is, we are dependent on our people to embed our culture throughout the organisation. It can be difficult for a board to assess the extent to which the culture and values the board and senior management extol are truly operating. One of the ways through which our Board took comfort on this in 2015 was through the Employee Opinion Survey which had culture as a key area of focus. The results of the survey are covered in more detail on page 22. The Board discussed the survey results in detail at its meeting in July and was particularly impressed by the strong positive link between our employees and our culture.

Another way in which boards can gain an insight into culture is by meeting employees, particularly those from overseas. We held our November Board meeting in Singapore to coincide with the 40<sup>th</sup> anniversary of the opening of our first office there and the opening

of our new building. We were also able to celebrate with our Singaporean colleagues the 50<sup>th</sup> anniversary of the founding of Singapore as an independent state. Our visit enabled us to meet and spend time with senior management from around the Asia Pacific region, some of our key clients, commercial partners, regulators and, most importantly, our employees. I am pleased to be able to report that the strength of the Schroders corporate culture was evident throughout.

Succession planning has been a long-term priority for us. In the Nominations Committee report I explain in more detail the main changes, the rationale for those changes and the process we went through in reaching our decisions. Schroders is a firm that focuses on the long term and which thrives on stability and continuity. These were important factors in our deliberations. I am sure that our focus on doing the right thing for our clients, our employees and our shareholders will continue.

**Andrew Beeson**  
Chairman

### Board attendance during 2015

Member	Number of meetings eligible to attend	Number of meetings attended
Andrew Beeson	5	5
<b>Executive Directors</b>		
Michael Dobson	5	5
Peter Harrison	5	5
Richard Keers	5	5
Philip Mallinckrodt	5	5
Massimo Tosato	5	5
<b>Non-Executive Directors</b>		
Ashley Almanza <sup>1</sup>	5	4
Luc Bertrand <sup>2</sup>	1	1
Robin Buchanan	5	5
Rhian Davies <sup>3</sup>	3	3
Lord Howard	5	5
Nichola Pease	5	5
Bruno Schroder	5	5

<sup>1</sup> Ashley Almanza was unable to attend one Board meeting during the year due to a previous commitment.

<sup>2</sup> Luc Bertrand retired from the Board following the 2015 AGM.

<sup>3</sup> Rhian Davies was appointed to the Board on 22 July 2015.

Committee meeting attendance is set out in the Committee reports.

### Compliance with the UK Code

Throughout 2015, the Company has applied the principles of the UK Code and complied with its provisions with the exception of the following:

**Code provision B.1.2:** The Board does not currently comprise a sufficient number of independent non-executive Directors to comply with this Code provision. The new Chairman will be reviewing the composition of the Board and will lead the search for any new non-executive Directors.

**Code provision E.1.1:** The Senior Independent Director did not attend meetings with major shareholders during the year. However, he is available to meet with shareholders when required and would initiate such meetings if he became aware of any issues or concerns which required the attention of shareholders. The Senior Independent Director led the discussions with major shareholders in the first quarter of 2016 over the decision to appoint Michael Dobson as Chairman.

Copies of the UK Code can be obtained from the FRC's website at [www.frc.org.uk](http://www.frc.org.uk).

### The Board and its Committees

The Board has collective responsibility for the management, direction and performance of the Company. It is authorised to manage the business of the Company in accordance with the Company's Articles of Association, which may only be amended by special resolution of shareholders unless the Articles specify otherwise. Some decisions can only be taken by the Board, including the Group's overall strategy, significant new business activities and the strategy for the management of the Group's investment capital. These are contained in the Schedule of Matters Reserved to the Board. Under the Company's Articles of Association all Directors have the right to convene Board meetings.

The Board has delegated specific responsibilities to Board committees, notably the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. Membership of each of these Committees is set out in the respective Committee reports. At the discretion of the Board or relevant Committee, senior management are invited to attend meetings and make presentations on developments and results in their areas of the business.

The Schedule of Matters Reserved to the Board and each of the Committee's terms of reference can be found on the Company's website at [www.schroders.com/ir](http://www.schroders.com/ir). These are reviewed periodically to support the Directors in discharging their responsibilities.

The diagram on page 52 illustrates the Board and Committee structure including how authority is delegated from the Board to specific areas and how independent oversight is organised.

There is also a Chairman's Committee whose membership is comprised of the non-executive Directors. The Chairman's Committee met twice during the year. Topics discussed during those meetings included strategy, culture, succession planning and feedback from the 2015 Board evaluation. The Chairman's Committee is not a Committee of the Board.

### Board composition and diversity

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.

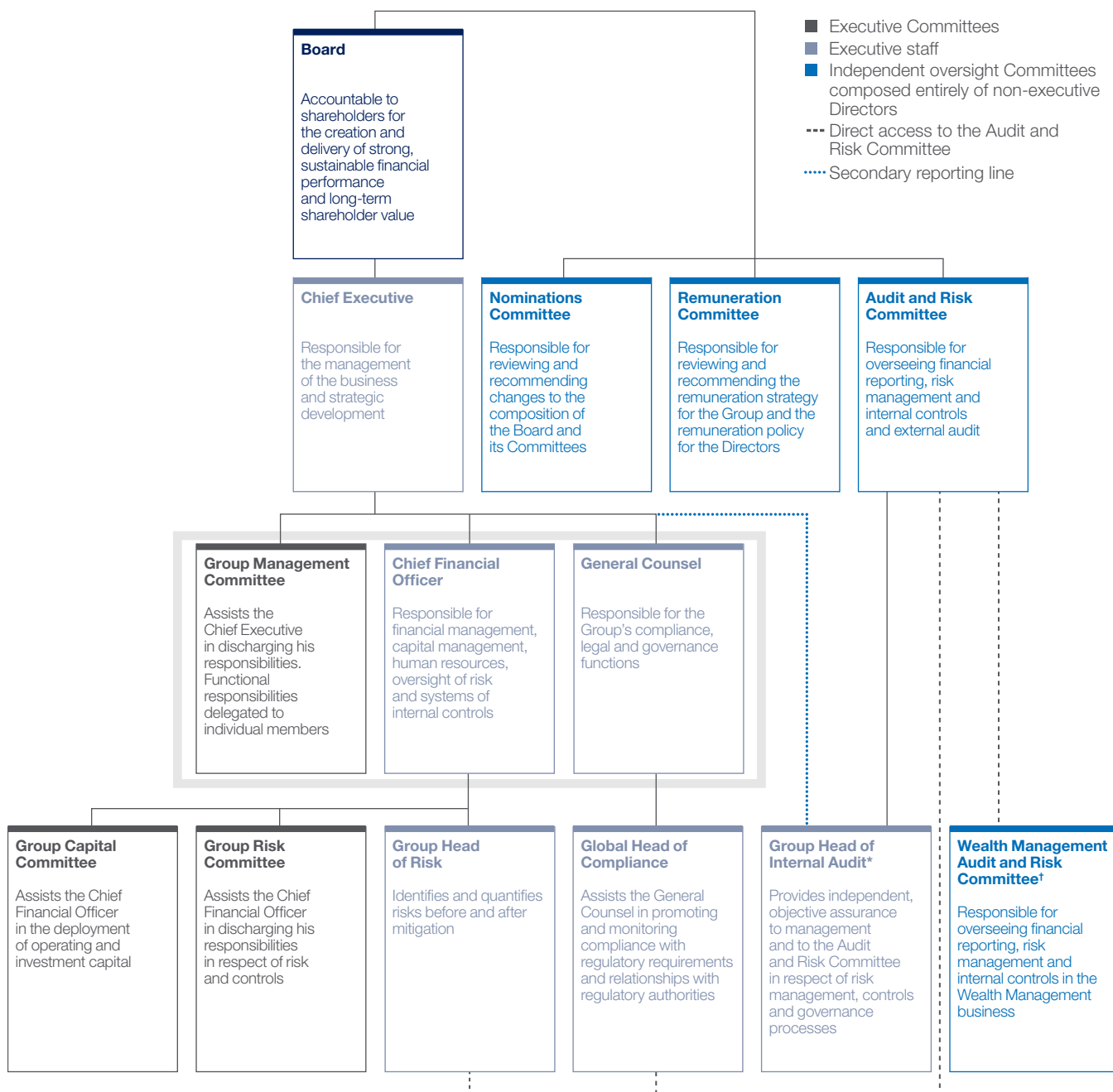
As at the date of this report our Board comprises 12 Directors, made up of the Chairman, five executive Directors, five independent non-executive Directors and one non-executive Director not deemed to be independent. Biographies of each of the Directors are set out on pages 46 and 47.

As at 31 December 2015 and at the date of approval of this Annual Report, we had two female Directors on our Board which represents 17 per cent. of our total Board membership and 29 per cent. of our non-executive membership. We are aware of the importance of having gender diversity, as well as other factors such as international diversity, on the Board and throughout the Company as a whole. We have considered gender diversity as part of our discussions on talent management. Whilst fully supporting the principles of diversity we do not believe that introducing quotas is the best way to achieve this. The success of internal executive succession planning is highly reliant on the management of talent within the organisation, something the Board takes very seriously. In addition, the Company has a number of initiatives in place to strengthen the pipeline of senior female executives within the business and is taking steps to ensure that there are no barriers to women succeeding at the highest levels. For further information, see pages 22 and 23.

# Corporate governance report

## continued

### Governance framework



\* Reports to the Chairman of the Audit and Risk Committee.

† Composed of independent non-executive Directors of Schroder & Co. Limited.



### Role of the Chairman and Chief Executive

The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. He is responsible for creating an environment for open, robust and effective debate. This includes ensuring that the Directors receive accurate, timely and clear information in order to discharge their responsibilities. He is also Chairman of the Nominations Committee responsible for succession planning. With the appointment of Michael Dobson as Chairman the role will include a greater focus on relations with major clients, shareholders, strategic and commercial partners and regulators.

The Chief Executive has the delegated authority of the Board for the management of the overall business and the strategic development of the Group. He is assisted by members of the GMC in the delivery of his and the Board's objectives. The GMC normally meets fortnightly and the members of the GMC and their respective areas of responsibility are set out on pages 48 and 49.

### Role of the Senior Independent Director and non-executive Directors

The role of the Senior Independent Director is an important part of the Group's governance structure.

Philip Howard was appointed the Senior Independent Director in April 2015, when Luc Bertrand stepped down from the Board. Philip Howard'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 should they wish to raise matters with him rather than the Chairman or Chief Executive. Philip Howard is fully aware of the importance of the role of the Senior Independent Director, particularly in light of the appointment of the current Chief Executive as Chairman.

In addition to overseeing the delivery of the Company's strategy within the risk and control framework, the non-executive Directors are collectively responsible for constructively challenging the performance of management whilst satisfying themselves of the integrity of financial information, and that financial controls and risk management systems are robust and appropriate. The non-executive Directors participate fully in open and constructive Board and Committee meetings and their views are actively sought, particularly when developing and setting strategy.

The UK Code requires that at least one member of the Audit and Risk Committee has recent and relevant financial experience. The Board considers that both Ashley Almanza and Rhian Davies satisfy this requirement. The Board also considers that the Audit and Risk Committee has competence in the asset management sector.

### Key areas of focus during the year

The Chairman, in conjunction with the Chief Executive and Company Secretary, maintains an annual rolling agenda which sets the framework for Board meetings so that the Board covers an appropriate range of topics from matters of strategy and reviews of the Group's businesses and operations through to more routine business.

Each Board meeting receives a report from the Chief Executive on the performance of the business, the Chief Financial Officer on financial performance including investment capital and liquidity and, where relevant, each of the Board committees. In addition to these regular matters, specific areas of focus by the Board during 2015 included:

Meeting dates	Key areas of discussion
March	<ul style="list-style-type: none"> <li>– Annual report and accounts, dividend proposal and Annual General Meeting</li> <li>– Global Distribution</li> </ul>
May	<ul style="list-style-type: none"> <li>– Investment strategy and value proposition</li> <li>– Client longevity</li> <li>– UK savings market evolution</li> <li>– Wealth Management</li> </ul>
July	<ul style="list-style-type: none"> <li>– Half-year results and dividend proposal</li> <li>– Multi-asset</li> <li>– Key Risks, Risk Appetite and ICAAP</li> <li>– Employee opinion survey</li> </ul>
September	<ul style="list-style-type: none"> <li>– Fixed Income</li> <li>– Talent management, diversity and succession</li> <li>– Operations and IT</li> <li>– Information security</li> <li>– Appointment of the external auditor</li> </ul>
November	<ul style="list-style-type: none"> <li>– Asia Pacific including country reviews and consideration of our regional Distribution, Equities, Fixed Income and Wealth Management businesses</li> <li>– 2016 Budget</li> <li>– Charitable donations</li> </ul>

# Corporate governance report

## continued

### Director appointments, tenure 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. Non-executive Directors are expected to serve two, three year terms, although the Board may ask a non-executive Director to serve an additional three year period. Where an appointment extends beyond six years, continued appointment is subject to particularly rigorous review, taking into account the need for progressive refreshing of the Board. Under our Governance Guidelines, all Directors are subject to annual re-election by shareholders.

Non-executive Directors' letters of appointment stipulate that they are expected to commit sufficient time to discharge their duties. The Board considers the time commitments and, where relevant, the independence of all Directors standing for election or re-election before making a recommendation to shareholders. The Board has adopted a policy that does not normally allow our executive Directors to take up more than one external non-executive directorship. Non-executive Directors are required to notify the Chairman before taking on any additional appointments.

Details of executive Directors' service contracts and termination arrangements and non-executive Directors letters of appointment are set out on page 76.

### Independence

The Board considers all of its non-executive Directors, with the exception of Bruno Schroder, to be independent under the criteria in the UK Code. All are independent in terms of character and judgement and free from any business or other relationship that could materially interfere with the exercise of their judgement.

Bruno Schroder does not meet the test for independence under the UK Code given his relationship with the principal shareholder group and because he has served on the Board for more than nine years. Despite this, the Nominations Committee believes that the experience Bruno Schroder brings to the Board continues to add value to the Board and Nominations Committee discussions. The Board therefore will recommend his reappointment at the 2016 Annual General Meeting.

### Board induction and training

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

Following Rhian Davies' appointment in July 2015, she received a comprehensive induction, which included a series of one-to-one meetings with management. This included meeting all members of the GMC to gain an insight into and understanding of opportunities and challenges facing their areas of the business. In addition to receiving information on Group strategy and the business model, and in recognition of her joining the Audit and Risk Committee, Rhian's induction also focused on the three lines of defence model operated by the Group and the Group's capital requirements. In particular, meetings were held with management within the Finance, Tax, Risk, Compliance and Internal Audit functions, as well as with the external auditors.

The Board believes firmly in the development of its Directors and continuing education is an important aspect of the Board's agenda. Briefing sessions are arranged each year which, during 2015, included a presentation from the former president of the Royal Society, Lord Rees of Ludlow on 'The World in 2050', reflecting our long-term focus.

**"My induction was helpful, open and transparent. It provided me with an understanding of the Group, its business model, operations and controls and a valuable insight into the Company's culture."**

**Rhian Davies**

### Board effectiveness and evaluation

The Board's performance and that of its Committees and Directors is evaluated every year. The evaluation is externally facilitated every third year. Independent Board Evaluation, which is independent of the Company, undertook the 2015 evaluation. They also facilitated the 2012 evaluation and were re-appointed to provide a degree of continuity to enable the Board better to assess its development since then.

Representatives of Independent Board Evaluation attended meetings of the Board, Audit and Risk Committee, Nominations Committee and Remuneration Committee and also interviewed all Board members, the Company Secretary and other members of management below Board level who had presented to the Board and its Committees during the year. The anonymity of all feedback received was ensured throughout the process. The evaluation focused on strategy, succession planning, governance and risk management being the key areas of the Board's attention during the year.

The overall findings of the evaluation were presented to the Board, and the Chairmen of the Board Committees received specific reports on their respective Committees. The Chairman received feedback on individual Directors, which has been discussed with them in one-to-one meetings. Philip Howard, as the Senior Independent Director, received a report on the evaluation of the Chairman which he discussed with the non-executive Directors and subsequently with the Chairman.

The overall view of the Board's performance was positive. Longer-standing members of the Board noted that the level of challenge had further increased since the last review. Areas of particular strength were shareholder relations, governance and compliance, Board culture and Board support and resources. Going forward there was some demand to widen the Board's discussions on strategy and risks to the strategy, for greater diversity in terms of gender, nationality and sector and to enhance the induction process for executive Directors.

### Directors' conflicts of interest

The Company has procedures in place to identify, authorise and manage conflicts of interest, and these procedures have operated effectively during the year.

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.

### Company Secretary

Graham Staples, the Company Secretary, is responsible for the following key matters in relation to the effective operation of the Board:

- Advising and supporting the Chairman and the Board on all obligations and developments in corporate governance
- Ensuring that appropriate and timely information is provided to the Board and its Committees and that there are good information flows between senior management and the non-executive Directors
- Acting as a point of contact for shareholders on matters of corporate governance
- Implementing a robust governance framework throughout the Group

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

### Shareholder engagement

The Board ensures that the Company maintains its relationship with shareholders through a regular programme of presentations and meetings to inform institutional investors, analysts and prospective shareholders, attended by the Chief Executive, Chief Financial Officer and other senior executives. Feedback from investor meetings is provided to the Board to ensure that the Directors maintain an understanding of the views of our major shareholders.

The Senior Independent Director is available to shareholders as an alternative means of communication with the Board should they have concerns that cannot be resolved by discussions with the Chairman or executive Directors.

Information about significant corporate developments, financial statements and other corporate material is available on our website.

### The Annual General Meeting

We view the Annual General Meeting as an important opportunity to communicate with private investors, and set aside time at the meeting for shareholders to ask questions. The Chief Executive provides a review of the Group's performance and informs shareholders of the first quarter results. All resolutions are voted 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.

## Succession planning has been a long-term priority for the Board.



### Dear Shareholder,

I am pleased to present the Nominations Committee report for 2015.

As I said in my opening statement in this Annual Report, succession planning has been a long-term priority for the Board and this has been led by the Nominations Committee. In this report we set out in more detail how we came to our decisions regarding the appointment of a new Chief Executive and new Chairman. Philip Howard, as Senior Independent Director, led the process for choosing my successor and this report includes a statement from Philip Howard on that process.

### Andrew Beeson

Chairman  
2 March 2016

### Committee attendance during 2015

Member	Number of meetings eligible to attend	Number of meetings attended
Andrew Beeson	4	4
Ashley Almanza <sup>1</sup>	4	2
Luc Bertrand <sup>2</sup>	2	2
Robin Buchanan	4	4
Rhian Davies <sup>3</sup>	2	2
Lord Howard	4	4
Nichola Pease	4	4
Bruno Schroder	4	4

<sup>1</sup> Ashley Almanza was unable to attend two Nominations Committee meetings due to previous commitments.

<sup>2</sup> Luc Bertrand retired from the Board following the 2015 AGM.

<sup>3</sup> Rhian Davies was appointed to the Board and Nominations Committee on 22 July 2015.

The Chief Executive is usually invited to attend Committee meetings. Michael Dobson was not present when the Chairman's succession was considered.



### Chief Executive succession

The appointment of a new Chief Executive is one of the most important decisions a Board has to take. Planning for the succession of Michael Dobson has been a long-term consideration for the Board. When we recruited Peter Harrison as Head of Equities in 2013, the Board wished to broaden the number of individuals within the firm's senior management team who could one day have the potential to succeed Michael Dobson. External candidates were also considered as part of the process and in hiring Peter Harrison we were looking outside the firm for individuals with the potential of taking on the Chief Executive role in due course.

The criteria for the selection of the new Chief Executive included:

- Continuity and stability for the firm, its clients and employees
- An understanding of the firm's culture and values
- A broad and deep knowledge of the asset management sector

After careful review, the Committee believed Peter Harrison was the most appropriate successor for Michael Dobson as Chief Executive and recommended his appointment to the Board. Promoting from within was our clear preference for this role. We wanted an individual

who had proven experience within the firm and understood its culture and values. The appointment of Peter Harrison brings continuity and stability for the firm, its clients and employees.

Peter Harrison has spent his whole career in the asset management industry. He began his career at Schroders in 1988 as an equity analyst. He subsequently held roles at Newton as a portfolio manager, at JP Morgan as Head of Global Equities and Multi-asset, and at Deutsche Asset Management as Global Chief Investment Officer. Directly prior to joining Schroders he was Chairman and Chief Executive of RWC Partners. He re-joined Schroders in 2013 and was appointed to the Board and became Head of Investment in 2014.

Peter Harrison's knowledge of the sector is deep and broad and, at this time of significant regulatory and industry change there is a need for a Chief Executive who understands the Company, as well as the complexities of the sector.

### Chairman Succession: Statement from Philip Howard

As the Senior Independent Director I led the process of appointing a new non-executive Chairman.

The criteria set by the Board for the role of Chairman included:

- A strong commitment to shareholder value creation
- The ability to command the respect of the Board, shareholders, employees and other key stakeholders, including an ability to work effectively with the new Chief Executive
- A deep knowledge of the asset management industry
- A thorough understanding of the global financial services industry, particularly the rapidly evolving regulatory framework for asset managers

It is clear to the Board that Michael Dobson is the outstanding candidate for the role. Michael Dobson brings continuity at a time of change and the Company will retain his experience and expertise, which make him particularly well qualified to assume the Chairmanship as judged by the Board's criteria.

The Board is confident that the transition of roles by both Peter Harrison and Michael Dobson will be effective and that the Chief Executive/Chairman relationship will thrive under the new arrangements.

Michael Dobson has been Chief Executive of Schroders for over 14 years. He has been an exceptional leader of the business over that time and hands over the management of a firm that has been transformed since he arrived. Under his tenure Schroders has consistently delivered strong results. Michael Dobson has steered the firm through some difficult times and taken the business from making a loss in 2001 to a record level of profitability in 2015 at over £600 million. Schroders is now one of the largest listed asset managers in Europe.

The Board recognises that the UK Corporate Governance Code states that, ordinarily, the chief executive should not go on to be the chairman, but that if it does decide to appoint the chief executive as chairman, then the Board should consult shareholders. We have consulted the major shareholders of the Company to explain clearly the reasons behind this decision.

Michael Dobson has enjoyed the strong support of the shareholders as Chief Executive and we believe that he will, as Chairman, continue to serve their interests as effectively as he has in the past.

The Board does not regard this appointment as setting a precedent at Schroders and the separation of the roles of Chairman and Chief Executive remains in place.

The Board is conscious of the need to maintain a good balance of skills, expertise, industry knowledge and independence. As Chairman, Michael Dobson will be reviewing the composition of the Board as a priority and will lead the search for additional non-executive Directors.

As non-executive Chairman, Michael Dobson's role, in addition to the usual functions of the Chairman, will include his involvement in supporting the firm's relationships with its major clients, shareholders, strategic and commercial partners and regulators. He has committed to spend sufficient time on the firm's business to appropriately discharge those responsibilities.

Michael Dobson's new terms and conditions are appropriate to his role as non-executive Chairman. He will be engaged under a letter of appointment and will not have a service contract. The Board does not expect to make any payment to him for giving up his role as Chief Executive and there will be no contractual provision for any compensation when his role as Chairman ends. His annual fee will be £625,000, which the Board believes is commensurate with the role at comparable financial services groups and FTSE-100 companies.

Michael Dobson was the unanimous choice of the Board. He is deeply committed to the long-term success of Schroders and has sustained and enhanced the values and culture of the business during his tenure.

**Lord Howard of Penrith**  
Senior Independent Director

# Nominations Committee report

## continued

### Responsibilities of the Committee

The Nominations Committee is responsible for keeping under review the composition of the Board and its Committees and to ensure appropriate succession plans are in place.

### The Committee's activities

The Committee continued its consideration of succession over the course of 2015 and early 2016. The following changes were recommended to the Board

- The appointment of Peter Harrison as Chief Executive in succession to Michael Dobson
- The appointment of Michael Dobson as Chairman in succession to Andrew Beeson
- The appointment of Philip Howard as Senior Independent Director following Luc Bertrand's retirement at the 2015 Annual General Meeting
- The appointment of Rhian Davies as a non-executive Director
- The appointment of Rhian Davies as Chairman of the Audit and Risk Committee in succession to Ashley Almanza

### 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.

Further information on our approach to diversity and the steps the Company is taking to enhance gender diversity throughout the business is provided in the Strategic Report on pages 22 and 23 and the Corporate Governance Report on page 51.

### Directors' re-election to the Board

Andrew Beeson will retire from the Board on 4 April 2016. Ashley Almanza will not seek re-election at the Annual General Meeting (AGM) on 28 April 2016. All other Directors will retire from the Board and submit themselves for election or re-election at the AGM. Following the externally facilitated evaluation of the Board and each of the Committees this year, the Nominations Committee has concluded that each Director continues to be effective and demonstrate sufficient commitment to their role. The Board reviewed actual and potential conflicts of interest for each Director and agreed that at present there were no conflicts which would preclude any of the Directors from discharging their duties and responsibilities effectively.

As Robin Buchanan, Philip Howard and Bruno Schroder have served on the Board for more than six years, the proposal for their re-election was given particular consideration and the Nominations Committee agreed that these Directors continued to provide a valuable contribution to the Board's deliberations and recommended their re-appointment.

As required by the 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 2016 Notice of AGM.

### Support

The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively. The Committee has the right to appoint external advisers and Odgers Berndtson, who are independent of Schroders, were used to assist with the search for new non-executive Directors. No other advisers were engaged by the Committee.

### Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall external Board evaluation process and the findings relating to the Nominations Committee were reviewed by the Chairman. Overall the Committee was seen as being thorough and effective and having achieved excellent results for the firm. The time taken to achieve positive outcomes is an area of focus going forward.

### Priorities for 2016

The Committee and the Board are conscious of the need to have an appropriate balance of skills, expertise, industry knowledge and independence. Board composition is the responsibility of the Chairman and therefore Michael Dobson will lead the review of composition and consideration of any new non-executive appointments.

### Andrew Beeson

Chairman of the Nominations Committee  
2 March 2016

# Audit and Risk Committee report

## The culture within Schroders continues to be a positive contributor to its control environment.



As Chairman of the Audit and Risk Committee, I am pleased to present our report for the year ended 31 December 2015.

In addition to providing oversight of the Group's financial reporting, internal controls and risk framework, the Committee had the opportunity to consider a number of emerging and thematic risks during the year.

During 2015 the Committee continued to focus on culture and conduct risk. In 2014, the Group established a conduct risk programme to review and manage conduct risks. This is an initiative led by the senior management team and the Committee has oversight of the programme, which continued throughout 2015. The results to date have been encouraging and we believe that the culture within Schroders continues to be a positive contributor to its control environment.

Throughout the year we had the opportunity to consider in detail the Group's approach to thematic risks in respect of information security and the management of conflicts in the use of in-house products. A summary of the Committee's work in each of these areas is included on pages 63 and 64.

In addition, a significant proportion of the Committee's time was spent reviewing thematic and emerging risks including the implications of and readiness for the Markets in Financial Instruments Directive II (MiFID II). MiFID II represents a substantial revision and strengthening of the current European regulatory framework and will have wide reaching implications for all asset managers. The implementation of MiFID II is expected to be delayed until 2018 and the firm's readiness for it will be an ongoing focus for the Committee.

Seeking to ensure that appropriate systems and controls are in place across the Group to meet these risks will remain an important part of the Committee's work over the course of 2016 and beyond.

I can also report that a number of significant enhancements were made to the ICAAP over the course of the year. Further details on this can be found on page 63.

Ensuring the Group has a high quality, effective and independent external auditor is a key role of the Committee. We last conducted a formal tender for our external audit contract in 2012 and we review the provision of our external audit services annually. During 2015, the Board, on the recommendation of the Committee, decided to put our contract out to tender in 2016. PwC will not be invited to take part in the tender process which will be overseen by the Committee. The process will meet new European audit reforms whereby we will be required to replace PwC as our external auditor no later than 2020. Further information can be found on page 62.

In July we welcomed Rhian Davies to the Committee. Rhian will take on the Chairmanship of the Audit and Risk Committee when I stand down as a Director at the conclusion of the 2016 Annual General Meeting. Rhian is a chartered accountant and the Board considers that she has the recent and relevant financial experience appropriate for this appointment. I believe her background and experience will make her an excellent Committee Chairman.

I would like also to mention the Directors and employees of Schroders with whom I have had great pleasure working with for almost five years. People have a clear sense of pride in working for Schroders and this is reflected in the open and honest support the Committee receives.

**Ashley Almanza**

Chairman of the Audit and Risk Committee

# Audit and Risk Committee report

## continued

### Committee attendance during 2015

Member	Number of meetings eligible to attend	Number of meetings attended
Ashley Almanza	5	5
Robin Buchanan	5	5
Rhian Davies <sup>1</sup>	3	3
Philip Howard	5	5
Nichola Pease	5	5

<sup>1</sup> Rhian Davies was appointed to the Audit and Risk Committee on 22 July 2015

All members of the Committee are independent non-executive Directors. Biographical details and the experience of Committee members are set out on pages 46 to 47.

At the invitation of the Chairman of the Committee, the Chairman, Chief Executive, Chief Financial Officer and Bruno Schroder attended most meetings. 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. Representatives from the Group's auditor, PwC, attended all of the Committee's scheduled meetings.

During 2015, two private meetings were held with PwC 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.

### Responsibilities of the Committee

The principal role of the Committee is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, financial controls and audit, risk and internal controls. The key areas of the Committee's work are set out in the table below:

Financial Reporting, Financial Controls and Audit	Risk and Internal Controls
<ul style="list-style-type: none"> <li>– The content and integrity of financial reporting</li> <li>– The appropriateness of accounting judgements</li> <li>– The effectiveness of the external auditors</li> <li>– Recommending to the Board the appointment of external auditors</li> </ul>	<ul style="list-style-type: none"> <li>– The Group's risk and control framework, including the Group's whistleblowing procedures</li> <li>– The Group's regulatory processes and procedures and its relationships with regulators, including money laundering reporting officer's reports</li> <li>– The Group's internal audit function</li> <li>– Emerging and thematic risks which may have a material impact on the Group's operations in the future</li> </ul>

### Key areas of focus during the year

The table below summarises the key issues that the Committee considered at each of its meetings during 2015.

Meeting	Key issues considered
March	<ul style="list-style-type: none"> <li>– Annual Report and Accounts</li> <li>– Pillar 3 disclosures</li> <li>– Key risks and risk management and internal control framework</li> <li>– Money laundering reporting officer's report</li> </ul>
May	<ul style="list-style-type: none"> <li>– The use of in-house funds</li> <li>– Information security</li> <li>– Outsourced service providers</li> <li>– Business continuity</li> </ul>
July	<ul style="list-style-type: none"> <li>– Half-year results</li> <li>– Key risks, risk appetite and ICAAP</li> </ul>
September	<ul style="list-style-type: none"> <li>– Culture and conduct</li> <li>– MiFID II</li> <li>– Appointment of the external auditor and audit tender</li> </ul>
November	<ul style="list-style-type: none"> <li>– Tax strategy</li> <li>– Viability statement</li> <li>– Financial controls</li> <li>– External auditor independence</li> <li>– Recovery Plan</li> <li>– 2016 Internal Audit and compliance monitoring plans</li> </ul>

### Financial Reporting, Financial Controls and Audit

The Committee reviews the half-year and annual results and the Annual Report and Accounts, before recommending them to the Board for approval. The Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements, including those in respect of financial assets, goodwill and intangible assets, provisions and contingent liabilities and the determination of the defined benefit pension funding. In addition, the Committee reviews management's judgement on financial investments that are deemed to be subsidiaries in accordance with accounting rules.

The Group's financial control environment is documented in detailed risk and control documents. The documents provide a comprehensive summary of the risks and controls that exist across Finance globally and support the Group's risk and control assessments. During the year, the Committee received reports from Finance on the operation of the controls over the financial reporting process including the key processes for revenue and distributor commissions. This has been an area of focus and follows the creation of a Global Finance Operations team in 2013. One of the objectives of the team is to develop the Group's finance operational processes, including efficiency and the availability of detailed management information. During the year, the Committee received a presentation on the programme of work in respect of revenue and distributor commission processes which outlined enhancements to the control environment.

The Committee also considers reports from PwC providing an independent assessment of financial reporting, an audit opinion on the Annual Report and Accounts and an independent report on the half-year results. Relevant controls are also reviewed by PwC.



The Committee also considers whether it can recommend to the Board that the Annual Report and Accounts when taken as a whole is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. To support the Committee in making this recommendation it assessed the key messages being communicated in the Annual Report and, when forming its opinion, the Committee considered the information it had received and its discussions throughout the year.

The Group's overall approach to corporate income tax is reviewed annually and is discussed with the external auditors. In November,

the Committee welcomed the new Group Head of Tax to his first Committee meeting. He presented the tax strategy and reiterated the Group's commitment to the CBI's Seven Tax Principles and to the UK's Code of Practice on Taxation for Banks.

The strategy which continues to be appropriate for the Group and our stakeholders is available on the website. More details on our approach to corporate income tax are set out on page 21.

The Committee is required to report to shareholders on the process it follows in its review of 'significant' judgemental issues it has considered during the year. These issues are set out below.

### Significant financial judgements and financial reporting for 2015

#### Recognition and disclosure of liabilities

The Group has some uncertainty over the recognition, timing and amount in respect of certain obligations. These can arise in a number of areas but principally comprise legal and regulatory matters and leasehold related obligations. In addition, the calculation of the Group's tax charge necessarily involves a degree of estimation and judgement, given the many jurisdictions in which it has operations and the complexity of the applicable tax rules in each of those jurisdictions.

See note 6 to the accounts.

#### How these were addressed

During 2015 detailed reports were presented by management to the Committee addressing the judgemental issues and estimates, which included the key assumptions and basis for the main areas of uncertainty regarding the recognition of liabilities. The Committee also considered the resolution in the year of previous claims against the Group.

The Group Head of Tax presented an update on the Group's tax strategy and associated governance process to the Committee in November. The presentation included an explanation and discussion on areas necessitating a degree of judgement. It was explained to the Committee that in line with our commitments under the Code of Practice on Taxation for Banks, material risks and uncertain tax positions are disclosed to and proactively resolved with HM Revenue & Customs. Where appropriate, a similar approach is adopted with other tax authorities.

Key judgements on uncertain liabilities have been discussed with PwC, who have completed their independent assessment. The Committee considers that the judgements made by management in respect of all relevant liabilities are reasonable and that appropriate disclosures have been included in the accounts.

#### Carrying values of assets

The Group holds material balances in respect of acquisitions completed in previous years and the UK defined benefit pension scheme surplus which are subject to judgement regarding their carrying value.

See notes 13 and 25 to the accounts.

The Committee considered reports prepared by management that set out relevant considerations in assessing the carrying value of material assets that required judgement in the determination of their valuation.

Acquisition related items, comprising goodwill and intangible assets, were assessed against the performance and outlook of the relevant segments and the application of growth assumptions and discount rates.

The management report included the key financial assumptions that had been used by the independent qualified actuaries, Aon Hewitt Limited, to determine the UK defined benefit pension scheme surplus.

The basis for determining the carrying value of certain other assets was also considered in the management report.

The Committee's review included specific discussions with PwC regarding the basis and assumptions that had been used to support the carrying values. Having considered the supporting information, the Committee was satisfied with management's conclusions regarding the carrying values of the relevant assets.

#### Presentation of profits

Following the Group's acquisitions in 2013, the Income Statement continues to present separately exceptional items, which are permitted by accounting rules for items of income or expense that are material.

See note 1 to the accounts.

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. For 2015, those exceptional items principally comprised amortisation of acquired intangible assets, deferred compensation arising from the 2013 acquisitions and an unused amount of provision that was reversed in the year and had been recorded as an exceptional item in prior years.

# Audit and Risk Committee report

## continued

### External audit

The Committee places great importance on the quality, effectiveness and independence of the external audit process.

The Committee is responsible for evaluating the performance of the external auditor. To assist the Committee in fulfilling its responsibilities, an assessment of the external auditor was carried out with feedback collected from across the Group by way of a questionnaire. The content of the questionnaire was prepared in accordance with the FRC's guidance comprising four criteria: mindset and culture; skills, character and knowledge; quality control; and judgement.

Audit effectiveness is also assessed throughout the year using a number of measures including: reviewing the quality and scope of the proposed audit plan and progress against the plan; responsiveness to changes in our businesses; and monitoring the independence and transparency of the audit.

The findings of the annual assessment indicated a further improvement in the perceived quality of the overall audit. In particular, feedback showed there had been significant progress made in the coordination and planning of international audits. There were no significant adverse findings from the assessment. Actions were agreed with PwC to address the opportunities for improvement that had been identified.

The assessment of the auditors' effectiveness forms part of the Committee's annual consideration of whether the auditor should be recommended to the Board for reappointment. We continue to believe that PwC are performing effectively and their reappointment will be recommended to shareholders at the 2016 AGM. There are no contractual or similar obligations restricting the Group's choice of external auditors.

In order to help safeguard the independence and objectivity of the auditors, the Committee maintains a policy on their engagement to provide non-audit services. This precludes the provision of certain non-permitted audit services and contains rules regarding the approval of permitted non-audit services.

Management has delegated authority to consider and approve the provision of permitted non-audit services by the auditor with a value for

each engagement below £100,000. Any engagement at or above this level or where total fees for non-audit services are expected to exceed certain thresholds, requires prior approval from the Committee. In addition, the Committee approves all proposed taxation services to be provided by the external auditor.

From 2017 EU regulations will prohibit the provision of certain non-audit services by the external auditor. They will also introduce a cap on the level of non-audit fees as a proportion of the audit fee. In preparation for the introduction of the regulations, the Committee amended its policy on the provision of non-audit services. Specifically, the Committee agreed not to cap the level of non-audit fees but to reduce the aggregate threshold when non-audit services require Committee approval to 60 per cent. of the audit fee. This compares to our previous threshold which required Committee approval for each service if non-audit fees were expected to exceed 100 per cent. of the audit fees.

Prior to undertaking any non-audit service, PwC also completes its own independence confirmation processes which are approved by the senior statutory auditor. To provide the Committee with oversight in this area, it receives six-monthly reports on the non-audit services provided by PwC.

Details of the total fees paid to PwC are set out in note 5 to the accounts.

The Committee was satisfied that the quantity and type of non-audit work undertaken throughout the year did not impair PwC's independence or objectivity and that their appointments were in the best interests of shareholders due to PwC's pre-existing knowledge of the Group's operations and practices. The Group's overall approach is only to use PwC where there is a strong case to do so in preference to obtaining the services from an alternative supplier.

The Committee is also responsible for the policy on the employment of former employees of the external auditor and the policy that restricts Finance employees from entering into personal contractual arrangements with the external auditor. These policies were also reviewed and approved by the Committee during the year.

The Company has complied with the provisions of the Competition Markets Authority Order 2014 throughout the year under review and as at the date of this report.

### External audit tender process

PwC, or its predecessor firms, have been the Company's auditor since Schroders became a listed company in 1959. The last formal tender process was undertaken in 2012 and resulted in the reappointment of PwC with a new lead engagement partner.

The Committee keeps the provision of external audit services under review and the Board, on recommendation of the Committee, has decided to put the Group's external audit contract out to tender again during 2016. In June 2016, new EU audit regulations will come into force. As a consequence, Schroders will be required to replace PwC as its statutory auditor by 2020. In order to minimise the disruption to the business we are proposing to replace PwC as our external auditor on the conclusion of the 2017 audit as this will coincide with the end of

tenure for the current lead engagement partner who, in accordance with audit regulations, is required to rotate off the Schroders account at that time.

During 2015 we introduced a new process to monitor and approve services provided by other audit firms that are not currently subject to independence rules to ensure any services performed will not prohibit them from being considered as part of the external audit tender process.

Our plan also considers the consequential impact of appointing those firms and the transition of services where they would no longer be permitted. The milestones for the external audit tender process are set out below:



### 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 our 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 2015, 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 and Internal Audit and also from PwC which enabled an evaluation of the effectiveness of the Group's internal controls, and no significant failings or weaknesses were identified. The Committee keeps under review the Group's risk management arrangements and internal controls through quarterly reports.

### Conduct and culture

The Committee spent time in 2015 considering the Group's approach to conduct and culture in the business and an agreed conduct risk framework is now in place in the UK. The four key components are: integration into culture and people management; accountability and governance; the relevant policy framework; and management information.

To assess the implementation of the framework the Committee received presentations from representatives of Intermediary Distribution and Wealth Management, being the two parts of the business with the greatest levels of engagement with retail clients. The Committee was encouraged by the progress in delivering the conduct risk programme and will continue to monitor the output to ensure the focus on conduct and culture remains at the heart of the business.

The Global Head of Human Resources also presented the findings of the Employee Opinion Survey as they related to culture and conduct. The Committee took comfort in the results of the survey which showed that the vast majority of employees understood and believed that Schroders lived up to its values.

**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 the key risks faced by the Group and assessments of risk tolerance and stress testing of the Group's capital position, as well as the production of the Group's ICAAP. The ICAAP was developed over the year to include new sections on stress testing and reverse stress testing with further enhancements to the strategy section and risk management framework. The statement of risk appetite has also continued to evolve.

The Committee also receives reports on business continuity, fraud, oversight of the outsourced service providers and Group recovery and resolution.

The Committee considers emerging and thematic risks that may have a material impact on the Group. During the year, the Committee reviewed the Group arrangements in the areas highlighted below and on page 64.

### Information security

Ensuring we have appropriate controls to safeguard our information security and that our data is held securely by third parties is a key priority for the Committee.

To help management determine whether its approach to managing information security was adequate and proportionate, an independent consultant was engaged to perform a review of our information security strategy, oversight and control structures, change programme and talent pool. The findings were presented to the Committee.

Overall, the Committee was encouraged that management had engaged with the issue and that there had been significant progress in improving controls. The Committee acknowledges that the area is evolving and there is a need to ensure our control environment continues to strengthen as new threats emerge. However, a detailed plan formulated by management provides assurance that this matter has appropriate focus. The plan includes the development of a well articulated governance structure and the establishment of a new Information Security Risk Oversight Committee, chaired by the Group Head of Risk. This is now operational and the Committee receives regular updates.

Due to the evolving nature of the risk, Information Security will remain an ongoing focus for the Committee.

# Audit and Risk Committee report

## continued

**Compliance reports** describe the status of our relationships and dealings with our principal global 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. The Committee also received reports on the operation of the Group's whistleblowing arrangements, anti-money laundering processes and client asset controls.

**Internal Audit reports** set out progress against a rolling plan of audits approved by the Committee, and include significant findings from audits and their subsequent remediation, and recommendations to improve the control environment.

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 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.

### **Conflict management and the use of in-house products (IHPs)**

The use of IHPs continues to be a key focus of the FCA. This is the risk that investment decisions could be made which are not in the clients' best interests or that a conflict of interest inherent in choosing between IHPs and external products is not well managed.

The Committee received a detailed presentation on Schrodgers' use of IHPs. Management explained how conflicts were managed by the first line of defence including the use of fund due diligence and selection processes to mitigate potential conflicts.

The Committee was reassured that fund managers received no incentive to favour IHPs over third party funds and there was no target level of use. In addition, the criteria were more stringent for the use of, or exit from, an IHP. Overall the Committee confirmed that the clients' interest was the principal consideration in the use of IHPs and that the supporting governance structures were in all cases appropriate.

The Group's three lines of defence model provides an ongoing process for identifying, evaluating and mitigating risks faced by the Group. This model together with the most significant developments in the risk profile of the business and a description of how we control and manage risks are set out on pages 36 to 43.

### **Evaluating the performance of the Committee**

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process which was externally facilitated in 2015. Further information can be found in the Corporate Governance report on page 55. The findings relating to the Committee were discussed with the Committee Chairman.

Overall, the Committee is considered to be thorough and effective. There was broad support for retaining a combined audit and risk committee and reporting to the Board was seen as thorough. An area for further consideration was receiving more input from business heads without increasing materially the number of attendees at meetings.

### **Overview of Priorities for 2016**

As well as the considering the standing items of business, the Committee will also focus on the following areas during 2016:

- Brexit
- Conduct and Culture
- Information Security
- MiFID II
- External audit tender process.

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 ethical standards and its relationships with regulators. The Committee was also satisfied with the appropriateness and adequacy of the Group's risk management arrangements as well as the supporting risk management systems including the risk monitoring processes, internal controls framework and three lines of defence model.

### **Ashley Almanza**

Chairman of the Audit and Risk Committee  
2 March 2016



# Directors' report

## Directors' report

The information contained in the sections of this Annual Report and Accounts identified below forms part of this Directors' report:

- Strategic report (which includes the Financial review contained on pages 91 to 101)
- Board of Directors
- Corporate governance report, including the Nominations Committee report and the Audit and Risk Committee report
- The Statement of Directors' responsibilities.

## Ownership

Schroders has developed under stable ownership for more than 200 years and has been a public company listed on the London Stock Exchange since 1959. The Schroder family interests are in shares owned directly or indirectly by trustees of various trusts settled by family individuals, in shares owned by family individuals, and in shares owned by a family charitable trust. If aggregated, these interests amount to 108,323,711 ordinary shares (47.93 per cent.) of the Company's ordinary shares. These interests include the shares subject to relevant statutory and regulatory disclosures, being shares held by the trustees, and which are set out in the table below.

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 per cent. 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 above.

In accordance with Listing Rule 9.8.4(14), the Board confirms that for the year ended 31 December 2015:

- 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.

## Substantial shareholdings

As at 31 December 2015, the Company had received notifications, in accordance with rule 5.1.2R of the Disclosure and Transparency Rules, of interests in 3 per cent. 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 as at the date of this report.

Notifier	Class of shares	No. of voting rights held indirectly	% of voting rights held indirectly
Vincitas Limited <sup>1</sup>	Ordinary	60,724,609	26.87
Veritas Limited <sup>1</sup>	Ordinary	36,795,041	16.28
Flavida Limited <sup>2</sup>	Ordinary	60,951,886	26.97
Fervida Limited <sup>2</sup>	Ordinary	40,188,706	17.78
Harris Associates L.P. <sup>3</sup>	Ordinary	11,260,552	4.98

<sup>1</sup> Vincitas Limited and Veritas Limited act as trustees of certain settlements made by members of the Schroder family and are party to the Relationship Agreement.

<sup>2</sup> The interests of Flavida Limited and Fervida Limited include interests in voting rights in respect of all the shares in which Vincitas Limited and Veritas Limited are interested as trustees. Flavida Limited and Fervida Limited are party to the Relationship Agreement.

<sup>3</sup> Harris Associates L.P. is not party to the Relationship Agreement.

## Directors' share interests

The interests in the securities of the Company of the Directors who were on the Board as at 31 December 2015 can be found in the Remuneration report on page 84.

## Share capital

The Company's share capital is comprised of ordinary shares of £1 each and non-voting ordinary shares of £1 each. Both are listed on the London Stock Exchange.

226,022,400 ordinary shares (80 per cent. 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.

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. 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.

At the 2015 Annual General Meeting shareholders gave approval for the Company to buy back up to 14,100,000 non-voting ordinary shares. Shareholders also renewed the Directors' authority to issue non-voting ordinary shares up to an aggregate nominal value of £5,000,000 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. Renewal of these authorities will be sought at the 2016 Annual General Meeting. The 2016 Annual General Meeting will be held at 11.30 a.m. on 28 April 2016. The deadline for appointing a proxy is 11.30 a.m. on 26 April 2016.

At the start of the year there were 56,505,600 non-voting ordinary shares in issue, none of which were held in treasury, with the ratio of ordinary shares to non-voting ordinary shares in issue being 4:1. During the year no non-voting ordinary shares were issued or bought-back such that as at 31 December 2015, 56,505,600 non-voting ordinary shares (20 per cent. of the total issued share capital) remained in issue.

No further transactions were undertaken between 1 January 2016 and 1 March 2016 inclusive, being the latest practicable date before the publication of this Annual Report and Accounts.

# Directors' report

## continued

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 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 1 March 2016, being the latest practicable date before the publication of this Annual Report, the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust together held 9,743,223 ordinary shares and 356,479 non-voting ordinary shares.

Under the terms of the Restricted Growth Share Plan and the Share Incentive Plan as at 1 March 2016, 951,663 ordinary shares and 480,215 non-voting 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 following a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006
- 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 which may restrict the transfer of securities or voting rights.

### Dividends

The Directors are recommending a final dividend of 58 pence per share which, if approved by shareholders at the Annual General Meeting, will be paid on 5 May 2016 to shareholders on the register of members at the close of business on 29 March 2016. Details on the Company's dividend policy are set on page 96. 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	2015		2014	
	pence	£m	pence	£m
Interim	29.0	79.0	24.0	64.7
Final	58.0*	158.0	54.0	146.0
Total	87.0	237.0	78.0	210.7

\* Subject to approval by shareholders at the 2016 Annual General Meeting.

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 2015 and future periods. See notes 8 and 22 to the accounts.

### Corporate responsibility

Details of the Company's employment practices, including diversity and employee involvement can be found in the Strategic report on pages 22 and 23.

We are committed to minimising the environmental impact of our operations and to delivering continuous improvement in our environmental performance. See page 24 for more details on our total CO<sub>2</sub>e emissions data.

### Indemnities and Insurance

At the 2007 Annual General Meeting, 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 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 provision 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.

### Change of control

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.

The Company is not party to any significant agreements that would take effect, alter or terminate on a change of control of the Company.

### Political donations

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2014: 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 66
(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 66, 109 and 130
(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 65

### Post year end events

Between 1 January 2016 and the date of this report there have been no material events that require disclosure.

### 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 37.

By Order of the Board.

**Graham Staples**  
Company Secretary  
2 March 2016

## Our long-term focus is inherent in our approach to remuneration.



I would like to thank shareholders for their significant support for our Remuneration report at last year's AGM, with over 96 per cent. of votes cast in favour. Each year, the Remuneration Committee reviews how shareholders voted on remuneration, together with any feedback received. In making decisions on executive remuneration, the Committee's intention is that all arrangements and payments are consistent with both the letter and the spirit of the Directors' remuneration policy approved by shareholders at the 2014 AGM. We have summarised the policy on pages 74 to 76 and the full policy is in our 2013 Annual Report and Accounts which is available on our website.

### Our remuneration philosophy

At Schroders, we want to ensure that we reward employees appropriately for doing the right thing. This includes taking a long-term approach to creating value and delivering good outcomes for our clients, fund investors and shareholders.

Our success depends on helping clients meet their long-term financial goals. We pay for performance, with clear alignment to client and shareholder interests through significant deferrals into Fund and Share awards. The alignment of our overall remuneration philosophy to the generation of shareholder value has been a consistent feature of our approach for many years. In determining the individual award for each employee, we focus on their performance, contribution and behaviours compared to our values, and on ensuring that they perform within the relevant risk management and internal compliance controls across our business.

### 2015 performance and remuneration outcomes

The Committee determined compensation for the executive Directors for 2015 in light of the record results that have again been delivered. Profit before tax and exceptional items was up 8 per cent. to £609.7 million. Investment performance\* for clients remains strong with 72 per cent. of funds outperforming over the three years to the

end of 2015. This, together with a strong distribution capability, has been key to growing our assets under management to £313.5 billion, with net new business wins of £13.0 billion, despite more challenging market conditions. The Board has recommended a 12 per cent. increase in the total dividend per share for the year, reflecting this strong performance.

The Committee also considered the Company's results relative to key performance indicators and progress against its strategic objectives, as well as the personal performance of each executive Director. This includes taking a balanced approach to growing the business profitably and in a sustainable way that encourages the longevity of client relationships, whilst retaining and developing our talented people who are key to organisational stability and long-term success. The executive Directors have again successfully delivered against all key performance criteria. This, along with individual performance during the year, is reflected in their annual bonus awards for 2015, as outlined on pages 79 and 80. The year-on-year change in the value of variable remuneration reported for the executive Directors this year varies from a decrease of 4 per cent. to an increase of 10 per cent., compared to an average increase in bonus of 7 per cent. across our employees (see page 82).

### Structure of the remuneration report

- Statement by the Chairman of the Remuneration Committee (pages 68 to 69)
- 'At a glance' summary (pages 70 to 71)
- Governance (page 72)
- Remuneration principles (page 73)
- Directors' remuneration policy summary (pages 74 to 76)
- Annual report on remuneration (pages 77 to 85)
- Remuneration policy for other senior executives (page 86)

\* See Glossary.



### Committee attendance during 2015

Member	Number of meetings eligible to attend	Number of meetings attended
Lord Howard	4	4
Robin Buchanan	4	4
Nichola Pease	4	4
Luc Bertrand <sup>1</sup>	1	1

<sup>1</sup> Luc Bertrand retired from the Board following the 2015 AGM.

The compensation to net revenue ratio and profit share ratio are two of our key measures. Adhering to these ratios imposes a limit on overall compensation and aligns it with the Company's financial performance (see page 77). We target a compensation to net revenue ratio of 45 to 49 per cent. dependent on market conditions. For 2015, the Board approved a ratio of 44 per cent. The profit share ratio was 37 per cent., in line with 2014.

The Committee believes that the performance conditions of the Long Term Incentive Plan (LTIP) are highly demanding. In March 2016, LTIP awards granted in 2012 vested at 50 per cent. of the original awards. The earnings per share target was not met, despite the very strong performance of the Group, generating earnings per share growth of 54 per cent. over the four year performance period. The net new business target was significantly exceeded, with a total of £55.1 billion of net new business over the performance period (see page 80).

### Board succession

The Chairman's statement on pages 4 and 5 outlines changes to the Board. Michael Dobson will be succeeded by Peter Harrison as Chief Executive, Andrew Beeson will retire from the Board and Michael Dobson will become non-executive Chairman, all to be effective 4 April 2016. Massimo Tosato will retire from the Board and leave the firm on 31 December 2016.

### Appointment of new Chief Executive

Peter Harrison will become Chief Executive on 4 April 2016. His base salary will be increased to £500,000 with effect from that date. This is the same salary that Michael Dobson has received for this role.

### Appointment of new non-executive Chairman

In selecting Michael Dobson as Chairman, the Board was mindful of ensuring continuity at a time of change. In his new role, in addition to the usual functions of the Chairman, he will continue to be actively involved with our major clients, shareholders, strategic and commercial partners and regulators. The Board has taken this into account in determining an annual fee of £625,000, which we believe is commensurate with his role and comparable with the fees paid to chairmen at other financial services groups and other FTSE-100 companies.

In line with our remuneration policy, the Committee has indicated that Mr Dobson will be eligible for a discretionary cash bonus payable in 2017 to reflect his contribution during the period of 2016 that he was Chief Executive. He will not be eligible for a bonus in respect of his role as Chairman.

### Massimo Tosato

The Remuneration Committee has agreed to make a payment to Massimo Tosato, in line with the remuneration policy, to reflect both his contribution during 2016 and in settlement of his contractual rights on stepping down.

### Treatment of deferred compensation awards

The Committee has exercised its discretion under the rules of the Equity Compensation Plan (ECP) and LTIP to allow Michael Dobson and Massimo Tosato to retain their unvested awards when their executive roles with the firm come to an end. This reflects their respective contributions to the Company and the significant value both have generated for shareholders.

The vesting of their LTIP awards remains subject to the associated performance conditions. The proportion of shares that is ultimately released to them on exercise of the awards will also be prorated for the proportion of the performance period that each Director remained an employee of Schroders. As such, any vesting of recent awards will be substantially less than if their employment had continued.

Further information on the impact of these Board changes on remuneration can be found in the Annual report on remuneration, on page 83.

### Performance conditions for LTIP award

The Committee reviewed the performance metrics and targets for LTIP awards. Despite the very demanding targets, no changes were proposed other than updating the composite index against which earnings per share growth is measured, for awards to be granted from 2016, to ensure it is an appropriate proxy for the firm's current assets under management. More information can be found on page 83.

### Potential regulatory changes

On 21 December 2015, the European Banking Authority published its final guidelines on sound remuneration policies, effective from 1 January 2017. Schroders currently applies 'proportionality', as a Level 3 firm under the PRA's and FCA's regulations on remuneration, but in the future may be required to make changes to the remuneration policy to remain compliant with these rules. This may include a requirement to apply a cap on variable pay to our 'Material Risk Taker' population, which would include the executive Directors. It also includes other potential changes, such as a prohibition on deferred compensation awards in shares accruing dividends during deferral periods.

The Committee has historically believed that our approach of not capping variable remuneration at an individual level is in the best interests of shareholders and clients. It allows us to attract, retain and motivate the best talent, who know that good performance and behaviour in line with our values will be rewarded. It also allows us to keep base salaries relatively low, controlling the fixed cost base when times are challenging.

However, given these regulatory developments, the Board and Committee will review our remuneration policy in 2016, as the position becomes clearer. We will continue to monitor this closely and will consult with shareholders if a new policy is required.

I trust we will receive your support for our Remuneration report at the Annual General Meeting.

### Lord Howard of Penrith

Chairman of the Remuneration Committee

# Remuneration report

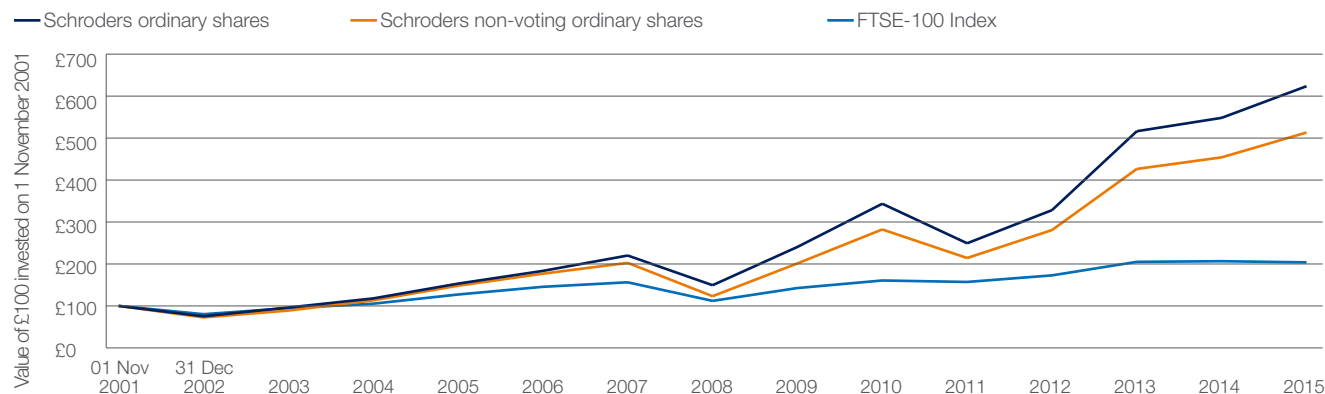
## At a glance

### 1. How we performed

The charts below provide an overview of Schroders' performance. Pages 10 and 11 provide information on how our objectives are aligned with those of our clients and shareholders and pages 12 and 13 give more information on our key performance indicators. Pages 79 and 80 outline the basis for determining annual bonus awards for the executive Directors and the vesting of LTIP awards granted in March 2012.

#### Performance of Schroders shares against the FTSE-100 Index since Michael Dobson's appointment as Chief Executive

This graph compares the performance of Schroders shares with that of the FTSE-100, of which Schroders has been a long standing constituent. Over this period, the index has returned 104 per cent., compared to a 523 per cent. return on Schroders ordinary shares.



#### Other key factors in assessing the performance of the Group (see pages 79 and 80)

The following key performance indicators formed part of the Committee's assessment of the performance of the Group.

##### Investment performance\*

	%
2011	70
2012	71
2013	68
2014	78
2015	72

Target ≥ 60%

##### Net new business

	£bn
2011	3.2
2012	9.4
2013	7.9
2014	24.8
2015	13.0

Target: positive NNB

##### Assets under management

	£bn
2011	187.3
2012	212.0
2013	262.9
2014	300.0
2015	313.5

Target: AUM growth in excess of market growth

##### Cost:net revenue ratio†

	%
2011	65
2012	69
2013	64†
2014	64†
2015	63†

† Before exceptional items Target = 65%

##### Talent retention

	%
2011	96
2012	93
2013	95
2014	94
2015	94

Target > 90%

##### Basic earnings per share†

	pence per share
2011	115.9
2012	104.7
2013	149.9†
2014	166.8†
2015	176.9†

† Before exceptional items Target: grow consistently recognising potential impact of market volatility

\* See Glossary

† Before exceptional items

#### Determining the vesting of LTIP awards granted in March 2012 (see page 80)

LTIP awards granted on 12 March 2012 vested on 1 March 2016, based on two metrics as set out below.

		0%	20%	40%	60%	80%	Vesting (% of award)
EPS	Growth in composite index			35.5%	+20%	+20%	
	Schroders EPS growth			53.6%	Target range		0%
£bn 0 10 20 30 40 50 60							
NNB	Schroders cumulative NNB				£55.1bn		50%
Total vested in relation to 2012–2015 performance							50%

## 2. Executive Directors' remuneration and shareholdings

The left hand chart compares each executive Director's single total remuneration figures for 2015 and 2014. The right hand chart compares each executive Director's shareholdings as at 1 March 2016 with the level of shareholding required under the personal shareholding policy.

Executive Director	Single total remuneration figure (£'000)		Value of shareholding vs shareholding policy (% of salary)	
Michael Dobson Chief Executive	2015		Policy	300
	2014		Actual	4,108
Peter Harrison <sup>1</sup> Head of Investment	2015		Policy	300
	2014		Actual	458
Richard Keers Chief Financial Officer	2015		Policy	300
	2014		Actual	281
Philip Mallinckrodt <sup>2</sup> Group Head of Wealth Management	2015		Policy	300
	2014		Actual	1,698
Massimo Tosato Executive Vice-Chairman and Global Head of Distribution	2015		Policy	300
	2014		Actual	1,076

■ Fixed ■ Bonus – cash ■ Deferred bonus – Share awards ■ Deferred bonus – Fund awards ■ LTIP vesting<sup>3</sup>

<sup>1</sup> Peter Harrison was appointed to the Board on 21 May 2014. The bar representing 2014 remuneration in the left-hand chart above reflects his full-year remuneration in respect of 2014.

<sup>2</sup> Philip Mallinckrodt's shareholding in the right-hand chart above is his holding derived from employment. It does not include his other share interests, see page 84.

<sup>3</sup> LTIP vesting represents the vesting-date market value of shares granted under the LTIP on 12 March 2012, which vested on 1 March 2016 based on performance against the performance conditions over the four financial years ended 31 December 2015.

**i** For more information on the single total remuneration figures see pages 78 to 81. For more information on the personal shareholding policy see page 85.

## 3. Executive Directors' remuneration policy overview

Components of executive Directors' remuneration:

Component	Policy overview	Operation of policy in 2015 and anticipated operation in 2016
<b>Base salary</b>	To reflect the executive Directors' roles and responsibilities. Salaries are kept relatively low by industry standards and adjusted only infrequently.	No increases were made during 2015. Peter Harrison's base salary will increase to £500,000 on his appointment as Chief Executive, the same salary that Michael Dobson has received for this role. Executive Directors' salaries were last increased on 1 March 2014. No increases are planned during 2016.
<b>Benefits</b>	To enable the executive Directors to undertake their role by supporting their health and wellbeing. Benefits are relatively low by industry standards for executive Directors.	No changes were made during 2015. During 2016, changes will be made to the flexible benefits offered to UK employees to reflect changes to the UK's pension rules from 6 April 2016. The contribution structure will not change but employees will be offered additional flexibility and choice over the balance between employer pension contributions and cash in lieu. The executive Directors will continue to participate on the same basis and at the same levels of contribution as other UK employees.
<b>Pension</b>	To enable provision of retirement benefits. Pension benefits are relatively low by industry standards for executive Directors.	
<b>Annual bonus award</b>	To drive the achievement of business priorities for the financial year, to align pay with performance and promote the long-term success of the Company. Approximately 50 per cent. is deferred to align Directors' interests with those of shareholders and clients.	No changes were made in 2015 or are planned for 2016. The Committee will review the approach during 2016 in light of the European Banking Authority's revised guidelines on sound remuneration policies under the Capital Requirements Directive.
<b>LTIP</b>	To incentivise long-term performance and the achievement of strategic priorities to ensure the sustainable growth of the firm. The performance hurdles are highly demanding.	The Committee has reviewed the performance metrics and targets for LTIP awards granted in 2016. Despite the very demanding targets, no changes were proposed other than updating the composite index against which earnings per share growth is measured to ensure it is an appropriate proxy for the firm's current assets under management. More information can be found on page 83.

**i** For more information on the policy see pages 74 to 76. For more information on implementation of the policy during 2016 see page 83.

# Remuneration report

## Governance

### Responsibilities of the Remuneration 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 Company Secretary, reviewing the remuneration of the heads of Compliance, Internal Audit, Risk and the General Counsel, monitoring the level and structure of remuneration for other senior employees, and overseeing employee compensation more broadly across the Group
- Recommending to the Board the annual spend on fixed and variable compensation

- 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 [www.schroders.com/ir](http://www.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 page 47.

At the invitation of the Committee Chairman, the Chief Executive and Chief Financial Officer attended four meetings. Bruno Schroder attended two meetings. The Chief Executive and Chief Financial Officer were not present during discussions relating to their own remuneration.

The Group Head of Risk, the General Counsel and the Global Head of Compliance also advised the Committee on matters that could influence remuneration decisions. The Global Head of Human Resources and the Head of Compensation and Benefits attended meetings to provide advice and to support the Committee with secretarial services.

### Key areas of focus during the year

The table below summarises the key issues that the Committee considered at each of its meetings during 2015. Remuneration packages for new hires into roles subject to the Committee's oversight were reviewed at all meetings.

Meeting	Key issues considered
January	<ul style="list-style-type: none"> <li>– Compensation Review 2014: <ul style="list-style-type: none"> <li>– Overview of Compensation Review 2014 outcomes for all employees across the firm</li> <li>– Review of senior management compensation, including determining variable remuneration awards for the executive Directors</li> </ul> </li> <li>– Remuneration disclosures</li> <li>– Forecast vesting of LTIP awards granted in 2011 and delegation to the Committee Chairman to determine final vesting based on the full year audited results</li> </ul>
May	<ul style="list-style-type: none"> <li>– Shareholder and voting agency feedback on remuneration and of the voting outcome in respect of remuneration at the 2015 AGM</li> <li>– Confirmation of advisers to the Committee</li> <li>– LTIP performance measures and targets for future awards</li> <li>– Compensation cost to net revenue ratio</li> <li>– Regulatory developments pertaining to remuneration</li> </ul>
October	<ul style="list-style-type: none"> <li>– Alignment of remuneration to client and shareholder interests</li> <li>– Management review of salary competitiveness across Schroders and consideration of remuneration philosophy</li> <li>– Approval of proposed Equity Incentive Plan awards</li> <li>– LTIP performance measures and targets for future awards</li> <li>– Compensation Review 2015 – market context from the prior year, current market sentiment, the anticipated budget for base salary increases, forecast financial performance and bonus pool funding, approach to bonus pool allocations and bonus deferral for 2015</li> <li>– Regulatory developments pertaining to remuneration</li> </ul>
December	<ul style="list-style-type: none"> <li>– Succession planning for executive Directors and potential remuneration implications</li> <li>– Compensation Review 2015 <ul style="list-style-type: none"> <li>– Report from the Chief Executive on the sustainability of earnings</li> <li>– Reports from the Group Head of Risk, General Counsel and Global Head of Compliance on risk, legal and compliance matters</li> <li>– Approach to base salary increases, forecast financial performance and bonus pool funding and bonus pool allocations for 2015</li> </ul> </li> <li>– Forecast vesting of LTIP awards granted on 12 March 2012</li> <li>– Preliminary draft remuneration disclosures</li> <li>– Target range for the compensation cost to net revenue ratio in 2016</li> <li>– Investment Association's updated 'Principles of Remuneration'</li> <li>– McLagan remuneration benchmarking for key leadership roles</li> </ul>

### Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process. Further information can be found in the Corporate governance report, on page 55. The findings relating to the Committee were discussed with the Committee Chairman, with the Committee found to be thorough and effective.



# Remuneration report

## 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 proportion of key employees' deferred remuneration is delivered as Fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients.



Aligned with shareholders

A significant proportion of variable remuneration is delivered in the form of deferred awards over Schroders shares, thereby aligning the interests of employees and shareholders. In addition, executive Directors and other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent in value to 300 per cent. of annual base salary.



Aligned with financial performance

Total variable compensation is managed as a percentage of pre-bonus profit before tax and exceptional items, determined by the Committee and recommended to the Board. The total spend on compensation is managed as a percentage of net revenue. This approach aligns compensation with financial performance.



Competitive

Employees receive a competitive compensation and benefits package, which is reviewed annually and benchmarked by reference to the external market. This allows us to attract and retain the best talent, who know that good performance will be rewarded.



Designed to encourage retention

Deferred variable compensation 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.

# Remuneration report

## Directors' remuneration policy summary

The Directors' remuneration policy is summarised on pages 74 to 76. Shareholders approved the policy at the 2014 AGM on 1 May 2014 and it is expected to apply for three years from that date. We are required to bring the policy to the 2017 AGM for shareholder approval. The full Directors' remuneration policy can be found on pages 68 to 73 of our 2013 Annual Report and Accounts which is available on our website.

### Summary of the remuneration policy for executive Directors

The table below summarises the key components of remuneration for executive Directors. The remuneration policy for non-executive Directors is summarised on page 76. There have been no changes to policy for executive Directors since shareholder approval was given.

Component	Operation	Further information
<b>Base salary</b> To reflect the executive Directors' roles and responsibilities.	Base salary is paid monthly via payroll. We aim to pay base salaries that are comparable to other large international asset management firms but relatively low compared to other listed financial services firms and FTSE-100 companies.	Executive Directors' base salaries are reviewed annually but adjusted infrequently. Executive Directors' salaries were last increased on 1 March 2014.  On his appointment as Chief Executive, Peter Harrison's base salary will increase to £500,000, which is the same salary that Michael Dobson has received for this role. No other increases are planned during 2016.
<b>Benefits</b> To enable the executive Directors to undertake their role by supporting their health and wellbeing.	Executive Directors receive a cash allowance to fund their benefit elections under the UK flexible benefits plan, on the same basis as other UK employees. Benefits available include private healthcare; life assurance; accidental death, injury or sickness insurances; and the Share Incentive Plan (SIP), outlined on page 86.	Massimo Tosato also benefits from additional permanent total disability cover, life assurance cover and private health care.
<b>Pension</b> To enable provision for retirement.	Executive Directors may participate in the UK pension arrangements, or receive cash in lieu of pension, on the same basis as other employees. Base salary up to a maximum of £250,000 is the only pensionable element of remuneration. The Group's contributions are currently 16 per cent. of pensionable salary, plus a contribution to match employee contributions up to a further 2 per cent. of salary.	During 2016, changes will be made to the UK flexible benefits offered to UK employees to reflect changes to the UK's pension rules that are due to come into effect from 6 April 2016. The contribution structure will not change but employees, including executive Directors, will be offered additional flexibility and choice over the balance between employer pension contributions and cash in lieu, with options to take as cash some or all of the amount the Company would otherwise contribute to the pension plan.  While he remains Chief Executive, Michael Dobson receives a fixed annual cash allowance of £46,000 in lieu of pension.
<b>Annual bonus award</b> To incentivise the achievement of business priorities for the financial year and to attract, motivate, retain and reward executive Directors over the medium to long term, aligning their interests with those of shareholders and clients.	Executive Directors are eligible to receive an annual bonus award. Awards in respect of each financial year are discretionary and non-pensionable. The level of each Director's award is based on Group, business area and individual performance.  Of any annual bonus for executive Directors, 50 per cent. is initially deferred into awards under the Equity Compensation Plan (ECP), which are released after three years. The ECP is explained in more detail below. The level of ECP award is reduced if a LTIP award has been granted during the year, as outlined below.	In determining the annual bonus award for the Chief Executive and other executive Directors, the Committee takes account of a number of financial and non-financial factors intended to give a broad assessment of performance, which are stretching, transparent and rigorously applied. The Committee's assessment of performance and pay for 2015 is outlined on pages 79 and 80.  No changes to the policy for annual bonus awards are planned for 2016. During 2016 the Committee intends to review the approach in light of the European Banking Authority's revised guidelines on sound remuneration policies under the Capital Requirements Directive.
<b>LTIP</b> To incentivise long-term performance and the achievement of strategic priorities, while maximising alignment with shareholder interests.	Executive Directors are eligible to participate in the LTIP. Annual LTIP awards can be up to four times salary for any individual and have a four year performance period. Where a LTIP award has been granted during the year, the level of ECP award in respect of the year is reduced by 25 per cent. of the grant value of the LTIP award.  The Committee sets performance targets for each award. As for previous awards, performance targets for awards to be granted in 2016 relate to: – Earnings per share (EPS) – Net new business (NNB)	The LTIP is explained in more detail on page 75.  Executive Directors typically receive an award under the LTIP in March each year. Neither Michael Dobson nor Massimo Tosato will receive a LTIP award in March 2016.  The Committee has reviewed the performance metrics and targets for LTIP awards to be granted in 2016. Changes have been made to the composite index against which earnings per share growth is measured. More information can be found on page 83.
<b>Malus and clawback terms</b> To allow variable remuneration awards to be risk adjusted in certain circumstances.	Deferred remuneration awards granted under the ECP and LTIP may be reduced or lapsed in the event of a material misstatement of the Group's financial results or individual misconduct, known as 'malus' terms. Amounts paid or released from awards may be recovered for a period of 12 months from the date of payment or release in the event of individual misconduct, known as 'clawback' terms. Clawback terms also apply to executive Directors' cash bonus awards.	Malus terms apply to ECP awards granted since May 2011 and to LTIP awards granted at any time. Clawback applies to ECP and LTIP awards granted since October 2013. Clawback terms apply to executive Directors' cash bonus awards for 2015 performance onwards.

### Equity Compensation Plan (ECP)

The ECP is the Group's main deferral arrangement for annual bonus awards, including for executive Directors. ECP awards relate to the past year's performance and are not subject to any further performance conditions. In order to provide an incentive to stay at Schroders, ECP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the third anniversary of grant in order to vest in full, except in certain circumstances such as death, ill health or otherwise at the Committee's discretion.

Deferrals are delivered as a combination of ECP Share awards, which are conditional rights to acquire shares in the Company at nil cost, and ECP Fund awards, which are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. In 2015, deferrals were generally delivered equally between ECP Share awards and ECP Fund awards, subject to a minimum Fund award of £10,000. At the Company's discretion, ECP Share awards may be settled in cash. Additional shares equivalent to the dividends and associated tax credits accrue until the award is exercised.

### Long Term Incentive Plan (LTIP)

LTIP awards are only granted to executive Directors. LTIP awards are conditional rights to acquire shares in the Company at nil cost. The awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the awards may be exercised. At the end of the four year performance period, the Committee will determine the extent to which the performance conditions have been achieved and the extent to which the awards may be exercised. LTIP awards may then be exercised within a 12 month period.

The Committee determines the performance conditions and uses its judgement to set challenging criteria that are consistent with the Group's strategy. The performance conditions currently are EPS growth, for 50 per cent. of each award, and NNB, for the other 50 per cent.

The Committee has reviewed the LTIP performance targets and agreed to changes for awards to be granted from March 2016 onwards, relating to the composite index against which earnings per share growth is measured. No changes were made for awards granted prior to March 2016. Page 83 provides more information.

### Remuneration policy illustrations

The scenario charts below show the relative split of fixed elements of remuneration, annual bonus awards and LTIP, in line with current policy for each of the executive Director roles. The average, highest and lowest remuneration over the seven years ended 31 December 2015 has been

used as an indication of the earnings potential for each role. Over the same period, profit before tax and exceptional items has increased from £137.5 million to £609.7 million. Future remuneration will be determined based on performance, as described elsewhere in this report.

#### Chief Executive (£'000)

Fixed		551
7 year lowest	19% 43% 19% 19%	2,867
7 year average	9% 44% 22% 22% 3%	6,254
7 year highest	6% 45% 22% 22% 5%	8,874

#### Chief Financial Officer (£'000)

Fixed		428
7 year lowest	31% 37% 16% 16%	1,377
7 year average	18% 40% 18% 18% 6%	2,377
7 year highest	14% 39% 19% 19% 9%	3,128

#### Group Head of Wealth Management (£'000)

Fixed		435
7 year lowest	48% 30% 11% 11%	911
7 year average	24% 36% 16% 16% 8%	1,809
7 year highest	17% 38% 17% 17% 11%	2,660

■ Fixed ■ Bonus – cash ■ Deferred bonus – Share awards ■ Deferred bonus – Fund awards ■ LTIP

In these scenarios, the fixed element consists of base salary, benefits and pension. Salary is the annual salary effective from 1 March 2016, with the exception of Peter Harrison whose base salary will increase to £500,000 on his appointment as Chief Executive on 4 April 2016. The value of benefits and pension is the anticipated annualised amounts from 1 March 2016.

Role	Name	Base salary £'000	Benefits £'000	Pension £'000	Total fixed £'000
Chief Executive	Peter Harrison	500	6	45	551
Chief Financial Officer	Richard Keers	375	8	45	428
Group Head of Wealth Management	Philip Mallinckrodt	375	20	40	435

The illustrative remuneration policy figures are based on actual annual total remuneration for each role over the seven years ended 31 December 2015 and the LTIP grants due to be granted in March 2016, as follows:

	Lowest	Average	Highest
Fixed remuneration	As above.	As above.	As above.
Annual bonus award	Being the lowest over the last seven years of the sum of actual bonus award and actual fixed remuneration each year, less the fixed remuneration value shown above.	Being the average over the last seven years of the actual bonus award and actual fixed remuneration each year, less the fixed remuneration value shown above.	Being the highest over the last seven years of the sum of actual bonus award and actual fixed remuneration each year, less the fixed remuneration value shown above.
LTIP	Assuming no vesting.	Being the face value of the award to be granted in March 2016, assuming 50 per cent. vesting.	Being the face value of award to be granted in March 2016, assuming 100 per cent. vesting.

Massimo Tosato's remuneration in respect of his contribution during 2016 is considered on page 83.

# Remuneration report

## Directors' remuneration policy summary (continued)

### Fees from external appointments

The executive Directors are permitted to hold and 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. None of the executive Directors received any remuneration during 2015 in respect of external appointments.

### Recruitment of new Directors

The Committee aims to pay executive Directors remuneration that is appropriate in level and structure to attract, motivate, retain and reward Directors of the quality required to run the Group successfully. On appointment, the level of fixed remuneration is likely to be set at the same level as applies to other Directors, provided this is justifiable by reference to the candidate's skills and experience, and taking into

account remuneration in their most recent role, internal relativities and external market rates for roles with similar responsibilities. Benefits and pension entitlements will be provided on a similar basis to those available to other employees.

New executive Directors would be eligible to be considered for annual bonus and LTIP awards in the same way as existing Directors. The Group does not award guaranteed annual bonuses to executive Directors.

New non-executive Directors receive fees and benefits in line with the policy for other non-executive Directors. Rhian Davies was appointed to the Board in July 2015. On appointment, her fees were set at the same level as applied to other non-executive Directors.

## Summary of the remuneration policy for the non-executive Directors

The table below summarises the remuneration policy for non-executive Directors.

Component	Operation	Further information
<b>Fees</b> To reflect the skills, experience and time required to undertake the role.	Non-executive Directors' annual fees are as follows:	Fees for the Chairman and other non-executive Directors are determined by the Board based on market information for comparable asset managers and other financial services groups and the constituent companies of the FTSE-100 Index. Non-executive Directors do not participate in decisions concerning their fees.  In March 2016, the Board agreed that the annual fees paid to the non-executive Chairman would increase to £625,000 on the appointment of Michael Dobson from 4 April 2016. This reflects the increased breadth of Mr Dobson's role, which will include continuing to be actively involved in supporting the firm's relationships with our major clients, shareholders, strategic and commercial partners and regulators.  Fees are usually reviewed biennially. The fees for the other non-executive Directors were last reviewed in 2014.
<b>Benefits</b> To enable the non-executive Directors to undertake their roles.	Non-executive Directors may receive private use of a Company chauffeur, car parking, meals, travel costs and, in the case of Bruno Schroder, private health care and medical benefits. Michael Dobson will receive life insurance benefits on the same terms as UK employees and private health care and medical benefits for him and his family. Non-executive Directors' benefits are principally expenses incurred in carrying out the Group's business and reflect business needs.	Schroders does not pay retirement or post employment benefits to non-executive Directors. They do not participate in any of the Group's incentive arrangements. Bruno Schroder, as a former executive, and Michael Dobson have been in receipt of a pension since April 2007 and May 2012 respectively but have ceased accruing any further entitlement.

### Directors' service contracts, letters of appointment and termination arrangements

The Group's general policy is that each executive Director will have a rolling contract of employment with mutual notice periods of six months, with the exception of Michael Dobson who is entitled to 12 months' notice from the Company. Mr Dobson's employment will come to an end on his appointment as Chairman. As Chief Executive Peter Harrison's notice period will remain at six months.

When an executive Director leaves the Group, the Committee will review the circumstances and apply the treatment that it believes is appropriate. Any payments will be determined in accordance with the terms of the service contract between the Group and the employee, as well as the rules of any deferred remuneration plans and the Directors' remuneration policy. The policy is not to vest any existing LTIP awards or ECP awards made since October 2013 earlier than their normal vesting date except in cases of death in service and, in the case of ECP, ill health at the Committee's discretion. In all cases any LTIP vesting remains subject to satisfaction of the associated performance conditions and will be time apportioned for the period worked.

While their employment with the Group continues, Michael Dobson and Massimo Tosato have contractual rights on termination in certain circumstances. If Mr Dobson's employment is ended by the firm without cause he would be entitled to receive the equivalent of one year's remuneration, calculated as the annual average of the aggregate of base salary and discretionary annual bonus awards, cash and deferred, received in the previous three years. If Mr Tosato's employment is ended by the firm without cause he would be entitled to 12 months' remuneration, calculated as base salary and discretionary annual bonus award, cash and deferred, for the previous year.

The remuneration arrangements after Michael Dobson's and Massimo Tosato's executive roles come to an end are outlined in the Annual report on remuneration, on page 83.

Non-executive Directors are engaged under letters of appointment. They do not have service contracts. They have a mutual notice period of six months, with the exception of Bruno Schroder who does not have a notice period. There are no contractual provisions for non-executive Directors to receive compensation upon termination.



# Remuneration report

## Annual report on remuneration

Pages 77 to 85 constitute the Annual report on remuneration. Shareholders will have an advisory vote on this, together with pages 68 to 72, at the AGM (resolution 3 contained in the Notice of Meeting). This section summarises the remuneration awarded to executive and non-executive Directors for services as Directors during the year ended 31 December 2015 and compares this to remuneration awarded for 2014. The Directors' remuneration was compliant with both the letter and the spirit of the policy approved by shareholders at the 2014 AGM.

This section also sets out the context for the Directors' remuneration, including the main performance metrics that the Committee considered when setting the overall variable compensation pool and the key performance criteria considered when determining executive Directors' bonus awards. It also shows the returns to shareholders over the last seven years and the total remuneration of the Chief Executive over the same period. Where required, this information has been audited.

## Assessing pay and performance

### Group performance (audited)

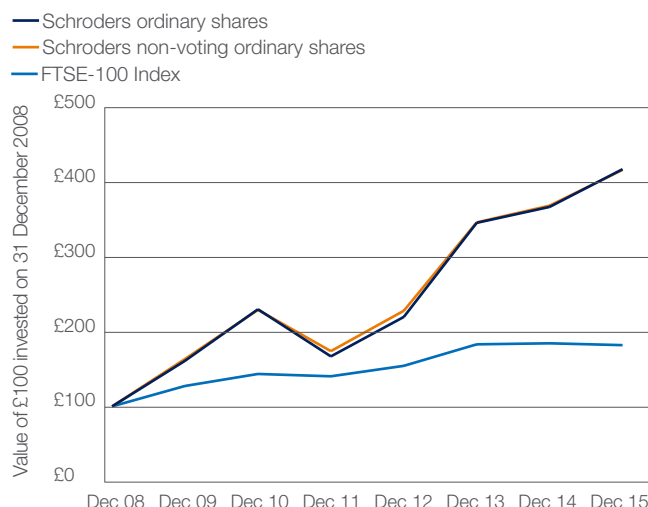
Net revenues increased 7 per cent. in 2015 reflecting continued net new business wins and positive investment returns for clients. The Group saw record profit before tax and exceptional items of £609.7 million, up 8 per cent., profit before tax of £589.0 million, up 14 per cent., earnings per share before exceptional items of 176.9 pence, up 6 per cent. and earnings per share of 171.1 pence, up 12 per cent. The Board is recommending a 12 per cent. increase in the total dividend per share for the year.

Net new business was £13.0 billion (2014: £24.8 billion), with positive net new business in Institutional and Intermediary, while Wealth Management saw net outflows of £0.1 billion. Assets under management ended the year at a record year end high of £313.5 billion (2014: £300.0 billion) and 72 per cent. (2014: 78 per cent.) of our assets under management outperformed their benchmark or peer group\* in the three years to 31 December 2015.

Further information on the Group's operating and financial performance can be found in the Strategic report, beginning on the inside cover. Within the Strategic report, the table on pages 10 and 11 outlines the firm's strategy and how the Group's key performance indicators are aligned with our strategic objectives. Pages 12 and 13 show our performance against each of those key performance indicators over the five years to 31 December 2015.

### Performance of Schroders shares against the FTSE-100 Index

The graph below compares the performance of Schroders shares with that of the FTSE-100, of which Schroders has been a long standing constituent. Over the last seven years, the index has returned 82 per cent., compared to a 317 per cent. return for Schroders plc on both ordinary shares and non-voting ordinary shares.



\* See Glossary for investment performance.

### Key metrics

	2014 vs 2013	2015 vs 2014
Net revenue	+9%	+7%
Headcount	+1%	+6%
Profit before tax and exceptional items	+11%	+8%
Earnings per share before exceptional items	+11%	+6%
Dividend per share	+34%	+12%

### Aligning compensation costs with financial performance

The total spend on compensation is derived from the profit share ratio, measuring the bonus charge against pre-bonus profit, and from the compensation cost to net revenue ratio. This ensures that the interests of employees are aligned with the Group's financial performance.

The Committee received a report from the Chief Executive on the underlying strength and sustainability of the business and reports on risk, legal and compliance matters from the heads of those areas. These were considered as part of the 2015 compensation review.

For 2015, the financial statements reflect a new definition of net revenue, which now includes interest income that we earn outside our Wealth Management activities and the share of profit from joint ventures and associates, an important part of the Group. On this basis, the Committee determined the variable compensation pool for the year ended 31 December 2015, based on a profit share ratio of 37 per cent. (2014: 37 per cent.) and a compensation to net revenue ratio of 44 per cent. (2014: 44 per cent.). This is below our target compensation to net revenue range of 45 to 49 per cent.

The 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 compensation awards for employees, other than those determined, approved or reviewed by the Committee, are recommended to the Chief Executive by members of the GMC, taking account of individual performance against objectives, the performance of the relevant area and the levels of reward for comparable roles in the market. The Committee was satisfied that the 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, particularly with respect to client outcomes. Deferred remuneration plans that involve Schroders shares are non-dilutive to shareholders as shares to satisfy awards are purchased in the market.

# Remuneration report

## Annual report on remuneration (continued)

### Single total remuneration figure for each executive Director (audited)

The tables below show the total remuneration of each of the executive Directors for the years ended 31 December 2015 and 2014.

2015 (£'000)	Salary	Benefits	Pension	Annual bonus award	Annual remuneration	LTIP vested	Total remuneration
Michael Dobson	500	28	46	7,900	8,474	431	8,905
Peter Harrison	375	6	45	4,100	4,526	–	4,526
Richard Keers	375	8	45	2,400	2,828	–	2,828
Philip Mallinckrodt	375	20	40	1,925	2,360	165	2,525
Massimo Tosato	375	103	45	4,300	4,823	172	4,995

2014 (£'000)	Salary	Benefits	Pension	Annual bonus award	Annual remuneration	LTIP vested	Total remuneration
Michael Dobson	484	27	46	6,900	7,457	698	8,155
Peter Harrison <sup>1</sup>	323	4	42	3,800	4,169	–	4,169
Richard Keers	363	6	45	2,250	2,664	–	2,664
Philip Mallinckrodt	363	19	40	1,925	2,347	253	2,600
Massimo Tosato	363	100	45	4,000	4,508	262	4,770

<sup>1</sup> Peter Harrison was appointed to the Board on 21 May 2014. His salary, benefits and pension or cash in lieu for the period of 2014 from his appointment to the Board are included in the figures above, and amounted to £258,000. His 2014 bonus was awarded in respect of performance throughout 2014. In setting it the Committee did not differentiate between the periods before and after he joined the Board. A time prorated allocation of bonus to the period of 2014 that he was a member of the Board would be £2,342,000.

### Methodology for determining the single total remuneration figure

Individual components of total remuneration include:

<b>Salary</b>	Represents the value of salary earned and paid during the financial year. As disclosed in the 2013 and 2014 Annual Report on remuneration, the Committee increased Michael Dobson's salary to £500,000 and the salaries of the other executive Directors to £375,000 with effect from 1 March 2014. Peter Harrison's salary was increased to £375,000 from the date of his appointment to the Board.
<b>Benefits</b>	Include one or more of: private healthcare, life assurance, permanent total disability insurance, car parking, meals, private use of company chauffeur, SIP Matching Shares and cash in lieu of company car or in respect of other discontinued benefits. The premiums Schroders paid for Massimo Tosato's additional permanent total disability cover, life assurance cover and private health care totalled £83,000.
<b>Pension – see page 81</b>	Represents cash in lieu of pension for Michael Dobson and the aggregate of contributions to defined contribution pension arrangements and cash in lieu of pension for Peter Harrison, Richard Keers, Philip Mallinckrodt and Massimo Tosato. The table on page 81 shows how the pension figure above is constituted for each individual.
<b>Annual bonus award – see pages 79 and 80</b>	Represents the total value of the annual bonus award for performance during the relevant financial year. Page 79 shows the breakdown of the bonus into cash paid through the payroll in February and deferred awards granted in March, following the relevant financial year end, and the basis on which annual bonus awards for 2014 were determined. The deferred element of the bonus is reduced by 25 per cent. of the grant value of the LTIP award granted in March of the relevant financial year.
<b>LTIP vested – see page 80</b>	Represents the vesting date market value of shares awarded under the LTIP on 12 March 2012 that vested on 1 March 2016 based on performance against the performance conditions over the four financial years ended 31 December 2015. More information on the performance achieved, how vesting was determined and the value of the LTIP award at vesting is provided on page 80.

### Chief Executive's total remuneration

The Chief Executive's single total remuneration figure over the past seven years is shown below, as well as how variable pay plans have paid out each year. This compares to a 317 per cent. return to ordinary shareholders over the same period, shown in the graph on page 77.

Chief Executive	Financial year	Single total remuneration figure £'000	Annual bonus award (actual award as a % of seven year highest bonus) <sup>1</sup>	LTIP (vesting as a % of maximum opportunity) <sup>2</sup>
Michael Dobson	2015	8,905	100%	50%
	2014	8,155	87%	50%
	2013	8,414	81%	100%
	2012	4,870	56%	n/a
	2011	5,570	65%	n/a
	2010	6,267	73%	n/a
	2009	2,867	30%	n/a

<sup>1</sup> No maximum annual bonus opportunity was in place so the actual annual bonus award is shown relative to the highest actual award over the last seven years.

<sup>2</sup> Those years shown as 'n/a' include no LTIP value as the LTIP was introduced in May 2010 and the first award vested on 5 March 2014 based on the four year performance period ending on 31 December 2013.

### Pay for performance – Annual bonus award (audited)

The table below sets out details of how the annual bonus award for each executive Director in respect of performance during 2015 was delivered. ECP awards normally require the participant to remain in employment with the Group until the third anniversary of grant in order to vest in full. These values are reflected in the single total remuneration figure for each executive Director.

2015 (£'000)	Cash bonus award	ECP awards			Total annual bonus award	Percentage of total remuneration
		Share awards	Fund awards	Total ECP award <sup>1</sup>		
Michael Dobson	4,050	1,925	1,925	3,850	7,900	89%
Peter Harrison	2,150	975	975	1,950	4,100	91%
Richard Keers	1,250	575	575	1,150	2,400	85%
Philip Mallinckrodt	1,013	456	456	912	1,925	76%
Massimo Tosato	2,200	1,050	1,050	2,100	4,300	86%

<sup>1</sup> The total ECP award was reduced by 25 per cent. of the face value at grant of any LTIP award granted in 2015 (see page 81).

### Basis for determining annual bonus awards (audited)

In determining the annual bonus award for the Chief Executive and other executive Directors, the Committee made an assessment of the overall performance of the business and of each individual, including business performance within each individual's responsibilities, as well as individual performance against annual objectives. A number of financial and non-financial factors were taken into account, without attaching a separate weighting to each factor.

Based on its assessment of performance, the Committee applied its judgement to determine annual bonus awards, taking into account the recommendation of the Chief Executive in respect of other executive Directors.

Key performance criteria in determining annual bonus awards		
Criteria	Target	Performance in 2015
The trend in profit for the year and appropriate cost control <sup>1</sup>	A cost:net revenue ratio of 65 per cent.  A compensation cost:net revenue ratio of 45 to 49 per cent. depending on market conditions.	The cost:net revenue ratio was 63 per cent. (2014: 64 per cent.).  The compensation cost:net revenue ratio was 44 per cent. (2014: 44 per cent.).
Investment performance <sup>1,2</sup> and the continuous improvement of investment processes to support this	Three year outperformance to exceed 60 per cent.	Three year investment performance above benchmark or peer group was 72 per cent. at 31 December 2015 (2014: 78 per cent.).
Net new business <sup>1</sup>	Positive net new business across all sales channels, in line with budget.	£13.0 billion of net new business (2014: 24.8 billion), with positive net new business in Institutional and Intermediary. There were net outflows of £0.1 billion in Wealth Management.
Longevity of client relationships to deliver sustainable growth	Longevity within Asset Management is in line with or better than the industry average.	The rolling three year average for client longevity in Asset Management is 3.9 years, which is line with the industry average.
Talent retention and succession planning	Ensure that the business develops and retains key talent. Identify and implement appropriate succession plans for key roles within the firm.	Retention of employees performing ahead of expectations remains high at 94 per cent. (2014: 94 per cent.). No key talent was lost during 2015 and the Committee believes that Schroders is well positioned to attract talent into the firm, see pages 22 and 23.  Planning for the succession of the Chief Executive has been a long-term consideration for the Board. Promoting from within was the clear preference and the appointment of Peter Harrison as Chief Executive in 2016, following his recruitment as Head of Equities in 2013, demonstrates the successful implementation of this key succession plan. The focus on succession plans also means a number of other key roles will also be filled with internal talent.
The management of risks facing the Group and the Company's reputation, including the oversight of the risk and control framework and strengthening and awareness of good conduct	Ensure that the Company's values are embedded throughout the firm.	The risk and control framework of the Group continues to strengthen, as outlined on pages 36 and 37, and a new Head of Risk was recruited in the year. The firm has had no significant issues in this area in 2015.  The Board and Remuneration Committee believe that the culture of Schroders in prioritising our clients' interests remains strong. The Employee Opinion Survey, summarised on page 23, confirmed the strong culture of doing the right thing for our clients. See Award highlights of 2015 on page 3 for external recognition of the firm's performance during the year.  Key developments in the risk profile of the Group were considered by the Audit and Risk Committee (see pages 59 to 64) and by the Remuneration Committee, including an assessment of the sustainability of earnings, in determining the remuneration outcomes for 2015.
Share price performance	Deliver total shareholder value in excess of the FTSE-100 Index.	The ordinary shares have returned 14 per cent. over the last year and 317 per cent. over the last seven years, ahead of the FTSE-100 Index, which has returned -1 per cent. over one year and 82 per cent. over seven years.

<sup>1</sup> These are included in the key performance indicators set out in the Strategic report on pages 12 and 13, which are used to measure our performance over the long term.

<sup>2</sup> See Glossary.

# Remuneration report

## Annual report on remuneration (continued)

At the Group level, the executive Directors have again successfully delivered against these metrics and this is reflected in their variable remuneration for the year. In addition to the Group-wide metrics, the performance factors outlined below, which have not been audited, were considered in determining individual Directors' remuneration.

Individual performance criteria in determining annual bonus awards		
Executive Director	Criteria	Performance in 2015
Michael Dobson	Overall performance of the Group.	For key performance criteria see previous page.
	Appropriate succession for the Chief Executive role.	The Board's appointment of Peter Harrison in 2016 was a key achievement taken into account in determining Michael Dobson's compensation.
Peter Harrison	Investment performance* measured over three years.	72 per cent. of funds outperformed over three years to the end of 2015.
	Diversifying our investment offering.	We have continued to diversify the investment offering, particularly in Fixed Income and Multi-asset.
Richard Keers	Overseeing a strong risk and control function.	Our risk control environment has been further strengthened and in 2015 we had no significant issues in this area, see pages 59 to 64.
	Identifying process efficiencies.	Good progress is being made in streamlining processes and identifying efficiencies.
Philip Mallinckrodt	Wealth Management and Real Estate business performance in terms of profitability and new business growth.	There were net outflows of £0.1 billion in Wealth Management which was below budget but profitability targets were achieved. Real Estate had net inflows, with strong profitability.
	Resolving participation in the US Department of Justice (DOJ) Swiss bank programme.	Our Swiss bank reached an agreement with the DOJ and paid a penalty, which was within the provision taken in 2013, see note 18 on page 121.
Massimo Tosato	Achieving budgeted levels of new business growth.	We generated £13.1 billion of net new business in Asset Management, slightly ahead of budget.
	Overseeing the firm's product strategy.	We have a strong pipeline of new products for Institutional and Intermediary.

\* See Glossary.

The metrics and targets outlined above and on the previous page represent the most material criteria by which the Company's performance and the performance of the executive Directors were assessed. In addition, all of the key performance indicators set out in the Strategic report on pages 12 and 13 were considered, as these are used to measure our performance over the long term. The Committee members and the Board as a whole also review performance across a broad range of other metrics as part of the normal course of business throughout the year and during the year end process. Performance against many of these metrics is disclosed in the interim management statements during the year, in the half year and full year results announcements and in the Annual Report and Accounts.

### Determining vesting of prior LTIP awards (audited)

The LTIP awards granted on 12 March 2012, covering the 2012 to 2015 performance period, vested on 1 March 2016. The criteria for determining the extent of vesting are set out below. Despite the strong performance of Schroders since awards were granted, only 50 per cent. of awards vested as the very demanding EPS target was not met.

Performance measure	Max % of award	Performance achieved	Vesting % of award
<b>EPS</b>	50	The four year growth in the MSCI All Countries Index was 56.2% and the Barclays Capital Global Aggregate Index was 4.4%. Weighting them 60% and 40% respectively, growth of the composite index was 35.5%. Four year growth in adjusted EPS was 53.6%, which exceeds the composite index by 18.1%.	0
If the growth of adjusted EPS in the fourth year compared to the year prior to grant exceeds a 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		
		More information on the composite index can be found in the full Remuneration Policy.	
<b>NNB</b>	50	The four year cumulative NNB from 2012 to 2015 was £55.1 billion.	50
– 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		
Total vested in relation to 2012-2015 performance			50

The Audit and Risk Committee independently reviewed key judgements made by management in respect of all of the provisions and contingent liabilities, to ensure these are reasonable, and this is reflected in these LTIP calculations. PwC, as external auditor, reviewed the LTIP calculation and vesting outcome and confirmed their agreement.

### Value at vesting of prior LTIP awards (audited)

The following table shows, for each Director, the value at vesting of LTIP awards granted on 12 March 2012, based on the closing mid-market share price on the vesting date and the vesting percentage shown above. The total value that vested is reflected in the single total remuneration figure for each Director.

Individual	Date of grant	Grant date face value of LTIP award £'000	Date of vesting	Vesting date value of LTIP award shares £'000	Proportion vested in relation to 2012-2015 performance	Total value vested £'000
Michael Dobson	12 March 2012	500	1 March 2016	861	50 per cent.	431
Philip Mallinckrodt	12 March 2012	200	1 March 2016	331	50 per cent.	165
Massimo Tosato	12 March 2012	200	1 March 2016	344	50 per cent.	172



### Total pension entitlements (audited)

The following table gives details of pensions provided to executive Directors for the year ended 31 December 2015. The figures in the employer contribution columns represent contributions paid into defined contribution pension arrangements during the year and exclude any contributions made by the Director. There has been no defined benefit accrual since 30 April 2011. Accrued defined benefit pensions are subject to actuarial reduction on early retirement so there is no enhanced benefit entitlement in these circumstances.

£'000	2015 Employer contributions	2015 cash in lieu of pension <sup>1</sup>	2015 pension total	2014 Employer contributions	2014 cash in lieu of pension <sup>1</sup>	2014 pension total	Accrued defined benefit pension at 31 December 2015	Normal retirement age <sup>2</sup>
Michael Dobson <sup>3</sup>	–	46	46	–	46	46	4	60
Peter Harrison	40	5	45	39	3	42	–	60
Richard Keers	40	5	45	42	3	45	–	60
Philip Mallinckrodt	–	40	40	10	30	40	75	60
Massimo Tosato	–	45	45	12	33	45	52	60

<sup>1</sup> Since 1 April 2014, Philip Mallinckrodt and Massimo Tosato have received cash in lieu of pension and Richard Keers and Peter Harrison have received cash in lieu of the matching element of pension.

<sup>2</sup> 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 consent of the Company or the pension scheme trustee.

<sup>3</sup> Michael Dobson began to draw his pension from the Scheme with effect from 13 May 2012. He has no further prospective pension benefits from the Group.

### Payments to former Directors (audited)

Kevin Parry stepped down from the Board and ceased to be an employee of Schroders on 5 May 2013. As disclosed in the 2013 Remuneration report, the Committee exercised its discretion at that time to allow him to retain his unvested LTIP awards. The LTIP remained subject to performance conditions and in addition the proportion of the shares under award that is ultimately released to him on exercise will be prorated for the performance period that he worked. The value that vested on 1 March 2016 from the LTIP award granted to Mr Parry on 12 March 2012 was £58,000 after prorating. He did not receive an award in 2013 so this was the final LTIP award he held and there will be no further payments to him.

### ECP and LTIP awards granted during 2015 (audited)

The following awards under the ECP were granted to Directors on 9 March 2015, in respect of deferred bonuses for performance during 2014. No further performance conditions need to be met for awards to vest but ECP awards normally require the participant to remain in employment with the Group until the third anniversary of grant in order to vest in full. ECP Share awards were granted as nil cost options. ECP Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. These awards were granted in respect of performance during 2014. They were included in the single total remuneration figures disclosed last year and form part of the prior year value shown in this year's single total remuneration figure table on page 78.

Individual	Basis of award granted	Face value at grant (£'000)			Share price at grant	Performance conditions
		Share awards	Fund awards	Total ECP award		
Michael Dobson	Deferral of bonus awarded in respect of performance in 2014	1,675	1,675	3,350	£31.51	Awarded in respect of performance in 2014. No further performance conditions apply.
Peter Harrison		950	950	1,900	£31.51	
Richard Keers		531	531	1,062	£31.51	
Philip Mallinckrodt		450	450	900	£24.25	
Massimo Tosato		969	969	1,938	£31.51	

The following awards under the LTIP were granted to Directors on 9 March 2015 as nil cost options. These awards do not appear in the single total remuneration figure on page 78 as they are subject to performance conditions and will not vest until 2019.

Individual	Basis of award granted as % of salary	Face value at grant (£'000)	Vesting maximum as % of face value	% of face value that would vest at threshold <sup>1</sup>	% of award available after prorating at the end of employment	Share price at grant	End of performance period
Michael Dobson	160	800	100	25	31	£31.51	31 December 2018
Peter Harrison	213	800	100	25	n/a	£31.51	31 December 2018
Richard Keers	107	400	100	25	n/a	£31.51	31 December 2018
Philip Mallinckrodt	107	400	100	25	n/a	£24.25	31 December 2018
Massimo Tosato	107	400	100	25	50	£31.51	31 December 2018

<sup>1</sup> Performance under both the EPS and NNB performance measures at the threshold level to achieve non-zero vesting.

All ECP Share awards and LTIP awards were granted over ordinary shares, except for the awards granted to Philip Mallinckrodt, which were granted over non-voting ordinary shares. The share price used to determine the number of shares under each ECP 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. ECP Fund awards are notionally invested in Schroders funds on the date of grant, and the value of the award tracks the value of the funds. The vesting of the LTIP awards is subject to the performance conditions set out on page 80.

# Remuneration report

## Annual report on remuneration (continued)

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

The chart on the right compares the percentage change from 2014 to 2015 in salary, benefits and annual bonus award to the Chief Executive with the average year-on-year percentage change across employees of the Group taken as a whole (except where noted).

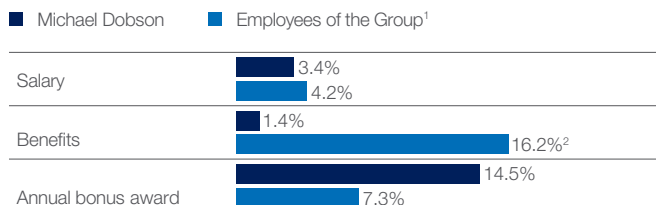
The salary increase shown for Michael Dobson reflects the full year impact of increasing the Chief Executive's salary to £500,000 with effect from 1 March 2014. It had last been increased in 2007. This equated to an annualised increase of 3.4 per cent. since the last time it was increased, compared to an average annualised increase for other employees who were employed by Schroders over the same period of 4.9 per cent.

The increase in the value of benefits for UK employees reflects the increasing cost of private medical insurance and enhancements made during 2015 to certain benefits in kind that are offered to all UK employees.

Including the value vesting from LTIP, Michael Dobson's variable remuneration increased by 10 per cent. year-on-year. Across the

Group, individual annual bonus awards for 2015 compared with 2014 varied from an increase in excess of 100 per cent. to a reduction of bonus to nil, reflecting our pay for performance philosophy.

### Comparison of percentage change in value from 2014 to 2015



<sup>1</sup> Other than for benefits, Employees of the Group are those who were in employment for the full year to 31 December 2015.

<sup>2</sup> For benefits, Employees of the Group are those who were in employment in the UK for the full year to 31 December 2015.

### Non-executive Directors' remuneration (audited)

The table that follows shows the total remuneration of each of the non-executive Directors for the year ended 31 December 2015 and their total remuneration the previous year.

£'000	Salary and fees	Benefits	2015 Total	Salary and fees	Benefits	2014 Total
Andrew Beeson	350	—	350	325	—	325
Ashley Almanza	115	1	116	123	—	123
Luc Bertrand	33	1	34	97	3	100
Robin Buchanan	110	—	110	93	—	93
Rhian Davies <sup>1</sup>	42	—	42	—	—	—
Lord Howard	137	—	137	123	—	123
Nichola Pease	110	—	110	93	—	93
Bruno Schroder	98	2	100	98	2	100

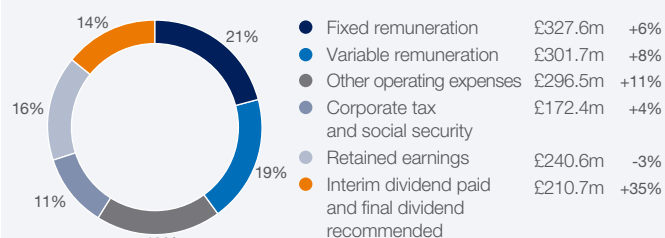
<sup>1</sup> Rhian Davies was appointed to the Board in July 2015.

The benefits for Bruno Schroder are private healthcare and medical benefits, and for Ashley Almanza and Luc Bertrand are travel to Schroders' office to attend Board and Board Committee meetings, which have to be included in this disclosure as this is a taxable benefit. Non-executive Directors' fees are usually reviewed biennially.

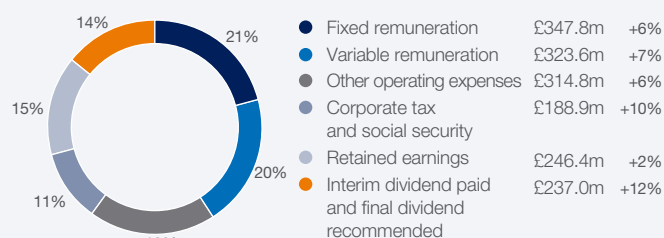
### Relative spend on pay

The charts below illustrate the relative spend on pay for 2015 compared to 2014. The values are taken from the financial statements and show how remuneration costs before exceptional items compare to shareholder distributions, taxes arising and earnings retained. Distributions to shareholders in respect of 2015 formed a slightly larger part of the total as Schroders results for the year led to a 12 per cent. increase in the total dividend per share for the year, while total compensation as a percentage of net revenue remained at 44 per cent.

#### 2014 (% vs. 2013)



#### 2015 (% vs. 2014)



## Implementation of remuneration policy for 2016

### 2016 Board succession

The Board has announced a number of changes to its composition, as outlined in the Chairman's statement on pages 4 and 5.

#### Peter Harrison's appointment as Chief Executive

Peter Harrison's base salary will be increased to £500,000 when he becomes Chief Executive on 4 April 2016, which is the same salary that Michael Dobson receives for this role. His annual bonus award in respect of performance during 2016 will reflect his performance and contribution throughout the year.

#### Michael Dobson's appointment as non-executive Chairman

Michael Dobson will remain Chief Executive until 3 April 2016, at which point his entitlements as an employee will end. The Committee does not expect to make any payment to Mr Dobson in respect of his contractual rights when his employment ends.

In line with the Directors' remuneration policy, the Committee intends to award Mr Dobson a discretionary cash bonus next year to reflect his contribution during the period of 2016 that he was Chief Executive and his work to support a smooth transition of his responsibilities. The payment of this discretionary bonus for 2016 will be at the same time as bonus payments to other employees, in February 2017. Clawback terms will apply to this payment.

In selecting Michael Dobson as Chairman, the Board was particularly mindful of ensuring strong continuity at a time of change. In his new role, Mr Dobson will continue to be involved with our major clients, shareholders, strategic and commercial partners and regulators. The Board has taken this into account in determining an annual fee of £625,000, commensurate with his role and comparable with the fees paid to chairmen at other financial services groups and FTSE-100 companies. Mr Dobson will not be eligible for a bonus in respect of his role as non-executive Chairman.

#### Massimo Tosato

The Committee has determined that Mr Tosato will receive a cash payment in February 2017 reflecting his contribution during 2016 and in settlement of his contractual rights on stepping down. Clawback terms will apply to this payment.

#### Treatment of unvested deferred compensation awards for Michael Dobson and Massimo Tosato

The Committee considered Michael Dobson's continued role as non-executive Chairman and his more than 14 years of service to Schroders, and Massimo Tosato's 20 years of service, together with their respective contributions to the Company and the significant value both have created for shareholders. In light of this, the Committee exercised its discretion under the rules of the ECP and LTIP to allow Mr Dobson and Mr Tosato to retain their unvested awards when their executive roles with the Company come to an end.

As a result, they retain their unvested ECP Share and Fund awards, which will continue to vest on the normal timescales, in line with the ECP rules. For the purposes of the exercise period for ECP awards, the Committee exercised its discretion to treat Mr Dobson as though he remains in employment. Mr Tosato's awards will be exercisable within 12 months following the end of the vesting period and he is subject to post-employment restrictions in respect of hiring key employees of Schroders. Under the rules of the LTIP the vesting of Mr Dobson's and Mr Tosato's LTIP awards remains subject to satisfaction of the associated performance conditions and will be time apportioned for the proportion of the performance period that each of them remained an employee of Schroders, so any vesting of recent awards will be substantially less than if their employment had continued.

### Basis for determining annual bonus awards in respect of performance in 2016

Executive Directors' bonuses will be based on broadly the same Key Performance Indicators and other performance metrics as were considered for 2015.

### Performance conditions for LTIP awards to be granted in 2016

The Committee has reviewed the LTIP performance targets and agreed to changes for awards granted from March 2016 onwards, relating to the composite index against which earnings per share growth is measured. No changes were made for awards granted prior to March 2016.

Since the LTIP was approved by shareholders in 2010, the vesting of awards has been subject to earnings per share and net new business performance conditions. Net new business, being gross sales less redemptions, was chosen as a measure of the Group's organic growth. Earnings per share were chosen as a measure of profitability and are measured relative to a composite index, which the Committee believed to be a reasonable proxy for the market movement of Schroders assets under management. The composite index was 60 per cent. equities, which was measured by the Morgan Stanley Capital International All Country Index, and 40 per cent. fixed income, measured by the Barclays Capital Global Aggregate Index.

The Committee did not change the net new business metric or targets. However, having reviewed the earnings per share metric, for awards to be granted in March 2016 the Committee decided to amend the weighting between equities and fixed income to 50:50, to better align with Schroders assets under management at the end of 2015. The underlying index for fixed income will be retained as this remains reasonable but the equity index was amended to provide a better alignment with the actual geographic distribution of Schroders equity assets under management. For awards to be granted in March 2016, the following weighted basket of indices will be used as a proxy for the market movement of Schroders equity assets under management:

Index	Weighting %
Morgan Stanley Capital International All Countries Asia Pacific	30
Morgan Stanley Capital International Emerging Markets	15
Morgan Stanley Capital International All Countries World	30
Morgan Stanley Capital International Europe	10
FTSE All Share	15

For awards granted in future years, the balance of Schroders assets under management at the previous year end will be reviewed and the weighting of the underlying indices that make up the composite index determined at that time.

### LTIP awards to be granted in 2016

The Committee intends to grant LTIP awards over shares with the following value to the executive Directors in March 2016:

Peter Harrison	£400,000
Richard Keers	£300,000
Philip Mallinckrodt	£300,000

Neither Michael Dobson nor Massimo Tosato will receive a LTIP award in March 2016.

# Remuneration report

## Annual report on remuneration (continued)

### Shareholder voting on remuneration

At the 2015 AGM, shareholders approved the Remuneration report that was published in the 2014 Annual Report and Accounts. At the 2014 AGM, shareholders approved the Directors' remuneration policy. The results for both these votes are shown on the right:

	To approve the Remuneration report at the 2015 AGM		To approve the Directors' remuneration policy at the 2014 AGM	
	Shares voted	% of votes received	Shares voted	% of votes received
For	181,259,755	96.87%	165,335,404	92.19%
Against	5,852,814	3.13%	14,014,099	7.81%
Withheld	1,858,201	—	1,658,194	—

### Directors' rights under Share and Fund awards under deferred remuneration plans (audited)

Directors had the following rights to ordinary and non-voting ordinary shares under the Group's deferred remuneration plans as at 31 December 2015. These deferred remuneration plan interests are in the form of nil cost options.

Number of shares at year end						Number of shares under options that were exercised in the year <sup>2</sup>
Type	Unvested (performance conditions) <sup>1</sup>	Unvested (no performance conditions)	Vested	Total		
Michael Dobson	Ordinary	110,652	173,175	108,916	392,743	169,462
Peter Harrison	Ordinary	44,167	83,824	—	127,991	—
Richard Keers	Ordinary	31,281	52,089	—	83,370	—
Philip Mallinckrodt	Non-voting ordinary	68,507	55,048	232,924	356,479	—
Massimo Tosato <sup>3</sup>	Ordinary	53,490	103,216	114,330	271,036	141,969

<sup>1</sup> Includes LTIP awards granted on 12 March 2012, which were unvested as at 31 December 2015. These awards partially vested on 1 March 2016; the balance lapsed.

<sup>2</sup> During the year, the aggregate gain on share options for Michael Dobson was £5,396,000 and for Massimo Tosato was £4,600,000. These related to awards settled in shares or cash.

<sup>3</sup> Massimo Tosato holds unvested awards over 6,402 shares and vested awards over 10,386 shares which will be settled in cash. In 2015, 18,359 shares were settled in cash.

Directors had the following rights under Fund awards as at 31 December 2015, based on the award values at grant:

Awards at year end					Awards exercised in the year £'000
	Unvested (no performance conditions) £'000	Vested awards £'000	Total £'000		
Michael Dobson	4,263	—	4,263		1,200
Peter Harrison	1,675	—	1,675		—
Richard Keers	844	—	844		—
Philip Mallinckrodt	988	456	1,444		125
Massimo Tosato	2,481	—	2,481		744

### Directors' share interests (audited)

The Directors and their connected persons had the following interests in shares in the Company as at 31 December 2015 and as at 1 March 2016:

	Number of shares			
	31 December 2015		1 March 2016	
	Ordinary shares	Non-voting ordinary shares	Ordinary shares	Non-voting ordinary shares
<b>Executive Directors</b>				
Michael Dobson	423,971	187,821	423,991	187,821
Peter Harrison	237	—	257	—
Richard Keers	228	—	248	—
Philip Mallinckrodt <sup>1</sup>	79,461,706	5,995,343	79,461,706	5,995,343
Massimo Tosato	2,804	—	2,824	—
<b>Non-executive Directors</b>				
Andrew Beeson	—	15,000	—	15,000
Ashley Almanza	—	—	—	—
Robin Buchanan	—	8,961	—	9,202
Rhian Davies	—	—	—	—
Lord Howard	—	5,000	—	5,000
Nichola Pease	—	354	—	546
Bruno Schroder <sup>1</sup>	13,881,416	1,482,417	13,881,416	1,482,417

<sup>1</sup> The interests of Philip Mallinckrodt and Bruno Schroder set out above include beneficial interests of those Directors (and of their connected persons) in their respective capacities as members of a class of potential discretionary beneficiaries under certain settlements made by members of the Schroder family.



## Personal shareholding policy (audited)

In order to align the interests of senior employees 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 per cent. of annual base salary. Each executive Director and GMC member undertakes not to sell any Schroders shares until their share ownership target has been reached. With the exception of Richard Keers, who joined the Board on 5 May 2013, each executive Director had achieved this target as at 1 March 2016, based upon the mid-market closing share price on that date. The Committee expects that Richard Keers will have achieved this target within one year. For these purposes, rights to shares include the estimated after tax value of ECP Share awards, including awards due to be granted in respect of performance in 2015 (see page 79), but do not include any unvested rights to shares awarded under the LTIP as these are subject to performance conditions.

The chart below compares the value of each executive Director's shareholdings as at 1 March 2016 with the shareholding required under the personal shareholding policy, as a percentage of salary.

Michael Dobson	Policy	300
	Actual	4,108
Peter Harrison	Policy	300
	Actual	458
Richard Keers	Policy	300
	Actual	281
Philip Mallinckrodt*	Policy	300
	Actual	1,698
Massimo Tosato	Policy	300
	Actual	1,076

\* Philip Mallinckrodt's shareholding above is his holding derived from employment. It does not include his other share interests. See page 84.

## Compliance and risk management in remuneration

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 Risk, Legal and Compliance as part of its consideration of compensation proposals (see page 77).

The Group's remuneration policies and practices take account of applicable law and regulations, corporate governance standards and best practice and guidance issued by regulators and representative shareholder bodies. The Committee reviewed the remuneration part of the PRA Rulebook and the FCA's Remuneration Codes, along with regulatory guidance on remuneration deferrals, clawbacks, recruitment and retention awards and restrictions to prevent

employees hedging deferred remuneration outcomes, and is satisfied that the Group's approach is in line with regulatory requirements. Schroders is a Level 3 firm under the PRA Rulebook and the FCA Remuneration Code proportionality regimes. Individual pay and bonus decisions were reviewed for all employees deemed to be Code Staff under the Remuneration Code. Employees are not allowed to enter into hedging transactions that undermine the intended performance alignment of deferred awards.

The Committee also reviewed the Group's regulatory disclosures in the context of the FCA's and PRA's requirements. The required remuneration disclosures were incorporated into the Group's Pillar 3 disclosures and are available at [www.schroders.com/ir](http://www.schroders.com/ir).

## 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	Appointed	Services provided to the Committee	Other services provided to the Group	Fees paid for services to the Committee during 2015 (£'000)
McLagan International Inc (McLagan)	The Committee	15 November 2013	Information on market conditions and competitive rates of pay.	Information on market conditions and competitive rates of pay.	15
PwC	The Company	23 April 2013	Information on remuneration regulations, emerging market practice and conditions.	Advice to management on compliance with regulations.	8

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 Hewitt, which also provides advice and services to the Company in relation to pension administration, pension benefit valuations and pension actuarial advice. New Bridge Street, which is also part of Aon Hewitt, provided the Board with information in respect of market rates for non-executive Directors' fees. McLagan and New Bridge Street's fees were charged on the basis of a fixed fee for the preparation of reports setting out the information requested.

PwC is the Group's external auditor. Any non-audit services provided by PwC are subject to review in accordance with arrangements for the provision of such services as described in the report of the Audit and Risk Committee. The Committee did not independently engage PwC to provide any services. PwC's fees for services provided to the Company were charged on the basis of time spent.

# Remuneration report

## Remuneration policy for other senior executives

Senior executives below Board level receive the same components of remuneration as executive Directors, including:

- Base salary
- Benefits, including the opportunity to participate in the SIP for those based in the UK
- Pension or payment in lieu of pension
- Pay for performance, including annual bonus awards

These are provided on the same basis as to executive Directors, except the basis for determining deferral of annual bonus awards under the ECP may differ. Only executive Directors are eligible for LTIP awards but other senior employees are instead eligible to be considered for awards under the Equity Incentive Plan (EIP), under which a limited number of awards are granted each year. EIP awards are not subject to performance conditions.

The SIP and EIP are explained in more detail on the right.

By order of the Board.

### Lord Howard of Penrith

Chairman of the Remuneration Committee  
2 March 2016

#### Share Incentive Plan (SIP)

The SIP, which provides potential UK tax benefits, is part of the flexible benefits programme to broaden the number of employee shareholders and increase their participation as shareholders.

Under the terms of the SIP, participating employees use their own funds to acquire shares in the Company (Partnership Shares) and in return receive awards of shares (Matching Shares) from the Company of up to £100 per month based on the market value of the shares. To qualify for maximum tax benefits these shares must be left in the SIP for five years. Performance conditions do not apply. Participants are free to withdraw their Partnership Shares at any time but forfeit the corresponding Matching Shares if they do so or cease to be in employment within one year of acquiring the relevant Partnership Shares, except in certain circumstances set out in the rules of the SIP.

78 per cent. of UK employees participated in the plan as at 31 December 2015 (2014: 76 per cent.).

#### 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 require the participant to be employed continuously by the Group until the fifth anniversary of grant. Malus and clawback terms apply, in a similar way to awards under the ECP. Executive Directors are not eligible to receive EIP awards.

If a participant resigns before the fifth anniversary of grant, awards are normally forfeited in full.

EIP Share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to the dividends and associated tax credits due on the shares under the EIP award accrue until the award is exercised. EIP Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds.

# 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 European Union (EU). The financial statements are required by law to 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 judgements and estimates 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 65, 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 [www.schroders.com](http://www.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.

London is the headquarters of both Asset Management and Wealth Management.

Almost 2,000 employees work across our offices in London, Edinburgh, Oxford, Chester, Jersey and Guernsey and we manage £128.5 billion on behalf of clients based in the UK and Channel Islands. 38 per cent. of net operating revenues are generated from clients based in our home market. This is our largest presence across the globe.



#### In focus: London

We will consolidate all of our London offices into one purpose built building offering a modern working environment in an excellent location.

One London Wall Place is currently under construction and is expected to be available for occupancy in early 2018.



#### United Kingdom offices

London<sup>\*</sup>, Chester<sup>†</sup>, Edinburgh<sup>†</sup>,  
Guernsey<sup>†</sup>, Jersey<sup>†</sup>, Oxford<sup>†</sup>

<sup>\*</sup> Investment offices.

<sup>†</sup> Wealth Management offices.





# Financial report

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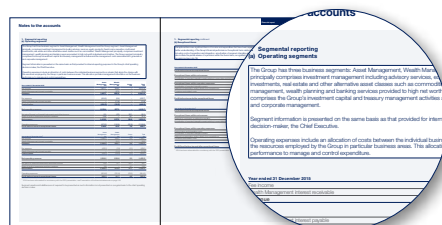
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### The different elements of the Financial report

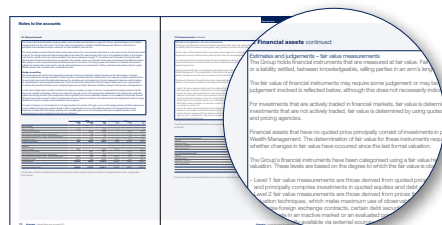
1. The Financial review is incorporated on the following pages alongside the primary statements and segmental reporting note. It is separately identified and forms part of the Strategic report. It does not form part of the financial statements of the Group and is unaudited.



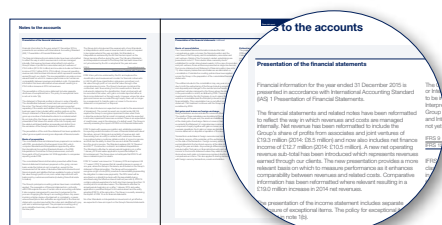
2. The blue print at the beginning of each note provides a 'plain English' description of the purpose of the note. It also incorporates accounting requirements that serve as the accounting policy.



3. Estimates and judgements are shown separately within the notes to the financial statements and are identified with grey print and a white background.



4. The presentation of the financial statements section, set out on pages 142 to 143, explains the basis of preparation of the financial statements and also includes a summary of the estimates and judgements.



## Financial review

**In volatile market conditions, our diverse business model enabled us to deliver strong growth in profits.**



It is a pleasure to present another year of strong results that demonstrate clearly the success of the Group's long-term focus and organic growth strategy. In addition to the results from our core Asset Management and Wealth Management businesses, our associates and joint ventures (JVs) delivered good results. Together, these businesses helped us deliver record profit before exceptional items and tax of £609.7 million. Basic and diluted earnings per share (EPS) before exceptional items increased by 6 per cent. and 7 per cent. respectively. After exceptional items, profit before tax increased by 14 per cent. to £589.0 million. Basic EPS was up 12 per cent. with diluted EPS up 13 per cent.

Assets under management (AUM) rose by 5 per cent. to £313.5 billion, driven by strong flows and a competitive investment performance, despite the challenging market conditions towards the end of the year. This growth in AUM led to a 7 per cent. increase in net revenues and, combined with good cost management, resulted in the growth in pre-tax profits before exceptional items. Exceptional items mainly comprise costs associated with the acquisitions completed in previous years as well as the partial release of a provision that was not fully required in Wealth Management.

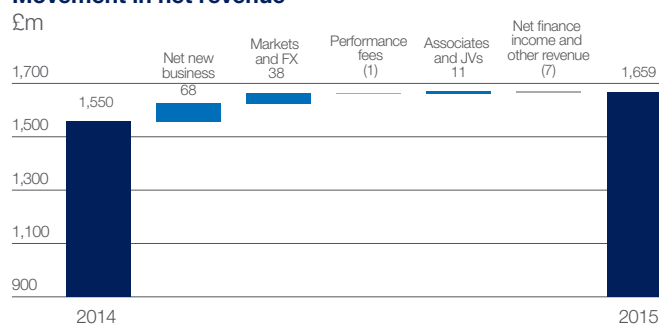
The market volatility we experienced towards the end of the year has continued in the early part of 2016. This presents challenges to our revenue in the short-term. However we are confident that our diverse business model and strong investment capability will support our continued growth over the long term.

This year we have reformatted the Consolidated income statement with a new category of net operating revenue and a new definition of net revenue, which now also includes interest income that we earn outside of our Wealth Management activities and our share of post-tax profits from associates and JVs. Associates and JVs are an important part of our business and comprise both strategic relationships (within our Asset Management segment) and investment arrangements (within our Group segment). This reformatting better reflects the way we consider net revenue, with our oversight and governance costs of these relationships already included within operating expenses.

In line with prior years, the detailed commentary which accompanies the primary statements explains how these financial results relate to our overall strategy, business model, key performance indicators and main business developments during the year.

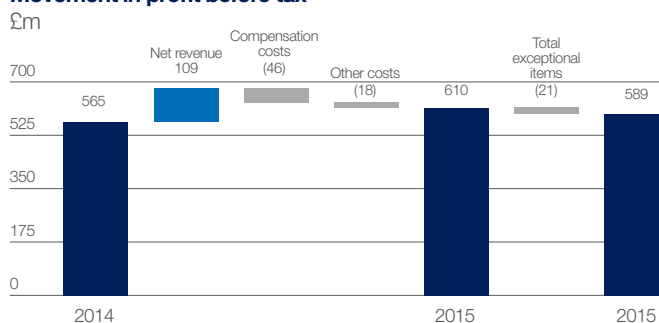
**Richard Keers**  
Chief Financial Officer  
2 March 2016

### Movement in net revenue



Net revenue before exceptional items increased by 7 per cent. driven by higher AUM, mainly arising from a strong sales performance in 2015 along with the full year impact of 2014 net flows. Investment performance remained competitive.

### Movement in profit before tax



2015 saw record profit before tax and exceptional items of £609.7 million and profit before tax and after exceptional items of £589.0 million, an increase of 8 per cent. and 14 per cent. respectively.



## Financial performance

The Group's income and expenses are presented in the Consolidated income statement and the Consolidated statement of comprehensive income. Exceptional items of income and expenditure are presented separately. This separate presentation of exceptional items provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

The table below shows the progression of the Group's net revenue, profit before tax and AUM in each quarter of the financial year. More detailed commentary on the performance of the Group's three segments can be found on pages 100 to 101.

2015	Q1	Q2	Q3	Q4	Total
Net operating revenue £m <sup>1</sup>	391.7	406.9	391.0	411.1	1,600.7
Net revenue £m <sup>1</sup>	410.2	416.2	402.9	429.2	1,658.5
Profit before tax £m <sup>1</sup>	149.6	156.1	147.5	156.5	609.7
Net new business £bn	5.1	3.7	(0.5)	4.7	13.0
AUM £bn	319.5	309.9	294.8	313.5	313.5

2014	Q1	Q2	Q3	Q4	Total
Net operating revenue £m <sup>1</sup>	354.4	360.7	378.4	401.7	1,495.2
Net revenue £m <sup>1</sup>	364.2	375.4	398.6	411.3	1,549.5
Profit before tax £m <sup>1</sup>	130.7	130.8	142.9	160.8	565.2
Net new business £bn	3.8	1.0	2.2	17.8	24.8
AUM £bn	268.0	271.5	276.2	300.0	300.0

<sup>1</sup> Excludes exceptional items.

### Net revenue and assets under management

Net revenue before exceptional items increased by 7 per cent. to £1,658.5 million (2014: £1,549.5 million) driven by higher average AUM compared with 2014 despite increased market volatility, particularly in the second half of the year. Net revenue included performance fees of £36.3 million (2014: £37.1 million), mainly in Asset Management.

AUM ended the year up 5 per cent. at £313.5 billion (2014: £300.0 billion). This increase was driven by net inflows of £13.0 billion as well as investment returns of £0.5 billion. Strong net inflows in Asia Pacific of £8.6 billion included £6.3 billion from Institutional clients in Japan. There were positive flows in all regions except the Americas which was affected by market sentiment regarding commodities. There were strong flows into Fixed Income and Multi-asset as investors looked for income and the trend towards outcome oriented products continued. Investment performance remains competitive with 72 per cent. of assets outperforming over three years.

The net operating revenue margin on average AUM decreased to 52 bps (2014: 54 bps). Excluding performance fees, the net operating revenue margin decreased to 51 bps (2014: 53 bps) as a result of changing product mix, including a 1 basis point fall from the full year impact of a single Institutional mandate that brought £12.0 billion of flows in the fourth quarter of 2014, mainly into Multi-asset.

### Operating expenses

Operating expenses before exceptional items increased to £1,048.8 million (2014: £984.3 million). Although actual costs increased, mainly as a result of the growth in the business, the Group's two key performance indicators relating to compensation and total costs are better than our targets (see page 13). This result reflects a continued focus on careful cost control balanced with investment in long-term growth opportunities.

Compensation costs excluding exceptional items increased to £734.0 million (2014: £687.8 million). Compensation costs are approximately 50 per cent. fixed with the remaining 50 per cent.

predominantly comprising discretionary bonuses linked to the Group's performance. Compensation costs are managed by reference to the total compensation costs to net revenue ratio which was 44 per cent. (2014: 44 per cent.) resulting in a profit share ratio of 37 per cent. (2014: 37 per cent.). Further details of the Group's remuneration arrangements are provided in the Remuneration report on pages 68 to 86.

Non-compensation costs increased by £18.3 million to £314.8 million. This increase is in line with our expectations and reflects incremental costs associated with the growth of the business, and continued investment in organic growth opportunities to ensure the Group remains well positioned for the long term. The total costs to net revenue ratio decreased marginally to 63 per cent. (2014: 64 per cent.), and was better than our long-term target.

### Profit before tax

Profit before tax and exceptional items increased by 8 per cent. to £609.7 million (2014: £565.2 million). After exceptional items of £20.7 million (2014: £48.1 million), the Group's profit before tax increased by 14 per cent. to £589.0 million (2014: £517.1 million). Exceptional items mainly comprised acquisition related costs with respect to both associates and subsidiaries acquired in prior years and were partially offset by the release of a provision established in a prior year.

### Taxation

The effective tax rate increased from 20.2 per cent. to 20.7 per cent. before exceptional items and from 20.1 per cent. to 20.6 per cent. after exceptional items. The increase mainly reflects a change to the geographical mix of business partially offset by a reduction to the standard rate of UK corporation tax. Profit after tax and before exceptional items was £483.4 million (2014: £451.3 million) and £467.4 million (2014: £413.2 million) after exceptional items.

### Earnings per share and dividends

Basic earnings per share before exceptional items was up 6 per cent. at 176.9 pence (2014: 166.8 pence). Basic earnings per share after exceptional items was up 12 per cent. at 171.1 pence (2014: 152.7 pence). The dividend per share, comprising the 2014 final dividend and the 2015 interim dividend, was up 17 pence at 83 pence per share.

### Other items of comprehensive gain or loss

The Consolidated statement of comprehensive income includes movements in the value of the Group's legacy defined benefit pension scheme, gains and losses arising on 'available-for-sale' financial instruments and exchange differences arising on the retranslation of overseas operations.

Actuarial gains of £7.3 million were recognised in 2015 (2014: gains of £36.9 million) reflecting the net increase in the defined benefit pension scheme surplus from economic and other changes to the pension obligation and the impact of investment returns on plan assets.

There was a net decrease of £18.9 million (2014: net increase of £2.7 million) in the fair value reserve for available-for-sale financial assets, driven by the transfer of £16.8 million (2014: £8.3 million) of realised gains to the Consolidated income statement on disposal of certain investments combined with unrealised losses on remaining investments of £5.9 million (2014: unrealised gains of £10.4 million).

These movements after tax combined with the Group's profit after tax resulted in total comprehensive income of £464.1 million (2014: £447.5 million).



# Consolidated income statement

for the year ended 31 December 2015

	Notes	2015			2014 <sup>4</sup>		
		Before exceptional items £m	Exceptional items <sup>3</sup> £m	Total £m	Before exceptional items £m	Exceptional items <sup>3</sup> £m	Total £m
Revenue	2	2,043.2	–	2,043.2	1,924.3	–	1,924.3
Cost of sales	3	(442.5)	–	(442.5)	(429.1)	–	(429.1)
<b>Net operating revenue<sup>1</sup></b>		<b>1,600.7</b>	<b>–</b>	<b>1,600.7</b>	<b>1,495.2</b>	<b>–</b>	<b>1,495.2</b>
Net gains on financial instruments and other income	4	36.3	–	36.3	43.7	2.8	46.5
Share of profit of associates and joint ventures	11	21.5	(2.2)	19.3	10.6	(2.1)	8.5
<b>Net revenue<sup>1</sup></b>		<b>1,658.5</b>	<b>(2.2)</b>	<b>1,656.3</b>	<b>1,549.5</b>	<b>0.7</b>	<b>1,550.2</b>
Operating expenses	5	(1,048.8)	(18.5)	(1,067.3)	(984.3)	(48.8)	(1,033.1)
<b>Profit before tax</b>		<b>609.7</b>	<b>(20.7)</b>	<b>589.0</b>	<b>565.2</b>	<b>(48.1)</b>	<b>517.1</b>
Tax	6(a)	(126.3)	4.7	(121.6)	(113.9)	10.0	(103.9)
<b>Profit after tax</b>		<b>483.4</b>	<b>(16.0)</b>	<b>467.4</b>	<b>451.3</b>	<b>(38.1)</b>	<b>413.2</b>
<b>Earnings per share</b>							
Basic	7	<b>176.9p</b>	<b>(5.8p)</b>	<b>171.1p</b>	<b>166.8p</b>	<b>(14.1p)</b>	<b>152.7p</b>
Diluted	7	<b>172.2p</b>	<b>(5.7p)</b>	<b>166.5p</b>	<b>161.5p</b>	<b>(13.7p)</b>	<b>147.8p</b>
<b>Dividends per share<sup>2</sup></b>	8			<b>83.0p</b>			<b>66.0p</b>

<sup>1</sup> Non-GAAP measure of performance.

<sup>2</sup> Prior year final dividend and current year interim dividend paid during the year.

<sup>3</sup> See note 1(b) for a definition and further details of exceptional items.

<sup>4</sup> 2014 has been reformatted for consistency with the 2015 presentation, see Presentation of the financial statements on page 142.

## Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit for the year		<b>467.4</b>	<b>413.2</b>
<b>Items that may be reclassified to the income statement on fulfilment of specific conditions:</b>			
Net exchange differences on translation of foreign operations after hedging		5.4	(1.8)
Net fair value movement arising from available-for-sale financial assets	4	(5.9)	10.4
Net fair value movement arising from available-for-sale financial assets held by associates	11	5.2	3.9
Tax on items taken directly to other comprehensive income	6(b)	3.8	0.6
		<b>8.5</b>	<b>13.1</b>
<b>Items reclassified to the income statement:</b>			
Net realised gains on disposal of available-for-sale financial assets	4	(16.8)	(8.3)
		<b>(16.8)</b>	<b>(8.3)</b>
<b>Items that will not be reclassified to the income statement:</b>			
Actuarial gains on defined benefit pension schemes	25	7.3	36.9
Tax on items taken directly to other comprehensive income	6(b)	(2.3)	(7.4)
		<b>5.0</b>	<b>29.5</b>
<b>Other comprehensive (losses)/income for the year net of tax</b>		<b>(3.3)</b>	<b>34.3</b>
<b>Total comprehensive income for the year net of tax</b>		<b>464.1</b>	<b>447.5</b>

## Financial stability

At 31 December 2015, the Group's net assets were £2,795.6 million, an increase of £257.8 million from 2014. This increase was mainly a result of total comprehensive income for the year of £464.1 million partially offset by dividends paid of £226.3 million. Other movements in net assets are set out in the Consolidated statement of changes in equity.

Our businesses are conducted in a number of legal forms which dictate the basis of accounting for total assets, as summarised below:

	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	–	270.6	270.6
Total Asset Management	11.3	270.6	281.9
Wealth Management	2.8	28.8	31.6
<b>Total AUM</b>	<b>14.1</b>	<b>299.4</b>	<b>313.5</b>
Other assets	4.0		
<b>Total assets</b>	<b>18.1</b>		

In 2015, the Group's total AUM increased by £13.5 billion to £313.5 billion.

Total Asset Management AUM was £281.9 billion at 31 December 2015 (2014: £268.9 billion). Within Asset Management, assets that are managed for clients are not generally owned by the Group and are not included in the Group's Consolidated statement of financial position. Life Company assets are owned by the Group, with a corresponding obligation to policyholders. As a result, Life Company assets are included in the Consolidated statement of financial position.

Wealth Management provides both investment management and banking services. Wealth Management AUM was £31.6 billion at 31 December 2015 (2014: £31.1 billion), of which £28.8 billion (2014: £28.2 billion) was not included in the Consolidated statement of financial position. Wealth Management subsidiaries are legally responsible for the banking assets and liabilities and gross assets and liabilities relating to banking operations are therefore included in the Consolidated statement of financial position.

Total assets reported in the Group's Consolidated statement of financial position decreased by £2.1 billion in 2015. This was primarily due to a reduction in Life Company assets.

Financial assets, excluding cash and cash equivalents and financial assets in the Life Company, increased by £683.3 million. This increase included a £283 million rise in the Group's investment and seed capital following the transfer of surplus operating capital. Excluding cash and cash equivalents, there was a £344.2 million increase in financial assets within Wealth Management which is partially dependent on the amount and nature of client positions and includes the impact of an increase in the maturity profile of the investment portfolio, resulting in a switch from cash equivalents to financial assets.

Financial liabilities, excluding the Life Company, decreased by £67.0 million mainly due to a reduction in the value of client deposits within Wealth Management.

Other notable movements include the following:

Trade and other receivables decreased by £14.2 million as a result of a reduction in the value of settlement accounts, which are impacted by the timing and volume of transactions into the UK fund range, and lower levels of outstanding fee debtors reflecting improvements in the efficiency of debt collection processes. This decrease was partially offset by higher management fees accrued and billed post year end corresponding with higher levels of revenue compared with 2014.

Trade and other payables increased by £9.1 million in line with the increase in total costs. This increase was partially offset by lower settlement accounts, consistent with the corresponding settlement asset.

The surplus on the UK defined benefit pension scheme increased by £11.7 million. Actuarial gains of £8.0 million (2014: gains of £38.7 million) principally reflect the increased discount rate and longevity assumptions used in the calculations partially offset by lower than expected returns on plan assets, primarily due to market volatility towards the end of the year. The 2014 triennial valuation was completed in 2015 and resulted in the conclusion that no further contributions are required to the Scheme in the short term (see note 25). Actuarial gains, including other retirement benefit schemes were £7.3 million (2014: gains of £36.9 million).

Provisions reduced by £27.7 million in the year, which included the partial release of a provision that was not fully required in Wealth Management (see note 18).

# Consolidated statement of financial position

31 December 2015

	Notes	2015 £m	2014 £m
<b>Assets</b>			
Cash and cash equivalents		3,019.0	3,535.3
Trade and other receivables	9	526.8	541.0
Financial assets	10	2,446.7	1,763.4
Associates and joint ventures	11	109.2	92.6
Property, plant and equipment	12	41.8	29.9
Goodwill and intangible assets	13	467.4	474.5
Deferred tax	14(a)	53.7	47.8
Retirement benefit scheme surplus	25	115.4	103.7
		<b>6,780.0</b>	<b>6,588.2</b>
<b>Assets backing unit-linked liabilities</b>			
Cash and cash equivalents		603.1	696.3
Financial assets		10,716.8	12,962.1
	15	<b>11,319.9</b>	<b>13,658.4</b>
<b>Total assets</b>		<b>18,099.9</b>	<b>20,246.6</b>
<b>Liabilities</b>			
Trade and other payables	16	761.2	752.1
Financial liabilities	17	3,126.5	3,193.5
Current tax		61.8	44.1
Provisions	18(a)	26.3	54.0
Deferred tax	14(b)	0.4	0.4
Retirement benefit scheme deficits		8.2	6.3
		<b>3,984.4</b>	<b>4,050.4</b>
<b>Unit-linked liabilities</b>	15	<b>11,319.9</b>	<b>13,658.4</b>
<b>Total liabilities</b>		<b>15,304.3</b>	<b>17,708.8</b>
<b>Net assets</b>		<b>2,795.6</b>	<b>2,537.8</b>
<b>Equity</b>		<b>2,795.6</b>	<b>2,537.8</b>

The financial statements were approved by the Board of Directors on 2 March 2016 and signed on its behalf by:

**Richard Keers**  
Director

**Bruno Schroder**  
Director

## Capital strength

Group equity increased by £257.8 million during the year to £2,795.6 million. The increase was made up of £464.1 million of total comprehensive income partially offset by a reduction of £206.3 million as a result of net transactions with shareholders.

Transactions with shareholders included £226.3 million of dividends paid in the year by Schroders plc. Other transactions included the purchase of 1.7 million own shares for £51.1 million offset by a £63.3 million credit arising as a result of the required accounting for share based payments.

We manage capital within the categories set out below:

	2015 £m	2014 £m
Regulatory capital	653	673
Other operating capital	253	284
<b>Operating capital</b>	<b>906</b>	<b>957</b>
Investment capital <sup>1</sup>	942	725
Seed capital	229	163
Other items <sup>2</sup>	719	693
<b>Total capital</b>	<b>2,796</b>	<b>2,538</b>

<sup>1</sup> Includes RWC Partners Limited and Schroder Ventures Investments Limited associates.

<sup>2</sup> Comprises goodwill, intangible assets, pension scheme surplus, other associates and joint ventures, and deferred tax.

### Operating capital

Operating capital comprises the minimum regulatory capital and other capital required for day to day operational purposes. Schroders plc is regulated by the Prudential Regulation Authority (PRA) as a UK consolidated group. Using the capital resources requirement for a Group holding a banking licence, the Group's capital requirement was £653 million (2014: £673 million).

The operating businesses are regulated locally in the countries in which we operate. We monitor operating capital regularly against regulatory capital and liquidity requirements and other operational needs. Operating capital held in excess of those requirements is transferred to investment capital.

### Investment capital

Investment capital is shareholders' investible equity 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 increased in the year as a result of the Group's profit after tax and a reduction to operating capital, partially offset by an increase to seed capital investments, dividends paid in the year and other capital transactions.

### Seed capital

Seed capital is used to develop new investment strategies, co-invest selectively alongside our clients and finance growth opportunities. Seed capital increased from £163 million to £229 million at 31 December 2015 as we identified opportunities for new product offerings.

Seed capital is deployed principally to support the growth of Asset Management and, where practical, the market risk on seed capital investments is hedged. Surplus capital is deployed in accordance with limits approved by the Board.

### Other items

Other items comprises assets that are not investible or available for the Group's general operating and regulatory requirements. It includes assets that are actually or potentially inadmissible for regulatory capital purposes, such as goodwill and intangible assets. The main movements during the year were: returns from certain associates and joint ventures net of dividends returned to the Group (£15.7 million); an increase in the net pension scheme surplus (£11.7 million); and a higher deferred tax asset (£5.9 million). These increases were partially offset by a net reduction in intangible assets mainly due to amortisation (£7.1 million).

### Dividends

The Group dividend policy is set out on page 13. The intention is to at least maintain or increase the dividend in line with the trend in profitability for the foreseeable future, having regard to overall Group strategy, capital requirements, liquidity and profitability. This approach will enable the Group to have sufficient surplus capital for future investment with consideration of possible risk scenarios including the impact of possible periods of economic downturn. We target a dividend payout ratio of 45 to 50 per cent. determined as the total dividend per share in respect of the year, divided by the Group's pre-exceptional basic earnings per share.

When deciding the level of dividend each year, the Board considers the ability of the Group to generate cash, the availability of the cash and the expected levels of investment in the business, including organic growth and seed capital. The Group is required to maintain a minimum regulatory capital requirement and a buffer is also retained above this minimum. 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 four years before taking account of any future profits.

Circumstances that could adversely impact the Group's ability to pay dividends in line with the policy include a combination of significantly increased regulatory costs and a prolonged deterioration in markets and/or performance leading to reduced revenues and a consequential increase in the cost to net revenue ratio.

The Board is recommending a final dividend of 58.0 pence per share, bringing the total dividend for the year to 87.0 pence per share, an increase of 12 per cent. from 2014. This represents a payout ratio of 49 per cent. and demonstrates our confidence in Schroders' long-term growth prospects.

### Further information

The Pillar 3 report at [www.schroders.com/ir](http://www.schroders.com/ir) provides further information on the calculation of regulatory capital.



# Consolidated statement of changes in equity

for the year ended 31 December 2015

	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2015		282.5	119.4	(200.1)	81.4	29.6	27.0	2,198.0	2,537.8
Profit for the year		–	–	–	–	19.3	–	448.1	467.4
Other comprehensive income/(losses) <sup>1</sup>		–	–	–	5.4	5.2	(18.9)	5.0	(3.3)
<b>Total comprehensive income/(losses) for the year</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>5.4</b>	<b>24.5</b>	<b>(18.9)</b>	<b>453.1</b>	<b>464.1</b>
Own shares purchased	22	–	–	(51.1)	–	–	–	–	(51.1)
Share-based payments	26	–	–	–	–	–	–	63.3	63.3
Tax in respect of share schemes	6(c)	–	–	–	–	–	–	7.4	7.4
Other movements in associates and joint ventures reserve	11	–	–	–	–	0.5	–	–	0.5
Dividends attributable to shareholders	8	–	–	–	–	–	–	(226.3)	(226.3)
Dividends attributable to non-controlling interests		–	–	–	–	–	–	(0.1)	(0.1)
<b>Transactions with shareholders</b>		<b>–</b>	<b>–</b>	<b>(51.1)</b>	<b>–</b>	<b>0.5</b>	<b>–</b>	<b>(155.7)</b>	<b>(206.3)</b>
<b>Transfers</b>		<b>–</b>	<b>–</b>	<b>75.7</b>	<b>–</b>	<b>(8.9)</b>	<b>–</b>	<b>(66.8)</b>	<b>–</b>
<b>At 31 December 2015</b>		<b>282.5</b>	<b>119.4</b>	<b>(175.5)</b>	<b>86.8</b>	<b>45.7</b>	<b>8.1</b>	<b>2,428.6</b>	<b>2,795.6</b>

	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2014		282.7	119.4	(229.9)	83.2	23.5	24.3	1,965.4	2,268.6
Profit for the year		–	–	–	–	8.5	–	404.7	413.2
Other comprehensive (losses)/income <sup>1</sup>		–	–	–	(1.8)	3.9	2.7	29.5	34.3
<b>Total comprehensive (losses)/income for the year</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(1.8)</b>	<b>12.4</b>	<b>2.7</b>	<b>434.2</b>	<b>447.5</b>
Shares cancelled	21	(0.2)	–	–	–	–	–	0.2	–
Own shares purchased	22	–	–	(64.9)	–	–	–	–	(64.9)
Share-based payments	26	–	–	–	–	–	–	60.6	60.6
Tax in respect of share schemes	6(c)	–	–	–	–	–	–	4.2	4.2
Other movements in associates and joint ventures reserve	11	–	–	–	–	(0.4)	–	–	(0.4)
Dividends attributable to shareholders	8	–	–	–	–	–	–	(177.7)	(177.7)
Dividends attributable to non-controlling interests		–	–	–	–	–	–	(0.1)	(0.1)
<b>Transactions with shareholders</b>		<b>(0.2)</b>	<b>–</b>	<b>(64.9)</b>	<b>–</b>	<b>(0.4)</b>	<b>–</b>	<b>(112.8)</b>	<b>(178.3)</b>
<b>Transfers</b>		<b>–</b>	<b>–</b>	<b>94.7</b>	<b>–</b>	<b>(5.9)</b>	<b>–</b>	<b>(88.8)</b>	<b>–</b>
<b>At 31 December 2014</b>		<b>282.5</b>	<b>119.4</b>	<b>(200.1)</b>	<b>81.4</b>	<b>29.6</b>	<b>27.0</b>	<b>2,198.0</b>	<b>2,537.8</b>

<sup>1</sup> Other comprehensive income/(losses) reported in the net exchange differences reserve represent foreign exchange gains and losses on the translation of foreign operations net of hedging. Other comprehensive income/(losses) reported in the associates and joint ventures reserve and the fair value reserve represent post-tax fair value movements on available-for-sale assets held. Other comprehensive income reported in the profit and loss reserve represent post-tax actuarial gains.

## Analysis of cash flows

### Cash position

The Group recognises cash and cash equivalents with a value of £3,622.1 million in its Consolidated statement financial position. This balance is analysed below:

	2015 £m	2014 £m
Cash backing unit-linked liabilities	603.1	696.3
Cash held in consolidated funds	46.0	8.3
<b>Cash that the Group cannot use for its own corporate purpose</b>	<b>649.1</b>	<b>704.6</b>
Cash in Wealth Management operations	2,255.0	2,666.2
Other cash	718.0	860.8
<b>Cash and cash equivalents available for use by the Group</b>	<b>2,973.0</b>	<b>3,527.0</b>
<b>Total</b>	<b>3,622.1</b>	<b>4,231.6</b>

The cash held by the Life Company backing unit-linked liabilities and within consolidated funds cannot be used by the Group for its own corporate purposes. Similarly, Wealth Management cash is normally not made available for the Group's general corporate purposes. Excluding cash held within these businesses, the Group's cash holdings decreased by £142.8 million to £718.0 million. Cash generated was primarily used to fund dividend payments, purchase financial assets for investment capital and seed capital purposes and to acquire own shares for employee share scheme hedging. Although the cash position reduced, the Group's general corporate cash position remains very strong and was further strengthened by entering into a £200.0 million loan facility in 2015 which provides additional access to short-term liquidity. This is in line with the Group's general capital position of maintaining a prudent position to ensure long-term stability.

The liquidity position in Wealth Management is strong and all entities maintain liquidity ratios that are substantially in excess of those required by local regulators. Cash in Wealth Management decreased by £411.2 million in the year, principally as a result of a change in the maturity profile of its investment portfolio, which resulted in an increase in financial assets.

### Operating cash flow (see note 23)

In 2015, net cash inflows from operating activities were £47.9 million, a decrease of £1,274.0 million from 2014. This variance arose as the 2014 operating cash flows included a one off cash inflow as a result of the integration of the acquired Cazenove Capital business into the Schroders operating model, which resulted in client cash being recognised in our Consolidated statement of financial position. The remaining movement was mainly due to a change in the maturity profile of the Wealth Management investment portfolio, which resulted in a switch from cash equivalents to financial assets in accordance with accounting rules.

Life Company cash flows relate to movements in balances that relate to unit-linked liabilities. Operating cash outflows were £2.6 million higher than 2014 at £93.2 million.

### Investing activities

Cash flows relating to investing activities include routine investment in property, plant and equipment and software, net purchases of liquid securities in the investment capital portfolio and the purchase and disposal of other short-term investments in the Wealth Management business. These transactions amounted to a net outflow of £430.6 million (2014: £114.3 million).

### Financing activities

Cash used in financing activities was £278.1 million (2014: £242.7 million). The outflow was principally a result of the payment of dividends of £226.3 million (2014: £177.7 million) and purchasing 1.7 million own shares at a cost of £51.1 million (2014: £64.9 million) to hedge share-based awards.

### Credit quality

The Company has a credit rating of A+ from Fitch.

### Going concern

Having considered the liquidity of the Group, the cash and other resources of the Group and the Group's cash requirements, the Directors consider the Group to be a going concern, as outlined on page 67.

# Consolidated cash flow statement

for the year ended 31 December 2015

	Note	2015 £m	2014 £m
<b>Net cash from operating activities</b>	23	<b>47.9</b>	<b>1,321.9</b>
<b>Cash flows from investing activities</b>			
Net acquisition of associates and joint ventures		–	(1.3)
Net acquisition of property, plant and equipment and intangible assets		(38.8)	(29.5)
Acquisition of financial assets		(1,556.3)	(997.9)
Disposal of financial assets		1,138.5	897.4
Non-banking interest received		16.9	11.1
Distributions and capital redemptions received from associates and joint ventures	11	9.1	5.9
<b>Net cash used in investing activities</b>		<b>(430.6)</b>	<b>(114.3)</b>
<b>Cash flows from financing activities</b>			
Acquisition of own shares	22	(51.1)	(64.9)
Dividends paid	8	(226.3)	(177.7)
Other flows		(0.7)	(0.1)
<b>Net cash used in financing activities</b>		<b>(278.1)</b>	<b>(242.7)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(660.8)</b>	<b>964.9</b>
Opening cash and cash equivalents		4,231.6	3,320.4
Net (decrease)/increase in cash and cash equivalents		(660.8)	964.9
Effect of exchange rate changes		51.3	(53.7)
<b>Closing cash and cash equivalents</b>		<b>3,622.1</b>	<b>4,231.6</b>
<b>Closing cash and cash equivalents consists of:</b>			
Cash backing unit-linked liabilities		603.1	696.3
Cash held in consolidated funds		46.0	8.3
<b>Cash that the Group cannot use for its own corporate purposes</b>		<b>649.1</b>	<b>704.6</b>
Cash		1,842.1	2,552.5
Cash equivalents		1,130.9	974.5
<b>Cash and cash equivalents available for use by the Group</b>		<b>2,973.0</b>	<b>3,527.0</b>
<b>Cash and cash equivalents</b>		<b>3,622.1</b>	<b>4,231.6</b>

## Financial review of segmental results

The Group has three business segments: Asset Management, Wealth Management and the Group segment. See pages 16 to 21.

### Asset Management

Net operating revenue comprises fees based on AUM, transaction-related fees and performance fees that are dependent on the performance of particular mandates and funds. Net revenue includes these items as well as gains on financial instruments and other income and our share of post-tax profits from associates and joint ventures.

AUM increased by £13.0 billion to £281.9 billion (2014: £268.9 billion) driven by net inflows of £13.1 billion, partially offset by the impact of volatile markets which, net of foreign exchange movements, reduced AUM by £0.1 billion. Average AUM for the year was higher at £277.9 billion compared with £244.5 billion in 2014.

Net revenue increased 8 per cent. to £1,412.5 million, reflecting increased management fees as a result of higher average AUM, higher levels of transactional income from the Group's real estate business and an increased contribution from our associates and joint ventures, principally our China-based associate. The net operating revenue margin including performance fees was 50 bps (2014: 53 bps) and the margin excluding performance fees was 49 bps (2014: 51 bps). The decrease in the margin excluding performance fees was in line with our expectations and driven mainly by changes in the mix of business following strong net inflows through the Institutional channel into lower margin multi-asset and fixed income products both in 2015 and towards the end of 2014.

Net operating revenues, including performance fees, of £628.7 million (2014: £571.7 million) were generated from the Institutional channel and £764.7 million (2014: £716.4 million) from the Intermediary channel.

Net operating revenues increased in the Institutional channel as AUM benefited from strong net inflows in the year of £8.8 billion and higher average market levels. Net inflows were predominantly from clients in Asia Pacific and the UK into Fixed Income and Multi-asset.

The Intermediary channel also generated higher net operating revenue, mainly due to £4.3 billion of net inflows and higher average market levels. There was strong demand from clients in continental Europe for fixed income, multi-asset and equities products and from Asia Pacific clients for equities and multi-asset products. These were partially offset by net outflows in the UK, most notably in equities.

Performance fees of £35.7 million (2014: £34.2 million) represented 3 per cent. of net operating revenue in 2015 (2014: 3 per cent.). Institutional clients accounted for £26.2 million (2014: £27.8 million) and £9.5 million (2014: £6.4 million) related to Intermediary clients.

Asset Management costs increased to £872.0 million (2014: £809.0 million). This increase was largely driven by higher compensation and IT costs as a result of our continued investment in both people and developing our processes. There was also an increase to market data costs, which follows a market trend to higher costs for benchmark and similar data.

### 1. Asset Management net revenue

	£m
2014	1,308.3
2015	1,412.5

### 2. Asset Management net operating revenue

	£m
2014	1,288.1
2015	1,393.4

### 3. Institutional net operating revenue

	£m
2014	571.7
2015	628.7

### 4. Intermediary net operating revenue

	£m
2014	716.4
2015	764.7

### 5. Asset Management net operating revenue margin<sup>1</sup>

	basis points
2014	51
2015	49

### 6. Wealth Management net revenue

	£m
2014	213.5
2015	207.2

### 7. Wealth Management net operating revenue margin<sup>1</sup>

	basis points
2014	67
2015	65

<sup>1</sup> Excluding performance fees.

Asset Management profit before tax and exceptional items increased by 8 per cent. to £540.5 million (2014: £499.3 million). Exceptional costs of £12.1 million relate to amortisation of acquired intangible assets, resulted in profit before tax of £528.4 million (2014: £481.7 million).

### Wealth Management

Wealth Management net revenue decreased by 3 per cent. to £207.2 million (2014: £213.5 million) and is analysed below.

	2015 £m	2014 £m
Management fees	155.2	154.8
Performance fees	0.6	2.9
Transaction fees	36.0	34.5
Net banking interest income	15.5	14.6
<b>Net operating revenue</b>	<b>207.3</b>	<b>206.8</b>
Net (losses)/gains on financial instruments and other income	(0.1)	6.7
<b>Net revenue</b>	<b>207.2</b>	<b>213.5</b>

Net operating revenue, which excludes (losses)/gains on financial instruments and other income increased by £0.5 million. Management fees increased to £155.2 million whilst performance fees reduced from £2.9 million to £0.6 million, due to the one-off fee in 2014. Net banking interest increased 7 per cent. to £15.5 million. The net operating revenue margin excluding performance fees decreased to 65 bps (2014: 67 bps).



## Financial review of segmental results continued

Net revenue decreased by £6.3 million to £207.2 million principally due to the one-off release of loan loss provisions in 2014.

Wealth Management operating expenses decreased by £5.9 million to £145.9 million (2014: £151.8 million), as we maintained strong cost control following the completion of the Cazenove Capital integration in 2014. Within operating expenses, the main decrease was in accommodation costs. Profit before tax and exceptional items was broadly unchanged at £61.3 million (2014: £61.7 million).

Exceptional costs mainly comprise amortisation of acquired intangible assets. These costs were mostly offset by the partial release of a provision relating to the US Department of Justice programme (see note 18).

Profit before tax and after exceptional items was up 46 per cent. at £60.5 million (2014: £41.3 million).

### Group segment

The Group segment includes returns on investment capital and income from financial investments, including RWC Partners Limited and Schroder Ventures Investments Limited, as well as net returns from seed capital after hedging. Depending on the accounting classification of the invested assets, returns are either recognised in the Consolidated income statement or, where investments are classified as 'available-for-sale', fair value movements are recorded in the Consolidated statement of comprehensive income as shown in the table below.

Investment capital returned £14.9 million in 2015 (2014: £20.9 million) on average assets of £917 million (2014: £603 million). Of this return, £36.8 million (2014: £19.5 million) was recorded in the Consolidated income statement, and a loss of £21.9 million (2014: £1.4 million gain) was recorded in Other comprehensive income after reclassifying realised gains, including a £19.3 million gain on the sale of private equity investments, to the Consolidated income statement.

Seed capital losses net of hedging were £0.8 million (2014: £2.5 million gains) on an average investment of £167 million (2014: £169 million). We hedge currency and market exposures where practical and cost effective.

Group costs increased to £30.9 million (2014: £23.5 million) with the increase being driven mainly by a change to our insurance cost recognition by segment. Excluding this re-allocation, underlying costs were stable and represented the governance and general management costs of the Group.

The Group segment profit before tax and exceptional items was £7.9 million (2014: £4.2 million). Exceptional items comprise acquisition costs related to Cazenove Capital and STW in the form of share-based payments which are required under accounting rules to be included as a Consolidated income statement charge. The profit before tax was £0.1 million (2014: loss of £5.9 million).

### Group segment net income and capital returns

	Income statement £m	Other comprehensive income £m	2015 £m	Income statement £m	Other comprehensive income £m	2014 £m
Investment capital return	36.8	(21.9)	14.9	19.5	1.4	20.9
Seed capital return	0.1	(0.9)	(0.8)	1.2	1.3	2.5
Other returns	1.9	–	1.9	7.0	–	7.0
<b>Total</b>	<b>38.8</b>	<b>(22.8)</b>	<b>16.0</b>	<b>27.7</b>	<b>2.7</b>	<b>30.4</b>

# Notes to the accounts

## 1. Segmental reporting

### (a) Operating segments

The Group has three business segments: Asset Management, Wealth Management and the Group segment. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset investments, real estate and other alternative asset classes such as commodities. Wealth Management principally comprises investment management, wealth planning and banking services provided to high net worth individuals and charities. The Group segment principally comprises the Group's investment capital and treasury management activities and the management costs associated with governance and corporate management.

Segment information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision-maker, the 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.

	Asset Management £m	Wealth Management £m	Group £m	Total £m
<b>Year ended 31 December 2015</b>				
Fee income	1,817.7	198.2	–	2,015.9
Wealth Management interest receivable	–	27.3	–	27.3
<b>Revenue</b>	<b>1,817.7</b>	<b>225.5</b>	<b>–</b>	<b>2,043.2</b>
Fee expense	(424.3)	(6.4)	–	(430.7)
Wealth Management interest payable	–	(11.8)	–	(11.8)
<b>Cost of sales</b>	<b>(424.3)</b>	<b>(18.2)</b>	<b>–</b>	<b>(442.5)</b>
<b>Net operating revenue</b>	<b>1,393.4</b>	<b>207.3</b>	<b>–</b>	<b>1,600.7</b>
Net gains/(losses) on financial instruments and other income	6.3	(0.1)	30.1	36.3
Share of profit of associates and joint ventures	12.8	–	8.7	21.5
<b>Net revenue</b>	<b>1,412.5</b>	<b>207.2</b>	<b>38.8</b>	<b>1,658.5</b>
Operating expenses	(872.0)	(145.9)	(30.9)	(1,048.8)
<b>Profit before tax and exceptional items</b>	<b>540.5</b>	<b>61.3</b>	<b>7.9</b>	<b>609.7</b>
<b>Year ended 31 December 2014<sup>1</sup></b>				
Fee income	1,698.2	200.1	0.4	1,898.7
Wealth Management interest receivable	–	25.6	–	25.6
<b>Revenue</b>	<b>1,698.2</b>	<b>225.7</b>	<b>0.4</b>	<b>1,924.3</b>
Fee expense	(410.1)	(7.9)	(0.1)	(418.1)
Wealth Management interest payable	–	(11.0)	–	(11.0)
<b>Cost of sales</b>	<b>(410.1)</b>	<b>(18.9)</b>	<b>(0.1)</b>	<b>(429.1)</b>
<b>Net operating revenue</b>	<b>1,288.1</b>	<b>206.8</b>	<b>0.3</b>	<b>1,495.2</b>
Net gains on financial instruments and other income	14.3	6.7	22.7	43.7
Share of profit of associates and joint ventures	5.9	–	4.7	10.6
<b>Net revenue</b>	<b>1,308.3</b>	<b>213.5</b>	<b>27.7</b>	<b>1,549.5</b>
Operating expenses	(809.0)	(151.8)	(23.5)	(984.3)
<b>Profit before tax and exceptional items</b>	<b>499.3</b>	<b>61.7</b>	<b>4.2</b>	<b>565.2</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see Presentation of the financial statements on page 142.

Segment assets and liabilities are not required to be presented as such information is not presented on a regular basis to the chief operating decision maker.

## 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 acquisitions made by the Group in 2013, including costs of acquisition and integration, amortisation of acquired intangible assets and deferred compensation. Exceptional items also include the partial release of a provision within the Swiss bank, recognised in 2013, in connection with the US Department of Justice programme (see note 18).

Year ended 31 December 2015	Asset Management £m	Wealth Management £m	Group £m	Total £m
<b>Profit before tax and exceptional items</b>	<b>540.5</b>	<b>61.3</b>	<b>7.9</b>	<b>609.7</b>
<b>Exceptional items within net revenue:</b>				
Amortisation of acquired intangible assets relating to associates and joint ventures	(2.2)	–	–	(2.2)
<b>Exceptional items within operating expenses:</b>				
Amortisation of acquired intangible assets	(9.9)	(8.0)	–	(17.9)
Deferred compensation arising directly from acquisitions	–	–	(7.8)	(7.8)
Provisions and related costs	–	7.2	–	7.2
	<b>(9.9)</b>	<b>(0.8)</b>	<b>(7.8)</b>	<b>(18.5)</b>
<b>Profit before tax and after exceptional items</b>	<b>528.4</b>	<b>60.5</b>	<b>0.1</b>	<b>589.0</b>
 Year ended 31 December 2014 <sup>1</sup>	 Asset Management £m	 Wealth Management £m	 Group £m	 Total £m
<b>Profit before tax and exceptional items</b>	<b>499.3</b>	<b>61.7</b>	<b>4.2</b>	<b>565.2</b>
<b>Exceptional items within net revenue:</b>				
Reversal of contingent consideration payable	–	–	2.8	2.8
Amortisation of acquired intangible assets relating to associates and joint ventures	(2.1)	–	–	(2.1)
	<b>(2.1)</b>	<b>–</b>	<b>2.8</b>	<b>0.7</b>
<b>Exceptional items within operating expenses:</b>				
Restructuring and integration costs	(3.7)	(8.3)	–	(12.0)
Amortisation of acquired intangible assets	(11.8)	(9.2)	–	(21.0)
Deferred compensation arising directly from acquisitions	–	–	(12.9)	(12.9)
Provisions and related costs	–	(2.9)	–	(2.9)
	<b>(15.5)</b>	<b>(20.4)</b>	<b>(12.9)</b>	<b>(48.8)</b>
<b>Profit/(loss) before tax and after exceptional items</b>	<b>481.7</b>	<b>41.3</b>	<b>(5.9)</b>	<b>517.1</b>

<sup>1</sup> 2014 has been reformatting for consistency with the 2015 presentation, see Presentation of the financial statements on page 142.

# Notes to the accounts

## 1. Segmental reporting continued

### (c) Geographical information

Net operating revenue by country is presented below based on the location of clients:

Country	Net operating revenue	
	2015 £m	2014 <sup>1</sup> £m
United Kingdom	601.6	594.0
United States	127.8	125.0
Switzerland	105.5	108.7
Italy	105.4	92.6
Hong Kong	99.0	80.3
Australia	97.8	101.2
Singapore	51.4	46.1
Japan	49.8	38.3
Germany	43.5	40.8
Other	318.9	268.2
<b>Total</b>	<b>1,600.7</b>	<b>1,495.2</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see Presentation of the financial statements on page 142.

The Group's non-current assets are located in the following countries:

Country	Non-current assets <sup>1</sup>	
	2015 £m	2014 £m
United Kingdom	437.9	434.8
China	60.8	43.8
United States	28.4	28.2
Switzerland	26.4	25.2
India	17.7	19.0
Singapore	13.0	8.4
Other	34.5	37.8
<b>Total</b>	<b>618.7</b>	<b>597.2</b>

<sup>1</sup> Comprises the following non-current assets: property, plant and equipment, goodwill and intangible assets, associates and joint ventures and prepayments.

### (d) Non-cash items

Year ended 31 December 2015	Asset Management £m	Wealth Management £m	Group £m	Total £m
<b>Operating expenses include the following non-cash items:</b>				
Share-based payments	(49.5)	(3.1)	(10.7)	(63.3)
Depreciation and amortisation	(27.7)	(8.7)	–	(36.4)
Net provisions reversed	7.4	7.4	–	14.8
Year ended 31 December 2014	Asset Management £m	Wealth Management £m	Group £m	Total £m
<b>Operating expenses include the following non-cash items:</b>				
Share-based payments	(44.6)	(2.6)	(13.4)	(60.6)
Depreciation and amortisation	(26.7)	(10.3)	–	(37.0)
Net provisions (charged)/reversed, net of insurance recovery	(3.5)	(4.2)	0.9	(6.8)

Where applicable, exceptional items are included in the non-cash items above.



## 2. 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 and other fees.

Management fees are generated through investment management agreements and are generally based on an agreed percentage of the valuation of AUM. The fees are recognised as the service is provided and it is probable that the fee will be received.

Performance fees are earned from some clients when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised at the end of these performance periods, when a reliable estimate of the fee can be made and it is almost certain that the fee will be received.

Revenue also includes other income, principally transaction-based, which varies according to the volume of transactions. Such fees are recorded as income as the service is provided and the receipt of income is almost certain.

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.

Revenue comprises:

	2015 £m	2014 <sup>1</sup> £m
Management fees	1,763.0	1,663.8
Performance fees	36.3	37.1
Other income	216.6	197.8
Interest income earned by Wealth Management	27.3	25.6
	<b>2,043.2</b>	<b>1,924.3</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see Presentation of the financial statements on page 142.

## 3. Cost of sales

Commissions, external fund manager fees and distribution fees payable to financial institutions, investment platform providers and financial advisers that distribute our products are recorded as fee expense within cost of sales. Fee expense varies primarily in proportion to AUM and is generally based on an agreed percentage of the value of the investments placed with the Group and is recognised in the income statement as the service is received.

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 interest payable elsewhere in the business and is reported as part of cost of sales. Interest payable is recognised using the effective interest method (see note 2).

Cost of sales comprises:

	2015 £m	2014 £m
Fee expense	430.7	418.1
Interest expense incurred by Wealth Management	11.8	11.0
	<b>442.5</b>	<b>429.1</b>

# Notes to the accounts

## 4. Net gains on financial instruments and other income

The Group holds financial instruments to support its Group capital strategies. Financial instruments within operating capital include low risk investments held for regulatory capital purposes in certain operating entities. The Group's investment capital is invested in a variety of financial instruments to generate a target risk-adjusted return.

Net gains and losses, principally representing market movements on financial instruments such as fixed income debt instruments, equities and certain loans and deposits in Wealth Management that are held at fair value to match the revaluation of interest rate swaps, are recognised in this line of the income statement as are any gains and losses on derivatives (which mainly arise from hedging activities).

Of the Group's investments held at fair value, a portion are carried at fair value through profit or loss (FVP) and gains and losses arising are recognised in the income statement. FVP investments are those that are initially designated as such, and those that are held for regular trading. The remainder are classified as available-for-sale. This classification is selected typically when the investment is expected to be held for the long term but not necessarily to maturity and where short-term volatility does not reflect long-term expected returns. Generally, unrealised gains and losses on available-for-sale investments are recorded in other comprehensive income, but the cumulative gains and losses are transferred to the income statement if the investment is impaired, sold or otherwise realised. The fair value reserve in the statement of changes in equity represents the difference between the cost (or, if the asset has been reclassified or impaired, the fair value at date of reclassification or impairment) and the fair value of financial assets that are classified as available-for-sale. Any impairments on loans and receivables are also included in the income statement. The Group reviews its available-for-sale investments and loans and receivables for impairment at the end of each reporting period.

The Group earns interest on non-banking activities (net finance income), principally on cash and deposits with banks, but also as a result of holding investments in debt and fixed income securities. Fixed income investments 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 managed by the Wealth Management treasury team. Interest earned on the assets held within Wealth Management is included in revenue; 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 gains and losses on foreign exchange and rent receivable from subletting properties.

Net gains and losses on financial instruments and other income are:

	2015			2014 <sup>1</sup>		
	Income statement £m	Other comprehensive income £m	Total £m	Income statement £m	Other comprehensive income £m	Total £m
Net (losses)/gains on financial instruments held at fair value through profit or loss – held for trading	(4.2)	–	(4.2)	14.1	–	14.1
Net losses on financial instruments designated as being at fair value through profit or loss upon initial recognition	–	–	–	(1.4)	–	(1.4)
<b>Net (losses)/gains on financial instruments held at fair value through profit or loss</b>	<b>(4.2)</b>	<b>–</b>	<b>(4.2)</b>	<b>12.7</b>	<b>–</b>	<b>12.7</b>
Net fair value movements on available-for-sale financial assets	–	(5.9)	(5.9)	–	10.4	10.4
Net transfer on disposal of available-for-sale financial assets – equities	16.8	(16.8)	–	8.3	(8.3)	–
<b>Net fair value movement on available-for-sale financial assets</b>	<b>16.8</b>	<b>(22.7)</b>	<b>(5.9)</b>	<b>8.3</b>	<b>2.1</b>	<b>10.4</b>
Net reversal of impairment of loans and receivables	–	–	–	7.5	–	7.5
Net finance income	12.7	–	12.7	10.5	–	10.5
Other income	11.0	–	11.0	7.5	–	7.5
<b>Net gains/(losses) on financial instruments and other income</b>	<b>36.3</b>	<b>(22.7)</b>	<b>13.6</b>	<b>46.5</b>	<b>2.1</b>	<b>48.6</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see Presentation of the financial statements on page 142.

## 5. Operating expenses

Operating expenses represent the Group's administrative expenses and are recognised as the services are provided. 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 part is employee benefits, as shown below. Other costs include accommodation, information technology and marketing, along with movements in provisions which are recorded based on an estimate of unavoidable costs relating to past transactions.

The control of compensation and total cost are both key performance objectives of the Group. Compensation is managed to a target compensation to net revenue range of 45 to 49 per cent. Targeting a compensation to net revenue range provides some flexibility to manage the overall cost base in response to market conditions. Total costs are managed to a target long-term ratio of 65 per cent. cost to net revenue.

Employee benefits expense includes salaries and wages, together with the cost of other benefits provided to employees such as pension and bonuses. The Group makes some performance awards to employees which are deferred over a specified vesting period. Such awards are charged to the income statement over the performance period and the vesting period. Further detail on other types of employee benefit can be found elsewhere within these financial statements: see note 25 for pension costs, and note 26 for more detail on compensation that is awarded in Schroders plc shares.

### (a) Employee benefits expense and number of employees

	2015 £m	2014 £m
Salaries, wages and other remuneration	645.0	613.6
Social security costs	63.3	59.4
Pension costs	33.5	31.6
	<b>741.8</b>	<b>704.6</b>

£7.8 million (2014: £16.8 million) of the total compensation costs of £741.8 million (2014 £704.6 million) are included within exceptional items, being £7.8 million (2014: £12.9 million) of deferred compensation costs arising directly from acquisitions and nil (2014: £3.9 million) integration costs.

Information about key management personnel compensation can be found in note 27. Amounts paid to or receivable by Directors along with the number who exercised share options in the year are detailed in the Remuneration report on pages 68 to 86.

The monthly average number of employees of the Company and its subsidiary undertakings during the year was:

	2015 Number	2014 Number
Full-time employees	3,424	3,260
Contract and temporary employees	267	282
	<b>3,691</b>	<b>3,542</b>
Employed as follows:		
Asset Management	3,073	2,919
Wealth Management	608	614
Group	10	9
	<b>3,691</b>	<b>3,542</b>

### (b) Audit and other services

	2015 £m	2014 £m
Fees payable to the auditor for the audit of the Company and consolidated financial statements	0.5	0.5
Fees payable to the auditor and its associates for other services:		
Audit of the Company's subsidiaries	2.5	2.4
Audit-related assurance services	0.8	0.3
Other assurance services	0.5	0.6
Tax advisory services	0.1	0.4
Tax compliance services	0.7	0.4
Other non-audit services	0.2	0.3
	<b>5.3</b>	<b>4.9</b>

# Notes to the accounts

## 6. 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 14). 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

	2015 £m	2014 £m
UK Corporation Tax on profits for the year	45.7	51.1
Adjustments in respect of prior year estimates	(0.3)	(0.5)
Foreign tax – current	84.0	63.4
Foreign tax – adjustments in respect of prior year estimates	5.2	2.9
<b>Current tax</b>	<b>134.6</b>	<b>116.9</b>
Origination and reversal of temporary differences	(7.5)	(11.2)
Adjustments in respect of prior year estimates	(4.3)	(1.9)
Effect of changes in Corporation Tax rates	(1.2)	0.1
<b>Deferred tax</b>	<b>(13.0)</b>	<b>(13.0)</b>
<b>Tax charge reported in the income statement</b>	<b>121.6</b>	<b>103.9</b>

### (b) Analysis of tax (credit)/charge reported in other comprehensive income

	2015 £m	2014 £m
Current income tax on movements in available-for-sale financial assets	(3.8)	(0.6)
Deferred tax on actuarial gains on defined benefit pension schemes	1.6	7.4
Deferred tax – effect of changes in Corporation Tax rates	0.7	–
<b>Tax (credit)/charge reported in other comprehensive income</b>	<b>(1.5)</b>	<b>6.8</b>

### (c) Analysis of tax credit reported in equity

	2015 £m	2014 £m
Current income tax on Equity Compensation Plan and other share-based remuneration	(12.5)	(9.9)
Deferred tax on Equity Compensation Plan and other share-based remuneration	4.7	5.7
Deferred tax – effect of changes in Corporation Tax rates	0.4	–
<b>Tax credit reported in equity</b>	<b>(7.4)</b>	<b>(4.2)</b>

### (d) Factors affecting tax charge for the year

The UK standard rate of Corporation Tax reduced from 21 per cent. to 20 per cent. on 1 April 2015 resulting in a UK effective tax rate for the year of 20.25 per cent. (2014: effective rate of 21.5 per cent.). The tax charge for the year is higher (2014: lower) than a charge based on the UK effective rate.

	2015 £m	2014 £m
Profit before tax	589.0	517.1
Less post-tax profits of associates and joint ventures	(19.3)	(8.5)
<b>Profit before tax of Group entities</b>	<b>569.7</b>	<b>508.6</b>
Profit before tax of consolidated Group entities multiplied by Corporation Tax at the UK effective rate of 20.25 per cent. (2014: 21.5 per cent.)	115.4	109.3
<b>Effects of:</b>		
Different statutory tax rates of overseas jurisdictions	12.8	4.5
Permanent differences including non-taxable income and non-deductible expenses	(4.1)	(6.9)
Net movement in timing differences for which no deferred tax is recognised	(1.9)	(3.6)
Deferred tax adjustments in respect of changes in Corporation Tax rates	(1.2)	0.1
Prior year adjustments	0.6	0.5
<b>Tax charge reported in the income statement</b>	<b>121.6</b>	<b>103.9</b>

## 7. Earnings per share

This key performance indicator shows the portion of the Group's profit after tax that is attributable to each share (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 period. 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:

	2015 Number Millions	2014 Number Millions
Weighted average number of shares used in calculation of basic earnings per share	273.1	270.4
Effect of dilutive potential shares – share options	7.0	8.3
Effect of dilutive potential shares – contingently issuable shares	0.6	0.7
<b>Weighted average number of shares used in calculation of diluted earnings per share</b>	<b>280.7</b>	<b>279.4</b>

The earnings per share calculations are based on profit after tax excluding non-controlling interests of £0.1 million (2014: £0.1 million).

## 8. Dividends

Dividends are distributions of profit to holders of the Group's share capital, usually announced with the Group's half-yearly 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.

	2016		2015		2014	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Prior years final dividend paid			147.3	54.0	113.0	42.0
Interim dividend paid			79.0	29.0	64.7	24.0
<b>Total dividends paid</b>			<b>226.3</b>	<b>83.0</b>	<b>177.7</b>	<b>66.0</b>
<b>Current year final dividend recommended</b>	<b>158.0</b>	<b>58.0</b>				

Dividends of £8.2 million (2014: £8.8 million) on shares held by employee benefit trusts have been waived; dividends may not be paid on treasury shares. The Board has recommended a 2015 final dividend of 58.0 pence per share (2014 final dividend: 54.0 pence), amounting to £158.0 million (2014 final dividend: £147.3 million). The dividend will be paid on 5 May 2016 to shareholders on the register at 29 March 2016 and will be accounted for in 2016.

## 9. 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 which are recorded at fair value, are recorded initially at fair value and subsequently at amortised cost (see note 10), 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 recognised in the income statement. Amounts due from third parties include fees yet to be received as well as settlement accounts for transactions undertaken on behalf of funds and investors.

	2015			2014		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
<b>Trade and other receivables held at amortised cost:</b>						
Fee debtors	–	38.1	38.1	–	44.3	44.3
Settlement accounts	–	129.2	129.2	–	144.5	144.5
Accrued income	–	282.8	282.8	–	275.3	275.3
Prepayments	0.3	25.1	25.4	0.2	21.0	21.2
Other receivables	2.0	20.5	22.5	1.8	14.4	16.2
Current tax	–	8.7	8.7	–	10.3	10.3
	<b>2.3</b>	<b>504.4</b>	<b>506.7</b>	<b>2.0</b>	<b>509.8</b>	<b>511.8</b>
<b>Trade and other receivables held at fair value:</b>						
Deposits with banks in the form of bullion	–	20.1	20.1	–	29.2	29.2
	<b>2.3</b>	<b>524.5</b>	<b>526.8</b>	<b>2.0</b>	<b>539.0</b>	<b>541.0</b>

As a result of their short-term nature, the fair value of trade and other receivables held at amortised cost approximates to their carrying value. Deposits with banks in the form of bullion are categorised as level 1 in the fair value hierarchy (see note 10).



# Notes to the accounts

## 10. Financial assets

The Group holds financial assets including equities, debt securities and derivatives to support its Group capital strategies and its Wealth Management book and client loans. The Group enters into derivatives on behalf of Wealth Management clients to enable them to participate in the derivatives market, referred to as client facilitation (see note 20).

The Group initially records all financial assets at fair value, which is the cost of acquiring the asset or, in the case of loans, the amount loaned to clients. The Group holds each financial asset either at fair value ('fair value through profit or loss' and 'available-for-sale') or at amortised cost ('held to maturity' and 'loans and receivables'). Fair value is explained on page 111. Amortised cost is the basis of moving the initial value at which the financial instrument is recognised 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. The carrying value of amortised cost financial instruments is adjusted for impairments. Impairment is normally determined based on an assessment of future cash flows discounted using the original effective interest rate compared with contractual amounts.

### Hedge accounting

Where derivatives are held for risk management purposes, the Group designates certain derivatives as fair value hedges or 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.

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement whereas, for an available-for-sale asset, it would otherwise have been recorded in other comprehensive income. Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting or the instrument is derecognised.

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 ineffective portion 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.

	2015			2014		
	Listed £m	Unlisted £m	Total £m	Listed £m	Unlisted £m	Total £m
<b>Non-current</b>						
Held to maturity	15.0	–	15.0	4.4	–	4.4
Loans and receivables	–	273.4	273.4	–	237.6	237.6
Fair value through profit or loss – derivatives	–	0.3	0.3	–	3.1	3.1
Fair value through profit or loss – other investments	–	0.1	0.1	–	11.2	11.2
Available-for-sale	18.6	32.8	51.4	30.2	20.8	51.0
<b>Total non-current</b>	<b>33.6</b>	<b>306.6</b>	<b>340.2</b>	<b>34.6</b>	<b>272.7</b>	<b>307.3</b>
<b>Current</b>						
Held to maturity	99.6	–	99.6	116.2	–	116.2
Loans and receivables	–	736.3	736.3	–	402.4	402.4
Fair value through profit or loss – derivatives	–	37.9	37.9	–	23.3	23.3
Fair value through profit or loss – other investments	523.1	56.8	579.9	366.9	121.9	488.8
Available-for-sale	632.9	19.9	652.8	386.5	38.9	425.4
<b>Total current</b>	<b>1,255.6</b>	<b>850.9</b>	<b>2,106.5</b>	<b>869.6</b>	<b>586.5</b>	<b>1,456.1</b>
<b>Total financial assets</b>	<b>1,289.2</b>	<b>1,157.5</b>	<b>2,446.7</b>	<b>904.2</b>	<b>859.2</b>	<b>1,763.4</b>

The fair value of held to maturity financial assets and loans and receivables held at amortised cost approximates to their carrying value (2014: same).

## 10. Financial assets continued

### Estimates and judgements – fair value measurements

The Group holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments may require some judgement or may be derived from readily available sources. The degree of judgement involved is reflected below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market prices. For investments that are not actively traded, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies.

Financial assets that have no quoted price principally consist of investments in private equity funds, derivatives and certain loans in Wealth Management. The determination of fair value for these instruments requires significant judgement, particularly in determining whether changes in fair value have occurred since the last formal valuation.

The Group's financial instruments have been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These 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 quoted equities and debt securities, 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 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 and principally comprise investments in private equity funds. These funds are managed by third parties and are measured at the values provided by the relevant fund managers, unadjusted by the Group except for known events, such as calls or distributions, that have occurred between the valuation and reporting date. The valuation review is a continual process throughout the year.

The Group's financial assets held at fair value (excluding those held in the Life Company – see note 15) at the year end date are analysed as follows:

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Non-current financial assets:</b>				
Equities	14.5	1.1	32.6	48.2
Debt securities	–	3.2	–	3.2
Derivative contracts	–	0.3	–	0.3
Other instruments	–	0.1	–	0.1
	<b>14.5</b>	<b>4.7</b>	<b>32.6</b>	<b>51.8</b>
<b>Current financial assets:</b>				
Equities	520.1	5.4	1.0	526.5
Debt securities	677.5	17.8	–	695.3
Derivative contracts	15.5	22.4	–	37.9
Other instruments	–	10.9	–	10.9
	<b>1,213.1</b>	<b>56.5</b>	<b>1.0</b>	<b>1,270.6</b>
	<b>1,227.6</b>	<b>61.2</b>	<b>33.6</b>	<b>1,322.4</b>

No financial assets were transferred from level 2 to level 1 during the period (2014: £36.1 million) or from level 1 to level 2 (2014: none).

# Notes to the accounts

## 10. Financial assets continued

	2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Non-current financial assets:</b>				
Equities	8.2	1.0	39.0	48.2
Debt securities	–	2.8	–	2.8
Derivative contracts	–	3.1	–	3.1
Other instruments	–	11.2	–	11.2
	<b>8.2</b>	<b>18.1</b>	<b>39.0</b>	<b>65.3</b>
<b>Current financial assets:</b>				
Equities	426.1	11.6	1.0	438.7
Debt securities	450.7	4.8	–	455.5
Derivative contracts	0.6	22.7	–	23.3
Other instruments	–	20.0	–	20.0
	<b>877.4</b>	<b>59.1</b>	<b>1.0</b>	<b>937.5</b>
	<b>885.6</b>	<b>77.2</b>	<b>40.0</b>	<b>1,002.8</b>

Movements in financial assets categorised as Level 3 during the year were:

	2015 £m	2014 £m
At 1 January	40.0	38.8
Exchange translation adjustments	(0.9)	(1.8)
Total gains recognised in other comprehensive income <sup>1</sup>	13.5	7.7
Additions	–	8.0
Disposals	(19.0)	(11.7)
Transfers out of level 3	–	(1.0)
<b>At 31 December</b>	<b>33.6</b>	<b>40.0</b>

<sup>1</sup> Reported within net fair value movement arising from available-for-sale financial assets.

Transfers are assumed to have occurred at the beginning of the period.

### Estimates and judgements – impairment of financial assets

Financial assets categorised as available-for-sale, loans and receivables and held to maturity are reviewed for impairment at the end of each reporting period. If the year end fair value of an asset is less than the cost, or deemed cost, of that asset, the Group will assess whether there is objective evidence that the asset is impaired.

In respect of equity products, consideration is given to the extent to which the fair value of an instrument is below cost and to the length of time that the fair value of an instrument has been below cost.

## 11. Associates and joint ventures

Associates are entities the Group partly owns 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'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 available-for-sale financial assets, the statement of financial position 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 and the statement of changes in equity records the Group's share of other equity movements of the entity. Goodwill and intangible assets are reviewed 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.

## 11. Associates and joint ventures continued

### (a) Investments in associates and joint ventures accounted for using the equity method

	2015			2014		
	Associates £m	Joint ventures <sup>1</sup> £m	Total £m	Associates £m	Joint ventures £m	Total £m
At 1 January	88.3	4.3	92.6	78.3	4.8	83.1
Exchange translation adjustments	0.8	(0.1)	0.7	2.3	(0.2)	2.1
Additions	–	–	–	1.7	–	1.7
Disposals	–	–	–	–	(0.4)	(0.4)
Profit for the year after tax	18.4	0.9	19.3	7.7	0.8	8.5
Gains recognised in other comprehensive income	5.2	–	5.2	3.9	–	3.9
Other movements in reserves of associates and joint ventures	0.5	–	0.5	(0.4)	–	(0.4)
Capital redemptions and distributions of profit	(8.3)	(0.8)	(9.1)	(5.2)	(0.7)	(5.9)
<b>At 31 December</b>	<b>104.9</b>	<b>4.3</b>	<b>109.2</b>	<b>88.3</b>	<b>4.3</b>	<b>92.6</b>

<sup>1</sup> On 1 February 2016, the Group increased its holding in Secquaero Advisors AG (Secquaero) from 30.0% to 50.1%. Accordingly, from 1 February 2016, Secquaero will be consolidated into the Group results as a subsidiary. Prior to this date, Secquaero was accounted for as a joint venture using the equity method.

Information about the associates held by the Group at 31 December 2015 is shown below. The companies are unlisted.

Name of associate	Status	Nature of its business	Principal place of business	Class of share	Percentage owned by the Group
Schroder Ventures Investments Limited (SVIL)	Associate	Private equity investment	Guernsey	Ordinary, deferred and redeemable preference shares	50% <sup>1</sup>
RWC Partners Limited (RWC)	Associate	Investment management	England	Ordinary shares	45%
Bank of Communications Schroder Fund Management Co. Ltd. (BoCom)	Associate	Investment management	China	Ordinary shares	30%
Axis Asset Management Company Limited (Axis)	Associate	Investment management	India	Ordinary shares	25%

<sup>1</sup> The Group holds 50% of each class of share.

Summarised financial information in respect of the Group's associates accounted for using the equity method is set out below:

	2015					2014				
	SVIL £m	RWC £m	BoCom £m	Axis £m	Total £m	SVIL £m	RWC £m	BoCom £m	Axis £m	Total £m
Non-current assets	1.4	0.5	23.0	13.8	38.7	6.8	0.2	21.5	12.7	41.2
Current assets	4.0	42.7	232.0	15.1	293.8	5.4	31.7	151.3	17.2	205.6
Non-current liabilities	(1.3)	–	–	(7.1)	(8.4)	(1.3)	–	–	(8.7)	(10.0)
Current liabilities	(0.1)	(12.9)	(52.3)	(7.1)	(72.4)	(0.1)	(13.2)	(26.7)	(8.2)	(48.2)
<b>Total equity</b>	<b>4.0</b>	<b>30.3</b>	<b>202.7</b>	<b>14.7</b>	<b>251.7</b>	<b>10.8</b>	<b>18.7</b>	<b>146.1</b>	<b>13.0</b>	<b>188.6</b>
Group's share of net assets	2.0	13.7	60.8	3.7	80.2	5.4	8.9	43.8	3.3	61.4
Goodwill and intangible assets	–	10.7	–	14.0	24.7	–	11.2	–	15.7	26.9
<b>Carrying value held by the Group</b>	<b>2.0</b>	<b>24.4</b>	<b>60.8</b>	<b>17.7</b>	<b>104.9</b>	<b>5.4</b>	<b>20.1</b>	<b>43.8</b>	<b>19.0</b>	<b>88.3</b>
Net revenue	5.8	37.5	111.8	34.1	189.2	2.0	27.3	66.0	14.6	109.9
Profit for the year	5.6	13.2	37.1	1.6	57.5	1.8	8.0	15.1	1.3	26.2
Other comprehensive income	–	–	17.3	–	17.3	–	–	13.0	–	13.0
<b>Total comprehensive income</b>	<b>5.6</b>	<b>13.2</b>	<b>54.4</b>	<b>1.6</b>	<b>74.8</b>	<b>1.8</b>	<b>8.0</b>	<b>28.1</b>	<b>1.3</b>	<b>39.2</b>
<b>Group's share of profit for the year before amortisation</b>	<b>2.8</b>	<b>5.9</b>	<b>11.1</b>	<b>0.4</b>	<b>20.2</b>	<b>0.9</b>	<b>3.8</b>	<b>4.5</b>	<b>0.3</b>	<b>9.5</b>
Amortisation charge	–	–	–	(1.8)	(1.8)	–	–	–	(1.8)	(1.8)
<b>Group's share of profit/(loss) for the year</b>	<b>2.8</b>	<b>5.9</b>	<b>11.1</b>	<b>(1.4)</b>	<b>18.4</b>	<b>0.9</b>	<b>3.8</b>	<b>4.5</b>	<b>(1.5)</b>	<b>7.7</b>
Group's share of other comprehensive income	–	–	5.2	–	5.2	–	–	3.9	–	3.9
<b>Group's share of total comprehensive income/(loss)</b>	<b>2.8</b>	<b>5.9</b>	<b>16.3</b>	<b>(1.4)</b>	<b>23.6</b>	<b>0.9</b>	<b>3.8</b>	<b>8.4</b>	<b>(1.5)</b>	<b>11.6</b>

# Notes to the accounts

## 11. Associates and joint ventures continued

### (b) Investments in associates measured at fair value

Where the Group holds units in 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.

Summarised financial information in respect of the Group's associates held at fair value is set out below:

	2015					
	BB Multimercado Schroder Europa Investimento No Exterior Fundo De Investimento £m	BB Multimercado Schroder Investimento No Exterior Fundo De Investimento £m	Schroder Specialist Value UK Equity Fund £m	Schroder All Maturities Corporate Bond Fund £m	Schroder Institutional International Bond Fund £m	Schroder Dynamic Multi Asset Fund £m
Current assets	10.9	39.1	102.8	859.6	58.4	223.3
Current liabilities	–	(0.5)	(0.1)	(3.2)	(0.3)	(5.4)
<b>Total equity</b>	<b>10.9</b>	<b>38.6</b>	<b>102.7</b>	<b>856.4</b>	<b>58.1</b>	<b>217.9</b>
Net revenue	0.6	4.7	(3.3)	11.7	0.6	(4.2)
Profit/(loss) for the year	0.6	4.7	(3.7)	11.2	0.6	(4.9)
<b>Total comprehensive income/(loss)</b>	<b>0.6</b>	<b>4.7</b>	<b>(3.7)</b>	<b>11.2</b>	<b>0.6</b>	<b>(4.9)</b>
Country of incorporation	Brazil	Brazil	UK	UK	UK	UK
Percentage owned by the Group	39%	32%	38%	24%	31%	37%

	2014				
	Lohas Taiwan Equity Fund £m	BB Multimercado Schroder Investimento No Exterior Fundo De Investimento £m	Schroder Institutional Sterling Bond Fund £m	Schroder Institutional International Bond Fund £m	Schroder Dynamic Multi Asset Fund £m
Current assets	11.3	29.6	71.9	60.2	63.8
Current liabilities	(0.3)	–	(0.5)	(1.1)	(1.9)
<b>Total equity</b>	<b>11.0</b>	<b>29.6</b>	<b>71.4</b>	<b>59.1</b>	<b>61.9</b>
Net revenue	3.0	(1.5)	8.9	3.4	2.5
Profit/(loss) for the year	2.8	(1.8)	9.6	3.5	2.3
<b>Total comprehensive income/(loss)</b>	<b>2.8</b>	<b>(1.8)</b>	<b>9.6</b>	<b>3.5</b>	<b>2.3</b>
Country of incorporation	Taiwan	Brazil	UK	UK	UK
Percentage owned by the Group	28%	38%	38%	33%	30%

## 12. Property, plant and equipment

The Group's property, plant and equipment provide the infrastructure to enable the Group to operate and principally comprise computer equipment and leasehold improvements. The cost of these assets is recognised in the income statement over time as a depreciation charge. The assets are depreciated over their estimated useful life.

	2015 £m	2014 £m
<b>Cost</b>		
At 1 January	106.2	96.5
Exchange translation adjustments	(0.1)	(0.4)
Additions	21.0	16.1
Disposals	(13.5)	(6.0)
<b>At 31 December</b>	<b>113.6</b>	<b>106.2</b>
<b>Accumulated depreciation</b>		
At 1 January	(76.3)	(74.0)
Exchange translation adjustments	–	0.2
Depreciation charge for the year	(8.7)	(8.1)
Disposals	13.2	5.6
<b>At 31 December</b>	<b>(71.8)</b>	<b>(76.3)</b>
<b>Net book value at 31 December</b>	<b>41.8</b>	<b>29.9</b>



### 13. 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. Intangible assets include 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 recorded as intangible assets arising from business combinations 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 intangible assets is known as goodwill. Goodwill is not charged to the income statement unless its value has diminished. After acquisition, the business is integrated fully into the existing Group. Assessment of whether goodwill has become impaired is based on the expected future returns of the relevant business segment as a whole.

Software purchased for use in the business is also referred to as an intangible asset. The cost of purchasing 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 evenly over three to five years, but can have estimated useful lives of up to 10 years.

	2015				2014			
	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
<b>Cost</b>								
At 1 January	357.3	135.5	88.2	581.0	357.0	135.0	78.6	570.6
Exchange translation adjustments	1.8	1.2	0.1	3.1	0.3	0.5	(0.3)	0.5
Additions	–	–	18.4	18.4	–	–	13.6	13.6
Disposals	–	–	(25.9)	(25.9)	–	–	(3.7)	(3.7)
<b>At 31 December</b>	<b>359.1</b>	<b>136.7</b>	<b>80.8</b>	<b>576.6</b>	<b>357.3</b>	<b>135.5</b>	<b>88.2</b>	<b>581.0</b>
<b>Accumulated amortisation</b>								
At 1 January	–	(55.1)	(51.4)	(106.5)	–	(34.3)	(47.3)	(81.6)
Exchange translation adjustments	–	(0.8)	(0.1)	(0.9)	–	–	0.3	0.3
Amortisation charge for the year	–	(18.0)	(9.7)	(27.7)	–	(20.8)	(8.1)	(28.9)
Disposals	–	–	25.9	25.9	–	–	3.7	3.7
<b>At 31 December</b>	<b>–</b>	<b>(73.9)</b>	<b>(35.3)</b>	<b>(109.2)</b>	<b>–</b>	<b>(55.1)</b>	<b>(51.4)</b>	<b>(106.5)</b>
<b>Carrying amount at 31 December</b>	<b>359.1</b>	<b>62.8</b>	<b>45.5</b>	<b>467.4</b>	<b>357.3</b>	<b>80.4</b>	<b>36.8</b>	<b>474.5</b>

Of the total goodwill of £359.1 million (2014: £357.3 million), £290.2 million (2014: £288.4 million) is allocated to Asset Management and £68.9 million (2014: £68.9 million) to Wealth Management.

The majority of the Group's intangible assets from business combinations relate to the 2013 acquisition of Cazenove Capital Holdings Limited (Cazenove Capital); the proportion of assets allocated to Asset Management (£34.1 million at 2 July 2013) is being charged to the income statement over four years, and the proportion allocated to Wealth Management (£66.7 million at 2 July 2013) over eight years.

#### Estimates and judgements

The Group determined the fair value of acquired intangible assets based on estimated profits, taking account of synergies, derived from contractual relationships that existed at the acquisition date. This assessment involved judgements and assumptions relating to potential future revenues, appropriate discount rates and the expected duration of client relationships. The difference between the fair value of the consideration and the value of the identifiable assets and liabilities acquired, including intangible assets, was accounted for as goodwill.

At each reporting date, an assessment is made as to whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and 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, details of which are provided on page 116. Any impairment is recognised immediately in the income statement and cannot be reversed. Goodwill acquired in a business combination is allocated to the cash-generating units (CGUs) that are expected to benefit from that business combination. For all relevant acquisitions, the lowest level of CGU the Group uses to determine impairment is segment level.

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.

# Notes to the accounts

## 13. Goodwill and intangible assets continued

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 on long-term market growth rates of 2 per cent. per annum (2014: 2 per cent.), a pre-tax discount rate of 12 per cent. (2014: 14 per cent.), expected fund flows and expected changes to margins.

The results of the calculation indicate that goodwill for both CGUs 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 a business segment relative to the size of the segment's future profitability estimate. Movements in the growth rate and/or the discount rate of 1 per cent. 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 (2014: nil) to its goodwill asset in the year as a result of inaccurate projections.

## 14. Deferred tax

Deferred tax assets and liabilities mainly represent amounts of tax that will become recoverable and payable in future accounting periods. They generally 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 in the accounts. A deferred tax asset represents a tax reduction that is expected to arise in a future period. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction.

Deferred tax liabilities also arise on 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.

### (a) Deferred tax assets in respect of temporary differences

	2015 £m	2014 £m
At 1 January	47.8	48.5
Income statement credit due to changes in timing differences	11.8	12.2
Income statement credit due to the effect of changes in tax rates	1.2	–
Other comprehensive charge due to changes in timing differences	(1.6)	(7.4)
Other comprehensive charge due to the effect of changes in tax rates	(0.7)	–
Charge taken to equity	(4.7)	(5.7)
Charge taken to equity due to the effect of changes in tax rates	(0.4)	–
Movements due to foreign exchange	0.3	0.2
<b>At 31 December</b>	<b>53.7</b>	<b>47.8</b>

Included in deferred tax assets in respect of temporary differences is an asset relating to UK tax deductions for share-based remuneration which is dependent on the prices of the Company's ordinary and non-voting ordinary shares at the time the awards are exercised. These have been recognised based on the share prices as at 31 December 2015.

A deferred tax asset of £23.4 million (2014: £27.3 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.

A deferred tax asset of £9.2 million (2014: £9.2 million) relating to losses and other temporary differences has not been recognised as there is insufficient evidence that there will be sufficient taxable profit against which these losses and temporary differences can be utilised.

### (b) Deferred tax liabilities in respect of temporary differences

	2015 £m	2014 £m
At 1 January	(0.4)	(1.7)
Income statement credit	–	0.8
Other movements in timing differences	–	0.5
<b>At 31 December</b>	<b>(0.4)</b>	<b>(0.4)</b>

The aggregate amount of gross temporary differences regarding investments in subsidiaries is £5.7 million (2014: £7.6 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.

## 15. 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 (referred to as 'the 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. The Group earns fee income from managing the investment, which is included in net revenue. 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.

Financial assets and liabilities held by the Life Company are measured at fair value through profit or loss. Other balances include cash and receivables, which are measured at amortised cost (see note 10). 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.

Unit-linked liabilities comprise:

	2015 £m	2014 £m
Financial liabilities due to Life Company investors	9,851.0	11,080.3
Financial liabilities due to third party investors <sup>1</sup>	1,468.9	2,578.1
	<b>11,319.9</b>	<b>13,658.4</b>

<sup>1</sup> 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 of the Life Company. 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 has been categorised using a fair value hierarchy. These levels are based on the degree to which the fair value is observable and are defined in note 10.

The Life Company's financial instruments at the year end date are analysed as follows:

	2015				Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	Financial instruments not at fair value £m	
Assets backing unit-linked liabilities	9,007.6	1,605.5	43.4	663.4	11,319.9
Unit-linked liabilities	11,148.2	129.5	–	42.2	11,319.9

	2014				Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	Financial instruments not at fair value £m	
Assets backing unit-linked liabilities	10,830.7	1,950.4	49.6	827.7	13,658.4
Unit-linked liabilities	13,488.2	5.5	–	164.7	13,658.4

The types of instruments found in each of the above levels 1 and 3 for the Life Company are the same as those listed for the non-Life Company instruments in note 10. Level 2 investments principally comprise commercial papers, certificates of deposit and corporate bonds.

The fair value of financial instruments not held at fair value approximates to their carrying value (2014: same).

# Notes to the accounts

## 15. Unit-linked liabilities and assets backing unit-linked liabilities continued

Movements in financial assets categorised as Level 3 during the year were:

	2015 £m	2014 £m
At 1 January	49.6	158.2
Exchange translation adjustments	(3.4)	(6.5)
Gains recognised in the income statement	12.1	13.2
Additions	–	1.8
Disposals	(14.9)	(117.1)
<b>At 31 December</b>	<b>43.4</b>	<b>49.6</b>

## 16. Trade and other payables

Trade and other payables at amortised cost represent amounts the Group is due to pay in the normal course of business and deferred income, being fees received in advance of services provided. Amounts the Group is due to pay 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.

Trade and other payables at fair value comprise deferred cash awards (deferred employee remuneration payable in cash) and bullion deposits by customers.

Trade and other payables are initially recorded at fair value, and are subsequently measured at amortised cost or fair value (see note 10), as shown below.

	2015			2014		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
<b>Trade and other payables at amortised cost:</b>						
Settlement accounts	–	142.3	142.3	–	159.6	159.6
Trade creditors	–	8.0	8.0	–	4.3	4.3
Social security	19.8	50.3	70.1	20.1	55.0	75.1
Accruals and deferred income	10.6	408.5	419.1	10.2	379.8	390.0
Other payables	0.6	21.8	22.4	2.8	18.3	21.1
	<b>31.0</b>	<b>630.9</b>	<b>661.9</b>	<b>33.1</b>	<b>617.0</b>	<b>650.1</b>
<b>Trade and other payables at fair value:</b>						
Deferred cash awards	50.1	29.1	79.2	36.8	36.0	72.8
Bullion deposits by customers	–	20.1	20.1	–	29.2	29.2
	<b>50.1</b>	<b>49.2</b>	<b>99.3</b>	<b>36.8</b>	<b>65.2</b>	<b>102.0</b>
	<b>81.1</b>	<b>680.1</b>	<b>761.2</b>	<b>69.9</b>	<b>682.2</b>	<b>752.1</b>

As a result of their short-term nature, 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. 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 (fund award).

The Group's trade and other payables contractually mature in the following time periods:

	2015 £m	2014 £m
Less than 1 year <sup>1</sup>	680.1	682.2
1 – 2 years	35.0	37.0
2 – 5 years	45.9	30.6
More than 5 years	0.2	2.3
	<b>81.1</b>	<b>69.9</b>
	<b>761.2</b>	<b>752.1</b>

<sup>1</sup> Settlement accounts are generally settled within four working days and trade creditors have an average settlement period of 20 working days (2014: 20 working days).

## 17. 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 20), and the hedging of risk exposures within investment capital. The fair value measurements section below reflects the level of judgement involved in determining fair value although this does not necessarily indicate that the fair value is more or less likely to equal the actual settlement cost. Liabilities arise in respect of consolidated funds (consolidation occurs when the Group is deemed to control a fund, usually in respect of Life Company or seed capital investments). When this happens, 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 15).

Financial liabilities are initially recorded at fair value, and subsequently at amortised cost or fair value (see note 10), as shown below.

	2015			2014		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
<b>Financial liabilities at amortised cost:</b>						
Client accounts	187.0	2,781.7	2,968.7	187.3	2,889.4	3,076.7
Deposits by banks	–	51.2	51.2	–	44.4	44.4
Loan notes in issue	–	2.9	2.9	–	5.4	5.4
	<b>187.0</b>	<b>2,835.8</b>	<b>3,022.8</b>	<b>187.3</b>	<b>2,939.2</b>	<b>3,126.5</b>
<b>Financial liabilities at fair value:</b>						
Derivative contracts (see note 20)	–	47.3	47.3	3.0	12.4	15.4
Other financial liabilities held at fair value through profit or loss	5.4	51.0	56.4	8.4	43.2	51.6
	<b>5.4</b>	<b>98.3</b>	<b>103.7</b>	<b>11.4</b>	<b>55.6</b>	<b>67.0</b>
	<b>192.4</b>	<b>2,934.1</b>	<b>3,126.5</b>	<b>198.7</b>	<b>2,994.8</b>	<b>3,193.5</b>

Maturity profiles of client accounts, deposits by banks and derivative contracts can be found in notes 19 and 20.

The fair value of financial liabilities held at amortised cost approximates to their carrying value (2014: same).

### Fair value measurements

The Group holds financial liabilities that are measured at fair value. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 10.

The Group's financial liabilities held at fair value (excluding those held in the Life Company – see note 15) at the year end date are analysed as follows:

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Non-current financial liabilities:</b>				
Derivative contracts	–	–	–	–
Other financial liabilities held at fair value through profit or loss	–	5.4	–	5.4
	<b>–</b>	<b>5.4</b>	<b>–</b>	<b>5.4</b>
<b>Current financial liabilities:</b>				
Derivative contracts	30.6	16.7	–	47.3
Other financial liabilities held at fair value through profit or loss	51.0	–	–	51.0
	<b>81.6</b>	<b>16.7</b>	<b>–</b>	<b>98.3</b>
	<b>81.6</b>	<b>22.1</b>	<b>–</b>	<b>103.7</b>



# Notes to the accounts

## 17. Financial liabilities continued

	2014			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Non-current financial liabilities:</b>				
Derivative contracts	–	3.0	–	3.0
Other financial liabilities held at fair value through profit or loss	–	7.6	0.8	8.4
	<b>–</b>	<b>10.6</b>	<b>0.8</b>	<b>11.4</b>
<b>Current financial liabilities:</b>				
Derivative contracts	1.8	10.6	–	12.4
Other financial liabilities held at fair value through profit or loss	43.2	–	–	43.2
	<b>45.0</b>	<b>10.6</b>	<b>–</b>	<b>55.6</b>
	<b>45.0</b>	<b>21.2</b>	<b>0.8</b>	<b>67.0</b>

## 18. 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 and are not included within the statement of financial position.

### (a) Provisions

	Dilapidations and onerous leases £m	Legal and regulatory £m	Total £m
At 1 January 2015	11.9	42.1	54.0
Exchange translation and other movements	0.7	(1.2)	(0.5)
Provisions utilised	(1.7)	(10.7)	(12.4)
Additional provisions charged in the year	1.5	1.0	2.5
Unused amounts reversed in the year	–	(17.3)	(17.3)
<b>At 31 December 2015</b>	<b>12.4</b>	<b>13.9</b>	<b>26.3</b>
Current – 2015	2.4	7.0	9.4
Non-current – 2015	10.0	6.9	16.9
	<b>12.4</b>	<b>13.9</b>	<b>26.3</b>
Current – 2014	3.5	19.2	22.7
Non-current – 2014	8.4	22.9	31.3
	<b>11.9</b>	<b>42.1</b>	<b>54.0</b>

**18. Provisions and contingent liabilities** continued

The Group's provisions are expected to mature in the following time periods:

	2015 £m	2014 £m
Less than 1 year	9.4	22.7
1 – 2 years	10.9	23.9
2 – 3 years	4.9	0.8
3 – 4 years	0.5	5.6
4 – 5 years	0.1	0.7
More than 5 years	0.5	0.3
	<b>16.9</b>	<b>31.3</b>
	<b>26.3</b>	<b>54.0</b>

The provision for dilapidations and onerous leases covers lease commitments with a weighted average maturity of two years (2014: two years).

Legal and regulatory obligations associated with the Group's business arise from past events that are estimated to crystallise mainly within two years (2014: two years). These matters are ongoing.

In 2013 the Group recorded a £15.0 million provision for a possible penalty payable in connection with the US Department of Justice programme announced on 29 August 2013 that applied industry wide to Swiss banks in order to identify accounts related to persons who may not have been US-tax compliant. The Group's Swiss bank participated voluntarily in the programme. Where a Swiss bank was unable to provide fully sufficient evidence of compliance, a penalty could be payable. For Schrodgers the penalty was determined in 2015 and £6.7 million of the provision was utilised.

**Estimates and judgements**

The timing and amount of settlement of each legal claim or potential claim and constructive obligation is uncertain. The Group has performed an assessment of the timing and amount, 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. However, the onerous lease provision also includes an assessment of potential cash inflows (where these are not contractually binding) from subletting arrangements. 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. Our 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 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 reasonable expectation of likely outflows. However the results of negotiations and insurance cover may result in different outcomes.

**(b) Contingent liabilities**

	2015 £m	2014 £m
Assets pledged as collateral security	37.4	54.9
Guarantees and irrevocable letters of credit	23.9	34.7
	<b>61.3</b>	<b>89.6</b>

Transactions giving rise to contingent liabilities are principally in Wealth Management and are only entered into by the Group once it has received sufficient high quality collateral from the client. Assets pledged as collateral security reflect the value of instruments that the Group is required to hold with clearing agents in order to support the execution of the Group's security transactions. The pledged assets provide collateral in the event of the Group not settling trades within agreed time frames.

# Notes to the accounts

## 19. Financial instrument risk management

Capital is the Group's assets minus its liabilities and comprises operating capital, investment capital, seed capital and other capital. The Group Capital Committee (GCC) is responsible for the management of capital and sets objectives for how it is deployed. This note explains how the Group categorises and 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 multiple forms of 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 with the primary exposure only.

Financial instruments give rise to credit, liquidity and market risk exposures. Settlement of financial instruments (on both a principal and agency basis) gives rise to operational risk. The execution and effectiveness of the Group's risk management process is, therefore, critical to its soundness and profitability and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Board and is then delegated to senior management.

The Audit and Risk Committee provide oversight and the Risk and Compliance functions are responsible for monitoring the overall risk environment. The Group has established a control environment that ensures risks are reviewed regularly and that all risk controls operating throughout the Group are in accordance with regulatory requirements. In addition, an independent assessment of the control environment is provided by Internal Audit.

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 provides the investment products, both the investments and the third party obligations are recorded in the statement of financial position. Financial instrument risk management in respect of the Life Company is set out in note 15.

### (a) Capital

Total capital comprises:

	2015 £m	2014 £m
Regulatory capital	653	673
Other operating capital	253	284
<b>Operating capital</b>	<b>906</b>	<b>957</b>
Investment capital*	942	725
Seed capital	229	163
Other items**	719	693
<b>Total capital</b>	<b>2,796</b>	<b>2,538</b>

\* Includes RWC Partners Limited and Schroder Ventures Investments Limited associates.

\*\* Comprises goodwill, intangible assets, pension scheme surpluses, other associates and joint ventures, and deferred tax.

### (i) Regulatory and operating capital

Regulatory and operating capital is the capital required to meet regulatory and working capital requirements.

Regulators oversee the activities and impose minimum capital requirements on the Group's operating subsidiaries. The Group's policy is for subsidiaries to have sufficient capital to meet regulatory requirements, maintain an appropriate standing with counterparties and meet working capital requirements. The GCC reviews compliance with this policy.

Schroders plc is regulated by the PRA as a UK consolidated group. Its capital resources calculated for a Group holding a banking licence amounted to £2,065 million (2014: £1,974 million) and its Pillar 1 minimum capital requirement was £428 million (2014: £387 million). Other regulatory minimum capital requirements apply to the Group which set the minimum requirement at £653 million (2014: £673 million).

The Group holds sufficient capital to meet its regulatory capital requirements. All regulated entities within the Group complied with regulatory minimum capital requirements during the year.

### (ii) Investment capital

Investment capital is shareholders' investible equity 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.

### (iii) Seed capital

Seed capital may be used to develop new investment strategies, co-invest selectively alongside our clients and finance growth opportunities. Seed capital is deployed principally to support the growth of Asset Management and, where practical, the market risk on seed capital investments is hedged. Surplus capital is deployed in accordance with limits approved by the Board.

## 19. Financial instrument risk management continued

The categorisation of the Group's assets and liabilities (the difference between which represents the Group's capital) analysed by accounting treatment is summarised below:

	2015						
	Loans and receivables/ liabilities at amortised cost £m	At fair value through profit or loss				Non-financial instruments and other £m	Total £m
		Held to maturity £m	Held for trading £m	Designated as at fair value through profit or loss £m	Available-for-sale £m		
Assets							
Cash and cash equivalents	3,019.0	–	–	–	–	–	3,019.0
Trade and other receivables	472.6	–	–	–	–	54.2	526.8
Financial assets – non-debt securities	821.5	–	255.8	11.0	357.1	–	1,445.4
Financial assets – debt securities	188.2	114.6	351.4	–	347.1	–	1,001.3
Associates and joint ventures	–	–	–	–	–	109.2	109.2
Property, plant and equipment	–	–	–	–	–	41.8	41.8
Goodwill and intangible assets	–	–	–	–	–	467.4	467.4
Deferred tax	–	–	–	–	–	53.7	53.7
Retirement benefit scheme surplus	–	–	–	–	–	115.4	115.4
Assets backing unit-linked liabilities	647.5	–	–	10,672.4	–	–	11,319.9
Total assets	5,148.8	114.6	607.2	10,683.4	704.2	841.7	18,099.9
Liabilities							
Trade and other payables	591.8	–	–	79.2	–	90.2	761.2
Financial liabilities	3,022.8	–	47.3	56.4	–	–	3,126.5
Current tax	–	–	–	–	–	61.8	61.8
Provisions	26.3	–	–	–	–	–	26.3
Deferred tax	–	–	–	–	–	0.4	0.4
Retirement benefit scheme deficits	–	–	–	–	–	8.2	8.2
Unit-linked liabilities	35.9	–	–	11,284.0	–	–	11,319.9
Total liabilities	3,676.8	–	47.3	11,419.6	–	160.6	15,304.3
Capital							2,795.6

	2014						
	Loans and receivables/ liabilities at amortised cost £m	At fair value through profit or loss				Non-financial instruments and other £m	Total £m
		Held to maturity £m	Held for trading £m	Designated as at fair value through profit or loss £m	Available-for-sale £m		
Assets							
Cash and cash equivalents	3,535.3	–	–	–	–	–	3,535.3
Trade and other receivables	480.3	–	–	–	–	60.7	541.0
Financial assets – non-debt securities	571.6	–	214.0	31.2	299.3	–	1,116.1
Financial assets – debt securities	68.4	120.6	281.2	–	177.1	–	647.3
Associates and joint ventures	–	–	–	–	–	92.6	92.6
Property, plant and equipment	–	–	–	–	–	29.9	29.9
Goodwill and intangible assets	–	–	–	–	–	474.5	474.5
Deferred tax	–	–	–	–	–	47.8	47.8
Retirement benefit scheme surplus	–	–	–	–	–	103.7	103.7
Assets backing unit-linked liabilities	827.7	–	–	12,830.7	–	–	13,658.4
Total assets	5,483.3	120.6	495.2	12,861.9	476.4	809.2	20,246.6
Liabilities							
Trade and other payables	575.0	–	–	72.8	–	104.3	752.1
Financial liabilities	3,126.5	–	15.4	51.6	–	–	3,193.5
Current tax	–	–	–	–	–	44.1	44.1
Provisions	54.0	–	–	–	–	–	54.0
Deferred tax	–	–	–	–	–	0.4	0.4
Retirement benefit scheme deficits	–	–	–	–	–	6.3	6.3
Unit-linked liabilities	164.7	–	–	13,493.7	–	–	13,658.4
Total liabilities	3,920.2	–	15.4	13,618.1	–	155.1	17,708.8
Capital							2,537.8

# Notes to the accounts

## 19. Financial instrument risk management continued

### (b) Credit risk, liquidity risk and market risk

#### (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 an obligation. 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.

The Group 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 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 carrying value of its financial assets. In addition the Group holds collateral on its loans and advances to clients and certain derivative positions. The Group also holds collateral on some short term advances to counterparties, as part of its liquidity management. The collateral accepted includes investment-grade securities that can be sold or repledged without default of the provider. At 31 December 2015 the fair value of collateral which could be sold or repledged but had not been, relating solely to these arrangements, was £517.8 million (2014: £409.9 million).

A breakdown of the Group's relevant financial assets by credit rating is set out below:

	Cash and cash equivalents		Debt securities at amortised cost		Debt securities at fair value	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Credit rating <sup>1</sup> :						
AAA	1,397.7	1,628.7	47.0	112.5	194.6	198.6
AA+	12.8	63.3	60.0	–	15.8	5.7
AA	45.0	68.3	–	–	0.6	2.7
AA-	304.4	447.0	7.6	10.6	21.7	5.4
A+	418.6	466.5	52.0	27.0	19.1	19.8
A	523.4	566.4	56.0	38.9	54.4	24.8
A-	252.1	275.2	55.0	–	61.9	34.6
BBB+ and lower	59.8	6.0	25.2	–	261.0	126.7
Not rated	5.2	13.9	–	–	69.4	40.0
	<b>3,019.0</b>	<b>3,535.3</b>	<b>302.8</b>	<b>189.0</b>	<b>698.5</b>	<b>458.3</b>

<sup>1</sup> Provided by rating agencies.

#### Wealth Management activities

All customer loan requests are presented to the relevant Wealth Management credit committees and counterparty exposures are monitored daily against limits. Loans and advances to clients are secured on a range of assets including real estate (both residential and commercial), cash, client portfolios and insurance policies. The Group does not usually provide loans and 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' loans. Credit limits are set following an assessment of the market 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.

No provisions (2014: nil) are held against gross loans and receivables that are recorded at amortised cost.

The amount of change in the year in the fair value of loans and receivables held at fair value through profit or loss that is attributable to changes in credit risk is nil (2014: loss of £1.4 million) and nil (2014: loss of £7.1 million) cumulatively.

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.

Debt securities held within the Wealth Management treasury book are classified as loans and receivables or as held to maturity financial assets and are 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 Wealth Management are rated investment grade.

#### 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 yet impaired as at 31 December 2015 were £17.3 million (2014: £13.4 million), the majority of which is less than 60 days past due. Factors considered in determining whether impairment has taken place include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a debtor's ability to pay.

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. Cash is held with well-rated banks, government and government-guaranteed bonds are rated AA or better, corporate bond portfolios have an investment grade mandate, and exposure to sub-investment grade debt is low. Derivative positions are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month.



## 19. Financial instrument risk management continued

The Group's cash and cash equivalents in the non-Wealth Management entities are invested primarily in current accounts, on deposit with well-rated banks, and invested in money market funds.

### (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. The Group policy is that its subsidiaries should trade solvently, comply with regulatory liquidity requirements, and have adequate liquidity for all activities undertaken in the normal course of business. In particular, all companies should maintain sufficient liquid funds to meet peak working capital requirements. Financial liabilities relating to other operating entities are £96.5 million (2014: £53.4 million), the majority of which are current.

### Wealth Management activities

The principal liquidity risk the Group faces concerns its Wealth Management liabilities. The liquidity policy is to maintain sufficient liquidity 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.

The contractual maturity of Wealth Management financial assets and liabilities is set out below:

	2015						Total £m
	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	
Assets							
Cash and cash equivalents	2,255.0	–	–	–	–	–	2,255.0
Loans and advances to clients¹	544.0	68.5	23.7	41.7	70.5	69.0	817.4
Debt securities	287.8	15.0	–	–	–	–	302.8
Other financial assets	16.4	–	0.3	–	–	–	16.7
Total financial assets	3,103.2	83.5	24.0	41.7	70.5	69.0	3,391.9
Liabilities							
Client accounts	2,781.7	6.8	14.3	41.7	62.5	61.7	2,968.7
Deposits by banks	51.2	–	–	–	–	–	51.2
Other financial liabilities²	10.1	–	–	–	–	–	10.1
Total financial liabilities	2,843.0	6.8	14.3	41.7	62.5	61.7	3,030.0
Cumulative gap	260.2	336.9	346.6	346.6	354.6	361.9	361.9
	2014						
	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	2,666.2	–	–	–	–	–	2,666.2
Loans and advances to clients¹	334.1	51.6	6.0	11.7	27.8	151.6	582.8
Debt securities	184.5	4.4	–	–	–	–	188.9
Other financial assets	18.0	0.2	2.3	0.5	–	–	21.0
Total financial assets	3,202.8	56.2	8.3	12.2	27.8	151.6	3,458.9
Liabilities							
Client accounts	2,889.4	11.8	3.1	8.2	27.8	136.4	3,076.7
Deposits by banks	44.4	–	–	–	–	–	44.4
Other financial liabilities²	8.5	0.6	2.3	7.6	–	–	19.0
Total financial liabilities	2,942.3	12.4	5.4	15.8	27.8	136.4	3,140.1
Cumulative gap	260.5	304.3	307.2	303.6	303.6	318.8	318.8

<sup>1</sup> Includes loans and advances to clients held at fair value through profit or loss of £10.8 million (2014: £31.2 million).

<sup>2</sup> Includes client accounts held at fair value through profit or loss of £5.4 million (2014: £7.6 million).

### Other activities

Liquidity risk in the rest of the Group is low. Excluding the Life Company and consolidated funds, the Asset Management and Group segment together hold cash and cash equivalents of £718.0 million (2014: £860.8 million).

The Group has a committed loan facility of £200.0 million (2014: £50.0 million) that expires on 25 September 2020 and £2.9 million (2014: £5.4 million) of loan notes as part of the acquisition of Cazenove Capital that are repayable on 12 July 2018 and subject to early redemption rights in certain circumstances.

# Notes to the accounts

## 19. Financial instrument risk management continued

### (iii) Market risk

The sensitivities to market risk are estimated as follows:

Variable <sup>1</sup>		31 December 2015			31 December 2014		
		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 <sup>2</sup>	-increase	0.75	5	–	0.5	2	–
	-decrease	(0.5)	(4)	–	–	–	–
US dollar against Sterling	-strengthen	8	–	15	8	(1)	14
	-weaken	(6)	–	(11)	(6)	1	(9)
Euro against Sterling	-strengthen	7	8	7	5	6	7
	-weaken	(8)	(9)	(8)	(8)	(9)	(10)
FTSE-All Share Index <sup>3</sup>	-increase	20	4	18	20	3	19
	-decrease	(20)	(24)	3	(20)	(18)	(4)

<sup>1</sup> The underlying assumption is that there is one variable increase/decrease with all other variables held constant.

<sup>2</sup> Assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.

<sup>3</sup> Assumes that changes in the FTSE-All Share Index correlate to changes in the fair value of the Group's equity investments.

The changes used in the sensitivity analysis were provided by the Group's Global Economics team who determine reasonable assumptions.

### 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 capital, deferred employee compensation fund awards and some investments held for regulatory capital. However, the more significant risk is the impact on the Group's fee income as this is principally determined on percentages of the fair value of AUM. This risk cannot be easily mitigated but is addressed to some extent by ongoing net new business.

The Group does not hedge exposure to pricing risk except in respect of employee compensation awards in the form of fund awards and, where practical to do so, seed capital.

### Interest rate risk

Interest rate risk is the risk that 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.

Wealth Management manages its interest rate risk within limits by matching asset and liability positions and through the use of interest rate swaps.

Within Wealth Management, there are sensitivity-based and stress-based models used for monitoring interest rate risk. These involve assessing the impact of a prescribed basis point rise in interest rates, together with extreme scenarios for the stress tests. The impact is calculated regularly for each currency 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.

The Group's capital includes investments in government bonds and corporate investment-grade bonds managed by the Group's fixed income fund managers.

### 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.

## 19. Financial instrument risk management continued

### Other activities

The Group's policy in relation to revenue, expenditure and capital currency exposure in 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 part of the business.

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 the approval of the GCC.

The Group's gross and net exposure to foreign currencies is set out below:

	2015			2014		
	Gross exposure £m	Hedged £m	Net exposure £m	Gross exposure £m	Hedged £m	Net exposure £m
US dollar	494	(61)	433	278	(112)	166
Euro	161	(4)	157	210	(72)	138
Swiss franc	135	–	135	124	–	124
Singapore dollar	92	–	92	58	–	58
Hong Kong dollar	65	–	65	48	–	48
Chinese renminbi	61	–	61	41	–	41
Australian dollar	30	–	30	59	(25)	34
Other	92	(4)	88	110	(16)	94
<b>Total currency exposures</b>	<b>1,130</b>	<b>(69)</b>	<b>1,061</b>	<b>928</b>	<b>(225)</b>	<b>703</b>
Sterling	1,666	69	1,735	1,610	225	1,835
	<b>2,796</b>	<b>–</b>	<b>2,796</b>	<b>2,538</b>	<b>–</b>	<b>2,538</b>

## 20. 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 receivables and payables 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.

**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. The hedging of equal and opposite risks seeks to mitigate market risk, but does not eliminate the possibility of credit risk.

For details of how the Group manages its exposure to credit risk, see (b) 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.

# Notes to the accounts

## 20. Derivative contracts continued

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.

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:

	2015		2014	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate contracts	0.4	(0.3)	0.8	(2.0)
Forward foreign exchange contracts	14.9	(11.5)	22.6	(9.3)
Equity contracts	22.9	(35.5)	3.0	(4.1)
	<b>38.2</b>	<b>(47.3)</b>	<b>26.4</b>	<b>(15.4)</b>

	2015		2014	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Net-settled derivative contracts <sup>1</sup> maturing/repricing <sup>2</sup> in:				
Less than 1 year	23.0	(35.8)	0.8	(3.1)
1 – 3 years	0.3	–	2.5	(3.0)
3 – 5 years	–	–	0.5	–
More than 5 years	–	–	–	–
	<b>23.3</b>	<b>(35.8)</b>	<b>3.8</b>	<b>(6.1)</b>
Gross-settled derivatives <sup>3</sup> maturing/repricing <sup>2</sup> in:				
Less than 1 year:				
Gross inflows	498.0	743.3	953.0	575.4
Gross outflows	(494.4)	(750.2)	(948.0)	(577.5)
Difference between future contractual cash flows and fair value	11.3	(4.6)	17.6	(7.2)
	<b>14.9</b>	<b>(11.5)</b>	<b>22.6</b>	<b>(9.3)</b>
	<b>38.2</b>	<b>(47.3)</b>	<b>26.4</b>	<b>(15.4)</b>

<sup>1</sup> Comprise interest rate and equity contracts.

<sup>2</sup> Whichever is earlier.

<sup>3</sup> Comprise forward exchange contracts.

## 21. 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 2015 or 2014. 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 2015	282.5	226.0	56.5	282.5	119.4
<b>At 31 December 2015</b>	<b>282.5</b>	<b>226.0</b>	<b>56.5</b>	<b>282.5</b>	<b>119.4</b>

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2014	282.7	226.0	56.7	282.7	119.4
Shares cancelled	(0.2)	—	(0.2)	(0.2)	—
<b>At 31 December 2014</b>	<b>282.5</b>	<b>226.0</b>	<b>56.5</b>	<b>282.5</b>	<b>119.4</b>

	2015 Number of shares Millions	2014 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
	<b>282.5</b>	<b>282.5</b>

### The difference between the share classes

The non-voting ordinary shares carry the same rights as ordinary shares except 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

## 22. 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. There are two main reasons why this may happen: first, the Group may wish to hold some of its shares in treasury to settle option exercises or for other permitted purposes. Second, it enables the Group to meet share-based remuneration awards to employees in the form of shares (see note 26) in a way that does not dilute the percentage holdings of existing shareholders. 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:

	2015 £m	2014 £m
At 1 January	(200.1)	(229.9)
Own shares purchased	(51.1)	(64.9)
Cancellations of own shares held in treasury	–	3.8
Awards vested	75.7	90.9
<b>At 31 December</b>	<b>(175.5)</b>	<b>(200.1)</b>

The Group purchased its own shares during the year in order to hedge share-based awards made.

The total number of shares in the Company held within the Group's employee benefit trusts comprise:

	2015			2014		
	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	2.2	8.1	10.3	2.8	9.9	12.7
Non-voting ordinary shares	0.2	0.6	0.8	0.2	1.1	1.3
	<b>2.4</b>	<b>8.7</b>	<b>11.1</b>	<b>3.0</b>	<b>11.0</b>	<b>14.0</b>

	2015			2014		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	30.9	164.9	195.8	38.6	180.2	218.8
Fair value	65.7	240.0	305.7	76.5	266.0	342.5
Non-voting ordinary shares:						
Cost	2.5	10.6	13.1	1.9	19.9	21.8
Fair value	5.2	13.7	18.9	4.1	23.5	27.6
<b>Total:</b>						
<b>Cost</b>	<b>33.4</b>	<b>175.5</b>	<b>208.9</b>	<b>40.5</b>	<b>200.1</b>	<b>240.6</b>
<b>Fair value</b>	<b>70.9</b>	<b>253.7</b>	<b>324.6</b>	<b>80.6</b>	<b>289.5</b>	<b>370.1</b>

During the year 1.7 million own shares were purchased and held for hedging share-based awards. 4.0 million shares awarded to employees vested in the period and were transferred out of own shares.

## 23. Reconciliation of net cash from operating activities

This note should be read in conjunction with the Cash flow statement. It provides a reconciliation to show how profit before tax, which is based on accounting rules, translates to cash flows.

	2015 £m	2014 <sup>1</sup> £m
<b>Profit before tax</b>	<b>589.0</b>	<b>517.1</b>
<b>Adjustments for income statement non-cash movements:</b>		
Depreciation of property, plant and equipment and amortisation of intangible assets	36.4	37.0
Net gains and impairments taken through the income statement on financial instruments	(12.6)	(18.5)
Share-based payments	63.3	60.6
Net (release)/charge for provisions	(14.8)	7.7
Other non-cash movements	(3.8)	8.3
	<b>68.5</b>	<b>95.1</b>
<b>Adjustments for which the cash effects are investing activities:</b>		
Net finance income	(12.7)	(10.5)
Share of profit of associates and joint ventures	(19.3)	(8.5)
	<b>(32.0)</b>	<b>(19.0)</b>
<b>Adjustments for statement of financial position movements:</b>		
(Increase)/decrease in trade and other receivables and financial assets held for operating activities	(231.2)	44.3
(Decrease)/increase in trade and other payables, financial liabilities and provisions	(155.9)	881.2
	<b>(387.1)</b>	<b>925.5</b>
<b>Adjustments for Life Company movements:</b>		
Net decrease/(increase) in financial assets backing unit-linked liabilities	2,245.3	(2,062.6)
Net (decrease)/increase in unit-linked liabilities	(2,338.5)	1,972.0
	<b>(93.2)</b>	<b>(90.6)</b>
<b>Tax paid</b>	<b>(97.3)</b>	<b>(106.2)</b>
<b>Net cash from operating activities</b>	<b>47.9</b>	<b>1,321.9</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see Presentation of the financial statements on page 142.

Net cash from operating activities includes cash outflows of £11.2 million (2014: £13.4 million) in respect of exceptional items.

## 24. Commitments

Commitments represent amounts the Group has contractually committed to pay to third parties but which do not yet represent a charge or asset. This gives an indication of committed future cash flows. 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 leased properties where such properties, or parts of such properties, are no longer required for use by the Group. The table below discloses the commitments sublessees 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 18). Rental income for each year is recorded in the income statement as it is earned.

	2015			Total £m
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	
Operating leases as lessee	30.9	85.2	326.0	442.1
Undrawn loan facilities	24.0	0.2	–	24.2
Investment call commitments	15.2	–	–	15.2
<b>Total commitments</b>	<b>70.1</b>	<b>85.4</b>	<b>326.0</b>	<b>481.5</b>
Operating leases receivable as lessor	(2.0)	(2.6)	(1.0)	(5.6)
<b>Net commitments payable</b>	<b>68.1</b>	<b>82.8</b>	<b>325.0</b>	<b>475.9</b>

# Notes to the accounts

## 24. Commitments continued

	2014			Total £m
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	
Operating leases as lessee	34.0	82.7	348.0	464.7
Undrawn loan facilities	6.3	4.7	–	11.0
Investment call commitments	17.8	–	–	17.8
<b>Total commitments</b>	<b>58.1</b>	<b>87.4</b>	<b>348.0</b>	<b>493.5</b>
Operating leases receivable as lessor	(3.1)	(3.6)	(1.0)	(7.7)
<b>Net commitments payable</b>	<b>55.0</b>	<b>83.8</b>	<b>347.0</b>	<b>485.8</b>

In December 2013, the Group entered into an agreement to lease premises in the City of London. The tables above reflect the expectation that the lease will commence in 2018.

Leases in respect of office properties are negotiated for a weighted average term of 15.2 years (2014: 15.9 years) and rentals are fixed for a weighted average term of 4.4 years (2014: 4.6 years). Leases in respect of office equipment are negotiated for a weighted average term of 2.2 years (2014: 1.1 years) and rentals are fixed for a weighted average term of 2.2 years (2014: 1.0 year).

Office property subleases have a weighted average term of 4.6 years (2014: 4.0 years) and rentals are fixed for a weighted average term of 4.6 years (2014: 3.6 years).

Lease payments recognised as an expense during the year were £36.7 million (2014: £35.7 million).

## 25. Retirement benefit obligations

The Group has two 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:

	2015 £m	2014 £m
Pension costs – defined contribution plans	36.0	33.3
Pension credit – defined benefit plans	(2.7)	(1.8)
Other post-employment benefits	0.2	0.1
	<b>33.5</b>	<b>31.6</b>

## 25. Retirement benefit obligations continued

### (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 setting the investment strategy and 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, 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 per cent. for pensions accrued after 12 August 2007 and 5.0 per cent. for pensions accrued before that date.

As at 31 December 2015, there were no active members in the DB section (2014: nil) and 1,657 active members in the DC section (2014: 1,553). The weighted average duration of the Scheme's DB obligation is 19 years (2014: 21 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2015	2014
Number of deferred members	1,538	1,605
Total deferred pensions (at date of leaving Scheme)	£14.0m per annum	£14.6m per annum
Average age (deferred)	51	51
Number of pensioners	765	738
Average age (pensioners)	70	69
Total pensions in payment	£17.6m per annum	£16.9m per annum

### (ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2014. The funding level at that date was 109% on the technical provisions basis and no contribution to the Scheme was required (2014: nil). The next triennial valuation will be due as at 31 December 2017. The Group does not expect to make any contributions in 2016.

### (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, as detailed below, an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets such as swaps which perform in line with the liabilities of the Scheme so as to protect against inflation and/or interest rates being higher than expected.

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 may create a deficit. The Group manages this risk by holding 43.5 per cent. (2014: 39.3 per cent.) of Scheme assets in a liability driven investment (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 which 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 2015, the LDI portfolio was designed to mitigate 70 per cent. (2014: 70 per cent.) 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 to protect against inflation. 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 2015, the LDI portfolio was designed to mitigate 70 per cent. (2014: 70 per cent.) of the Scheme's exposure to inflation risk.

# Notes to the accounts

## 25. Retirement benefit obligations continued

### 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 2015

The principal financial assumptions used for the Scheme were as listed below:

	2015 %	2014 %
Discount rate	3.8	3.6
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	3.2
Future pension increases (for benefits earned after 13 August 2007)	2.2	2.1
Average number of years a current pensioner is expected to live beyond age 60:		
Men	29	29
Women	31	31
Average number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	31	31
Women	32	33

The net interest for pension costs is determined by applying the corporate bond 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 should be 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.

### Estimates and judgements

Assumptions made on expected mortality rates 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 1.5 per cent. per annum. Mortality tables for female pensioners are scaled back by 5 per cent. 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 2015.

The amounts recognised in the income statement are:

	2015 £m	2014 £m
Interest income on Scheme assets	(35.0)	(36.1)
Interest cost on Scheme liabilities	31.3	33.3
<b>Net interest income recognised in the income statement in respect of the Scheme</b>	<b>(3.7)</b>	<b>(2.8)</b>
Income statement charge in respect of other defined benefit schemes	1.0	1.0
<b>Total defined benefit schemes income statement credit</b>	<b>(2.7)</b>	<b>(1.8)</b>

The amounts recognised in the statement of comprehensive income are:

	2015 £m	2014 £m
Return on Scheme assets below/(in excess of) that recognised in interest income	54.0	(119.3)
Actuarial gains due to change in demographic assumptions	(13.1)	(1.9)
Actuarial (gains)/losses due to change in financial assumptions	(31.2)	89.2
Actuarial gains due to experience	(17.7)	(6.7)
<b>Total other comprehensive income in respect of the Scheme</b>	<b>(8.0)</b>	<b>(38.7)</b>
Other comprehensive loss in respect of other defined benefit schemes	0.7	1.8
<b>Total other comprehensive income in respect of defined benefit schemes</b>	<b>(7.3)</b>	<b>(36.9)</b>



## 25. Retirement benefit obligations continued

The sensitivity of the Scheme pension liabilities to changes in assumptions is as follows:

Assumption	Assumption change	2015		2014	
		Estimated reduction in pension liabilities £m	Estimated reduction in pension liabilities %	Estimated reduction in pension liabilities £m	Estimated reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	74.7	9.1	82.4	9.8
Expected rate of pension increases in payment	Reduce by 0.5% per annum	56.4	6.9	59.0	7.0
Life expectancy	Reduce by one year	26.5	3.2	28.8	3.4

Movements in respect of the assets and liabilities of the Scheme and the Cazenove Capital Scheme<sup>1</sup> are:

	2015		2014	
	The Scheme £m	The Scheme £m	Cazenove Capital Scheme £m	Total £m
At 1 January	987.8	812.1	37.3	849.4
Interest on assets	35.0	36.1	1.6	37.7
Remeasurement of assets	(54.0)	119.3	3.2	122.5
Benefits paid	(32.3)	(20.0)	(1.8)	(21.8)
Transfer of assets <sup>1</sup>	–	40.3	(40.3)	–
<b>Fair value of plan assets</b>	<b>936.5</b>	<b>987.8</b>	<b>–</b>	<b>987.8</b>
At 1 January	(884.1)	(750.7)	(35.0)	(785.7)
Interest cost	(31.3)	(33.3)	(1.5)	(34.8)
Actuarial gains due to change in demographic assumptions	13.1	1.9	0.1	2.0
Actuarial gains/(losses) due to change in financial assumptions	31.2	(89.2)	(4.9)	(94.1)
Actuarial gains due to experience	17.7	6.7	–	6.7
Benefits paid	32.3	20.0	1.8	21.8
Transfer of liabilities <sup>1</sup>	–	(39.5)	39.5	–
<b>Present value of funded obligations</b>	<b>(821.1)</b>	<b>(884.1)</b>	<b>–</b>	<b>(884.1)</b>
<b>Net asset</b>	<b>115.4</b>	<b>103.7</b>	<b>–</b>	<b>103.7</b>

<sup>1</sup> The Group acquired the Cazenove Capital Scheme as part of its acquisition of Cazenove Capital Holdings Limited on 2 July 2013. On 31 December 2014, the assets and liabilities of the Cazenove Scheme were transferred into the Scheme.

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 2015, 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 assets at the year end date is analysed as follows:

	2015		2014	
	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	407.1	(3.8)	388.6	3.1
Bonds (excluding those held as part of the liability driven investment portfolio)	119.8	–	128.1	–
Portfolio funds	363.9	–	397.9	18.4
Hedge funds	–	–	–	–
Exchange-traded futures and over the counter derivatives	(0.4)	(27.8)	15.2	(1.0)
Cash	46.1	–	58.0	–
	<b>936.5</b>	<b>(31.6)</b>	<b>987.8</b>	<b>20.5</b>

# Notes to the accounts

## 26. 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 until three years after the award has been made, although conditions vary between different types of award. Accounting for share-based awards settled by transferring shares to the awardee (equity-settled) differs from 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 which 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 9.8 per cent. (2014: 9.9 per cent.) of salaries and other remuneration.

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 our 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 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 £63.7 million (2014: £61.3 million) arising from share-based payment transactions during the year of which £63.3 million (2014: £60.6 million) were equity-settled share-based payment transactions. Included within equity-settled share-based payments were exceptional items of £6.6 million (2014: £11.2 million).

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 vesting period of the awards. The award is structured as a nil-cost option.

	2015		2014	
	Ordinary shares Number Millions	Non-voting ordinary shares Number Millions	Ordinary shares Number Millions	Non-voting ordinary shares Number Millions
Rights outstanding at 1 January	8.4	0.3	9.3	0.5
Granted	1.5	–	1.9	–
Forfeited	(0.1)	–	(0.2)	–
Exercised	(2.9)	–	(2.6)	(0.2)
<b>Rights outstanding at 31 December</b>	<b>6.9</b>	<b>0.3</b>	<b>8.4</b>	<b>0.3</b>
Vested	2.1	0.2	2.6	0.2
Unvested	4.8	0.1	5.8	0.1
Weighted average fair value of share granted (£)	31.51	24.25	26.72	20.48
Weighted average share price at dates of exercise (£)	31.50	23.45	26.09	20.09

The weighted average exercise price per share is nil.

A charge of £45.6 million (2014: £40.2 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
2016	13.0
2017	3.9
2018	0.1
	<b>17.0</b>

## 26. Share-based payments continued

### (b) Equity Incentive Plan

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value 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 at that time. The award is structured as a nil-cost option.

	2015 Number of ordinary shares Millions	2014 Number of ordinary shares Millions
Rights outstanding at 1 January	2.2	2.3
Granted	0.3	0.8
Forfeited	–	(0.1)
Exercised	(0.4)	(0.8)
<b>Rights outstanding at 31 December</b>	<b>2.1</b>	<b>2.2</b>
Vested	0.1	0.2
Unvested	2.0	2.0
Weighted average fair value of share granted (£)	30.14	24.85
Weighted average share price at dates of exercise (£)	30.02	26.12

The weighted average exercise price per share is nil.

A charge of £7.5 million (2014: £5.4 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Equity Incentive Plan to be expensed in future years:

	£m
2016	8.8
2017	7.6
2018	7.2
2019	4.3
2020	1.3
	<b>29.2</b>

### (c) 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.

	2015		2014	
	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	1.2	0.1	1.7	0.1
Granted	0.1	–	0.1	–
Forfeited	(0.2)	–	–	–
Exercised	(0.3)	–	(0.6)	–
<b>Rights outstanding at 31 December</b>	<b>0.8</b>	<b>0.1</b>	<b>1.2</b>	<b>0.1</b>
Vested	–	–	0.1	–
Unvested	0.8	0.1	1.1	0.1
Weighted average fair value of share granted (£)	28.57	21.37	24.70	18.32
Weighted average share price at dates of exercise (£)	31.20	–	26.14	20.20

The weighted average exercise price per share is nil.

A charge of £2.5 million (2014: £3.1 million) was recognised during the financial year.

# Notes to the accounts

## 26. Share-based payments continued

The table below shows the expected charges for awards issued under the Long Term Incentive Plan to be expensed in future years:

	£m
2016	1.9
2017	0.6
2018	0.3
	<b>2.8</b>

### (d) 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 39,007 ordinary shares in 2015 (2014: 28,457) at a weighted average share price of £30.10 (2014: £25.16). A charge of £1.1 million (2014: £0.7 million) was recognised during the financial year.

### (e) Restricted and Growth Share Plan

Awards under this plan were made by Cazenove Capital in June 2011 to certain employees. Following the Group's acquisition of Cazenove Capital in 2013, the awards were modified to be settled in ordinary and non-voting ordinary shares of Schroders plc. The awards do not have performance conditions attached and vest in three equal tranches between three and five years from the date of award. The Group does not intend to make any further awards under the Plan. The fair value of awards made under the Plan at the acquisition date is spread over the performance and vesting periods. The fair value, at the acquisition date, of the award attributable to the pre-acquisition part of the vesting period formed part of the cost of acquisition and is not charged to the income statement.

	2015		2014	
	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	0.9	0.9	1.5	1.5
Forfeited	–	–	(0.1)	(0.1)
Exercised	(0.4)	(0.4)	(0.5)	(0.5)
<b>Rights outstanding at 31 December – unvested</b>	<b>0.5</b>	<b>0.5</b>	<b>0.9</b>	<b>0.9</b>
Weighted average share price at dates of exercise (£)	27.45	21.82	24.29	19.02

A charge of £6.6 million (2014: £11.2 million) was recognised during the financial year. This charge is included within exceptional items.

The estimated charges for awards issued under the Restricted and Growth Share Plan to be expensed in 2016 is £0.9 million.

## 27. 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 Cash flow statement and in note 11.

£21.3 million (2014: £6.7 million) was held in customer accounts. All amounts were payable to key management personnel or their related parties.

Some of the plan assets of the Schroders Retirement Benefit Scheme are invested within Life funds controlled by the Group. At 31 December 2015, the fair value of these assets was £240.1 million (2014: £240.5 million).

Peter Harrison has an interest in 100,252 shares (2014: 100,252) in an associate of the Group, RWC Partners Limited, representing 5.9 per cent. (2014: 6.2 per cent.) 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	2015 £m	2014 £m
Short-term employee benefits	Salary, cash bonus	29.8	26.7
Share-based payments	Deferred share awards	16.6	11.3
Other long-term benefits	Other life assurance plans and deferred cash awards	11.0	8.9
Post-employment benefits	Pension plans	0.2	0.3
		<b>57.6</b>	<b>47.2</b>

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 in the Remuneration report.



# Notes to the accounts

## 28. 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. Assets under management, 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 unitised vehicles such as Open Ended Investment Companies (OEICs), Authorised Unit Trusts (AUTs) and Sociétés d'Investissement à Capital Variable (SICAVs), 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 which help facilitate the Group's stated aim of generating a return on investment capital and when it deploys seed capital in developing new investment strategies. Additionally, the Group holds interests in structured entities for liquidity management purposes, for example via investment in money market funds.

As fund manager, the Group does not guarantee returns on its funds or commit to financially support its funds. A small proportion of the Group's funds, 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, based on a percentage of the entity's net asset value and, where contractually agreed, a performance fee, 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 assets under management (AUM).

	2015			Total £bn
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn	
Asset Management	136.5	9.4	136.0	281.9
Wealth Management	26.2	–	5.4	31.6
	<b>162.7</b>	<b>9.4</b>	<b>141.4</b>	<b>313.5</b>

	2014			Total £bn
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn	
Asset Management	126.4	11.7	130.8	268.9
Wealth Management	25.5	–	5.6	31.1
	<b>151.9</b>	<b>11.7</b>	<b>136.4</b>	<b>300.0</b>

Certain AUM is managed in investment 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 funds managed for Intermediary clients, as well as some assets invested in funds 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 below.

The Group has no direct exposure to losses in relation to the AUM reported above, as the investment risk is borne by external investors. The main risk the Group faces from its interest in AUM managed on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependant on market sentiment, asset performance and investor considerations. Further information on these risks can be found in the Business Review section.

Fee income includes £1,152.3 million (2014: £1,081.6 million) of fees from structured entities managed by the Group. The table over the page 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.

**28. Interests in structured entities** continued

	2015 £m	2014 £m
Fee debtors <sup>1</sup>	7.0	4.3
Accrued income <sup>1</sup>	147.2	152.6
<b>Total exposure due to asset management activities</b>	<b>154.2</b>	<b>156.9</b>

<sup>1</sup> 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 investment in unconsolidated structured entities, which resulted in net gains on financial instruments and other income of £6.0 million (2014: £12.3 million). The carrying values represent the Group's maximum exposure to loss from these interests.

	2015 £m	2014 £m
Cash and cash equivalents	350.3	228.9
Financial assets	458.6	393.6
<b>Total exposure due to the Group's investments</b>	<b>808.9</b>	<b>622.5</b>

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 £39.8 million (2014: £42.8 million) is managed by the Group. Financial assets comprise investments in unitised funds and legacy private equity investments and include seed capital and hedges of deferred cash awards (see note 16). Of the financial assets, £454.2 million (2014: £387.6 million) is 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 investments held in investment capital.

The Group's statement of financial position also includes the Life Company assets of £11,319.9 million (2014: £13,658.4 million), which are included in the AUM information presented above. 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 £124.4 million (2014: £54.1 million) to provide seed capital to investment funds managed by the Group, of which £95.5 million (2014: £27.1 million) resulted in the consolidation of those funds, and £28.9 million (2014: £27.0 million) did not.

## Presentation of the financial statements

Financial information for the year ended 31 December 2015 is presented in accordance with International Accounting Standard (IAS) 1 Presentation of Financial Statements.

The financial statements and related notes have been reformatted to reflect the way in which revenues and costs are managed internally. Net revenue has been reformatted to include the Group's share of profits from associates and joint ventures of £19.3 million (2014: £8.5 million) and now also includes net finance income of £12.7 million (2014: £10.5 million). A new net operating revenue sub-total has been introduced which represents revenues earned through our clients. The new presentation provides a more relevant basis on which to measure performance as it enhances comparability between revenues and related costs. Comparative information has been reformatted where relevant resulting in a £19.0 million increase in 2014 net revenues.

The presentation of the income statement includes separate disclosure of exceptional items. The policy for exceptional items is set out in note 1(b).

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 presentation of the cash flow statement has been updated to reflect gross acquisitions and gross disposals of financial assets.

### Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union (EU), which comprise Standards and Interpretations approved by either the International Accounting Standards Board 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 available-for-sale or held at fair value through profit or loss, and certain deposits both with banks and by customers and banks (including those that relate to bullion).

The Group's principal accounting policies have been consistently applied. The preparation of 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. 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 with grey print and a white background. The principal accounting policy and a simplified summary of the relevant note is included in the blue print.

The Group did not implement the requirements of any Standards or Interpretations which were in issue and which were not required to be implemented at the year end date. No Standards or Interpretations endorsed by the EU that had an impact on the Group became effective during the year. The following Standards and Interpretations relevant to the Group that had been issued but not yet endorsed by the EU or adopted at the year end were:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

IFRS 9 has yet to be endorsed by the EU and replaces the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The Group's business model and the contractual cash flows arising from its investments in financial instruments determine the classification. Equity instruments will be recorded at fair value, with gains or losses reported either in the income statement or through equity. However, where fair value gains and losses are recorded through equity there will no longer be a requirement to transfer gains or losses to the income statement on impairment or disposal.

IFRS 9 also introduces an expected loss model for the assessment of impairment. The current incurred loss model (under IAS 39) requires the Group to recognise impairment losses when there is objective evidence that an asset is impaired; under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. The Group is currently assessing the impact of IFRS 9 on its financial statements.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Group does not anticipate that IFRS 15 will have a material impact on results.

IFRS 16 'Leases' was issued on 13 January 2016 and replaces IAS 17 'Leases'. IFRS 16 requires that all operating leases in excess of one year, where the Group is the lessee, are included on the Group's statement of financial position. The Group will be required to recognise a right-of-use (ROU) asset and a lease liability (representing the obligation to make lease payments). The ROU asset will be amortised on a straight-line basis with the lease liability being amortised using the effective interest method (see note 2). IFRS 16 contains optional exemptions for both short-term leases (less than 12 months) and for small-value leases. The Standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the entity adopting IFRS 15 at the same time. The Group is currently assessing the impact of IFRS 16 on its financial statements.

No other Standards or Interpretations issued and not yet effective are expected to have an impact on the Group's financial statements.

## Presentation of the financial statements continued

### 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 11). 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 investment vehicles managed by the Group where the shareholding in the year results in control, as defined by IFRS. These include investments held by the Life Company. In such cases, the investment vehicle is consolidated and the third party interest is 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.

### 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 gains 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. This also applies to sterling-based entities with foreign currency transactions, assets and liabilities.

### 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. 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 assumptions that could have a significant effect on the carrying amounts of assets and liabilities are set out in the following notes:

Note 10	Financial assets
Note 13	Goodwill and intangible assets
Note 18	Provisions and contingent liabilities
Note 25	Retirement benefit obligations

In applying IFRS 10 'Consolidated Financial Statements', the Group is required to assess 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

31 December 2015

	Notes	2015 £m	2014 £m
<b>Assets</b>			
Cash and cash equivalents		0.1	0.1
Trade and other receivables	31	1,053.7	850.4
Retirement benefit scheme surplus	25	115.4	103.7
Investments in subsidiaries	37	3,007.0	3,007.0
<b>Total assets</b>		<b>4,176.2</b>	<b>3,961.2</b>
<b>Liabilities</b>			
Trade and other payables	32	50.1	38.9
Deferred tax	33	14.0	13.1
<b>Total liabilities</b>		<b>64.1</b>	<b>52.0</b>
<b>Net assets</b>		<b>4,112.1</b>	<b>3,909.2</b>
<b>Equity</b>		<b>4,112.1</b>	<b>3,909.2</b>

The financial statements were approved by the Board of Directors on 2 March 2016 and signed on its behalf by:

**Richard Keers**  
Director

**Bruno Schroder**  
Director



# Schroders plc – Statement of changes in equity

Year ended 31 December 2015

Year ended 31 December 2015	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2015		282.5	119.4	(135.2)	3,642.5	3,909.2
<b>Profit for the year</b>		–	–	–	<b>415.7</b>	<b>415.7</b>
Items not to be reclassified to the income statement:						
Actuarial gains on defined benefit pension schemes		–	–	–	8.0	8.0
Tax on items taken directly to other comprehensive income		–	–	–	(2.3)	(2.3)
<b>Other comprehensive income</b>		–	–	–	<b>5.7</b>	<b>5.7</b>
Share-based payments		–	–	–	57.0	57.0
Tax credit in respect of share schemes		–	–	–	0.7	0.7
Dividends	8	–	–	–	(226.3)	(226.3)
Own shares purchased	35	–	–	(49.9)	–	(49.9)
<b>Transactions with shareholders</b>		–	–	<b>(49.9)</b>	<b>(168.6)</b>	<b>(218.5)</b>
Transfers		–	–	48.0	(48.0)	–
<b>At 31 December 2015</b>		<b>282.5</b>	<b>119.4</b>	<b>(137.1)</b>	<b>3,847.3</b>	<b>4,112.1</b>

Year ended 31 December 2014	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2014		282.7	119.4	(138.6)	3,495.9	3,759.4
<b>Profit for the year</b>		–	–	–	<b>299.6</b>	<b>299.6</b>
Items not to be reclassified to the income statement:						
Actuarial gains on defined benefit pension schemes		–	–	–	38.7	38.7
Tax on items taken directly to other comprehensive income		–	–	–	(7.7)	(7.7)
<b>Other comprehensive income</b>		–	–	–	<b>31.0</b>	<b>31.0</b>
Shares cancelled	21	(0.2)	–	–	0.2	–
Share-based payments		–	–	–	55.4	55.4
Tax credit in respect of share schemes		–	–	–	0.4	0.4
Dividends	8	–	–	–	(177.7)	(177.7)
Own shares purchased	35	–	–	(58.9)	–	(58.9)
<b>Transactions with shareholders</b>		<b>(0.2)</b>	–	<b>(58.9)</b>	<b>(121.7)</b>	<b>(180.8)</b>
Transfers		–	–	62.3	(62.3)	–
<b>At 31 December 2014</b>		<b>282.5</b>	<b>119.4</b>	<b>(135.2)</b>	<b>3,642.5</b>	<b>3,909.2</b>

The distributable profits of Schroders plc are £2.3 billion (2014: £2.1 billion) and comprise retained profits of £2.4 billion (2014: £2.2 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 the financial review.

# Schroders plc – Cash flow statement

for the year ended 31 December 2015

	2015 £m	2014 £m
<b>Profit before tax</b>	406.7	292.8
<b>Adjustments for:</b>		
Increase in trade and other receivables	(200.5)	(115.5)
(Decrease)/increase in trade and other payables	(1.9)	0.3
Net credit taken in respect of the defined benefit pension schemes	(3.7)	(2.8)
Share-based payments expensed	57.0	55.4
Amounts received in respect of Group tax relief	6.6	6.4
Interest paid	(0.4)	–
Interest received	(0.1)	–
<b>Net cash from operating activities</b>	<b>263.7</b>	<b>236.6</b>
<b>Cash flows from financing activities</b>		
Loan received from a Group company	12.5	–
Acquisition of own shares	(49.9)	(58.9)
Dividends paid	(226.3)	(177.7)
<b>Net cash used in financing activities</b>	<b>(263.7)</b>	<b>(236.6)</b>
<b>Net movement in cash and cash equivalents</b>	<b>–</b>	<b>–</b>
Opening cash and cash equivalents	0.1	0.1
Net movement in cash and cash equivalents	–	–
<b>Closing cash and cash equivalents</b>	<b>0.1</b>	<b>0.1</b>

# Schroders plc – Notes to the accounts

## 29. Significant accounting policies

The separate financial statements of Schroders plc (the Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 (the Act) applicable to companies reporting under IFRS, and accounting policies 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 2015. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement and statement of comprehensive income.

The financial statements have been prepared on the historical cost basis, except for the measurement of long-term employee benefits at present value of the obligation less fair value of any assets held to settle the obligation. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures. In addition note 37 sets out the accounting policy in respect of investments in subsidiary undertakings.

## 30. Expenses and other disclosures

The auditors' remuneration for audit services to the Company was £0.5 million (2014: £0.5 million). There were no fees relating to further assurance services in the year (2014: nil).

### Key management personnel compensation

The remuneration policy is described in more detail in the Remuneration report. The typical composition of each type of remuneration is the same as that given in note 5. The remuneration of key management personnel during the year was as follows:

	2015 £m	2014 £m
Short-term employee benefits	15.9	13.6
Share-based payments	8.6	5.2
Other long-term benefits	6.4	4.0
Post-employment benefits	0.1	0.1
	<b>31.0</b>	<b>22.9</b>

## 31. Trade and other receivables

	2015 £m	2014 £m
Amounts due from subsidiaries	1,053.3	849.7
Prepayments and accrued income	–	0.2
Other receivables	0.4	0.5
	<b>1,053.7</b>	<b>850.4</b>

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.

Amounts due from subsidiaries include £991.2 million (2014: £793.3 million) of interest-bearing loans and deposits.

## 32. Trade and other payables

	2015			2014		
	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	3.6	6.6	1.9	4.7	6.6
Accruals	9.4	14.9	24.3	5.6	15.9	21.5
Other liabilities	–	3.9	3.9	–	5.4	5.4
Amounts owed to subsidiaries	–	15.3	15.3	–	5.4	5.4
	<b>12.4</b>	<b>37.7</b>	<b>50.1</b>	<b>7.5</b>	<b>31.4</b>	<b>38.9</b>

The Company's trade and other payables mature in the following time periods:

	2015 £m	2014 £m
Less than one year	37.7	31.4
1 – 2 years	5.6	2.3
2 – 3 years	4.5	3.1
3 – 4 years	2.3	2.1
	<b>12.4</b>	<b>7.5</b>
	<b>50.1</b>	<b>38.9</b>

## 33. Deferred tax liabilities

All movements in deferred tax arise from temporary differences including deferred remuneration and pension costs.

	2015 £m	2014 £m
At 1 January	13.1	5.0
Income statement expense	(2.6)	0.3
Transfer of deferred tax liability on transfer of pension scheme from a Group company	–	0.1
Changes in timing differences – other comprehensive income expense	1.6	7.7
Effect of changes in tax rates – other comprehensive income expense	0.7	–
Expense taken to equity	1.2	–
<b>At 31 December</b>	<b>14.0</b>	<b>13.1</b>

## 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 Governance report of this document 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 normal course of business. The Company can request to borrow through intragroup loans and 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 2015, if interest rates had been 75 bps higher (2014: 50 bps higher) or 50 bps lower (2014: no change) with all other variables held constant, the Company estimates that post-tax profit for the year would have increased by £6 million (2014: increased by £3 million) or decreased by £4 million (2014: no change) 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 would have been unaffected.

The model used to calculate the effect on post-tax profits assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.

### 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:

	2015 £m	2014 £m
At 1 January	(135.2)	(138.6)
Own shares purchased	(49.9)	(58.9)
Cancellations of own shares in treasury	–	3.8
Awards vested	48.0	58.5
<b>At 31 December</b>	<b>(137.1)</b>	<b>(135.2)</b>

The total number of shares in the Company held within the Company's employee benefit trusts comprise:

	2015			2014		
	Vested shares Number Millions	Unvested shares Number Millions	Total Number Millions	Vested shares Number Millions	Unvested shares Number Millions	Total Number Millions
Ordinary shares	2.2	6.5	8.7	2.8	7.6	10.4
Non-voting ordinary shares	0.2	0.1	0.3	0.2	0.1	0.3
	<b>2.4</b>	<b>6.6</b>	<b>9.0</b>	<b>3.0</b>	<b>7.7</b>	<b>10.7</b>

	2015			2014		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	31.7	134.8	166.5	38.1	133.1	171.2
Fair value	65.7	194.7	260.4	74.2	203.9	278.1
Non-voting ordinary shares:						
Cost	2.5	2.3	4.8	1.9	2.1	4.0
Fair value	5.2	2.9	8.1	4.1	2.8	6.9
<b>Total:</b>						
<b>Cost</b>	<b>34.2</b>	<b>137.1</b>	<b>171.3</b>	<b>40.0</b>	<b>135.2</b>	<b>175.2</b>
<b>Fair value</b>	<b>70.9</b>	<b>197.6</b>	<b>268.5</b>	<b>78.3</b>	<b>206.7</b>	<b>285.0</b>

### 36. Related party transactions

The Company 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 Company include 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 includes 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:

	2015					
	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	441.9	11.8	3.0	–	1,053.3	(15.3)
Key management personnel	0.2	–	–	–	–	(16.5)

	2014					
	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	321.6	8.2	2.5	–	849.7	(5.4)
Key management personnel	0.1	–	–	–	–	(3.8)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No expense for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties.



## 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 and associates. A full list of these undertakings, the country of incorporation (which in all cases is the principal place of business) and the ownership of each share class, as at 31 December 2015, is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group.

Additionally, related undertakings include where the Company has a significant holding of a share class or unit class of a structured entity. 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.

All listed subsidiaries are included in the consolidated financial statements of the Group.

### (a) Related undertakings arising from the Company's corporate structure

#### Principal subsidiaries

The principal subsidiaries listed below are those which, 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.

#### UK

Cazenove Capital Management Limited <sup>2a</sup>  
Cazenove Investment Fund Management Limited <sup>1</sup>  
Leadenhall Securities Corporation Limited <sup>3</sup>  
Schroder & Co. Limited <sup>2</sup>  
Schroder Administration Limited <sup>4a</sup>  
Schroder Financial Holdings Limited <sup>4</sup>  
Schroder Financial Services Limited <sup>3</sup>  
Schroder Investment Company Limited <sup>3</sup>  
Schroder International Holdings Limited <sup>4</sup>  
Schroder Investments Limited <sup>1</sup>  
Schroder Investment Management Limited <sup>1</sup>  
Schroder Investment Management North America Limited <sup>1</sup>  
Schroder Pension Management Limited <sup>1</sup>  
Schroder Real Estate Investment Management Limited <sup>1</sup>  
Schroder Unit Trusts Limited <sup>1</sup>  
Schroder Wealth Holdings Limited <sup>4</sup>

#### Argentina

Schroder Investment Management S.A. – 95 per cent. <sup>1</sup>

#### Australia

Schroder Investment Management Australia Limited <sup>11</sup>

#### Bermuda

Schroder International Holdings (Bermuda) Limited <sup>4</sup>  
Schroders (Bermuda) Limited <sup>4</sup>  
Schroder Holdings (Bermuda) Limited <sup>4</sup>

#### Brazil

Schroder Investment Management Brasil Ltda. <sup>1</sup>

#### Germany

Schroder Investment Management GmbH <sup>1</sup>  
Schroder Real Estate Investment Management GmbH <sup>1</sup>  
Schroder Real Estate Kapitalverwaltungsgesellschaft mbH <sup>1</sup>

#### Guernsey

Burnaby Insurance (Guernsey) Limited <sup>5</sup>  
Schroder (C.I.) Limited <sup>2</sup>  
Schroder Investment Company (Guernsey) Limited <sup>3</sup>  
Schroder Venture Managers (Guernsey) Limited <sup>3 n</sup>

#### Hong Kong

Cazenove Capital Management Asia Limited <sup>2</sup>  
Schroder Investment Management (Hong Kong) Limited <sup>1 m</sup>

#### Indonesia

PT Schroder Investment Management Indonesia – 99 per cent. <sup>1</sup>

#### Ireland

Schroder Investment Management (Ireland) Limited <sup>1</sup>

#### Italy

Schroders Italy SIM S.p.A. <sup>2</sup>

#### Japan

Schroder Investment Management (Japan) Limited <sup>1</sup>

#### Jersey

Cazenove Capital Holdings Limited <sup>2b</sup>  
Cazenove Capital Management Jersey Limited <sup>2</sup>  
Schroder Real Estate Managers (Jersey) Limited <sup>1</sup>

#### Korea

Schroders Korea Limited <sup>1</sup>

#### Luxembourg

Schroder Investment Management (Luxembourg) S.A. <sup>1</sup>  
Schroder Real Estate Investment Management (Luxembourg) S.à.r.l. <sup>1</sup>

#### Mexico

Consultora Schroders, S.A. de C.V. – 99 per cent. <sup>1 i</sup>

#### Netherlands

Schroder International Finance B.V. <sup>4</sup>  
Schroder Nederland Finance B.V. <sup>4</sup>

#### Singapore

Schroder & Co (Asia) Limited <sup>2</sup>  
Schroder Investment Management (Singapore) Ltd. <sup>1</sup>

#### Switzerland

Schroder & Co Bank AG <sup>2</sup>  
Schroder Investment Management (Switzerland) AG <sup>1</sup>

#### Taiwan

Schroder Investment Consulting Co. Limited <sup>1</sup>  
Schroder Investment Management (Taiwan) Limited <sup>1</sup>

#### United States

Schroder Investment Management North America Inc <sup>1</sup>  
Schroder US Holdings Inc <sup>3</sup>  
Schroder Fund Advisors LLC <sup>1</sup>

#### Other corporate related undertakings

The remaining related undertakings arising from the Company's corporate structure are listed on the next page. These include subsidiaries (other than those listed above), joint ventures and associates. The financial year end of joint ventures is coterminous with the Company. In all cases, the management of joint ventures is based upon joint voting rights under a Shareholders Agreement.

<sup>1</sup> Asset Management.

<sup>2</sup> Wealth Management.

<sup>3</sup> Management of Group Capital.

<sup>4</sup> Holding Company.

<sup>5</sup> Captive insurer for the Group.

## 37. Subsidiaries and other related undertakings continued

### Other corporate related undertakings

#### Fully owned subsidiaries

##### UK

AFH Unitholder No. 2 Limited  
Austin Friars GP Limited  
California (GP) Limited  
California Nominee Limited  
Cazenove Capital Management Pension Trustee Limited <sup>b</sup>  
Cazenove New Europe (CFM1) Limited  
Cazenove New Europe (PPI) Limited <sup>b</sup>  
Cazenove New Europe Staff Interest Limited <sup>b</sup>  
CCM Nominees Limited <sup>b</sup>  
CDA Investment GP Limited  
Columbus Capital Management LLP  
Columbus Industrial Unitholder No. 3 Limited  
Columbus Industrial Unitholder No. 2 Limited  
Columbus UK Founder GP Limited  
Columbus UK GP II Limited  
Columbus UK GP Limited  
Columbus US Feeder GP Limited  
Croydon Gateway Nominee 1 Limited  
Croydon Gateway Nominee 2 Limited  
J. Henry Schroder Wagg & Co. Limited <sup>b</sup>  
NewFinance Capital Partners Limited  
Schroder & Co Nominees Limited <sup>b</sup>  
Schroder Corporate Services Limited  
Schroder European Real Estate Investment Trust Plc  
Schroder NewFinance Capital LLP  
Schroder Nominees Limited <sup>b</sup>  
Schroder Pension Trustee Limited  
Schroder Ventures Holdings Limited  
Schroder Ventures Investment Advisers Limited  
Schroders Corporate Secretary Limited <sup>b</sup>  
SIM Nominees Limited <sup>b</sup>

##### Australia

Schroder Australia Holdings Pty Limited <sup>h,g,k</sup>

##### Bermuda

Schroder Venture Managers Limited  
SITCO Nominees Limited

##### Canada

Schroder Canada Investments Inc.

##### Cayman Islands

Corporate Services Ltd  
NewFinance (Cayman) Limited  
Schroder Cayman Bank & Trust Company Limited

##### Chile

Schroders Chile SpA

##### China

Schroder Investment Management Consulting (Shanghai) Co., Ltd.

##### France

Schroder Real Estate Investment Management (France)

##### Germany

Blitz 06-953 GmbH  
Real Neunzehnte Verwaltungsgesellschaft mbH  
Schroder Eurologistik Fonds Verwaltungs GmbH  
Schroder Holdings (Deutschland) GmbH  
Schroder Italien Fonds Verwaltungs GmbH  
SPRIM Holdings GmbH

##### Guernsey

NewFinance Holdings Limited  
Sapphire Managers (Europe) Limited  
Schroder Investments (Guernsey) Limited  
Schroder Nominees (Guernsey) Limited  
Secquaero Re (Guernsey) ICC Ltd  
Schroder Ventures European Fund Managers Limited

##### Hong Kong

Schroders Asia Nominees Limited  
S & C Nominees Limited

##### Italy

Schroder Investment Management (Italy) SIM S.p.A.  
Vicarello S.p.A.

##### Jersey

Columbus UK (CIP) Limited  
Croydon Gateway GP Limited  
Croydon Gateway Investments Limited  
Gresham (GP) Limited  
Gresham Founder (CIP) Limited  
Gresham II Founder GP Limited  
Gresham II GP Limited  
Lerisson Nominees Limited  
NPS General Partner Limited

##### Singapore

Schroder Singapore Holdings Private Limited  
SIMBL Nominees Private Limited

##### Switzerland

IGIMO AG  
Schroder Trust AG

##### United States

NewFinance Capital Inc.  
Schroder Venture Managers Inc.  
Schroders Incorporated

#### Subsidiaries where the ownership is less than 100 per cent.

##### Argentina

Schroder S.A. Sociedad Gerente de Fondos Comunes de Inversion – 95 per cent.

##### Germany

CM Komplementär 06-379 GmbH & Co KG – 95 per cent.

#### Associates and joint ventures

##### UK

RWC Partners Limited – 45 per cent. <sup>h</sup>  
The New Bracknell Company Limited – 50 per cent. <sup>g</sup>  
Nippon Life Schroders Asset Management Europe Limited – 33 per cent. <sup>h</sup>

##### China

Bank of Communications Schroder Fund Management Co. Ltd. – 30 per cent.

##### Guernsey

Schroder Ventures Investments Limited – 50 per cent. <sup>c,d</sup>

##### Guernsey

Schroder Investment Management (Guernsey) Limited – 99 per cent.

##### Luxembourg

Schroder Property Services B.V. S.a.r.l. – 70 per cent.

##### India

Axis Asset Management Company Limited – 25 per cent.

##### Jersey

Bracknell General Partner Limited – 50 per cent. <sup>g</sup>

##### Singapore

Nippon Life Global Investors Singapore Limited – 33 per cent. <sup>i</sup>

##### Switzerland

Secquaero Advisors AG – 30 per cent. <sup>g,h</sup>

<sup>a</sup> Held directly by the Company.

<sup>b</sup> Dormant, exempt from preparing individual accounts.

<sup>c</sup> The Company also holds redeemable preference shares.

<sup>d</sup> The Company also holds deferred shares.

<sup>e</sup> The Company also holds preference C shares.

<sup>f</sup> The Company also holds preference B shares.

<sup>g</sup> The Company holds ordinary A shares.

<sup>h</sup> The Company holds ordinary B shares.

<sup>i</sup> The Company holds series A shares.

<sup>j</sup> The Company holds B shares.

<sup>k</sup> The Company holds preference shares.

<sup>l</sup> The Company also holds convertible preference shares.

<sup>m</sup> The Company also holds 8.5% redeemable non-cumulative preference shares.

<sup>n</sup> The Company also holds non-cumulative redeemable preference shares.

# 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 which are classified as subsidiaries. Due to the number of share classes or unit classes which 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
<b>UK</b>			
Schroder Flexible Retirement Benefit Fund	X Accumulation	100%	100%
<b>Cayman Islands</b>			
Schroder Advanced ILS Fund (Cayman) Limited	I Distribution	100%	100%
<b>Luxembourg</b>			
Schroder Investment Fund Flexible Cat Bond	I Accumulation	100%	100%
Schroder International Selection Fund Euro Credit Absolute Return	I Accumulation	100%	100%
Schroder International Selection Fund QEP Global Absolute	I Distribution GBP Hedge	100%	70%
Schroder International Selection Fund QEP Global Absolute	I Accumulation GBP Hedge	100%	30%
<b>United States</b>			
Schroder Short Duration Bond Fund	Investor Distribution	100%	4%
Schroder Short Duration Bond Fund	R6 Distribution	100%	96%

#### Subsidiaries where the ownership is less than 100 per cent.

Fund Name	Share/unit class	Holding in undertaking share/ unit class	Total holding in undertaking via share/unit class
<b>UK</b>			
Schroder Diversified Growth Fund	I Accumulation	98%	98%
Schroder Global Emerging Markets Fund	A Accumulation	70%	55%
Schroder Global Multi-Asset Income Fund	Z Income	94%	91%
Schroder Institutional Index Linked Bond Fund	I Accumulation	82%	50%
Schroder Institutional Long Dated Sterling Bond Fund	I Accumulation	99%	99%
Schroder Institutional Sterling Bond Fund	I Accumulation	72%	43%
Schroder Long Dated Corporate Bond	I Accumulation	85%	66%
Schroder Strategic Beta Fund	X Accumulation	82%	82%
Schroder QEP Global Active Value Fund	I Accumulation	89%	66%
<b>Brazil</b>			
Global Schroder Quality Equities Investimento Exterior Fundo Acoes	–	32%	32%
<b>Luxembourg</b>			
Schroder Alternative Solutions Asian Long Term Value Fund	I Accumulation	100%	91%
Schroder GAIA BSP Credit	I Accumulation	100%	62%
Schroder International Selection Fund Emerging Market Local Currency Bond	I Accumulation	100%	64%
Schroder International Selection Fund Emerging Multi-Asset Income	I Distribution	80%	79%
Schroder International Selection Fund European Equity Focus	I Accumulation	100%	85%
Schroder International Selection Fund Global Unconstrained Bond	I Accumulation	100%	31%
<b>United States</b>			
Schroder Emerging Markets Multi-Sector Bond Fund	Advisor Distribution	55%	3%
Schroder Emerging Markets Multi-Sector Bond Fund	Investor Distribution	18%	4%
Schroder Emerging Markets Multi-Sector Bond Fund	R6 Distribution	97%	71%
Schroder Emerging Markets Multi-Cap Equity Fund	Advisor Distribution	92%	3%
Schroder Emerging Markets Multi-Cap Equity Fund	R6 Distribution	95%	63%
Schroder Global Multi-Asset Income Fund	Advisor Distribution	33%	3%
Schroder Global Multi-Asset Income Fund	Investor Distribution	13%	2%
Schroder Global Multi-Asset Income Fund	R6 Distribution	100%	73%

#### Associates – held at fair value

Fund Name	Share/unit class	Holding in undertaking share/ unit class	Total holding in undertaking via share/unit class
<b>UK</b>			
Schroder All Maturities Corporate Bond Fund	I Accumulation	63%	24%
Schroder Dynamic Multi Asset Fund	Z Accumulation	38%	37%
Schroder Institutional International Bond Fund	X Accumulation	46%	31%
Schroder Specialist Value UK Equity Fund	I Accumulation	71%	38%
<b>Brazil</b>			
BB Multimercado Schroder Europa Investimento no Exterior Fundo de Investimento	–	39%	39%
BB Multimercado Schroder Investimento no Exterior Fundo de Investimento	–	32%	32%

**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
<b>UK</b>			
Schroder Absolute Return Bond Fund	X Income	100%	11%
Schroder European Fund	I Income	36%	13%
Schroder Institutional Global Equity Fund	I Accumulation	26%	9%
Schroder Institutional Pacific Fund	I Accumulation	28%	8%
Schroder Institutional UK Smaller Companies Fund	I Accumulation	30%	6%
Schroder QEP Global Core Fund	I Accumulation	32%	9%
Schroder QEP Global Emerging Markets Fund	I Accumulation	51%	17%
Schroder Sterling Broad Market Bond Fund	I Accumulation	48%	3%
Schroder Monthly High Income Fund	Z Income	24%	9%
<b>Cayman Islands</b>			
Musashi Smart Premia Fund (Exclusively for Qualified Institutional Investors with Re-sale Restriction for the Japanese Investors)	B	100%	0%
Musashi Smart Premia Fund (Exclusively for Qualified Institutional Investors with Re-sale Restriction for the Japanese Investors)	C	100%	1%
<b>Guernsey</b>			
Schroder Institutional Developing Markets Fund	B Income	97%	13%
Schroder Offshore Cash Fund	B Accumulation	28%	6%
<b>Ireland</b>			
Schroder Private Equity Fund of Funds IV plc	C	23%	14%
<b>Luxembourg</b>			
Schroder Alternative Solutions Agriculture Fund	I Accumulation GBP Hedge	80%	0%
Schroder Alternative Solutions Agriculture Fund	I Accumulation	100%	0%
Schroder Alternative Solutions Gold and Precious Metals Fund	I Accumulation	100%	1%
Schroder Alternative Solutions Gold and Precious Metals Fund	I Accumulation EUR Hedge	69%	0%
Schroder Alternative Solutions Gold and Precious Metals Fund	C Distribution GBP Hedge	62%	0%
Schroder GAIA BlueTrend	I Accumulation	50%	19%
Schroder GAIA Global Macro Bond	I Accumulation	100%	16%
Schroder GAIA Paulsen Merger Arbitrage	E Distribution GBP Hedge	23%	1%
Schroder GAIA Sirios US Equity	C Accumulation	31%	9%
Schroder International Selection Fund Emerging Markets Debt Absolute Return	I Accumulation	37%	12%
Schroder International Selection Fund European Dividend Maximiser	Z Distribution	85%	1%
Schroder International Selection Fund EURO Credit Conviction	I Distribution	100%	4%
Schroder International Selection Fund Global Energy	I Accumulation	81%	5%
Schroder International Selection Fund Global Multi-Asset Income	I Distribution GBP Hedge	100%	1%
Schroder International Selection Fund Global Recovery	I Accumulation	20%	3%
Schroder International Selection Fund QEP Global Emerging Markets	I Accumulation	24%	4%
Schroder International Selection Fund QEP Global Value Plus	I Accumulation	100%	1%
Schroder International Selection Fund Latin American	I Accumulation	20%	0%
Schroder International Selection Fund Strategic Bond	I Distribution GBP Hedge	100%	6%
<b>United States</b>			
Schroder Emerging Markets Small Cap Fund	Investor Distribution	100%	0%
Schroder US Opportunities Fund	R6 Distribution	100%	0%

# Independent auditors’ report to the members of Schroders plc Report on the financial statements

## Our opinion

### In our opinion:

- Schroders plc Group financial statements and Company financial statements (the financial statements) give a true and fair view of the state of the Group’s and of the Company’s affairs as at 31 December 2015 and of the Group’s profit and the Group’s and the Company’s cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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

The financial statements, included within the Annual Report and Accounts (the Annual Report), comprise:

- the consolidated and the Schroders plc statements of financial position as at 31 December 2015;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated and the Schroders plc statements of changes in equity and cash flow statements for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Our audit approach

### Overview

Materiality	– Overall Group materiality: £30.4 million which represents 5% of profit before tax and exceptional items.
Audit scope	– The Group has three business segments, Asset Management, Wealth Management and the Group segment, consisting of over 130 legal entities operating in 28 countries. – We audited the complete financial information for 13 legal entities, due to their size and/or risk characteristics. – Taken together, the territories and functions in the scope of audit work accounted for 84 per cent. of Group revenues, 82 per cent. of Group profit before tax and exceptional items and 97 per cent. of Group total assets.
Area of focus	– Risk of misstatement in revenue and cost of sales – Valuation and completeness of provisions.

## The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as “areas of focus” in the table overleaf. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.



## Area of focus

### Risk of misstatement of revenue and cost of sales

Refer to page 61 (Audit and Risk Committee Report) and note 2 – (Revenue), note 3 (Cost of sales)

Revenue, which comprises management fees, performance fees, other income and interest income earned by Wealth Management, is the result of asset management activities within both the Asset Management and Wealth Management segments. Commissions, external fund manager fees, distribution fees payable and interest expense incurred by Wealth Management are recorded as an expense within cost of sales. The Group recognised net operating revenue of £1,600.7 million (2014: £1,495.2 million).

The calculations of revenue and cost of sales are largely automated. There are a number of inherent risks in calculating certain types of revenue and cost of sales including the interpretation and manual input of key contractual terms, which could result in errors. The bespoke and complex nature of the investment management agreements, distribution agreements and other contractual terms involving multiple entities globally requires effective monitoring to ensure all financial terms and conditions are captured completely and accurately and applied appropriately.

Performance fees also remain an area of focus. The calculation basis is set out in the relevant fund prospectus or investment management agreement. In addition to the complexity of interpreting the agreements, there is a risk of error as the calculation involves manual components and may involve some complexity as the performance of relevant assets is compared to a relevant benchmark.

### Valuation and completeness of provisions

Refer to page 61 (Audit and Risk Committee Report), note 6 – (Tax expense) and note 18 – (Provisions and Contingent Liabilities).

The Group is required to make estimates in respect of legal and regulatory provisions and uncertain tax positions. As the Group operates across multiple countries with differing legal, regulatory and tax regimes, there is an inherent risk in the interpretation and application of the legislation in each territory in respect of the Group's global business.

### Legal and regulatory

The Group is exposed to actual and potential legal claims and also matters arising as a result of changes in regulation and legislation in the countries in which it operates. Certain estimations and assumptions involved are inherently judgemental in nature. As at 31 December 2015, legal and regulatory provisions were £13.9 million (2014: £42.1 million).

### Tax

For most organisations, there is increased focus and challenge from tax authorities over the application of legislation, both locally in individual territories and cross border, which increases the uncertainty over the completeness and valuation of tax balances, which led us to focus on this area.

For a number of operating companies within the Group the taxable profit is generated, in part, through the allocation of total Group revenue based on the proportion of total activities performed in each country. This procedure is governed by a transfer pricing policy to ensure revenue and costs are recognised appropriately in accordance with the applicable tax legislation.

The Group had a tax charge of £121.6 million (2014: £103.9 million) for the year.

## How our audit addressed the area of focus

We understood the significant revenue and cost of sale items and assessed where there is a higher risk of error, due to manual processes, bespoke or complex contractual terms, and areas of judgement so that we could focus our work in these areas.

We tested the operating effectiveness of key controls in place across the Group relevant to these revenue and cost of sales calculations, including the assets under management, set up and maintenance of contractual terms and fee billing and commission payment systems.

We also obtained and assessed independent assurance reports for the relevant controls at the third party administrators and considered whether there was any impact on our audit.

Where the calculations are automated, we used computer assisted auditing techniques to recalculate revenue, management fee rebates and commissions. On a sample basis, we agreed key inputs in to the systems back to contracts and re-performed calculations involving manual processes.

We re-performed a sample of performance fee calculations to check that performance fees were appropriately calculated. We tested the data used to the Group's underlying systems, agreed the basis of calculation to the contractual terms and agreed the benchmark performance to an independent third party source.

Our testing did not identify any evidence of material misstatement.

### Legal and regulatory

In order to test potential liabilities (both those for which a provision is recognised and those for which one is not), we made enquiries of the Group's and Company's internal legal counsel, read relevant documentation, obtained independent letters from external counsel and assessed the provisions against past history.

We did not identify any material misstatements.

### Tax

We compared the Group's transfer pricing policy against our understanding of the activities of the Group and the OECD principles for Multinational Enterprises and Tax Administrations. We tested the application of the transfer pricing by legal entity within our revenue testing through recalculation of the adjustments and agreeing the key inputs to underlying agreements.

We considered management's approach to uncertain tax positions and tested the calculation of the current and deferred tax positions estimated at the individual legal entity level and at the Group level.

We did not identify any material misstatements.

# Independent auditors’ report to the members of Schroders plc continued

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates with four centralised finance functions in the UK, Luxembourg, Switzerland and Singapore along with smaller functions in the territories in which they operate.

In establishing the overall approach to the audit of the Group, we considered our assessment of the risk of material misstatement within each entity. We concluded that 13 entities generated significant activities or balances to the results of the Group through the consideration of various factors such as, their contribution to the Group’s profit before tax and exceptional items, their contribution to significant risk areas and to provide sufficient evidence over each line item in the Group’s financial statements. We determined the audit work that needed to be performed by us, as the Group engagement team, or by local teams within PwC UK or from other PwC network firms. Where the work was performed by local audit teams, we determined the level of involvement we needed to have in the audit work for those entities to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

In connection with this year’s audit the Group team met with all the local audit teams responsible for each of the 13 entities identified as being significant to the scope of the Group audit, as well as holding regular discussions with those teams throughout the audit process. In addition we met with the Schroder’s centralised finance teams in Singapore, Luxembourg and Switzerland.

The Group consolidation, financial statement disclosures and a number of Group items, including valuation of goodwill and intangibles, and employee benefits expense, were audited by the Group engagement team.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£30.4 million (2014: £28.3 million).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	Profit before tax is a standard benchmark used in determining materiality. We have adjusted it for exceptional items given the one-off nature of these items, which would distort the basis of the calculation.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1.5 million (2014: £1.75 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Going concern

Under the Listing Rules we are required to review the Directors’ statement, set out on page 67, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors’ statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors’ statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors’ use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group’s and Company’s ability to continue as a going concern.

## Other required reporting Consistency of other information

### Companies Act 2006 opinion

In our opinion, 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.

### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– the statement given by the Directors on page 87, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group’s and Company’s position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
– the section of the Annual Report pages 59 to 64, as required by provision C.3.8 of the Code, describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.	We have no exceptions to report.

## The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– the Directors' confirmation on page 37 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– the Directors' explanation on page 37 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, 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 Group 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.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

## Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## Directors' remuneration

### Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

## Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to 10 further provisions of the Code. We have nothing to report having performed our review.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 87, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Andrew Kail (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
2 March 2016

- The maintenance and integrity of the Schroders plc website 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 website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



In Europe and the Middle East, we benefit from deep client relationships and strong brand recognition.

With 14 offices in 12 countries across Europe and Middle East, we manage £64 billion of clients' assets. This includes Intermediary, where we typically work through bank distribution networks, Institutional, including pension funds and sovereign wealth funds, and Wealth Management, where we have offices in Switzerland, Germany, Italy, Spain and Gibraltar.

We have recently established a presence in South Africa.

In 2015, we saw net inflows from the region of £3.6 billion across Fixed Income, Multi-asset and Equity strategies.



#### In focus: Italy

Italy has been the stand out success in the region in recent years, generating net new business of £1.3 billion in 2015 and £5.7 billion over the last three years.



#### Europe, Middle East and Africa offices

Amsterdam, Copenhagen, Cape Town, Dubai\*, Frankfurt\*\*, Geneva\*\*, Gibraltar†, Luxembourg, Madrid†, Milan\*\*, Paris, Rome, Stockholm, Zurich\*\*†

\* Investment offices.

† Wealth Management offices.





# Shareholder information

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# Shareholder information

## Contact information

### Schroders plc

Registered in England and Wales  
Company No. 3909886

### Registered office

31 Gresham Street  
London EC2V 7QA  
Tel: +44 (0) 20 7658 6000  
Fax: +44 (0) 20 7658 6965  
Email: [companysecretary@schroders.com](mailto:companysecretary@schroders.com)  
**[www.schroders.com](http://www.schroders.com)**

### Share and Loan Note Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ

### UK Shareholder and Loan Noteholder helpline:

Freephone (UK callers only): 0800 923 1530  
International: +44 117 378 8170  
Fax: +44 (0) 870 703 6101  
**[www.investorcentre.co.uk](http://www.investorcentre.co.uk)**

## Financial calendar

Ex-dividend date	24 March 2016
Record date	29 March 2016
Interim Management Statement	28 April 2016
Annual General Meeting	28 April 2016
Final dividend payment date	5 May 2016
Half-yearly results announcement	28 July 2016
Interim dividend paid*	September 2016
Interim Management Statement	3 November 2016

\* Date to be confirmed.

## Annual General Meeting

Our Annual General Meeting will be held at 11.30 a.m. on 28 April 2016 at 31 Gresham Street, London EC2V 7QA.

## Investor Centre

Computershare is the Company's share and loan note registrar. Investor Centre is Computershare's free, secure, self-service website, where holders can manage their interests online.

The website enables holders to:

- View share and loan note balances
- Change address details
- View payment and tax information
- Update payment instructions
- Update communication instructions

Holders can register their email address at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) to be notified electronically of events such as annual general meetings, and can receive shareholder and loan note communications such as the annual report and the notice of meeting online.

Enquiries and notifications concerning dividends, interest payments, share or loan note certificates or transfers and address changes should be sent to the Registrar.

## Dividends and interest payments

Paying dividend and interest payments 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 tax voucher which will be sent to you in September each year at the time the interim dividend is paid. You will receive a tax voucher each time you are paid an interest payment.

Dividend and interest payment tax vouchers are available electronically at [www.investorcentre.co.uk](http://www.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 e-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 information pack and application form can be obtained from the Registrar.

Details of dividend payments can be found in the Directors' report on page 66.

Schroders offers a service to shareholders in participating countries which enables dividends to be received in local currencies. You can check your eligibility and/or request a mandate form by contacting the Registrar.

### Floating Rate Unsecured Loan Notes

If you wish to redeem your Loan Note(s), send the completed Notice of Repayment on the reverse of the Loan Note Certificate to the Registrar no later than the deadlines set out below. Partial redemptions are only permitted in multiples of £100.

Redemption Date	Deadline
30 June 2016	31 March 2016
31 December 2016	30 September 2016
30 June 2017	31 March 2017
31 December 2017	30 September 2017
30 June 2018	31 March 2018

It is expected that the final redemption will take place on 5 July 2018.

Where a Redemption Date falls on a non-business day, Notices of Repayment should be received on the last working day prior to that date. Any Notices of Repayment received after the relevant deadline will not be actioned until the next Redemption Date.

### Overseas branch register

An overseas branch register is operated in Bermuda for the benefit of shareholders with registered addresses in Bermuda. Enquiries should be directed to our 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 <https://register.fca.org.uk>
- Report the matter to the FCA by calling 0800 111 6768 or visiting [www.fca.org.uk/scams](http://www.fca.org.uk/scams)
- 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 [www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/unauthorised-firms-to-avoid](http://www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/unauthorised-firms-to-avoid).

More detailed information on this or similar activity can be found on the FCA website at [www.fca.org.uk/scams](http://www.fca.org.uk/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

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
<b>Before exceptional items</b>					
Profit before tax	609.7	565.2	507.8	360.0	407.3
Tax	(126.3)	(113.9)	(103.0)	(76.8)	(91.5)
<b>Profit after tax</b>	<b>483.4</b>	<b>451.3</b>	<b>404.8</b>	<b>283.2</b>	<b>315.8</b>
<b>After exceptional items</b>					
Profit before tax	589.0	517.1	447.5	360.0	407.3
Tax	(121.6)	(103.9)	(94.8)	(76.8)	(91.5)
<b>Profit after tax</b>	<b>467.4</b>	<b>413.2</b>	<b>352.7</b>	<b>283.2</b>	<b>315.8</b>
<b>Pre-exceptional earnings per share:</b>	<b>2015 Pence</b>	<b>2014 Pence</b>	<b>2013 Pence</b>	<b>2012 Pence</b>	<b>2011 Pence</b>
Basic earnings per share <sup>1</sup>	176.9	166.8	149.9	104.7	115.9
Diluted earnings per share <sup>1</sup>	172.2	161.5	144.6	101.3	111.9
<b>Post-exceptional earnings per share:</b>	<b>2015 Pence</b>	<b>2014 Pence</b>	<b>2013 Pence</b>	<b>2012 Pence</b>	<b>2011 Pence</b>
Basic earnings per share <sup>1</sup>	171.1	152.7	130.6	104.7	115.9
Diluted earnings per share <sup>1</sup>	166.5	147.8	126.0	101.3	111.9
<b>Dividends:</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cost (£m)	226.3	177.7	123.5	104.1	104.8
Pence per share <sup>2</sup>	83.0	66.0	46.0	39.0	39.0
<b>Total equity (£m)</b>	<b>2,795.6</b>	<b>2,537.8</b>	<b>2,268.6</b>	<b>2,069.9</b>	<b>1,901.6</b>
<b>Net assets per share (pence)<sup>3</sup></b>	<b>990</b>	<b>898</b>	<b>802</b>	<b>733</b>	<b>673</b>
<b>Group employees at year end</b>	<b>2015 Number</b>	<b>2014 Number</b>	<b>2013 Number</b>	<b>2012 Number</b>	<b>2011 Number</b>
31 December					
Europe	2,674	2,517	2,503	2,032	1,966
Americas	321	278	294	251	236
Asia Pacific	789	761	731	728	700
	3,784	3,556	3,528	3,011	2,902

<sup>1</sup> See note 7 for the basis of this calculation.

<sup>2</sup> 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.

<sup>3</sup> Net assets per share are calculated by using the actual number of shares in issue at the year end date (see note 21).

<b>Exchange rates – closing</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
31 December					
<b>Sterling:</b>					
Euro	1.36	1.29	1.20	1.23	1.20
US dollar	1.47	1.56	1.66	1.63	1.55
Swiss franc	1.48	1.55	1.47	1.49	1.45
Australian dollar	2.03	1.91	1.85	1.57	1.52
Hong Kong dollar	11.42	12.09	12.84	12.60	12.07
Japanese yen	177.30	186.95	174.08	140.55	119.57
Singaporean dollar	2.09	2.07	2.09	1.99	2.02
<b>Exchange rates – average</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Sterling:</b>					
Euro	1.38	1.24	1.18	1.23	1.15
US dollar	1.53	1.65	1.57	1.59	1.61
Swiss franc	1.48	1.51	1.45	1.48	1.42
Australian dollar	2.04	1.83	1.64	1.53	1.54
Hong Kong dollar	11.84	12.78	12.18	12.33	12.50
Japanese yen	184.79	175.15	152.51	126.93	127.84
Singaporean dollar	2.10	2.09	1.96	1.98	2.02

# Glossary

## Actively managed

The management of assets based on active decision-making as opposed to the direct replication of an index

## Alpha

Excess return over beta relative to a market benchmark

## Assets under management (AUM)

The aggregate value of assets managed on behalf of clients. In Wealth Management this also includes assets held in custody

## Basis point (bps)

One one-hundredth of a percentage point (0.01%)

## Beta

Market returns

## Brexit

A blend of the words 'British' and 'exit' which refers to the possibility of the United Kingdom leaving the European Union

## Carbon dioxide equivalent (CO<sub>2</sub>e)

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<sub>2</sub>) as a reference

## CBI

Confederation of British Industry

## Compensation cost

Total employee benefits expense

## Compensation cost to net revenue ratio

Compensation cost divided by net revenue before exceptional items. Costs and revenues are subject to adjustment by the Remuneration Committee

## Costs to net revenue ratio

Total Group costs divided by net revenue before exceptional items

## 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 final 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 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

## Dividend payout ratio

The total dividend per share in respect of the year divided by the pre-exceptional basic earnings per share

## ECB

European Central Bank

## Employee benefit trust

An employee benefit trust is a type of discretionary trust established to provide employee benefits such as affording employees the opportunity to hold vested or unvested share awards in their employing company, with a view to facilitating the recruitment, retention and motivation of employees

## ESG

Environmental, Social and Governance

## Family offices

These manage the financial and investment side of an affluent individual or family

## Fintech

A blend of the words 'financial' and 'technology' that describes any technological innovation in the financial sector

## Fitch Asset Management Rating

Asset manager ratings reflect an assessment of an asset management organisation's vulnerability to operational and investment management failures, as reflected by the quality of the organisation's experience, employee resources, investment processes, internal control environment, investment administration capabilities and related technology resources. Asset manager ratings are assigned on a scale from 'Highest Standards' to 'Inadequate Standards'. Highest Standards denotes the lowest vulnerability to operational and investment management failures

## FCA

Financial Conduct Authority

## GAIA

Global Alternative Investor Access, a fund range domiciled in Luxembourg

## GMC

Group Management Committee

## GRC

Group Risk Committee

## Hard and soft closed funds

A soft closed fund is not marketed actively but is still open to additional investment. Hard closed applies to a fund that is not open to new investment, either from new or existing investors

## ICAAP

Internal Capital Adequacy Assessment Process

## IFRS

International Financial Reporting Standards

## Institutional sales channel

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 dovetail with their other investments in a range of asset classes and with other managers they employ

## Intermediary sales channel

Schroders works with intermediaries such as banks, insurance companies, platforms and independent financial advisers, who advise the end retail client

## Investment capacity

The extent to which easily accessible investments are available, which are capable of delivering the required return of a particular product or investment strategy

## Investment performance

This is calculated by Schroders, using published benchmarks for products, where available, for Asset Management only. It excludes private equity, LDI and externally managed GAIA funds, and funds which do not have the required track record. If no benchmark is published or agreed with the client but the fund is listed in competitor rankings, the relative position of the fund to its peer group is used to calculate any outperformance. Funds with no benchmark but an absolute return target over the one or three-year period are measured against that absolute target. Funds with no benchmark and no target may be measured against a cash return, if applicable.

# Glossary

As at 31 December 2015, such comparator data existed for 74 per cent. of Asset Management AUM over three years and 83 per cent. over one year. Certain Schroders Group companies claim compliance with the Global Investment Performance Standards (GIPS). Further information is available upon request

## Investment returns

The increase in AUM attributable to investment performance, market movements and foreign exchange

## LGBT

Lesbian, Gay, Bisexual and Transgender

## Liability driven investment (LDI)

A form of investing where the main goal is to gain 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

## MiFID II

Markets in Financial Instruments Directive II

## Millennial

Also known as Generation Y, millennials are the individuals who reached adulthood around the turn of the 21<sup>st</sup> century

## Multi-asset

A combination of asset classes (such as cash, equity and bonds) used as an investment that creates a group or portfolio of assets

## Net new business

New funds from clients less funds withdrawn by clients excluding market and currency changes. 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 2015 on the basis of actual funding provided or withdrawn

## Net revenue

Net operating revenue, net finance income from non-banking operations, net gains/losses on financial instruments and other income and share of profit of associates and joint ventures. The definition has been amended compared to previous years as a result of the inclusion of net finance income and the share of profit of associates and joint ventures

## Net operating revenue

A new sub-total consisting of revenue less cost of sales as defined in notes 2 and 3 of the financial report

## Net operating revenue margins

Asset Management plus Wealth Management net operating revenue divided by total average assets under management

## OECD

The Organisation for Economic Cooperation and Development

## OPEC

The Organization of the Petroleum Exporting Countries

## Outcome oriented products

Customised investment solutions designed to meet specific outcomes rather than market relative returns; for example, providing an income stream post-retirement

## Passive products

Products which are designed to replicate 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 [www.schroders.com/ir](http://www.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

## Profit share ratio

Bonus charge divided by pre-bonus profit before tax and exceptional items

## QE

Quantitative easing

## Regulatory capital

Regulatory capital is the amount of risk capital set by legislation or local regulators, which companies must hold to allow them to survive any difficulties such as market or credit risks

## Remuneration hedging

The purchase of own shares to hold against share-based awards made to employees as part of the Group's remuneration strategy

## Rights to shares

The entitlements of employees, including executive Directors, to Company shares until vesting conditions have been satisfied and the awards exercised

## Robo advisor

An online wealth management service that provides automated, algorithm based portfolio management advice using software rather than human financial planners

## 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 interim and final dividends declared and paid during the year

## UCITS V

Undertakings for Collective Investments in Transferable Securities V

## 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



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